

Town of Moravia

Real Property Tax Exemptions Administration

FEBRUARY 2019



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

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Report Highlights

Town of Moravia

Audit Objective

Determine whether the Assessor properly administered select real property tax exemptions.

Key Findings

We reviewed properties with 85 agricultural, nonprofit, senior citizen, veteran and other exemptions. The Assessor did not:

- Ensure that 68 of 85 (80 percent) granted exemptions we reviewed, contained the required applications, renewal forms or supporting documentation to verify eligibility for the exemption or accuracy of exemption calculations.
- Correctly calculate granted exemptions.
- Report the transfer of four properties with agricultural exemptions to the County and did not require new owners of these properties to submit a new application as required.

Key Recommendations

- Ensure granted exemptions are authorized, supported, accurately calculated and continue to meet eligibility requirements.
- Report the transfer of property with agricultural exemptions to the County and ensure exemptions are granted after the new owners apply.

Town officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Town of Moravia is located in Cayuga County (County). The Town is governed by an elected Town Board (Board) composed of four Board members and the Town Supervisor.

The Board entered into an agreement with the County for the Town Assessor (Assessor) to be an employee of the County Office of Real Property Tax Services. The Board-appointed Assessor is responsible for granting and monitoring real property tax exemptions within the Town's boundaries. The Assessor determines the assessed values of properties for the assessment roll, which is then used to create the tax bills for the following year's tax rolls. The Assessor must retain documentation that properties are eligible for exemptions.

Quick Facts

2017 Number of Parcels	1,449
2017 Exemptions	982
2017 Total Taxable Assessed Value	\$144.5 million

Audit Period

January 1, 2017 – July 11, 2018

Real Property Tax Exemptions Administration

In New York State, the real property taxes are based on the value of real property.¹ Local municipalities raise money through the assessment of real property taxes. The amount of a particular property's tax bill is determined by the property's taxable assessment and the tax rates of the taxing jurisdictions in which the property is located.

The taxable assessment is determined by the assessor and should be based on the market value of the property less any applicable property tax exemptions. The tax rate is determined by the amount of the tax levy to be raised from all, or part, of a town, and the town's total taxable assessed value. Therefore, the assessment roll's accuracy is essential for fair and equitable property taxation.

Though all real property in a town is assessed, not all of it is taxable. Some, such as religious or government owned properties are completely exempt from paying property taxes. Others are partially exempt, such as homes owned by veterans and senior citizens who qualify for an exemption, and land and buildings used for agricultural purposes. While some exemptions are mandated by State law, others are subject to local option and/or local determination of eligibility criteria.

How Should an Assessor Properly Administer Exemptions?

Granted exemptions reduce the taxable assessed value of a property and, therefore, the owner's tax payment. To ensure a town's tax levy is fair and equitable, it is important that the assessor determine every exemption is legitimate. To properly administer real property tax exemptions, the assessor needs to:

- Ensure property owners submit completed applications with proper supporting documentation and meet eligibility requirements.²
- Verify that exemption amounts are properly calculated in the NYS Office of Real Property Tax Services' (ORPTS) Real Property Tax System.
- Annually certify the assessment roll as accurate and complete for all exemptions.
- Periodically verify that those granted exemptions continue to qualify for them.
- Retain supporting documentation for granted exemptions and consult with ORPTS, as necessary, for technical assistance.
- Notify the County when a property with an exemption transfers to new owners, who do not qualify for the exemption, to ensure the new owner is billed for the prorated share of taxes in accordance with New York State Real Property Tax Law, Section 520.

¹ Real property is defined as land and any permanent structures attached to it.

² See Appendix A for additional information regarding eligibility requirements.

The Assessor Did Not Ensure Property Tax Exemptions Were Appropriate

The Assessor granted 306 non-NYS School Tax Relief Program (STAR) exemptions on non-municipal owned property on the 2017 assessment roll, which collectively reduced the Town's 2018 taxable assessed value by more than \$12 million. We reviewed 85 exemptions totaling \$9.3 million and identified issues with 68 exemptions totaling \$6.9 million (74 percent).

