

# New York State Office of the State Comptroller

Thomas P. DiNapoli • State Comptroller



## Fiscal Stress Monitoring System

September 2014

### Fiscal Stress Monitoring System Results for 2013 Calendar Year Entities

In September 2014, the Office of the State Comptroller released the second annual set of Fiscal Stress Monitoring System (FSMS) scores for local governments that operate on a calendar fiscal year. This group includes all 57 counties outside New York City, all 932 towns, 44 cities and 10 villages, for a total of 1,043 entities.<sup>1</sup> For 2013, 978 (94 percent) entities had reported data that was conclusive enough for OSC to determine a fiscal stress score, a slight decline from the 1,001 entities for 2012 data.<sup>2</sup> Overall, 35 entities were classified as being in some level of stress, with 10 designated as being in significant fiscal stress, 8 in moderate fiscal stress and 17 susceptible to fiscal stress.<sup>3</sup> Most local governments (about 96 percent) were not classified as being in a stress designation, though entities with no designation may still exhibit some risk factors for stress, especially those with relatively high FSMS scores. The results were very similar to the outcomes for calendar year entities in 2012.

Overall, 35 entities were classified as being in some level of stress, with 10 designated as being in significant fiscal stress, 8 in moderate fiscal stress and 17 susceptible to fiscal stress.

FSMS Designation or Status	2012		2013		2012-2013
	Number of Entities	Percentage	Number of Entities	Percentage	Change in Number of Entities
Significant Fiscal Stress	12	1.2%	10	1.0%	-2
Moderate Fiscal Stress	10	1.0%	8	0.8%	-2
Susceptible to Fiscal Stress	18	1.8%	17	1.7%	-1
No Designation	961	96.0%	943	96.4%	-18
<b>Total Filed</b>	<b>1001</b>		<b>978</b>		
Not Filed	40		62		22
Under Review/Inconclusive	2		3		1
<b>Total</b>	<b>1043</b>		<b>1043</b>		

The FSMS has five major indicator categories that drive fiscal stress scores:

- Low or declining fund balance,
- High or repeated operating deficits,
- Insufficient cash to fund expenses,
- Use of short-term debt to fund operating expenses, and
- High fixed costs.

Of these, fund balance indicators (which are the most heavily weighted in the FSMS) had the greatest impact on stress scores in 2013, as they did in 2012. However, operating deficit indicators were most often responsible for shifts in fiscal condition between 2012 and 2013.

This report documents FSMS results for 2013, discusses the shared characteristics among the scored units by region and class of local government and highlights the primary drivers of score changes from 2012 to 2013.

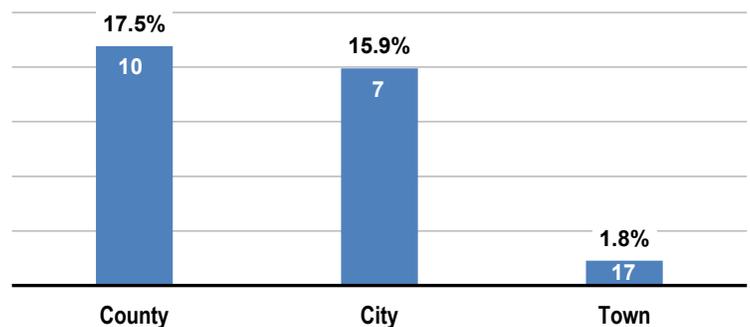
### Findings for 2013

The percentage of stressed local governments varied significantly by both type of government and region. Approximately 18 percent of counties and 16 percent of cities were in a stress category. In contrast, less than 2 percent of towns were in a stress category. Downstate communities were more than twice as likely as upstate localities to be in some level of fiscal stress (6.8 percent downstate vs. 2.8 percent upstate).

The five categories of FSMS indicators noted above were used to arrive at each municipality's fiscal stress score. Fund balance indicators identify whether a municipality has enough of a fiscal cushion to handle revenue shortfalls or expenditure overruns. Low fund balance was an issue for all 2013 fiscally stressed local governments, but also for almost half of those that were not in any of the stress categories.

