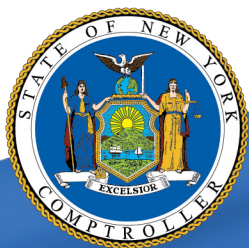


Town of Moreau

Budgeting and Multiyear Planning

APRIL 2018



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

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Report Highlights

Town of Moreau

Audit Objective

Determine whether the Board adopted realistic and structurally balanced budgets and took action to maintain a reasonable amount of fund balance.

Key Findings

- The combined fund balance of the part-town general fund, part-town highway fund, sewer fund and water districts 2, 3, 4 and 5 increased by \$1.4 million during the audit period due to inadequate budgetary estimates.
- The Board has not adopted a fund balance policy or a multiyear financial and capital plan.
- Fund balances are excessive for the part-town general fund, sewer fund and water districts 2, 3, 4 and 5.

Key Recommendations

- Develop budgets based on realistic estimates of revenues and appropriations.
- Develop a fund balance policy to govern the use of available fund balances.
- Create reserve funds and long-term financial plans to protect residents interests.

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

Background

The Town of Moreau (Town) is located in Saratoga County (County). The Village of South Glens Falls (Village) is within the Town's borders.

The Town is governed by an elected five-member Town Board (Board) which is comprised of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general oversight of the Town's operations and finances. The Supervisor, as chief fiscal officer, is responsible for overseeing the budget process and the Town's financial management.

Quick Facts

Population	15,000
2016 Expenditures	\$6.8 million
2016 Revenues	\$7.7 million
2017 Budget Appropriations	\$7.6 million

Audit Period

January 1, 2015 - March 31, 2017

Budgeting

What is Effective Budgeting and Multiyear Planning?

The Board is responsible for accurately estimating revenues and appropriations in the Town's annual budget. The estimation of fund balance is an integral part of the budget process because the Board is responsible for retaining enough unrestricted fund balance at the end of the year to provide a reasonable financial cushion for unexpected events and cash flow in the ensuing year. The Board may appropriate a portion of unrestricted fund balance as a financing source in the ensuing year's budget to reduce the tax levy. Accurate revenue and appropriation estimates help ensure that the amount of fund balance appropriated is reasonable and that the amount of real property taxes levied is not greater than necessary. It is important for the Board to adopt a policy that addresses the level of unexpended surplus funds to be maintained and specifies how the Board expects to use the surplus.

Furthermore, multiyear financial planning enables Town officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. Maintaining a reasonable level of unexpended surplus funds is a key element of effective long-term financial planning. If the amount retained is too low, the Town may not have a sufficient financial cushion for emergencies. It also allows Town officials to assess the merits of alternative approaches (such as appropriating unrestricted fund balance or establishing and using reserves) to finance its operations. However, if this amount is excessive, money is unnecessarily withheld instead of being used to benefit the residents.

The Board Adopted Budgets with Unrealistic Estimates

We compared the Town's operating funds¹ budgeted revenues and appropriations with actual results of operations for the 2015 and 2016 fiscal years. We found the budgeted revenues and appropriations of the town-wide general fund for both years were reasonable as compared to the actual revenues and expenditures. However, the Board adopted unrealistic estimates of revenues and appropriations in the part-town general, part-town highway, sewer and water funds.

Part-Town General Fund – For 2015 and 2016, the Board underestimated revenues by a combined total of approximately \$629,000, or 201 percent, and overestimated appropriations by more than \$217,000, or 43 percent.

¹ The Town's operating funds are the town-wide general, part-town general, part-town highway, sewer and water funds.

Figure 1: Part-Town General Fund Underestimated Revenues and Overestimated Appropriations

	2015	2016	Total
Budgeted Revenues	\$180,700	\$132,700	\$313,400
Actual Revenues	\$680,073	\$261,884	\$941,957
Underestimated Revenues	\$499,373	\$129,184	\$628,557
Percentage Underestimated	276%	97%	201%
Budgeted Appropriations	\$389,645	\$327,969	\$717,614
Actual Expenditures	\$278,636	\$221,968	\$500,604
Overestimated Appropriations	\$111,009	\$106,001	\$217,010
Percentage Overestimated	40%	48%	43%

In 2015 actual sales tax revenue exceeded estimates by \$490,000 and in 2016 sales tax revenue exceeded estimates by \$116,000. As in previous years, in 2015 the Board estimated sales tax revenue in the budget at lower amounts in anticipation of applying sales tax revenue to reduce County taxes in the area of the Town outside the Village. However, the Board chose not to apply the sales tax to reduce County taxes and the part-town general fund realized over \$600,000 in sales tax revenue instead of the estimated \$150,000. In 2016, the Board again applied the sales tax to reduce the County taxes and realized \$215,000 in sales tax instead of the estimated \$100,000.

