

Town of Harrison

Budgeting Practices

FEBRUARY 2019



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

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Report Highlights

Town of Harrison

Audit Objective

Determine whether the revenue and expenditure projections in the budget and fund balance were reasonable.

Key Findings

- From 2013 through 2017, the Board underestimated revenues in its budgets by a total of \$15.4 million, or an average of \$3.08 million (8 percent) per year, which created excessive unassigned fund balance.
- Unassigned fund balance ranged between 17 and 40 percent of ensuing years' appropriations.

In addition, sensitive information technology (IT) control weaknesses were communicated confidentially to Town officials.

Key Recommendations

- Adopt realistic budgets using results from prior years to project revenues.
- Maintain unassigned fund balance within a reasonable amount.
- Develop a plan to use excess fund balance to benefit taxpayers.

Town officials disagreed with certain aspects of our findings and recommendations but indicated they planned to implement some of our recommendations. Appendix B includes our comments on issues raised in the Town's response letter.

Background

The Town of Harrison (Town) has the same boundaries as its village (coterminous) and is located in Westchester County. The Town is governed by an elected Town Board (Board) that includes a Supervisor and four Council members. The Supervisor is the Town's chief fiscal officer and chief executive officer.

The Town's Comptroller is responsible for day-to-day fiscal operations. The Comptroller's duties include recording all monies received, paying bills and investing surplus funds. The Comptroller also is responsible for accounting and payroll information, bonding employees and presenting the first draft of the budget to the Board, which is based on revenue and expenditure estimates submitted by each Town department.

Quick Facts

Population	28,340
Number of Employees	267
2018 Budget	\$39.3 million

Audit Period

January 1, 2016 – April 2, 2018. We extended our audit period back to January 1, 2013 to analyze budgeting and fund balance trends.

Budgeting Practices

How Does a Board Effectively Manage Town Budgeting Practices?

The board should adopt realistic and structurally balanced budgets based on historical and known trends to ensure that recurring revenues finance recurring expenditures. In preparing the budget, the board must estimate what the town will spend and what it will receive in revenue (e.g., sales tax), how much fund balance will be available for use at fiscal year-end and what the expected tax levy will be. Realistic estimates help ensure that the real property tax levy is not greater than necessary. Town officials should regularly monitor actual revenues and expenditures and report these figures to the board. The board and town officials should routinely compare actual figures to budgeted amounts and take corrective action as needed.

The board must also maintain reasonable fund balance levels. Fund balance is the difference between revenues and expenditures accumulated over time. When a local government ends its fiscal year with an operating surplus, its fund balance increases. A high fund balance can indicate that the level of taxation is too high and probably should be reduced. Towns may appropriate a portion of fund balance (appropriated fund balance) to help finance the next year's budget or can use it for one-time expenditures or to fund reserves.

The Board Routinely Underestimated Revenues

We compared budgeted revenues and expenditures with operating results for 2013 through 2017 and found that expenditure estimates were generally reasonable except for police special detail. However, the Board underestimated revenues by an average of \$3.08 million each year, for a cumulative total of more than \$15.4 million (Figure 1).

Figure 1: Revenues

	Budget	Actual	Excess	Percentage Underestimated
2013	\$35,836,055	\$38,762,620	\$2,926,565	8%
2014	\$36,669,587	\$40,947,289	\$4,277,702	12%
2015	\$37,428,871	\$39,308,209	\$1,879,338	5%
2016	\$37,890,571	\$41,404,915	\$3,514,344	9%
2017	\$38,201,373	\$41,009,563	\$2,808,190	7%
Totals	\$186,026,457	\$201,432,596	\$15,406,139	8%

We reviewed the Town's budget-to-actual reports showing individual accounts for 2013 through 2017 and found numerous examples of underestimated revenues. Although the Board and Town officials knew that certain revenues had been underestimated in previous budgets, they continued to underestimate revenues for these line items in the 2017 budget.

The Town also budgeted similar amounts for these line items in its 2018 budget. Significantly underestimated revenues included sales tax, building fees and permits, police special detail and fines and forfeitures (Figure 2).

