New York State Office of the State Comptroller
Thomas P. DiNapoli • State Comptroller

Fiscal Stress Monitoring System

January 2014

Fiscal Stress Summary Results for School Districts

New York State's school districts are facing severe fiscal challenges. District officials must continue to improve student performance, ensure student safety and provide extracurricular activities that taxpayers value for their children—all against the backdrop of a slow economic recovery in which resources are limited. In light of this fiscal reality, the Office of the State Comptroller has developed a Fiscal Stress Monitoring System (FSMS) to provide independent, objectively measured and quantifiable information to school district officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's diverse school districts are operating.

The Monitoring System evaluates school districts with respect to seven financial indicators and six environmental indicators. FSMS creates an overall fiscal stress score and an overall environmental stress score for each school district. This report summarizes the findings for all school districts which have been scored to date, focusing on common themes and statewide trends.[1]

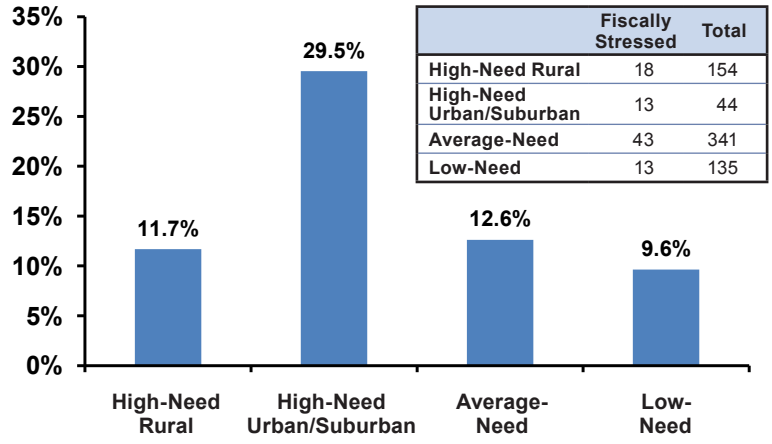
School Districts by Fiscal Stress Designation (2013)

	Number	Percentage
Significant Fiscal Stress	12	1.8%
Moderate Fiscal Stress	23	3.4%
Susceptible to Fiscal Stress	52	7.7%
No Designation	587	87.1%
Total	**674**	**100.0%**

Overall Findings

- Using data from the 2013 school fiscal year, 12.9 percent of school districts were found to be in some level of fiscal stress, including 5.2 percent that were rated as experiencing moderate or significant fiscal stress. Another 7.7 percent of school districts were found to be susceptible to fiscal stress. Regardless of which scenario applies, these communities will have to take measures now to prevent a more dire fiscal situation from developing in the future.

