



Office of the NEW YORK STATE

COMPTROLLER

Fiscal Stress in School Districts

Common Themes for School Year 2017-18



New York State Comptroller
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Overview

The State Comptroller's Fiscal Stress Monitoring System (FSMS) measures fiscal stress in school districts each year. The System uses a set of six financial indicators that assess budgetary solvency by examining fund balance levels, operating deficits, cash-on-hand and reliance on short-term cash-flow borrowing. Separately, six environmental indicators assess other important factors that are largely outside of the direct control of school officials, but may affect revenues or drive costs. These include poverty rates, tax base, and budget support. The environmental indicators are helpful in providing additional context for the fiscal situation.

Each school district's fiscal stress score is based on its self-reported financial data. Environmental stress scores for each district use State and federal published data. Points are assigned based on the individual indicators and combined to calculate one overall fiscal stress score and one overall environmental score.¹ In each case, a higher score reflects a higher level of stress.

This report summarizes results of school district scores for the 2017-18 school fiscal year (SY) and compares results to SY 2016-17. This release is the sixth annual release of FSMS scores. The System covers 674 school districts in all 57 counties but excludes the New York City School District.² For more detailed information, visit: <http://www.osc.state.ny.us/localgov/fiscalmonitoring/help.htm>.

Quick Facts

The FSMS scores for school year (SY) 2017-18 generally indicate that New York school districts are managing their fiscal challenges in ways that mitigate fiscal stress conditions:

96 percent of districts are not in a fiscal stress category.

52 percent received no points on all six fiscal stress indicators.

26 school districts were found to be in one of the levels of fiscal stress.

Certain groups of school districts are more likely than others to be fiscally stressed:

- High-need districts were more likely than other districts to be in fiscal stress.
- Within this group, urban/suburban school districts were more likely to be in fiscal stress than rural districts.
- Geographically, the Long Island and Central New York regions had the largest proportions of districts in a fiscal stress category.

¹ For details 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.

² 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.

Fiscal Stress Results

In SY 2017-18, 26 school districts (3.9 percent) were found to be in one of the levels of fiscal stress. (See Figure 1.)

Although the same number of school districts were designated in fiscal stress as last year, many of the entities that make up the list have changed. Only 12 were designated as stressed in both years.

- The five districts in significant fiscal stress were: New Suffolk Common School District and Wyandanch Union Free School District (Suffolk County), Eldred Central School District (Sullivan County), Norwich City School District (Chenango County) and Schenevus Central School District (Otsego County). Eldred was in significant stress in SY 2016-17 as well. New Suffolk, in contrast, had not been in any level of stress in the prior year. (However, very small districts like New Suffolk – which has an enrollment of 11 students – are more likely to have large score swings, as small dollar amounts can have a large impact on percentages.) The remaining three districts had lower stress designations last year.
- No districts were found to be in moderate stress, although seven had been designated in this category in the prior year.
- Among those in a fiscal stress category, the majority (21, or 3.1 percent of all districts) were scored as susceptible to fiscal stress, the least severe category of stress.

For SY 2017-18, OSC identified **26** school districts as experiencing some degree of fiscal stress.

Specifically:
5 were in significant fiscal stress and **21** were susceptible to fiscal stress.

Figure 1

School Districts by Fiscal Stress Designation

	SY 2016-2017		SY 2017-2018	
	Number	Percentage	Number	Percentage
Districts in Fiscal Stress				
Significant	2	0.3%	5	0.7%
Moderate	7	1.0%	0	0.0%
Susceptible	17	2.5%	21	3.1%
Subtotal	26	3.9%	26	3.9%
Other Districts				
No Designation	648	96.1%	646	95.8%
Not Filed	0	0.0%	2	0.3%
Total	674	100.0%	674	100.0%

Source: Office of the State Comptroller (OSC). Figures may not sum due to rounding.

