NYS COMPTROLLER THOMAS P. DiNAPOLI

Fiscal Stress Monitoring System

School Districts: School Year 2019-20 Results; 2020-21 Risks

The Office of the New York State Comptroller's **Fiscal Stress Monitoring System (FSMS)** calculates and publishes a fiscal stress score annually for each county, city, town, village and school district, except for New York City schools and the school districts of Buffalo, Rochester, Syracuse and Yonkers.[1] Scores are based on data reported to the Office of the State Comptroller (OSC) and reflect each local government's ability to maintain budgetary solvency, with higher scores reflecting greater risk of stress.[2]

This snapshot highlights the results for school districts that reported for school fiscal year (SY) 2019-20, which ended on June 30, 2020. These scores, therefore, were calculated using financial statements that included the period of the statewide mandatory school shutdown from March 18 through the end of the school year.[3] They also provide a baseline for school district fiscal preparedness for SY 2020-21, underway now, during which school districts have implemented a variety of new online and hybrid teaching methods and face the possibility of mid-year State aid reductions. Finally, this snapshot examines some of the biggest risk factors for fiscal stress specific to school districts, many of which have been exacerbated by the COVID-19 crisis.

For more information about FSMS, including lists of entities in stress and entities that did not file with OSC, see **www.osc.state.ny.us/local-government/fiscal-monitoring**.

Fiscal Stress Results for SY 2019-20

- OSC found 31 school districts to be in some level of stress in SY 2019-20 – representing 4.6 percent of the 668 that filed their annual financial data in time to receive a score, similar to the 4.9 percent in stress for SY 2018-19. (See Figure 1.)
- The two districts in significant fiscal stress were Mount Vernon City School District (Westchester County) and Northern Adirondack Central School District (Clinton County). Northern Adirondack was in significant fiscal stress last year as well.

FIGURE 1

School District Fiscal Stress Designation, SY 2019-20

Level of Fiscal Stress	Number	Percentage
Significant	2	0.3%
Moderate	7	1.0%
Susceptible	22	3.3%
Total in Stress	**31**	**4.6%**
No Designation	637	94.8%
Total Filed and Scored	**668**	**99.4%**
Not Filed or Inconclusive	4	0.6%
Total School Districts	**672**	**100.0%**

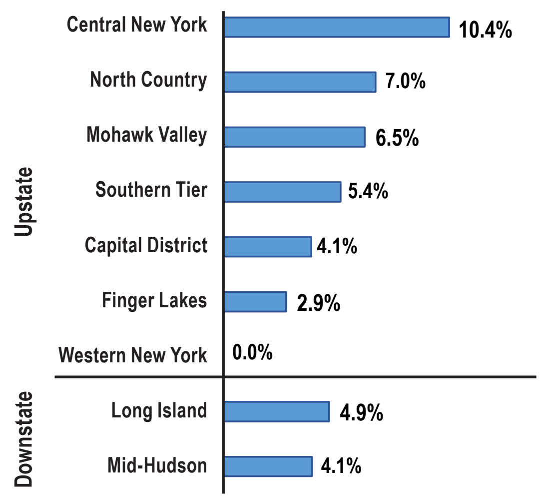
Source: Office of the State Comptroller (OSC).

Fiscal Stress by Type of District

- The Central New York and North Country regions had the highest percentages of districts in stress, with 10.4 percent and 7.0 percent, respectively. (See Figure 2.)
- In contrast, Western New York had no school districts in stress in SY 2019-20.
- Fiscal stress varies with the ratio of student need to district wealth (or "resource capacity"), as determined by the New York State Education Department. High-need urban/suburban districts show the highest rate of fiscal stress, with 22.2 percent of the districts in this category designated in some level of stress.[4] (See Figure 3.)

FIGURE 2

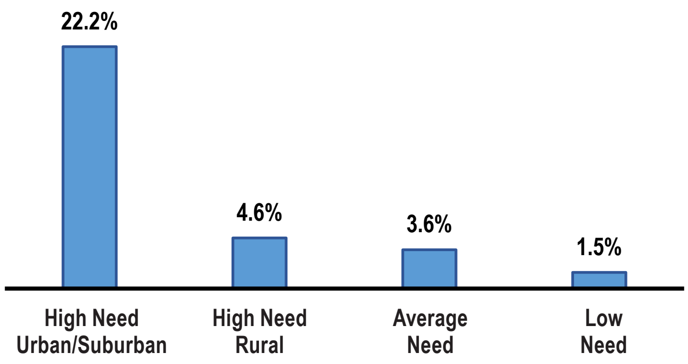
Percentage of School Districts in Fiscal Stress by Region, SY 2019-20



Source: OSC.

