# Fiscal Stress in School Districts

## Common Themes for School Year 2016-17

**New York State Comptroller**

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**JANUARY 2018**

# Overview

The Office of the New York 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. Some of 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 2016-17 school fiscal year, the fifth annual release of FSMS scores. The System covers all school districts in 57 counties but excludes the New York City School District.[2] Notably, this release is also the first to reflect recent changes to the System. These enhancements reflect the culmination of several years of OSC's operational experience, feedback from various stakeholders and a 75-day public comment period. The modifications increase the System's validity and utility, providing a stronger foundation for officials to discuss results within their local communities. For more information about the specific changes, visit: **www.osc.state.ny.us/localgov/fiscalmonitoring/help.htm**.

## Quick Facts

The FSMS scores for school year (SY) 2016-17 generally indicate that 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.

**54** percent received no points on any of the six fiscal stress indicators.

**26** school districts were classified in one of the three fiscal stress categories.

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

- High-need districts were nearly three times as likely as average-need districts to be in fiscal stress.

- Regionally, Central New York and the Southern Tier had the largest proportions of districts in a fiscal stress category.

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[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. This report does not include 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 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.

# Fiscal Stress Results

Based on SY 2016-17 data, 26 school districts (3.9 percent) were found to be in one of the levels of fiscal stress. (See Figure 1.)

- The two school districts in significant stress are East Aurora (Erie County) and Eldred (Sullivan County).

- Seven districts (1.0 percent) were found to be in moderate stress, and another 17 (2.5 percent) were designated as being susceptible to stress, the least severe category.

While the overall number of school districts in fiscal stress is small, the likelihood of being in a stress category varies based on a district's classification of need and geographic location. (See Figure 2.) These results are highlighted below.

- High-need districts in both rural and urban/suburban areas were about three times more likely to be in fiscal stress than average need districts.[3]

- Nearly 4 percent of low-need districts were designated as being in fiscal stress. One of these districts (East Aurora) was in significant stress.
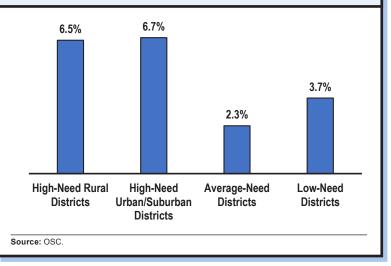
| Figure 1 | | |
|---|---|---|
| **School Districts by Fiscal Stress Designation,** SY 2016-17 | | |
| | **Number** | **Percentage** |
| **Districts in Fiscal Stress** | | |
| Significant | 2 | 0.3% |
| Moderate | 7 | 1.0% |
| Susceptible | 17 | 2.5% |
| Subtotal | 26 | 3.9% |
| **Other Districts** | | |
| No Designation | 648 | 96.1% |
| **Total** | **674** | **100.0%** |

**Source:** Office of the State Comptroller (OSC).

| Figure 2 | | |
|---|---|---|
| **Percentage of School Districts in Fiscal Stress by Need/Resource Capacity,** SY 2016-17 | | |



High-Need Rural Districts: 6.5%
High-Need Urban/Suburban Districts: 6.7%
Average-Need Districts: 2.3%
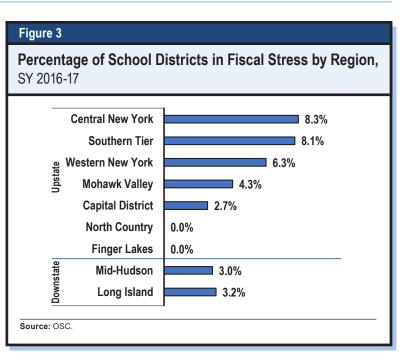Low-Need Districts: 3.7%

**Source:** OSC.

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[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**.

## Regional Breakdown

Broadly speaking, upstate school districts were more likely to be in fiscal stress (4.2 percent) compared to downstate school districts (3.1 percent). (See Figure 3.) But the upstate regions vary widely:

- Central New York and the Southern Tier had the highest percentages of fiscal stress (over 8 percent of districts).

- None of the districts in the North Country or Finger Lakes regions were designated as stressed, although three districts in the Finger Lakes were close to being susceptible, all showing weak cash positions.

