Fiscal Stress Monitoring System

School Districts: Fiscal Year 2020-21 Results

Overview

The New York State Comptroller's Fiscal Stress Monitoring System (FSMS) designated 23 school districts to be in some level of fiscal stress for school fiscal year (SY) 2020-21, or 3.4 percent of the 670 that filed their annual financial data in time to receive a score. (See Figure 1.)

This is down from 31 school districts (4.6 percent) for SY 2019-20. In fact, fewer school districts were designated in fiscal stress in SY 2020-21 than in any of the previous four years. The level of stress was also lower, with only two districts scoring higher than "susceptible to fiscal stress," compared to between 5 and 9 districts in the two higher categories in each of the prior four years. (See Figure 2.)

The two school districts designated in significant fiscal stress were East Ramapo Central School District (Rockland County), up 51.7 points from last year, when it was in the susceptible category, and Newfield Central School District (Tompkins County), up from moderate stress last year. On a regional basis, only the Long Island and Western New York regions experienced increases in the number of school districts designated in fiscal stress.

FIGURE 1

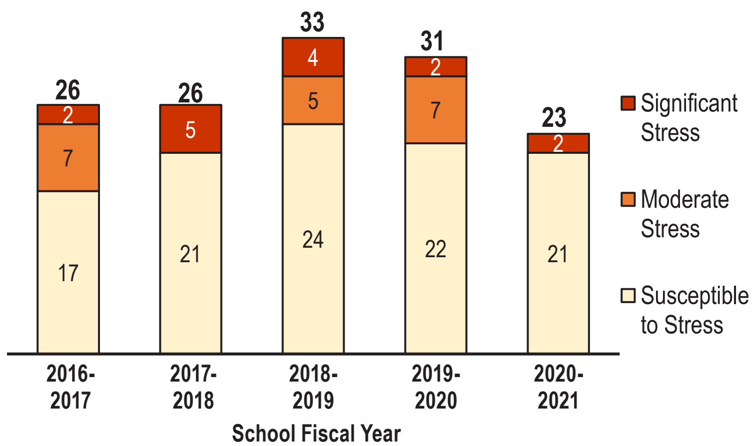
School District Fiscal Stress Designation, SY 2020-21

Level of Fiscal Stress	Number	Percentage
Significant	2	0.3%
Moderate	0	0.0%
Susceptible	21	3.1%
Total in Stress	**23**	**3.4%**
No Designation	647	96.6%
Total Filed and Scored	**670**	**100.0%**
Not Filed or Inconclusive	2	
Total School Districts	**672**	

Source: Office of the State Comptroller (OSC).

FIGURE 2

Trend of School Districts Designated in Fiscal Stress by Category



Source: OSC.

The Pandemic's Impact on SY 2020-21

The COVID-19 pandemic began in early 2020, a few months before school districts finished SY 2019-20. SY 2020-21 was the first full school year of operations under pandemic conditions, affecting everything from the personal lives of students and staff to the fiscal situation of New York State. The fiscal stress scores for SY 2020-21, therefore, reflect a full year of significant challenges and uncertainty for school districts. The general decline in the number of districts designated in stress reflects, in part, the impact of the local, State and federal responses to the pandemic.

Changes to Operations

All school districts had to face the uncertainty of COVID-19 itself. By the fall of 2020-21, schools had implemented a variety of new teaching methods to reduce the likelihood of school-based transmission of the virus. School districts employed some combination of in-person learning with social distancing (especially for younger students and those with special needs), hybrid classes (where students attended school in person and online on alternating days to keep populations in the buildings low), and entirely online classes (especially for older students), with the specific mix varying district to district.[1] In addition, many schools had to quarantine teachers and students periodically, often employing online education where feasible.

