



Village of Walton Bio-Digester Capital Plan

Report of Examination

Period Covered:

June 1, 2015 – August 16, 2016

2016M-378



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2017

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 Board of Trustee 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 the Village of Walton, entitled Bio-Digester Capital Plan. 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 New York State 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 Walton (Village) is located in the Town of Walton in Delaware County (County). The Village has approximately 3,090 residents and provides various services, including water distribution, sewage treatment, road maintenance, snow removal and general government support. The Village's 2016-17 fiscal year budgeted appropriations for the general, water and sewer funds totaled \$4.8 million, funded primarily by real property taxes, water and sewer fees and State aid.

The Village is governed by an elected Board of Trustees (Board), which comprises four Trustees and the Mayor. The Board is the legislative body responsible for the general management and control of financial operations, including making sound decisions regarding capital improvement projects. The Mayor is the chief executive officer and is responsible for the day-to-day management under the Board's direction.

In 2014, the Board began researching plans to build a bio-digester at the Village's wastewater treatment facility and contracted with an engineering firm to prepare a plan for the project. This plan was presented to the Board in November 2014, and the Board decided to move forward with the project. In March 2015, the Board approved an \$8.5 million bond¹ to cover the anticipated cost of the project. The project is currently in the planning stages.

A bio-digester converts dairy factory waste, food scraps, manure and certain other organic matter into biogas, which can be used in place of natural gas. Village officials anticipate that it would reduce the operating costs of the wastewater treatment facility through the production and use of biogas to generate electricity. In addition, an on-site bio-digester could reduce the costs and amount of sludge the Village disposes of at the County dump. The plan also calls for a new revenue stream from the acceptance of organic waste byproducts generated by local dairy companies.

Objective

The objective of our audit was to determine if Village officials adequately planned for the wastewater treatment facility's bio-digester capital project. Our audit addressed the following related question:

¹ As of August 16, 2016, Village officials had issued bond anticipation notes totaling \$650,000 against the bond.

- Have Village officials sufficiently planned for the wastewater treatment facility’s bio-digester capital project to ensure it is in the best interest of Village sewer users?

Scope and Methodology

We examined Village officials’ bio-digester capital project plans and supporting documentation and interviewed Village officials to gain an understanding of the projected scope and cost of the project for the period June 1, 2015 through August 16, 2016. We extended our scope back to January 6, 2014 to gain a better understanding of the Board’s planning for the project.

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 C of this report.

Comments of Village Officials and Corrective Action

The results of our audit and recommendation have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials disagreed with our findings and recommendations. Appendix B includes our comments on issues raised in the Village’s response.

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 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 Clerk-Treasurer’s office.

Bio-Digester Capital Plan

A core responsibility for any governing board is to make decisions in the best interest of its constituents. Decisions are often based on information and plans from outside sources. In those cases, Board members should ensure that the underlying information is complete and accurate so that resources are not spent unnecessarily. In determining the viability of a capital project, it is imperative for the Board to have a comprehensive plan detailing the project's scope and estimated costs, including the anticipated financing of the project and any expected revenues or expenditures that might be realized from the project.

When a capital project includes adding new technologies to existing infrastructure, justification for the need should be clearly presented to the public. Such justification should include whether additions to infrastructure are needed to continue operations and the anticipated benefits of the project. If a project requires significant capital outlay that will be financed through debt, plans for the repayment of the debt, including portions recovered through fees charged to third-party users, must be based on clearly documented and supported estimates. These estimates should include total construction costs, annual operations and maintenance fees, and expected user fees.

While Village officials have developed a plan (with multiple scenarios) for the wastewater treatment facility's bio-digester capital project, it raises many significant questions about the cost effectiveness. The plan presented to the public included new revenues that would essentially pay for the cost of construction and operation of the bio-digester. According to the Village's engineers, a bio-digester is not a necessity for the wastewater treatment facility's operations. It would operate in addition to the Village's wastewater treatment process. However, by adding it, the facility could potentially reduce its operating costs. In addition, Village officials told us they believe that adding a bio-digester to the wastewater treatment facility would entice businesses to stay in the Village and attract others to the area. However, adding the bio-digester subjects the Village to significant risks because if the potential users discontinue operations or opt not to use the bio-digester, the Village will continue to incur substantial costs. We reviewed the plans presented to the public, including the costs, potential revenues and any alterations that might impact the sewer users. Our review found that these plans were based on revenue estimates that may not be attainable and could result in significant costs to sewer users.

