Fiscal Stress Monitoring System

Overview and Findings

Presented by:
Thomas Plowinske, Manager, Local Official Training Unit
Division of Local Government and School Accountability

Office of the State Comptroller
Thomas P. DiNapoli

Andrew A. SanFilippo
Executive Deputy Comptroller
State & Local Government Accountability

Gabriel F. Deyo
Deputy Comptroller
Local Government & School Accountability
Fiscal Stress Monitoring System

Roadmap

Overview of the System
- What? Why? How?
  - Concept, impetus, design

Score Release Process
- What to expect
  - Being prepared

Findings
- Local Governments (year two)
- Year 1 vs. Year 2

Resources
Fiscal Stress Monitoring System

- Early warning
- Objective
- Utilize existing data
- Industry standards
- Public-facing
- Long-term
  - comparable over time
  - consistently applied
Fiscal Stress Monitoring System

- Troubling trends
  - Revenues, expenditures, balance sheets
- Growing public demand/interest/concern
- Need for long-term planning
- Transparency
- Critical conversations
System Design

- Internal and external resources
  - In-house expertise
  - ICMA- International City/County Management Association
  - Research of existing programs in other states
- Manageable number of indicators
  - Weighted
  - Individually scored
- Multi-disciplinary team approach
- Public comment period
System Design

- System is specific in purpose
  - Fewer/ More meaningful Indicators
- Fiscal stress continuum
  - Stress ——— Health
- Full disclosure – all data released
- Value, over time
- Considers fiscal AND environmental factors – separate and distinct
System Design

- **Fiscal Indicators**
  - Evaluate budgetary solvency—the ability to generate enough revenue to meet expenses

- **Environmental Indicators**
  - Capture trends that influence revenue-raising capability and demands for service but that are largely outside local officials’ control.
Fiscal Indicators

- Year-end fund balances (50%)
  - (2) unassigned and total fund balance
- Operating deficit/surplus (10%)
  - (1) History/ trends
- Cash position (20%)
  - (2) Liquidity and % of Monthly expenditures - last FY only
- Use of short-term debt for cash flow (10%)
  - (2) Amount and frequency
- Fixed Costs (10%)
  - (2) Personal Services & employment benefits as well as Debt Service as a % of revenues
<table>
<thead>
<tr>
<th>Percentage of Total Points</th>
<th>Classification of Fiscal Stress</th>
</tr>
</thead>
<tbody>
<tr>
<td>65% - 100%</td>
<td>Significant Fiscal Stress</td>
</tr>
<tr>
<td>55% - 64.9%</td>
<td>Moderate Fiscal Stress</td>
</tr>
<tr>
<td>45% - 54.9%</td>
<td>Susceptible to Fiscal Stress</td>
</tr>
<tr>
<td>0% - 44.9%</td>
<td>No Designation</td>
</tr>
</tbody>
</table>
Environmental Indicators
Cities, Villages

- Change in population (15%)
- Change in median age of population (10%)
- Child poverty rate (15%)
- Change in property value, per capita (30%)
- Change in unemployment rate, change in total jobs (in county) (10%)
- Reliance on state/federal aid (10%)
- Constitutional tax limit exhausted (10%)

Maximum of 27 points
Environmental Indicators

Towns

- Change in population (20%)
- Change in median age of population (10%)
- Child poverty rate (20%)
- Change in property value, per capita (30%)
- Change in unemployment rate, change in total jobs (in county) (10%)
- Reliance on state/federal aid (10%)

Maximum of 24 points
Environmental Indicators

Counties

- Change in population (15%)
- Change in median age of population (10%)
- Child poverty rate (10%)
- Change in property value, per capita (25%)
- Change in unemployment rate, change in total jobs (in county) (10%)
- Reliance on state/federal aid (10%)
- Change in Local Sales Tax (20%)

Maximum of 27 points
System Scoring

SUMMARY

- Fiscal handled separately from environmental
- Multiple calculations per indicator
- 29 & 27 (or 24) point scale
- Weighted scoring
- Accumulation of total points drives classifications
- Thorough screening process
Score Release

Process
External Communication

- Next release will be in the fall of 2015
  - All calendar year units - for FYE 2014
- All units – whether in a stress category or not, are notified of their final score (via email) prior to publication of the lists
- No surprises approach – communication throughout process is key
  - Coordination with Agency’s Intergovernmental Affairs team
External Communication (cont.)