The Office of the State Comptroller (OSC) calculates and publishes a fiscal stress score annually for each county, city, town, village and school district through FSMS.[2] Scores from 0 to 100 are based on data reported to OSC and reflect each local government's ability to maintain budgetary solvency, with higher scores reflecting greater risk of stress.[3] Each school district's fiscal stress score is based on self-reported financial data. Environmental stress scores, reflecting factors that are outside the direct control of school districts, are calculated using State and federal data. This snapshot highlights the results for school districts that reported for SY 2020-21, which ended on June 30, 2021.[4]

Fluctuations in State and Federal Aid

Schools that depend heavily on State aid also faced a great deal of fiscal uncertainty. The Enacted State Budget for State Fiscal Year (SFY) ending in 2021, in response to the impact of the pandemic and the expectation of declining revenues from sales and income taxes, limited school district aid to approximately the same level as the prior year.[5] In March 2020, the federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which included $1.13 billion in aid for school districts in New York State. Of this, $328 million was for districts scored by FSMS (which does not include the New York City, Buffalo, Rochester, Syracuse and Yonkers school districts), heavily weighted to those with the highest number of students in poverty.[6] The State used this funding to replace its own general school aid to these schools, reducing its own aid by an equal “pandemic adjustment.”[7]

The intent was for the combination of State aid and CARES Act funding for SY 2020-21 to increase slightly over State school aid in SY 2019-20.[8] In practice, however, the CARES Act funding did not fully offset school aid for two reasons.

First, the CARES Act funding – intended to be used to “prevent, prepare for, and respond to coronavirus” – could only be used pursuant to an application submitted to and approved by the State Education Department (NYSED).[9] This process appears to have resulted in significant delays for many school districts. In aggregate, FSMS districts reported receiving only 67 percent of their allocated CARES funding during SY 2020-21. Of the 660 districts eligible for CARES Act funding, 294 (44 percent) reported receiving all of the money allocated by the end of the school year, but 96 (15 percent) reported receiving none, and the remaining 270 districts reported receiving only a portion of the total.[10]

Second, the CARES Act required school districts with eligible non-public schools within their borders to set aside a portion ($122 million statewide) of the funding for their use. Although this had little or no impact on many districts, for a few, this meant they received substantially less aid from the CARES Act than they had lost from the State’s pandemic adjustment. For example, East Ramapo, one of the two districts in significant fiscal stress in SY 2020-21, was allocated $22.3 million in CARES Act funding, but had to set aside $15.8 million (71 percent) of this for non-public schools.[11]

Meanwhile, in the summer of 2020, the State withheld 20 percent of several school aid payments, a decision attributed to the fact that the federal government had not yet enacted anticipated unrestricted federal assistance to states.[12] The uncertainty as to whether a 20 percent reduction would be applied to all school aid payments in SY 2020-21, and whether the withheld amounts would be restored later, resulted in difficult budget management for school districts. The extent of the withholding and the timing of the repayment of amounts withheld were unknown for several months after the school year began.

By the end of SFY 2021, instead of the increase of almost $155 million (1.1 percent) in combined support from the State and CARES Act funding for school aid over the prior year’s State school aid that had been allocated in the budget for FSMS districts, these districts ultimately received an increase of about $47 million (0.3 percent). Urban and suburban districts with the highest need had a year-over-year decline of $47 million, or 1.5 percent, in total aid (based on the ratio of student need to district wealth, or “need/resource capacity”), as determined by NYSED.[13] In the absence of other actions, this would probably have put many of these districts in stress.

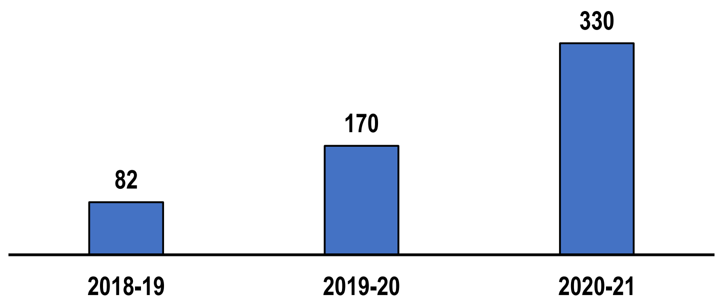
School District Staffing Cuts

Faced with the possibility of continued mid-year State aid reductions and uncertain federal aid timing, district officials were forced to make operational decisions at the start of the fiscal year that reflected a potentially bleak fiscal future. Some 330 districts made cuts to personal services expenditures (total wages and salaries), with 12 districts making cuts of 10 percent or more. Although a small number of districts may have personal services reductions in any year, this action was far more common in SY 2020-21 than in other recent years: in SY 2018-19, a more typical year, only 82 had such reductions. In SY 2019-20, the number of districts with reductions was 170, likely due to the fact that schools went to remote learning unexpectedly toward the end of the year, reducing spending on hourly wages for staff working in buildings or school busses. (See Figure 3.)