Operating deficit – which includes both the most recent year and the three-year trend of deficits – was nearly as common as low fund balance among stressed entities (97.1 percent), and even more common than low fund balance among those local governments that were not in a stress category (71.2 percent).

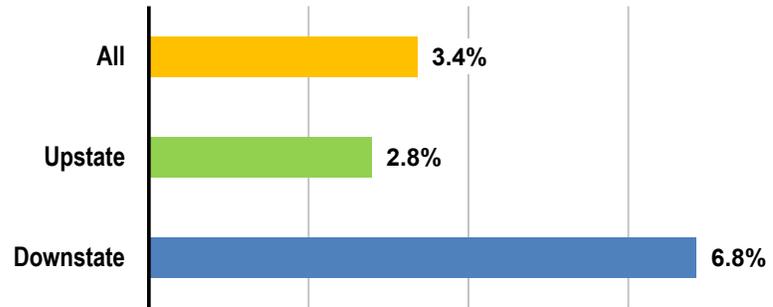
Percentage of Local Governments in Fiscal Stress, by Class in 2013



There was also one village, of the 10 with a calendar fiscal year, designated in significant fiscal stress in 2013

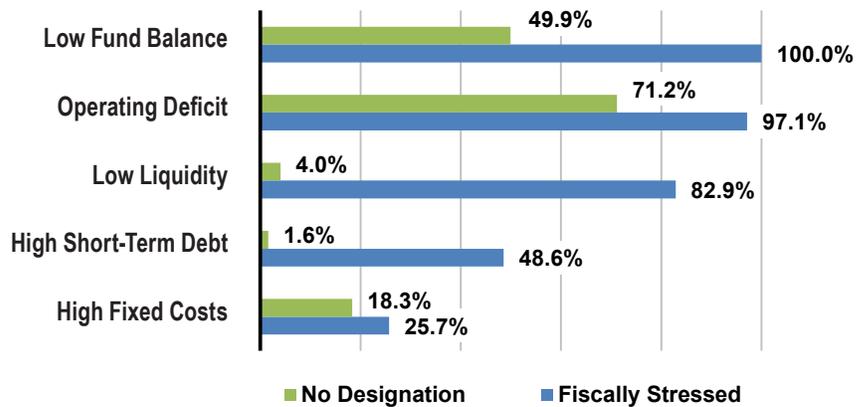
Liquidity, or cash position, indicators identify an inability of the local government to fund current liabilities or to fund its short-term future operations from available cash. Unlike low fund balance and operating deficits, low liquidity was much more common among fiscally stressed municipalities (82.4 percent) than among entities with no designation (4.0 percent). Short-term debt indicators measure whether a local government has had to issue debt to meet its current obligations (for example, for cash flow purposes in anticipation of tax or other revenue, or to pay for an unanticipated expenditure that wasn't in the budget, rather than for long term capital expenditure purposes).<sup>4</sup> High short-term debt was also very rare in entities with no stress designation, but was a factor for nearly half of the stressed units (48.6 percent). Finally, fixed cost indicators measure the government's personnel costs and long-term debt service as a percent of revenues. For 2013, just more than one quarter (25.7 percent) of stressed localities had high fixed costs, compared with 18.3 percent of those with no designation.<sup>5</sup>

## Percentage of Local Governments in Fiscal Stress, by Region in 2013



This chart includes the one downstate village, of the 8 downstate and the 2 upstate villages with a calendar fiscal year, designated in significant fiscal stress in 2013.

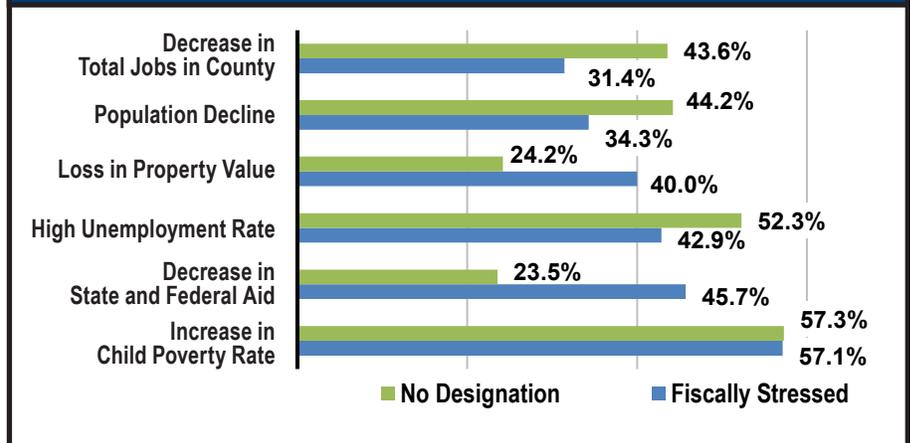
## Comparison of Fiscal Stress Categories in Local Governments, 2013