In 2015, the following appropriations were significantly overestimated: zoning by \$18,000, planning by \$15,000 and medical insurance by \$27,000. Additionally, in 2016, the appropriations for drainage were significantly overestimated by \$25,000 as well as safety inspection by \$32,000. Town officials stated there was employee turnover in the Building Department resulting in actual expenditures being lower than appropriations because the building inspector position was vacant for some time during 2016.

Part-Town Highway Fund – While revenue estimates were in line with actual revenues, the Board overestimated appropriations in 2015 and 2016 by more than \$1.4 million combined, or 36 percent.

Figure 2: Part-Town Highway Fund Overestimated Appropriations

	2015	2016	Total
Budgeted Appropriations	\$2,816,905	\$2,489,964	\$5,306,869
Actual Expenditures	\$2,256,137	\$1,647,021	\$3,903,158
Overestimated Appropriations	\$560,768	\$842,943	\$1,403,711
Percentage Overestimated	25%	51%	36%

In 2015, the following appropriations were overestimated: road improvements by \$173,000, machinery by \$197,000 and snow removal by \$215,000. In 2016, the following appropriations were overestimated: road improvements by \$194,000 and snow removal by \$228,000.

Sewer Fund – For 2015 and 2016, the Board underestimated revenues by \$155,809, or 53 percent and overestimated appropriations by more than \$95,090, or 39 percent.

Figure 3: Sewer Fund Underestimated Revenues and Overestimated Appropriations

	2015	2016	Total
Budgeted Revenues	\$120,000	\$173,300	\$293,300
Actual Revenues	\$277,644	\$171,465	\$449,109
(Over)/Underestimated Revenues	\$157,644	(\$1,835)	\$155,809
Percentage (Over)/Underestimated	131%	(1%)	53%
Budgeted Appropriations	\$166,814	\$174,492	\$341,306
Actual Expenditures	\$108,027	\$138,189	\$246,216
Overestimated Appropriations	\$58,787	\$36,303	\$95,090
Percentage Overestimated	54%	26%	39%

In 2015, the following revenues were underestimated: sewer rents by \$50,000 and sewer hookup fees \$104,000. Sewer administration appropriations exceeded actual expenditures by \$36,000 in 2015 and by \$24,000 in 2016.

Water Fund – The Town's water fund has six separate water districts. For 2015 and 2016, the Board underestimated combined revenues for the six districts by \$213,339, or 14 percent, and overestimated appropriations by \$315,137, or 21 percent.

Figure 4: Water Fund Underestimated Revenues and Overestimated Appropriations

	2015	2016	Total
Budgeted Revenues	\$884,962	\$989,400	\$1,874,362
Actual Revenues	\$1,026,675	\$1,061,026	\$2,087,701
Underestimated Revenues	\$141,713	\$71,626	\$213,339
Percentage Underestimated	16%	7%	12%
Budgeted Appropriations	\$884,817	\$941,174	\$1,825,991
Actual Expenditures	\$781,677	\$729,177	\$1,510,854
Overestimated Appropriations	\$103,140	\$211,997	\$315,137
Percentage Overestimated	13%	29%	21%

In 2015, revenues for all six water districts' metered water sales were underbudgeted by a total of \$47,000 and water service charges were underbudgeted by a total of \$129,000. Also, appropriations for water administration in water districts 1, 2, 3 and 4 were overbudgeted by \$76,000 in 2015 and \$108,000 in 2016. Appropriations for water district 5 were generally in line with actual expenditures. In addition, debt service in water district 1 was underbudgeted by \$55,000 in 2016.

The Board Does Not Maintain a Reasonable Level of Fund Balance

After the appropriations and budgeted revenues are determined, the Board can use fund balances for operations for the next year. It is appropriate to use surplus fund balances to help reduce the amounts needed to be raised by property taxes and user fees for operations. When fund balance is appropriated for operations in the succeeding year, the Board is budgeting for a 'planned' operating deficit in the fund as appropriations exceed budgeted revenues and the difference is to be financed by using fund balance.