Figure 2: Underestimated Revenue Items

Sales Tax			
	Budgeted Amounts	Actual	Excess
2013	\$3,450,000	\$3,864,428	\$414,428
2014	\$3,544,000	\$4,000,171	\$456,171
2015	\$3,744,000	\$3,961,775	\$217,775
2016	\$3,744,000	\$4,011,288	\$267,288
2017	\$3,800,000	\$4,191,542	\$391,542
2018	\$3,900,000		
Building Fees and Permits			
	Budgeted Amounts	Actual	Excess
2013	\$1,800,000	\$3,356,733	\$1,556,733
2014	\$1,800,000	\$4,665,273	\$2,865,273
2015	\$1,900,000	\$2,495,138	\$595,138
2016	\$1,900,000	\$2,518,769	\$618,769
2017	\$1,900,000	\$2,214,357	\$314,357
2018	\$1,935,000		
Police Special Detail			
	Budgeted Amounts	Actual	Excess
2013	\$255,000	\$324,526	\$69,526
2014	\$255,000	\$459,520	\$204,520
2015	\$305,000	\$399,792	\$94,792
2016	\$305,000	\$1,336,726 ^a	\$1,031,726
2017	\$305,000	\$470,874	\$165,874
2018	\$305,000		
Fines and Forfeitures			
	Budgeted Amounts	Actual	Excess
2013	\$1,365,000	\$1,379,294	\$14,294
2014	\$1,365,000	\$1,420,670	\$55,670
2015	\$1,444,000	\$1,598,251	\$154,251
2016	\$1,444,000	\$2,146,057	\$702,057
2017	\$1,560,000	\$2,220,998	\$660,998
2018	\$1,660,000		

^a a Con Edison paid \$1,045,875 for the gas main replacement project that affected West Harrison and Downtown Harrison. This project required an officer to direct traffic at the site, which generated additional overtime payments. Also during the same year, the Town's actual expenditures for police special detail exceeded budgeted amounts by \$642,731.

Although the Board and Town officials told us they used historical or known trends during their budget development process, they consistently underestimated these revenue items during the five years we reviewed. However, officials could easily have calculated more realistic projections for these underestimated revenues.

The Supervisor told us that the Town has experienced significant commercial and residential growth over the last several years that increased building fees and permit revenues. He also mentioned that due to changes in the Town’s justice court judges and court procedures the court processed a backlog of cases, which increased fine revenues for the Town.

The Comptroller told us that 2009 actual sales tax revenue was significantly below estimated amounts. Since then, Town officials decided to budget very conservatively for this revenue due to its volatility. However, Town officials increased the sales tax budget each year since 2015 by approximately 3 percent and in the 2019 tentative budget increased it by 6 percent.

Because the Board underestimated revenues, it appeared that the Town needed to both increase its tax levy and use fund balance to close projected budget gaps. However, those unrealistic revenue estimates actually created annual operating surpluses, resulting in the accumulation of significant fund balance. Although the Town’s tax levy has remained fairly consistent, by underestimating budgeted revenues the Board may be placing a higher tax burden on Town taxpayers than is necessary to provide services for Town residents.

The Board’s underestimation of revenues resulted in the accumulation of unassigned fund balance totaling \$15.7 million as of December 31, 2017, which is about 40 percent of the Town’s budget (Figure 3).

Figure 3: Unassigned Fund Balance

	Fund Balance at Year End	Ensu-ing Year’s Budget	Percentage of Ensu-ing Year’s Budget
2013	\$6,078,821	\$36,669,587	17%
2014	\$9,837,723	\$37,428,869	26%
2015	\$11,893,049	\$37,890,571	31%
2016	\$14,656,237	\$38,201,373	38%
2017	\$15,704,998	\$39,333,838	40%

The Town’s unassigned fund balance increased yearly by \$3,758,902 in 2014, \$2,055,326 in 2015, \$2,763,188 in 2016 and \$1,048,761 in 2016, for a cumulative total of \$9,626,177, due to yearly surpluses. Given these unassigned fund balance levels, the Board may have levied more taxes than necessary for Town operations.

Town officials told us Board members were aware of the excess unassigned fund balance and believed it was reasonable, especially because towns are not restricted as to the amount of unassigned fund balance they may retain.

A Board member told us that unassigned fund balance that ranges between 10 and 20 percent of the annual budget generally is considered reasonable. He said that the total unassigned fund balance was a higher percentage because the Town planned to make building and infrastructure improvements to a Town Court parking facility in 2017 and construct a new recreation center in 2019.

The Town intended to allocate \$6 million toward the parking facility and \$3 million toward the recreation center to offset the total cost of funding both projects.¹ It has already committed, through Board resolutions, about \$4.4 million to fund future capital projects.

If the Town continues to accumulate money for these projects and establish appropriate reserves, it will lower the unassigned fund balance to approximately \$6 million. This amount would be 15 percent of the Town's annual budget, which is still substantial but a more reasonable level of unassigned fund balance than the 40 percent retained at the end of 2017.

What Do We Recommend?