Village officials began planning for the construction of a bio-digester in 2014. At the time, the plan included a revenue stream from three

local companies involved in the dairy industry. These companies produce an organic waste byproduct that the Village could use as a feed stock² for the bio-digester. Currently, these companies haul this byproduct to locations outside of the Village at a considerable cost. Village officials recognized an opportunity to generate revenue by accepting this waste at a lower cost to these local companies. During Board and public information meetings, Village officials said that the cost of the project would be fully covered by the fees from these local companies. However, it is now unclear if the largest company intends to utilize the bio-digester. If it does not, sewer users may be responsible for some of the costs. Given the chance that only two companies may use the bio-digester, Village officials altered the project's design to accommodate less byproduct disposal. However, even with these alterations, sewer users may still bear some costs.

The Board currently has two options for a bio-digester at estimated construction costs of \$4.7 million or \$6.9 million. These two plans differ in size and scope, depending on the level of involvement of the local dairy companies. The projected revenues are contingent on disposal fees for the organic waste byproduct disposals, but there are no contracts in place detailing the amount of those fees. Considering the largest local company's uncertainty about utilizing the bio-digester, it is not prudent to rely on those disposal fees in a cost-benefit analysis. Without securing long-term contracts for the disposal fees projected in its plans, the Board may not be able to ensure the required revenues are in place to complete the project at no cost to the sewer users.

We reviewed all available supporting documentation presented to the public during our audit period and analyzed the impact that sewer users might face. We initially used a \$0.02 per gallon disposal fee based on a letter of interest the Village received from one of the local companies interested in using the bio-digester for disposal of their organic waste byproduct. We recognize that this plan is still ongoing, and, at the conclusion of our audit fieldwork, the Mayor was confident he could secure a long-term contract with the other company with a disposal fee higher than \$0.02 per gallon.

We analyzed alternatives for the bio-digester project, including the Mayor's anticipation of being able to obtain a higher per gallon disposal fee from one of the local companies. Based on our analysis, there may be no viable scenario in which sewer users are not

² Organic matter is the material that is broken down into carbon dioxide and methane in the absence of oxygen in an anaerobic bio-digester. The local dairy companies could supply whey, which is the liquid remaining after milk has been curdled and strained, as the feed stock for the Village's bio-digester.

responsible for some of the costs. The projected cost per sewer user is significant over the life of the bond, as indicated in Figure 1. Sewer users could expect to pay between \$20,000 and \$4.4 million over the life of the debt, depending on which project design and fee structure is implemented.

Project Scope	Disposal Fee	Total Revenues and Savings	Total Costs	Net Impact	Cost per Sewer User
\$4.7 Million	\$0.02 per gallon	\$4,795,625	\$6,458,225	\$(1,662,600)	\$1,183
\$4.7 Million	Blended rate ^b	\$6,438,125	\$6,458,225	\$(20,100)	\$14
\$6.9 Million	\$0.02 per gallon	\$4,795,625	\$9,200,372	\$(4,404,747)	\$3,133
\$6.9 Million	Blended rate	\$6,438,125	\$9,200,372	\$(2,762,247)	\$1,965

^a Projected revenues assume a 25-year contract for year-round waste disposal from the two smaller dairy companies. We also included the estimated electricity and waste disposal cost savings that the Village's wastewater treatment facility could realize by utilizing the bio-digester. Projected costs are based on a 25-year bond at 3.25 percent interest plus \$24,000 per year for operating costs.

^b The blended rate assumes one company pays \$0.02 per gallon (according to its signed letter of interest) and the other company pays a higher rate.