## Environmental Indicators

Many of the local governments designated as fiscally stressed also face significant environmental challenges. The FSMS uses 14 environmental indicators (six of which are shown in the chart) to measure some of the social, economic and demographic factors that affect entities. The three most common factors for those entities in stress were an increase in the child poverty rate, a decrease in State and federal aid, and a high unemployment rate. Interestingly, increasing child poverty and high unemployment rates were both fairly similar in both fiscally stressed entities and those with no designation, while a loss in State and federal aid was one of the factors (along with a loss in property value) that most sharply distinguished stressed entities from the rest.

Comparison of Selected Environmental Stress Indicators in Local Governments, 2013

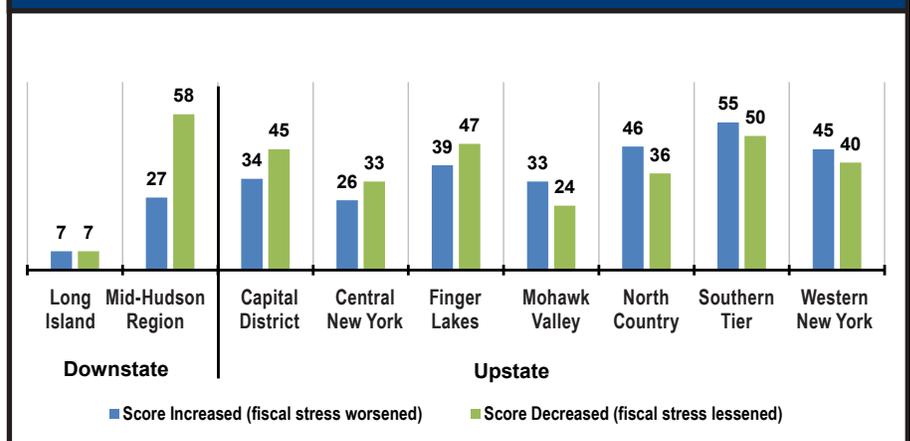


## Changes in Score

Between 2012 and 2013, most entities' (67.1 percent) scores changed at least a few percentage points, although most swings were very small (less than 10 percentage points).

Most regions saw roughly the same number of score increases (more fiscal stress) and decreases (less fiscal stress), although the Mid-Hudson region (comprised of municipalities in counties just north of New York City) appears to have more entities with decreasing stress, while the Mohawk Valley (an upstate, mostly rural region) appears to have more entities showing increased fiscal stress.

Number of Municipalities with a Change in Fiscal Stress Financial Score from 2012 to 2013, by Region



