Bond Case Briefs

Municipal Finance Law Since 1971

A Small City's Financial Crisis Leaves Virginia at a Loss.

Most state and local governments file their financial statements on time, but there are some notable exceptions. Among those are the last two cities to declare bankruptcy—Fairfield, AL and Chester, PA—as well as Puerto Rico, the largest municipal bond issuer to ever file a bankruptcy petition. Now another perennially late financial statement filer is getting attention from local media and its state government.

Hopewell, VA, a city south of Richmond, with about 23,000 people, is four years behind in producing audited financial statements. Further, its audits for the years 2015–2018 did not receive "clean" opinions from the Certified Public Accountants hired to review them, suggesting serious irregularities. The 2018 opinion was especially negative, with the auditor observing:

> There were material differences between the Treasurer Office's June 2018 bank reconciliation and the City and Component Unit School Board's adjusted general ledger and financial statements. The City, Treasurer's Office and Component Unit School Board were unable to provide sufficient appropriate audit evidence for these material discrepancies in cash transactions.

In connection with federal grant oversight, the auditor also assessed Hopewell's accounting systems and procedures and found them to be inadequate. City management accepted these findings and attributed the problems to "staff turnover, minimal documented procedures/guidelines."

Hopewell last issued municipal bonds in 2011. At that time, it received strong ratings from all three of the major credit rating agencies. But the city's mounting financial reporting challenges have compromised its credit. In 2017, both Moody's and Standard and Poor's withdrew their ratings due to Hopewell's failure to provide timely disclosure. Fitch followed in 2018.

At a City Council meeting, Ward 1 Councilor Rita Joyner noted the lack of credit ratings and concluded that, as a result, the city could no longer fund capital expenditures. That is not necessarily the case. Many governments issue unrated bonds and Hopewell's bonds traded in the secondary market multiple times (albeit at significantly elevated yields) in late 2022, suggesting that some investors are willing to shoulder the city's elevated credit risk if the city chooses to issue "junk bonds".

In recent months, the State of Virginia has been investigating Hopewell's financial status and offering assistance. The state government took a largely hands-off approach to local government finance until the City of Petersburg suffered a financial crisis in 2016. (Petersburg is just a ten-mile drive from Hopewell.) In 2017, the state legislature directed the Virginia Auditor of Public Accounts (APA) to create a local fiscal distress early warning system.

But, although the state can now identify distress situations, its intervention options are limited. State law allows the governor to allocate up to $500,000 to provide technical assistance to distressed local

government but cannot compel the governing body to accept this assistance.

After determining that Hopewell was in distress, the state hired the firm of Alvarez and Marsal to assess the situation and make recommendations. In May, the consultants issued a 161-page report with 27 recommendations including the establishment of a fiscal turnaround project management office, the development of a multi-year financial plan, and the creation of new monthly and annual accounts closing processes.

In July, Virginia Secretary of Finance Stephen Cummings sent City Council members a letter, offering to fund an interim City Manager and Finance Director to help implement the consultant's findings if those individuals are approved by state officials. The Council rejected the state's offer by a 4–3 vote. Without Hopewell's cooperation, there is little more the state can do.

North Carolina has a much more aggressive local intervention law. If the state's Local Government Commission determines that a local government's finances have become unsustainable, it can take over "all of the powers of the council as to the levy of taxes, expenditure of money, adoption of budgets, and all other financial powers conferred upon the council by law." Further, the Commission has the power to merge or dissolve local governments which lack a path back to sustainability.

Hopewell's problems illustrate the need for Virginia to adopt a similar set of policies.

THE CATO INSTITUTE

by MARK JOFFE

JULY 24, 2023

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com