

Town of Saratoga

Budgeting and Fund Balance Management

SEPTEMBER 2022



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

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Report Highlights

Town of Saratoga

Audit Objective

Determine whether the Town of Saratoga (Town) Board (Board) adopted realistic budgets and effectively managed fund balance.

Key Findings

The Board did not adopt realistic budgets or effectively manage fund balance. The Board also:

- Adopted annual budgets expecting operating deficits totaling \$1,041,991 in the three main operating funds, but operating surpluses totaling \$839,465 occurred, increasing fund balance instead of using amounts budgeted.
- Maintained unrestricted fund balances that were 97 percent, 770 percent and 50 percent of the ensuing year's appropriations as of December 31, 2021 in the town-wide (TW) general, town-outside-village (TOV) general and TOV highway funds, respectively. These amounts are excessive and could be used to reduce the TW general fund's tax levy.
- Improperly funded reserves with transfers totaling \$370,000 from funds with a different tax base, which creates a taxpayer inequity.

Key Recommendations

- Adopt budgets that contain realistic estimates based on available current data and historical trends.
- Develop a plan to reduce the amounts of surplus fund balance in a manner that benefits Town taxpayers.
- Ensure transfers are only made to funds with the same tax base.

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

Background

The Town is located in Saratoga County and includes the Villages of Schuylerville and Victory 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 management and control of financial operations, including adopting the annual budget and establishing financial policies.

The Supervisor serves as the chief executive officer, chief fiscal officer and budget officer and is responsible for day-to-day financial operations.

The Town has three main operating funds including the TW general, TOV general and TOV highway. The TW general fund is funded primarily by real property taxes, while both TOV funds are funded primarily by sales tax.

Quick Facts

Population	5,600
Unrestricted Fund Balance as of December 31, 2021	\$3,666,661
2022 Appropriated Fund Balance	\$386,663

Audit Period

January 1, 2019 – January 31, 2022

Budgeting and Fund Balance Management

How Does a Board Effectively Budget and Manage Fund Balance?

Accurate budget estimates help ensure the tax levy is sufficient to meet operational needs but not greater than necessary. A board should use revenue and expenditure budget estimates that are reasonable and based on historical data or known trends. Once the budget has been adopted, the board should monitor actual revenues and expenditures to identify variances and, when needed, take appropriate actions to correct unfavorable results.

Fund balance, which represents the difference between revenues and expenditures accumulated over time, can be an important financing source. Maintaining a reasonable level of fund balance can provide a cushion for unforeseen expenditures or revenue shortfalls. Towns must assess what would be considered reasonable for their particular situation and adopt a fund balance policy that addresses the appropriate levels of fund balance to be maintained in each fund from year-to-year. The board should use the policy as a guideline during the budget process to properly manage fund balance. When fund balance is appropriated to finance expenditures, the expectation is that there will be a planned operating deficit (budgeted expenditures exceed budgeted revenues) financed by the appropriated fund balance. However, routinely appropriating fund balance that will not actually be used misleads taxpayers and results in increasing fund balances.

Additionally, reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment or other needs. The board should adopt a written policy that communicates to taxpayers why the money is being set aside, the intent for the reserves, and optimal funding levels. The board can fund reserves by making allowable transfers within the same tax base. Amounts to be placed in reserves should be included in the annual budget. Including clear provisions to raise resources for reserve funds in the proposed budget increases transparency and allows taxpayers to know the board's plan for funding reserves.

The Board Adopted Unrealistic Budgets and Did Not Effectively Manage Fund Balance

The Board consistently adopted budgets that contained unrealistic revenue and expenditure estimates. The Board's budgeting practices resulted in the TW general fund generating annual operating surpluses and excess accumulation of unrestricted fund balance in the TW general fund and TOV general and highway funds. The Board also annually appropriated fund balance as a financing source in each operating fund which should have resulted in annual operating deficits equal to the amount appropriated had the Board adopted realistic revenue and expenditure estimates. In addition to the TW general fund's annual operating surpluses, when deficits were generated in either of the TOV funds, they were

Accurate budget estimates help ensure the tax levy is sufficient to meet operational needs but not greater than necessary.

