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LOCAL GOVERNMENT ISSUES IN FOCUS

Analysis of Fiscal Stress in New York State's Cities

"Many of the State's cities have faced declining population, eroding tax bases and increasing expenditure demands."

"In some of the most severely affected cities, fiscal stress is evident in almost every indicator examined."

Summary of Findings

- Difficult financial conditions in cities are closely linked to demographic trends. In New York State, decades of demographic and economic decline have taken a fiscal toll—as cities lose population and socioeconomic conditions change, their resource capacity and tax bases can decline at the same time expenditure needs for social services increase, leading to growing fiscal pressure.

- This research brief measures fiscal stress in cities and includes an overall fiscal profile (page 16) of each city in the State (except New York City). Of the 61 cities examined, 13 exhibited one or more indicators of severe fiscal stress. The most severely affected cities exhibited stress across multiple factors. Many cities appear to be on the verge of more widespread fiscal difficulties.

- Cities which have lost population showed the highest levels of fiscal stress across a range of indicators, while those cities gaining population (which also tend to have low levels of socioeconomic stress) tend to have a more favorable fiscal outlook.

- Fiscal conditions in the Big Four Cities (Buffalo, Rochester, Syracuse and Yonkers) are of particular concern—with each facing stress across multiple areas of measurement.

- In recognition of urban fiscal problems, last year's State budget increased unrestricted aid to cities (revenue sharing) under the Aid and Incentives to Municipalities (AIM) program: all cities received a 12.75 percent increase. This year, the 2006-07 Executive Budget proposal would increase aid by 11 percent for most cities, while those with higher per capita property values would receive smaller increases.

- From 2000 to 2004, city expenditures increased by 19.5 percent (roughly twice the rate of inflation) while revenues grew more slowly (18.4 percent). Property taxes are coming under greater pressure, more cities are operating dangerously close to their constitutional tax limits, and some face burdensome levels of debt and diminished reserves.

Introduction

For decades, most of New York State's cities have experienced gradual demographic, economic and fiscal decline—a trend that has been evident since the 1950s and was most severe in the 1970s. As population has declined, so have supporting tax bases, and the remaining populace now includes greater concentrations of poverty. Financial conditions are now extremely poor in many of these once-flourishing cities.

The current fiscal condition of cities is very much a result of the long-term demographic and economic decline that has occurred over the past decades and these trends continue to affect cities. Nationwide, state officials report that more cities are experiencing fiscal stress, and because of this, the states' roles in forecasting, mitigating and averting local government fiscal crises have been expanding.[1]

This report is the second issue brief focusing on conditions among New York's cities. The first brief provided a detailed description of the demographic and socioeconomic trends affecting cities, while this report examines the particular components of urban fiscal stress with the intent of developing a model to help explain fiscal stress in local governments.

Defining and Measuring Fiscal Stress

Fiscal stress is a judgment about financial condition—it generally means that a community is having a difficult time financing its operations, and is experiencing growing budgetary problems. In contrast, a fiscally healthy municipality is able to finance services on an ongoing basis—meaning that the municipality can endure short-run financial pressures (such as revenue shortfalls or unanticipated expenditures), while maintaining adequate service levels. Maintaining sound financial condition requires local officials to plan for the future and adjust to long-term socioeconomic and demographic changes and the economic impact of the business cycle.

There is no single indicator that fully describes the fiscal situation of a municipality. In order to assess financial condition, a comprehensive approach is required in which several measures are considered along with other contextual information.

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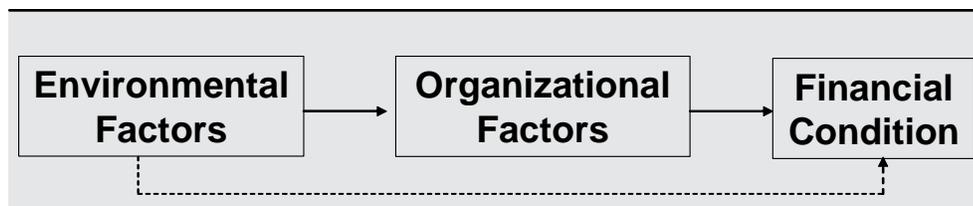
[1] Beth Walter Honadle, "The State's Role in U.S. Local Government Fiscal Crises: A Theoretical Model and Results of a National Survey," *International Journal of Public Administration*, 2003, 1431-1472.

Financial condition is a function of both environmental factors as well as organizational responses at the local level.[2] For example, a declining property tax base is a negative environmental trend and the ways in which local officials respond to the declining property tax base (by cutting services, increasing tax rates, or engaging in economic development) affects the financial condition of the municipality.

Environmental factors include measures of community needs and resources such as population, property value and poverty; intergovernmental constraints such as tax and debt limits; and economic factors such as inflation, personal income and employment. These environmental indicators often provide the best "early warning" of future fiscal stress.

Organizational factors reflect the intervention of local officials through management practices and legislative policies in response to their changing environments. While sound budgeting and management practices and policies can help to "protect" the financial condition of local governments, these factors cannot always avert fiscal stress—especially when negative environmental trends are severe.

Expenditure and Revenue per Capita—Reflecting a Diversity of Needs

Changes in revenues and expenditures are key fiscal indicators.[5] Underlying revenue growth is generally a sign of fiscal strength, and is an indicator of the ability of the local economy to support municipal operations. However, there are many reasons why revenues change. They

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Fiscal Stress: Approaches to Measurement

Rating agency judgments provide an example of a comprehensive approach to measuring fiscal stress. While these ratings reflect the willingness and ability of local governments to repay debt, they also provide strong indications of the fiscal health of local governments. When rating general obligation debt, for example, analysts examine data relating to four basic analytic factors: the economy, financial performance and flexibility, debt burden and administration.[3]

Fiscal stress can also be measured with more limited groups of indicators that are more easily monitored at the local level. Depending on resource availability and need, it is recommended that local administrators balance the use of complex comprehensive information against more manageable data sets which can reflect fiscal health or stress.[4]

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[2] The model on which this analysis is based is taken from "Evaluating Financial Condition: A Handbook for Local Government," The International City/County Management Association, 2003.

[3] "Standard & Poors: Public Finance Criteria," Standard & Poors.

[4] See for example, Ken W. Brown, "The 10-Point Test of Financial Condition: Toward an Easy-to-Use Assessment Tool for Smaller Cities," *Government Finance Review*, 1993, 21-26.

[5] The financial data used in this report was obtained from annual financial reports filed by cities. Data elements presented in this analysis represent a combination of relevant account codes from these reports. It is important to note that the extent to which municipalities vary in their use of specific codes will affect the outcomes shown in this report.

may fluctuate either as a result of tax rate changes or changes in the tax base (e.g., property values or taxable sales). Revenue per capita may increase while total revenue decreases due to population loss—a particular problem for many upstate cities. Population decreases have meant a greater fiscal burden for those remaining in cities. In addition, expenditure trends can be analyzed to see if a "structural balance" exists between revenue and spending patterns.

On average, per capita city expenditures increased by 20 percent from 2000 to 2004 — roughly twice the rate of inflation.[6] Revenues per capita grew more slowly (18 percent) yet still outpaced inflation.