Using NYSED's need/resource capacity measures, the staffing cuts become even more telling. Staffing reductions were far more common in high-need districts, which tend to depend more heavily on State aid. High-need urban/suburban districts were six times more likely than low-need districts to have cut expenditures on staff wages and salaries since the pre-pandemic year of SY 2018-19. (See Figure 4.)

FIGURE 3

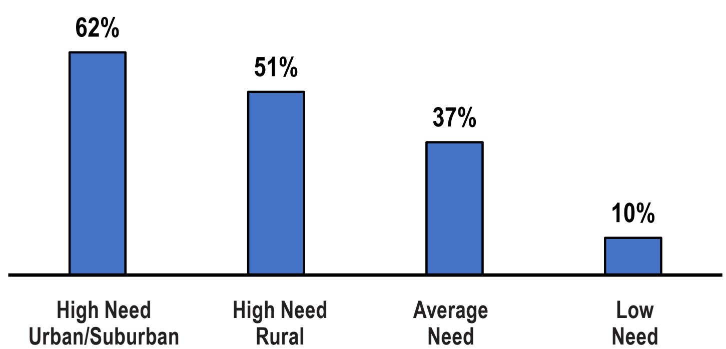
Number of School Districts Cutting Personal Services Expenditures Since Prior Year



Source: OSC.

FIGURE 4

Percentage of School Districts Cutting Personal Services Expenditures Between SY 2018-19 and SY 2020-21 by Need/Resource Capacity



Source: OSC.

Prospects for SY 2021-22

By the time the SFY 2022 Budget was enacted in April 2021, the State and federal aid picture looked much improved. The federal government had enacted two additional aid packages with major funding for school districts. Districts covered by FSMS had access to another $1.4 billion from the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act enacted in December 2020 and $2.8 billion from the American Rescue Plan (ARP) Act enacted in March 2021, neither of which was used in place of State aid cuts. In addition, the State also increased State aid substantially and made a promise to increase Foundation Aid (the largest aid category) up to full funding over three years.[14]

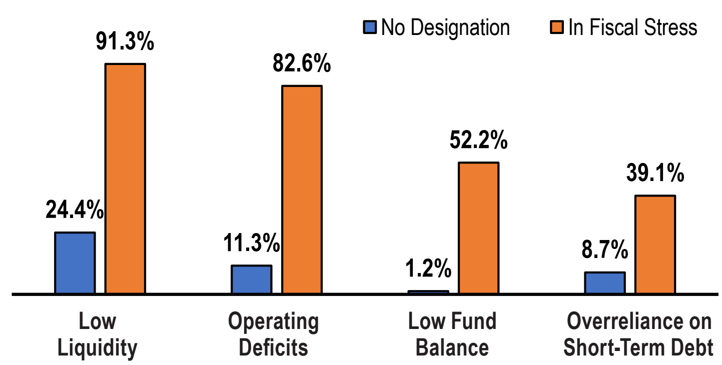
Effects of SY 2020-21 on Individual Fiscal Stress Indicators

FSMS is driven by several indicators, each of which contributes to the total score.

- 91.3 percent of all fiscally stressed school districts had **low liquidity** in SY 2020-21. (See Figure 5.)
- 82.6 percent of school districts designated in stress reported ending the year with an **operating deficit** in one or more of the last three years.
- 52.2 percent of stressed districts had a **low fund balance**.
- 39.1 percent of stressed districts were found to have an overreliance on **short-term debt** (cash-flow debt), as determined by the growth in the amount of such debt issued in the current year compared with the prior year.

FIGURE 5

Prevalence of Fiscal Stress Indicators by Designation, SY 2020-21



Source: OSC.

