

# Office of the New York State Comptroller

Thomas P. DiNapoli • State Comptroller



## Fiscal Stress Monitoring System

January 28, 2016

### Three Years of School District Fiscal Stress Results: School Years 2012-13 to 2014-15

Since 2012, the Office of the State Comptroller's (OSC's) Fiscal Stress Monitoring System (FSMS) has identified local governments and school districts that are experiencing or susceptible to fiscal stress. This is the third annual set of school district FSMS scores, showing results for school year (SY) 2014-15.<sup>1</sup>

#### Overall Findings

For SY 2014-15, OSC identified 82 school districts as experiencing some degree of fiscal stress: 8 were in significant fiscal stress, 24 in moderate fiscal stress and 50 were susceptible to fiscal stress.

The share of school districts experiencing fiscal stress has remained fairly stable over time: 13 percent of districts were designated as fiscally stressed in each of the first two years of the FSMS, and 12 percent were in fiscal stress in SY 2014-15. The majority of districts in a fiscal stress category were in the susceptible to fiscal stress category. (See Figure 1.) Only a small number of districts (32) were found to have experienced stress in all three years.

Figure 1

#### School Districts by Fiscal Stress Designation

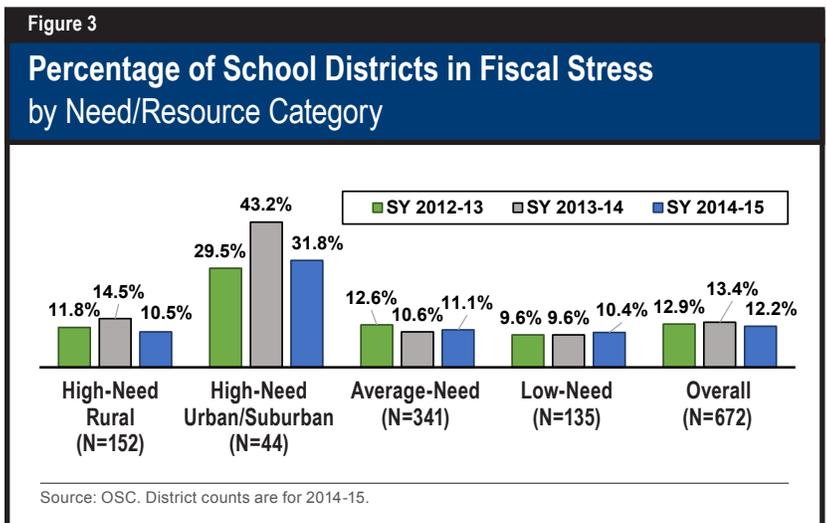
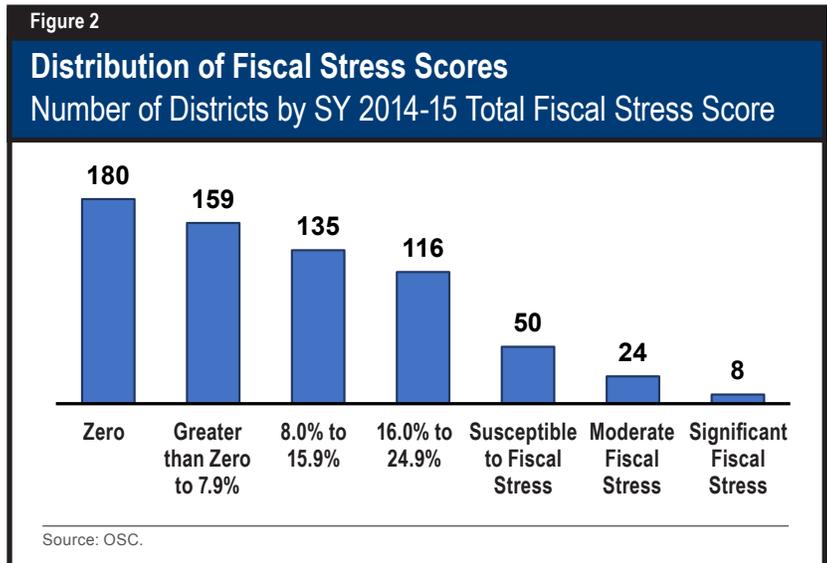
	SY 2012-13		SY 2013-14		SY 2014-15	
	Number	Percentage	Number	Percentage	Number	Percentage
<b>Districts in Fiscal Stress</b>						
Significant Fiscal Stress	12	1.8%	10	1.5%	8	1.2%
Moderate Fiscal Stress	23	3.4%	27	4.0%	24	3.6%
Susceptible to Fiscal Stress	52	7.8%	53	7.9%	50	7.4%
Subtotal	87	13.0%	90	13.4%	82	12.2%
<b>Other Districts</b>						
No Designation	583	87.0%	582	86.6%	590	87.8%
Total	670	100.0%	672	100.0%	672	100.0%