In the accompanying table, cities are arrayed according to the extent to which

> ### *Factor Analysis*
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> Factor analysis is a statistical technique often used to reduce a large set of data into a smaller set of distinct *factors*. This smaller set of factors contains most of the information found in the larger dataset and the assumption is that variables are likely to be reflecting the same underlying constructs if they pattern themselves in similar ways.
>
> While factors are subject to interpretation, they can serve as a useful way to reduce statistical variables down to a more manageable set of indicators. Factors were used in this study as the basis for grouping indicators and describing the fiscal performance of cities relative to each other.
>
> To develop a fiscal profile for each city, factor analysis was used to develop a grouping method to organize a larger set of fiscal indicators. According to the results, 76 percent of variability in the data can be explained using a smaller set of factors. These factors are spending level, structural balance, revenue stress, debt and fixed costs. While spending level reflects the service demands on a municipality, the other four fiscal factors represent sources of fiscal stress for local governments. The most severely stressed localities face difficulties in more than one area. Each of the fiscal stress factors is examined in greater depth using their associated indicators in the subsequent sections of the report. The final section of the report combines these factors to produce an overall fiscal profile for each city.

expenditures exceeded revenues on a per capita basis.[7] As shown, some cities have experienced rapid growth in expenditures, and in many cases these increases were not offset with commensurate revenue increases. These trends may be suggestive of a worsening fiscal situation. In fact, in 28 cities, per capita expenditure growth exceeded per capita revenue growth in percentage terms and, of these, 22 were found to have a general fund operating deficit in 2004. Should this trend continue, the number of cities facing structural imbalance is likely to increase.

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[6] Inflation increased by 9.7 percent from 2000 to 2004, as measured by the CPI-U (all items and all urban consumers) supplied by the Bureau of Labor Statistics. CPI data can be obtained from the following website: http://stats.bls.gov/cpi/.

[7] For this analysis, per capita figures were computed using the Census estimates of population; U.S. Census Bureau, 2004 Population Estimates.

General Fund Revenue and Expenditure Per Capita (2000 to 2004)

	General Fund Revenue			General Fund Expenditure			Per Capita Difference
	2000	2004	Change	2000	2004	Change	
	$/Capita	$/Capita	%	$/Capita	$/Capita	%	Rev %Ch - Exp %Ch
Hudson	$770	$864	12.3%	$689	$975	41.5%	-29.2%
Dunkirk	$1,002	$1,020	1.8%	$844	$1,096	29.8%	-28.1%
Salamanca	$640	$624	-2.6%	$563	$665	18.1%	-20.7%
Oswego	$1,896	$1,372	-27.6%	$1,770	$1,602	-9.5%	-18.1%
Olean	$791	$808	2.2%	$751	$873	16.2%	-14.0%
Syracuse	$993	$1,088	9.6%	$923	$1,137	23.1%	-13.5%
Rensselaer	$839	$907	8.1%	$763	$923	21.0%	-12.9%
Saratoga Springs	$830	$1,001	20.5%	$771	$1,028	33.4%	-12.9%
Rome	$908	$952	4.8%	$854	$997	16.8%	-12.0%
Hornell	$826	$1,042	26.1%	$792	$1,076	35.8%	-9.7%
Newburgh	$862	$1,057	22.6%	$841	$1,112	32.2%	-9.6%
Lackawanna	$829	$958	15.5%	$811	$1,007	24.2%	-8.7%
Tonawanda	$819	$956	16.8%	$812	$1,002	23.4%	-6.6%
Utica	$674	$776	15.1%	$658	$801	21.6%	-6.5%
Oneida	$784	$845	7.8%	$741	$840	13.4%	-5.5%
Mount Vernon	$854	$1,083	26.8%	$819	$1,080	31.9%	-5.1%
Canandaigua	$789	$922	16.9%	$743	$903	21.6%	-4.7%
Binghamton	$749	$869	15.9%	$753	$905	20.1%	-4.2%
White Plains	$1,493	$1,643	10.1%	$1,488	$1,700	14.2%	-4.2%
Oneonta	$716	$864	20.6%	$654	$816	24.7%	-4.1%
Geneva	$732	$855	16.9%	$744	$899	20.8%	-4.0%
Port Jervis	$702	$872	24.1%	$692	$886	28.0%	-3.9%
Johnstown	$847	$901	6.3%	$803	$879	9.5%	-3.1%
Lockport	$726	$834	14.9%	$710	$837	17.9%	-3.0%
Niagara Falls	$992	$1,183	19.2%	$1,035	$1,255	21.3%	-2.0%
Middletown	$701	$886	26.4%	$680	$869	27.9%	-1.5%
Long Beach	$1,103	$1,390	26.0%	$1,116	$1,417	27.0%	-0.9%
Yonkers	$1,092	$1,389	27.2%	$1,131	$1,442	27.4%	-0.2%
Amsterdam	$557	$631	13.3%	$535	$606	13.3%	0.0%
Little Falls	$761	$917	20.5%	$787	$948	20.4%	0.1%
Batavia	$716	$773	8.1%	$729	$786	7.8%	0.2%
Norwich	$667	$756	13.4%	$683	$772	13.0%	0.4%
Corning	$849	$890	4.9%	$824	$857	3.9%	1.0%
Buffalo	$915	$1,006	10.0%	$903	$981	8.6%	1.4%
Troy	$921	$1,064	15.6%	$909	$1,029	13.2%	2.4%
Fulton	$952	$1,226	28.8%	$923	$1,164	26.2%	2.6%
Rochester	$1,085	$1,279	17.9%	$1,108	$1,276	15.2%	2.7%
Rye	$1,171	$1,643	40.2%	$1,113	$1,528	37.3%	3.0%
Cohoes	$804	$1,030	28.1%	$774	$966	24.9%	3.2%
Poughkeepsie	$943	$1,182	25.3%	$932	$1,138	22.1%	3.3%
Ithaca	$990	$1,106	11.8%	$1,016	$1,102	8.5%	3.3%
Albany	$1,100	$1,547	40.7%	$1,096	$1,500	36.8%	3.9%
North Tonawanda	$720	$808	12.2%	$739	$801	8.4%	3.9%
Elmira	$712	$821	15.3%	$747	$832	11.4%	3.9%
Kingston	$1,056	$1,302	23.3%	$1,059	$1,262	19.1%	4.2%
Mechanicville	$658	$712	8.2%	$656	$680	3.5%	4.7%
Beacon	$708	$953	34.6%	$683	$885	29.6%	5.0%
Plattsburgh	$714	$886	24.1%	$744	$882	18.6%	5.5%
Auburn	$742	$891	20.1%	$772	$884	14.5%	5.6%
Glen Cove	$848	$1,017	20.0%	$870	$993	14.1%	5.8%
Watervliet	$646	$786	21.6%	$645	$738	14.5%	7.1%
Jamestown	$707	$838	18.5%	$739	$823	11.3%	7.2%
Sherrill	$521	$634	21.6%	$564	$637	12.9%	8.7%
Peekskill	$932	$1,321	41.8%	$915	$1,216	32.9%	8.9%
Gloversville	$646	$762	18.0%	$677	$736	8.7%	9.3%
Cortland	$625	$762	22.0%	$641	$718	12.0%	10.0%
Glens Falls	$767	$943	22.9%	$791	$890	12.6%	10.4%
Watertown	$927	$1,155	24.6%	$941	$1,068	13.6%	11.1%
Ogdensburg	$663	$827	24.7%	$720	$817	13.4%	11.3%
New Rochelle	$990	$1,254	26.6%	$1,030	$1,175	14.1%	12.6%
Schenectady	$703	$1,100	56.5%	$713	$983	37.8%	18.7%
Descriptive Statistics (All Cities)							
Mean	$847	$996	18.4%	$835	$995	19.5%	-1.1%
Median	$804	$943	18.5%	$774	$948	18.6%	0.2%
Standard Deviation	$217	$235	12.0%	$208	$238	9.8%	9.4%
Inflation			9.7%			9.7%	

On a per capita basis, expenditures grew at roughly twice the rate of inflation— outpacing revenue growth in 28 cities from 2000 to 2004.

