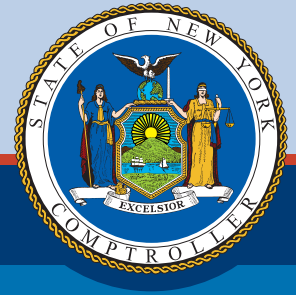


Office of the New York State Comptroller

Thomas P. DiNapoli • State Comptroller



Fiscal Stress Monitoring System

Frequently Asked Questions

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Fiscal Stress Monitoring System

Frequently Asked Questions

I. Establishing the Fiscal Stress Monitoring System

a. General

- **Why do you consider the Fiscal Stress Monitoring System to be an early detection system when it is based upon past annual report filings?**

In the first year the list is published, it will include local governments that are already experiencing some level of fiscal stress. However, the Office of the State Comptroller (OSC) believes that this list can be used to identify entities which are on the verge of entering fiscal stress. In particular, those entities which are classified as “susceptible to fiscal stress” will be able to re-evaluate their current circumstances and make decisions to avoid moving into a more severe fiscal condition. Additionally, this list is being published to inform the public of the financial condition of their local governments with the understanding that, while local officials are likely aware of the government’s fiscal condition, the residents may not be aware.

- **What is the definition of each level of fiscal stress? What is meant by the difference between the classifications?**

For the purposes of the Fiscal Stress Monitoring System, OSC has defined “fiscal stress” as the inability of an entity to generate enough revenues within the current fiscal period to meet its expenditures. Essentially the System assesses each entity’s budgetary solvency. The System places units into one of four categories:

- Significant Fiscal Stress – these entities are considered to be the most fiscally stressed.
- Moderate Fiscal Stress – these entities are fiscally stressed, but the level is less severe than for those in significant fiscal stress.
- Susceptible to Fiscal Stress – Entities exhibiting fiscal stress conditions, but less severe than those in moderate or significant fiscal stress.
- No Designation – these entities do not meet the established point thresholds of the Fiscal Stress Monitoring System for classification in one of the stress categories noted above. However, these entities may still be struggling with various aspects of fiscal stress. As such, the fiscal stress score should be considered in order to determine how far removed an entity is from the level of fiscal stress that would result in a classification.

It is important to note that changes in behavior, specific financial decisions made in a locality, or unforeseen external events can quickly change ongoing financial trends. These local factors can impact the financial health of a locality or school district suddenly, either for better or worse.

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Frequently Asked Questions

- **When will fiscal stress lists be made available?**

Fiscal stress lists will be published approximately six months after fiscal year-end. Actual release dates may change due to the data verification process.

- **What new reports will local governments and school districts have to file?**

There are no new reporting requirements necessary to support the System. We will utilize the elements of the annual financial reports (AUDs), which local governments already submit to OSC each year. For school districts, the System will utilize data which is filed in the New York State Education Department's ST-3 Report.

- **How does New York State's Fiscal Stress Monitoring System compare to others?**

In developing the Fiscal Stress Monitoring System, we relied heavily on existing industry standards and frameworks. We also reviewed the systems developed by other states, looked carefully at those that appeared to be working well, and then chose the best aspects for incorporation into New York's System. For this reason, we are confident that the New York State Fiscal Stress Monitoring System will serve as a model for excellence in the area of fiscal stress measurement nationwide. New York State's System has the following features:

1. It produces scores for individual financial indicators that can be rolled up into an overall fiscal stress score for each local government.
2. The overall fiscal stress score is weighted to account for the relative importance of different financial factors.
3. The overall weighted fiscal stress score allows for a ranking and comparison of local governments across the State.
4. The System separately scores fiscal factors and environmental factors to more clearly define points of stress in local communities. The environmental indicators are rolled up into an overall environmental score. However, the environmental score is NOT combined with the overall fiscal stress score and does NOT factor into fiscal stress designations.
5. Environmental score weightings vary by class of local government to reflect the unique challenges faced by each.

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Frequently Asked Questions

b. Municipalities

- **Why doesn't the Fiscal Stress Monitoring System include the Constitutional Tax Limit (CTL) for counties among the environmental indicators?**

OSC staff determined that while the CTL indicator could be applied to counties, a sales tax receipts indicator would be much more useful as an indicator of environmental fiscal stress.

