



Fiscal Stress Monitoring System

Municipalities: Fiscal Year 2019 Results; Fiscal Year 2020 Risks

The Office of the New York State Comptroller’s (OSC) Fiscal Stress Monitoring System (FSMS) calculates and publishes a fiscal stress score annually for each county, city, town, village and school district.¹ Scores are based on data reported to OSC and reflect each local government’s ability to maintain budgetary solvency, with higher scores reflecting greater risk of stress.²

This snapshot highlights the results for counties, cities, towns and villages that reported for local fiscal years ending (FYE) 2019. These scores, therefore, provide a baseline for local government fiscal preparedness in the period just prior to the pandemic. To provide additional context for these results, this snapshot also examines some of the biggest local government fiscal stress risk factors arising from the COVID-19 crisis.

For more information about the FSMS, including lists of entities in stress and entities that did not file with OSC, see www.osc.state.ny.us/local-government/fiscal-monitoring.

Fiscal Stress Results for 2019

- OSC found 31 municipalities to be in some level of stress in FYE 2019 – amounting to 2.2 percent of the 1,412 that filed their annual financial data in time to receive a score, slightly less than the 2.4 percent in stress for FYE 2018.
- Counties and cities are much more likely to be in a level of stress than towns or villages.

FIGURE 1
Fiscal Stress Designation by Class, Fiscal Years Ending (FYE) 2019

Stress Designation	Counties	Cities	Towns	Villages	Total
Significant Fiscal Stress	2	4	0	0	6
Moderate Fiscal Stress	0	2	7	2	11
Susceptible to Fiscal Stress	5	0	4	5	14
Total in Stress	7	6	11	7	31
No Designation	48	46	823	464	1,381
Total Filed and Scored	55	52	834	471	1,412
Percentage of Scored Entities In Stress	12.7%	11.5%	1.3%	1.5%	2.2%
Not Filed or Inconclusive	2	9	99	64	174
Total All Entities	57	61	933	535	1,586

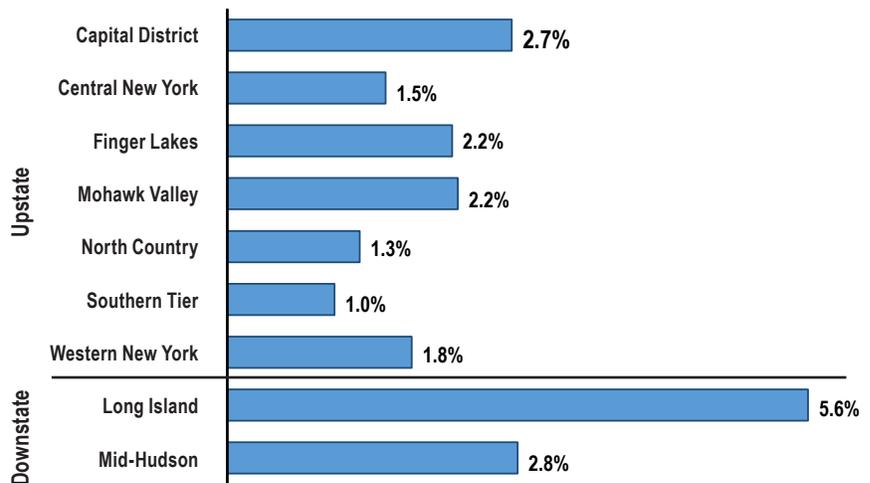
Source: Office of the State Comptroller (OSC).

Note: Excludes New York City; includes all other calendar and non-calendar fiscal year municipalities.

Regional Impact

- Downstate municipalities, especially those on Long Island, were more likely to be in stress. However, even this region had only 6 stressed local governments out of 108 in total.
- Upstate, the Capital District had the greatest concentration of stress (4 out of 147 municipalities).

FIGURE 2
Municipalities in Fiscal Stress Category, by Region, FYE 2019



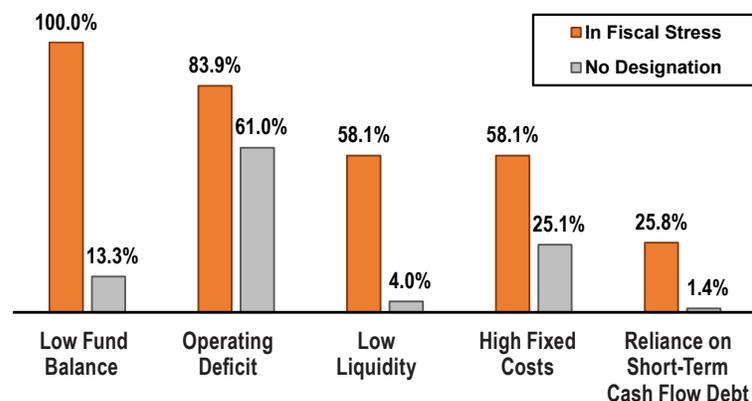
Source: OSC.