Figure 1: 2017 Real Property Exemptions Granted^a

Type of Exemption	Total Exemptions	Town Exemption Value	Number of Exemptions Tested	Exemption Value Tested	Exceptions Identified	Exempt Value of Exceptions
Agricultural	103	\$3,482,898	48	\$2,388,967	44	\$2,232,515
Nonprofits	15	\$4,125,900	9	\$4,059,100	8	\$3,711,100
Senior Citizens	41	\$1,032,310	6	\$312,078	6	\$359,685
Veterans	129	\$1,810,725	15	\$424,575	8	\$312,078
Other	18	\$2,405,825	7	\$2,065,300	2	\$251,500
Totals	306	\$12,857,658	85	\$9,250,020	68	\$6,866,878

^a Excludes STAR and municipal-owned property exemptions

Every exemption shifts the tax burden to the non-exempt properties. Therefore, the rate of exceptions identified (80 percent of those tested) can cause inequity among taxpayers to the extent that exemptions are miscalculated or inappropriately granted.

Exemptions Lacked Applications and Supporting Documentation

We reviewed the files related to the 85 granted exemptions and found that 68 exemptions (80 percent) totaling \$6.9 million in Town-exempt assessed value lacked one or more required supporting documents to determine eligibility or verify the accuracy of the exemption calculation. For example, exemptions granted may have lacked the original application,³ income support, proof of age, proof of military service and a soil group worksheet⁴ or annual renewal form, where applicable. These property owners received \$21,630 in 2018 Town real property tax reductions for unsupported exemptions (Figure 2).

³ NYS establishes legal minimum retention periods for retaining records, including records for real property tax exemptions. Generally, the minimum retention period for real property tax exemption applications and supporting documentation is six years after the expiration of the exemption.

⁴ A soil group worksheet prepared by the Soil and Water Conservation District Office must be filed as part of the agriculture land exemption. The worksheet certifies the number of acres in each mineral or organic soil group for the parcel and is used to calculate the NYS certified soil productivity value for the parcel. The exemption amount is calculated based on this value.

Figure 2: Insufficient Supporting Documentation

Type of Documentation	Exemptions Without Documentation ^a	Value of Exemption
Original Applications^b	45	\$5,018,129
Renewal Applications	42	\$5,436,982
Soil Worksheet	23	\$1,015,449
Veteran Status or Disability	7	\$351,135
Proof of Age	6	\$312,078
Property Information	5	\$346,281
Proof of Income	4	\$244,010

a Some exemptions lacked more than one type of support.

b Or Assessor certification, when acceptable

Exemptions Were Not Always Correctly Calculated

We found that all 17 exemptions with sufficient supporting documentation, totaling \$2.4 million in exempted assessed value were correctly calculated. However, because the 68 exemptions previously discussed lacked sufficient documentation, we were unable to determine whether 43 exemptions with Town-exempt assessed value of \$2 million were correctly calculated.

Calculations for 21 exemptions totaling \$4.4 million were correct, if the property owners qualified for the exemption but four agriculture exemptions totaling \$177,299 in Town exempt assessed value were incorrectly calculated. The agricultural exemptions were incorrect because the soil map worksheet information was incorrectly entered in the software used to calculate the exemption amount and another error⁵ made in the calculation. These incorrect calculations had a net exemption difference of \$31,449 for property owners in 2018.

The Assessment Roll Certification Process Was Incomplete

Although the Assessor certified the assessment roll was accurate, including exemptions granted before her tenure,⁶ she did not review the exemptions granted by previous assessors to ensure these exemptions had the necessary supporting documentation, were correctly calculated and property owners continued to be eligible. Additionally, the Assessor did not require or maintain sufficient documentation for the exemptions she granted, as shown by the following examples:

⁵ The Assessor entered '17' instead of '17,000' in one part of the calculation.