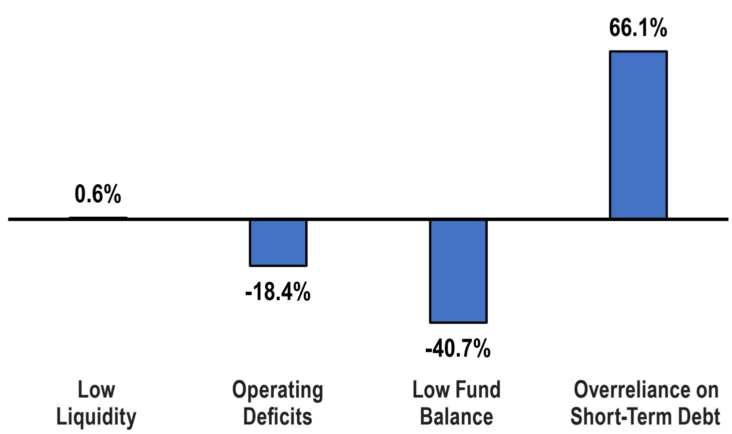
In SY 2020-21, the scores (regardless of stress category) for low fund balance and operating deficits dropped significantly, showing an improvement in these indicators. Scores for an increased reliance on short-term debt jumped 66 percent, indicating that this indicator was getting worse. (See Figure 6.)

These changes are likely related to the factors described above. The expenditure cuts some school districts made early in the year when anticipating larger cuts, coupled with better aid than anticipated, would have improved the scores for districts ending the year with operating deficits. This, in turn, would have improved the scores for districts reporting low or reduced fund balances.

Uncertainty also likely led to worse scores for districts issuing short-term debt. This debt is typically issued to bridge revenue delays (such as State aid withholding) or when expenditures must be made earlier in the year than is typical (such as purchases of personal protective equipment (PPE) or online teaching equipment and licenses).

FIGURE 6

Percentage Change in Indicator Scores, SY 2019-20 to SY 2020-21



Source: OSC.

Changes in Fiscal Stress Distribution

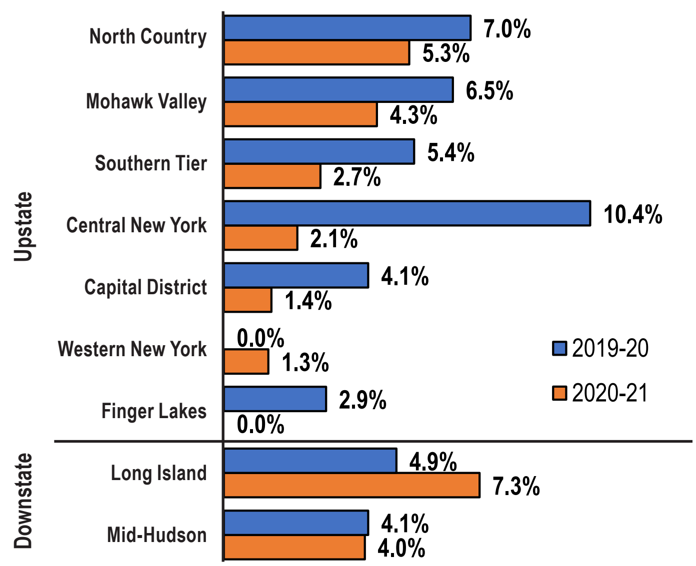
By Region

The movement of some districts out of a fiscal stress designation in SY 2020-21 changed the geographical distribution of stress across the State. (See Figure 7.)

- In general, most regions saw fewer districts designated in fiscal stress compared with the prior year, consistent with the overall trend statewide. Only the Long Island and Western New York regions saw an increase.
- The Long Island region had the highest percentage of school districts designated in stress in SY 2020-21, and had appreciably more districts designated in stress than in SY 2019-20. This appears to have been due to a large jump in the number of districts with an increase in short-term debt, from 28 districts in each of the prior two years to 52 in SY 2020-21.