As Figure 1 shows, the best option of using the smaller design and charging a blended rate results in almost a breakeven situation. However, to achieve this, it is important to note that the Village is taking on a long-term risk that both companies will continue production at current or higher levels for 25 years, energy prices will stay the same or increase and that new technology will not be developed that renders the bio-digester obsolete. With no benefit to ratepayers as the best case outcome and the risk of additional costs to ratepayers, it is not in the best interest of the Village sewer users to pursue the bio-digester project unless rates higher than the blended rate can be charged or alternate revenues can be identified. Furthermore, it may not be practical to expect one user to be willing to pay more than the other user to achieve the blended rate.

Village officials received an offer letter from New York State Empire State Development (ESD) for a \$1.5 million grant based on the original project scope and design.³ At the conclusion of our audit fieldwork, they had not formally accepted this grant. However, if the original grant offer is still available and the Village can meet the requirements of job retention,⁴ it could significantly lower the required investment from sewer users. If successful, the smaller project could be viable, as shown in Figure 2. However, the larger project appears cost prohibitive.

³ The original design included the construction of gas piping that would allow the Village to sell the methane gas byproduct to the Walton Central School District and a local dairy processor. This is no longer part of the proposed bio-digester plan.

⁴ The offer letter stipulates that the Village will retain 16 jobs at the wastewater treatment plant.

Project Scope	Disposal Fee	Total Revenues and Savings	Total Costs	Net Impact	Cost /(Savings) per Sewer User
\$4.7 Million	\$0.02 per gallon	\$6,295,625	\$6,458,225	\$(162,600)	\$116
\$4.7 Million	Blended rate	\$7,938,125	\$6,458,225	\$1,479,900	\$(1,053)
\$6.9 Million	\$0.02 per gallon	\$6,295,625	\$9,200,372	\$(2,904,747)	\$2,066
\$6.9 Million	Blended rate	\$7,938,125	\$9,200,372	\$(1,262,247)	\$898

As Figure 2 indicates, the smaller project could be a viable option, but is contingent on very specific variables that may not be attainable, including the ability to use grant funding for a purpose not originally designated. Other considerations that will significantly impact the Village’s cost-benefit analysis and the Board’s decision to continue with the project include the interest rate for the bond and the ability to secure higher, long-term contracts for waste disposal fees. Still, with only \$1,053 per user benefit spread over 25 years (less than \$43 per year), there is little benefit and substantial risk in pursuing the project, even with a blended rate disposal fee. As shown in Figure 2, the larger capacity project option is not viable even with the additional grant funding unless officials can identify users for the additional capacity. At \$0.02 per gallon, it would take almost double the amount of waste byproduct we estimate the Village would receive from local companies, or 145,237,350 additional gallons, for the larger bio-digester to break even.

Village officials’ efforts to plan for a bio-digester have already cost \$451,000, which was financed by a \$650,000 bond anticipation note which will have to be repaid. Sewer users are responsible for repaying this debt whether or not the project is pursued. However, without the grant and securing long-term disposal fee contracts and achieving other favorable variables, such as low interest rates and receiving high volumes of sludge disposals, continuing with the project could result in significantly higher costs to the sewer users than the amounts already expended.

Recommendations

Before incurring additional design costs for the bio-digester capital project, the Board should:

1. Consider abandoning the bio-digester project unless they can secure contracts with local companies for byproduct disposals for an adequate fee and period of time to ensure revenues will be sufficient to exceed the costs to build and operate the bio-digester by sufficient amounts to warrant the substantial risks involved in the project.
2. Determine if the \$1.5 million grant offered to the Village for bio-gas diversion can be used to help finance the cost of the project or to pay the \$451,000 of costs already incurred.