FIGURE 3

Percentage of School Districts in Fiscal Stress by Need/Resource Capacity, SY 2019-20



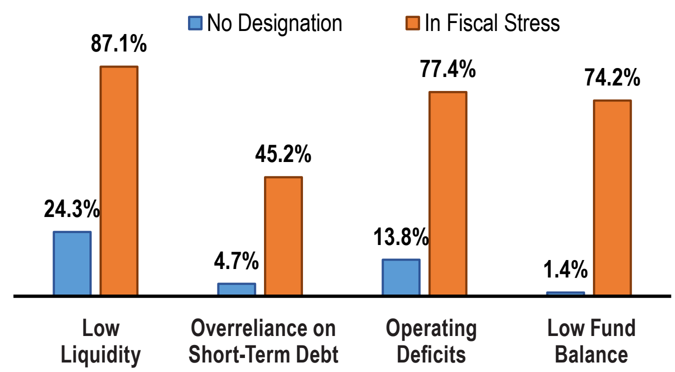
Source: OSC.

Indicators

- Nearly all fiscally stressed school districts (87.1 percent) have **low liquidity**, also known as "weak cash position." This indicates that there may not be enough cash on hand to cover operating costs. Low liquidity can lead to short-term borrowing for cash-flow purposes: almost half of the districts in stress also have a new or increased reliance on **short-term cash flow debt**, which is a sign of structural budgetary imbalance. (See Figure 4.)
- School districts that report **operating deficits** may or may not be heading for stress – but more than three-quarters of the districts in stress (77.4 percent) have experienced a deficit in one or more of the last three years.
- The other indicator that stressed districts have in common is **low fund balance**, which reduces their capacity to address revenue shortfalls and expenditure overruns.

FIGURE 4

Prevalence of Fiscal Stress Indicators, Districts In Fiscal Stress/Not Designated, SY 2019-20



Source: OSC.

Environmental Stress in SY 2019-20

Fiscal stress results from several contributing factors. Many school districts have environmental challenges that increase their chances of fiscal stress:

- In SY 2019-20, **95 school districts** (14.1 percent of those scored) were designated in an environmental stress category. (See Figure 5.)
- Environmental risk factors for school districts include a high percentage of economically disadvantaged students, a high teacher turnover rate, a decrease in property value, a low budget vote approval rate, a high percentage of English language learners, and large class sizes. Environmental stressors are likely to become more prevalent in a recession, such as the one that has occurred in 2020.[5]

FIGURE 5

School District Environmental Stress Designation, SY 2019-20

Level of Environmental Stress	Number	Percentage
Significant	7	1.0%
Moderate	20	3.0%
Susceptible	68	10.1%
Total in Stress	**95**	**14.1%**
No Designation	573	85.3%
Total Filed and Scored	**668**	**99.4%**
Not Filed or Inconclusive	4	0.6%
Total School Districts	**672**	**100.0%**

Source: (OSC).

Fiscal Stress Risks in SY 2020-21 and Beyond

School district finances were significantly impacted by the COVID-19 pandemic that began in early 2020. Some of the fiscal challenges that districts are facing that could impact their Fiscal Stress Monitoring System scores and increase their risk of stress include:

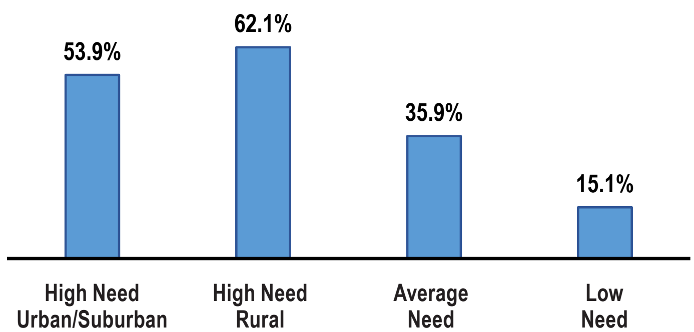
High COVID-19-related expenditures. Unlike some other classes of local government, school district expenditures were affected directly by the pandemic. Districts have had to make major changes to the way they provide services, and many of these changes involved new expenditures. They needed to deliver classes for students through modes ranging from full-time in-person to fully remote, as well as developing hybrid models that combined the two approaches. This is likely to have increased equipment, software and training expenses. Schools also had to purchase and provide personal protective equipment (PPE) and expand cleaning and disinfecting protocols for buildings and buses.

Significant withholdings from State Aid. State aid totaled $28.1 billion in SY 2019-20, or about 36.0 percent of school district revenue, with the highest need districts having the greatest dependence on this source.[6] (See Figure 6.)