**Figure 3**

**Percentage of School Districts in Fiscal Stress by Region,** SY 2016-17

| Region | Percentage |
|--------|-----------|
| Central New York | 8.3% |
| Southern Tier | 8.1% |
| Western New York | 6.3% |
| Mohawk Valley | 4.3% |
| Capital District | 2.7% |
| North Country | 0.0% |
| Finger Lakes | 0.0% |
| Mid-Hudson | 3.0% |
| Long Island | 3.2% |

*Upstate: Central New York through Finger Lakes; Downstate: Mid-Hudson, Long Island.*
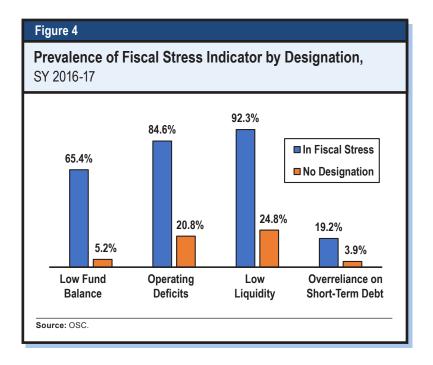
**Source:** OSC.

- Three counties in particular had a high percentage of fiscally stressed school districts. Two of the five districts (40 percent) in Cortland County and a quarter of the schools in Otsego and Chenango counties were in stress.

- Forty out of 57 counties had no school districts in stress.

## Common Fiscal Themes

School districts in fiscal stress were most commonly operating with a combination of issues, usually culminating in low or non-existent fund balances and chronic operating deficits. (See Figure 4.) These districts also were more likely to have used short-term debt for the first time in SY 2016-17, or to have increased their amount of short-term borrowing from the prior year, compared to those in the no designation category. This measure was the subject of some refinement this year. Many school districts use short-term financing in an effective manner as part of their financial plans, in order to bridge structural time gaps between property tax revenue collection and distribution. The new FSMS scoring does not penalize this specific practice.

**Figure 4**

**Prevalence of Fiscal Stress Indicator by Designation,** SY 2016-17

| Indicator | In Fiscal Stress | No Designation |
|-----------|-----------------|----------------|
| Low Fund Balance | 65.4% | 5.2% |
| Operating Deficits | 84.6% | 20.8% |
| Low Liquidity | 92.3% | 24.8% |
| Overreliance on Short-Term Debt | 19.2% | 3.9% |

**Source:** OSC.

# Environmental Stress Results

Environmental indicators measure the 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.

FSMS includes a set of environmental indicators that determine a companion score for each district. They offer some context for evaluating the challenges that school districts face. The environmental indicators for school districts include measures of:

- Economically disadvantaged students;
- Class size;
- Turnover rate of teachers;
- Changes in property value;
- School budget vote approvals; and
- Percentage of English language learners (ELL).

Seventy-five school districts were found to be in an environmental stress category in SY 2016-17. As part of the enhanced system, school district officials now receive a detailed breakdown of their environmental score. This new presentation of data will provide a mechanism for school officials to highlight challenges in the local environment. (See Figure 5.)

**Figure 5**

**School Districts by Environmental Stress Designation**
SY 2016-17

| | Number | Percentage |
|---|---|---|
| **Districts in Environmental Stress** | | |
| Significant | 13 | 1.9% |
| Moderate | 10 | 1.5% |
| Susceptible | 52 | 7.7% |
| Subtotal | 75 | 11.1% |
| **Other Districts** | | |
| No Designation | 599 | 88.9% |
| **Total** | **674** | **100.0%** |

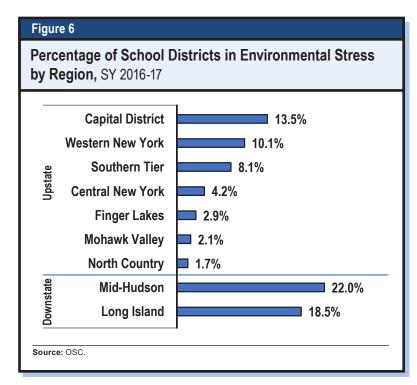Source: OSC.

# Regional Breakdown

While upstate school districts were more likely to be in fiscal stress, downstate school districts were more likely to show signs of environmental stress.
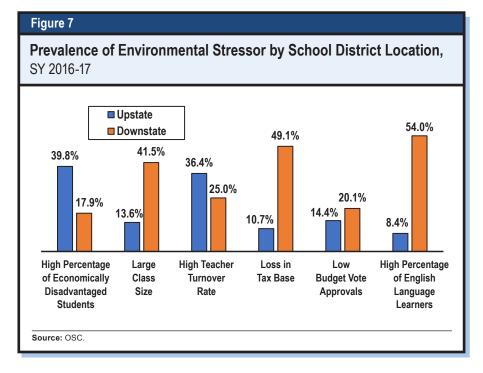
- Overall, 20 percent of downstate districts scored high enough to be in one of the three categories, compared to just 7 percent of upstate schools. (See Figure 6.)