# Fiscal Stress Monitoring System Results for 2013 Calendar Year Entities

Change in Designation, Score and Fiscal Indicators Between 2012 and 2013						Variance in Indicator Score 2012 v 2013 *				
Municipality	2012 Score	2012 Designation	2013 Score	2013 Designation	Point Change	Fund Balance	Operating Deficits	Liquidity	Short-Term Debt	Fixed Costs
Town of Jasper	25.4%	No Designation	74.2%	Significant Fiscal Stress	48.8%	3	1	6	4	0
Town of German Flatts	41.3%	No Designation	71.7%	Significant Fiscal Stress	30.4%	3	0	1	4	1
County of St. Lawrence	70.8%	Susceptible Fiscal Stress	72.5%	Significant Fiscal Stress	1.7%	0	0	0	1	0
County of Schuyler	64.2%	Moderate Fiscal Stress	65.8%	Significant Fiscal Stress	1.7%	0	-1	0	3	0
County of Rockland	86.7%	Significant Fiscal Stress	86.7%	Significant Fiscal Stress	0.0%	0	0	0	0	0
County of Monroe	82.1%	Significant Fiscal Stress	82.1%	Significant Fiscal Stress	0.0%	0	0	0	0	0
County of Franklin	67.5%	Significant Fiscal Stress	67.5%	Significant Fiscal Stress	0.0%	0	0	-1	2	0
Village of Islandia	67.5%	Significant Fiscal Stress	65.8%	Significant Fiscal Stress	-1.7%	0	-1	-2	5	0
City of Poughkeepsie	69.2%	Significant Fiscal Stress	65.8%	Significant Fiscal Stress	-3.3%	0	-1	0	0	0
City of Mechanicville	Not filed	Not filed	72.5%	Significant Fiscal Stress	-	-	-	-	-	-
Town of Hempstead	36.7%	No Designation	55.8%	Moderate Fiscal Stress	19.2%	2	0	2	0	0
Town of Chery Valley	44.6%	No Designation	57.5%	Moderate Fiscal Stress	12.9%	1	1	1	0	0
Town of Coeymans	47.5%	Susceptible Fiscal Stress	57.5%	Moderate Fiscal Stress	10.0%	0	0	3	0	0
City of Fulton	55.8%	Moderate Fiscal Stress	64.2%	Moderate Fiscal Stress	8.3%	0	0	2	0	1
County of Broome	54.6%	Susceptible Fiscal Stress	57.5%	Moderate Fiscal Stress	2.9%	1	0	-1	0	0
City of Glen Cove	60.0%	Moderate Fiscal Stress	61.7%	Moderate Fiscal Stress	1.7%	0	0	0	1	0
Town of Colonie	65.8%	Significant Fiscal Stress	62.5%	Moderate Fiscal Stress	-3.3%	0	0	-1	0	0
County of Suffolk	73.8%	Significant Fiscal Stress	60.8%	Moderate Fiscal Stress	-12.9%	-1	-1	-1	0	0
Town of Laurens	3.3%	No Designation	47.5%	Susceptible Fiscal Stress	44.2%	6	2	0	0	0
Town of Halcott	12.9%	No Designation	54.2%	Susceptible Fiscal Stress	41.3%	5	0	1	4	0
City of Geneva	28.8%	No Designation	47.5%	Susceptible Fiscal Stress	18.8%	3	0	0	0	0
County of Orange	29.2%	No Designation	45.0%	Susceptible Fiscal Stress	15.8%	2	0	1	0	0
Town of Deposit	32.1%	No Designation	47.5%	Susceptible Fiscal Stress	15.4%	3	0	1	-4	0
Town of Minden	35.0%	No Designation	47.5%	Susceptible Fiscal Stress	12.5%	2	0	0	0	0
City of Little Falls	37.9%	No Designation	47.9%	Susceptible Fiscal Stress	10.0%	0	1	2	0	0
Town of Petersburg	41.3%	No Designation	50.8%	Susceptible Fiscal Stress	9.6%	1	1	0	0	0
Town of Pierrepont	41.3%	No Designation	50.8%	Susceptible Fiscal Stress	9.6%	1	0	1	0	0
Town of Parish	47.5%	Susceptible Fiscal Stress	54.2%	Susceptible Fiscal Stress	6.7%	0	0	0	4	0
Town of Saugerties	44.2%	No Designation	50.8%	Susceptible Fiscal Stress	6.7%	0	0	2	0	0
City of Glens Falls	44.6%	No Designation	50.8%	Susceptible Fiscal Stress	6.2%	1	0	0	0	0
Town of Tuxedo	50.4%	Susceptible Fiscal Stress	54.2%	Susceptible Fiscal Stress	3.8%	-1	1	2	0	0
County of Albany	57.9%	Moderate Fiscal Stress	54.6%	Susceptible Fiscal Stress	-3.3%	0	0	-1	0	0
Town of Oyster Bay	62.5%	Moderate Fiscal Stress	54.2%	Susceptible Fiscal Stress	-8.3%	0	0	-2	-1	0
County of Saratoga	63.8%	Moderate Fiscal Stress	54.2%	Susceptible Fiscal Stress	-9.6%	-1	-1	0	0	0
Town of Ellicott	64.2%	Moderate Fiscal Stress	50.8%	Susceptible Fiscal Stress	-13.3%	0	-1	-3	0	0
City of Niagara Falls	67.5%	Significant Fiscal Stress	6.7%	No Designation	-60.8%	-6	0	-6	0	-2
Town of Genesee Falls	67.5%	Significant Fiscal Stress	19.2%	No Designation	-48.3%	-4	-1	-6	0	0
Town of Fishkill	68.3%	Significant Fiscal Stress	27.5%	No Designation	-40.8%	-6	-1	-3	6	0
Town of Ischua	58.3%	Moderate Fiscal Stress	19.2%	No Designation	-39.2%	-2	0	-6	-4	0
Town of Lyonsdale	48.8%	Susceptible Fiscal Stress	3.3%	No Designation	-45.4%	-3	-1	-5	-4	0
Town of Mount Pleasant	50.8%	Susceptible Fiscal Stress	12.9%	No Designation	-37.9%	-5	-1	-1	0	0
Town of Newcomb	47.5%	Susceptible Fiscal Stress	22.1%	No Designation	-25.4%	-3	-2	0	0	0
Town of Chautauqua	45.8%	Susceptible Fiscal Stress	27.1%	No Designation	-18.8%	-3	0	0	0	0
Town of Clare	50.8%	Susceptible Fiscal Stress	37.9%	No Designation	-12.9%	-1	-1	-1	0	0
County of Schenectady	51.7%	Susceptible Fiscal Stress	41.7%	No Designation	-10.0%	0	0	-3	0	0
County of Erie	48.3%	Susceptible Fiscal Stress	38.3%	No Designation	-10.0%	0	0	-3	0	0
County of Sullivan	46.7%	Susceptible Fiscal Stress	37.1%	No Designation	-9.6%	-1	0	-1	0	0
Town of Lewisboro	47.1%	Susceptible Fiscal Stress	40.8%	No Designation	-6.3%	-1	0	0	0	0
County of Rensselaer	50.8%	Susceptible Fiscal Stress	44.6%	No Designation	-6.2%	-1	1	-1	0	0
County of Westchester	48.3%	Susceptible Fiscal Stress	43.3%	No Designation	-5.0%	0	-1	-1	1	0
Town of Dayton	47.5%	Susceptible Fiscal Stress	44.2%	No Designation	-3.3%	0	-1	0	0	0
County of Cayuga	45.4%	Susceptible Fiscal Stress	42.1%	No Designation	-3.3%	0	1	-2	0	0
Town of Ramapo	70.8%	Significant Fiscal Stress	-	Inconclusive	-	-	-	-	-	-
County of Nassau	62.5%	Moderate Fiscal Stress	-	Inconclusive	-	-	-	-	-	-
City of Lockport	59.2%	Moderate Fiscal Stress	-	Not Filed	-	-	-	-	-	-
Town of Clifton	50.8%	Susceptible Fiscal Stress	-	Not Filed	-	-	-	-	-	-

