

# Proposed Fiscal Stress Monitoring System

Presented  
By  
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## Welcome



From Steven J. Hancox,  
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## Agenda

- Background
- Overview of Proposed System
- Financial Indicators
- Environmental Indicators
- Public Comment Period
- Question and Answer Session



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## Development of Proposed System

- OSC Resources
- Research Reports
- ICMA Guidance
- Systems Used In Other States



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## Purpose of Proposed System

- To identify both local governments and school districts that are in fiscal stress, as well as those nearing fiscal stress.
- To identify for local officials the need to take actions in a timely manner that change their financial trends for the better.



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## Fiscal Stress

- Judgment about the financial condition of an individual entity that must take into consideration its unique circumstances.
- Generally defined as a local government's or school district's inability to generate enough revenues within its current fiscal period to meet its expenditures (budget solvency).



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## Overview of Proposed System

- Entities To Be Evaluated
  - Local governments (counties, cities, towns, and villages)
  - School districts
- Evaluation Basis
  - Financial Indicators
  - Environmental Indicators



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## Overview of Proposed System (cont'd)

### Financial Indicators

- Calculated Using Financial Data
  - Local governments – Annual update documents (AUDs)
  - School districts – Annual financial reports (ST-3s)
- Financial Score Classifications (worst to best)
  - Significant Fiscal Stress
  - Moderate Fiscal Stress
  - Nearing Fiscal Stress
  - Not In Fiscal Stress



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## Overview of Proposed System (cont'd)

### Environmental Indicators

- Calculated Using Data From Various Sources
  - Local governments – U.S. Census Bureau, NYS Department of Labor, NYS Department of Taxation and Finance, and Annual update documents (AUDs)
  - School districts – NYS Education Department
- Environmental Score Notations (worst to best)
  - +++
  - ++
  - +
  - No notation



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## Overview of Proposed System (cont'd)

### Scoring Examples

- A unit that receives the worst overall score from both the financial and environmental indicators would be classified as in "significant fiscal stress +++."
- A unit that is classified as in "significant fiscal stress +++" will be considered worse than a unit that is classified as just in "significant fiscal stress" with no plus sign notations.




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## Financial Indicators Local Governments

### Nine Indicators Within Five Categories

Category	Number	Financial Indicator
Year-End Fund Balance	1	Assigned and Unassigned Fund Balance
	2	Total Fund Balance
Operating Deficits	3	Operating Deficit
Cash Position	4	Cash Ratio
	5	Cash % of Monthly Expenditures
Use of Short-Term Debt	6	Short-Term Debt Issuance
	7	Short-Term Debt Issuance Trend
Fixed Costs	8	Personal Services and Employee
	9	Debt Service % Revenues




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## Financial Indicators Local Governments (cont'd)

### Funds Used

Class	General Fund	Combined Funds
Cities	General Fund	General, All Water, and All Sewer Funds
Counties	General Fund	General, County Road, Road Machinery, Water, Sewer, and All Enterprise Funds
Villages	General Fund	General, All Water, and All Sewer Funds
Towns	General Town-Wide and Highway Town-Wide Funds	General Town-Wide, General Part-Town, Highway Town-Wide, Highway Part-Town, All Water, and All Sewer Funds




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## Financial Indicator One

### Assigned and Unassigned Fund Balance

- **Calculation** -  $(\text{Assigned} + \text{Unassigned Fund Balance}) / \text{Gross Expenditures}$
- **Purpose** - To identify the amount of fund balance that is being used to fund operations and/or that is available to provide a cushion for revenue shortfalls or expenditure overruns.
- **Scoring**
  - 0 – 3 Points (General Fund % Last Fiscal Year)
  - 0 – 1 Point (Combined Funds % Minus General Fund % Last Fiscal Year)



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## Financial Indicator Two

### Total Fund Balance

- **Calculation** -  $\text{Total Fund Balance} / \text{Gross Expenditures}$
- **Purpose** - To identify the amount of fund balance that is available to be used to fund operations, provide a cushion for revenue shortfalls or expenditure overruns, and/or is reserved for specific future purposes.
- **Scoring**
  - 0 – 3 Points (General Fund % Last Fiscal Year)
  - 0 – 1 Point (Combined Funds % Minus General Fund % Last Fiscal Year)



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## Financial Indicator Three