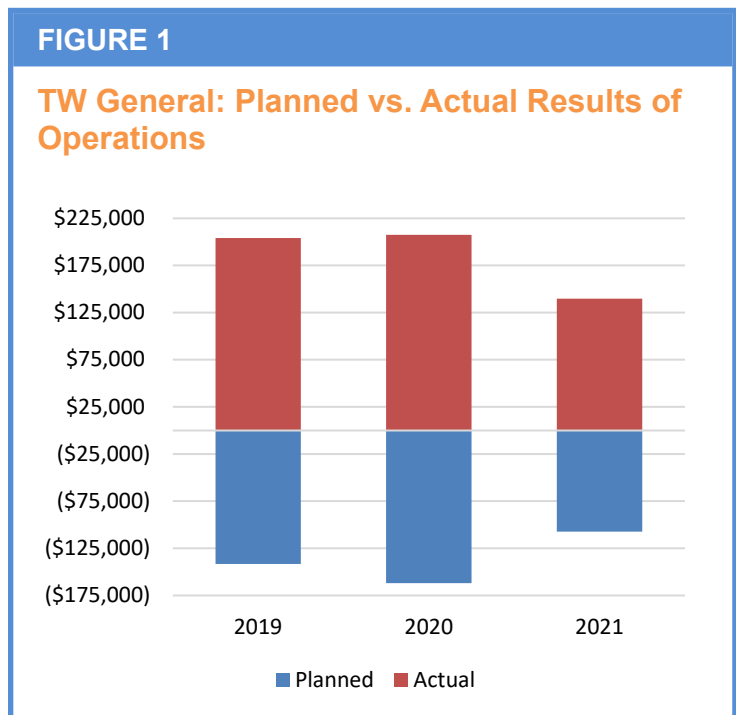
less than the appropriated fund balance and appropriated fund balances were not used as anticipated.

TW General Fund – For fiscal years 2019 through 2021, the Board underestimated revenues and overestimated expenditures, resulting in combined operating surpluses totaling \$550,988, instead of planned deficits totaling \$410,968 (Figure 1).

The Board did not budget for shared joint activity revenue totaling \$96,922 from the County landfill because the revenue sharing began in 2019 and the Board was not certain it would continue. However, this revenue averaged \$32,307 for fiscal years 2019 through 2021, providing trend information for the Board to use. Additionally, the Board did not budget for an allocation of sales tax to reduce the TW general fund's property tax levy. Instead, the Board annually assessed the TOV general fund's year-end unrestricted fund balance to determine whether excess existed and then made transfers totaling \$341,749 to other funds. However, transfers between funds with different tax bases creates a taxpayer inequity and are not statutorily allowed. Grant revenues totaling \$113,348 were also not budgeted because grant applications had not been approved and the Board was not certain whether those revenues would be received.

The Board also underestimated rental of real property by \$64,682 (21 percent) because of the possibility for tenants renting space in the Town's office building to leave unexpectedly during the year. Although the average annual rental of real property revenue was \$104,894, the Board consistently underbudgeted by about \$20,000 each year. Instead of budgeting unrealistically, the Board could have used unrestricted fund balance to cover any shortages resulting from unexpected vacancies.

Expenditures were overestimated across various line items including several within the Town's recreation department. Specifically, in 2019 and 2020, recreation expenditures were overestimated by \$117,218 (222 percent) because the Town planned projects that did not occur due to employee status changes



from full- to part-time and, during 2020, factors related to the COVID-19 pandemic.

