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April 11, 2014

Daniel Teplesky, Superintendent  
Members of the Board of Education  
Monticello Central Schools  
237 Forestburgh Road  
Monticello, NY 12701

Report Number: P4-13-8

Dear Superintendent Teplesky and Members of the Board of Education:

The Office of the State Comptroller works to help school district officials manage their resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts 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 Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

In accordance with these goals, we conducted an audit of eight school districts in Broome, Delaware, Schoharie, Sullivan and Tompkins Counties. The objective of our audit was to determine whether energy performance contracts (EPCs) entered into by school districts achieved the cost and/or energy savings projected by the vendor who executed the contract. We included the Monticello Central School District (District) in this audit. Within the scope of this audit, we examined the District's EPC, including the Energy Service Company's (ESCO) projections, and reviewed energy consumption and costs for the period July 1, 2004 through August 21, 2013.

This report of examination letter contains our findings and recommendations specific to the District. We discussed the findings and recommendations with District officials and considered their comments, which appear in Appendix A, in preparing this report. District officials generally agreed with our recommendations and indicated they planned to take correction action. At the completion of our audit of the eight school districts, we prepared a global report that summarizes the significant issues we identified at all of the school districts audited.

## **Summary of Findings**

The District is not projected to achieve the energy cost savings guaranteed by the ESCO that executed the EPC. Over the life of the EPC, the energy cost savings are projected to total approximately \$3.85 million and the operational savings for maintenance are projected to total \$124,100, for a total cost savings of \$3.98 million. However, the ESCO guaranteed energy cost savings of \$4.38 million and operational cost savings of \$124,100, totaling \$4.51 million. Additionally, District expenditures are expected to total \$5.67 million, for a net loss of \$1.69 million before inclusion of any grants or State aid. With the receipt of grants and State aid, the total savings are projected to amount to approximately \$247,800.

## **Background and Methodology**

Article 9 of the Energy Law establishes procedures to be used by school districts in initiating and administering EPCs. An EPC is an agreement by an ESCO for the provision of energy services in which energy systems are installed, maintained or managed to improve the energy efficiency of, or produce energy for, a facility in exchange for a portion of the energy savings or revenues. EPCs are not subject to voter approval or competitive bidding requirements and the length of the contract must not exceed the useful life of the building (which the New York State Education Department has established at 18 years). In addition, school districts should establish procedures to monitor these EPCs. The ESCO may agree to guarantee that the improvements will generate cost savings sufficient to pay for the project over the term of the EPC; however, cost savings are not a requirement for a successful contract. After the EPC ends, the school districts may continue to realize additional cost savings as a result of the improvements.

The District is located in Sullivan County and has five school buildings, an administrative building, and an operations and bus garage. It has approximately 3,100 students and general fund budgeted appropriations of \$80.2 million for the 2013-14 fiscal year. The District is governed by a nine-member Board of Education (Board). The Board is responsible for conducting the business of the District within the laws of the State and regulations of the New York State Commissioner of Education.

In September 2007, the Board entered into an EPC with an 18-year contract term from July 2012 through June 2030. The EPC project work was completed in June 2012 and included upgrades to the District's boilers; lighting; heating and ventilation systems; and air, vending machine and bus heater controls and the installation of a wind turbine. The ESCO guaranteed energy and operational cost savings from these upgrades totaling \$4.51 million. The capital project cost totaled \$4.15 million.

To accomplish our objective, we interviewed District officials and a representative from the ESCO. We also reviewed the EPC to obtain the scope of the work, the cost of the project, the length of the contract, the contracted ongoing maintenance and verification costs, the guaranteed energy savings, and the projected energy cost savings and operational savings over the life of the project. We obtained utility data, including the consumption and rates for the base year, which was a two-year average from July 2004 through June 2006, and verified the reasonableness of the ESCO's base-year calculations. We also verified the ESCO's projected increase in utility

rates based on utility costs for New York State from the U.S. Energy Information Administration from 1994 through 2004 and verified an average increase in utilities of zero percent was reasonable. We calculated the energy savings by subtracting the annual consumption for July 2012 through June 2013 from the base year's consumption. We then multiplied the energy savings by the base-year utility rates. We then projected these savings out from July 2013 through June 2030 by using the most recently completed year's calculated savings. We also documented the lease payments over the life of the contract using the payment schedule. We then subtracted the expenditures related to the EPC from the total cost savings calculated to identify any potential savings. We also considered any grants or State aid received or expected to be received relating to the EPC.

We conducted our 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

### Audit Results

The District's EPC is not projected to achieve the ESCO's guaranteed energy cost savings of \$4.38 million, but is expected to achieve the guaranteed operational cost savings of \$124,100. However, the District is still projected to achieve energy and operational cost savings of \$3.98 million, as shown in Table 1. Because the ESCO has not yet prepared the first completed year's reconciliation report,<sup>1</sup> we could not determine if there were adjustments that would need to be made. We calculated that the District had only realized an energy cost savings of approximately \$214,000 for the first measurable year of July 2012 through June 2013, which is \$29,500 less than the guarantee for that time period. This difference results in our total projected energy cost savings being \$530,900 less than the ESCO's guaranteed savings over the life of the EPC.