APPENDIX A
RESPONSE FROM VILLAGE OFFICIALS

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

Village of Walton

Incorporated 1851

MAYOR: EDWARD H. SNOW, SR
TRUSTEES: TERESA O'LEARY
DAVID BREESE
ALLAN REYNOLDS
STEVEN SEHEN

JODY L. BROWN
Village Clerk/Treasurer

MISTY PHOENIX
Deputy Clerk/Treasurer



MUNICIPAL BUILDING
21 NORTH STREET PO BOX 29
WALTON, NY 13856
607-865-4358
Fax: 607-865-4327
vclerk@stny.rr.com
www.villageofwalton.com
TDD 1-800-662-1220

PAUL OLSEN
Police Chief

ROGER D. HOYT
Public Works Superintendent

STEPHEN L. DUTCHER
Code Enforcement Official

DAVID MERZIG
Attorney

January 24, 2017

H. Todd Eames
Chief Examiner
Office of the New York State Comptroller
State Office Building
44 Hawley St., Suite 1702
Binghamton, NY 13901- 4417

Re: Village of Walton - Biodigester Project

Sub: Response to Draft Audit Report 2016M-378

Dear Mr. Eames:

This letter provides the Village's response to the Office of the State Comptroller (OSC) Report entitled "Village of Walton Bio-Digester Capital Plan, Report of Examination, Period Covered: June 1, 2015 – August 16, 2016, 2016 M -378". A copy has been attached for reference.

We request that the OSC consider our comments in finalizing the subject report.

In advance of providing specific comments to the draft report, the Village has prepared the following statements:

- 1) The Village continues to negotiate contracts with local companies, whom have expressed strong interest in the availability of the bio-digester, and could provide waste and compensation for payment of capital and operating costs associated with the project.

The Village of Walton is an Equal Opportunity Provider and Employer. Complaints of discrimination should be sent to: USDA, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Ave SW, Washington, DC 20250-9410



These contracts, as well as funding from governmental agencies, will be used to subsidize the cost for construction and operation such that no increase in sewer use fee will occur to existing users. This has always been and continues to provide the basis for proceeding with this project.

- 2) The project will encourage existing local industries to remain as key employers in our area by providing a long term, cost effective waste disposal option.
- 3) The project converts waste products to usable energy sources, resulting in a double environmental benefit.
- 4) The acquisition of Kraft Foods by 3G in 2015, and subsequent communications with Kraft, have altered the original design concept. Two alternatives are currently being considered; a large capacity project including Kraft and a smaller capacity project excluding Kraft. The information contained in the OSC Draft report is draft in nature and are subject to refinement. As such, numbers used and conclusions based thereon remain draft and should not be considered conclusive.
- 5) The Village remains committed to moving forward with the biodigester project. The new facility's processing capacity, as well as capital and O&M costs, remain to be fully refined and subject to change contingent upon the Village's ability to secure financing and suitable contracts with waste providers.
- 6) The Village continues to pursue additional capital cost funding for this work including NYSERDA funding.
- 7) If it is determined that the project is not in the best interest of the Village, the project will not proceed beyond the planning/design stage.
- 8) It is reasonable to assume that any report produced by the OSC would have to be both objective and unbiased. Unfortunately, not all of the facts presented in this report are accurate, which could lead readers to believe that the Village Board has not made responsible decisions regarding this project. The Village Board believes decisions made to date were sound, based on the information and circumstances associated with this project as it has developed. This report, if not revised to accurately qualify the fluid nature of the data and the changed conditions, is biased, and casts a negative picture which could negatively impact contract negotiations and potential additional funding.

See
Note 1
Page 17

Specific comments to the OSC report are noted as follows:

- 1) Pages 7 and 8, Figures 1 and 2, Overall Projected Cost plans Sewer User over 25 years without and with the \$1.5M grant, and associated text.

We understand that OSC prepared this cost analysis based on available information. However, the project components/sizing as well as user fees remain to be established. In addition, the OSC analysis failed to include potential NYSERDA funding.

See
Note 2
Page 17

Therefore, the estimated project costs, disposal fee, revenues/savings, net impacts and cost per sewer user are all subject to change and cannot currently be used to draw final conclusions regarding the feasibility of the project.