The State has withheld 20 percent from certain State aid payments to school districts, amounting to at least $300 million statewide.[7] While not all aid categories were affected, and some of the withholding may be restored, it was unclear to districts at the beginning of the school year whether (or which) aid categories would be spared. Therefore, some districts with high dependence on general purpose aid responded to the risk at that time with staffing reductions and other austerity measures. In mid-January 2021, the State Division of the Budget indicated that most of the funds withheld are expected to be paid in the current state fiscal year. In some cases, if not all, austerity measures remain in place, likely due to the difficulty of reversing them after the start of the school year, and in part because the future of aid payments remains unclear.

FIGURE 6

State Aid as Percent of Total Revenues by Need/Resource Capacity, SY 2019-20



Source: OSC.

Existing stress. Generally, any of the school districts struggling with any of the fiscal stress indicators in SY 2019-20 were likely to be especially poorly positioned to face the extraordinary challenges SY 2020-21 has posed. Districts that had low fund balance (which includes nearly three-quarters of all districts that are in fiscal stress), poor liquidity or a growing reliance on short-term debt before SY 2020-21 started were in a weaker position to deal with increased expenditures or aid losses.

Remaining uncertainty. The vast majority of New York's school districts did not enter into this pandemic in fiscal stress, but challenges remain as COVID-19 appears likely to continue to disrupt school district operations until an effective vaccine is widely distributed.[8] In particular, the State's own fiscal difficulties are likely to continue to affect aid to school districts, making those with a high reliance on this source most vulnerable. In SY 2020-21, there may also be unforeseen costs from additional protocols necessary to protect students, educators and staff for the duration of the pandemic, which may inflate expenditures beyond those budgeted. The timing of the vaccination rollout remains uncertain, and it is unclear when schools will be able to resume normal operations, but even if they are able to start again next fall, the fiscal challenges could last for years.[9] Recent announcements regarding the possibility of much needed federal relief for education expenses could offset some of the risk in the near future.

In this context, OSC encourages school district officials to closely monitor their financial condition, even if their fiscal stress score for SY 2019-20 was low. OSC's self-assessment tool allows officials to calculate fiscal stress scores based on current and future financial assumptions; it can be a powerful tool in fiscal stress climates such as this. OSC has also created a financial toolkit that contains guidance, resources, training and reports that can assist school districts dealing with financial challenges.

OSC's FSMS Self-Assessment Tool:

wwe1.osc.state.ny.us/localgov/fiscalmonitoring/fsms.cfm

OSC's Financial Toolkit for Local Officials in 2020 and Beyond:

www.osc.state.ny.us/local-government/financial-toolkit

Notes

[1] The New York City School District, due to its unique financial structure, is excluded from FSMS, as are the ten school districts created by a special act of the New York State Legislature to provide students placed in certain residential facilities access to a public education. This report also excludes the “Big Four” City School Districts of Buffalo, Rochester, Syracuse and Yonkers. Unlike other school districts, the districts in the Big Four cities do not have separate authority to levy taxes and are instead fiscally dependent on their cities to levy taxes for school purposes. School district information for these fiscally dependent districts will be incorporated into the scoring for their respective cities. Boquet Valley CSD in Essex County, recently formed through the merger of the Elizabethtown-Lewis and Westport districts, did not receive a score (inconclusive) in SY 2019-20 because it only has one year of data.

[2] For more information on the FSMS indicators and scoring, see OSC, *Fiscal Stress Monitoring System Manual*, November 2017, available at: **www.osc.state.ny.us/files/local-government/fiscal-monitoring/pdf/system-manual.pdf**.

[3] Executive Order 202.4 directed every school in the State to close no later than March 18, 2020 for a period of two weeks, ending April 1, 2020 (which was later extended by Executive Orders 202.11, 202.14, 202.18, and 202.28 to the end of the school year).

[4] The need/resource capacity categories used in this report were developed by the New York State Education Department (NYSED) and represent a district’s ability to meet student needs using local capacity. Thus, a “high need” district would have more children needing free or reduced price lunches and/or assistance learning English as a second language compared with its community’s wealth, while a “low need” district would have relatively few children with such needs and a wealthier local tax base. For more information on the definitions of these categories, see: **www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf**.

[5] For a more comprehensive description of FSMS environmental indicators, see *Fiscal Stress Monitoring System Manual*, pp. 4-5 and Appendix D.

[6] OSC, local government annual financial report data, available at **www.osc.state.ny.us/local-government/data**; and NYSED.