The Board and Town officials should:

1. Adopt realistic budgets using actual financial results from prior years to project revenues.
2. Maintain unassigned fund balance within a reasonable amount.
3. Develop a plan to use excess fund balance to benefit Town taxpayers. Surplus funds can be used as a financing source for:
 - Funding one-time expenditures
 - Funding needed reserves
 - Paying off debt
 - Reducing property taxes

¹ The parking facility was estimated to cost \$12 million, which the Board planned to fund with \$6 million in bond proceeds and \$6 million from fund balance. The recreation center was estimated to cost approximately \$16 million, which the Board planned to fund with \$1 million from the Town's capital reserve, \$3 million from fund balance, \$3 million from Village of Harrison bond proceeds and \$9 million from private funding.

Appendix A: Response From Town Officials²



*Ronald Belmont
Supervisor*

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*Ronald Belmont
Mayor*

January 22, 2019

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Re: Town/Village of Harrison
Budgeting Practices
Report of Examination 2018M-142

The following is the response from the Town/Village of Harrison which also includes our CAP.

Key Findings:

From 2013 through 2017, the Board underestimated revenues in its budgets by a total of \$3.08 million (8 percent) per year, which created excessive unassigned fund balance.

Key Recommendations:

Adopt realistic budget using results from prior years to project revenues.

Response:

The Town/Village of Harrison disagrees with your calculations, specifically in connection with Special Detail Revenue.

Although, after our in person meeting on January 11, 2019 with [REDACTED] and [REDACTED] of your office, you added a note below your revenue graph on page 5, stating that "Also during the same time period, the Town(s) actual expenses for Special Detail exceeded the budgeted amounts as well." This statement does not give a full comparison of budget to actual expenses for Special Detail for the years 2013-2018. To be fair, in order to illustrate the actual numbers for those years, a graph showing the expenses (as you did with the revenue) should have been within the audit. I am providing you with the graph and would request that it become part of our response.

See
Note 1
Page 9

Within your audit, you failed to take into account the fact that the offset to the Special Detail Revenue, is the Special Detail Expense, which pays the salaries of the officers that work the detail and the fringe benefits associated with the salaries paid. Based on those numbers, (calculations attached), the net revenue over budget for years 2013-2018 is \$699,837. [REDACTED] the auditor you sent on site, was

See
Note 2
Page 9

² The Town's response letter refers to attachments that support the response letter. Because the Town's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.

informed of the Special Detail Expense information via email on October 29, 2018.

In regards to the Fines and Forfeitures Revenue, the following information was mentioned in your audit Report on the bottom of page 5, but does not fully explain our position.

As stated to auditor [REDACTED] the Harrison Town Court had a backlog of tickets and they were going to try to get through the back log over a two year period, beginning with 2016. They worked through the back log in 2016 and 2017. There was no way we could properly budget for these amounts since we had no idea how much we would collect. Therefore, instead of budgeting for the funds, at year end 2016 and 2017, we reserved the amounts in excess of budget for future capital projects within the Town Fund Balance. **See attached Town Board Resolution authorizing the reserve (committal) of funds.**

See
Note 3
Page 9

For 2018, the budget for Fines and Forfeitures was \$1,660,000. The State is one month behind with their reporting of Court Revenue, so based on what our court collected and sent up for December, I am estimating that the revenue will come in approximately \$40,000 under budget for 2018. Budget 2018 \$1,660,000 revenue for 2018 \$1,620,000. The brunt of the backlog of court tickets has now been resolved, and the budget for 2018 was reasonable.

In connection with Building Fees and Permits, the annual budget for revenues assigned to the Building Department is based on recurring revenue. The estimated revenues are based on the operations of the Building Department in a normal year ie: fees that come in from average home renovations, new home builds, small commercial renovations, tree removals, site work and CO searches. The Town/Village does not budget large projects that “may or may not” come to fruition within a budget year. We feel that this approach would not be a prudent one or a practice that would be financially sound, especially noting, that for several years we have been told that quite a large project would be starting that would bring millions of dollars to the Town/Village in the form of Building Permits Fees, which to date, has not occurred.

See
Note 4
Page 9

In addition, for year 2015 through 2018, if we did not have the “out of the ordinary large projects”, most of which were unexpected, we would not have made our revenue budgets in those years, just another example of the volatility of the revenue that flows in to the building department each budget year.

For Building Department Revenue years 2016-2018, revenue in excess of budget was reserved for future capital projects within Town Fund Balance. **See attached Town Board Resolution authorizing the reserve (committal) of funds.**

In connection with Sales Tax Revenue, 2013 was the beginning of the economic recovery and the Town/Village budgeted Sales Tax Revenue very conservatively. From 2013 to 2017, the variances ranged from 5-10%. Budgets were increased by 3% based on the previous year budget. Keeping in mind the variable, gas, oil, and heating prices, we felt that the estimates provided within the budget were fiscally prudent.

