



Village of Canajoharie

Financial Condition

Report of Examination

Period Covered:

June 1, 2005 — July 31, 2009

2010M-23



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2010

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Village Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of Village of Canajoharie, entitled Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Village of Canajoharie (Village) is located in Montgomery County and has a population of approximately 2,260, with a total assessed value of \$51,444,700. For years, a significant portion of the Village's revenue has been derived from the operations of the Beech-Nut Nutrition Corporation's (Beech-Nut) production facility located within the Village. Beech-Nut accounted for approximately 49 percent of the combined revenues of the Village's general, water, and sewer funds for fiscal year 2009. However, in 2007, Beech-Nut announced plans to relocate and build a new production facility in the nearby Town of Florida.

The Village provides police and fire protection, parks, recreation, snowplowing, water, sewer, garbage pickup, and street maintenance services. The Village's reported 2009 operating expenditures totaled \$1.7 million for the general fund, \$1.2 million for the water fund, and \$1.8 million for the sewer fund. The Village's expenditures were funded primarily with revenues from real property and sales taxes, water and sewer rents, and State aid.

The Village is governed by an elected Board of Trustees (Board) which is composed of a mayor and four trustees. The Board is responsible for the general management and control of the Village's financial affairs and has the power to levy taxes on real property located within the Village and to issue debt. The Village Clerk-Treasurer and the Deputy Clerk-Treasurer are responsible for performing financial duties including maintaining a record of all account balances, reconciling the accounting records to the bank statements, providing the Board with timely, accurate, and useful financial information, and providing annual reports to the Board and the State Comptroller.

Objective

The objective of our audit was to review the financial condition of the Village's general, water, and sewer funds. Our audit addressed the following related questions:

- What is the Village's current financial position?
- Will the relocation of Beech-Nut have a negative impact on the major operating funds of the Village?

Scope and Methodology

We interviewed Village officials and examined financial records of the Village for the period June 1, 2005 to July 31, 2009.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials agreed with our report and indicated they planned to take corrective action.

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 forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Village Clerk-Treasurer's office.

Financial Condition

The Village Board is responsible for making sound financial decisions that are in the best interest of the Village and its taxpayers. As such, it is essential that the Board adopt structurally balanced budgets that provide sufficient recurring revenues to finance recurring expenditures for all operating funds. The Board should closely monitor budgets during the year and be prepared to make any needed budgetary amendments due to revenue shortfalls or actual costs exceeding the appropriations provided for in the adopted budgets.

Multiyear financial planning is a useful tool for local governments struggling with impending difficult financial situations. It allows decision-makers to set long-term priorities and work toward goals, rather than reacting to the fiscal crisis of the moment. Having a plan allows local government officials to see the impact of their decisions over time, to alter some of the variables in the governing equation and to project various outcomes, then make the most prudent choice in the best interest of the taxpayers.

Sometimes, however, financial condition is impacted by unforeseen events that have not been included in the multiyear financial plans and are too large to be addressed with modifications to an annual budget. The Village of Canajoharie has been impacted by such an event as the result of the relocation of the Beech-Nut plant.

The Village's main industry, Beech-Nut Nutrition Corporation, will be relocating its operations during 2010. In 2007, Beech-Nut announced plans to relocate and build a new production facility in the nearby Town of Florida, after 116 years of operations in the Village. As part of the move, Beech-Nut is receiving economic development incentives from Montgomery County and the State. Although announcing the relocation in 2007 gave the Village a few years to prepare, it was not enough time to compensate for long term commitments the Village had made to provide water and sewer service to the plant.

The Village operates and maintains a wastewater treatment plant and a water plant for which Beech-Nut has long been the largest customer using approximately 86 percent of the capacity. In fact Beech-Nut was such a large user that much of the design of the water and sewer capacity was to accommodate Beech-Nut's needs. The Village has outstanding debt that was issued to finance various plant improvements and repairs to ensure the plants could continue to accommodate Beech-Nut's usage. The outstanding debt was to

be paid over various periods of time through 2019 using, in part, charges for service to Beech-Nut. The relocation of this industry will have a significant negative impact on various aspects of Village finances, including the need to pay debt service on water and sewer plants. These plants will have substantial unneeded capacity intended to service Beech-Nut, without the anticipated revenues. While the Village has and continues to make reasonable attempts to attract a new business to take over operations at the Beech-Nut plant and help offset the vacancy that will be created, these efforts have so far been unsuccessful.

Revenues for the water and sewer funds will decrease significantly. Outstanding debt in the water and sewer funds totaled approximately \$3.3 million as of May 31, 2009. This equates to about \$3,915 per user after Beech-Nut relocates. The Village will also lose about 11 percent of its general fund tax revenues annually, requiring an increase of about \$120 per year¹ from each remaining property owner to maintain the same level of revenue. In addition to the \$120 general fund tax revenue increase, each remaining property owner will pay an extra \$1,047 for water and \$1,540 for sewer. This total average increase of approximately \$2,700 per household is unsustainable.