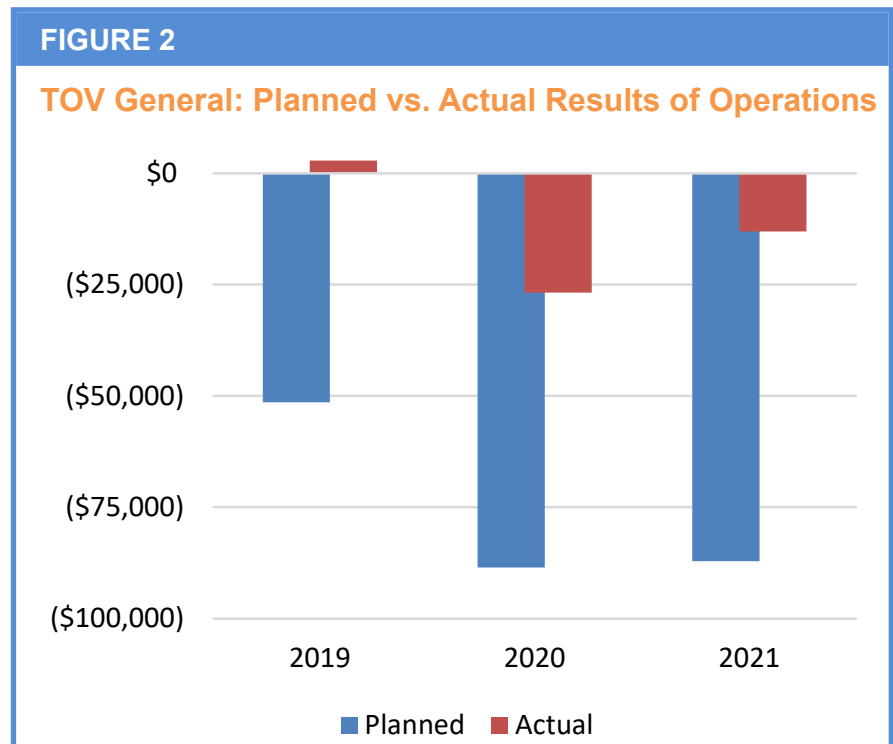
TOV General Fund – While the Board underestimated both revenues and expenditures in the TOV general fund, revenues were more significantly underestimated, resulting in either unexpected operating surpluses or operating deficits that were less than planned appropriations of fund balance. Specifically, revenues were underestimated by \$706,377 for fiscal years 2019 through 2021, including sales tax revenue, which was underestimated by a total of \$635,487 (68 percent).

The Supervisor told us the Town is unaware of sales tax revenue amounts it will receive. However, actual sales tax revenue averaged approximately \$312,000 for fiscal years 2019 through 2021, or \$212,000 higher than budgeted each year. The Board did not increase estimates to reflect actual amounts based on historical or known data or consider allocating sales tax to the TW general fund in the budget to reduce its property tax levy.

Additionally, expenditures were underestimated because, while the Board budgeted for transfers to the capital projects fund totaling \$150,000, it did not budget for annual transfers to other funds totaling \$625,000. The Board did not include these transfers in the budget because it assessed the fund’s year-end unrestricted fund balance to determine whether excess existed and made transfers to other funds.

Further, transfers to the TW general fund were not allowed.

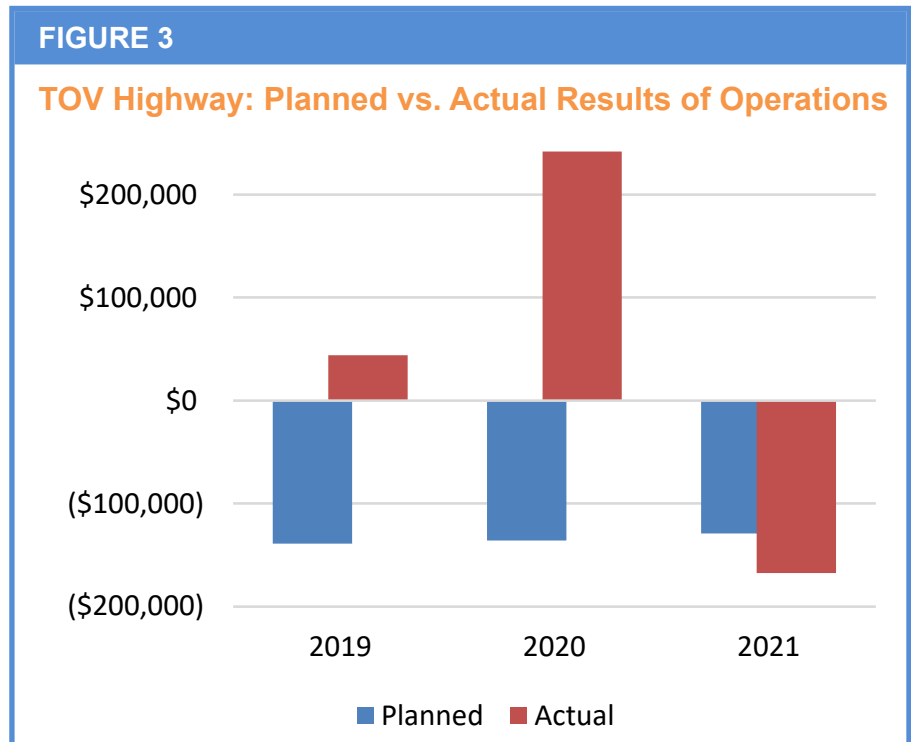
In addition, the Board annually appropriated fund balance as a financing source from 2019 through 2021 totaling \$227,100. However, the unrealistic revenue and expenditure estimates resulted in an operating surplus of \$2,854 in 2019 and deficits in both 2020 and 2021 that were less than fund balance amounts appropriated (Figure 2). As a result, the Town only used \$37,042 of the appropriated fund balance.