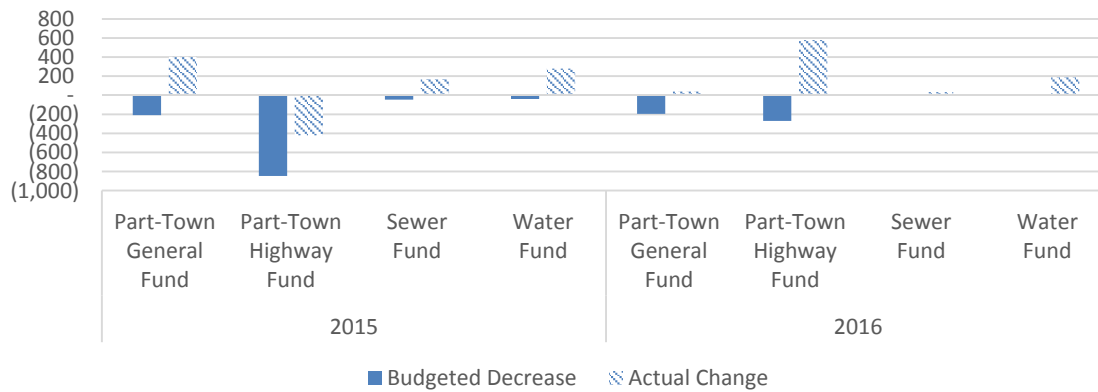
For both 2015 and 2016, the Board appropriated fund balance to fund appropriations in the part-town general, part-town highway, sewer and five of the six water districts.² Due to the significant excess of actual revenues over the amounts budgeted and the actual expenditures being much less than appropriations, the amount of fund balance used to finance operations was much less than planned and, in some cases, none of the appropriated fund balance was used. As a result of the unrealistic budget estimates, the Board has not used appropriated fund balance to finance operations. This has resulted in the Town accumulating excessive fund balances in the part-town general fund, sewer fund and water districts 2,3,4 and 5. The fund balances in these funds increased by a combined \$1,404,566³ during 2015 and 2016.

² One of the water districts budgeted for an operating surplus totaling \$5,936.

³ Part-town general fund – \$845,566, sewer fund – \$220,408, water district 2 - \$181,531, water district 3 - \$56,843, water district 4 - \$60,721 and water district 5 - \$39,497

FIGURE 5

Budgeted vs. Actual Change in Fund Balance (in \$1,000s)



The Town's practice of consistently overestimating appropriations and underestimating revenues has resulted in significant operating surpluses that caused the Town to accumulate and retain excessive fund balances (Figure 6). For example, in 2015, the Board budgeted for a planned operating deficit of \$847,000 in the part-town highway fund, but the fund's actual operating deficit was \$420,000. In 2016, the Board budgeted for a planned operating deficit of \$269,000 in the part-town highway fund, but realized an operating surplus of \$578,000. For these two years the Board planned to use \$1.1 million of fund balance but instead realized a net surplus of \$158,000, resulting in an increase to fund balance.

Prudent financial planning can allow a Town to build up a reasonable level of fund balance to finance unexpected expenditures without the need to increase taxes or user fees. However, if fund balance accumulates to an excessive level, the Town may not be using resident resources in a responsible manner. The part-town general fund, sewer fund and four water districts have excessive amounts of fund balance.

Figure 6: Unexpended Surplus Fund Balances at Year-End as a Percentage of the Ensuing Year's Budget

Fiscal Year-End	Part-Town General		Sewer		Water District 2	
2015	\$2,249,676	686%	\$642,520	368%	\$933,970	546%
2016	\$2,413,930	785%	\$988,477	587%	\$992,575	381%
	Water District 3		Water District 4		Water District 5	
2015	\$111,636	209%	\$902,932	454%	\$308,617	760%
2016	\$133,485	227%	\$944,485	703%	\$339,626	788%

The accumulation of excessive fund balances occurred because of the unrealistic budget estimates for revenues and expenditures and the Board not having established clear expectations for the level of fund balance to be maintained. A written policy that addresses reasonable levels of fund balance to be maintained provides guidance to the Board on how to manage annual operating surpluses when they occur.

The Board Has Not Adopted a Multiyear Financial and Capital Plan

The Board did not develop and adopt a comprehensive, multiyear financial and capital plan. Such plans would be a useful tool for the Board to address the large fund balances in the Town's operating funds and to maintain a reasonable level of unexpended surplus funds at year-end. The plan could outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

The Board can establish reserve funds to finance the planned future capital improvements and repairs. Board members stated their intent was to use the surplus fund balances to fund reserves. However, the Board has not formally established reserve funds. The Board intended on setting up a tax stabilization reserve fund for the part-town fund. However, the Board has yet to officially pass a resolution that is subject to a permissive referendum to create this reserve. The Board discussed using the sewer and water districts' surplus fund balance to purchase a new vehicle and save for maintenance to the current infrastructure.

Without developing a formal multiyear financial and capital plan and establishing reserve funds to finance the plan, there is a risk the Board's intentions for the Town will not be fulfilled.

What Do We Recommend?