FIGURE 7

Percentage of School Districts Designated in Fiscal Stress by Region, SY 2019-20 and SY 2020-21



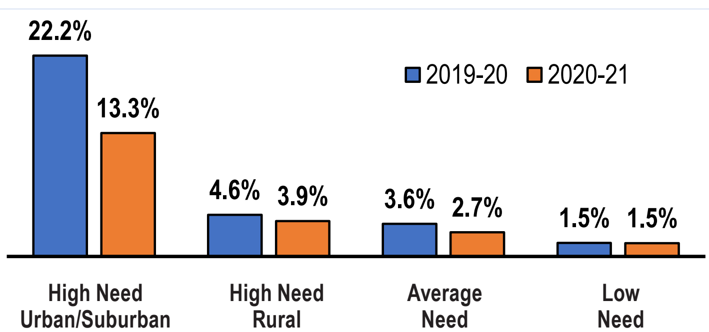
Source: OSC.

By District Wealth

NYSED's high-need urban/suburban category continued to have the highest percentage of districts designated in stress in SY 2020-21, compared with the high-need rural and lower-need categories. However, the percentage of such districts designated in stress dropped dramatically in comparison to SY 2019-20. As noted above, many of these districts were facing the greatest uncertainty around State and federal aid early in the school year and were far more likely to cut personal services spending in anticipation of aid cuts. (See Figure 8.)

FIGURE 8

Percentage of School Districts Designated in Fiscal Stress by Need/Resource Capacity, SY 2019-20 and SY 2020-21



Source: OSC.

Environmental Stress in SY 2020-21

Many school districts have environmental challenges that increase the likelihood of fiscal stress, as is evidenced by the number of high-need districts designated in stress. FSMS tracks several risk factors, including high percentage of economically disadvantaged students, high teacher turnover rate, recent decrease in property value, low margin for budget vote approval, high percentage of English language learners, and large class sizes.[15]

FIGURE 9

School District Environmental Stress Designation, SY 2020-21

Level of Environmental Stress	Number	Percentage
Significant	5	0.7%
Moderate	16	2.4%
Susceptible	62	9.3%
Total in Stress	**83**	**12.4%**
No Designation	587	87.6%
Total Filed and Scored	**670**	**100.0%**
Not Filed or Inconclusive	2	
Total School Districts	**672**	

Source: OSC.

- In SY 2020-21, 83 school districts (12.4 percent of those scored) were designated in an environmental stress category. (See Figure 9.)
- This level represents a decline from the 95 school districts (14.1 percent) that were in environmental stress in SY 2019-20.
- The main reason for the change was that school budget votes were generally approved by wider margins in SY 2020-21 than in SY 2019-20. The 2020 budget vote, which was conducted entirely by mail-in ballot during the lockdowns and had a much higher participation rate than traditional in-person votes, also had a higher percentage of “no” votes.[16] The votes in 2021, used for these environmental scores, were conducted largely in-person and the percentage of “no” votes declined.

Conclusion

Most school districts entered SY 2020-21 under a cloud of uncertainty. Faced with potential cuts in State aid and other potentially negative outcomes, many high-need districts reliant on State aid made fiscally conservative choices, such as staff reductions. Ultimately, most school districts received the bulk of the State and federal aid that was originally appropriated, which had the effect of helping them balance their budgets and maintain healthy fund balances. In general, this reduced the number of districts designated in fiscal stress.

Although school officials may have made these operational decisions in order to avoid fiscal crisis, they had unfortunate negative effects, especially affecting students in the State's highest need districts. Many of these districts began SY 2021-22 with fewer experienced staff, as well as many students with significant learning deficits that are not likely to be easily addressed.

New federal and State aid streams for school districts in SY 2021-22 and beyond will be helpful, but present their own challenges. For example, federal funding through the CRRSA and ARP acts is temporary, and New York's stated plan to fully fund Foundation Aid by SY 2023-24 is not binding upon future legislatures. School district officials will still have to make difficult operational and staffing decisions in order to best provide services to their students in the short and long term. Knowledge of their financial condition is vital in making these decisions. OSC's self-assessment tool allows officials to calculate fiscal stress scores based on current and future financial assumptions; it can be a powerful asset in uncertain times such as this. OSC has also created a financial toolkit that contains guidance, resources, training and reports that can assist school districts in dealing with the financial challenges they face.