Percentage of School Districts in Fiscal Stress by Category



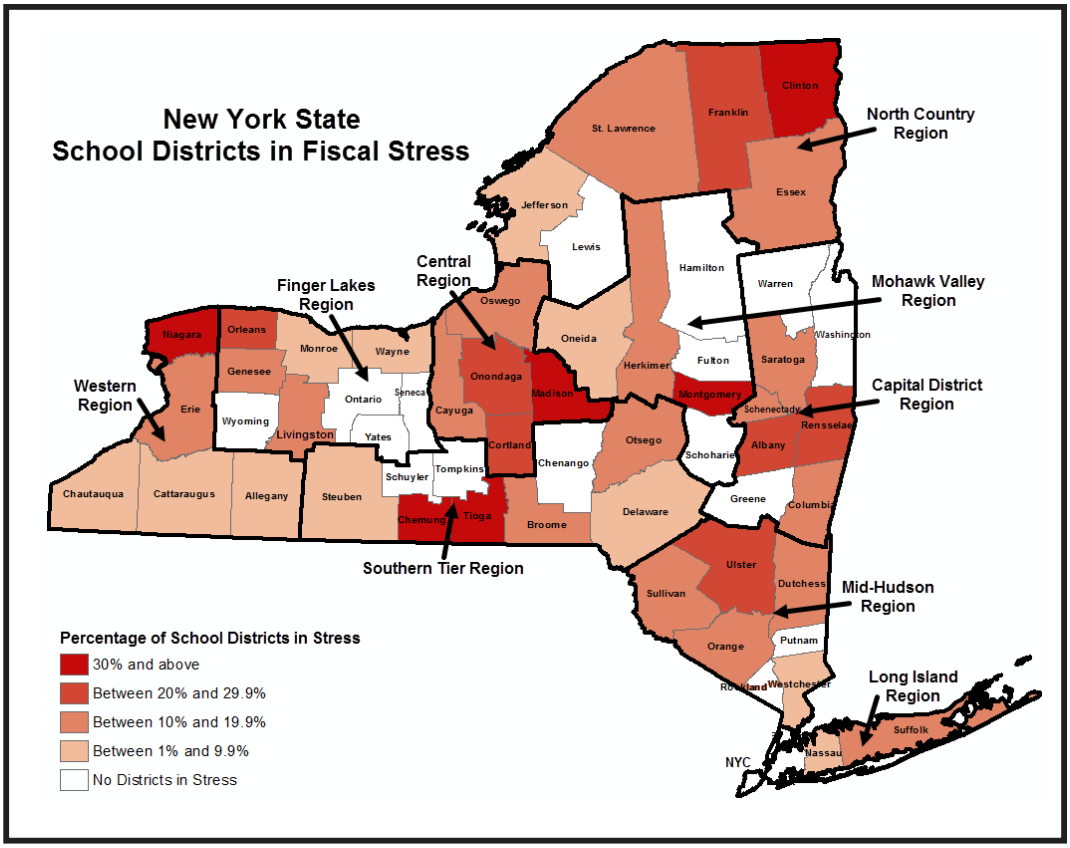
	Fiscally Stressed	Total
High-Need Rural	18	154
High-Need Urban/Suburban	13	44
Average-Need	43	341
Low-Need	13	135

- High-need urban/suburban districts[2] were 2.5 times more likely to be fiscally stressed compared to high-need rural districts and three times more likely when compared to low-need districts. Interestingly, high-need rural districts were slightly less likely than average-need districts to be in fiscal stress. While low-need districts are often considered wealthy, resource-rich communities, they are also prone to fiscal difficulties—with 9.6 percent of these districts experiencing fiscal stress to some degree.

- Fiscal stress persists in all regions of the State to varying degrees. Upstate school districts were slightly more likely to be in some level of fiscal stress compared to downstate school districts—13.5 percent and 11.7 percent, respectively. There is a substantial amount of variation among regions, especially among upstate regions.[3] The percentage of school districts found to be in some level of fiscal stress was 30 percent or more in six counties. Although these counties are spread across upstate New York there is a particularly high concentration of stressed school districts in Madison and Montgomery counties, where a total of 40 percent of the school districts were in fiscal stress.

