

Town of Elba

Real Property Tax Exemptions

MARCH 2019



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

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Report Highlights

Town of Elba

Audit Objective

Determine whether select real property tax exemptions are properly supported by adequate documentation.

Key Findings

We reviewed 91 agricultural, veteran and senior citizen exemptions totaling \$6 million, on properties with a total assessed value of \$15.5 million. The Assessor:

- Granted or subsequently maintained 81 exemptions totaling \$5.7 million that were not supported by adequate documentation.
- Did not periodically monitor exemptions or obtain annual renewal documentation as required, to ensure the exemptions remained in compliance with State or local laws.

Key Recommendations

- Ensure all applicants provide adequate supporting documentation before granting exemptions and then retain this documentation.
- Periodically monitor exemptions and ensure annual renewal documentation is provided and retained.

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

Background

The Town of Elba (Town) is located in Genesee County (County) and has a population of approximately 2,370. The Town is governed by an elected five-member Town Board (Board), composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general oversight of the Town's operations and finances.

The Town Assessor (Assessor), appointed by the Board, is responsible for granting and tracking the Town's real property tax exemptions (exemptions) authorized under State and local laws.

Quick Facts

Agricultural, Veteran and Senior Citizen Exemptions

Number of Properties	500
Assessment Value	\$61 million
Number of Exemptions	600
Exemption Value	\$31 million

Audit Period

January 1, 2017 – August 7, 2018

Real Property Tax Exemptions

Why Should Exemptions Be Properly Supported?

Assessors annually determine real property assessed values for the tax roll, which are the basis for real property tax bills issued in the following year and provide for equitable tax apportionment among property owners. While exemptions reduce a property owner's tax liability, they shift a greater tax burden to the remaining non-exempt property owners. An assessor grants exemptions authorized by State and local laws, such as agricultural, veteran and senior citizen exemptions.

Assessors are required to grant exemptions only after valid applications with proper supporting documentation is submitted to them by, or on behalf of, property owners. Assessors should retain these documents to demonstrate that a property was, and remains, eligible for an exemption, and periodically review and monitor the exemptions to ensure property owners and properties continue to meet exemption eligibility requirements.¹ Certain exemptions (agricultural, veteran and senior citizen) require annual, or periodically, updated documentation to maintain eligibility. Under certain circumstances other exemptions (i.e., agricultural) may be granted for longer periods of time, spanning several years.

Exemptions Were Not Properly Supported

We reviewed 91 (15 percent) out of approximately 600 agricultural, veteran and senior citizen exemptions totaling \$6 million on properties with a total assessed value of \$15.5 million.² We found that 81 (89 percent) exemptions totaling approximately \$5.7 million were not properly supported by adequate documentation to establish and/or maintain eligibility.

Agricultural – We reviewed 49 agricultural exemptions totaling approximately \$5.3 million on properties with assessed values of approximately \$12.2 million. Forty-one exemptions valued at \$5.1 million lacked one or more pieces of supporting documentation to verify its eligibility, as follows:

- 19 agricultural exemptions totaling \$4.1 million were farmland district exemptions that lacked any proof of income. Because property owners are required to demonstrate annually that they have income above certain levels to maintain eligibility, these exemptions were not properly supported by adequate documentation.
- 30 agricultural exemptions were for farm structure exemptions totaling \$1.1 million. Sixteen exemptions totaling \$825,000 did not have adequate

¹ See Appendix A for eligibility requirements for the agricultural, veteran and senior citizen exemptions.

² See Appendix C for sampling methodology.

supporting documentation to establish eligibility. This occurred because the Assessor did not either complete and/or retain forms to document and establish the pre- and post-construction assessment values on the corresponding property and structure, which is used to determine the net exempt amount of the property's assessed value. Six additional exemptions totaling \$132,800 were not supported by an initial exemption application form.

The Assessor indicated that while he annually assesses properties and enters the assessment values directly into the Real Property Tax System (System), he does not retain any documentation for this process. Additionally, he does not require property owners to submit proof of farm income periodically because it is a small rural town and he is familiar enough to know that their farm incomes were more than \$10,000. However, the lack of required documentation upon initial filing and annual renewals increases the risk that exemptions may be extended to ineligible farms because the Assessor may not be aware of the actual changes in operations.

Veteran – We reviewed 26 veteran exemptions totaling \$470,000 on properties with a total assessed value of \$2.3 million. The Assessor did not have proof of eligibility documentation for any of these exemptions. The Assessor indicated that he relies on the County's Veterans' Service Agency (Agency) to verify the property owner's military service.³ As such, our exemption verification computation was based on the forms signed and stamped by the Agency that appear to certify the veteran's military service and certain ratings (compensation, disability) for the exemption amounts. Based on our review, it appears that these exemptions were accurately calculated. However, the Town did not have a written policy or an agreement with the Agency to verify the veteran verification services for the Town. When the Assessor does not review the property owner's actual documentation to support exemption eligibility but instead relies on summary information gathered by the Agency, there is a risk that exemptions may be extended to ineligible individuals.