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With respect to the large cities, increases in expenditure per capita exceeded inflation in Syracuse (23 percent), Yonkers (27 percent) and Rochester (15 percent), while expenditures mirrored inflation in the City of Buffalo (9 percent).

The accompanying table also shows the variability in revenue and expenditure levels across cities. Average spending per capita was $995 in 2004 for all cities. White Plains was the highest spending city with a general fund expenditure of $1,700 per capita. The lowest spending cities were Amsterdam, Sherrill, Salamanca and Mechanicville with each spending less than $700 per capita in 2004. Many factors influence these variations, including the level and scope of services provided to city residents.

Revenue-Related Stress

Revenue constraints are one of the key components of fiscal stress—when revenue streams flatten or decline, the ability of local governments to provide critical services may be compromised. Indicators that have been found to be associated with increased revenue stress are: declining sales tax revenues, heavy dependence on intergovernmental revenues, close proximity to constitutional tax limits and high current liabilities (short-term obligations).

- **Sales Tax** – Sales tax revenues are sensitive to economic swings and can even decline when a region is struggling economically. As a result of variations in local sales tax agreements, cities vary tremendously in the extent to which they rely on the sales tax. For example, in 2004 sales tax revenue constituted only 2.5 percent of total revenues for the Cities of Glen Cove and Long Beach,[8] yet for Fulton (27.0 percent), Watervliet (29.2 percent), Kingston (26.1 percent), White Plains (28.4 percent), Oswego (27.7 percent) and Watertown (25.6 percent), sales tax represented greater than 25 percent of total revenues.

  While the average city experienced an increase of 14 percent in sales tax revenues from 2000 to 2004, there were 28 cities whose sales tax revenue failed to keep pace with inflation during that period.

- **Current Liabilities** – Current liabilities reflect the short-term obligations of cities. This measure includes all liabilities due at the end of a single fiscal year, including short-term debt, accounts payable and other liabilities. If current liabilities are significant, it is likely to be indicative of a revenue/expenditure structure that is misaligned, thereby contributing to cash flow stress. On average, current liabilities represented 18.2 percent of total revenues over the five years examined in this analysis.

- **Intergovernmental Revenues** – Heavy reliance on intergovernmental revenues represents a source of revenue-related risk for local governments. Because local governments do not control these revenues, changes in State or federal funding could

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[8] In addition to direct sales tax revenues, these cities receive an offset of their county tax levy as a result of an agreement with Nassau County.

have a significant impact on these revenue streams. Heavy reliance on intergovernmental revenues may also reflect a previous need for State assistance, and therefore is an indicator of fiscal stress.

For cities on average, 23.2 percent of gross revenue came from State, federal and local sources during the five-year period from 2000 to 2004. As is the case for each of the indicators, there is substantial variability across cities. For example, Buffalo, Niagara Falls, Syracuse, Rochester, Yonkers, Lackawanna, Utica, Little Falls, Rensselaer, Glen Cove and Port Jervis derive 30 percent or more of their revenue from these other government sources, whereas two cities derive less than 10 percent of their revenues from State or federal sources.

- **Property Tax** – Cities rely on the property tax as a major source of revenue to cover operating costs, but there is a constitutional limit on the amounts that can be raised through this source. When cities are close to their constitutional tax limits, they have a limited ability to raise revenues through the use of the property tax.

  A total of 12 cities were approaching their tax limits in 2005 (more than 70 percent of their tax limits exhausted), including the City of Gloversville, which has exhausted 100 percent of its tax limit and has no remaining property tax revenue capacity. Similarly, Lackawanna has exhausted 97 percent of its available tax limit, increasing from 83 percent in 2004.

  Three of the Big Four Cities were close to their tax limits in 2005: Buffalo (88 percent), Rochester (84 percent) and Syracuse (75 percent). It is important to note that the tax levy subject to the limit in these cities includes the levy for school operations (because schools in these cities are fiscally dependent).

In the accompanying table, cities are arrayed according to their relative level of revenue stress. As shown, the cities of Buffalo, Syracuse, Niagara Falls, Binghamton, Yonkers and Lackawanna were found to have the highest levels of revenue-related fiscal stress. The revenue condition of these cities is characterized by sales tax revenues which have failed to keep pace with inflation and have lagged cities as a class; generally higher current liabilities as a percent of revenues; heavy reliance on intergovernmental revenues and limited property tax capacity.

Stress Related to Debt

Debt is another important component of financial condition. Excessive and overly burdensome levels of debt can become a fiscal constraint—especially if debt grows faster than the tax base which supports the debt (e.g., property values or sales taxes). Once issued, debt represents a type of fixed cost and debt service payments can consume a significant portion of a city's budget.

Three indicators of debt were examined in this analysis: long term debt per capita, long term debt as a percent of property value (as an indicator of the affordability of the debt in