Levels of fiscal stress statewide are relatively low:

- 96 percent of districts were not in any of the fiscal stress categories.
- 52 percent of districts scored in SY 2017-18 received no points on all six fiscal stress indicators.

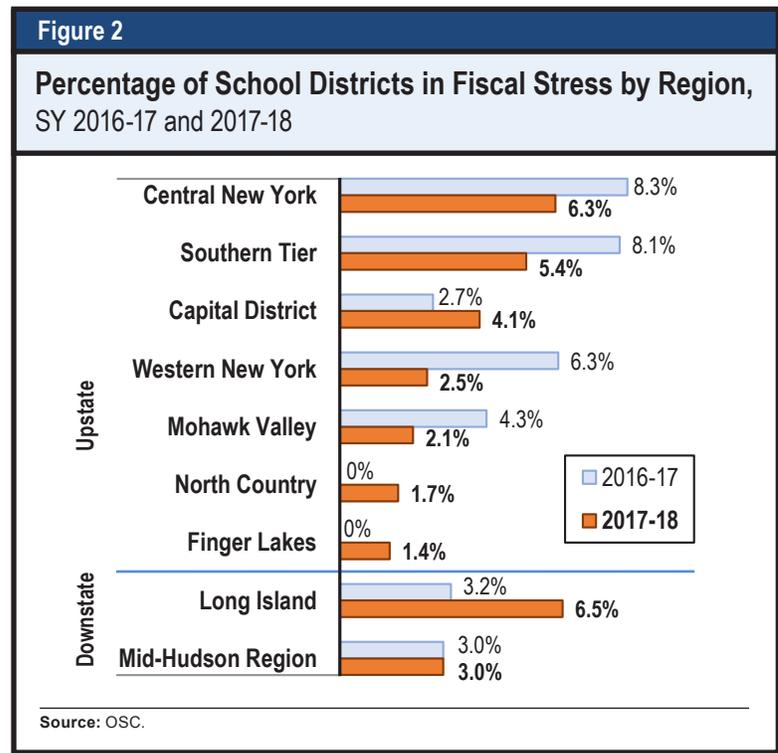
Financial Indicators

The FSMS financial indicators are meant to evaluate fiscal stress from a budgetary solvency perspective. School district officials receive a detailed breakdown of their financial score, which is publicly available and based on self-reported data. The indicators:

- Show the district's ability to cover future revenue shortfalls and expenditure overruns by measuring the accumulated fund balance.
- Look at results of operations to see whether the district had enough revenue to meet expenditures in the year, and note recurring operating deficits which can reveal structural imbalance in the budget.
- Measure whether the district has enough cash on hand to pay its bills.
- Analyze short-term cash-flow debt reliance by the amount borrowed and by new or large changes in the amount borrowed from year to year.

Regional Breakdown

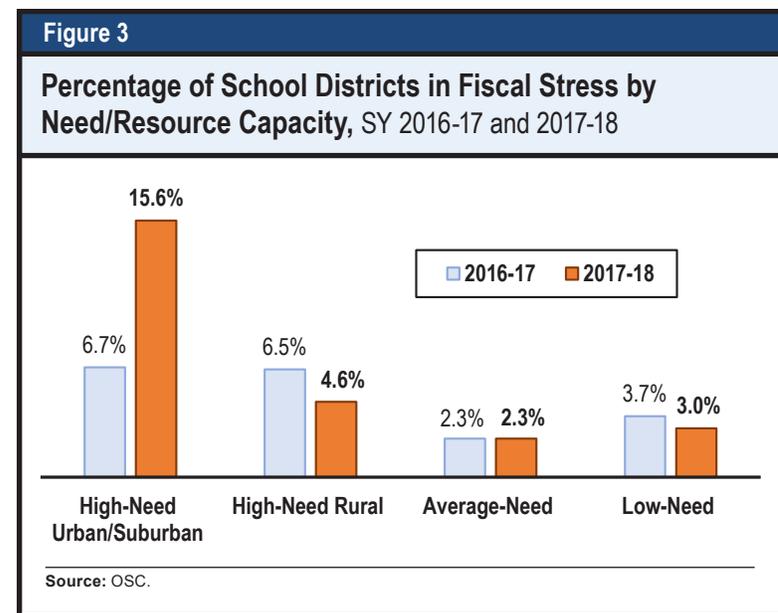
Geographically, the likelihood of being in fiscal stress has shifted slightly since last year, with an increasing number of districts registering as stressed on Long Island and in the Capital District, and a decreasing number in several upstate regions, most dramatically Western New York. That said, the Central New York and Southern Tier regions continue to have comparatively high percentages of districts in fiscal stress (6.3 and 5.4 percent, respectively). (See Figure 2.)