[7] New York State Division of the Budget (DOB), FY 2021: Mid-Year Update to the Financial Plan, p.181, available at: **www.budget.ny.gov/pubs/archive/fy21/enac/fy21-fp-myu.pdf**.

[8] National Conference of State Legislatures, “States Facing Challenges as COVID-19 Radically Reshapes Higher Education,” available at: **www.ncsl.org/bookstore/state-legislatures-magazine/covid-19-brings-new-uncertainty-for-schools-at-all-levels-magazine2020.aspx?utm_source=National+Conference+of+State+Legislatures&utm_campaign=7f5d1b52e1-NCSL-This-Week-Oct4&utm_medium=email&utm_term=0_1716623089-7f5d1b52e1-377886024**.

[9] In the *FY 2021: Mid-Year Update to the Financial Plan*, it is projected that the impact on State receipts will persist through the four-year period of the financial projection. See **www.budget.ny.gov/pubs/archive/fy21/enac/fy21-fp-myu.pdf** at p. 10.

Contacts

Office of the NEW YORK STATE

COMPTROLLER

New York State Comptroller

THOMAS P. DiNAPOLI

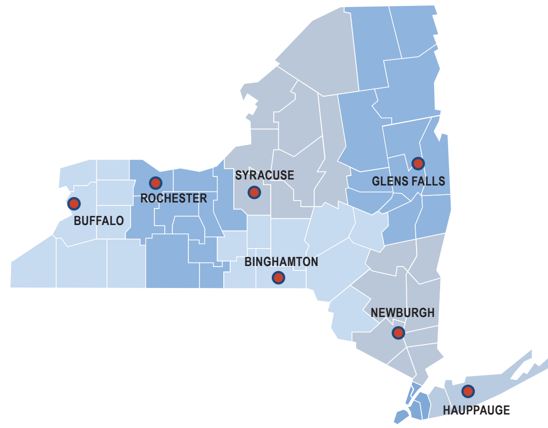
Division of Local Government and School Accountability

110 State Street, 12th floor, Albany, NY 12236

Tel: 518.474.4037 • Fax: 518.486.6479

Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government



Executive • 518.474.4037

Elliott Auerbach, Deputy Comptroller

Tracey Hitchen Boyd, Assistant Comptroller

Randy Partridge, Assistant Comptroller

Audits, Local Government Services and Professional Standards • 518.474.5404

(Audits, Technical Assistance, Accounting and Audit Standards)

Local Government and School Accountability Help Line • 866.321.8503 or 518.408.4934

(Electronic Filing, Financial Reporting, Justice Courts, Training)

Division of Legal Services

Municipal Law Section • 518.474.5586

New York State & Local Retirement System

Retirement Information Services

Inquiries on Employee Benefits and Programs

518.474.7736

Technical Assistance is available at any of our Regional Offices

BINGHAMTON REGIONAL OFFICE

Tel 607.721.8306 • **Fax** 607.721.8313 • **Email** Muni-Binghamton@osc.ny.gov

Counties: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins

BUFFALO REGIONAL OFFICE

Tel 716.847.3647 • **Fax** 716.847.3643 • **Email** Muni-Buffalo@osc.ny.gov

Counties: Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, Wyoming

GLENS FALLS REGIONAL OFFICE

Tel 518.793.0057 • **Fax** 518.793.5797 • **Email** Muni-GlensFalls@osc.ny.gov

Counties: Albany, Clinton, Essex, Franklin, Fulton, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Warren, Washington

HAUPPAUGE REGIONAL OFFICE

Tel 631.952.6534 • **Fax** 631.952.6091 • **Email** Muni-Hauppauge@osc.ny.gov

Counties: Nassau, Suffolk

NEWBURGH REGIONAL OFFICE

Tel 845.567.0858 • **Fax** 845.567.0080 • **Email** Muni-Newburgh@osc.ny.gov

Counties: Columbia, Dutchess, Greene, Orange, Putnam, Rockland, Ulster, Westchester

ROCHESTER REGIONAL OFFICE

Tel 585.454.2460 • **Fax** 585.454.3545 • **Email** Muni-Rochester@osc.ny.gov

Counties: Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates

SYRACUSE REGIONAL OFFICE

Tel 315.428.4192 • **Fax** 315.426.2119 • **Email** Muni-Syracuse@osc.ny.gov

Counties: Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence

STATEWIDE AUDIT

Tel 315.793.2484

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability

110 State Street, 12th floor
Albany, NY 12236
Tel: (518) 474-4037
Fax: (518) 486-6479
or email us: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Like us on Facebook at facebook.com/nyscomptroller
Follow us on Twitter @nyscomptroller