Summary of Revenue-Related Stress Indicators

	Sales Tax as a Percent of Revenue	Sales Tax Revenue	Current Liabilities (general fund)	Intergovernmental Revenues	Percent of Tax Limit Exhausted	Revenue Stress Level
	2004	% Change 2000 to 2004	As a % of Revenue (5-Year Avg)		2005	
Buffalo	15.9%	5.1%	34.1%	35.9%	88.2%	Far Above Average
Syracuse	21.9%	5.2%	40.1%	34.5%	75.0%	Far Above Average
Niagara Falls	9.1%	-9.5%	25.1%	30.1%	91.0%	Far Above Average
Binghamton	11.8%	-2.8%	33.2%	25.6%	69.9%	Far Above Average
Yonkers	17.4%	32.3%	35.4%	36.6%	72.2%	Far Above Average
Lackawanna	21.3%	7.3%	8.0%	32.6%	96.6%	Far Above Average
Rochester	22.7%	25.0%	28.5%	30.3%	84.4%	Above Average
Schenectady	11.1%	0.0%	24.9%	22.0%	83.2%	Above Average
Ogdensburg	14.3%	16.1%	28.0%	24.3%	89.6%	Above Average
Utica	18.8%	13.8%	16.3%	40.7%	55.6%	Above Average
Gloversville	10.1%	18.3%	26.4%	22.5%	100.0%	Above Average
Cohoes	22.3%	-0.3%	33.4%	22.6%	49.8%	Above Average
Little Falls	6.4%	2.6%	2.4%	36.4%	68.5%	Above Average
Troy	17.7%	14.9%	30.7%	26.5%	53.4%	Above Average
Elmira	15.2%	12.4%	24.9%	28.2%	53.8%	Above Average
Amsterdam	13.0%	33.3%	48.4%	23.5%	46.5%	Above Average
Hudson	14.8%	14.7%	18.0%	24.7%	74.6%	Above Average
Rome	17.3%	8.5%	14.7%	28.0%	58.5%	Average
Olean	18.2%	-18.9%	10.0%	25.5%	32.4%	Average
Albany	18.7%	0.8%	23.1%	20.4%	48.2%	Average
New Rochelle	17.1%	9.3%	29.8%	27.0%	20.2%	Average
Lockport	10.4%	-8.2%	11.8%	18.0%	63.4%	Average
Johnstown	16.8%	3.1%	10.0%	22.6%	64.9%	Average
Fulton	27.0%	32.0%	30.8%	23.0%	58.8%	Average
Rensselaer	16.4%	18.1%	25.7%	31.7%	16.5%	Average
Tonawanda	18.8%	7.0%	11.3%	18.8%	70.7%	Average
Geneva	10.7%	9.4%	8.6%	23.6%	60.5%	Average
Glen Cove	2.5%	12.7%	15.9%	30.8%	22.7%	Average
Mechanicville	20.6%	0.0%	18.2%	21.5%	28.2%	Average
Salamanca	4.8%	-1.7%	6.2%	21.0%	53.1%	Average
North Tonawanda	16.2%	0.7%	12.0%	20.3%	45.5%	Average
Auburn	16.2%	14.5%	11.9%	22.2%	57.5%	Average
Dunkirk	10.3%	6.9%	20.1%	15.9%	49.3%	Average
Hornell	21.1%	16.1%	6.4%	26.1%	56.8%	Average
Jamestown	7.0%	0.2%	18.3%	7.9%	67.1%	Average
Mount Vernon	14.2%	28.6%	16.7%	25.9%	51.4%	Average
Peekskill	6.6%	37.1%	44.5%	24.9%	36.6%	Average
Oneida	22.0%	11.5%	23.6%	20.7%	26.5%	Average
Ithaca	19.9%	2.6%	8.7%	20.8%	44.4%	Average
Newburgh	16.0%	32.8%	16.6%	18.9%	73.5%	Average
Watervliet	29.2%	-0.3%	24.1%	10.8%	35.5%	Average
Norwich	12.3%	8.1%	7.2%	26.5%	30.8%	Average
Glens Falls	13.3%	21.8%	20.6%	19.2%	43.1%	Average
Batavia	13.2%	18.5%	13.0%	23.8%	32.7%	Average
Corning	16.4%	-15.2%	5.6%	16.3%	23.1%	Below Average
Long Beach	2.5%	18.7%	20.1%	17.2%	37.8%	Below Average
Plattsburgh	7.4%	5.0%	10.8%	15.8%	41.3%	Below Average
Poughkeepsie	21.7%	50.1%	19.4%	27.2%	47.6%	Below Average
White Plains	28.4%	10.0%	24.4%	11.7%	26.0%	Below Average
Port Jervis	18.2%	51.9%	14.7%	34.6%	27.2%	Below Average
Kingston	26.1%	44.9%	15.5%	20.3%	58.4%	Below Average
Middletown	18.6%	32.8%	19.2%	14.9%	48.3%	Below Average
Cortland	20.3%	10.4%	5.8%	15.5%	42.6%	Below Average
Watertown	25.6%	21.2%	10.1%	20.8%	30.9%	Below Average
Canandaigua	22.5%	12.9%	4.4%	24.2%	17.4%	Below Average
Beacon	20.5%	40.3%	19.1%	18.7%	28.8%	Far Below Average
Sherrill	10.3%	-2.6%	3.5%	9.9%	28.6%	Far Below Average
Oneonta	20.4%	61.0%	4.4%	26.9%	57.4%	Far Below Average
Saratoga Springs	22.2%	9.6%	5.9%	13.3%	13.3%	Far Below Average
Oswego	27.7%	22.7%	4.5%	21.7%	0.0%	Far Below Average
Rye	6.1%	19.5%	6.9%	11.9%	14.4%	Far Below Average
Descriptive Statistics (All Cities)						
Mean	16.3%	14.0%	18.2%	23.2%	49.9%	
Median	16.8%	11.5%	16.7%	22.6%	49.3%	
Standard Deviation	6.4%	16.1%	10.8%	7.0%	22.8%	
Inflation		**9.7%**				

For this analysis revenue stress was computed by combining four measures of revenue-stress shown in the table. The revenue stress level was computed by taking the average of the standardized scores for the four subcomponents (reversing the sign of the sales tax revenue measure thereby recognizing that a decline is associated with revenue stress), and developing a series of ranges above and below a standard score of "0," which would be the mean or "average" score on the revenue stress scale. A revenue stress value between -0.50 and 0.50 was labeled "average," a value of 0.50 to 1.25 was considered "above average," a value of -0.50 to -1.25 was considered "below average," a value above 1.25 was considered "far above average" and a value below -1.25 was considered "far below average." A similar approach was used to produce the rankings in each of the subsequent tables shown throughout the report.

8

relation to local wealth) and debt service as a percent of expenditures (as an indicator of the budgetary burden of the debt).

From 2000 to 2004, the average city had long-term debt of $1,037 per capita, which represents 3.8 percent of property value, and debt service which represents 8.4 percent of budgetary expenditures.

For some cities, however, a similar nominal level of debt can represent a significantly different degree of fiscal burden, depending on the adequacy of local resources. For example, in the City of White Plains, a long-term debt per capita of $1,062 represents only one percent of property value, whereas in Rome, a similar per capita debt level ($1,061/capita) equates to 4.7 percent of property value—a much more significant economic burden for residents in that city.

As shown in the table, for some high-debt cities, debt is not only excessive in relation to resources, but debt service also takes up a significant portion of the budget. For example, in the City of Auburn, long term debt significantly exceeds the average in both per capita and property value terms and payment on this debt represents 14 percent of expenditures—a substantial constraint on the City's budget.

Cities are arrayed according to their relative performance across all three debt indicators. As shown, cities that are far above average on the debt index are characterized by higher levels of long-term debt and burdensome levels of debt service. These high-debt cities have reduced flexibility in managing fiscal stress.