### Operating Deficit

- **Calculation** -  $(\text{Gross Revenues} - \text{Gross Expenditures}) / \text{Gross Expenditures}$
- **Purpose** - To identify local governments that are realizing operating deficits.
- **Scoring**
  - 0 – 3 Points (Combined Funds Deficits Over Last Three Fiscal Years or Significant Deficit in Last Fiscal Year)



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## Financial Indicator Four

### Cash Ratio

- Calculation –  $(\text{Cash} + \text{Investments}) / \text{Current Liabilities}$
- Purpose - To identify the ability of the local government to liquidate current liabilities.
- Scoring
  - 0 – 3 Points (Combined Funds % Last Fiscal Year)



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## Financial Indicator Five

### Cash % of Monthly Expenditures

- Calculation –  $(\text{Cash} + \text{Investments}) / (\text{Gross Expenditures} / 12 \text{ Months})$
- Purpose - To identify the ability of the local government to fund the ensuing fiscal year's operations from available cash.
- Scoring
  - 0 – 3 Points (Combined Funds % Last Fiscal Year)



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## Financial Indicator Six

### Short-Term Debt Issuance

- Calculation –  $(\text{Revenue Anticipation Notes} + \text{Tax Anticipation Notes} + \text{Budget Notes}) / \text{Total Revenues}$
- Purpose - To identify the amount of short-term debt that is issued to meet obligations (cash-flow).
- Scoring
  - 0 – 3 Points (All Funds % Last Fiscal Year)



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## Financial Indicator Seven

### Short-Term Debt Issuance Trend

- Calculation – Short-Term Debt Issued
- Purpose - To identify the trend in the issuance of short-term debt.
- Scoring
  - 0 – 3 Points (All Funds Issuances Over Last Three Fiscal Years or Budget Note Issuance in Last Fiscal Year)



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## Financial Indicator Eight

### Personal Services and Employee Benefits % Revenues

- Calculation –  $(\text{Personal Services Expenditures} + \text{Employee Benefits Expenditures}) / \text{Total Revenues}$
- Purpose - To identify the amount that revenues are restricted to be used for salaries and benefits.
- Scoring
  - 0 – 3 Points (All Funds Average % Over Last Three Fiscal Years)



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## Financial Indicator Nine

### Debt Service % Revenues

- Calculation –  $\text{Debt Service Expenditures} / \text{Total Revenues}$
- Purpose - To identify the amount that revenues are restricted to be used for debt service expenditures.
- Scoring
  - 0 – 3 Points (All Funds Average % Over Last Three Fiscal Years)



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## Financial Indicator One

### Assigned and Unassigned Fund Balance

- Calculation -  $(\text{Assigned} + \text{Unassigned Fund Balance}) / \text{Gross Expenditures}$
- Purpose - To identify the amount of fund balance that is being used to fund operations and/or that is available to provide a cushion for revenue shortfalls or expenditure overruns.
- Scoring
  - 0 – 3 Points (General Fund % Last Fiscal Year)



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## Financial Indicator Two

### Total Fund Balance

- Calculation -  $\text{Total Fund Balance} / \text{Gross Expenditures}$
- Purpose - To identify the amount of fund balance that is available to be used to fund operations, provide a cushion for revenue shortfalls or expenditure overruns, and/or is reserved for specific future purposes.
- Scoring
  - 0 – 3 Points (General Fund % Last Fiscal Year)



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## Financial Indicator Three

### Operating Deficit

- Calculation -  $(\text{Gross Revenues} - \text{Gross Expenditures}) / \text{Gross Expenditures}$
- Purpose - To identify school districts that are realizing operating deficits.
- Scoring
  - 0 – 3 Points (General Fund Deficits Over Last Three Fiscal Years of Significance)



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## Financial Indicator Four

### Cash Ratio

- Calculation –  $(\text{Cash} + \text{Investments}) / \text{Current Liabilities}$
- Purpose - To identify the ability of the school district to liquidate current liabilities.
- Scoring
  - 0 – 3 Points (General Fund % Last Fiscal Year)



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## Financial Indicator Five

### Cash % of Monthly Expenditures

- Calculation –  $(\text{Cash} + \text{Investments}) / (\text{Gross Expenditures} / 12 \text{ Months})$
- Purpose - To identify the ability of the school district to fund the ensuing fiscal year's operations from available cash.
- Scoring
  - 0 – 3 Points (General Fund % Last Fiscal Year)