Source: Office of the State Comptroller (OSC). The figures for SY 2012-13 exclude four districts that have since consolidated into two districts as well as two other districts that did not have conclusive data at the time the SY 2012-13 FSMS scores were initially released. The figures for SY 2013-14 and SY 2014-15 exclude the two new districts resulting from the consolidation. (Districts need three years of data in order to have a fiscal stress score.)

The FSMS measures fiscal stress through a set of financial indicators. Districts showing signs of stress in these indicators receive points: a high number of points reflects higher levels of fiscal stress. The points on the individual indicators are then converted to an overall fiscal stress percentage score, using a calculation that assigns set weights to each indicator category.<sup>2</sup>

More than one-quarter of the districts scored in 2015 received no points on any of the fiscal stress indicators. Close to another quarter received a score of less than 8 percent. (See Figure 2.) While the FSMS does not attempt to quantify levels of fiscal wellness, half of all districts appear to be coping with the fiscal challenges that come their way without taking actions that push them beyond the threshold for fiscal stress designation as defined by the FSMS.

Certain groups of school districts are more likely than others to be fiscally stressed. Districts in the high-need urban/suburban need/resource category are more than twice as likely as districts overall to be in a fiscal stress category.<sup>3</sup> (See Figure 3.) The disparity is even greater when looking at city school districts compared with all other types of districts: more than one-quarter (28.1 percent) of city school districts are in a fiscal stress category, compared to just 10.7 percent of other school districts. (See Figure 4.) Many city districts are also in the high-need urban/suburban need resource category (25 out of 57), but city districts in other need/resource categories are also disproportionately likely to be in fiscal stress.

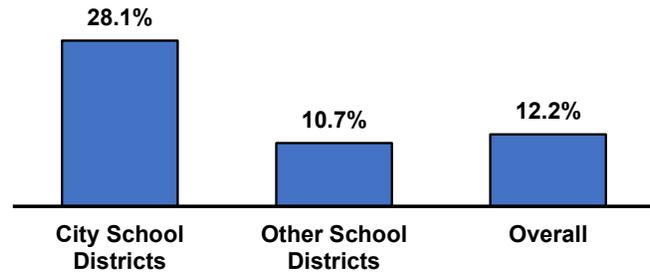


Long Island has the largest proportion of districts in a fiscal stress category: one in five Long Island districts was in fiscal stress in SY 2014-15 (20.2 percent). Central New York and the Mohawk Valley also had relatively high shares of districts in fiscal stress (18.8 percent and 15.6 percent, respectively, see Figure 5.) These regional disparities have been fairly consistent over the three years of FSMS school district results.

The four indicator categories evaluated for fiscal stress in school districts are: low fund balance, operating deficits, low liquidity and short-term debt. Once again, low fund balance and low liquidity were much more prevalent in stressed districts than in their lower-scoring counterparts. In contrast, many lower-scoring districts may still have had operating deficits. Relatively few districts of any description relied on short-term debt—although fiscally stressed districts were more likely than others to do so. (See Figure 6.)

Figure 4

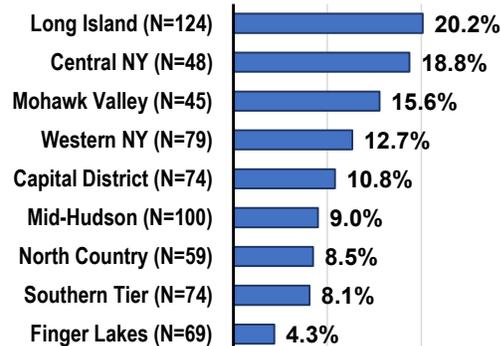
## Percentage of Districts in a Fiscal Stress Category (SY 2014-15) by District Type



Source: OSC.