Fiscal Stress Designation by Region

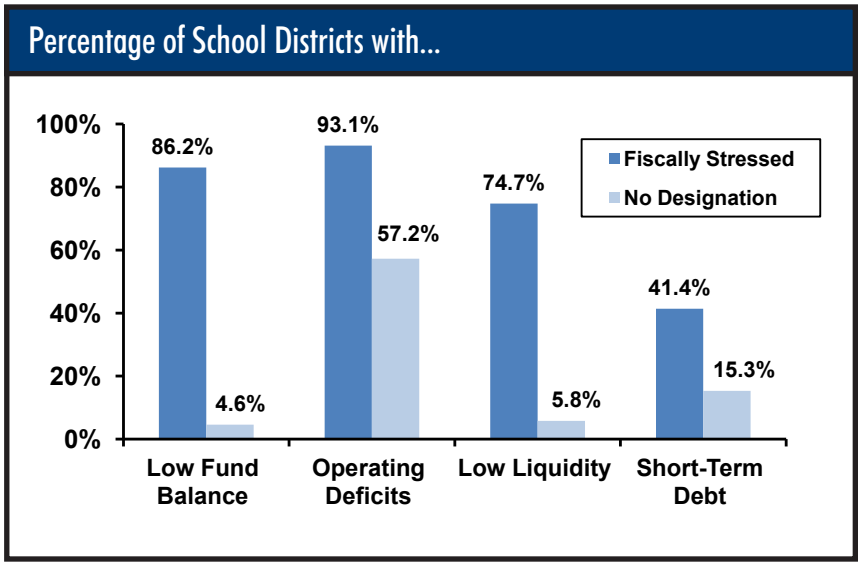
	In Stress	Total	% Stressed
Capital District	10	74	13.5%
Mohawk Valley	5	48	10.4%
North Country	10	59	16.9%
Central NY	11	48	22.9%
Finger Lakes	5	69	7.2%
Southern Tier	9	74	12.2%
Western NY	11	79	13.9%
Upstate Total	**61**	**451**	**13.5%**
Mid-Hudson	10	99	10.1%
Long Island	16	124	12.9%
Downstate Total	**26**	**223**	**11.7%**
Total	**87**	**674**	**12.9%**



Common Fiscal Themes

- School districts in fiscal stress were operating with dangerously low or non-existent fund balances, chronic operating deficits and extremely limited cash on hand. These districts were also found to have a much higher likelihood of using short-term borrowing to bridge cash flow gaps compared to those in the no designation category. This holds true for school districts in each need/resource category.

- Regardless of fiscal stress status, fund balances were lowest among high-need urban/suburban school districts compared to other categories.[4] For the 13 fiscally stressed high-need urban/suburban districts, unassigned fund balance amounted to 1.4 percent of expenditures and total fund balance amounted to 7.1 percent of the general fund expenditures—a particularly precarious financial position for these districts. Interestingly, high-need rural districts had the highest overall fund balance compared to other groups—exceeding that of both the low-need and average-need categories.



- Cash balances were found to be lowest among high-need urban/suburban districts and highest among low-need districts. Fiscally stressed districts within the high-need and average-need categories were found to have the most challenging cash positions—with the median district not having enough cash on hand to cover one month of expenses.

Selected Fiscal Indicators by Need/Resource Category and Fiscal Stress Designation

	High-Need Rural			High-Need Urban/Suburban			Average-Need			Low-Need		
	Median, Fiscally Stressed	Median, No Designation	Median, All Districts	Median, Fiscally Stressed	Median, No Designation	Median, All Districts	Median, Fiscally Stressed	Median, No Designation	Median, All Districts	Median, Fiscally Stressed	Median, No Designation	Median, All Districts
"General Fund Unassigned Fund Balance as a Percentage of Gen Fund Expenditures"	2.8%	5.2%	4.8%	1.4%	4.4%	4.2%	2.0%	4.4%	4.3%	3.0%	4.3%	4.3%
"General Fund Total Fund Balance as a Percentage of Gen Fund Expenditures"	10.7%	31.8%	29.8%	7.1%	18.2%	15.5%	11.8%	25.6%	24.0%	9.5%	20.1%	19.2%
General Fund Surplus or (Deficit) as a Percentage of Gen Fund Expenditures	-1.9%	0.3%	0.1%	-1.9%	2.0%	1.1%	-2.5%	0.4%	0.2%	-1.7%	1.1%	0.9%
Cash as a Percentage of Monthly Expenditures	71.2%	254.4%	230.7%	87.7%	242.5%	206.2%	88.6%	241.6%	216.3%	120.5%	273.2%	260.1%
Short-Term Debt as a Percentage of Total Revenue	0.0%	0.0%	0.0%	8.4%	0.0%	0.0%	0.0%	0.0%	0.0%	14.1%	0.0%	0.0%