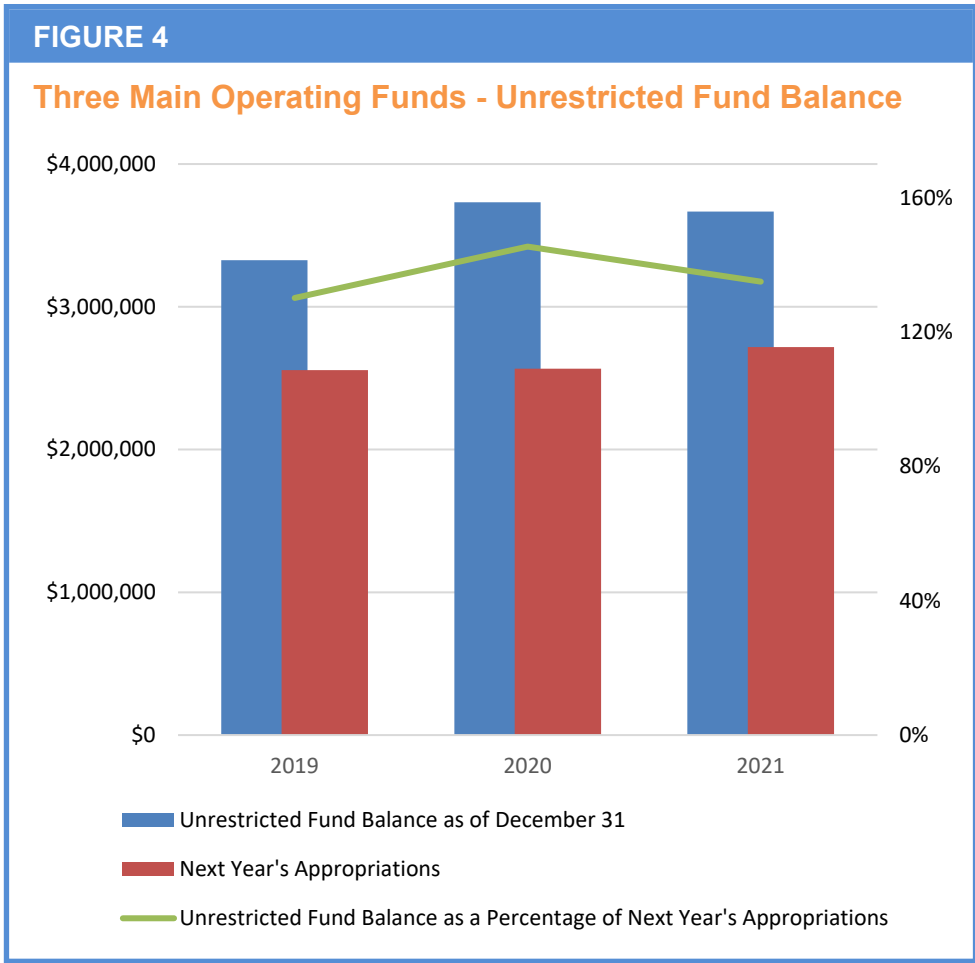


TOV Highway Fund – For fiscal years 2019 through 2021, the Board consistently underestimated revenues because it did not budget for transfers from other funds totaling \$300,000. The Board also overestimated expenditures in 2019 and 2020 across various line items. For example, snow removal personal service expenditures were overestimated by \$102,095. Board members told us they budgeted conservatively for snow removal in the event of higher than normal number of snow storms leading to higher than normal overtime costs. However, the Board could have budgeted more realistically and then used unrestricted fund balance to fund any shortage resulting from unexpected overtime expenditures. Engineering expenditures were also overestimated by \$26,199 because engineering services were not needed as frequently as anticipated. While the Board underestimated expenditures in 2021, the combined operating surpluses from 2019 and 2020 exceeded the operating deficit in 2021, resulting in a fund balance increase.

Additionally, the Board annually appropriated fund balance as a financing source from 2019 through 2021 totaling \$403,923. However, unrealistic revenue and expenditure estimates resulted in operating surpluses totaling \$285,623 in 2019 and 2020 (Figure 3). As a result, while 2021 operations resulted in a deficit of \$167,555, the Town’s fund balance increased by \$118,068 from January 1, 2019 to December 31, 2021.

As a result of unrealistic budget estimates overall, the Town experienced a total surplus of \$632,014, or an annual average of \$210,671, in these funds for fiscal years 2019 through 2021. These results further increased unrestricted fund balance from \$3.3 million to \$3.6 million. During these fiscal years, the Town’s unrestricted fund balance was an average of 137 percent of the ensuing years’ appropriations (Figure 4).





More specifically, the unrestricted fund balance was 97 percent, 770 percent and 50 percent of the ensuing year's appropriations as of December 31, 2021 in the TW general, TOV general and TOV highway funds, respectively (Appendix A, Figure 5). Despite the high levels of unrestricted fund balance maintained, the Board increased the TW general fund tax levy 6 percent, from \$647,803 in 2019 to \$686,000 in 2022.