Fiscal Stress from Debt and Other Fixed Costs: Summary of Indicators

Debt

| | Five-Year Average (2000 to 2004) | | | |
| | Long-Term Debt | | Debt Service | |
	$/Capita	% of FV	% of Exp	Debt Stress Level
Auburn	$2,539	11.6%	14.0%	Far Above Average
Oswego	$2,679	8.7%	14.0%	Far Above Average
Geneva	$2,206	10.3%	11.3%	Far Above Average
Watertown	$1,603	7.1%	17.9%	Far Above Average
Buffalo	$1,826	10.0%	10.3%	Far Above Average
Niagara Falls	$1,598	7.4%	12.3%	Far Above Average
Jamestown	$1,786	9.2%	6.6%	Above Average
Syracuse	$1,707	7.1%	9.1%	Above Average
Corning	$1,598	4.1%	13.7%	Above Average
Elmira	$1,378	7.9%	7.8%	Above Average
Johnstown	$1,178	4.7%	13.5%	Above Average
Glen Cove	$1,701	1.8%	14.1%	Above Average
Rome	$1,061	4.7%	13.9%	Above Average
Troy	$1,356	6.3%	9.6%	Above Average
Cortland	$996	4.9%	13.8%	Above Average
Rochester	$1,503	6.8%	7.0%	Above Average
Schenectady	$1,072	4.8%	12.5%	Above Average
Long Beach	$1,930	2.5%	9.0%	Average
Norwich	$897	4.2%	13.3%	Average
Oneida	$1,018	3.2%	13.3%	Average
Port Jervis	$1,097	4.2%	11.2%	Average
Beacon	$1,216	3.5%	11.0%	Average
New Rochelle	$1,498	1.8%	10.9%	Average
Cohoes	$1,111	4.4%	9.5%	Average
Binghamton	$1,177	5.0%	7.7%	Average
Little Falls	$1,253	4.7%	7.3%	Average
Poughkeepsie	$1,239	3.8%	7.5%	Average
Canandaigua	$1,210	3.0%	8.9%	Average
Albany	$1,154	3.3%	8.6%	Average
Yonkers	$1,566	3.1%	6.2%	Average
Watervliet	$785	3.2%	11.2%	Average
Ithaca	$701	2.4%	12.0%	Average
Fulton	$803	3.4%	9.8%	Average
Tonawanda	$912	3.2%	9.2%	Average
Middletown	$866	2.8%	10.0%	Average
Plattsburgh	$1,103	3.9%	5.6%	Average
Glens Falls	$1,043	2.5%	7.2%	Average
Utica	$736	4.0%	7.0%	Average
Kingston	$1,034	3.0%	6.3%	Average
Dunkirk	$839	3.1%	7.1%	Average
Amsterdam	$625	3.4%	7.9%	Average
Gloversville	$600	3.4%	7.2%	Average
North Tonawanda	$476	1.6%	10.4%	Average
Lockport	$569	2.0%	9.0%	Below Average
Batavia	$759	2.7%	5.5%	Below Average
Hornell	$587	3.1%	5.9%	Below Average
White Plains	$1,062	1.1%	5.6%	Below Average
Newburgh	$672	3.4%	4.8%	Below Average
Oneonta	$534	2.5%	6.6%	Below Average
Peekskill	$572	1.3%	5.2%	Below Average
Olean	$417	1.5%	4.7%	Below Average
Hudson	$511	2.2%	2.5%	Below Average
Ogdensburg	$349	2.1%	3.2%	Below Average
Rye	$961	0.4%	1.5%	Below Average
Mechanicville	$282	1.1%	4.5%	Far Below Average
Saratoga Springs	$490	0.8%	3.1%	Far Below Average
Sherrill	$184	0.5%	3.1%	Far Below Average
Lackawanna	$212	0.9%	2.2%	Far Below Average
Rensselaer	$38	0.1%	3.8%	Far Below Average
Mount Vernon	$233	0.5%	1.8%	Far Below Average
Salamanca	$159	1.1%	1.3%	Far Below Average
Descriptive Statistics (All Cities)				
Mean	**$1,037**	**3.8%**	**8.4%**	
Median	**$1,034**	**3.2%**	**7.9%**	
Standard Deviation	**$567**	**2.6%**	**3.8%**	

Fixed Costs

| | Five-Year Average (2000 to 2004) | | |
| | (as a Percent of Expenditures) | | |
	Public Safety Costs	Salary and Fringe Benefits	Fixed Cost Stress Level
Lackawanna	46.9%	69.9%	Far Above Average
Yonkers	44.8%	65.2%	Far Above Average
Buffalo	45.3%	59.7%	Far Above Average
Albany	45.2%	59.3%	Far Above Average
Mount Vernon	40.0%	61.4%	Far Above Average
Saratoga Springs	35.9%	61.4%	Above Average
Kingston	37.0%	59.8%	Above Average
Lockport	36.3%	60.0%	Above Average
Watervliet	37.8%	56.9%	Above Average
Newburgh	40.5%	52.9%	Above Average
Rye	33.9%	57.7%	Above Average
White Plains	32.2%	59.1%	Above Average
New Rochelle	39.6%	51.2%	Above Average
Utica	39.7%	50.1%	Above Average
Troy	35.8%	53.6%	Above Average
Gloversville	34.4%	54.8%	Above Average
Hudson	32.6%	56.5%	Above Average
Ithaca	33.0%	56.0%	Above Average
Syracuse	36.7%	52.1%	Above Average
Rochester	34.1%	54.7%	Above Average
Peekskill	32.2%	56.6%	Average
Long Beach	28.2%	60.4%	Average
Elmira	35.2%	52.0%	Average
Middletown	33.8%	53.2%	Average
Amsterdam	33.2%	53.8%	Average
Cortland	35.9%	50.9%	Average
North Tonawanda	32.1%	53.6%	Average
Cohoes	34.8%	50.7%	Average
Fulton	32.3%	52.9%	Average
Tonawanda	30.5%	54.2%	Average
Ogdensburg	28.4%	56.3%	Average
Poughkeepsie	35.5%	48.8%	Average
Olean	30.3%	52.8%	Average
Niagara Falls	31.7%	51.1%	Average
Schenectady	33.1%	49.5%	Average
Watertown	31.4%	50.1%	Average
Dunkirk	27.6%	52.5%	Average
Binghamton	32.6%	46.7%	Average
Oneonta	28.4%	48.8%	Average
Johnstown	30.6%	44.8%	Average
Oswego	25.1%	50.2%	Average
Canandaigua	26.5%	47.1%	Below Average
Rome	29.7%	43.3%	Below Average
Batavia	26.8%	46.3%	Below Average
Auburn	27.5%	44.7%	Below Average
Beacon	27.8%	44.3%	Below Average
Port Jervis	26.3%	45.4%	Below Average
Rensselaer	25.9%	45.4%	Below Average
Oneida	24.5%	46.8%	Below Average
Hornell	22.5%	47.0%	Below Average
Norwich	28.2%	40.8%	Below Average
Mechanicville	24.9%	43.8%	Below Average
Glens Falls	24.3%	44.1%	Below Average
Geneva	23.4%	42.5%	Below Average
Corning	22.9%	41.7%	Below Average
Plattsburgh	20.5%	43.1%	Below Average
Glen Cove	21.4%	39.1%	Far Below Average
Salamanca	15.8%	40.3%	Far Below Average
Jamestown	21.1%	31.5%	Far Below Average
Little Falls	15.6%	32.2%	Far Below Average
Sherrill	11.1%	34.1%	Far Below Average
Descriptive Statistics (All Cities)			
Mean	**31.0%**	**50.6%**	
Median	**32.1%**	**51.1%**	
Standard Deviation	**7.3%**	**7.7%**	

In addition to the three indicators described above, constitutional debt limits restrict the debt level of most cities to no more than 7 percent of average full value.[9] However, some types of debt are not counted towards the limit, including most types of short-term debt, as well as debt issued for specific purposes with dedicated revenue streams such as water and sewer fees. Most cities are not in danger of exceeding their debt limits; however, five cities exhausted more than 70 percent of their available debt limits in 2004 including Buffalo, which was at 89 percent of its debt limit in 2004.[10]

Debt Constraints in the City of Buffalo: Confounding Factors

Buffalo has been steadily increasing its level of debt, while at the same time, decreasing property values have caused the City's debt limit to decline. As a result, Buffalo has exhausted 89 percent of its available debt limit in 2004. This level of debt represents a significant fiscal constraint on future budgets and capital investment decisions.