Note: Excludes New York City; includes all other calendar and non-calendar fiscal year municipalities.

Indicators

- The one thing all stressed local governments have in common is low fund balance, which reduces their capacity to deal with revenue shortfalls and expenditure overruns.
- Local governments that run operating deficits may or may not be heading for stress – but almost all governments in stress have been running repeated deficits.
- Low liquidity and a sudden or increased reliance on short-term cash flow debt (often the result of low liquidity) are also signs of structural budgetary imbalance.
- High fixed costs – especially high debt service payments – make it much more difficult for local governments to reduce spending if revenues come in lower than expected, increasing the likelihood of budgetary imbalance.

FIGURE 3
Fiscal Stress Indicator Prevalence by Designation, FYE 2019



Source: OSC.

Note: Excludes New York City; includes all other calendar and non-calendar fiscal year municipalities.

Environmental Stress in 2019

Fiscal stress is only part of the picture. Many local governments have environmental challenges that increase their chances of fiscal stress:

- In FYE 2019, 294 municipalities (21 percent of those scored) were designated in an environmental stress category, including over half of cities and 38 percent of counties.
- Environmental risk factors such as high poverty rates, depressed home values, declining household incomes and high unemployment rates are likely to become more prevalent in a recession such as the one that has occurred in 2020.³

FIGURE 4
Environmental Stress Designation by Class, FYE 2019

Stress Designation	Counties	Cities	Towns	Villages	Total
Significant Stress	0	8	4	19	31
Moderate Stress	2	9	36	28	75
Susceptible to Stress	19	13	98	58	188
Total in Stress	21	30	138	105	294
No Designation	34	22	696	366	1,118
Total Filed and Scored	55	52	834	471	1,412
Percentage of Scored Entities in Stress	38.2%	57.7%	16.5%	22.3%	20.8%
Not Filed or Inconclusive	2	9	99	64	174
Total All Entities	57	61	933	535	1,586

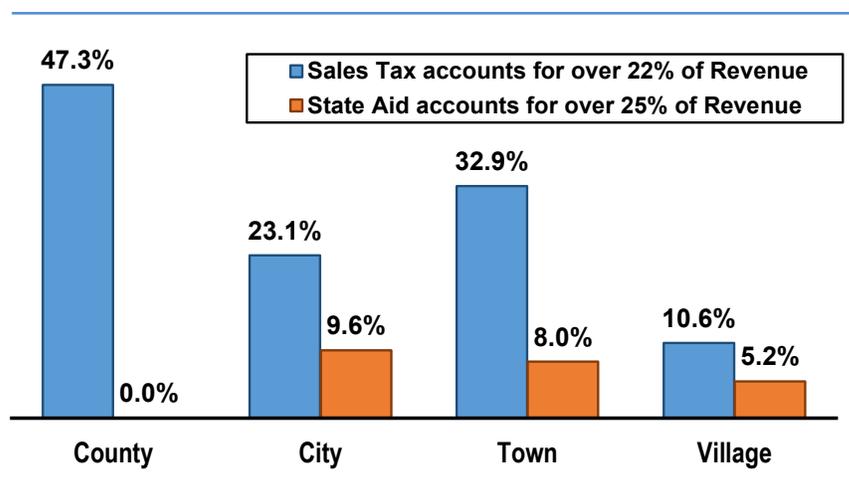
Source: Office of the State Comptroller (OSC).
Note: Excludes New York City; includes all other calendar and non-calendar fiscal year municipalities.

Fiscal Stress Risks in 2020 and Beyond

The COVID-19 pandemic that began in early 2020 has already had a very significant impact on local government finances. Some of the fiscal challenges that local governments are facing that could impact the components of their Fiscal Stress Monitoring System scores include:

- A sharp decline in sales tax revenues.** Local government sales tax collections declined by 16.9 percent for March through August 2020 compared to the year before. For August alone, this decline was nearly 8 percent.⁴ The State has estimated that its sales tax revenues will decline by 21.7 percent in State Fiscal Year 2020-21 and will not return to SFY 2019-20 levels even by SFY 2023-24.⁵

FIGURE 5
Percentage of Municipalities with Elevated Risk from Revenue Shortfalls, By Class, FYE 2019



Source: OSC.
Note: Excludes New York City; includes all other calendar and non-calendar fiscal year municipalities.