The Supervisor and a Board member told us that the Town budgets conservatively to reduce the financial burden that the Town could experience if revenue estimates are not met and/or if an expenditure is greater than anticipated. However, the Board could use the high levels of unrestricted fund balance to cover revenue shortfalls and unanticipated expenditures. Additionally, while the Board was provided with detailed year-to-date budget-to-actual comparisons for each fund during monthly Board meetings, a Board member told us that the Board did not usually investigate line-item variances and did not consistently amend the budget throughout the year.

While a conservative approach to budgeting may be prudent, consistently adopting budgets that contain unrealistic estimates limits transparency and interferes with the Board's ability to adequately and effectively manage the Town's fund balance. In addition, annually appropriating unneeded fund balance to finance operations further diminished financial transparency to taxpayers. This also resulted in maintaining excessive levels of unrestricted fund balance and the Board raising more real property taxes than necessary to finance Town operations.

The Board Did Not Establish Fund Balance and Reserve Policies

The Board did not develop or adopt a written fund balance policy or a reserve fund policy detailing the level of fund balance and specific reserves it deemed necessary, including funding levels and a plan for the periodic review of these funds.

The Town has three reserve funds including a parks reserve fund maintained in the TW general fund, highway equipment reserve fund maintained in the TOV highway fund and building reserve fund maintained in the capital projects fund. The Board did not establish optimal funding levels or clearly identify the intent regarding the future purpose, use or replenishment of funds when the reserve funds were established or in other resolutions or policies. According to the Supervisor, the Board was unaware of the need to adopt such policies.

Without comprehensive, written fund balance and reserve fund policies, it is difficult for the Board to properly manage the Town's fund balance and reserves. Specifically, the Town has accumulated unreasonable amounts of fund balance. Because the Board did not clearly identify the intended purposes for fund balance, the Board continued to fund and maintain the park reserve fund without using any of the reserve's money.