Buffalo (88.7% of Debt Limit Exhausted in 2004)
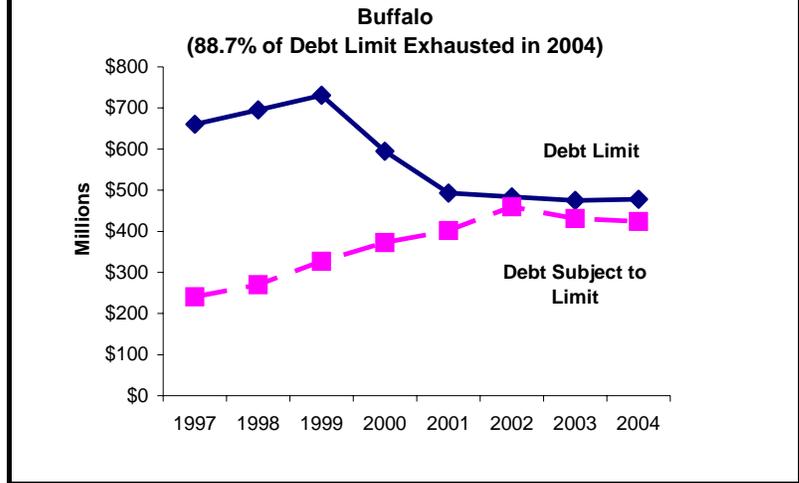
Stress Related to Other Fixed Costs

Two fixed cost indicators were also examined: salary and fringe benefits as a percentage of expenditures and public safety costs as a percentage of expenditures. These two indicators can capture varying levels of flexibility with respect to controlling major costs of city governments. Increasing salaries and fringe benefits, including health insurance and pension contribution costs, place pressure on local budgets. Pension costs in 2005 and 2006, for example, represent about 4-6 percent of expenditures in cities.

On average, salary and fringe benefits amounted to 50.6 percent of gross expenditures and public safety constituted 31 percent of gross expenditures for cities from 2000 to 2004. Like the other indicators, however, there is a great deal of variation across cities.

Lackawanna, Yonkers, Buffalo, Albany and Mount Vernon were found to have the highest fixed costs. The City of Albany, for example, had very high public safety costs—far exceeding that of the average city. In Albany, personal services account for 59.3 percent of gross expenditures, and public safety costs represent 45.2 percent of expenditures. Albany's high fixed costs result, in part, from the presence of a significant

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[9] For the large cities (Buffalo, Syracuse, Rochester and Yonkers), the constitutional debt limit is 9 percent of full value.

[10] The cities exceeding 70 percent of their debt limits are: Buffalo, Rochester, Binghamton, Watertown, and Syracuse.

portion of the State government in the City. Albany personnel provide public safety protections for State buildings and the State workforce—thus, increasing the costs for the City of Albany well beyond that regularly observed in cities of similar size and wealth.

Stress Related to Operating Position

Maintaining structural balance means that a local government has the ability to balance its budget and pay bills on time, while maintaining adequate reserves to withstand short-term financial pressures. When a deficit situation arises, a temporary shortfall can be addressed with unreserved fund balances or other one-time resources. If reserves are inadequate, operating deficits are more problematic. When a municipality persistently outspends revenues, structural imbalance places the municipality in a precarious financial situation—often leading to depleted reserves, cash flow problems and even deficit financing.

Five indicators of stress related to operating position were examined: the average annual operating surplus/deficit, two measures of fund balance and reserve levels, and two measures of liquidity. These three categories—surplus/deficit, fund balance and liquidity—are interrelated and represent key components of financial stability.

In the accompanying table, cities are arrayed according to their overall level of operating position stress across the five indicators described above. As shown, the City of Gloversville was found to have the most problematic level of fiscal stress in this area. Growing deficits and limited reserves combine with poor cash position to produce severe fiscal pressure. Another 17 cities (including Elmira, Port Jervis, Syracuse, Long Beach and North Tonawanda) face above average fiscal stress resulting from structural imbalance—and these cities will continue to have to make difficult choices in order to maintain fiscal stability in the future.

- **Surplus/Deficit –** When expenditures exceed revenues in a single fiscal year, an operating deficit occurs. This situation is not necessarily indicative of fiscal stress. Sometimes deficits are planned in order to reduce a growing fund balance—a favorable financial situation for local governments. However, when deficits occur routinely, they can become more problematic—threatening the local government's long-term fiscal stability. The five-year average surplus/deficit was examined for each city—thereby focusing attention on the *persistent* occurrence of deficits.

  The average city experienced a five-year average *surplus* of 0.4 percent of expenditures from 2000 to 2004. Oswego had the most severe deficit, but has substantial fund balance and liquidity. Beacon had the largest general fund surplus (9 percent of expenditures over the five-year period).

- **Fund Balance** –The unreserved fund balance is that portion of reserves which remains after subtracting amounts set aside for specific purposes (such as equipment replacement). Thus, the unreserved fund balance represents an amount of funds that may be used to cover shortfalls in current operations. The appropriated fund balance

is that portion of available fund balance which is planned for use in a given fiscal year. Reductions in fund balance over time may indicate that budgeting practices are failing to adequately respond to operating deficits, and that overall financial condition is deteriorating.

On average, cities maintained a five-year average general fund unreserved fund balance that amounted to 15.5 percent of gross expenditures, but appropriated portions of fund balance equal to 4.6 percent of expenditures. However, four cities, including Gloversville (-11.3 percent), Elmira (-1.3 percent), Schenectady (-4.4 percent) and Glen Cove (-2.0 percent), had average unreserved fund balances that were negative—suggesting a tenuous fiscal situation for these cities. These cities had to rely on other resources (such as transfers from other funds and deficit financing) to balance operations.

- **Liquidity** – Liquidity measures the ability of a municipality to manage its cash flow throughout its fiscal year. One indicator of liquidity is the amount of cash on hand at the end of a fiscal year relative to liabilities. Municipalities with good cash positions are able to pay their bills with little difficulty, whereas those with poor cash positions are less able to cover bills as they arise. For this analysis, cash and investments at year-end were divided by current liabilities at year-end. Additionally, cash and investments were examined in relation to average monthly expenditures. Like the other indicators, liquidity measures were examined using five-year averages rather than a single year, thus highlighting areas of persistently poor cash position.

For the average city, cash and investments amounted to 206 percent of current liabilities and the average city had enough year-end cash to cover two months worth of expenditures over the five years examined in this report. Cities in which year-end cash is less than 50 percent of current liabilities are generally considered to have a poor cash position. Eighteen cities fall into this category—the most notable being Schenectady, in which cash and investments amount to only 4.7 percent of liabilities and 23 percent of monthly expenditures.