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## Financial Indicator Six

### Short-Term Debt Issuance

- Calculation –  $(\text{Revenue Anticipation Notes} + \text{Tax Anticipation Notes} + \text{Budget Notes}) / \text{Total Revenues}$
- Purpose - To identify the amount of short-term debt that is issued to meet obligations (cash-flow).
- Scoring
  - 0 – 3 Points (General Fund % Last Fiscal Year)



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## Financial Indicator Seven

### Short-Term Debt Issuance Trend

- Calculation – Short-Term Debt Issued
- Purpose - To identify the trend in the issuance of short-term debt.
- Scoring
  - 0 – 3 Points (General Fund Issuances Over Last Three Fiscal Years or Budget Note Issuance in Last Fiscal Year)




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## Financial Indicators School Districts (cont'd)

### Overall Financial Indicator Scoring

Category	Number	Financial Indicator	Max Points	Scoring Wtd Avg
Year-End Fund Balance	1	Assigned and Unassigned Fund Balance	3	50%
	2	Total Fund Balance	3	
Operating Deficits	3	Operating Deficit	3	20%
	4	Cash Ratio	3	
Cash Position	5	Cash % of Monthly Expenditures	3	20%
	6	Short-Term Debt Issuance	3	
Use of Short-Term Debt	7	Short-Term Debt Issuance Trend	3	10%
	<b>Totals</b>		<b>21</b>	




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## Financial Indicators School Districts (cont'd)

### Classification Based On Financial Score

- Significant Fiscal Stress – Total score greater than or equal to 13.65 (65 percent of total points).
- Moderate Fiscal Stress – Total score greater than or equal to 9.45 (45 percent of total points), but less than 13.65
- Nearing Fiscal Stress – Total score greater than or equal to 5.25 (25 percent of total points), but less than 9.45.
- Not In Fiscal Stress – Total score less than 5.25.




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## Environmental Indicators - Overview

- Represent (Generally) the External Influences That Affect Local Governments and School Districts.
  - Can affect demand for services (increasing poverty, unemployment).
  - OR
  - Affect the level of resources available to a local government or school district (tax base)
  - These indicators can help explain the current fiscal situation and can suggest future fiscal stress (leading indicators).




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## Environmental Indicators – Overview (cont'd)

- 14 indicators for local governments and six indicators for school districts.
- Indicators used varies by class of local government.
- Decision of which indicators to use was based on examining existing frameworks (such as ICMA and other state's models) and association with fiscal measures.




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## Environmental Indicators – Local Government

Category	Number	Environmental Indicator
Population	1	Change In Population 1990 to 2010
Age	2	Change In Median Age of Population 2000 to 2010
	3	Median Age of Population 2010
Poverty	4	Child Poverty Rate 2010
	5	Change In Child Poverty Rate 2000 to 2010
Property Value	6	Change In Property Value
	7	Property Value Per Capita
Employment Base	8	Change In Unemployment Rate
	9	Unemployment Rate
	10	Change In Total Jobs In County
Intergovernmental Revenues	11	Reliance on State and Federal Aid
	12	Change in State and Federal Aid
Constitutional Tax Limit	13	Constitutional Tax Limit Exhausted
Sales Tax Revenues	14	Change In Local Sales Tax Receipts




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## Environmental Indicator Category 1 Population

- Calculation - % change 1990 to 2000, and % change 2000 to 2010
- Purpose - Declining population is a warning trend for local governments, especially if persistent.
- Scoring – 3 Points Max
  - Data from the U.S. Census Bureau
  - Focuses on change in last decade, but also scored if decline persisted for two decades.
  - May modify going forward to use population estimates.



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## Environmental Indicator Category 2 Age (2 Indicators)

- Calculation – median age in 2010 and % change in median age 2000 to 2010.
- Purpose – an aging population is an indicator that the service needs within a community may shift.
- Scoring – 4 Points Max
  - Data from the U.S. Census Bureau
  - Focuses on the median age of the population as well as the trend.



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## Environmental Indicator Category 3 Poverty (2 Indicators)

- Calculation – Poverty rate, change in poverty rate.
- Purpose - Indicator of the service needs within a community. Also a wealth indicator: ability of residents to pay.
- Scoring – 4 Points Max
  - Data from the U.S. Census Bureau; will be available annually going forward.
  - Two indicators which focus on the level and the trend.
  - Uses children in poverty rather than total.



