

# New York State Office of the State Comptroller

Thomas P. DiNapoli • State Comptroller



## Fiscal Stress Monitoring System

September 2015

### Three Years of the Fiscal Stress Monitoring System Results for Municipalities with Fiscal Years Ending on December 31, 2014

In 2012, the State Comptroller introduced the Fiscal Stress Monitoring System (FSMS) to identify local governments that are either susceptible to or in fiscal stress. Since then, the Office of the State Comptroller (OSC) has released a series of annual fiscal stress scores for all municipalities (counties, cities, towns and villages) and school districts in the State.<sup>1</sup> Early awareness of fiscal stress provides affected local governments with an opportunity to take actions to avert a potential fiscal crisis and help improve their financial condition.

In September 2015, OSC released the third annual set of FSMS scores for all municipalities that have fiscal years that operate on a calendar year basis. This includes all 57 counties outside of New York City, all 932 towns in the State, 44 cities and 10 villages – a total of 1,043 municipalities.<sup>2</sup> Since the FSMS now encompasses three years of data for these “calendar year” municipalities, it is possible to start to discern trends in the financial performance of these local governments.

For calendar year 2014, 44 municipalities were classified by the FSMS as being in some level of fiscal stress, with 15 designated as being in significant fiscal stress, 11 in moderate fiscal stress and 18 as being susceptible to fiscal stress.

- While the number of municipalities found to be in some level of fiscal stress (significant fiscal stress, moderate fiscal stress or susceptible to fiscal stress) has been fairly low and stable – around 4 percent of all that filed complete financial reports with OSC – the fiscally stressed municipalities include a changing mix of local governments.
- Over the three years, 70 local governments, or about 7 percent of all calendar year local governments, have been in one of the three fiscal stress categories for at least one year.
- From 2012 through 2014, 36 municipalities moved into a stress designation, while 32 municipalities moved out.
- Between 42 and 75 local governments have either not filed or failed to file complete data in time to receive a FSMS score each year. Notably, 26 municipalities did not file data in time to receive a FSMS score in all three years.

Calendar Year Municipalities FSMS Designation, 2012 through 2014			
	2012	2013	2014
Significant Fiscal Stress	12	10	15
Moderate Fiscal Stress	10	8	11
Susceptible to Fiscal Stress	18	17	18
<b>Total with Stress Designation</b>	<b>40</b>	<b>35</b>	<b>44</b>
No Designation	961	943	924
<b>Total Filed</b>	<b>1,001</b>	<b>978</b>	<b>968</b>
Not Filed or Inconclusive	42	65	75
<b>Total</b>	<b>1,043</b>	<b>1,043</b>	<b>1,043</b>

Source: Office of the State Comptroller (OSC).

## Findings for 2014

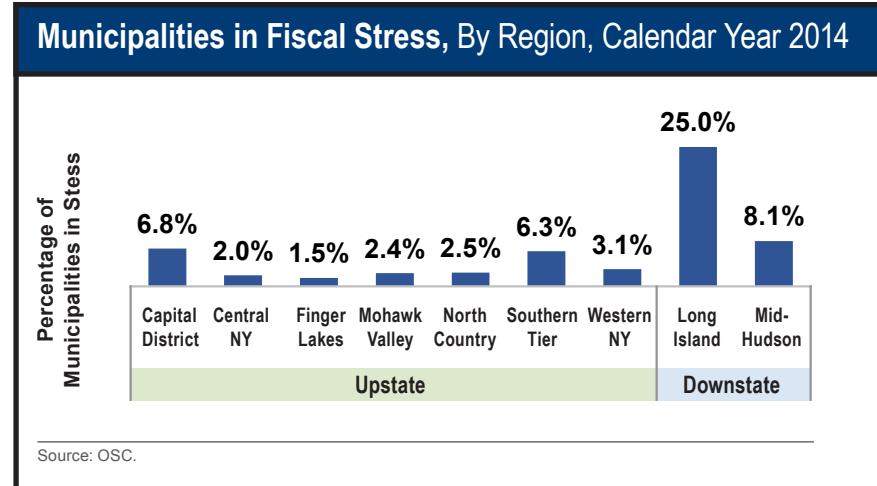
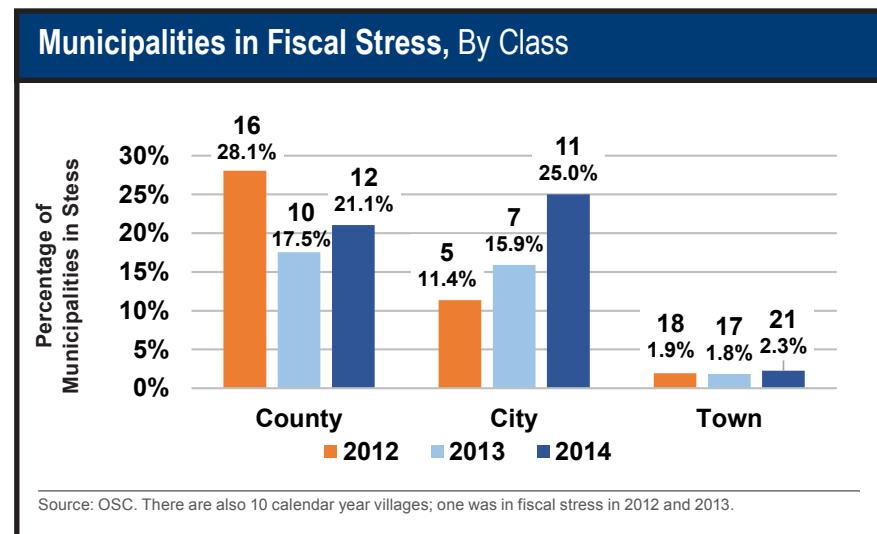
As in prior years, most local governments (over 95 percent of all that filed) were not classified as being in fiscal stress, though many of these municipalities may still show some risk factors for stress and some exhibit relatively high and/or increasing FSMS scores.