- Notifications
  - Timing, manner, recipients
  - Letter process
    - Reminder – February (reminders)
    - Letter 1 - After preliminary Review
    - Letter 2 – Prior to FSMS scores released
  - Providing access to detailed information
  - Secure link provided just prior to release
  - No surprises
Key Takeaways
Key Takeaways

- Two years...not yet a trend... soon starting year 3
- Focus likely to be on major score changes (20 pts or more)
- Focus will also be on places that moved into different classifications
- Know your details and be prepared to speak to them
Key Takeaways

- Don’t forget about the environmental factors
- System is not intended to be punitive
- OSC is NOT assessing district management
- Timing - situation may have changed
- Communicate within your own organization
- Utilize our website resources and encourage others to do so
Preliminary Findings

Common Themes
2013 Findings – 12/31/FYE

- Calendar Year End local governments: 10 in significant, 8 in moderate and 17 susceptible
  - Towns: Significant- 2, Moderate- 4, Susceptible- 11
  - Counties: Significant- 5, Moderate- 2, Susceptible- 3
  - Cities: Significant- 2, Moderate- 2, Susceptible- 3
  - Village: Significant- 1
2013 Findings (cont.)

Comparison of Fiscal Stress Categories in Local Governments, 2013

- Low Fund Balance: 49.9% Fiscally Stressed, 50.1% No Designation
- Operating Deficit: 71.2% Fiscally Stressed, 28.8% No Designation
- Low Liquidity: 4.0% Fiscally Stressed, 96.0% No Designation
- High Short-Term Debt: 1.6% Fiscally Stressed, 98.4% No Designation
- High Fixed Costs: 18.3% Fiscally Stressed, 81.7% No Designation

No Designation: 97.1% of Local Governments
Fiscally Stressed: 22.9% of Local Governments
2013 Findings (cont.)

Comparison of Selected Environmental Stress Indicators in Local Governments, 2013

- Decrease in Total Jobs in County: 31.4% (No Designation), 43.6% (Fiscally Stressed)
- Population Decline: 44.2%
- Loss in Property Value: 40.0%
- High Unemployment Rate: 42.9%
- Decrease in State and Federal Aid: 45.7%
- Increase in Child Poverty Rate: 57.3%

Legend:
- Green: No Designation
- Blue: Fiscally Stressed
### 2012 vs. 2013 Findings

<table>
<thead>
<tr>
<th>Stress Designation</th>
<th>Current Fiscal Score (A)</th>
<th>Previous Fiscal Score (B)</th>
<th>Percentage Point Change (A-B)</th>
<th>Environmental Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant</td>
<td>74.2%</td>
<td>25.4%</td>
<td>48.8%</td>
<td>21.7%</td>
</tr>
<tr>
<td>Significant</td>
<td>71.7%</td>
<td>41.3%</td>
<td>30.4%</td>
<td>39.2%</td>
</tr>
<tr>
<td>Moderate</td>
<td>62.5%</td>
<td>65.8%</td>
<td>-3.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Moderate</td>
<td>57.5%</td>
<td>44.6%</td>
<td>12.9%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Moderate</td>
<td>57.5%</td>
<td>47.5%</td>
<td>10.0%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Moderate</td>
<td>55.8%</td>
<td>36.7%</td>
<td>19.1%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>54.2%</td>
<td>12.9%</td>
<td>41.3%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>54.2%</td>
<td>62.5%</td>
<td>-8.3%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>54.2%</td>
<td>47.5%</td>
<td>6.7%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>54.2%</td>
<td>50.4%</td>
<td>3.8%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>50.8%</td>
<td>64.2%</td>
<td>-13.4%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>50.8%</td>
<td>41.3%</td>
<td>9.5%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>50.8%</td>
<td>41.3%</td>
<td>9.5%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>50.8%</td>
<td>44.2%</td>
<td>6.6%</td>
<td>31.7%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>47.5%</td>
<td>32.1%</td>
<td>15.4%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>47.5%</td>
<td>3.3%</td>
<td>44.2%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Susceptible</td>
<td>47.5%</td>
<td>35.0%</td>
<td>12.5%</td>
<td>24.2%</td>
</tr>
</tbody>
</table>
2012 vs. 2013 Findings (cont.)

