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April 11, 2014

Mary Kay Frys, Superintendent  
Members of the Board of Education  
Johnson City Central School District  
666 Reynolds Road  
Johnson City, NY 13790

Report Number: P4-13-1

Dear Superintendent Frys 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 Johnson City 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 January 1, 2007 through May 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 and operational cost savings are projected to total approximately \$8.09 million over the life of the EPC while the total expenditures are approximately \$7.99 million, netting to a gain of approximately \$103,900. When grants and State aid are included, the District is projected to save a total of \$4.93 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 Broome County and has five buildings in operation. It has approximately 2,500 students and general fund budgeted appropriations of \$47.9 million for the 2013-14 fiscal year. The District is governed by a six-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 January 2009, the Board entered into an EPC with an 18-year contract term from May 2013 through April 2030. The related project work was completed in April 2013 and included several upgrades to the District's boilers, lighting, heating, ventilation and air controls, and high school kitchen equipment. The ESCO guaranteed energy consumption savings from these upgrades, but did not guarantee corresponding cost savings. The ESCO also projected an operational cost savings of \$524,100 over the life of the EPC. The EPC capital project work was performed in three phases, with a total capital project cost of \$5.7 million. During the capital work of the EPC, the District also had an EXCEL<sup>1</sup> capital project that added an additional 39,875 square feet to the high school and middle school buildings.

To accomplish our objective, we interviewed District officials, the District's Energy Audit Manager 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, costs and rates for the base year of January 2007 through December 2007 and verified the reasonableness of the ESCO's base-year calculations. We also verified the ESCO's

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<sup>1</sup> Expanding our Children's Education and Learning (EXCEL) is a New York State Education Department grant/aid program.

projected increase in utility rates based on utility costs for New York State from the U.S. Energy Information Administration from 1997 through 2007 and verified an average increase in utilities of 3 percent was reasonable. We verified the energy savings guaranteed by the ESCO and reviewed four months of the current year’s consumption to verify that the District was on track to achieving these savings. We multiplied the guaranteed energy consumption savings in the contracts by the base-year utility rates and projected these savings out using the average increase of utilities for May 2013 through April 2030. We 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 the guaranteed energy consumption savings of 1,882,252 kilowatt hours, 3,421 kilowatts, 98,834 therms and 17 kilo gallons. The ESCO did not guarantee the associated energy cost savings or the operational cost savings. However, using the base rates, we projected the energy cost<sup>2</sup> and operational savings over the life of the EPC total \$8.09 million as shown in Table 1.

<b>Table 1: Projected Energy Cost Savings Over the Life of the EPC</b>	
Projected Energy Cost Savings	\$7,567,765
Projected Operational Cost Savings	\$524,062
Projected Energy and Operational Cost Savings	\$8,091,827
Lease Payments Including Interest	\$7,788,927
Ongoing Maintenance and Verification	\$199,023
Net Benefit Without Grants and State Aid	\$103,877
Grants Received	\$350,763
Projected State Building Aid	\$4,471,192
Net Benefit With Grants and State Aid	\$4,925,832

District expenditures to implement the terms of the EPC total approximately \$7.99 million, for a net gain to the District of approximately \$103,900 before any grants or State aid. With the receipt or potential receipt of grants and State aid, the total savings will amount to \$4.93 million.

The District has monitoring procedures in place. The District has an energy manager who monitors the energy consumption and costs using a utility management program that tracks bills and helps find utility billing problems and energy waste and inefficiencies. The energy manager works with the ESCO to ensure that the guaranteed energy savings are achieved.

<sup>2</sup> To calculate the projected energy cost savings, we used the ESCO’s guaranteed annual energy consumption savings and multiplied it by the base-year utility rates with an annual 3 percent increase to project out the energy savings for the 18-year life (May 2013 through April 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 page.

## Johnson City Central School District

666 Reynolds Road  
Johnson City, NY 13790  
www.jcschools.com



*Educational Excellence for a Changing Tomorrow*

November 1, 2013

Mr. Todd Eames  
Chief Examiner  
Office of the State Comptroller  
44 Hawley Street, Room 1702  
Binghamton, NY 13901-4417

Dear Mr. Eames:

On behalf of the Johnson City Central School District, this letter is in response to the recent audit of the Energy Performance Contract that the District recently undertook. We appreciate the opportunity to work with the Office of the State Comptroller to assure our taxpayers that they are being provided with accurate information and that the proper process is followed.

The audit report shows that there was approximately \$60,000 spent over the amount of projected savings prior to grants and State Aid. That represents 1% of the total expenditure for new equipment. In the project, the District is set to realize approximately \$8.09 million. The \$60,000 appears to include on-going maintenance and verification funds, along with the interest cost for the financing. At the inception of the agreement with the ESCO, these are variable numbers, which are subject to change. There were also additions to the maintenance contract due to other equipment we chose to include in the new agreement.

The District agrees wholeheartedly with the need to perform a Cost-Benefit analysis. It is important for the District to have a solid basis on which to make decisions. This was done at the inception. It appears there may have been some other factors built in to the analysis that may not have been dealt with at the inception of the project. In our case, we were able to replace old outdated equipment that was either on the verge of failure or had already failed, with new modern, energy efficient infrastructure. It was a long term investment in the infrastructure which saves the District considerable cost, man hours and energy. Additionally the financial investment was covered in full by the savings, grants and State Aid.

Please accept our sincere thanks for the efforts of your staff to perform this analysis. It was a very professional and productive process. Going forward, we will institute some of the alternative methods suggested by the auditors. We fully believe that Energy Performance Contracts play a significant role in District operations. In today's world of limited resources, this process is an essential tool that allows our district to control cost, while maintaining and upgrading necessary equipment and infrastructure.

Sincerely,

Mary Kay Fry  
Superintendent