

FACT SHEET

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FOR RELEASE: Immediately

COMPTROLLER DINAPOLI'S EARLY WARNING FISCAL MONITORING SYSTEM

State Comptroller Thomas P. DiNapoli has created an early warning monitoring system to identify municipalities and school districts experiencing signs of budgetary strain so that corrective actions can be taken before a full financial crisis develops.

Using data already submitted by more than 3,000 local governments, DiNapoli's office calculates and publicizes an overall score of fiscal stress for municipalities and school districts across the state. These scores classify whether a community is in "significant fiscal stress," "moderate fiscal stress," "susceptible to fiscal stress," or "no designation."

The first fiscal stress scores were released in June 2013. A separate scoring list for school districts and those cities and villages whose fiscal years end at various periods through the year will be released later in the year. This system is based on a process that DiNapoli's auditors have been using to detect financial problems in communities.

The early warning system will examine nine financial indicators, including:

Local government indicators

- **Fund balance** as a measure of the resources a local government has accumulated. This will help identify capital available to fund operations, provide a cushion for revenue shortfalls or expenditure overruns, or may be reserved for specific future purposes.
- Operating deficits to determine if an entity's budget is structurally balanced. Annual operating results are a good measure of the local government's recent financial operations and the direction that its finances are headed. Multiple years of operating deficits or a significant operating deficit in one fiscal year can cause serious financial hardship.
- Cash on hand and whether it is adequate to pay current liabilities. This will evaluate a local government's ability to liquidate current liabilities and its ability to fund the ensuing fiscal year's operations.
- Cash flow borrowing may indicate that a local government has cash-flow issues that are not being resolved. Local governments in fiscal stress are more likely to have to issue short-term debt in order to meet obligations.
- **Fixed costs** to identify the amount that revenues are restricted to be used for salaries and benefits. These costs determine an entity's flexibility with responding to economic changes. A local government with a high level of fixed costs has more difficulty adjusting service levels if resources decline.

Fourteen environmental indicators will also be used for evaluating local governments. These include:

Demographic factors

- **Growth or decline in population** can provide insight into the health of the local economy. Declining population in a local government may affect property values and the associated tax base, which affects a local government's revenues.
- Child poverty rates and median age provide important insight into the service needs within a community. A local government with an increasing median age or an already high median age may require additional services
- **Property value changes** are a useful sign of the health of the local economy and also may affect one of the local government's major revenue sources. Entities with declining property values need to increase rates in order to raise the same amount of real property tax revenues.
- **Unemployment rates** and changes in available jobs provide information on the economic activity of an area and also may affect a local government's revenues.
- State and federal aid issues can pose challenges to a local government's finances. A local government with a large dependence on this funding can have a significant revenue risk.

DiNapoli will implement the system starting with those localities whose fiscal year ended December 31, 2012 and later apply it to villages and school districts whose fiscal years end at various periods throughout the year.

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