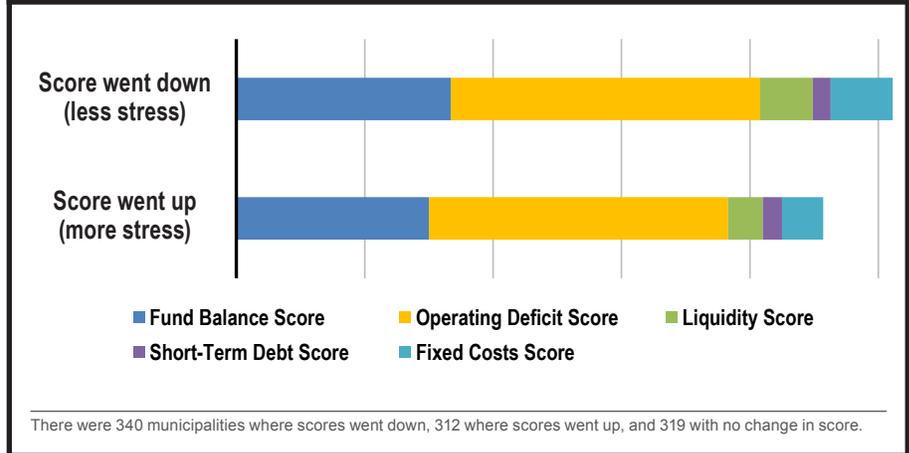
\* The variances shown are year-over-year changes in points for the sum of each indicator category.