- **Why doesn't the System consider the distribution of tax-exempt property within a local government?**

A definitive correlation between the level of tax-exempt property and the level of fiscal stress within a municipality could not be established; therefore, OSC concluded that including tax-exempt property as an indicator would not strengthen the System.

c. School Districts

- **Why aren't fixed costs included in the school district financial indicators?**

There are two components to fixed costs: debt payments and personal services. School district debt payments are often reimbursable through State aid, and therefore are not always indicative of a burden to the districts.

We also reviewed personal services for school districts and concluded that, while these expenditures do represent a significant portion of a school district's budgeted expenditures, there is not enough variance in personal services among districts to make this factor useful as a meaningful indicator of fiscal stress.

- **Why aren't State aid revenues included in the school district environmental indicators?**

State revenues for school districts may vary extensively from year to year due to the subsidies provided for different projects at schools and the various State grants that are available to schools. Due to the possibility of large changes in this funding from year to year, OSC did not feel State revenues would serve as a reliable environmental indicator for school districts. Additionally, because operating aid is highly need-based, initial testing revealed that this measure showed significant overlap with the free and reduced priced lunch indicator.

- **What are "fiscally dependent school districts" and how are they being treated in the System?**

Outside of New York City, there are four fiscally dependent school districts: Yonkers, Buffalo, Syracuse and Rochester. These districts do not have a separate authority to levy a property tax, and instead, are dependent on the city in which they are located for the local portion of their budget. These districts are not scored separately from their respective cities.

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Frequently Asked Questions

II. Indicators of Fiscal Stress

a. Financial Indicators

- **Why are the fund balance indicators weighted more heavily than the other financial indicators?**

Fund balance indicators are heavily weighted because they represent a government's ability to continue to maintain operations during difficult economic times. A local government might be struggling with several issues captured by the other financial indicators, but would still be able to maintain operations if it had maintained sufficient fund balance to absorb the negative effects.

- **Did OSC consider analyzing fund balance trends or declines over time?**

Yes. Several additional indicators were considered as potential measures of the trend in fund balance. However, the operating deficit indicator incorporates fund balance trends indirectly. Operating deficits result in a declining fund balance, which the system evaluates over the most recent three fiscal years.

- **Why aren't operating deficits more heavily weighted?**

Operating deficits may be caused by a number of different factors; if a government's fund balance is sufficient to cover these deficits, then they may not be problematic. Persistent or extensive deficits would be captured in the fund balance indicators to the extent that they deplete available reserves. Furthermore, local governments with high fund balances may deliberately plan operating deficits over several years in order to reduce fund balance.

- **During times of low interest rates, short-term borrowing may be a good financial management practice. Why is the use of short-term debt considered an indication of fiscal stress?**

This indicator is being used to identify entities which are using short-term debt to compensate for cash shortfalls. We appreciate that some local governments utilize short-term financing in an effective manner as part of their financial plans. This being the case, the System will not classify a municipality as fiscally stressed if it issues short-term debt and has no other areas of concern.

- **Why doesn't the system consider the Property Tax Cap as an indicator?**

While the tax cap may constrain a local government's ability to raise revenues, the tax cap itself does not work well as an indicator. If a local government is unable to raise sufficient funds to maintain operations, regardless of the reason, it will be reflected in the adopted indicators.

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b. Environmental Indicators

- **Why is the Sales Tax environmental indicator applied only to counties?**

The sales tax agreements between counties and other local governments vary extensively; OSC did not believe there was an equitable way to apply this indicator for all New York State local governments.

- **Will environmental indicators that use U.S. Census information be updated more frequently than every ten years?**

OSC will review census projections along with information already obtained from local governments and school districts to determine if census projections appear reasonable. Census estimates may be used if significant changes in the indicators are identified.

III. Interpreting the Results

- **How did you determine the point thresholds for the various levels of stress?**

The thresholds were set in order to ensure that all the governments listed in one of the three categories of stress were actually experiencing some level of fiscal strain, and that the fiscal stress designation was in fact warranted. We have relied heavily on the expertise of our regional office staff and field examiners, who are aware of the fiscal situation of the municipalities and could therefore serve as a secondary source to verify that the scoring and benchmarking approach was valid.