- 2 Towns went from No Designation in 2012 to Significant in 2013
- 2 Towns went from No Designation in 2012 to Moderate in 2013
- 7 Towns went from No Designation in 2012 to Susceptible in 2013
- 2 Towns went from Significant in 2012 to No Designation in 2013
- 1 Town went from Moderate in 2012 to No Designation in 2013
Common Themes

- Change in Operating Deficit - #1 indicator associated with a change in score.
- Change in Fund Balance was #2 indicator associated with a change in score.
- #1 contributor to change in designation was change in liquidity.
- 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.
2013 Findings – Non-Calendar Villages

- FYE 2013 villages: 4 in significant, 4 in moderate and 7 susceptible
## Villages by Fiscal Stress Designation

<table>
<thead>
<tr>
<th>Fiscal Stress Designation</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Villages in Fiscal Stress</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant Fiscal Stress</td>
<td>4</td>
<td>0.7%</td>
</tr>
<tr>
<td>Moderate Fiscal Stress</td>
<td>4</td>
<td>0.7%</td>
</tr>
<tr>
<td>Susceptible to Fiscal Stress</td>
<td>7</td>
<td>1.3%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>15</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Other Villages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No Designation</td>
<td>471</td>
<td>87.4%</td>
</tr>
<tr>
<td>Inconclusive</td>
<td>3</td>
<td>0.6%</td>
</tr>
<tr>
<td>Not Filed</td>
<td>50</td>
<td>9.3%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>524</td>
<td>97.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>539</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: OSC.
Common Themes

Villages in a Fiscal Stress Category, 2013

- Capital District: 0
- Central New York: 3
- Long Island: 7
- Mid-Hudson Region: 4
- Mohawk Valley: 1
- North Country: 0
- Southern Tier: 0
- Western New York: 0
Villages with Signs of Fiscal Stress in 2014 by Indicator Category

- **Low Fund Balance**: 100% Fiscally Stressed, 54% No Designation
- **Operating Deficits**: 96% Fiscally Stressed, 64% No Designation
- **Low Liquidity**: 74% Fiscally Stressed, 3% No Designation
- **Short-Term Debt**: 70% Fiscally Stressed, 47% No Designation
- **Fixed Costs**:

Source: OSC.
## Common Themes

### Villages with Signs of Environmental Stress in 2014 by Indicator Category

<table>
<thead>
<tr>
<th>Indicator Category</th>
<th>Fiscally Stressed</th>
<th>No Designation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low or Declining Property Values</td>
<td>68%</td>
<td>51%</td>
</tr>
<tr>
<td>High Child Poverty</td>
<td>64%</td>
<td>54%</td>
</tr>
<tr>
<td>Shrinking Employment Base</td>
<td>41%</td>
<td>51%</td>
</tr>
<tr>
<td>Declining Population</td>
<td>36%</td>
<td>57%</td>
</tr>
<tr>
<td>Aging Population</td>
<td>23%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: OSC.
Resources
Other Resources

- Local Government Management Guides:
  - Multiyear Financial Planning
  - Multiyear Capital Planning
  - Cash Management Technology
  - Fiscal Oversight Responsibilities of the Governing Board
  - Financial Condition Analysis
  - Understanding the Budget Process
Other Resources (cont.)

- On-line resources:
  - Self Assessment Tool
  - Capital Planning Tutorial
  - Multiyear Planning Tutorial

- Training:
  - Basic/Advanced accounting schools
  - Webinars
  - Conferences
  - Special Requests- localtraining@osc.state.ny.us
QUESTIONS?

Division of Local Government and School Accountability
localtraining@osc.state.ny.us