The Board Improperly Funded Reserves

During fiscal years 2019 through 2021, the Board transferred \$670,000 from the TOV general fund into the parks, highway equipment and building reserve funds. While transfers totaling \$300,000 to the highway equipment reserve fund were allowed, transfers totaling \$370,000 to the other reserve funds were not allowed because they are maintained in funds with different tax bases. Further, none of these transfers were included in the adopted annual budgets.

Additionally, although the Town used \$139,848 from the highway equipment reserve fund and \$35,480 from the building reserve fund during 2020 and 2021, the funding exceeded the uses and increased the reserve fund balances. The Town did not use the parks reserve fund during the audit period. As of December

[T]ransfers totaling \$370,000 to the other reserve funds were not allowed because they are maintained in funds with different tax bases.

31, 2021, reserve fund balances were \$426,957, \$262,683 and \$482,971 in the parks, highway equipment and building reserve funds, respectively.

According to the Supervisor and one Board member, the Board assesses each fund's year-end unrestricted fund balance and determines whether excess exists to fund reserves. The Supervisor and Board member were unaware that the transfers from the TOV fund were not allowed.

Because TW general fund reserves were funded with transfers from the TOV general fund, taxpayer inequities occurred. As a result, Town taxpayers residing within the Villages benefited from revenues intended for taxpayers residing outside the Villages. Additionally, when the Board funds reserves by making year-end transfers rather than appropriating fund balance to fund reserves, it misses an opportunity to provide additional transparency to taxpayers. Furthermore, when reserve funds are not used and balances maintained continue to increase without clear intent identified, the need for the reserve fund is questioned.

What Do We Recommend?

The Board should:

1. Adopt budgets that contain realistic estimates based on available current data and historical trends.
2. Develop and adopt a comprehensive, written fund balance policy that clearly defines the Town's financial goals including, but not limited to, defining the appropriate levels of fund balance to be maintained in each operating fund.
3. Develop a plan to reduce the amounts of surplus fund balance in a manner that benefits Town taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures;
 - Funding needed reserves;
 - Reducing property taxes; and
 - Paying off debt.
4. Develop, adopt and routinely update reserve fund policies that communicate to taxpayers why the money is being set aside, the intent for the reserves and optimal funding levels.
5. Improve transparency by including reserve funding and transfers in annual budgets and ensure transfers are only made to funds with the same tax base.

Appendix A: Unrestricted Fund Balance at Year-End

Figure 5: Unrestricted Fund Balance at Year-End

	2019	2020	2021
TW General Fund			
Total Unrestricted Fund Balance at Year-End	\$980,818	\$1,121,320	\$1,214,848
Next Year's Budgeted Appropriations	\$1,180,567	\$1,162,882	\$1,257,434
Unrestricted Fund Balance as Percentage of the Next Year's Appropriations	83%	96%	97%
TOV General Fund			
Total Unrestricted Fund Balance at Year-End	\$1,808,236	\$1,886,363	\$1,843,610
Next Year's Budgeted Appropriations	\$211,222	\$210,116	\$239,306
Unrestricted Fund Balance as Percentage of the Next Year's Appropriations	856%	898%	770%
TOV Highway Fund			
Total Unrestricted Fund Balance at Year-End	\$537,241	\$723,406	\$608,203
Next Year's Budgeted Appropriations	\$1,174,704	\$1,192,928	\$1,220,193
Unrestricted Fund Balance as Percentage of the Next Year's Appropriations	46%	61%	50%

Appendix B: Response From Town Officials



TOWN of SARATOGA

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SCHUYLERVILLE, NY 12871**

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FAX # (518) 695-6782**

Supervisor
Thomas N. Wood, III

Town Council
Michael McLoughlin
Gary Squires
Ruth Drumm
Maxine Lautenberg

August 19, 2022

The following is the audit response from the Town of Saratoga. We will prepare and send a detailed corrective action plan shortly.

The entire Financial review process between the state Comptroller's staff and the town of Saratoga staff was productive and pleasant. At all times the state Comptrollers staff was professional and helpful in gathering the needed information and in answering our questions.