Figure 5

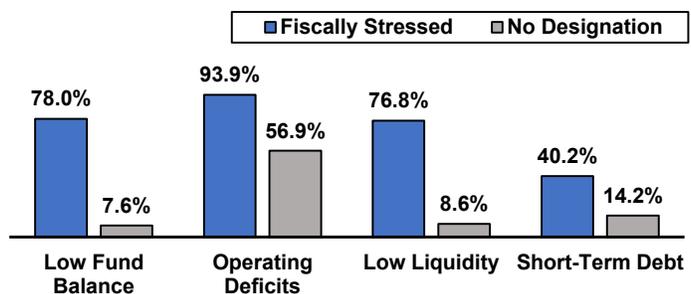
## School Districts in Fiscal Stress by Region SY 2014-15



Source: OSC. District counts are for 2014-15.

Figure 6

## Percentage of School Districts with Signs of Fiscal Stress by Indicator Category and SY 2014-15 Fiscal Stress Status

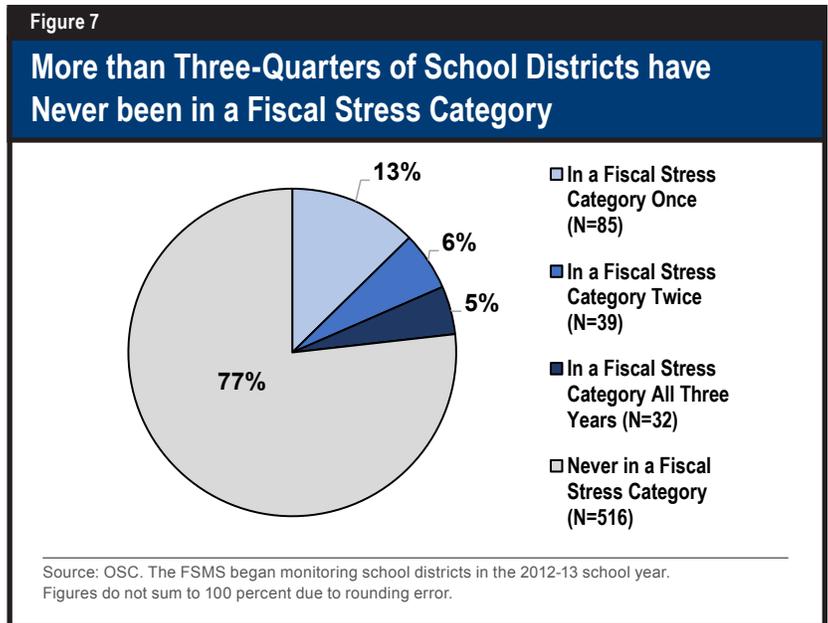


Source: OSC.

## A Small Number of Districts Appear to be Experiencing Chronic Fiscal Stress

Although the number of districts in stress has not changed much over the three years of FSMS scores, the specific districts on the list in each year have changed. More than three-quarters of all districts (77 percent) have never been in any fiscal stress category. Roughly one district in eight (13 percent) has been in a fiscal stress category once, 6 percent of districts have been in a stress category twice and 5 percent (32 districts) have been in a fiscal stress category in all three years since FSMS began monitoring school districts in 2012-13. (See Figure 7.)

Figure 8 lists the school districts that have been in a fiscal stress category for all three years. Only one district has been in significant fiscal stress for all three years: the West Seneca Central School District (Erie County). A 2015 OSC financial condition audit of that district identified a range of concerns, including the use of short-term debt and reserve funds to provide temporary cash flow and the appropriation of fund balance to finance operating expenditures to help address deficits.<sup>4</sup> For the four fiscal years ending 2013-14, surplus funds in the West Seneca District declined from 4 percent of the next year’s budget to less than 1 percent.



Long Island and the Central New York regions have a disproportionately high share of their districts in a fiscal stress category for all three years (8 percent). All but one of the 10 Long Island districts in chronic fiscal stress is located in Suffolk County.