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### Environmental Indicator Category 4 Property Value (2 Indicators)

- Calculation - % change in full value (year-over-year), property value per capita.
- Purpose - indicator of the local economy and tax base – a decline means that tax rates will have to increase just to maintain revenues.
  - Important indicator for all local governments.
- Scoring – 6 Points Max
  - Score is based on the average % change (y-o-y) for four periods of change. Per capita measure is scored based on the level in the most current year



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### Environmental Indicator Category 5 Employment Base (3 Indicators)

- Calculation - unemployment rate, change in unemployment rate, change in total jobs for the county in which the municipality is located.
- Purpose - provides information on the economic activity of an area and may affect revenues.
- Scoring – 3 Points Max
  - Each of the indicators is scored 0 and 1:
    - 1 point if unemployment rate increased
    - 1 point if unemployment rate is > NYS average
    - 1 point if the number of jobs declined



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### Environmental Indicator Category 6 Intergovernmental Revenues (2 ind.)

- Calculation– (State and Federal Aid) / Total Revenues and the % Change in State and Federal Aid.
- Purpose – heavy dependence on State and Federal Aid is a source of revenue risk, a local government is vulnerable if these aids are cut.
- Scoring – 4 Points Max
  - 3 points for the reliance on State and Federal Aid
  - 1 point for the % change.



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## Environmental Indicator Category 7 Constitutional Tax Limit

- Calculation – percentage of tax limit exhausted.
- Purpose – as a local government approaches its Constitutional tax limit, it faces reduced financing options.
- Scoring – 3 Points Max
  - Applied this indicator to cities and villages only. (Even though counties also have a CTL requirement)
  - 3 Points if > 80% exhausted
  - 2 Points if > 65% exhausted
  - 1 Point if > 50% exhausted
  - 0 Points if <= 50% exhausted




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## Environmental Indicator Category 8 Sales Tax Collections

- Calculation – percentage change in sales tax collections (y-o-y).
- Purpose – key source of revenue for counties, provides insights into the health of the local economy, indicates potential future revenue shortfall.
- Scoring – 3 Points Max
  - Applied this indicator to counties only
  - Will use data from NYS Taxation and Finance
  - 3 points if decline




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## Scoring and Weighting Summary

Category	Number	Indicator	County		City and Village		Town	
			Max Pts	Weighting	Max Pts	Weighting	Max Pts	Weighting
Population	1	Change In Population 1990 to 2010	3	15%	3	15%	3	20%
Age	2	Change In Median Age (2000 to 2010)	3	10%	3	10%	3	10%
	3	Median Age of Population 2010	1		1		1	
Poverty	4	Child Poverty Rate 2010	3		3		3	
	5	Change In Child Poverty Rate 2000 to 2010	1	10%	1	15%	1	20%
Property Value	6	Change In Property Value	3	25%	3	30%	3	30%
	7	Property Value Per Capita	3		3		3	
Employment Base	8	Change In Unemployment Rate	1		1		1	
	9	Unemployment Rate	1	10%	1	10%	1	10%
	10	Change In Total Jobs In County	1		1		1	
Intergovernmental Revenues	11	Reliance on State and Federal Aid	3		3		3	
	12	Change in State and Federal Aid	1	10%	1	10%	1	10%
Constitutional Tax Limit	13	Constitutional Tax Limit Exhausted	0	0%	3	10%	0	0%
Sales Tax Revenues	14	Change In Local Sales Tax Receipts	3	20%	0	0%	0	0%
			<b>27</b>	<b>100%</b>	<b>27</b>	<b>100%</b>	<b>24</b>	<b>100%</b>




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## Scoring and Weighting Summary (cont'd)

### ■ Environmental Conditions – Overall Score

- $\geq$  50% of Total Points, +++
- $\geq$  40% of Total Points, ++
- $\geq$  30% of Total Points, +
- $<$ 30%, not flagged for negative environmental conditions.