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In response to the January 21, 2017 follow-up telephone call from OSC regarding the \$1.5M incentive and NYSERDA we offer the following:

- Attached are excerpts from the NYS Empire State Development Incentive Proposal, dated April 18, 2016, for the reimbursement of \$1.5M which indicates that these funds can be applied to the digester project for “Reimbursement for a portion of the costs associated with the acquisition of machinery and equipment” (ref. Page 3 of attached excerpt).
- In regards to NYSERDA funding, it is anticipated that a new program will soon be announced for digesters. Potential funding typically varies based on the program requirements and the scope of the digester project (e.g., amount of electrical generation). Therefore, at this time a specific number for potential NYSERDA funding cannot be provided. However, the Village intends to submit a proposal to NYSERDA once applicable program information becomes available.

See
Note 3
Page 17

2) Page 9 Recommendations:

The Village has reviewed the OSC recommendations and requests that the OSC recommendations be replaced by the following recommendations:

See
Note 4
Page 17

Proposed Recommendations to replace those in the Draft OSC report

1. Continue with contract negotiations with potential waste contributors to secure contracts to provide revenue to cover operational costs as well as debt service costs associated with the project. Contracts terms to be either correspond to the term of the eventual bond (e.g., 25 years) or be multi-year contracts with a renewable clause and a parent company guarantee to pay for their portion of the debt service, and estimated O&M costs, if the contract ends prior to the term of the bond.
2. Determine if the \$1.5 million grant previously awarded to the Village for bio-gas diversion can be used to help finance the cost of the project or to repay the \$650,000 bond anticipation note.
3. If adequate funding, in the form of waste contributor contracts and financial assistance, cannot be secured to ensure revenues will be sufficient to exceed the costs to build and operate the bio-digester, consider two options:
 - Completing the design for the project so that the Village has a shovel ready project available for future implementation and when energy prices/economics and infrastructure financing programs become more favorable, and
 - Performing no additional work and abandon the project.

In summary, the Village remains committed to proceed with the project as long as it proves beneficial to the Village sewer users/tax payers. We request that the OSC consider revising the draft report to include our recommend changes.

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Please contact me at 607-865-4358 if you have any questions or would like to discuss this further.

Sincerely,

Edward H. Snow, Sr.
Mayor

cc: Jody Brown, Village Clerk
Dave Merzig, Village Attorney
Village Board

Attachments:

- Excerpts from \$1.5M Incentive Proposal

The Village of Walton is an Equal Opportunity Provider and Employer. Complaints of discrimination should be sent to:
USDA, Office of Civil Rights, Room 326-W, Whitten Building, 1400 Independence Ave SW, Washington, DC 20250-9410





Empire State
Development

SOUTHERN TIER REGIONAL OFFICE

April 18, 2016

Edward Snow, Mayor
Village of Walton
21 North Street,
Walton, NY 13856



Dear Mr. Snow:

On behalf of New York State and Empire State Development, please let me express my enthusiasm for working with you and the Village of Walton to expand capability at its wastewater treatment plant in New York State.

As we understand the project, the Village of Walton will design and install a new biodigester that will convert biosolids to methane gas which can be utilized as a fuel source in electrical generators and heating boilers. Specifically, the Village will conduct site work, purchase and install a new primary and secondary digester, and acquire electrical generation, mixing equipment and a gas conditioning system. In addition, several pipelines will be constructed. A new digester will create a local disposal site for Kraft and other local industries reducing their operational costs. The project will retain 16 full-time permanent employees and occur in the Village of Walton, Delaware County. Total capital investment for the project is estimated at \$8,900,000.

To encourage you to proceed with this project, we are offering the Village of Walton an incentive valued at \$1,500,000.

Please review the attached Incentive Proposal to see how New York State and Empire State Development are prepared to assist the Village of Walton with its project located in the Southern Tier Region of New York State. If you choose to accept our offer, please acknowledge your decision by endorsing the last page of the attached proposal and returning one copy to me at 8 East Denison Parkway, 2nd Floor, Corning, New York, 14830-2638, one copy to the Southern Tier Regional Office at 44 Hawley Street, 15th Floor, Binghamton, New York 13905, and the original copy to Edwin Lee, Vice President of Empire State Development's Loans and Grants Department, including the \$250 application fee, by May 19, 2016.

