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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

December 2005

Dear Authority Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where local governments can improve their operations and provide guidance and services that will assist local officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery and to account for and protect their governments' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. These reports also may identify effective governmental operations. The following is our report on the Oneida Herkimer Solid Waste Management Authority — Estimated Disposal Costs for a Proposed Regional Landfill.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 5, Section 1 of the State Constitution and Section 2049-rr of the Public Authorities Law.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

Since 1989, the Oneida-Herkimer Solid Waste Management Authority (OHSWA) has been trying to develop a regional landfill as an alternative to waste exporting. OHSWA officials justify their desire to establish a regional landfill with their claim that waste export options will dwindle and become more expensive. Moreover, officials said they want more control over final disposal of the region's waste stream in order to reduce their exposure to liabilities for possible cleanup costs at landfills they use but do not manage.

By September 1998, after an extensive site selection process, OHSWA's Board of Directors (Board) chose a site in the Oneida County Town of Ava for its regional landfill and began the process of obtaining the necessary regulatory permits. The State Department of Environmental Conservation (DEC) gave final approval to construct and operate the landfill in March 2004. Construction began later that year.

The landfill proposal has generated significant public interest and stirred strong opinions from those favoring and opposing the plan. The Office of the State Comptroller (OSC) received numerous requests from State and local officials, interest groups, and private citizens to review various aspects of the proposed project. One of the concerns landfill opponents expressed was that OHSWA cost estimates supporting the project's economic assessment were not reliable.

Scope and Objectives

During this audit we examined cost estimating practices OHSWA officials used during the period April 21, 2004 to June 30, 2005. Our audit sought to answer the following question:

- Were the cost estimates used to assess the economic benefits of the proposed regional landfill project based on complete, objective, and verifiable information and analysis?¹

Audit Results

A relevant measure of expected regional landfill operating costs is the estimated average cost of the disposal of a ton of waste. In April 2004 OHSWA projected disposal costs to be between \$30.60 and \$34.62 per ton at a rate of 250,000 tons per year. The methodology used to develop this projection was well-documented and underlying assumptions and estimation methods were objective and reasonable. All major cost categories had been considered and included in cost estimates.

¹ Our audit focused specifically on the cost projections and methodologies used to assess the viability of the OHSWA landfill project. It did not address other important matters concerned residents raised with us, such as the potential social costs and quality of life impact of the Ava landfill site. These issues are better addressed by the residents of the affected communities and their elected representatives, rather than by an audit.

We identified new information that became available after April 2004 which indicated that some minor cost components that had been omitted and some major costs were now known or could be better estimated. We used this information to calculate a revised estimated disposal cost of \$32.09 per ton. That estimated cost is 35 percent less than the \$49 per ton that OHSWA would otherwise pay during 2007 under its contract for waste exportation. The potential cost savings from the landfill option projected to a volume of 250,000 tons would total \$4.2 million per year. Furthermore, if the quantity of waste delivered to OHSWA is greater, the marginal cost savings per ton would increase.

OHSWA estimated the total capital project cost for landfill site development and the construction of the first three of 19 planned landfill cells to be \$29.3 million, which included a \$2.6 million allowance for contingencies. The methods OHSWA officials used to estimate the capital project costs were complete, objective and reasonable. Major underlying assumptions used in estimating costs were well-documented and verifiable.

Although methods used to determine capital costs were generally sound, we did find that subsequent design changes caused an increase in building construction costs, manufacturer price increases had raised equipment expenses, and officials had significantly underestimated costs for wetlands mitigation. Officials had also overestimated other expenditures such as professional services and bond issuances. Altogether, estimated capital project costs had increased by \$1 million.

Capital project costs were to be financed through bond issuances. The annual debt service requirement to pay off the bonds was a component of the estimated per-ton disposal cost. In calculating the estimated disposal cost (\$32.09 per ton), we adjusted annual debt service to correct the \$1 million underestimate of project costs, to reflect OHSWA officials decisions to finance \$1.4 million of 2004 construction costs with operating funds instead of bonds, and to recognize probable changes in bond financing terms.