## Contribution of FSMS Categories to Score Changes

As expected, the local governments in stress share many fiscal traits, including low fund balances and poor cash positions, chronic deficits and the use of short-term debt to bridge cash flow gaps. Although fund balance accounts for half of the score, and operating deficits only account for 10 percent, according to the 2013 results, a change in operating deficit is the indicator most often associated with a change in score (either up or down). Change in fund balance, while flagged for every fiscally stressed entity, was the second most common indicator to be associated with a score change.

Score changes were not heavily dependent on changes in the short-term debt or fixed cost indicators. Short-term cash flow debt is a relatively rare occurrence in municipalities, and thus affects only a small number of places in any given year, and fixed costs do not change a great deal from year to year.

Contribution of FSMS Categories to Score Changes, 2012 to 2013

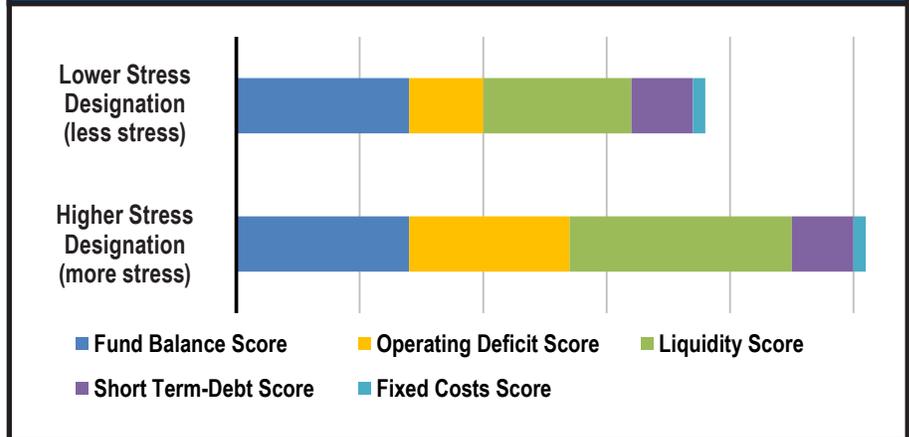


## Changes in Designation

Altogether, 56 entities were designated in fiscal stress in either 2012 or 2013 or both. Forty-one entities (4.2 percent) had changes in designation between the two years.

Of those whose stress designations changed, 18 moved into a higher stress category. Eleven of these were entities that moved from no designation in 2012 to susceptible to fiscal stress in 2013. The 23 entities that moved into a lower stress category included 13 moving from susceptible to fiscal stress in 2012 to no designation in 2013.

Contribution of FSMS Categories to Changes in Designation, 2012 to 2013



Ten entities remained in the same stress category in both years (even if their scores changed slightly), and five did not file conclusively enough to determine a FSMS score for either 2012 or 2013.

The biggest contributor to designation change (rather than stress score) was change in liquidity.

## Large Changes in FSMS Score

There were 158 entities (16.3 percent) that had a change of 10 percentage points or more. However, most of these large changes did not affect a municipality's stress designation. Only 25 entities (2.6 percent of the total) had both a large score change and a designation change.

Local governments with smaller populations and lower overall budgets tend to be subject to larger score changes year to year, as relatively small dollar amounts can translate to large percentage changes. Of the ten largest increases in score, all but one were in towns with populations under 2,600, and only four of these had designation changes. The towns of Birdsall, Centerville, Mansfield and Pitcher all had score increases of 30 to nearly 40 percentage points without being designated in any level of fiscal stress.