Projected Energy Cost Savings	\$3,851,532
Projected Operational Cost Savings	\$124,092
Total Projected Energy and Operational Savings	\$3,975,624
Lease Payments Including Interest	\$5,666,503
Net Benefit Without Grants and State Aid	(\$1,690,879)
Grants Received	\$67,877
Projected State Building Aid	\$1,870,770
Net Benefit With Grants and State Aid	\$247,768

Over the life of the EPC, the energy cost savings<sup>2</sup> are projected to total approximately \$3.85 million and the operational savings for maintenance are projected to total \$124,100, for a total

<sup>1</sup> The reconciliation report was due to the District in August 2013. As of October 2013, the District has not received a reconciliation report from the ESCO.

<sup>2</sup> To calculate the projected energy costs and potential loss, we used the actual energy cost prior to the EPC for the base year (two-year average of July 2004 through June 2006), with annual zero percent increases in the utility rate for the life of the project. We multiplied the actual consumption from July 2012 through June 2013 by the base-year utility rates to determine the actual energy costs after the EPC was completed. We then used the July 2012

cost savings of \$3.98 million. However, District expenditures are expected to total \$5.67 million, for a net loss of \$1.69 million before inclusion of any grants or State aid. With the receipt of grants and State aid, the total savings are projected to amount to approximately \$247,800.

The District does not have monitoring procedures in place. Although the Director of Facilities and Operations' secretary maintains a running total of the bills for budgetary purposes, no one had planned to use these figures to ensure that the ESCO has met its guaranteed energy and operational savings. District officials stated that they will rely on the ESCO to monitor the EPC to ensure that the District is achieving the savings guaranteed. The ESCO has not yet provided a reconciliation report as the first year of measurable savings just ended in June 2013.

### **Recommendations**

1. Before considering an EPC in the future, District officials should perform a cost-benefit analysis based on the ESCO's projected energy cost savings and negotiated contractual term to determine if the investment in energy upgrades is beneficial.
2. District officials should implement monitoring procedures to include timely reviews of the District's electricity, fuel oil and propane consumption and the related costs and compare their reviews to the annual guaranteed energy cost savings to ensure those guarantees are being met.
3. District officials should consider consulting the District's legal counsel if they find that the guaranteed savings have not been met to determine whether they should take action to recoup the difference between the amount of cost savings that was guaranteed by the ESCO and the District's actual savings/losses.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law, and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The Board should make the CAP available for public review in the District Clerk's office.

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through June 2013 calculated energy costs and projected them out for the remaining 17 years (July 2013 through June 2030) of the EPC.

Our office is available to assist you upon request. If you have any further questions, please contact H. Todd Eames, Chief Examiner of the Binghamton Regional Office, at (607) 721-8306.

Sincerely,

Gabriel F. Deyo

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Monticello Central School District

237 Forestburgh Road, Monticello, New York 12701

Tel: 845-794-7700 Fax: 845-794-7710

Mr. Daniel A. Teplesky, *Superintendent of Schools*

Mrs. Susan M. Purcell, *President - Board of Education*

[www.monticelloschools.net](http://www.monticelloschools.net)

Mr. Daniel A. Teplesky, Superintendent  
[dteplesky@k12mcsd.net](mailto:dteplesky@k12mcsd.net)

*"Building Excellence Through Trust"*

November 17, 2013

Office of the State Comptroller  
Division of Local Government & School Accountability  
PSU – CAP Submission  
110 State Street, 12<sup>th</sup> Floor  
Albany, New York 12236

To whom it may concern:

This letter is in response to your audit of the Monticello Central School District's Energy Performance Contract (EPC) with an 18-year contract term from July 2012 to June 2030. The scope of this EPC included upgrades to the District's boilers, lighting, heating, ventilation and air controls, vending and bus heater controls, and the installation of a wind turbine. The Energy Service Company (ESCO) guaranteed energy and operational cost savings of \$4.51 million with these upgrades.

The district concurs with the findings and will take the necessary steps to ensure the taxpayers of the Monticello Central School District the cost savings the ESCO stated at time of contract.

## **Corrective Action Plan**

**Recommendation 1** – Before entering into an EPC, District officials should perform a cost-benefit analysis based on the ESCO's projected energy cost savings and negotiate contractual terms. This cost-benefit analysis should consider whether the District is projected to save with the benefits of grants and state aid to justify the District's investment in energy upgrades.

**Corrective Action:** School district officials will perform a cost-benefit analysis based on the ESCO's projected energy cost savings; whereby allowing school district officials to negotiate contractual terms. This process will take place prior to the next EPC Project.

**Recommendation 2** – District officials should implement monitoring procedures to include timely review of the District's electric, fuel oil and propane consumption and the related costs and compare their review to the annual guaranteed energy cost savings to ensure those guarantees are being met.

**Corrective Action:** District Officials will set up a meeting between the District and the ESCO to put a schedule in place to sit and review District's electric, fuel oil and propane consumption and the related costs and compare their review to the annual guaranteed energy cost savings to ensure those guarantees are being met. The District will assign an existing employee to monitor the fuel and utility consumption.

**Recommendation 3** – District Officials should consider consulting the District's legal counsel if they find that the guaranteed savings have not been met to determine whether they should take action to recoup the difference between the amount of cost savings that was guaranteed by the ESCO and the District's actual savings/losses.

**Corrective Action:** The District will consult with legal counsel; should the District find that the guaranteed savings have not been met in order to take action to recoup the difference between the amount of cost savings that was guaranteed by the ESCO and the District's actual savings/losses.

Thank you for your time and consideration concerning this matter.

Sincerely,

Mr. Daniel Teplesky  
Superintendent of Schools

Cc: Board of Education  
Denise S. Cedeira, School Business Administrator