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## Environmental Indicators – School Districts

### Six Indicators Within Five Categories

Category	Number	Indicator
Property Value	1	Change in Property Value
Enrollment	2	Change in Enrollment
Budget Votes	3	Budget Vote Defeats First Budget Vote Trend
	4	Change in Approval % First Budget Vote
Graduation Rate	5	Graduation Rate %
Free or Reduced Priced Lunch	6	Free or Reduced Priced Lunch %




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## Environmental Indicator Category 1 Property Value

- Calculation – percentage change in property value (year-over-year).
- Purpose – indicator of the local economy and tax base – a decline means that tax rates will have to increase just to maintain revenues. Major revenue source for schools.
- Scoring – 3 Points Max
  - Score is based on the average % change (y-o-y) for four periods of change.
  - 3 Points if 4 yr average declined by 4% or more, or last year dropped by more than 10%




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## Environmental Indicator Category 2 Enrollment

- Calculation – percent change in enrollment
- Purpose – declining enrollment signals that the community may be in decline. Additionally, many costs are fixed and school districts may not be able to adjust spending accordingly.
- Scoring – 3 Points Max
  - Use data from NYSED.
  - Score is based on the average % change (y-o-y) for four periods of change.
  - 3 Points if 4 yr average declined by 3.5% or more.



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## Environmental Indicator Category 3 Budget Votes (2 Indicators)

- Calculation – percentage yes vote, and whether or not the budget passed.
- Purpose – to identify school districts where the budget is regularly defeated, and to identify districts where the approval percentage is declining. Declining support affects the district's ability to incur expenditures.
- Scoring – 6 Points Max
  - Use data from NYSED.
  - Scored based on number of defeats in past four years, AND
  - Scored if there is a meaningful decline in the approval percentage.



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## Environmental Indicator Category 4 Graduation Rate

- Calculation – percentage of 9<sup>th</sup> graders passing within four years.
- Purpose – indicates that a school district is having difficulty achieving its core mission and may need to increase spending to provide extra services.
- Scoring – 3 Points Max
  - Use data from NYSED.
  - Looked at four years worth of graduation rates
  - Benchmarked against the average.



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## Environmental Indicator Category 5 Free or Reduced Priced Lunch %

- Calculation – percentage of K-6 pupils eligible for free or reduced priced lunch (FRPL).
- Purpose – poverty indicator, may indicate a greater demand for additional services.
- Scoring – 3 Points Max
  - Use data from NYSED.
  - Looked at three years worth of FRPL%
  - 3 points if >=75%
  - 2 points if >=65%
  - 1 point if >=55%
  - 0 points if < 55%




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## Scoring and Weighting Summary

Category	Number	Indicator	Max Points	Scoring Wtd Avg
Property Value	1	Change in Property Value	3	30%
Enrollment	2	Change in Enrollment	3	10%
Budget Votes	3	Budget Vote Defeats First Budget Vote Trend	3	25%
	4	Change in Approval % First Budget Vote	3	
Graduation Rate	5	Graduation Rate %	3	25%
Free or Reduced Priced Lunch	6	Free or Reduced Priced Lunch %	3	10%
<b>Total</b>			<b>18</b>	<b>100%</b>




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## Scoring and Weighting Summary (cont'd)

- Environmental Conditions – School District Overall Score
  - >= 60% of Total Points , +++
  - >= 45% of Total Points, ++
  - >= 30% of Total Points, +
  - <30%, not flagged for negative environmental conditions.




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## Public Comment Period

- This system is proposed and will be finalized following review of the comments received.
- 60-day public comment period
- October 2 to December 2
- Online tool for submitting comments.
- Available on the OSC Website, Local Government Section.
- <http://www.osc.state.ny.us/localgov/index.htm>



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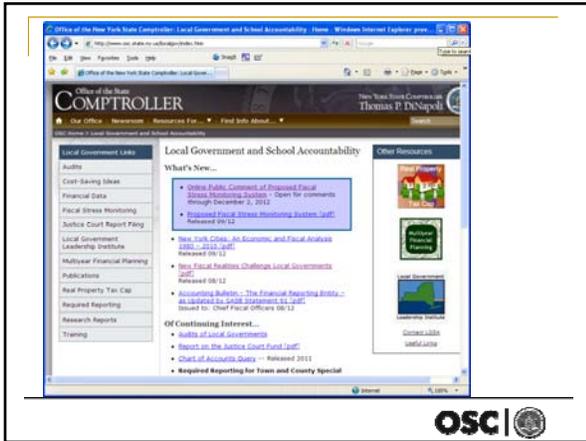
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Question & Answer Session

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Thank You



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