## Three Years of School District Fiscal Stress Results: School Years 2012-13 to 2014-15

Figure 8

### School Districts in Fiscal Stress for Three Years

School District	Region	County	Fiscal Stress Designation		
			SY 2012-13	SY 2013-14	SY 2014-15
Ausable Valley Central	North Country	Clinton	Moderate	Moderate	Susceptible
Bay Shore Union Free	Long Island	Suffolk	Significant	Moderate	Susceptible
Brookfield Central	Central NY	Madison	Moderate	Moderate	Susceptible
Cazenovia Central	Central NY	Madison	Susceptible	Moderate	Moderate
Copiague Union Free	Long Island	Suffolk	Moderate	Significant	Significant
Corinth Central	Capital District	Saratoga	Susceptible	Moderate	Significant
DeRuyter Central	Central NY	Madison	Moderate	Susceptible	Moderate
East Islip Union Free	Long Island	Suffolk	Moderate	Moderate	Moderate
East Moriches Union Free	Long Island	Suffolk	Moderate	Susceptible	Susceptible
East Quogue Union Free	Long Island	Suffolk	Moderate	Susceptible	Susceptible
Eastport-South Manor Central	Long Island	Suffolk	Susceptible	Susceptible	Moderate
Eldred Central	Mid-Hudson	Sullivan	Susceptible	Susceptible	Moderate
Evans-Brant Central	Western NY	Erie	Moderate	Moderate	Moderate
Jasper-Troupsburg Central	Southern Tier	Steuben	Susceptible	Moderate	Susceptible
Lackawanna City	Western NY	Erie	Moderate	Moderate	Susceptible
Lafayette Central	Central NY	Onondaga	Moderate	Susceptible	Susceptible
New Paltz Central	Mid-Hudson	Ulster	Susceptible	Moderate	Moderate
New Rochelle City	Mid-Hudson	Westchester	Moderate	Susceptible	Susceptible
Niagara-Wheatfield Central	Western NY	Niagara	Significant	Significant	Susceptible
Otego-Unadilla Central	Southern Tier	Otsego	Moderate	Moderate	Moderate
Poughkeepsie City	Mid-Hudson	Dutchess	Significant	Moderate	Moderate
Rensselaer City	Capital District	Rensselaer	Susceptible	Susceptible	Moderate
Richfield Springs Central	Southern Tier	Otsego	Susceptible	Susceptible	Susceptible
Sachem Central	Long Island	Suffolk	Significant	Moderate	Significant
Scio Central	Western NY	Allegany	Susceptible	Moderate	Moderate
Tupper Lake Central	North Country	Franklin	Significant	Susceptible	Susceptible
Utica City	Mohawk Valley	Oneida	Significant	Moderate	Moderate
Valley Stream Twenty-Four Union Free	Long Island	Nassau	Moderate	Moderate	Susceptible
Watervliet City	Capital District	Albany	Significant	Significant	Moderate
West Islip Union Free	Long Island	Suffolk	Moderate	Susceptible	Susceptible
West Seneca Central	Western NY	Erie	Significant	Significant	Significant
Wyandanch Union Free	Long Island	Suffolk	Susceptible	Significant	Significant

Source: OSC.

## Shifts in Fiscal Stress Indicator Scores

A number of districts experienced substantial shifts in their fiscal stress scores. Eighty-nine districts had score changes that changed their stress designation: 41 moved to a higher stress category, while 48 moved to a category of lower stress. Figure 9 shows districts that experienced either an increase or a decrease of 40 percentage points or more in their total fiscal stress score.

### Score Shifts and Designation Changes

A significant score shift does not always result in a designation change. For example, a district that goes from 0 to 24 percent is still not in a stress designation, and one whose score moves from 65 percent to 99 percent would be in the significant stress designation throughout. Similarly, a small score shift might cause a designation change if a district is already close to a different designation.

Figure 9

### Districts with Large Changes in Fiscal Stress from SY 2013-14 to SY 2014-15 (Change of 40 Percentage Points or More; Increases Indicate Increasing Fiscal Stress)

School District	County	Fiscal Stress Score			Fiscal Stress Designation			Percentage Point Change in Score, 2014 to 2015
		2013	2014	2015	2013	2014	2015	
<b>Major Increases in Fiscal Stress Score</b>								
Rhinebeck Central	Dutchess	0.0%	0.0%	56.7%	No Designation	No Designation	Moderate	56.7%
Gloversville City	Fulton	0.0%	0.0%	51.7%	No Designation	No Designation	Moderate	51.7%
Sandy Creek Central	Oswego	6.7%	6.7%	56.7%	No Designation	No Designation	Moderate	50.0%
Broadalbin-Perth Central	Fulton	3.3%	11.7%	51.7%	No Designation	No Designation	Moderate	40.0%
<b>Major Decreases in Fiscal Stress Score</b>								
Glens Falls Common	Warren	6.7%	56.7%	16.7%	No Designation	Moderate	No Designation	-40.0%
Johnson City Central	Broome	6.7%	60.0%	18.3%	No Designation	Moderate	No Designation	-41.7%
Peekskill City	Westchester	6.7%	65.0%	15.0%	No Designation	Significant	No Designation	-50.0%
Niagara-Wheatfield Central	Niagara	80.0%	88.3%	38.3%	Significant	Significant	Susceptible	-50.0%
Lewiston-Porter Central	Niagara	81.7%	71.7%	21.7%	Significant	Significant	No Designation	-50.0%
Lawrence Union Free	Nassau	63.3%	80.0%	23.3%	Moderate	Significant	No Designation	-56.7%

Source: OSC.

