

Town of Canajoharie

Budgeting and Allocating Sales Tax Revenue

MARCH 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Canajoharie

Audit Objective

Determine whether Town of Canajoharie (Town) officials properly budget for and allocate sales tax revenue.

Key Findings

Town officials did not properly budget for and allocate sales tax revenue. As a result, Town taxpayers residing outside the Villages did not receive all the benefit they should have from County sales tax distributions.

- The Town Board (Board) underestimated sales tax revenue in the town-outside-village (TOV) general, TOV highway and town-wide (TW) highway funds by an average of \$83,477 (21 percent) for fiscal years 2018 through 2020.
- During fiscal years 2018 through 2021, the Board improperly allocated sales tax revenue totaling \$253,603 to the TW highway fund before reducing the TOV funds' tax levies to zero. The same amount of taxes were unnecessarily levied in TOV funds, creating taxpayer inequities.

Key Recommendations

- Use realistic sales tax revenue estimates when developing budgets.
- Allocate sales tax revenue to eliminate unnecessary levies on the TOV area.
- Consult with legal counsel to determine remedies available to address taxpayer inequities.

Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Town is located in Montgomery County (County) and includes the Villages of Ames and Canajoharie within its borders.

The Town is governed by an elected five-member Board, composed of the Town Supervisor (Supervisor) and four Board members.

The Board is responsible for the general oversight of operations and finances. The Supervisor is the chief executive officer and chief fiscal officer. The Supervisor, bookkeeper and department heads develop the annual budget to present to the Board to review, amend if warranted, and adopt.

The Town has three contracts for fire protection services for the area of the Town outside of the two Villages.

Quick Facts

Population	1,905
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2022 Appropriations	\$1,553,424
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Sales Tax Revenue

Annual Average	\$476,956
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2022 Budgeted	\$410,028
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Received During Audit Period	\$1,714,350
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Audit Period

January 1, 2018 – September 30, 2021. We extended our audit period through October 14, 2021 to review the 2022 tentative budget presented to the Board.

Budgeting and Allocating Sales Tax Revenue

How Should the Board Budget for and Allocate Sales Tax Revenue?

A board is responsible for adopting realistic budgets that include reasonable estimates of revenues and expenditures, based on historical or known trends. While sales tax revenue can be difficult to predict, officials can use past experience and current and future economic trends to estimate these revenues and ensure revenues are not significantly underestimated.

Counties are authorized to share some of their sales and use tax (sales tax) collections with certain local governments. When a county shares its sales tax with towns, the towns must appropriately budget and account for those revenues. Sales tax received by a town which includes one or more villages that receive its own sales tax from the county must first be used to reduce taxes for activities levied on property in the town outside such villages, which are accounted for in the town-outside-village (TOV) funds. After all such taxes are eliminated, then sales tax may be used to reduce town-wide (TW) taxes.

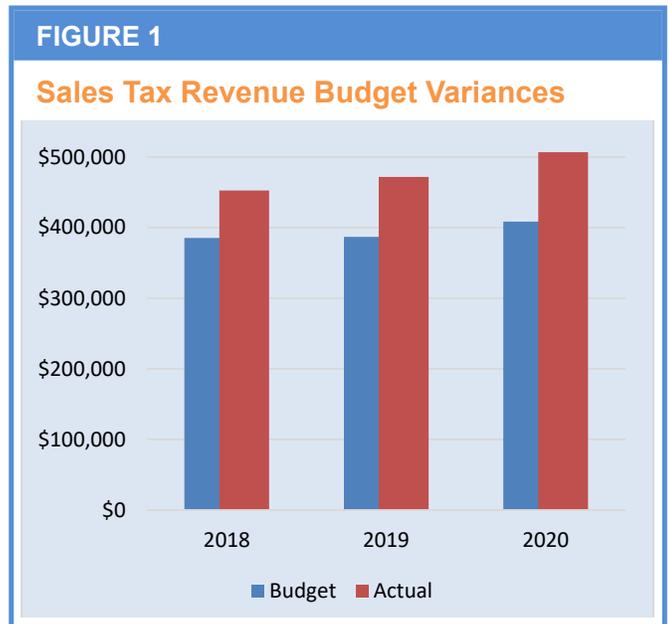
Additionally, fire protection districts that encompass the entire area of the town outside the villages are eligible TOV activities. As such, towns can also allocate sales tax proceeds to the fire protection district (SF) fund.