Summary of Operating Position Stress Indicators (General Fund Only)

	Operating Position Stress Indicators 2000 to 2004 (5-Year Average)					
	Operating Surplus/Deficit	Unreserved Fund Balance		Liquidity		Operating Position Stress Level
		Total	Appropriated	Cash and Investments as a Percent of		
	As a Percent of Expenditures			Current Liabilities	Monthly Expenditure	
Gloversville	-2.5%	-11.3%	0.0%	10.1%	30.8%	Far Above Average
Elmira	-4.2%	-1.3%	0.8%	36.2%	101.9%	Above Average
Port Jervis	-2.4%	8.4%	4.4%	38.1%	68.6%	Above Average
Syracuse	1.7%	14.4%	12.8%	13.0%	62.3%	Above Average
Long Beach	-2.1%	0.6%	0.9%	20.5%	46.4%	Above Average
North Tonawanda	-3.0%	6.4%	4.0%	97.5%	131.0%	Above Average
Glens Falls	-0.7%	2.5%	4.2%	34.5%	90.5%	Above Average
Batavia	-1.5%	2.9%	1.8%	52.7%	62.3%	Above Average
Watervliet	-1.2%	1.6%	0.5%	24.1%	70.6%	Above Average
Albany	0.3%	2.8%	2.8%	19.1%	54.0%	Above Average
Binghamton	-1.7%	19.0%	9.6%	69.9%	254.2%	Above Average
Rome	-1.7%	28.5%	10.3%	106.5%	162.0%	Above Average
Rensselaer	-0.9%	0.7%	0.0%	26.9%	86.4%	Above Average
Schenectady	1.3%	-4.4%	0.0%	4.7%	23.0%	Above Average
Lockport	-0.9%	10.2%	5.8%	132.2%	180.7%	Above Average
Cortland	-0.6%	11.6%	3.7%	112.5%	79.1%	Above Average
Rochester	-0.2%	2.7%	1.3%	33.5%	114.3%	Above Average
Plattsburgh	-0.5%	10.7%	2.7%	73.1%	89.4%	Above Average
Auburn	-0.3%	13.6%	5.0%	99.8%	133.7%	Average
Ithaca	-1.2%	4.7%	0.8%	132.8%	128.7%	Average
Fulton	0.8%	10.9%	2.7%	28.2%	66.5%	Average
Niagara Falls	0.1%	5.7%	0.0%	28.7%	84.5%	Average
Tonawanda	-1.2%	17.0%	4.2%	117.5%	152.0%	Average
New Rochelle	-0.2%	7.7%	5.0%	75.8%	246.2%	Average
Poughkeepsie	0.4%	18.2%	8.2%	87.1%	202.1%	Average
Glen Cove	-0.5%	-2.0%	0.0%	234.9%	99.2%	Average
Jamestown	1.4%	0.3%	0.0%	33.0%	72.5%	Average
Saratoga Springs	0.1%	15.8%	5.0%	224.7%	124.7%	Average
Utica	0.4%	8.5%	0.2%	58.0%	115.8%	Average
Cohoes	2.4%	1.4%	0.0%	21.4%	86.5%	Average
Little Falls	0.4%	4.7%	0.0%	228.3%	77.7%	Average
Norwich	-0.3%	20.4%	7.3%	259.4%	208.9%	Average
Kingston	2.6%	6.3%	1.8%	57.2%	91.1%	Average
Amsterdam	0.5%	11.4%	2.2%	39.6%	232.0%	Average
White Plains	-1.8%	20.8%	9.0%	168.6%	482.1%	Average
Lackawanna	-1.2%	10.0%	1.9%	272.3%	235.4%	Average
Mechanicville	-0.5%	36.3%	11.8%	169.5%	333.8%	Average
Watertown	1.6%	14.8%	4.4%	138.6%	172.0%	Average
Buffalo	0.3%	8.9%	0.0%	51.4%	240.4%	Average
Hudson	-0.2%	27.0%	6.0%	131.1%	278.2%	Average
Middletown	2.2%	16.8%	0.4%	42.8%	99.4%	Average
Johnstown	2.6%	18.3%	6.2%	169.1%	199.5%	Average
Yonkers	-2.7%	15.2%	0.0%	101.6%	420.8%	Average
Hornell	0.6%	18.1%	0.0%	154.8%	122.3%	Average
Newburgh	2.5%	25.2%	9.6%	151.7%	302.3%	Average
Troy	2.0%	2.2%	0.0%	81.3%	295.1%	Average
Sherrill	-1.5%	26.6%	13.9%	870.8%	327.6%	Average
Ogdensburg	-1.1%	18.2%	2.8%	152.0%	471.7%	Average
Oswego	-7.0%	27.3%	6.1%	1068.6%	383.1%	Below Average
Peekskill	3.2%	10.9%	0.0%	46.7%	286.3%	Below Average
Geneva	1.1%	15.4%	5.7%	382.8%	399.2%	Below Average
Mount Vernon	3.9%	21.7%	8.5%	208.8%	419.4%	Below Average
Olean	-2.1%	20.1%	5.7%	617.5%	502.6%	Below Average
Canandaigua	3.3%	33.0%	19.4%	805.2%	415.7%	Below Average
Corning	0.3%	16.3%	2.2%	559.2%	328.6%	Below Average
Dunkirk	5.9%	30.4%	14.0%	193.7%	476.2%	Below Average
Rye	2.2%	25.5%	8.4%	499.8%	392.1%	Below Average
Oneida	2.6%	57.0%	18.4%	272.4%	698.3%	Below Average
Beacon	8.9%	35.8%	1.8%	210.0%	485.0%	Far Below Average
Oneonta	6.4%	59.3%	5.6%	1254.9%	686.1%	Far Below Average
Salamanca	5.6%	85.2%	11.4%	1140.7%	867.6%	Far Below Average
Descriptive Statistics (All Cities)						
Mean	0.4%	15.5%	4.6%	205.7%	232.0%	
Median	0.1%	13.6%	3.7%	106.5%	172.0%	
Standard Deviation	2.6%	15.9%	4.8%	282.4%	182.9%	

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Summarizing the Components of Fiscal Stress

In order to summarize fiscal conditions among cities, the relative performance of each city on the factors described in the previous sections is shown in the table on the following page. Cities are arrayed according to the values of the stress indictors examined in this report. Thus, the order of the cities is simply an unweighted statistical ranking of the fiscal stress factors calculated for this report. The results are calculated, without judgment, on multiple indicators across the four main fiscal categories identified in the factor analysis (see box on page 4). In addition to fiscal stress factors, the percentage change in population from 1990 to 2000 and the level of socioeconomic stress are also displayed in the table.[11] This table is provided purely to facilitate an examination of the concepts under study in this report and should not be used as a "fiscal ranking" or as conclusive results on the fiscal health or performance of the cities listed.

As with the other tables in this report, the overall fiscal stress measure is an average based on the relative ranking across each fiscal stress factor, thereby situating each city in relation to the average city across measures of fiscal stress. According to this methodology, fiscal conditions are most severe in Buffalo, Syracuse, Niagara Falls and Yonkers, where above average levels of fiscal stress in multiple areas (revenue, debt and operating position) could threaten the long-term viability of these cities. As shown by the demographic trends, these cities have also suffered significant demographic decline, with Buffalo losing 10.8 percent of its population from 1990 to 2000 (and nearly half of its population since 1950).