### Score Increases

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Four districts had an increase of 40 percentage points or more in their fiscal stress scores. Three of those had increases of 50 percentage points or more: Rhinebeck (Dutchess County), Gloversville (Fulton County) and Sandy Creek (Oswego County). All of these districts went from no sign—or virtually no sign—of fiscal stress to moderate fiscal stress. In some districts with large increases in fiscal stress score, revenues did not keep up with sizeable increases in expenditures. In some cases, improved reporting of cash restrictions related to the use of reserves led to lower unrestricted cash balances, which in turn resulted in higher fiscal stress scores—particularly on the liquidity indicators. For example, more accurate reporting in both the Sandy Creek and the Broadalbin-Perth (Fulton County) districts contributed to large fiscal stress score increases on the liquidity indicators.

Also notable is the Hempstead School District, which has experienced substantial increases in fiscal stress for two years in a row. That district has a 2015 fiscal stress score of 98.3 percent; it received the highest number of possible fiscal stress points but one—resulting in the highest score ever recorded for a school district. Hempstead’s increasing operating deficits and declining fund balances have contributed to its increase in fiscal stress.<sup>5</sup> Hempstead does not appear in Figure 9, as its score increased by fewer than 40 percentage points (from 70.0 percent to 98.3 percent).

### Score Decreases

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Six districts experienced decreases of 40 percentage points or more in their fiscal stress scores—four of which had decreases of 50 percentage points or more: Peekskill (Westchester County), Niagara-Wheatfield (Niagara County), Lewiston-Porter (Niagara County), and Lawrence (Nassau County). The Peekskill City School District experienced significant fiscal stress in 2013-14, but not in 2014-15, due in large part to the timing of steps taken to finance the settlement of tax certiorari claims.<sup>6</sup> Receipt of certain delayed State aid payments contributed to a reduction in fiscal stress for the Niagara-Wheatfield Central School District,<sup>7</sup> while the Lewiston-Porter Central School District had a lower fiscal stress score due to an audit adjustment and additional revenues from a tax increase.

## Environmental Stress

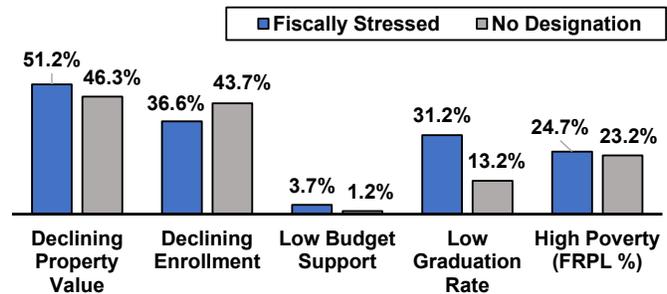
The FSMS includes a set of environmental indicators that do not factor into the fiscal stress score, but do offer some context for evaluating the challenges that school districts face. The environmental indicators for school districts include measures of changes in the size of the district's property tax base, enrollment trends, school budget vote results, the district's graduation rate, and a poverty measure (the percentage of students in kindergarten through sixth grade who are eligible for free or reduced-price lunch).

Districts in a fiscal stress category in 2015 are more likely than those with no designation to have a shrinking property tax base, low budget support and a low graduation rate. They are less likely to have declining enrollment. Districts in fiscal stress have levels of poverty similar to those of districts with no designation. Voter support for school budget votes has generally been increasing in recent years for both fiscally stressed districts and those with no designation.

Since 2008, a majority of school districts have been experiencing shrinking property tax bases, in stark contrast to the rapid growth most districts experienced in the years leading up to the recent recession. Downstate districts in particular have experienced dramatic downward shifts in property values and thus in their property tax bases. From 2002 to 2008, downstate districts (those on Long Island and in the Mid-Hudson region) generally experienced much higher growth in the taxable full value of real property than upstate districts. Since the recent recession, however, downstate districts have had shrinking tax bases in many cases, while a majority of upstate districts have continued to see growth—albeit slower growth—in their property tax bases. (See Figure 11.) These shifts would tend to reduce disparities in the districts' ability to raise funds to support education through property taxes.