By Need/Resource Capacity

While the overall number of school districts in fiscal stress is small, high-need districts were more likely to be in stress than average- or low-need districts.³ (See Figure 3.)

- Urban/suburban high-need school districts were particularly likely to be in a stress category, with 15.6 percent designated in stress in SY 2017-18, up from 6.7 percent in SY 2016-17.
- Only four low-need districts (3.0 percent), were designated as being in fiscal stress, three of which were on Long Island.

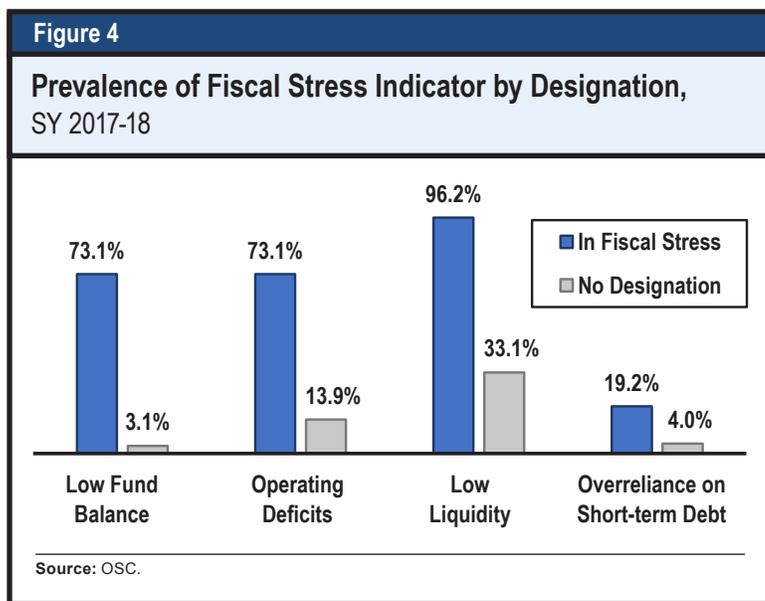


³ The need/resource capacity categories used in this report were developed by the New York State Education Department and represent a district's ability to meet student needs using local capacity. Thus, a "high need" district would have more children needing free or reduced price lunches and/or assistance 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

Common Themes

School districts in fiscal stress were most commonly operating with a combination of issues. (See Figure 4.)

- About three-quarters of the districts in stress had chronic operating deficits and low fund balances.
- Nearly all stressed districts had 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; nearly one-fifth of stressed districts have an overreliance on such debt.



Areas of Concern

A number of districts experienced substantial shifts in their fiscal stress scores. Of particular concern are districts that remain in stress for more than one year or have recently moved into stress, especially if that change is dramatic.

Remaining in Stress

Twelve school districts in SY 2017-18 were also in stress in SY 2016-17. Eldred (Sullivan County), in particular, has remained in significant fiscal stress. Like other districts in stress, Eldred has a combination of indicators contributing to its high score, including low liquidity, several years of operating deficits and a negative unassigned fund balance.

The Fiscal Stress designation changed for **34** districts in 2017-18.