Because the Town's financial activities affect different tax bases, it is important for officials to accurately budget and allocate sales tax revenue in the proper funds to maintain equity among taxpayers and comply with statutory requirements.

The Board Developed Unrealistic Sales Tax Revenue Estimates

The Board consistently underestimated sales tax revenue. Specifically, sales tax revenue was underestimated by an overall average of \$83,477 (21 percent) for fiscal years 2018, 2019 and 2020 (Figure 1). While the Town increased sales tax revenue estimates by more than \$20,000 for fiscal year 2020, budget-to-actual variances were the most significant during this year, totaling \$98,251 (24 percent).

The average budget variances were \$49,758 for the TOV highway fund, \$27,875 for the TW highway fund and \$5,843 for TOV general fund, or 21 percent higher than the estimates in each fund. Because the Board budgeted and allocated sales tax revenue to the SF fund based on the appropriation for the contractual amounts, there was no sales tax revenue budget variance in the SF fund.



We forecasted sales tax revenue to be received in 2021 and 2022 based on prior year actual revenues and compared these amounts to the Town’s 2021 adopted and 2022 tentative budgets. While the Board increased the estimates in these budgets, it appears the Board continued to underestimate sales tax revenue by \$123,665 (30 percent) in 2021 and \$150,707 (37 percent) in 2022.

The underestimated sales tax revenue occurred because, although the bookkeeper told us estimates are developed by evaluating prior years’ revenues and adjusting as needed, the Board’s estimates used prior years’ budgeted amounts for sales tax rather than the actual results.

The practice of adopting annual budgets that contain unreasonable estimates over an extended period can result in significant budget and operating variances and interfere with the Board’s ability to manage the Town’s financial position adequately and effectively. Specifically, underestimating revenues could result in the collection of more real property taxes than necessary.

The Board Did Not Properly Allocate Sales Tax Revenue

The Board did not properly reduce taxes for activities levied on property in the Town outside the Villages. During the audit period, County distributions totaled:

- \$1,714,350 to the Town,
- \$1,277,300 to the Village of Canajoharie and
- \$89,681 to the Village of Ames.

During fiscal years 2018 through 2021, the Board improperly allocated sales tax revenue totaling \$253,603 to the TW highway fund before reducing the TOV funds’ tax levies to zero.

The Board allocated sales tax revenue to the SF fund to cover the contracts for fire protection services provided to the TOV area and allocated to the TOV funds and TW highway fund using a percentage of the total budget. During the audit period, the Board allocated sales tax revenue totaling \$1,714,350 (Figure 2).

Figure 2: Sales Tax Allocations

Fund	2018	2019	2020	2021 ^a	Totals
TOV General	\$26,713	\$27,939	\$28,878	\$14,032	\$97,562
TOV Highway	225,398	235,909	252,968	119,843	834,118
TW Highway	122,219	128,000	143,405	66,581	460,205
SF	78,236	79,801	81,400	83,028	322,465
Totals	\$452,566	\$471,649	\$506,651	\$283,484	\$1,714,350

a) As of September 30, 2021

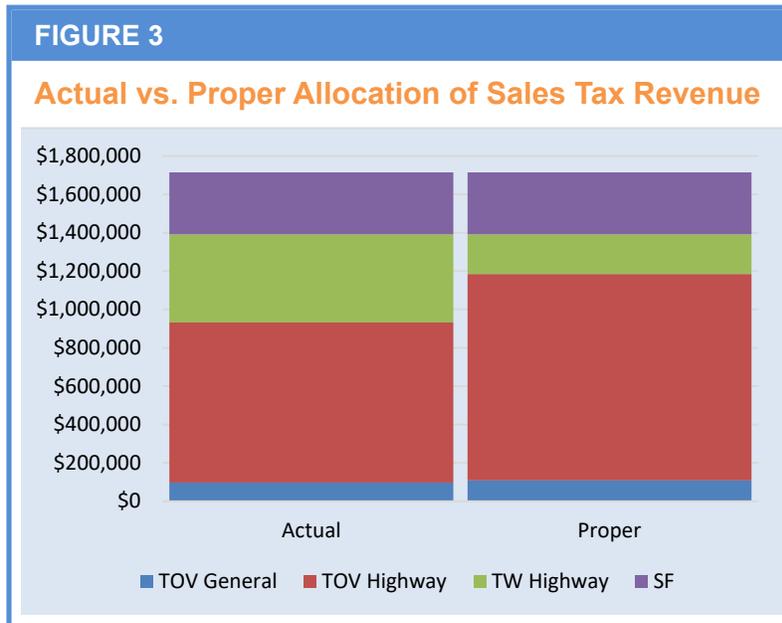
... [T]he Board continued to underestimate sales tax revenue by \$123,665 (30 percent) in 2021 and \$150,707 (37 percent) in 2022.