⁶ The current Assessor was appointed in January 2017.

The Assessor did not periodically verify farm income when property owners with agricultural exemptions submit their renewal forms.⁷

The Assessor approved exemptions that required income verification without knowing whether the property owners' information was accurate and complete because she was unable to verify income with an outside governmental entity.⁸

Most of the non-veteran exemptions reviewed had annual renewal requirements. However, the Assessor continued to allow property owners whose files did not contain renewal forms to receive exemptions because the software automatically renews the property exemption unless the Assessor manually updates the system.

Although veteran exemptions do not require an annual renewal, the Assessor did not verify that these properties were still eligible for the exemption. Of 15 veteran exemptions tested, only seven had applications on file. Based on these applications we calculated that the average time since the seven exemptions were granted was nearly twelve years.

When annual renewals are not required, it is especially important to periodically verify that properties are still eligible for the exemptions because the Town could inappropriately continue to grant an exemption to a property that has changed owners or status (i.e., no longer the person's primary residence).

The Assessor Did Not Notify the County When Transferred Property Had Exemptions

We reviewed all nine 2017 transferred properties with non-STAR exemptions totaling \$377,652 in Town exempt assessed value. We found that the new owners were no longer eligible for exemption on three properties for which exemptions were properly removed and taxes prorated. However, the Assessor did not notify the County that four properties with agricultural exemptions totaling \$129,626 in exempt assessed value were transferred.

The Assessor told us that she did not report the four property transfers to the County because she believed the property exemption status did not change when the property was placed in a trust or was part of an estate distribution. While these properties would likely still be eligible for the agricultural exemptions, the new owners are required to complete a new application to ensure their eligibility for the exemption. The Assessor carried forward these exemptions without requiring the new owner to apply for the exemption as required. As a result, these

⁷ Although the renewal form does not require proof of income, the Assessor should periodically verify farm income to ensure the property remains eligible.

⁸ Assessors do not receive income verification from ORPTS for agricultural or senior citizen exemptions and must rely on the supporting documentation provided by property owners.

property owners received \$512 for a portion of the 2017 and all of the 2018 Town real property tax reductions without sufficient documentation supporting their eligibility for exemption.

What Do We Recommend?

The Assessor should:

1. Ensure all applicants provide adequate supporting documentation before granting correctly calculated exemptions and maintain documentation to support eligibility for all exemptions.
2. Ensure previously granted exemptions are supported, accurately calculated and continue to meet eligibility requirements.
3. Report the transfer of the four properties with agricultural exemptions to the County and ensure exemptions are granted after the new owners apply, if the properties still qualify for exemption.

The Board should:

4. Consult the legal counsel regarding recovery and the potential legal and financial impacts the Town may face from prior years' erroneous exemptions.

Appendix A: Specific Exemption Criteria

Agricultural – The agricultural exemption generally requires an average annual gross sales over the previous two years of \$10,000 for farms with seven or more acres of land, or \$50,000 for farms of less than seven acres. This exemption amount is calculated based on a New York State certified soil productivity value for each parcel. Property owners may also lease acreage to eligible farmers and receive an agricultural exemption. Certain newly constructed or reconstructed agricultural structures are allowed a 10-year property tax exemption from any increase in the property's assessed value resulting from the improvement. Property owners receiving the agricultural exemption, pursuant to Agriculture and Markets Law, Section 305, are required to file a renewal form each year certifying the property remains eligible for the exemption and the operation continues to meet the income requirements. Although the renewal form does not require proof of income, assessors should be periodically verifying farm income to ensure the property remains eligible.

Nonprofits – Requirements related to these exemptions vary, but generally require the property be owned by a nonprofit corporation or association organized or conducted for specified purposes and used exclusively for these purposes. Most owners must file an application prescribed by ORPTS or comparable application form. If neither type of form is filed, the assessor may grant the exemption provided she personally inspects the property and certifies in writing that it satisfies all of the requirements for exemption. Some exemptions require annual renewal applications.