OHSWA officials excluded \$2.6 million of future landfill-related development costs from the April 2004 cost estimates. Also, the cost estimates did not account for the \$1 million opportunity cost associated with OHSWA's decision to use the land it owned for a landfill instead of selling it. We amortized those costs over the estimated 51 year life of the landfill in our calculation of estimated disposal costs.

Comments of Local Officials

The results of our audit have been discussed with OHSWA officials and their comments, which appear in Appendix A, have been considered in preparing this report. OHSWA officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

At the request of Oneida and Herkimer counties, the State Legislature established the Oneida-Herkimer Solid Waste Management Authority (OHSWA) in 1988 to provide waste management services and develop waste management facilities for the counties' respective populations. OHSWA is governed by a 10-member Board of Directors (Board) and has 79 employees. OHSWA operates a recycling center, two major waste transfer stations, and five smaller waste processing facilities. It also manages the contracted trash collection services for the City of Utica. In 2004, OHSWA reported \$26 million in revenue. After paying \$21.4 million in operating expenses and \$2.1 million in debt service costs, OHSWA reported a net income of about \$2.4 million. OHSWA's tipping fees for collecting and disposing of non-recyclable waste provided the Authority 74 percent of its total annual revenue. Fees, sales of recyclable material, interest earnings, and grant proceeds provided the rest. OHSWA does not receive county subsidies.

Oneida and Herkimer County laws require that all waste generated in both counties be directed into OHSWA's disposal system, and State Public Authorities Law bars OHSWA from accepting non-recyclable waste from outside the region. OHSWA currently exports waste to landfills outside of the region, mostly to a private landfill located near Rochester pursuant to a competitively bid, four-year disposal contract that runs through 2007. OHSWA pays that contractor fixed per-ton service fees for transporting and disposing of the waste.

Since 1989, OHSWA has sought to develop a regional landfill as an alternative to exporting waste. OHSWA officials based this effort on their assessment, and that of their consultants, that the availability of waste export options will decrease and costs will increase. Officials wanted more control over the ultimate disposal of the region's waste stream to reduce exposure to shared liabilities for possible environmental cleanup costs at landfills it does not control.

In September 1998, after an extensive site selection process, OHSWA's Board chose a site in the Oneida County Town of Ava for its regional landfill and began obtaining the necessary regulatory permits. The State Department of Environmental Conservation (DEC) gave final approval to OHSWA to construct and operate the landfill in March 2004. OHSWA's consulting

engineers developed and presented costs estimates for the construction and operation of the landfill in a written report to the Board. OHSWA later engaged another engineering firm to review the cost estimates. This firm also conducted a study of the waste disposal market and developed estimates of the future costs of exporting non-recyclable waste outside of the counties. These consultants concluded that the methodologies used by OHSWA's consulting engineers were appropriate and that the estimates were reasonable. They also concluded that a regional landfill was a more economically favorable option than exporting waste. Upon receiving this report, the Board resolved on May 17, 2004 to proceed with landfill development. Landfill construction began later that year.

OHSWA's landfill proposal generated significant public interest and strong opinions both for and against the landfill plan. The Office of the State Comptroller received numerous requests from State and local officials, interest groups, and private citizens to review the landfill project proposal. Among opponents' concerns was the reliability of cost estimates used to support OHSWA's economic assessment of the project.

Objective

Our audit sought to answer the following question:

- Were the cost estimates used to assess the economic benefits of the proposed regional landfill project based on complete, objective, and verifiable information and analysis?²

Scope and Methodology

During this audit we examined cost estimating practices used by OHSWA during the period April 21, 2004 to June 30, 2005.

Our audit addressed written cost estimates prepared by OHSWA's consulting engineering firm, dated April 21, 2004. We examined the methodology and assumptions used to develop the cost estimates and the supporting documentation. We also assessed the impact of additional information, including subsequent construction bids and contract awards that became available through the end of our fieldwork on June 30, 2005.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

² Our audit focused specifically on the cost projections and methodologies used to assess the viability of the OHSWA landfill project. It did not address other important matters concerned residents raised with us, such as the potential social costs and quality of life impact of the Ava landfill site. These issues are better addressed by the residents of the affected communities and their elected representatives, rather than by an audit.