We look forward to working with you on this exciting project and can be reached at 607-426-2999 at your convenience.

Very truly yours,

Joseph Roman
Economic Development Specialist
Southern Tier Regional Office

cc: Edwin Lee
Attachment: ESD Incentive Proposal



UPSTATE REVITALIZATION INITIATIVE - INCENTIVE PROPOSAL

Village of Walton

April 18, 2016

This Incentive Proposal outlines the general terms and conditions of the incentive package being offered by Empire State Development ("ESD")* to the Village of Walton to assist with its job retention project in the Village of Walton, Delaware County. This offer is subject to the availability of funds, completion of any applicable (1) non-discrimination and contractor diversity, (2) environmental and historic and (3) smart growth review requirements, approval by the ESD Directors, applicable statutes, and compliance with program requirements.

* The New York State Department of Economic Development and the New York State Urban Development Corporation, d/b/a Empire State Development, are collectively referred to as ESD.

I. GENERAL INFORMATION

- a) Recipient Name: Village of Walton (the "Recipient")
- b) Contact Information: Edward Snow
Mayor
Village of Walton
21 North Street,
Walton, NY 13856
Phone: 607-865-4358
E-mail: vclerk@stny.rr.com
- c) Project Location(s): 54 South Street
Village of Walton, NY 13856
- New York State Empire Zone: N/A
- d) Type of Business: Village
- e) Number of Full-time, Permanent Employees at all NYS Locations as of Today's Date: 16
- f) Number of Full-time, Permanent Employees at Project Location(s) as of Today's Date: 16
- g) Number of Part-time or Seasonal Employees, or Full-time Contract Employees at Project Location(s) as of Today's Date: 0

II. PROJECT SPECIFICS

a) Project Description: The Village of Walton will design and install a new biodigester that will convert biosolids to methane gas which can be utilized as a fuel source in electrical generators and heating boilers. Specifically, the Village will conduct site work, purchase and install a new a primary and secondary digester, acquire electrical generation, mixing equipment, and a gas conditioning system. In addition, several pipelines will be constructed. A new digester will create a local disposal site for Kraft and other local industries reducing their operational costs.

b) Estimated Schedule: Begin: December 2015
Complete: August 2017
Estimated ESD Directors' Approval: November 2017

c) Company Employment Commitment: Retain 16 existing Full-time Permanent Employees.

d) Time Period Required for Employment to be maintained at Project Location(s): Through January 1, 2023

New York State Job Bank: ESD encourages the Recipient to post, to the maximum extent feasible, job openings associated with this project through the New York State Job Bank, where New Yorkers can view the region in which they live, see which industries are growing and find out what jobs are available in various economic sectors. Job listing options include:

- Self-posting – No cost service allows businesses to manage their job orders throughout the recruitment process. <http://newyork.us.jobs>
- Indexing – No cost service to allow jobs posted on your company website to upload daily to the New York State Job Bank. <http://us.jobs/indexingrequest.asp>

Definition of Full-time Permanent Employee: (i) a full-time, permanent, private-sector employee on the Recipient's payroll, who has worked at the Project Location for a minimum of 35 hours per week for not less than four consecutive weeks and who is entitled to receive the usual and customary fringe benefits extended by Recipient to other employees with comparable rank and duties; or (ii) two part-time, permanent, private-sector employees on Recipient's payroll, who have worked at the Project Location for a combined minimum of 35 hours per week for not less than four consecutive weeks and who are entitled to receive the usual and customary fringe benefits extended by Recipient to other employees with comparable rank and duties.

III. PROJECT BUDGET

You have informed us that the following costs will be incurred to complete this project. It is understood that these costs are estimates, based on the best information available to date. If these figures change, please inform your ESD contact as soon as possible.