### Class

Certain classes of local government tend to have higher levels of fiscal stress. In 2014, over 21 percent of counties and 25 percent of calendar year cities were in a fiscal stress category, while just over 2 percent of towns were stressed.

### Region

There was also noticeable regional variation in the number of municipalities in fiscal stress in 2014. In the Long Island region, 25 percent of calendar year municipalities (4 of 16) were in fiscal stress. Downstate generally had a larger percentage of municipalities in stress, with the Mid-Hudson region having 8.1 percent in stress (10 of 123) – the second most fiscally stressed region. The region with the smallest percentage of stressed municipalities was the Finger Lakes at 1.5 percent (2 of 132).



## Environmental Indicators

Many of the stressed municipalities also face other challenges that drive demand for services or affect their ability to raise revenues. To take into account such “environmental” factors, the FSMS uses 14 additional indicators to create a separate environmental stress score that measures some of the social, economic and demographic factors that affect local governments. The indicators include measures of poverty, the property tax base, unemployment and other demographic and resource-related measures. These indicators can be used to help highlight and explain the systemic challenges unique to individual communities—challenges that are often outside the control of local officials.

An environmental stress score of over 30 percent indicates that a municipality has some level of environmental stress. If we look at the municipalities in various levels of stress in 2014, those with a significant financial stress designation were slightly more likely to have an environmental stress score over 30 percent. Municipalities in the two other categories (moderate or susceptible) are noticeably more likely to have environmental stress scores of over 30 percent.

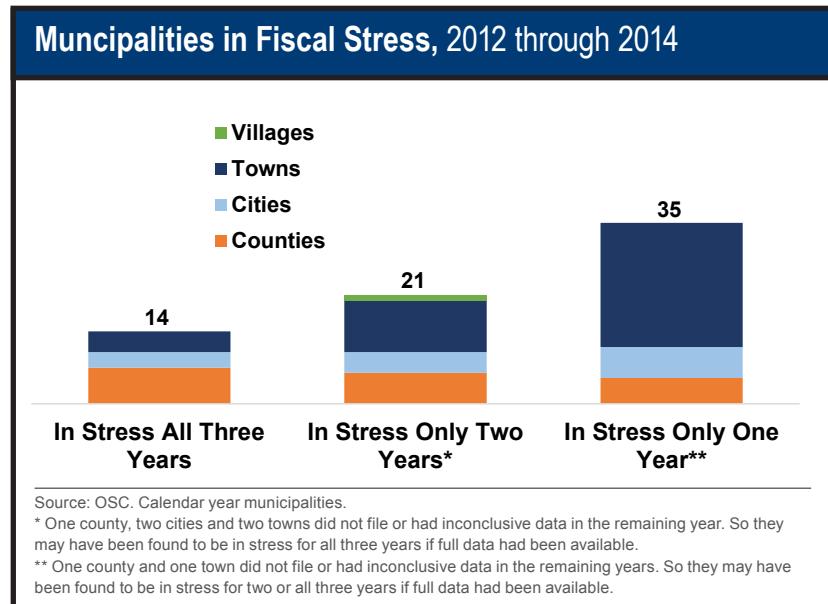
## Trends in FSMS Scores 2012 through 2014

From 2012 through 2014, between 35 and 44 calendar year municipalities have been in stress in each year. Altogether, 70 municipalities have been designated as in stress at least once over this period.