There are a few areas that we would like to add some additional information to further explain our perspective.

In regards to the budget process, we were conservative at all times in estimating our revenues. We used past experience as our guide in making our budget estimates but also taking into account the unknown consequences of Covid and potential down turn in the economy. As it turned out the Covid impact was none to minimal and sales tax revenue increased more than anticipated.

Another factor resulting in excessive fund balance was the unexpected increase in Mortgage Tax. The housing market during this audit period mushroomed with many more properties selling higher than normal prices resulting in a large increase of mortgage money.

Also during this audit period all towns in Saratoga County began receiving revenue based on the contract that Saratoga County has with the operator of the Landfill in Northumberland. Under this contract as the quantity of refuse material increased beyond a specific point then the extra revenue would be shared with the towns using a preestablished formula. 2019 was the first year that we received this revenue (approximately \$32,000.) and we received approximately this amount for the 2020 and 2021. For budgeting purposes there was no assurance in any year that we would receive that amount of revenue or if it would decline.

During this audit period we applied for and received a number of state and county grants. AS it turned out we were fortunate and received most of the grants applied for although in some instances they were for lower amounts than requested. Again, for budgeting purposes we never know much in advance what grants are available for what purposes and if we would receive or be denied the requested funds. The receipt of many of these grant funds contributed to our higher than acceptable fund balance.

In each of the three years of the audit we conducted budget workshops involving all members of the town board and bookkeeper. We also invited other staff in such as the highway superintendent, the town justices and their clerks, and representatives of the emergency squad

(General Schuyler-Wilton) . We always reviewed previous years experience -expenses and receipts- before deciding on a number. We were always conservative being cautious on estimated revenue and being sure to appropriate enough to cover expenses never being sure for certain how much certain things might increase in cost.

We were glad to learn that our end of the year fund transfer to three different reserve accounts, transferring money from B account to fund reserve accounts in A account and DB account was not allowed. In the future we will stop this process. We will also adopt a fund balance policy as suggested by the audit.

Your suggestions as to where we might appropriate and spend the overage money that we accumulated over the three years were very good and we will follow up on these suggestions such as reducing property taxes (which are already low) and paying off the mortgage on the property early.

I also want to express that at no time covered by the three year audit period did we exceed the tax cap of 2%. In fact, we never taxed to the maximum allowable number and had a tax carry over for each of those years. One of the goals established by the town board each year at our organizational meeting is to minimize property taxes and we feel that we have achieved that goal for every year.

This was the first time in my 19 year tenure as town supervisor that we have been audited. I believe that audits are a very important and necessary function and provide a learning opportunity for me personally and the entire town staff and residents. Each year since I have been supervisor we have hired an outside audit firm to come in and perform an audit. We have found this to be positive and assuring to town residents that we were always trying to do everything properly and correctly.

In conclusion this audit experience has been very helpful and educational to the town. At all times the Comptrollers staff were professional, easy to work with, and friendly. We have made some errors and will be correcting them. We also will do a better more accurate job in preparing our budget, more accurately estimating expenses and receipts. And lastly, we will spend the accumulated surplus in areas suggested by your office.

Regards,

Thomas N. Wood, III
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 officials and reviewed Board meeting minutes to gain an understanding of the Town's budget development and monitoring process and to determine whether the Board adopted fund balance or reserve fund policies.
- For fiscal years 2019 through 2021, we compared budget estimates to actual results to determine whether budgets were reasonable. We reviewed variances in the three main operating funds to determine which individual revenue and appropriation estimates had the largest variances. We then interviewed officials to determine the cause of significant or unusual variances.
- We reviewed monthly Board meeting packets and minutes to determine whether the Supervisor provided budget-to-actual information.
- We assessed the three main operating funds' year-end fund balance amounts for 2019 through 2021 and analyzed results of operations.
- We reviewed year-end reserve fund balances and reserve activity for 2019 through 2021 to determine how the reserve funds were funded and used.
- We analyzed the TW general fund real property tax levy from 2019 through 2021 to determine the amount of taxes raised each year.

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.

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.

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 D: 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

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

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