The TOV general fund and the TOV highway fund had tax levies during these fiscal years totaling \$10,833 and \$242,770, respectively. As a result, the Board unnecessarily levied taxes on the TOV area, totaling \$253,603, that should have been funded with sales tax revenue (Figure 3). Consequently, TW tax levies were \$253,603

less than they should have been and TW taxpayers that also lived in the Villages received the benefit of County sales tax distributions on both their Village and Town tax bills.

The Supervisor and bookkeeper told us they were unaware

sales tax revenue was required to be used to eliminate TOV tax levies before allocating to the TW funds. Because the Board did not properly allocate sales tax revenue, taxes totaling \$253,603 were unnecessarily levied in TOV funds and taxpayer inequities occurred. As a result, Town taxpayers residing outside the Villages did not receive all the benefit they should have from County sales tax distributions. Further, Town taxpayers with real property located within the Villages received an extra benefit from County sales tax distributions at the expense of taxpayers with real property located outside the Villages.



...Town taxpayers residing outside the Villages did not receive all the benefit they should have from County sales tax distributions. ...

What Do We Recommend?

The Board should:

1. Use realistic sales tax revenue estimates when developing budgets.
2. Allocate sales tax revenue to eliminate any unnecessary tax levies on the TOV area.
3. Consult with legal counsel to determine the remedies available to address the taxpayer inequities identified in this report.

Appendix A: Response From Town Officials



Town of Canajoharie

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Re: Response from Town Officials

The Town of Canajoharie agrees with the findings of the audit. The audit pointed out a better way to develop a budget to alleviate the tax burden on our local taxpayers by using sales tax revenues to reduce taxes.

The town bookkeeper will create a spreadsheet to track the sales tax revenues received during the last three fiscal years. The purpose of this spreadsheet is to track the Sales Tax revenues in order to compare expected budgeted amounts with the actual amounts received. It will also give an indication of how the sales tax revenues have increased on a yearly basis and give an idea as to how much could be available to fund future budgets.

In future budgets, with the aid of the spreadsheet, the expected Sales Tax revenues will be more fairly distributed to all four funds. The Fire District will continue to receive Sales Tax revenue to fund its budget in full. The remaining expected sales tax will be distributed to relieve Town Outside and Town Outside Highway of any taxes first. Then the remaining expected sales tax revenues will be allotted to the Town-wide General Fund and the Town-wide Highway Fund.

The Town Supervisor has requested the Town Attorney to determine the remedies available to address the taxpayer inequities that were identified in the Audit Report.

Respectfully,

Benny Goldstein
Town Supervisor

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and employees to gain an understanding of the budgeting process including the allocation of sales tax revenue.
- We compared sales tax revenue budget estimates to actual results for 2018 through 2020 to determine whether estimates were reasonable. Our tests included TW general, TW highway, TOV general, TOV highway and SF funds.
- We reviewed 2019 and 2020 quarterly County sales tax distributions to determine whether amounts were deposited, recorded and reported accurately. We obtained sales tax distribution amounts for the Villages from the County.
- We reviewed records and reports to determine actual sales tax allocations to all funds. We calculated the amount of sales tax revenue that could have been allocated to each fund to eliminate TOV tax levies and the amount remaining to allocate to the TW highway fund.
- We forecasted sales tax revenue for 2021 and 2022 based on known trends and 2021 amounts received to determine reasonableness of estimates.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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