- Among the upstate regions, the Capital District and Western New York had the highest percentages of districts in environmental stress—with 13.5 percent and 10.1 percent of the districts found to be in one of the three levels, respectively.

- Upstate school districts face a different set of environmental challenges compared to their downstate counterparts. Upstate schools were more than twice as likely to have a high percentage of economically disadvantaged students compared to downstate school districts. High rates of teacher turnover were also more of a problem upstate compared to downstate. (See Figure 7.)

- Downstate districts were much more likely to have large class sizes, losses in their tax base and high rates of English language learners compared to upstate school districts.

**Figure 6**

**Percentage of School Districts in Environmental Stress by Region,** SY 2016-17

Upstate:
- Capital District: 13.5%
- Western New York: 10.1%
- Southern Tier: 8.1%
- Central New York: 4.2%
- Finger Lakes: 2.9%
- Mohawk Valley: 2.1%
- North Country: 1.7%

Downstate:
- Mid-Hudson: 22.0%
- Long Island: 18.5%

**Source:** OSC.

**Figure 7**

**Prevalence of Environmental Stressor by School District Location,** SY 2016-17

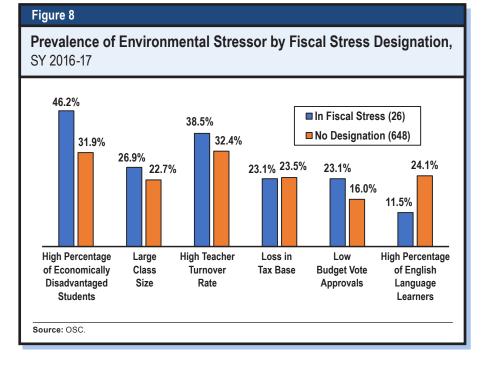| | Upstate | Downstate |
|---|---|---|
| High Percentage of Economically Disadvantaged Students | 39.8% | 17.9% |
| Large Class Size | 13.6% | 41.5% |
| High Teacher Turnover Rate | 36.4% | 25.0% |
| Loss in Tax Base | 10.7% | 49.1% |
| Low Budget Vote Approvals | 14.4% | 20.1% |
| High Percentage of English Language Learners | 8.4% | 54.0% |

**Source:** OSC.

## Relationship of Environmental Stress to Fiscal Stress

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

- High percentages of economically disadvantaged students;

- Larger class sizes;

- High rates of teacher turnover; and

- Low levels of community support for the school districts' budgets. (See Figure 8.)

**Figure 8**

**Prevalence of Environmental Stressor by Fiscal Stress Designation,** SY 2016-17



Legend: In Fiscal Stress (26); No Designation (648)

| Stressor | In Fiscal Stress | No Designation |
|---|---|---|
| High Percentage of Economically Disadvantaged Students | 46.2% | 31.9% |
| Large Class Size | 26.9% | 22.7% |
| High Teacher Turnover Rate | 38.5% | 32.4% |
| Loss in Tax Base | 23.1% | 23.5% |
| Low Budget Vote Approvals | 23.1% | 16.0% |
| High Percentage of English Language Learners | 11.5% | 24.1% |

**Source:** OSC.

# Conclusion

School districts deliver one of the most important functions of government. The State and our school districts, partnering to manage the costs and resources of providing education, benefit from fiscal monitoring and actions that maintain the fiscal health of the State's school districts.

Of the 674 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 nine districts (1.3 percent) in moderate or significant fiscal stress.

Certain groups of school districts, especially those categorized as high-need, continue to be more likely than other districts to be fiscally stressed, and as such require extra attention. Likewise, those schools that have a high percentage of economically disadvantaged students, or other factors that are largely outside of a district's control, struggle with how to allocate revenues in a constrained environment.

Finally, despite the low percentage of districts being designated in stress, school district officials should continue to analyze the details in the System's indicators and scores to see how their budgeting decisions affect fund balances, cash flow and other factors — i.e., their ability to meet financial obligations.

The new streamlined environmental indicators provide easy-to-understand facts to bolster conversations about the susceptibility to fiscal stress locally, and in combination with the other indicators, school district officials can use the FSMS scores internally and in conversations with residents during decision-making.

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