> ### Relationship of Demographics to Fiscal Stress
>
> Fiscal stress is very much a function of demographic trends—a community in decline faces escalating fiscal pressures while at the same time, reduced resource capacity and declining tax base.
>
> In fact, the results of regression analysis suggest that over 16 percent of the variance in the fiscal stress measure is accounted for using only the population change variable. When population size and the level of socioeconomic stress are added to the equation, these three variables account for 54 percent of the variance in fiscal stress. Understanding the fiscal impact of changing demographics is crucial to developing solutions to the long-term problems that the State's cities are facing.

The relationship between demographic decline and fiscal stress is quite evident. Generally, cities which have lost population were found to have the highest levels of fiscal stress across a range of indicators, while cities which have gained population (and which also tend to have low levels of socioeconomic stress) were found to have much more favorable fiscal outlooks across a range of indicators.

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[11] Four socioeconomic stress indicators were examined using 2000 Census data: the percentage of residents living below poverty, the percentage of female-headed households with children, the housing vacancy rate and the percentage of adults with less than a high school diploma. For a discussion of these measures see: *Local Government Issues in Focus: Population Trends in New York State's Cities*, Office of the State Comptroller, Dec. 2004. Online: http://www.osc.state.ny.us/localgov/pubs/research/pop_trends.pdf

Overall City Profile

	Demographic Factors		Fiscal Stress Factors			
	Population Trend	Socio-economic Stress	Revenue Stress	Debt Stress	High Fixed Cost Stress	Operating Position Stress
Buffalo	-10.8%	++	++	++	++	
Syracuse	-10.1%	++	++	+	+	+
Niagara Falls	-10.1%	+	++	++		
Yonkers	4.3%		++		++	
Elmira	-8.3%	+	+	+		+
Rochester	-4.6%	++	+	+	+	+
Albany	-4.4%				++	+
Schenectady	-5.7%	+	+	+		+
Gloversville	-7.5%	+	+		+	++
Binghamton	-10.6%	+	++			+
Auburn	-8.6%			++	-	
Lackawanna	-7.4%		++	--	++	
Troy	-9.4%	+	+	+	+	
Cohoes	-7.8%		+			
Utica	-11.6%	+	+		+	
New Rochelle	7.3%	-			+	
Lockport	-8.8%			-	+	+
Watervliet	-7.7%				+	+
Long Beach	5.8%	--	-			+
Rome	-21.2%			+	-	+
Watertown	-9.3%		-	++		
Fulton	-8.3%					
Amsterdam	-11.4%		+			
North Tonawanda	-4.9%	-				+
Ithaca	-0.9%				+	
Cortland	-5.4%		--	+		+
Tonawanda	-6.6%	-				
Johnstown	-6.0%			+		
Geneva	-3.7%			++	-	-
Poughkeepsie	3.6%	+	-			
Kingston	1.6%		-		+	
Port Jervis	-2.2%		-		-	+
Hudson	-6.4%	++	+	-	+	
Ogdensburg	-8.6%		+	-		
Oswego	-6.5%		--	++		-
Newburgh	6.8%	++		-	+	
Glen Cove	10.2%	-		+	--	
Norwich	-3.4%				-	
White Plains	9.0%	-	-	-	+	
Jamestown	-8.5%			+	--	
Glens Falls	-4.5%				-	+
Middletown	5.1%		-			
Batavia	-0.3%		-	-	-	+
Little Falls	-11.0%		+		--	
Mount Vernon	1.8%			--	++	-
Peekskill	14.9%			-		-
Olean	-9.4%			-		-
Dunkirk	-6.1%					-
Rensselaer	-6.0%			--	-	+
Plattsburgh	-11.5%		-		--	+
Saratoga Springs	4.7%	--	--	--	+	
Corning	-9.2%		-	+	-	-
Oneida	1.3%	-			-	-
Hornell	-8.7%			-	-	
Mechanicville	-4.4%	-		--	-	
Canandaigua	5.0%	-	-		-	-
Rye	0.1%	--	--	-	+	-
Beacon	4.3%		--		-	--
Sherrill	9.9%	--	--	--	--	
Oneonta	-4.7%		--	-		--
Salamanca	-7.1%			--	--	--

A blank in the cell indicates that the city falls within the average range on the indicators relative to the other cities. A single plus sign indicates that the city falls above average and a double plus sign indicates that the city falls substantially above the average. Similarly, a negative sign indicates that the city falls moderately below average, and two negative signs indicate that a city falls well below average on the factor shown.

Cities at the bottom of the table are those in which fiscal conditions are much more favorable. Cities such as Salamanca, Sherrill, Oneonta and Beacon are characterized by below average levels of fiscal stress. Sherrill and Beacon have also increased their population in the past decade, while Sherrill has a much lower than average level of socioeconomic stress.

Conclusions and Directions for Future Research

When examining the fiscal health of a municipality, there is no single indicator that tells the complete story. In a few of the most severe cases (such as Buffalo, Syracuse, Niagara Falls and Yonkers), stress is evident across many of the fiscal factors. These cities have severely constrained revenue streams, high levels of debt and high fixed costs— suggesting that they are so negatively affected by fiscal stress that they have very little local capacity to attain long-term fiscal stability and growth.

Beyond these severely stressed cities are those where fiscal stress is less widespread— showing up in one or more financial areas. These cities may be on the verge of more widespread fiscal difficulties. For some cities (such as Watertown and Oswego), fiscal stress occurs in the form of excessively high debt burdens, while revenue streams and operating position appear relatively stable. A number of other cities (Glens Falls, Port Jervis and North Tonawanda) have fiscal stress stemming from poor operating position. These cities are characterized by persistent operating deficits, low or negative fund balances and low levels of liquidity. At the same time, these cities have not experienced revenue-related stress or had to take on excessive debt. Cities such as Ogdensburg and Olean face revenue-related stress and tend to have lagging sales tax revenue, high current liabilities, high dependence on intergovernmental revenues or limited tax margins. For these cities, operating position and debt levels have not yet begun to suffer as a result.

Fiscal stress has been a chronic problem among the State's larger cities, and fiscal conditions in the Big Four Cities (Buffalo, Syracuse, Rochester and Yonkers), in particular, have long been a concern for State and local officials. Buffalo ranks among the most severe on measures of fiscal stress and has operated under the oversight of a financial control board since 2003. Syracuse and Rochester face fiscal stress on virtually every indicator examined. Recent multiyear financial plans show persistent and increasing out-year gaps amounting to roughly 20 percent of general fund budgets by 2009 in these large upstate cities. Yonkers has positive population and property value trends but also faces budgetary problems. All of the Big Four face problems in their dependent school districts.[12]

While the approach outlined in this report was used to examine the financial conditions of cities as a class, the indicators can provide useful insights for local officials to examine their own finances and incorporate additional indicators relevant to their local situations.

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[12] See for example, *Local Government Issues in Focus: Financing Education in New York's "Big Five" Cities,* Office of the State Comptroller, May, 2005. Online:
http://www.osc.state.ny.us/localgov/pubs/research/financingeducation.pdf

The approach outlined in this report could also be applied to the examination of fiscal conditions in counties, towns and villages, as many of these entities have experienced fiscal stress as well—particularly upstate urban counties and older inner-ring towns. Future research will take the model developed for cities and apply it to determine whether the identified statistical relationships hold for other classes of government.

**New York State
Office of the State Comptroller
Division of Local Government Services
and Economic Development**