Figure 10

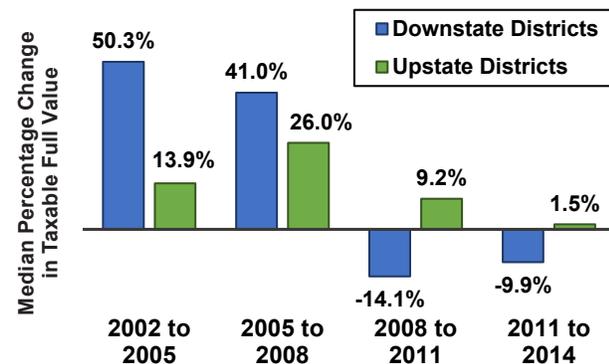
### Percentage of School Districts with Signs of Environmental Stress by Indicator Category and SY 2014-15 Fiscal Stress Status



Source: OSC. Calculations for each indicator category exclude districts with no score on that category. For example, K-8 districts do not have graduation rates and so were excluded in the comparison for the graduation rate indicator.

Figure 11

### Downstate Districts have Experienced More Dramatic Shifts in their Property Tax Bases than Upstate Districts



Source: OSC. Downstate districts include those on Long Island and the Mid-Hudson regions.

## Conclusion

A relatively small share of school districts experience fiscal stress. That proportion has remained fairly constant at between 12 and 13 percent of districts over the first three years of the FSMS. In contrast, a very small share of districts appear to be experiencing chronic fiscal stress. For example, 5 percent of districts have been in a fiscal stress category for all three years that the FSMS has measured fiscal stress in school districts. School boards, school business officials, taxpayers and other interested parties in these districts should work to understand and address the factors that are contributing to fiscal stress.

Careful management of district finances is even more critical since the property tax levy limit law, popularly known as the “tax cap,” continues to constrain school districts’ ability to increase their property tax levies. The law limits year-over-year property tax levy growth to the lesser of 2 percent or the rate of inflation, whichever is lower. Since the 2012-13 school fiscal year, the allowable levy growth factor for school districts has been below 2 percent, and for 2016-17 the growth factor will be 0.12 percent.

## Notes

- <sup>1</sup> The “Big Four” city school districts (Buffalo, Rochester, Syracuse and Yonkers) are “fiscally dependent” on the cities in which they are located; consequently, their financial results are incorporated into their cities’ fiscal stress scores, and so those school districts do not receive a separate score. Neither New York City nor its dependent school district receive FSMS scores. For detailed explanations of the FSMS indicators and detailed results for individual school districts, see the OSC FSMS website: [www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm).
- <sup>2</sup> For details on the FSMS indicators and scoring, see OSC, *Fiscal Stress Monitoring System* (September 2014), available at: [www.osc.state.ny.us/localgov/pubs/fiscalmonitoring/pdf/fiscalstressmonitoring.pdf](http://www.osc.state.ny.us/localgov/pubs/fiscalmonitoring/pdf/fiscalstressmonitoring.pdf).
- <sup>3</sup> The need/resource categories used in this report were developed by the New York State Education Department and represent a district’s ability to meet student needs using local capacity. For information on the definitions of these categories, see: [www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf](http://www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf).
- <sup>4</sup> See OSC, “West Seneca Central School District: Financial Condition” (2014M-381) (April 17, 2015), available at: [www.osc.state.ny.us/localgov/audits/schools/2015/westseneca.htm](http://www.osc.state.ny.us/localgov/audits/schools/2015/westseneca.htm).
- <sup>5</sup> The Hempstead School District was the subject of a 2014 OSC audit on the District’s management of its resources. The audit identified numerous deficiencies with respect to payments to district administrators and other aspects of the district’s management. See OSC, “Hempstead Union Free School District: Management of District Resources” (2014M-253) (December 29, 2014), available at: [www.osc.state.ny.us/localgov/audits/schools/2014/hempstead.htm](http://www.osc.state.ny.us/localgov/audits/schools/2014/hempstead.htm).
- <sup>6</sup> See OSC, “Peekskill City School District: Financial Condition” (2015M-191) (September 25, 2015), available at: [www.osc.state.ny.us/localgov/audits/schools/2015/peekskillcity.htm](http://www.osc.state.ny.us/localgov/audits/schools/2015/peekskillcity.htm).
- <sup>7</sup> See OSC, “Niagara Wheatfield Central School District: Financial Condition” (2014M-364) (April 10, 2015), available at: [www.osc.state.ny.us/localgov/audits/schools/2015/niagarawheatfield.htm](http://www.osc.state.ny.us/localgov/audits/schools/2015/niagarawheatfield.htm).



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