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April 11, 2014

Chris Pettograsso, Superintendent
Members of the Board of Education
Lansing Central School District
284 Ridge Road
Lansing, NY 14882

Report Number: P4-13-3

Dear Superintendent Pettograsso 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 Lansing 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 September 1, 2006 through July 10, 2013.

This report of examination letter contains our findings and recommendations specific to the District. We discussed the findings and recommendation 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 will likely achieve the energy and operational cost savings projected by the ESCO who executed the EPC. However, these cost savings are achieved only when State aid is factored into the calculation. Although the energy and operational cost savings are projected to total approximately \$5.67 million over the life of the EPC, the total expenditures are approximately \$6.5 million, netting to a loss of \$830,600. If the State aid is included, the District is projected to save a total of \$3.79 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 Tompkins County and has three buildings in operation. It has approximately 1,280 students and general fund budgeted appropriations of \$26.5 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 September 2008, the Board entered into an EPC with an 18-year contract term from January 2012 through December 2029. The related project work was completed in December 2011 and included several upgrades to the District's heating and ventilation systems, lighting, windows, doors, pool, computer network controls and energy management system as well as the installation of a geothermal system. The ESCO guaranteed an energy cost savings of \$5.53 million and operational cost savings of \$138,100 over the life of the EPC. The EPC project cost totaled approximately \$4.29 million. During the capital work of the EPC, the District also had a separate capital project that changed or replaced some of the equipment included in the EPC. As a result, the ESCO is no longer responsible for monitoring and verifying the savings for these specific pieces of equipment each year. The ESCO stated that these adjustments do not mean the District is not achieving the energy savings. The District and ESCO agreed that starting in Year 1, the savings associated with these areas will be recorded as an automatic adjustment reflecting projected savings instead of measured savings. During the first year, the ESCO credited themselves with savings of approximately \$107,400 for these particular areas.

To accomplish our objective, we interviewed District officials, the District's energy management coordinator, and the District's construction consultant. 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 and operational savings over the life of the project. We obtained utility data, including consumption and rates for the base year of September 2006 through August 2007 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 1995 through 2005 and verified an average increase in utilities of 3 percent was reasonable. We verified the reasonableness of the ESCO's annual measurement and verification report for January 2012 through December 2012 by subtracting the annual consumption for the same period from the base year's consumption and comparing it to the ESCO's energy savings in the report. We then used the ESCO's reported energy savings for January 2012 through December 2012 and multiplied it by the base-year utility rates and projected these savings out using the average increase of utilities over the life of the EPC. 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 energy cost and operational savings that matched the \$5.53 million in energy cost savings and match the \$138,100 in operational cost savings guaranteed by the ESCO, as shown in Table 1.

Projected Energy Cost Savings	\$5,531,426
Projected Operational Cost Savings	\$138,122
Total Projected Energy and Operational Savings	\$5,669,548
Lease Payments Including Interest	\$6,415,588
Monitoring and Verification Costs	\$84,560
Net Benefit Without State Aid	(\$830,600)
Projected State Building Aid	\$4,623,660
Net Benefit With State Aid	\$3,793,060

Over the life of the EPC, the energy cost savings are projected to total approximately \$5.53 million.¹ The ESCO also projected operational savings for maintenance of over \$138,000. However, District expenditures to implement the terms of the EPC totaled approximately \$6.5

¹ To calculate the projected energy cost savings, we used the actual energy cost savings reported by the ESCO in its Measurement and Verification Report for January 2012 through December 2012, which included an annual \$107,400 adjustment as referenced in the "Background and Methodology" section. We then used the ESCO's guaranteed energy savings and multiplied it by the base-year utility rates with an annual increase of 3 percent to project out the energy savings for the remaining 17 years (January 2013 through December 2030) of the EPC.

million, for a net cost to the District of \$830,600 before any grants or State aid. With the receipt of State aid, the total savings are projected to amount to approximately \$3.79 million.

The District has monitoring procedures in place for the EPC. The District has an energy management coordinator who monitors the energy consumption and costs using a utility management program that tracks bills and helps identify utility billing problems and energy waste and inefficiencies. The energy management coordinator reviews the ESCO's Measurement and Verification Reports for any inaccuracies and ensures that the guaranteed savings are achieved.

Recommendation

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 terms to determine if the investment in energy upgrades is beneficial.

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.

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.



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Ms. Christine Iacobucci V. Pres
Ms. Karen McGreevey, Trustee
Mr. Tom Robinson, Trustee
Ms. Aziza Benson, Trustee
Ms. Julie Boles, Trustee
Mr. Tony Lombardo, Trustee
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November 3, 2013

Todd Eames
Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames:

The Lansing Central School District prides itself on its determination to strive toward establishing and maintaining the highest possible ethical standards in its use of taxpayer dollars to support its outstanding educational program. We are in receipt of the Comptroller's audit for the period July – June 2013, and sincerely appreciate the review of our energy performance contract. The representatives of the Comptroller conducted themselves in a professional and collaborative manner throughout this process and we embrace the intent and the positive relationship that has developed from it.

In response to the report we must indicate how pleased we are with the overall findings. While the District understands the report's assertion that the project would not have been a positive net without the injection of state aid attached to it, we continue to assert that this was a part of the consideration the District gave in advance of the project. In fact, we were so focused on the role state aid would play in the shorter-term (of 18 years) results of this project that although we were not required to, we did in fact hold a public referendum for this project. Not only was it important to the District that we confirm public support of the project, we also recognized that a positive public referendum would increase our state aid by around ten percentage points.

We also appreciate the recognition of the fact that we have followed the project with intentional oversight, provided by people who have some expertise in the language of school construction as well as energy management. Truthfully, we did this just because it made sense to do so.

In summary, we are pleased that the draft report does not claim any malfeasance, incompetence or legal impropriety with respect to the District's energy performance contract. In addition we are looking forward to making improvements that will help us manage our district efficiently and effectively. Thank you for affording us this opportunity to improve on our performance of the important work that we do.

Sincerely,

Chris Pettograsso
Superintendent, Lansing Central Schools