- **14** moved from no designation into a stress category;
- **3** moved to a higher stress category;
- **3** moved to a lower stress category; and
- **14** moved out of stress.

Increasing Stress Scores

Four districts had a substantial increase in their stress scores: New Suffolk and Wyandanch (Suffolk County), Clymer (Chautauqua County) and Adirondack (Oneida County). With the exception of Wyandanch, which was designated as susceptible to stress in SY 2016-17, each of these went from having virtually no sign of fiscal stress last year to being in a stress designation in SY 2017-18.

In addition, the Southern Tier districts of Norwich (Chenango County) and Schenevus (Otsego County) moved up to significant stress, the highest level, from moderate stress last year.

However, more districts had large score decreases, with six of the seven moving to a status of no designation. East Aurora's score fell 45 percentage points and from significant stress to susceptible to stress in the span of one year. In past years, it had experienced operating deficits, had low liquidity and low fund balances; in SY 2017-18, the District reported a healthier fund balance and better cash position. (See Figure 5.)

Figure 5				
Large Changes in Fiscal Stress Scores, SY 2016-17 to 2017-18				
(Change of More than 25 Percentage Points; Increases Indicate Increasing Fiscal Stress)				
School District	County	SY 2016-17 Financial Designation	SY 2017-18 Financial Designation	Percentage Point Change, SY 2016-17 to 2017-18
Major Increases in Fiscal Stress Score				
New Suffolk	Suffolk	No Designation	Significant	46.7
Wyandanch	Suffolk	Susceptible	Significant	36.7
Clymer	Chautauqua	No Designation	Susceptible	35.0
Adirondack	Oneida	No Designation	Susceptible	26.7
Major Decreases in Fiscal Stress Score				
Corinth	Saratoga	Susceptible	No Designation	-26.7
Niagara-Wheatfield	Niagara	Susceptible	No Designation	-28.3
Sandy Creek	Oswego	Moderate	No Designation	-31.7
Harpurville	Broome	Moderate	No Designation	-33.3
Rhinebeck	Dutchess	Moderate	No Designation	-33.4
De Ruyter	Madison	Susceptible	No Designation	-36.7
East Aurora	Erie	Significant	Susceptible	-45.0
Source: OSC.				

Environmental Stress Results

Environmental indicators measure other local challenges that school district officials must navigate on an ongoing basis. These factors are largely outside of districts' control, and they can drive additional costs or negatively impact a district's ability to raise the local revenues that are needed to fund programs. (For more detail on environmental stress indicators, see Text Box below.)

In SY 2017-18, 78 school districts were designated in environmental stress. (See Figure 6.) Although many school districts have some environmental risk factors, those in the stress categories generally have several at once, which may make fiscal stress harder to avoid.

Figure 6

School Districts by Environmental Stress Designation

	SY 2016-2017		SY 2017-2018	
	Number	Percentage	Number	Percentage
Districts in Environmental Stress				
Significant	13	1.9%	9	1.3%
Moderate	10	1.5%	13	1.9%
Susceptible	52	7.7%	56	8.3%
Subtotal	75	11.1%	78	11.6%
Other Districts				
No Designation	599	88.9%	594	88.1%
Not Filed	0	0.0%	2	0.3%
Total	674	100.0%	674	100.0%

Source: OSC. Figures may not sum due to rounding.

Environmental Indicators

FSMS includes a set of environmental indicators that determine a companion score for each district. School district officials receive detailed breakdowns of their environmental score, which offer some context for evaluating the full breadth of challenges that school districts face. The environmental indicators include measures of:

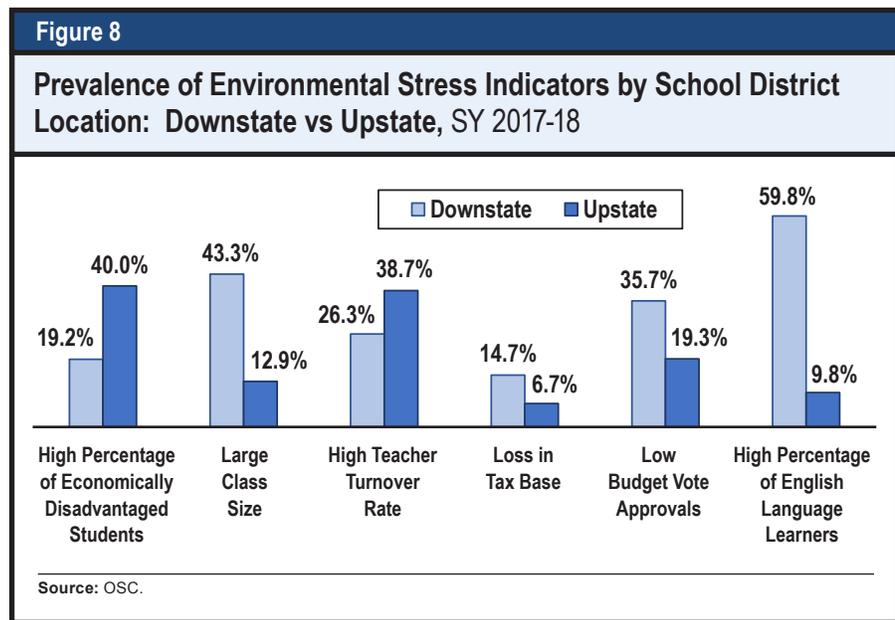
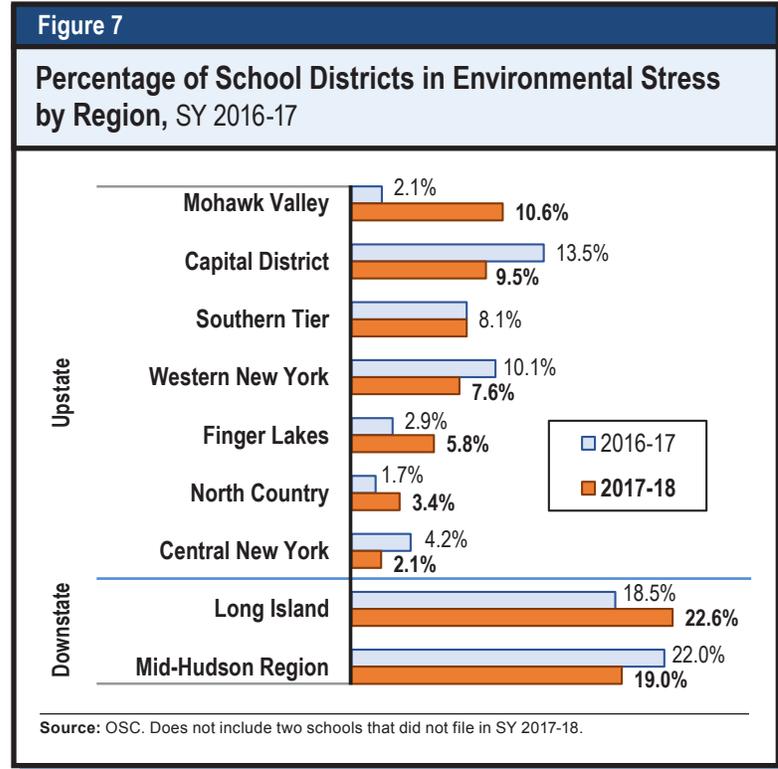
- Economically disadvantaged students;
- Class size;
- Turnover rates of teachers;
- Changes in property values;
- School budget vote approvals; and
- Percentage of English Language Learners.

Regional Breakdown

Downstate school districts were more likely to show signs of environmental stress than those upstate, which is the same pattern as in SY 2016-17. Overall, 21 percent of downstate districts scored high enough to be in one of the three categories, compared to 6.9 percent of upstate schools. Among the upstate regions, the Mohawk Valley and the Capital District had the highest percentages of districts in environmental stress. Five times more districts in the Mohawk Valley were in environmental stress in SY 2017-18 than in 2016-17. (See Figure 7.)