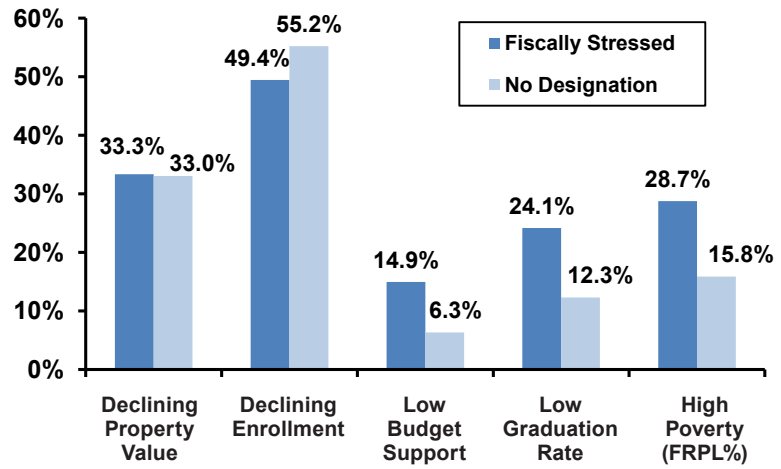
Common Environmental Indicators

- Environmental indicators represent the local challenges that school districts officials must navigate on an ongoing basis. While these factors are largely outside of districts' control, they can drive additional costs or negatively impact the district's ability to raise revenues to fund programs.

- Many school districts, regardless of fiscal stress designation, have experienced declining property value as well as declining enrollments. These factors can lead to budgetary strain, indicative of a declining tax base. As a result, tax rate increases may become necessary to simply maintain existing levels of property tax revenues.

- Generally, low-need districts, while having greater property value on a per pupil basis, also experienced the greatest decline in property value compared to the other need/resource categories. Similarly, among low-need districts, those found to be in fiscal stress experienced a greater decline in property value (-4.9 percent) than those in the no designation category (-3.7 percent).

Percentage of School Districts with…



Selected Fiscal Indicators by Need/Resource Category and Fiscal Stress Designation

		High-Need Rural			High-Need Urban/Suburban			Average-Need			Low-Need		
		Median, Fiscally Stressed	Median, No Designation	Median, All Districts	Median, Fiscally Stressed	Median, No Designation	Median, All Districts	Median, Fiscally Stressed	Median, No Designation	Median, All Districts	Median, Fiscally Stressed	Median, No Designation	Median, All Districts
Property Value	2012 Property Value Per Pupil	$357,112	$346,193	$346,193	$327,717	$386,199	$378,913	$579,137	$550,714	$551,718	$1,030,464	$1,260,512	$1,215,858
	4-Yr. Avg. Change in Property Value (2008-2012)	2.4%	3.2%	3.2%	0.7%	0.1%	0.5%	2.3%	1.7%	1.7%	-4.9%	-3.7%	-3.8%
Budget Votes	% Yes on First Budget Vote (2014)	69.8%	74.4%	74.0%	72.7%	65.3%	65.4%	67.6%	69.8%	69.4%	64.6%	69.5%	69.2%
	4-Yr. Avg. Change in Yes Percentage (2010-2014)	0.2%	0.5%	0.4%	0.6%	-0.9%	-0.2%	0.0%	0.5%	0.5%	1.1%	1.1%	1.1%
Enrollment	2013 Enrollment	813	786	786	4,830	3,576	4,189	1,898	1,367	1,407	2,481	2,498	2,481
	4-Yr. Avg. Change in Enrollment (2009-2013)	-2.0%	-2.1%	-2.1%	-0.7%	-0.1%	-0.3%	-1.5%	-1.9%	-1.8%	-1.8%	-1.0%	-1.1%
Measures of Need	3-Yr. Avg. Free/ Reduced Lunch % (2010-2012)	57.2%	54.0%	54.3%	70.3%	62.7%	67.0%	34.4%	35.5%	35.3%	8.4%	7.9%	8.1%
	2012 Graduation Rate	75.9%	80.0%	79.8%	61.7%	71.0%	69.5%	86.0%	85.6%	85.6%	93.5%	94.1%	94.0%
	Number in Group	18	136	154	13	31	44	43	298	341	13	122	135

- With the median urban/suburban district having an enrollment exceeding 4,000 pupils, high-need urban/suburban districts are the largest overall, and have experienced the least amount of enrollment decline (-0.3 percent). The smaller, high-need rural districts have experienced the highest annual enrollment decline (-2.1 percent from 2009 to 2013).