Senior Citizens – The senior citizens exemption requires the property be used exclusively for residential purposes and owned by a person 65 years or older (with some familial exceptions) for a consecutive 12 months (unless an exception applies) with varying income limits established by each municipality. Residents receiving this exemption are required to file a renewal form each year, along with supporting documentation to show their income is below the threshold. RPTL also allows income deductions, such as certain medical expenses, to be considered in calculating the exemption amount when adopted by local law. Furthermore, all owners or trustees of a property must meet the requirements to be eligible for the exemption, unless the property is retained for life use by a person otherwise eligible for the exemption. Corporations cannot meet requirements for the senior citizens exemption.

Veterans – Requirements related to veterans exemptions vary, but typically include that the primary residence is of a veteran (or a qualifying family member) of the United States Armed Services who actively served during certain eligible time frames or received an expeditionary medal and were discharged under honorable conditions. These exemptions include amounts for wartime or cold war service, with increased exemption amounts for combat service. Towns may pass local laws that establish these exemptions and raise or lower the

maximum amount that a single property may be exempt from. Furthermore, disabled veterans may receive an additional exemption based on supporting documentation.

Appendix B: Response From Town Officials

TOWN OF MORAVIA

139 Main Street, P.O. Box 1146 Moravia, New York 13118
Telephone (315) 497-1972

TERRANCE BAXTER, Town Supervisor
DAVID PURDY, Highway Superintendent
CAROL WOOD, Town Clerk/Tax Collector

JOSPEH GENTILCORE, Deputy Town Supervisor/Councilman
WILLIAM BADMAN, Councilman

TERESA PALMER, Councilwoman
WENDY FELLOWS-BAXTER, Councilwoman

January 18, 2019

Office of the State Comptroller
Rochester Regional Office
The Powers Building
16 West Main St
Suite 522
Rochester, NY 14614-1608

Dear Sir:

The Town of Moravia is responding to the Comptroller's audit that was conducted from Jan 1, 2017 to July 11, 2018.

The Town agrees with the findings of the audit and is working towards corrections at this time.

Sincerely,

Terrance Baxter
Town Supervisor

Appendix C: 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 reviewed Board minutes and applicable local legislation to gain an understanding of the property tax exemption process and recordkeeping requirements.
- We reviewed Town laws and resolutions to determine whether the types of property tax exemptions granted on the 2017 assessment roll were authorized.
- We reviewed the exemptions granted for the 2017 assessment roll, which is used to generate 2018 taxes. From the total exemptions, we removed the exemptions granted for STAR and municipal-owned property. From the remaining exemptions, we calculated the Town's exemption value as a percent of the overall assessment. We then:
 - Selected a judgmental sample of all 24 properties with exemptions in the 51 to 99 percent range with Town-exempted value totaling \$1.13 million.
 - Judgmentally selected all 38 remaining exemptions with Town-exempted value over \$50,000 totaling \$7.67 million.
 - From the remaining exemptions, randomly selected 5 percent each of agriculture (5 with Town-exempted value totaling \$178,626), senior citizens (2 with Town-exempted value totaling \$47,843) and veteran exemptions (7 with Town-exempted value totaling \$70,590) because the total of the exemptions for these categories represented 93 percent of the remaining exemptions.
 - Judgmentally selected exemptions of Town officials and employees not included in the other samples (9 with Town-exempted value totaling \$144,154).

For these 85 selected exemptions, we reviewed available documentation to determine whether the exemptions had supporting documentation (such as applications, renewal forms, income support, proof of age, proof of military service and soil group worksheets), met eligibility requirements, were properly calculated and properly coded. We recalculated the exemption amounts and calculated the tax dollar effect of any exceptions.

- We reviewed the 66 properties with exemptions that transferred ownership in 2017 and identified nine properties transferred with non-STAR exemptions. We inquired whether the Assessor notifies the County of these transfers and whether real property taxes were pro-rated.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination. 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 and 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 Town Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

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