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] Each school developed its own plan and was required to submit the plan to the New York State Department of Education (NYSED) and post the plan on the school's or school district's website. See NYSED, *Recovering, Rebuilding, And Renewing: The Spirit Of New York's Schools: Reopening Guidance*. p. 14, at **www.nysed.gov/common/nysed/files/programs/reopening-schools/nys-p12-school-reopening-guidance.pdf**.

[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/localgov/fiscalmonitoring/pdf/system-manual.pdf**.

[3] The New York City School District, due to its unique financial structure, is excluded from FSMS, as are the 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 in 2020-21 because it only has two years of data, with three years required for some indicators.

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

[5] New York State Division of the Budget (DOB), *FY 2021 Enacted Budget Financial Plan*, p. 89, at **www.budget.ny.gov/pubs/archive/fy21/enac/fy21-enacted-fp.pdf**.

[6] U.S. Public Law No: 116-136, CARES Act. Amounts are based on data from NYSED with additional calculations by OSC. CARES Act funding for charter schools is not included in these totals.

[7] DOB, *FY 2021 Enacted Budget Financial Plan*, p. 89, and *2020-21 State Aid Projections*, p. 11, at **www.budget.ny.gov/pubs/archive/fy21/enac/2020-21-enacted-schoolaid-runs.pdf**.

[8] See, for example, DOB, *FY 2021 Financial Plan – First Quarterly Update*, p. 36, at **www.budget.ny.gov/pubs/archive/fy21/enac/fy21-fp-q1.pdf**.

[9] CARES Act; United States Department of Education, *Frequently Asked Questions: Elementary and Secondary School Emergency Relief Programs, Governor's Emergency Education Relief Programs*, May 2021, at **www.oese.ed.gov/files/2021/05/ESSER.GEER_.FAQs_5.26.21_745AM_FINALb0cd6833f6f46e03ba2d97d30aff953260028045f9ef3b18ea602db4b32b1d99.pdf**.
Note: Under the CARES Act, school districts had until September 2021 to obligate CARES Act funds, but the Tydings amendment extended this by a year to September 30, 2022. (See page 48.)

[10] Based on data reported to NYSED and OSC by school districts. The 294 districts reporting receiving "all" CARES Act funding include any reporting receiving at least 99.5 percent of all funding, including several that reported receiving more than 100 percent.

[11] Phyllis Morris and Brian Cechnicki, *2021-22 Regents State Aid Proposal*, NYSED, November 30, 2020, at **www.regents.nysed.gov/common/regents/files/1220bra5.pdf**.

[12] For a description of the effect on school aid payments, see NYSED, Payment Information webpage, posting dated 8/20/20, at **stateaid.nysed.gov/payment**, accessed on January 7, 2021. For the official rationale for local aid withholdings, see DOB, FY 2021 Financial Plan – First Quarterly Update, p. 9, at **www.budget.ny.gov/pubs/archive/fy21/enac/fy21-fp-q1.pdf**.

[13] The need/resource capacity categories used in this report were developed by 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**.

[14] DOB, *FY 2022 Enacted Budget Financial Plan*, p.11 and 17, at **www.budget.ny.gov/pubs/archive/fy22/en/fy22en-fp.pdf**.

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

[16] OSC, *Voting From Home: Summary of the 2020-21 School District Budget Vote*, October 2020, at **www.osc.state.ny.us/files/local-government/publications/2020/pdf/summary-of-2020-21-school-district-budget-vote.pdf**.

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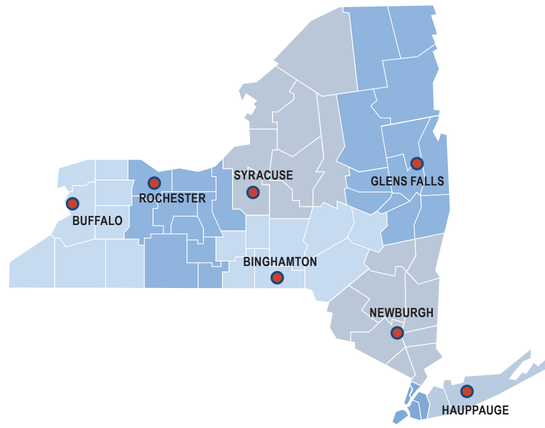

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