Construction / Renovation	\$2,908,000
Infrastructure / Site Work:	\$800,000
Machinery and Equipment:	\$3,330,800
Other Project Costs (Architectural /Engineering):	\$1,861,200
Total Estimated Cost:	\$8,900,000

IV. ESD INCENTIVES

Upstate Revitalization Initiative – Capital Grant – Project # AA747 / CFA #52319

- a) **Amount:** \$1,500,000
- b) **Use of Funds:** Reimbursement for a portion of the costs associated with the acquisition of machinery and equipment.
- c) **Requirements:** Funds will be disbursed in arrears in three installments:
1. 50% of the grant (\$750,000) upon completion of the project as described in Sections II and III above, including documentation of the following:
 - employment of at least 16 Full-time Permanent Employees at the Project Location;
 - total project expenditures of approximately \$8,900,000, including purchase and installation of \$3,330,800 in machinery and equipment; and
 - a Certificate of Occupancy or other documentation verifying project completion as ESD may require;
 2. 25% of the grant (\$375,000) upon documentation of employment of at least 16 Full-time Permanent Employees at the Project Location and to be requested no sooner than 12 months after the initial disbursement; and
 3. 25% of the grant (\$375,000) upon documentation of employment of at least 16 Full-time Permanent Employees at the Project Location and to be requested no sooner than 24 months after the initial disbursement.

ESD will be entitled to recoup all or part of ESD's grant if the Recipient fails to reach or retain employment as agreed upon at the Project Location, as described above in Sections II(c) and (d), and consistent with the disbursement installments mentioned above in Section IV(c).

APPENDIX B

OSC COMMENTS ON THE VILLAGE'S RESPONSE

Note 1

Our audit findings and conclusions are based on the most current information and data available. The information used was provided and presented to the public during several public Village meetings regarding the project. Using this information, our audit appropriately concludes that, without achieving certain favorable variables, continuing with the project could result in significantly higher costs to the sewer users than the amounts already expended.

Note 2

Our analysis did not include any potential funding from the New York State Energy Research and Development Authority (NYSERDA) because we were not provided any documentation regarding such funding. We urge officials to only consider funding once they are certain it is available. As of the date of this response, the NSYERDA program for Anaerobic Digester Gas-to-Electricity is closed and may open if additional funding is available; however, there is no certainty that such funds will, in fact, be available.

Note 3

We calculated an overall cost per sewer user, with and without the potential reimbursement of \$1.5 million from ESD. We encourage Village officials to determine if this grant is still available and they can meet the requirements of the grant, including job retention, as there have been significant changes to the project specifics outlined in the ESD incentive proposal, including the project description, estimated schedule and project budget.

Note 4

We stand by our recommendations as stated in the report and do not agree with the proposed recommendations provided by the Village. Given the significant financial risks associated with continuing this project, we believe the Village should re-evaluate the proposal before pursuing it further.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Village officials and reviewed the bio-digester capital project plan and Board minutes to gain an understanding of the reasons for the project along with the anticipated cost of the project. We also discussed financing plans to determine if officials have developed a plan for repayment of debt if local companies do not renew dumping contracts.
- We reviewed the engineer's project cost estimates and a letter of interest from one of the local companies to determine if the revenue streams would be sufficient to cover the cost of building and operating the bio-digester as presented to sewer users.
- We projected revenues assuming 25-year contracts for waste disposal from the two smaller companies at \$0.02 per gallon, and assuming that waste disposals will be received 365 days a year. We also projected revenues assuming one company paid a higher rate.
- We estimated the waste disposal cost savings the Village would realize from building a bio-digester based on the Village's current dumping fees for disposal of sludge from the wastewater treatment facility and the engineer's projected reduction in sludge. We also used the engineer's project cost estimates to estimate the amount of electrical savings the Village would realize from using the bio-digester.
- We projected the cost to build and operate the bio-digester using Village officials' various proposed plans as presented to Village residents to project the potential costs per sewer users. We estimated the borrowing cost at 3.25 percent interest, based on the rate the Village obtained for its last bond.

We conducted this performance audit in accordance with 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 D

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