Sales tax accounted for 22 percent of total municipal revenue in FYE 2019. For local governments that rely heavily on sales tax, a substantial decline can cause serious budgetary problems. The 366 municipalities with above-average reliance (they derive over 22 percent of their revenue from sales tax) include 47 percent of counties, 23 percent of cities, 33 percent of towns and 11 percent of villages.

- **Significant withholdings from State aid to local government.** The State recently withheld 20 percent from certain State aid payments to local governments. Through July 2020, this withholding amounted to \$1.9 billion. Some or all of these withheld payments may be converted to permanent reductions, depending on federal actions to assist state and local governments. The State financial plan anticipates that there could be local aid reductions of over \$8 billion through the end of the SFY 2020-21.⁶

State aid made up 12 percent of municipalities' revenue in FYE 2019, so the risks from aid reductions or delays are generally more limited than from sales tax declines. However, 98 municipalities (10 percent of cities, 8 percent of towns and 5 percent of villages) receive over 25 percent of their revenue from State aid.

- **Existing stress, especially low fund balance.** Local governments that have low fund balance, which include all of those with a fiscal stress designation and 13.3 percent of those in the no designation category, are in a weaker position to deal with the risk to their sales tax and State aid revenues. In general, a local government that was struggling with any of the indicators in FYE 2019 is likely to be especially poorly positioned to face the extraordinary challenges of 2020.

Each local government's particular mix of revenue bases and expenditure responsibilities may add or detract from the overall propensity toward stress, as will the prevalence of, and response to, COVID-19 in the future in any given area. Whatever the future holds, however, it seems likely that the resulting local government fiscal challenges will last for years.⁷

In this context, OSC encourages local officials to closely monitor their financial condition in the current budget cycle, even if their fiscal stress score for 2019 was low. OSC's self-assessment tool allows local officials to calculate fiscal stress scores based on current and future financial assumptions and can therefore be a powerful tool in fiscal stress climates such as this. OSC has also created a financial toolkit that contains guidance, tools, training and reports that can assist local officials dealing with financial challenges.

OSC's FSMS Self-Assessment Tool:

www1.osc.state.ny.us/localgov/fiscalmonitoring/fsms.cfm

OSC's Financial Toolkit for Local Officials in 2020 and Beyond:

www.osc.state.ny.us/local-government/financial-toolkit

- ¹ The FSMS excludes New York City. For more information on the FSMS indicators and scoring, see OSC, *Fiscal Stress Monitoring System Manual*, November 2017, available at: www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-12/system-manual.pdf.
- ² In this report, the years cited refer to the fiscal year ending in that year, which may include a part of the previous calendar year. This report covers all counties, towns, villages and the 61 cities not including New York City, regardless of whether their fiscal year is the same as the calendar year. Scores for non-calendar year municipalities were released in March 2020. The FSMS scores school districts separately. For more information on the FSMS, see OSC's FSMS webpage: www.osc.state.ny.us/local-government/fiscal-monitoring.
- ³ For a more comprehensive description of FSMS environmental indicators, see *Fiscal Stress Monitoring System Manual*, pp. 4-5 and Appendix C.
- ⁴ Office of the New York State Comptroller (OSC), *Press Release*, "DiNapoli: Local Sales Tax Collections Down 7.8 Percent in August," September 17, 2020.
- ⁵ DOB, *FY 2021: First Quarterly Update*, p. 83,
- ⁶ DOB, *FY 2021: First Quarterly Update*, pp. 17-18.
- ⁷ In the New York State Division of the Budget (DOB), *FY 2021: First Quarterly Update*, it is projected that the impact on State receipts will persist through the four-year period of the financial projection. (See p. 8). www.budget.ny.gov/pubs/archive/fy21/enac/fy21-fp-q1.pdf



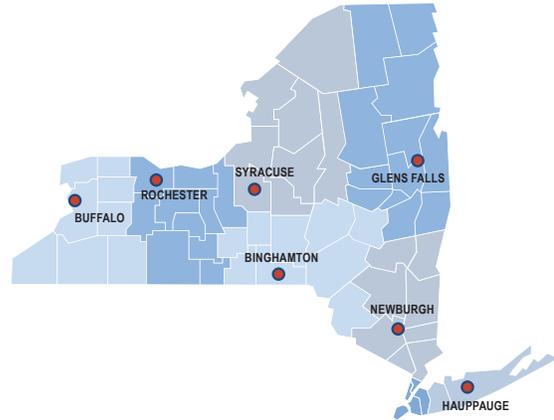
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