Downstate school districts also face a different set of environmental challenges compared to their upstate counterparts. (See Figure 8.)

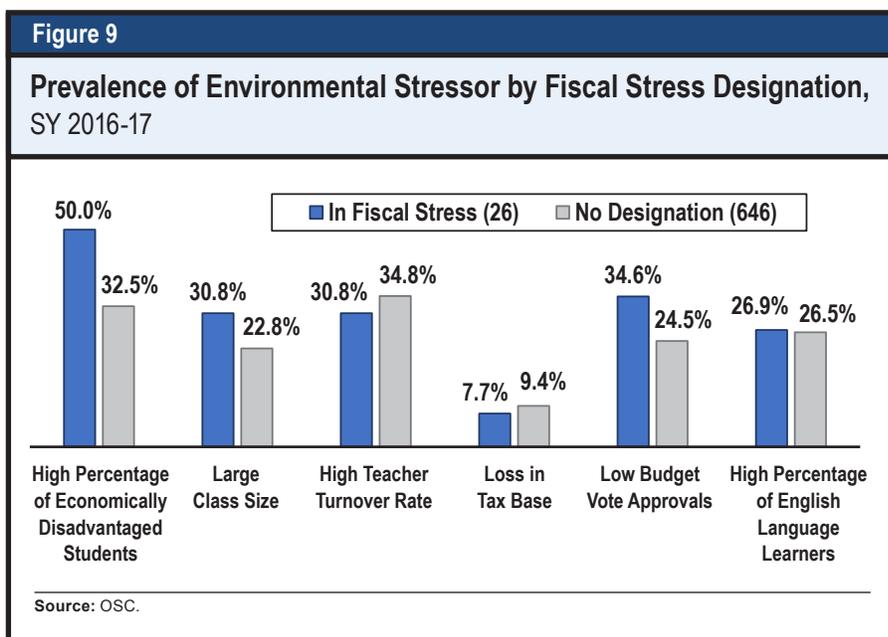
- Downstate districts were much more likely to have large class sizes, losses in their tax base (declining property values), lower budget vote approval percentages and high rates of English language learners compared to upstate school districts.
- Upstate school districts, however, were twice as likely to have a high percentage of economically disadvantaged students compared to downstate school districts, and they tended to have higher rates of teacher turnover.



Relationship of Environmental Stress to Fiscal Stress

Examining the relationship between the environmental indicators and fiscal stress statewide, fiscally stressed school districts were more likely to have:

- High percentages of economically disadvantaged students;
- Large class sizes; and
- Low levels of community support for the school district's budget. (See Figure 9.)



Conclusion

Of the 672 school districts in the State evaluated for fiscal stress, 96 percent were not classified in fiscal stress, generally indicating that school districts are managing their challenges in ways that avoid fiscal stress. The 26 districts that were in one of the three stress levels include five districts (0.7 percent) in significant fiscal stress.

School districts that are in, or even near, a designation of fiscal stress can use the interactive Fiscal Stress Monitoring System Self-Assessment Tool to look at their own scores and view peer group comparisons for each of the indicators.⁴ Officials of all school districts should continue to analyze their indicators and scores to see how their budgeting decisions affect their ability to meet future financial obligations. Officials in stressed districts should pay particular attention.

Finally, the data and facts that underlie the environmental indicators can be used by officials as an early warning of susceptibility to stress. In combination with financial data and the FSMS scores, the environmental scores can bolster conversations internally as well as with residents during decision-making.

⁴ See OSC, *Fiscal Stress Monitoring System Search and Self-Assessment Tool*, available at: www1.osc.state.ny.us/localgov/fiscalmonitoring/fsms.cfm.

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