### Persistent Stress

Over the course of three score releases, 14 municipalities appeared on the fiscal stress list in each of the three years; 21 in two out of three years and 35 in one out of three years.

- Four counties have been in significant stress for all three years (Monroe, St. Lawrence, Franklin and Rockland), and the City of Fulton has been in moderate stress all three years.
- Four municipalities have moved into higher stress designations (Broome County, City of Glen Cove and the Towns of Coeymans and Parish), while four others have moved into lower stress designations (the Counties of Albany and Suffolk, City of Poughkeepsie and Town of Colonie).



	Fiscal Stress Designation		
	2012	2013	2014
County of Monroe	Significant	Significant	Significant
County of St. Lawrence	Significant	Significant	Significant
County of Franklin	Significant	Significant	Significant
County of Rockland	Significant	Significant	Significant
City of Glen Cove	Moderate	Moderate	Significant
County of Broome	Susceptible	Moderate	Significant
Town of Coeymans	Susceptible	Moderate	Significant
Town of Parish	Susceptible	Susceptible	Significant
City of Poughkeepsie	Significant	Significant	Moderate
Town of Colonie	Significant	Moderate	Moderate
County of Suffolk	Significant	Moderate	Moderate
City of Fulton	Moderate	Moderate	Moderate
County of Albany	Moderate	Susceptible	Susceptible
Town of Tuxedo	Susceptible	Susceptible	Susceptible

Source: OSC.

## Non-Filers

In order to receive FSMS scores, local governments must report their financial data to OSC. They are required by law to file their annual financial reports within 120 days (about four months) of the end of their fiscal year. The FSMS scores reported here also include data from late filers who filed within eight months after the end of the fiscal year. In some cases, financial data was filed but was not sufficiently complete to calculate FSMS scores. These filings were deemed “inconclusive” at the time of the FSMS score assignment.<sup>3</sup>

- Each year, between 42 and 75 calendar year municipalities either did not file data in time to receive a fiscal stress score, or filed inconclusive data.
- Most notably, 26 municipalities failed to file their financial data in time to receive a fiscal stress score in all three reporting years. This includes the City of Ithaca and 25 towns.
- Many of these municipalities did eventually file their financial information with OSC after the FSMS scores were published. Even so, there are benefits to timely filing – beyond inclusion in FSMS – since such disclosure is considered a credit positive for bond rating agencies and, most importantly, it helps maintain the transparency of municipal finances.<sup>4</sup>

## Changes in Designation

- Between 2012 and 2014, 36 municipalities moved into a stress designation after having no designation or having not filed (or filed inconclusively) in the prior year, while 32 municipalities moved from having a stress designation in the prior year to having no designation or not filing (or filing inconclusively).
- There were six municipalities that were in a stress designation in 2012, not in a stress designation in 2013 (three had no designation, while three did not file or were inconclusive), and then were again in a stress designation in 2014.
- There was also considerable movement among stress designations during the three years.

**FSMS Designation Changes, 2012 through 2014**

	2012 to 2013	2013 to 2014
No Designation to Stress Designation	15	16
Not Filed to Stress Designation	1	4
<b>Total Into Stress</b>	<b>16</b>	<b>20</b>
Stress Designation to No Designation	17	10
Stress Designation to Not Filed	4	1
<b>Total Out of Stress</b>	<b>21</b>	<b>11</b>

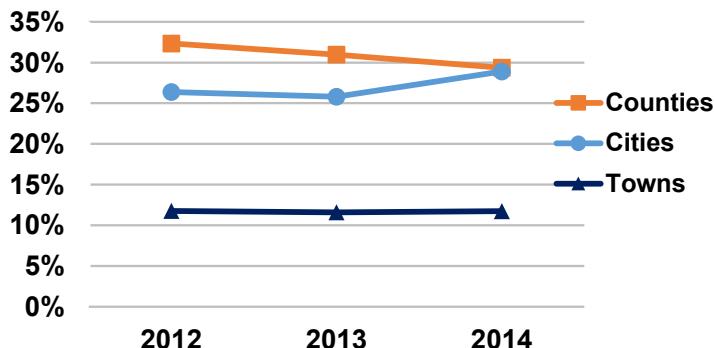
Source:OSC. For purposes of this table, “Not Filed” includes those with inconclusive data.