The Village has sought help from larger levels of government with no success. Given New York State's fiscal crisis, it does not appear likely that the State will be able to provide financial assistance. Similarly, it does not appear that Montgomery County is in a position to provide assistance. Village officials are continuing to try to resolve the financial impact. The Board has made attempts to attract a new user to the Beech-Nut plant, and looked for opportunities to sell excess water and sewer capacity to neighboring communities. So far, none of these measures have worked. The Village has also looked into other revenue options, such as placing cell towers in the Village, but the additional revenue is small in relation to the loss resulting from the relocation.

To understand the magnitude of the problem facing the Village, it is helpful to look at the effect on each of the three operating funds of the Village.

General Fund – As of the completion of the 2008-09 fiscal year, the general fund was fiscally healthy. The fund had an unappropriated/unreserved fund balance of \$310,278, or 18 percent of 2009-10 appropriations, with reported cash balances of \$300,988.

¹ Calculation based on average Beech-Nut tax payment over the past four fiscal years distributed over the rest of the taxpayers.

The relocation of Beech-Nut will not have an immediate negative impact on the general fund. General fund tax revenues totaled \$909,542 in the 2008-09 fiscal year. In recent years, the revenues the Village received from Beech-Nut accounted for approximately 11 percent of the general fund's annual tax revenues. It's uncertain what long-term effect on Village property taxes will result from Beech-Nut's relocation. Possible future reductions in assessments on the land and buildings would likely result in an increased general fund tax burden for most taxpayers in order for the Village to maintain the current level of services.

General Fund				
Fiscal Year Ending	Total Tax Revenues	Tax Revenue from Beech-Nut	Beech-Nut % of Total Tax Revenues	Average Increase in Tax per household
2006	\$863,759	\$100,196	12%	\$119
2007	\$896,054	\$104,058	12%	\$123
2008	\$927,427	\$101,925	11%	\$121
2009	\$909,542	\$98,409	11%	\$117
Average	\$899,195	\$101,147	11%	\$120

Water Fund – As of the end of the 2008-09 fiscal year, the water fund was fiscally healthy with a reported unappropriated/unreserved fund balance of \$885,523, or 71 percent of 2009-10 appropriations, and a reported cash balance of approximately \$755,000. Outstanding water fund debt totaled approximately \$2.6 million as of May 31, 2009.

The relocation of Beech-Nut will have a negative impact on the water fund's ability to generate revenues and fund expenditures. The Village provides water to approximately 900 residential dwellings, commercial businesses, and municipal buildings. Over the past four completed fiscal years, Beech-Nut's usage has accounted for a significant portion of the Village's annual water billings. For example, in 2008-09 Beech-Nut's payments for water usage accounted for 75 percent of the fund's total revenues. In fact, during 2008-09 the Village produced 324 million gallons through the water filtration system of which Beech-Nut used 274 million gallons, or approximately 85 percent of the total usage. When Beech-Nut leaves, costs will go down marginally because of less usage of chlorine and electricity. However, most costs are fixed and will not decrease substantially. While revenue can be expected to drop by 75 percent, costs will only decrease marginally. Or more correctly, the other users will have to pay more to compensate for the loss of revenue from Beech-Nut. Assuming costs remain the same and the Village needs to generate all the revenue lost from Beech-Nut, an average

household bill will have to increase by \$1,047² to make up the lost revenue. The following table shows how reliant the water fund has been on revenues from Beech-Nut.

Water Fund			
Fiscal Year Ending	Total Revenues	Revenue from Beech-Nut Usage	Beech-Nut % of Total Revenues
2006	\$915,258	\$631,443	69%
2007	\$1,029,507	\$680,849	66%
2008	\$1,041,431	\$758,259	73%
2009	\$1,178,402	\$882,514	75%
Average	\$1,041,150	\$738,266	71%

Sewer Fund – As of May 31, 2009, the sewer fund was fiscally healthy with an unappropriated/unreserved fund balance of \$589,723, or 32 percent of 2009-10 appropriations, and approximately \$328,503 in cash balances. Outstanding debt in the sewer fund as of May 31, 2009 totaled approximately \$691,000.

The Village provides sewer services to approximately 850 residential dwellings, commercial businesses, and municipal buildings. Annually, the Village bills for in excess of 300 million gallons of sewage. Over the past four completed fiscal years, Beech-Nut's usage has accounted for over 80 percent of the total gallons charged by the Village. Total revenues in the sewer fund increased from \$1,680,562 in 2005-06 to \$1,807,949 in 2008-09. With the relocation of Beech-Nut, the Village stands to lose an annual revenue source that has accounted for approximately 70 percent of its total sewer fund revenues. Due to the commercial rate for Beech-Nut, it pays proportionately less for use of the sewer system; however, a loss of 70 percent of revenues, while costs only decrease for variable costs such as pumping, will have an impact on the finances of the sewer fund that will be devastating. Assuming costs remain the same and the Village needs to generate all the revenue lost from Beech-Nut, an average household bill will have to increase by \$1,540 to make up the lost revenue.³ The following table shows how dependent the sewer fund is upon revenues from Beech-Nut.