For local governments, the thresholds were set as follows: An entity with 45 to 54.9 percent of the total possible points is considered susceptible to fiscal stress. An entity with 55 percent to 64.9 percent is considered to be in moderate fiscal stress, and an entity with a score of 65 percent or more is considered to be in significant fiscal stress.

- **How do the environmental indicators affect the fiscal stress list?**

Environmental indicators recognize those difficulties local governments face which are primarily beyond the control of local leaders. The classification of a municipality as being fiscally stressed is based upon the financial indicators, while the additional annotations (#, ##, ###) reflecting environmental concerns provide additional insight into local conditions. These environmental indicators may also be used as leading indicators of potential future fiscal stress. Leading indicators evaluate conditions that may cause future fiscal stress (such as declining property values) for municipalities that currently are fiscally healthy.

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Frequently Asked Questions

- **My local government is cutting services and staff. Why isn't it considered fiscally stressed by this System?**

OSC is confident that the Fiscal Stress Monitoring System is a useful tool for recognizing municipalities that are experiencing fiscal stress. However, the criteria OSC utilizes are based upon each entity's distance from insolvency. Local governments may be facing financial hardships but, due to reductions in expenditures or enhanced revenues, these entities may appear to be fiscally healthy when the financial data alone are considered.

We also encourage consideration of environmental factors along with the financial indicators in order to achieve a more comprehensive understanding of local circumstances.

- **Why isn't my local government or school district listed as fiscally stressed?**

Local governments and school districts that are not currently on the list may be managing their financial resources effectively to navigate through troubled times, they may be controlling expenses and limiting services so as not to exceed their current revenues, or they may be facing difficult times ahead without yet reaching the threshold for designation as fiscally stressed. One should consider the fiscal stress score and the proximity of that score to the fiscal stress thresholds.

The environmental rating can help you assess if your local government or school district may be facing more financial difficulties in the future.

- **Why isn't my local government or school district on any of the lists?**

Your local government may have a different year end; and therefore the fiscal stress score will be available at a different time of year.

- All counties and towns have a December 31st fiscal year end.
- Most cities have a December 31st year end, with a few exceptions.
- Villages have a May 31st year end, with several exceptions.
- See Local Government Fiscal Year Ends <http://www.osc.state.ny.us/localgov/finreporting/deadlines.htm>

- **What does it mean if my local government is classified under "No Designation" but still has a negative environmental rating?**

The environmental rating identifies local governments and school districts that are currently operating in an environment that may lead them to face financial difficulties in the future. Most local officials are aware of the financial impact of environmental conditions and may be managing through difficult times by utilizing effective budgeting practices.

Fiscal Stress Monitoring System

Frequently Asked Questions

IV. What Next?

- **Once an entity is on the list, what happens next?**

OSC has developed the Fiscal Stress Monitoring System to inform local officials and citizens of the level of fiscal stress these entities are currently experiencing. With this information, residents and officials will be better prepared to engage in informed discussions and to take actions in a timely manner to improve their financial trends. OSC staff will be offering an accelerated risk assessment program for any entity requesting more direct and personalized assistance. In addition, OSC's fiscal stress website contains a number of new tools and resources.

- **What services may be provided to municipalities and school districts that are determined to be fiscally stressed?**

The Office of the State Comptroller will evaluate the needs of fiscally stressed municipalities and school districts and, in collaboration with local officials, will determine the most appropriate course of action. OSC audit staff may perform budget reviews or financial condition audits, provide technical assistance, or direct local officials to existing management tools and resources.

- **Will OSC provide fund balance benchmarks for local governments of similar sizes, or environmental conditions by category?**

No. OSC is not setting benchmarks for the amount of fund balance a municipality or school district should carry as part of the Fiscal Stress Monitoring System. The System does not prescribe the level of fund balance an entity should carry, but instead considers if specific fund balances are too low to maintain operations.

OSC encourages municipalities to maintain a reasonable amount of fund balance, considering the unique needs and circumstances of each municipality.

- **How can I submit questions regarding the Fiscal Stress Monitoring System?**

You may contact our office by calling toll free: 1-866-321-8503 or email to: AFRfile@osc.state.ny.us.



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