- Nearly 15 percent of fiscally stressed school districts were found to have had difficulty obtaining budget approval, 24 percent were found to have low graduation rates and nearly 29 percent had high rates of poverty—much higher rates than those districts in the no designation category.

- Graduation rates vary by need/resource category—with high-need districts, especially those in the urban/suburban category, having lower graduation rates than those in the average and low-need categories. Fiscally stressed high-need districts had lower graduation rates compared to those in the no designation category. Poverty rates were also higher among fiscally stressed high-need districts when compared to their no designation counterparts.

Conclusion

Education is one of the most important functions that localities provide, and it is also one of the most expensive. Schools districts provide the foundation for the success of future generations, and do so in the midst of close scrutiny by taxpayers and mounting fiscal pressures.

Of the 674 school districts in the State evaluated for fiscal stress, 87 districts or 12.9 percent were found to be in one of the three stress levels, including 35 districts or 5.2 percent which were found to be in moderate or significant fiscal stress. There are nearly 250,000 students enrolled in the 87 fiscally stressed school districts. These districts spent $4.9 billion in 2013 in support of their students.

What About the Dependent School Districts?

This analysis does not include the "Big Four" City School Districts of Buffalo, Rochester, Syracuse and Yonkers. Unlike other school districts, the districts in these four cities do not have separate authority to levy taxes and are instead, fiscally "dependent" on their city to levy taxes for school purposes.

School district information for these fiscally dependent districts will be incorporated into the scoring for their respective cities and reported as part of a future release.

Fiscally stressed school districts face similar fiscal challenges, including low fund balances, poor cash position, chronic operating deficits and reliance on short-term borrowing to bridge cash flow shortages. Environmental indicators highlight the common challenges that many of these stressed districts face, including declining enrollment, low budget support, and higher rates of poverty.

High-need urban/suburban school districts were more than twice as likely to be fiscally stressed compared to other need/resource groups. The difficult fiscal position of these districts warrants special attention.

As a recent report from this Office has pointed out, schools are facing fiscal challenges that are not likely to dissipate in the short term.[5] Between a tax levy limit that restricts local funding, State and federal aid cuts and a lack of other sources of funding, schools are in a period of low revenue growth. These challenges underscore the importance of fiscal monitoring and the need for swift action on behalf of all parties to safeguard the fiscal health of the State's school districts.

Notes

[1] This analysis is based on 674 school districts. It does not include two school districts: East Ramapo CSD, for which data were found to be inconclusive for FSMS; and Inlet SD, which did not file its annual financial report. Additionally, the analysis does not include the "Big Four" City School Districts of Buffalo, Syracuse, Rochester and Yonkers. School district information for these fiscally dependent districts will be incorporated into the scoring for their respective cities and reported as part of a future release. Finally, this analysis does not include the New York City School District or the 13 "Special Act" Schools.

[2] 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: **http://www.p12.nysed.gov/irs/accountability/2011-12/NeedResourceCapacityIndex.pdf**.

[3] For this analysis, upstate is defined as those counties within the seven regions that lie north and west of the Mid-Hudson and Long Island Regions.

[4] State statute limits the amount of "unexpended surplus funds" a school district may retain to no more than 4 percent of the next year's budgetary appropriations. Funds properly retained under other sections of law (e.g., reserve funds established pursuant to statute) are excluded from the 4 percent limitation. This restriction was considered during the development of the indicators and factored into the scoring system for school districts.

[5] **http://www.osc.state.ny.us/localgov/pubs/research/snapshot/RevenueChallengesSchools0114.pdf**

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www.osc.state.ny.us January 2014