The Board should:

1. Develop and adopt budgets that include realistic estimates for revenues and appropriations and the appropriation of fund balance in amounts that are necessary.
2. Establish written policies and procedures governing the budgeting process, which include defining the amounts of unexpended surplus funds that the Town should reasonably maintain.
3. Develop a comprehensive multiyear financial plan to establish long-term objectives for funding long-term needs. These plans should be monitored and updated on an ongoing basis.

-
4. Town officials should use the unexpended surplus funds identified in this report that benefits Town residents. Such uses could include, but are not limited to:
 - a. Reducing property taxes and sewer and water user charges.
 - b. Funding necessary reserves.
 - c. Financing one-time expenditures.

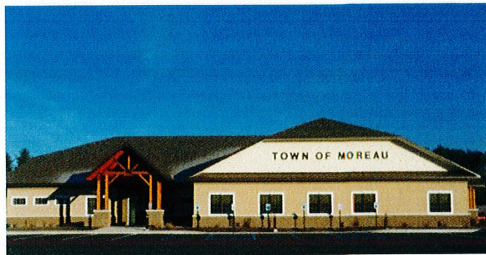
Appendix A: Response From Town Officials

Town of Moreau

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Supervisor

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Alan VanTassel
Deputy Supervisor

John Hogan
Councilman

Gina LeClair
Councilwoman

Kyle Noonan
Councilman

March 22, 2018

NYS Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Comptroller DiNapoli:

The Town of Moreau has received the draft audit report #2017M-185 entitled “Budgeting and Multiyear Planning” for the period of January 1, 2015 – March 31, 2017 which was commenced at the request of the previous Town Supervisor. The Town appreciates the audit objective which was to determine if the Board adopted realistic and structurally balanced budgets and took action to maintain a reasonable amount of fund balance.

Pursuant to Section 35 of the General Municipal Law, the Town submits the following Corrective Action Plan (CAP) in accordance with the 90-day requirement. For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

Audit Recommendation:

“The Board should develop and adopt budgets that include realistic estimates for revenues and appropriations and the appropriation of fund balance in amounts that are necessary.”

Implementation Plan of Action:

The Board has already begun taking action on this recommendation with the adoption of the 2018 budget, which includes the use of fund balance to partially fund 2018 expected appropriations. Additionally, as we begin work on the 2019 budget, the Board will use historical and projected data to closely estimate future revenues and appropriations.

The Town Board will implement this recommendation immediately in preparation of the 2019 Adopted Budget.

Audit Recommendation:

“The Board should establish written policies and procedures governing the budgeting process, which include defining the amounts of unexpended surplus funds that the Town should reasonably maintain.”

Implementation Plan of Action:

The Board will create and adopt a budgeting policy. This policy will include defined amounts of fund balance that is to be maintained in each account.

The Town Supervisor will have a draft of this policy completed by July 2018. It will be the Town Board’s responsibility to edit and adopt a complete version of this policy by September 2018.

Audit Recommendation:

“The Board should develop a comprehensive multiyear financial plan to establish long-term objectives for funding long-term needs. These plans should be monitored and updated on an ongoing basis.”

Implementation Plan of Action:

The Board will adopt a plan for funding long-term objectives/needs. While this planning is being successfully completed on a year-to-year basis, the Board will create a policy for creating sources of revenue and/or establishing reserves for certain long-term objectives of the Town.

The Town Board will define what the Town’s long-term objectives are and then use the Town’s financial data to formulate a plan for achieving these objectives.

Audit Recommendation:

“Town officials should use the unexpended surplus funds identified in this report that benefits Town residents. Such uses could include, but are not limited to: (a) Reducing property taxes and sewer and water user charges, (b) Funding necessary reserves, (c) Financing one-time expenditures.”

Implementation Plan of Action:

The Board will explore options for using unexpended surplus funds in the 2019 budget. These options may include the reduction of taxes, the establishment of reserves for equipment or other expenses, and/or the use of funds for large one-time expenditures.

The Town Board will implement this recommendation immediately in preparation of the 2019 Adopted Budget.

On behalf of the Moreau Town Board, I would like to thank your office for the time and effort required to perform this audit. Should you have any questions, please feel free to reach out to my office.

Sincerely,

Theodore T. Kusnierz, Jr.

TTK/jc

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 to gain an understanding of the Town's financial management policies and procedures. This included inquiries about the Town's budgeting practices and the preparation of multiyear financial and capital plans.
- We analyzed and summarized historical trends in the town-wide general fund, part-town general fund, part-town highway fund, sewer district and water districts for the 2015 through 2016 fiscal years.
- We reviewed 2017 adopted budgets and budget-to-actual reports for March 2017.

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 C: 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#lgmg

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

Contact

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

Local Government and School Accountability Help Line: (866) 321-8503

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