However, a few entities with larger populations also figured among those with the largest percentage point changes. The largest of these, Ulster County, saw a decrease of nearly 30 percentage points. The City of Niagara Falls (see text box), and the towns of Wappinger, Mount Pleasant and Fishkill were also medium or large municipalities that saw particularly large drops in score.

Regardless of an entity's size, large swings in FSMS scores call for further analysis by local leaders, especially when a government is heading toward further fiscal stress.

### Top and Bottom Ten Largest Score Changes

Municipality	2010 Population	Percentage Point Score Change	Change in Designation
Town of Jasper	1,424	48.75	X
Town of Laurens	2,424	44.17	X
Town of Halcott	258	41.25	X
Town of Birdsall	221	37.92	
Town of Mansfield	808	37.92	
Town of Pitcher	803	37.92	
Town of Centerville	822	34.58	
Town of German Flatts	13,258	30.42	X
Town of Nichols	2,525	28.75	
Town of Middlefield	2,114	25.42	
Town of Norfolk	4,668	-28.33	
Town of Niagara	8,378	-28.33	
County of Ulster	182,493	-28.75	
Town of Wappinger	27,048	-31.25	
Town of Mount Pleasant	43,724	-37.92	X
Town of Ischua	859	-39.17	X
Town of Fishkill	22,107	-40.83	X
Town of Lyonsdale	1,227	-45.42	X
Town of Genesee Falls	438	-48.33	X
City of Niagara Falls	50,193	-60.83	X

The City of Niagara Falls recorded the largest year-over-year score change (61 percentage points) of any municipality, going from a FSMS score of 67.5 percent to 6.7 percent. The categories driving this shift from significant fiscal stress to no designation were an increase in fund balance, a better cash position, and a lower ratio of fixed costs to expenditures. In 2013, the City received \$89 million after the State reached an agreement with the Seneca Nation of Indians. This agreement settled a multiyear dispute over payments from casino operations, recognizing and reconfirming the exclusivity of Seneca Nation casino operations in western New York. It is a good example of a unique situation driving a dramatic score change

### Conclusion

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Local officials should pay attention to their municipality's actual score and its proximity to the various stress designations, as well as to how the government is moving along the stress continuum over time. In addition to acknowledging any changes, local leaders must also be able to articulate why change is occurring. This is especially true for those entities with the most significant score changes. Local leaders need to understand which components of the FSMS are driving the accumulation or loss of points and whether the change is due to a unique, temporary situation or one that is more systemic in nature. For this reason, it is also important to pay close attention to the score of each indicator individually, even when the overall score does not meet the threshold of a stress designation.

While the Fiscal Stress Monitoring System is playing a useful role in informing local and State officials as well as the general public about the financial issues facing New York's localities, it is important to remember that this is only the second year of its existence. Officials must be cautious about using this data exclusively and attempting to draw definitive conclusions, especially with respect to year-to-year trends, which cannot be accurately measured with only two years of data. Additional years of scoring, however, will produce trend data that will make the results of the system even more useful. In the future, the FSMS will allow interested parties to track stress condition trends and get a better sense of where an entity is headed, allowing local leaders to take an even more deliberate, long-term and strategic approach to managing the affairs of their local government.

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### Notes

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- <sup>1</sup> New York City is excluded from the FSMS. Since all the entities in this report operate on a calendar year basis, the report refers to 2012 and 2013 without noting "fiscal year ending" or "FYE" first.
- <sup>2</sup> As of August 29, 2014, 978 entities had reported data conclusive enough to determine a FSMS score. This is compared with 1,001 entities that had reported conclusive 2012 data as of November 2013.
- <sup>3</sup> These 35 entities (10 counties, 7 cities, 17 towns and 1 village) are in addition to the 15 non-calendar fiscal year villages that were designated in stress earlier this year, for a total of 50 local governments in a stress designation for all local fiscal years ending in 2013.
- <sup>4</sup> In FSMS, the definition of "short-term debt" includes revenue anticipation notes (RANs), tax anticipation notes (TANs), budget notes and deficiency notes. It does not include bond anticipation notes (BANs).
- <sup>5</sup> For more information on the Fiscal Stress Monitoring System, see the report and tools at:  
<http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm>.



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