See
Note 5
Page 9

Additional information we would like to provide in regards to “Excessive Unassigned Fund Balance”:

Within Westchester County, Towns and Villages are required to make whole, both the School Districts

and Westchester County, for the amount of their annual tax levy's, whether collected or not. We therefore assume the responsibility for both the County and Schools uncollected taxes. If there is a cash flow issue, many municipalities have to resort to issuing short term tax anticipation notes to cover operations. We have not had to resort to this and do feel that the calculation you use for "reasonable" fund balance should reflect an amount for these uncollected taxes.

Harrison has a AAA rating with Moody's Investor Services, which saves our taxpayers money each year when we bond, since we pay less in interest costs than other lower rated municipalities. In addition, within Moody's Rating Methodology (copy attached) on page 11, where they give the requirement for a AAA credit rating, they state "Fund Balance as % of Revenues 30%".

At the request of Councilman Fred Sciliano, I am incorporating his opinion to your audit:

"I believe in a conservative approach to estimating revenue each year. In my first years on the Town/Village Council, I experienced low fund balance and an economy at the time that was not good, creating revenue declines, resulting in tough financial times effecting town operations and its citizens. Our fund balance has been rebuilt, which was encouraged by our bond rating agencies. The result is that we borrow at very good interest rates enabling the Town/Village to tackle future projects that we had previously placed on the back burner. With our continued financial success, we will be able to proceed with necessary projects such as a new court house, recreation facility and public works facility replacement and improvements. Portions of the funding will come from fund balance."

See Note 6 Page 9

"We have worked hard to keep our budget within the NYS Tax Cap, which may become permanent this year. It has also come to our attention that our AIM payments totaling in excess of \$180,000 may be eliminated within this budget year, an amount that will have to be made up via expenditure cuts or another revenue stream, which enhances my opinion to keep our conservative approach. "

Ronald Belmont
Supervisor/Mayor
Town/Village of Harrison

Appendix B: OSC Comments on the Town's Response

Note 1

Town officials did not realistically estimate police special detail. Although Town officials were aware that actual revenues and expenditures from 2013-18 exceeded budgeted amounts, the Board continued to budget nearly the same amounts during that period. As a result, overall revenues exceeded expenditures by \$700,000 during this period.

Note 2

The report states that Town expenditures were generally reasonable except for police special detail. Unrealistic budgeting does not provide a useful management tool to monitor expenditures or adequate transparency for taxpayers because it does not accurately present the Town's financial operations.

Note 3

The Town's explanation is included in our report.

Note 4

Although Town officials were aware that actual revenues for building fees and permits exceeded budgeted revenues from 2015-17 by an average of \$509,421 each year, the Board continued to budget the same amounts for building fees and permits. As a result, overall revenues from 2015-17 exceeded estimates by \$1,528,264 during this period.

Note 5

Although Town officials were aware that sales tax revenue continued to increase by between 5 and 10 percent from 2013-17, the Board increased sales tax estimates by only 3 percent each year. As a result, overall revenues exceeded estimates by \$1,747,204 during this period.

Note 6

Total unassigned fund balance of approximately \$15.7 million represents about 40 percent of the Town's ensuing year's budget for 2018, which is still 20 percentage points higher than what Town officials considered reasonable fund balance levels ("between 10 and 20 percent").

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 and analyzed the Town's financial records and reports for the general fund, including annual budgets, annual reports, bank statements, budget status reports and general ledgers.
- We analyzed the Town's 2017 budget and compared it to the prior year's results to determine whether the Town is underestimating budgeted revenues.
- We interviewed Town officials and staff members regarding fund balance and budget appropriations.
- We reviewed budget-to-actual statements.
- We reviewed financial records and reports to ensure that transactions were properly recorded.
- We compared budget estimates to actual revenues, expenditures and fund balance amounts to determine whether the revenue and expenditures estimates were reasonable and whether sufficient fund balances were available.
- We analyzed revenue and expenditure trends for the operating funds for 2013 through 2017.
- We interviewed Town officials about the level of fund balance the Town currently has and whether they had a plan to use the Town's reserve funds.
- We calculated the unassigned fund balance as a percentage of the ensuing year's appropriations to determine whether the Town's unassigned fund balance was reasonable during the 2013 through 2017 fiscal year.

Our audit also examined the adequacy of certain information technology controls. Because of the sensitivity of some of this information, we did not discuss the results in this report, but instead communicated them confidentially to Town officials.

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 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/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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