# Fiscal Stress Monitoring System – Three Years of the Fiscal Stress Monitoring System

## Score Trends

The FSMS gives scores to all municipalities that annually file complete and timely reports.<sup>5</sup> Generally, a score over 45 percent indicates some level of stress. Counties and cities – a higher proportion of which are in stress – have higher average FSMS scores than towns or villages. From 2012 through 2014, the average score of counties declined somewhat – from 32 percent to 29 percent, while the average scores of cities increased slightly – from 26 percent to 29 percent. Average scores for towns were just under 12 percent each year.<sup>6</sup>

### Average Stress Scores, By Class, 2012 - 2014



Source: OSC. Includes scores only for municipalities that filed for all three years. Also includes only calendar year cities and does not include villages.

## Large Score Changes

Some municipalities had particularly large FSMS score changes from 2012 through 2014. Five towns had score increases of over 45 percentage points, and two towns had declines of more than 45 percentage points. Towns, especially small towns, are particularly susceptible to large score changes, since relatively small changes in revenues or expenditures from year to year may cause them to run operating deficits or experience a decline in fund balance – both major factors in determining FSMS scores.

However, some cities had score changes that were nearly as high. The Cities of Albany, Plattsburgh and Tonawanda had score increases of more than 30 percentage points, while the City of Niagara Falls had a score decline of over 30 percentage points. In the case of Niagara Falls, this change reflects a 2013 agreement with the Seneca Nation of Indians for the City to receive \$83 million to settle a multiyear dispute over payments from casino operations.

### Municipalities with Large FSMS Score Changes, 2012 through 2014

Municipality	FSMS Designation			Score Change
	2012	2013	2014	
Town of East Fishkill	No Designation	No Designation	Significant	<b>57.5%</b>
Town of Jasper	No Designation	Significant	Significant	<b>56.3%</b>
Town of Mansfield	No Designation	No Designation	Susceptible	<b>47.5%</b>
Town of Pitcher	No Designation	No Designation	Susceptible	<b>47.5%</b>
Town of Rochester	No Designation	No Designation	Moderate	<b>47.5%</b>
Town of Ischua	Moderate	No Designation	No Designation	<b>-55.0%</b>
Town of Fishkill	Significant	No Designation	No Designation	<b>-65.0%</b>

Source: OSC.

### Class Trends

Five cities, or 11 percent of all calendar year cities, were in a stress category in 2012. This increased to 11 cities, or 25 percent, by 2014. This is consistent with the general increase in cities' stress scores, with four cities moving into stress in 2014. There were 16 counties in stress in 2012, 10 in 2013 and 12 in 2014. This is also consistent with the general downward trend in stress scores for counties.

### Conclusion

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While the number of calendar year municipalities that have a fiscal stress designation increased only slightly from 2012 through 2014, there are some indications that cities in particular may be experiencing higher levels of stress. The 14 municipalities that were designated in stress for each of the three years need to monitor their financial situation carefully, as should any municipality that is seeing upward trends in its scores.

All local officials should be aware of their municipality's fiscal stress score and of the factors that might cause the deterioration of their FSMS score as well as the overall financial performance of their municipality. Local officials and residents can now view three years of FSMS data, which is a valuable tool for assessing not only the current condition of their municipality, but also the trends shaping its future.<sup>7</sup>

### Notes

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- <sup>1</sup> New York City is excluded from the FSMS. The report refers to the fiscal years of municipalities whose fiscal year is the calendar year as 2012, 2013 or 2014 without including "fiscal year ending" or "FY" first.
- <sup>2</sup> For more information on the Fiscal Stress Monitoring System, see OSC's Fiscal Stress Monitoring System webpage: <http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm>. There are three coterminous town-villages that report only as villages and therefore appear here as non-filing towns.
- <sup>3</sup> In 2012, data was included for every municipality that filed up to 11 months after the end of fiscal year.
- <sup>4</sup> Moody's Investors Service, *New York's Monitoring System for Local Government Financial Stress Is Credit Positive*, February 4, 2013.
- <sup>5</sup> A more detailed discussion of the financial indicators that are included in FSMS scores is available in OSC's *Fiscal Stress Close Up* series, which can be found at: <http://www.osc.state.ny.us/localgov/fiscalmonitoring/pubreports.htm>.
- <sup>6</sup> There are only 10 villages with calendar year fiscal years, of which nine filed data for all three years. Due to their limited number, they are not included in this analysis of score trends.
- <sup>7</sup> FSMS data can be accessed at OSC's Fiscal Stress Monitoring System webpage: <http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm>.



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