² Calculation based on 2009 revenue from Beech-Nut totaling \$882,514.

³ Calculation based on 2009 revenue from Beech-Nut totaling \$1,298,188.

Fiscal Year Ending	Total Revenues	Revenue from Beech-Nut	Beech-Nut % of Total Revenues
2006	\$1,680,562	\$1,176,359	70%
2007	\$1,622,285	\$1,156,928	71%
2008	\$1,580,590	\$1,049,261	66%
2009	\$1,807,949	\$1,298,188	72%
Average	\$1,672,847	\$1,170,184	70%

Village officials are aware that the relocation of Beech-Nut will have a major effect on the Village’s overall fiscal health, particularly on its water and sewer funds operations. It is uncertain whether any subsequent uses for the Beech-Nut facilities can be initiated that will mitigate the negative impact. The Village has contracted with a consulting firm to attract businesses to move into the Village to help offset the vacancy that will be created when Beech-Nut relocates, looked into sales of water and sewer services to neighboring communities and looked for alternate revenues. However, Village officials informed us that they have not been able to find measures to compensate for the loss of the plant. Village officials should continue to seek outside expertise in economic development to assist in the efforts to fill the void left in the local economy by the departure of Beech-Nut.

Recommendations

1. The Village should continue with its efforts to attract new business to help offset the loss of Beech-Nut’s water and sewer usage.
2. Village officials should continue to work with County and State officials to look for alternate uses for the Beech-Nut plant.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

VILLAGE of CANAJOHARIE

Leigh W. Fuller, Mayor
75 ERIE BOULEVARD
CANAJOHARIE, NY 13317
(518) 673-5512 Fax: (518) 673-5517

John Snyder, Deputy Mayor
Jena Coppernoll, Trustee

F. Garth MacFarland, Trustee
Jason Peruzzi, Trustee

July 13, 2010

[REDACTED]
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]:

I wish to thank you and your auditors for the financial condition report for the Village of Canajoharie. It is almost identical to what I have voiced for three and a half years. This letter is to answer and expand on our future.

Since my administration has concentrated on Canajoharie's new future our problems begin when Beech-Nut/Hero leaves our Village in the near future. That date is still an unknown due to the problems with Amsterdam's water and their new Plant.

We have had two water bottling companies interested in Canajoharie water. The economy has gone bust and the possibility of these companies doing any new plants is very remote. With the negativity reports of plastic bottles in the landfills has also put the industry on hold.

We have leased land to a cell phone tower company and this will generate \$14,400 in income for this Village a year. Our waste plant with a budget of \$1,800,000 a year is now accepting MOSA leachate and processing it. This will generate about \$4,000.00 a month. This is not an answer to our outstanding debt of \$2,700,000. We have had a loan extension of 10 years and have requested hardship for no interest.

Forgiveness of part of the \$2,700,000 seems to be necessary if the New York State Legislators ever get together and do their business, Republicans and Democrats alike. Their actions appear extremely strange to the local taxpayers and homeowners of Canajoharie.

Richardson Brands, a confectionary manufacturer, is still with us. With the help of NYS Empire Zone, Montgomery County Industrial Development Association and the efforts of the Village of Canajoharie they may stay in Canajoharie, unless we force them out with higher water and sewage rates caused by Beech-Nut/Hero leaving Canajoharie.

We wish Beech-Nut/Hero of Switzerland good luck in the Town of Florida in their new plant, but history of 128 years of supporting Beech-Nut America and the cost of doing for them will continue for our home and business owners through much higher rates.

We thank you for the report. We are trying to find a new direction in today's very bad economy. Please send us a release date for this audit and to whom we may release.

Sincerely,

A handwritten signature in black ink, appearing to read "Leigh W. Fuller". The signature is fluid and cursive, with the first name "Leigh" being the most prominent.

Leigh W. Fuller
Mayor

Cc: Board of Trustees

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During this audit our overall objective was to assess the financial condition of the Village's general, water and sewer funds and to determine the financial impact of the Beech-Nut relocation on the Village. To accomplish this, we performed an initial analysis of the financial condition of the Village and examined the financial impact of the Beech-Nut relocation on the Village for the period June 1, 2005 to July 31, 2009.

To accomplish our objective, we interviewed appropriate Village officials and employees, tested selected records, and examined pertinent documents for the period June 1, 2005 to July 31, 2009. Our procedures included the following:

- We obtained an understanding of the Village's internal controls related to the Village's budget development and monitoring process.
- We analyzed revenues and expenditure trends, and the changes in fund balance of the general, water, and sewer funds for the 2004-05 through 2008-09 fiscal years, as reported in the Village's annual update document.
- We analyzed Village monthly water and sewer billing records for Beech-Nut and the Village from 2004-05 through 2008-09 fiscal years.

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.

APPENDIX C

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