Senior Citizen – We reviewed all 16 of the Town's senior citizen exemptions totaling \$189,000 on properties with a total assessed value of \$1.2 million. Fourteen exemptions totaling \$130,000 lacked annual renewal documents evidencing the property owner's income, as required to maintain eligibility.

In conclusion, when the Assessor does not properly document exemptions as required or periodically review and monitor them to ensure they remain in compliance with State or local laws, the risk of illegitimate exemptions increases.

³ It was not within the scope of our audit to determine whether this arrangement was in accordance with statutory requirements.

Exemptions reduce the taxable assessed value of a property and, therefore, reduce the property owner's tax payment and shift the tax burden to other property owners.

What Do We Recommend?

The Assessor should:

1. Ensure all applicants provide adequate supporting documentation before granting exemptions.
2. Retain documentation to support eligibility for all exemptions.
3. Ensure all application forms are complete.
4. Annually verify income to support exemptions, as required.
5. Periodically review all exemptions to ensure property owners and properties remain eligible.

The Board should:

6. Consult with the Town's attorney to review the veteran verification services provided to the Town by the Agency to ensure it meets statutory requirements and if so, formalize this arrangement with a written agreement.

Appendix A: Specific Exemption Criteria

Our audit focused on agricultural, veteran and senior citizen exemptions from real property taxes in the Town. All real property in New York is subject to taxation unless specific legal provisions grant it exempt status. While certain exemptions are mandated by State law, others are subject to local option and/or local determination of eligibility criteria.

Following are the specific criteria for the exemptions included in our audit.

Agricultural – The 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. The exemption amount is calculated based on a New York State certified soil productivity value⁴ for each parcel. Property owners may also lease acreage to eligible farmers and also receive an exemption. Additionally, certain newly constructed or reconstructed buildings and structures used for farming operations may also qualify for a 10-year property tax exemption or, may qualify for a permanent exemption for temporary green houses, silos and bulk milk tanks. The exemption will terminate if the building or structure ceases to be used for farming operations and/or the land is converted to nonagricultural use. Property owners receiving these exemptions are required to file an annual renewal form certifying the property's continued eligibility. Although this form does not require proof of income, assessors should periodically verify farm income to ensure the property remains eligible.

Veteran – Requirements vary, but typically include that the property is the primary residence of a United States Armed Services veteran (or a qualifying family member). The veteran must have actively served during certain eligible time periods or received an expeditionary medal and have been discharged under honorable conditions. Also, veterans who used eligible funds such as pension, bonus or insurance money, compensation paid to prisoners of war and mustering out [discharge] pay qualify for partial exemption. Towns may pass local laws that establish these exemptions, as well as raise or lower the maximum amount that a single property may be exempt from. Disabled veterans may receive an additional exemption based on supporting documentation.

Senior Citizen – The exemption requires the property be used exclusively for residential purposes and owned by a person 65 years or older, with varying income limits established by the town. New York State Real Property Tax Law allows income deductions, such as certain medical expenses, to be considered in calculating the exemption amount when adopted by the town. 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.

⁴ The New York State Department of Agriculture and Markets Commissioner annually calculates a base agricultural assessment value using the data published by the United States Department of Agriculture for all farming in New York State that identifies the certified soil productivity value for each parcel.

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 reviewed Board minutes and State and local legislation to gain an understanding of our audit scope.
- We inquired with the Assessor and Town officials about the exemption process and recordkeeping requirements.
- We obtained the 2017 Town tax roll (roll) and compared it with the exemption report from the System administered by the County and updated by the Assessor to determine whether the population of exemptions and corresponding dollar values were the same. The exemption population was the same on both the roll and the System report in total and for the sample exemptions that we traced. As a result, we determined the roll data was reliable to use for our audit sample selection.
- We reviewed the roll to determine the total number and corresponding dollar amount of agricultural, veteran and senior citizen exemptions, as it was the most recently completed roll during our audit period. The roll reported approximately 600 agricultural, veteran and senior citizen exemptions valued at \$31 million on more than 500 properties with a total assessed value of \$61 million. We judgmentally selected 91 exemptions valued at \$6 million (19 percent of total population's exemption dollar value) on properties with a total assessed value of \$15.5 million. We focused our sample selection on the 91 higher dollar value exemptions as these have a greater financial tax impact on the remaining taxpayers within the Town. In some cases, certain properties had more than one of our exemption categories.
- We reviewed documentation relating to the exemptions and recalculated exemption amounts to determine whether the property owners received the appropriate exemption amounts.
- We performed corroborating audit procedures to determine whether an exemption that was not properly supported with adequate documentation was reasonably appropriate. These procedures included Internet web searches, online map reviews and inquiries with Town officials such as the Town Clerk and Code Enforcement Officer. We discussed the results of our findings with the Assessor and Town Supervisor to determine whether they had additional information pertaining to the exemptions in our audit sample.

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 size of the relevant population 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 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 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/pubs/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/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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