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April 11, 2014

Brian D. Sherman, Superintendent  
Members of the Board of Education  
Schoharie Central School District  
P.O. Box 430  
136 Academy Drive  
Schoharie, NY 12157

Report Number: P4-13-6

Dear Superintendent Sherman 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 Schoharie 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, 2006 through August 31, 2013.

This report of examination letter contains our findings specific to the District. We discussed the findings with District officials and considered their comments, which appear in Appendix A, in preparing this report. District officials generally agreed with our findings. 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 will likely achieve the cost savings projected by the ESCO that executed the EPC. The energy cost savings are projected to total approximately \$2.94 million over the life of the EPC while total expenditures are approximately \$2.47 million, netting to a gain of \$474,500. When State aid is included, the District is projected to save a total of \$2.19 million.

## **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 Albany, Montgomery, Schenectady and Schoharie Counties and has three buildings in operation. It has approximately 800 students and general fund budgeted appropriations of \$21 million for the 2013-14 fiscal year. The District is governed by a seven-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 May 2010, the Board entered into an EPC with an 18-year contract term from November 2012 through October 2030. The related project work was completed in October 2012 and included several upgrades to the District's boilers, lighting, heating, ventilation and air controls. The ESCO guaranteed energy cost savings from these upgrades totaling \$2.81 million. The capital project cost totaled \$2.1 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 cost savings and the projected energy cost savings over the life of the project. We obtained utility data, including consumption, costs and rates for the base year, which was a three-year average of fiscal years 2006-07 through 2008-09, 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 2000 through 2010 and verified an average increase in utilities of 3 percent was reasonable. We calculated the total energy cost savings by obtaining the most recently completed year's consumption and projected out the remainder of the year and then subtracted it from the base year's consumption. We then multiplied the energy savings by the base-year utility rates and projected these savings out using the average increase of utilities for November 2012 through October 2030. 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 projected to achieve energy cost savings that exceed the \$2.81 million in energy cost savings guaranteed by the ESCO, as shown in Table 1.

Projected Energy Cost Savings	\$2,943,803
Lease Payments Including Interest	\$2,469,302
Net Benefit Without State Aid	\$474,501
Projected State Building Aid	\$1,715,219
Net Benefit With State Aid	\$2,189,720

Over the life of the EPC, the energy cost savings<sup>1</sup> are projected to total approximately \$2.94 million. District expenditures to implement the terms of the EPC total approximately \$2.47 million, for a net gain to the District of approximately \$474,500 before inclusion of any grants or State aid. With the receipt of State aid, the total savings are projected to amount to approximately \$2.19 million.

The District has monitoring procedures in place for electricity, heating oil and propane; all of which are included as part of the energy savings of the EPC. District officials monitor the electricity, heating oil, and propane consumption and costs by reviewing the District's utility invoices and compiling the consumption and costs for year-to-year comparisons.

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<sup>1</sup> To calculate the projected energy costs, we utilized the three-year average of the 2006-07 through 2008-09 fiscal years' energy costs prior to the EPC for the base year with annual 3 percent increases in the utility rate for the life of the project. We then multiplied the actual and projected consumption from November 2012 through October 2013 by the escalating base-year utility rates to determine the projected energy costs after the EPC was completed. We used November 2012 through October 2013 calculated energy costs and projected them out for the remaining 17 years (November 2013 through October 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.

# Schoharie Central School District

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IN THE PURSUIT OF EXCELLENCE

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October 18, 2013

Andrew A. SanFilippo  
Executive Deputy Comptroller  
Office of State and Local Government Accountability  
State of New York  
Office of the State Comptroller  
110 State Street  
Albany, NY 12236

Dear Mr. SanFilippo:

Please accept this letter as the official "Response from District Officials" for Appendix A re: Report Number P4-13-6: Energy Performance Project Audit of the Schoharie Central School District.

As the auditors note in the report "The energy cost savings are projected to total approximately \$2.9 million over the life of the EPC while total expenditures are approximately \$2.47 million, netting to a gain of \$474,500. When the state aid is included, the District is projected to save a total of \$2.19 million."

Our review of the data supports the conclusions of the auditors; therefore the District is in agreement with the findings stated in the report.

The auditors further note that the District is required to establish procedures to monitor the estimated cost savings for the EPC and they confirm that the District presently has such procedures in place.

Further, the District, in its agreement with the ESCO (Ameresco, Inc.) has a contractual provision for a monitoring process. The first full year for utilization of all of the energy conservation measures provided with the equipment upgrades through the EPC has been November 1, 2012 to October 31, 2013. Ameresco will be onsite within the next few weeks to conduct the initial monitoring and measuring visit, and will do so every year hereafter within the timeframe in the agreement.

(continued on next page)

Letter to Andrew A. SanFilippo

October 18, 2013

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Also, Schoharie Central School District appreciates the professionalism and courtesies extended to us during the audit engagement by the examiners, [REDACTED]

The District wishes to extend an invitation to the Office of the State Comptroller that we would be pleased to serve as a host site should there be a desire by OSC or any other school district, for training regarding an ongoing EPC, or for any school district that would be contemplating entering into an EPC.

Sincerely,

Brian D. Sherman  
Superintendent of Schools

Robert W. Bonaker  
Assistant Superintendent for Business

cc: Board of Education Members