**Comments of
Local Officials and
Corrective Action**

The results of our audit have been discussed with OHSWA officials and their comments, which appear in Appendix A, have been considered in preparing this report. OHSWA officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

OHSWA officials have the responsibility to initiate corrective action. As such, OHSWA officials should prepare a plan of action that addresses the recommendations in this report, and forward a plan to our office.

Disposal Costs

An accurate assessment of the proposed regional landfill's economic viability requires a competent estimation of the costs to construct, operate and maintain the facility throughout its useful life. It is important that officials responsible for the project consider all capital, operating and closure costs, and ensure that estimates are logically developed using reliable data and realistic assumptions. Equally important are well-founded waste volume projections for future years, taking into account factors that could have a significant impact on the waste stream. By determining the average per-ton cost of waste disposal, officials can accurately compare the cost of operating a landfill vs. waste exportation.

In an April 21, 2004 cost estimate report, OHSWA projected that total disposal costs would fall between \$30.60 and \$34.62 per ton for waste delivered to the regional landfill at a rate of 250,000 tons per year. OHSWA's consulting engineers employed a well-documented methodology to develop this projection; underlying assumptions and estimation methods were objective and reasonable. We also concluded that the consultants included all major cost categories in their cost estimates.

At the time of our audit, many of the major estimated costs were known and other costs could be better estimated based on new information that became available after April 2004. We also identified some cost components that had been omitted from OHSWA's formal analysis. We used this information to calculate a revised estimated disposal cost of \$32.09 per ton. That estimated cost is 35 percent less than the \$49 per ton that OHSWA will otherwise pay during 2007 under its existing contract for exporting waste. The potential cost savings from the landfill option projected to a volume of 250,000 tons would total \$4.2 million per year. Furthermore, if the quantity of waste delivered to OHSWA is greater, the marginal cost savings per ton would increase.

Original and updated disposal cost estimates are summarized in Appendix D.

Average Annual Tonnage

The annual quantity of waste tonnage delivered to the regional landfill directly impacts operating costs and the landfill's useful life. Higher average tonnage increases the amount of funding that must be set aside annually to pay for future liner extensions, equipment replacement, and eventual closure costs. Likewise, lower tonnage delays these larger future costs and reduces the

annual amount needed to fund capital reserves. OHSWA's April 2004 cost estimates projected total annual landfill disposal costs at four average tonnage levels: 150,000; 200,000; 250,000; and 300,000 tons. That analysis showed that the average per-ton cost decreased as waste volume increased. For example, when the projected tonnage increased by 20 percent from 250,000 tons to 300,000 tons, the total estimated disposal cost increased by 10 percent, but the cost per ton decreased by seven percent.

OHSWA officials said they expected average annual tonnage to fall between 275,000 and 300,000 tons, but they had no formal analysis to support that estimate. The consultants they engaged to review OHSWA's waste disposal plans during 2004 projected that 2005 tonnage would reach 301,900 and that waste volumes would gradually decline over the next 25 years.

We examined the region's historical tonnage data and researched published information about solid waste disposal trends, and concluded that OHSWA's estimate of between 275,000 and 300,000 tons per year was reasonable. However, we noted that OHSWA's historical tonnage only exceeded 266,000 tons during 2003 and 2004. In those years, the region's total tonnage was boosted with debris generated by several one-time industrial demolition projects. Moreover, the region's population was not projected to increase, and trends reported by other experts did not project a significant increase in the quantity of waste generated per person. In that light, we concluded that the more conservative estimate of 250,000 tons per year was best supported by the region's historical tonnage data and general solid waste disposal trends. Accordingly, this report focuses on OHSWA's disposal cost estimates for 250,000 tons per year.

Debt Service Cost

OHSWA officials estimated that debt service would be about \$2 million per year on the long-term bonds they planned to issue to finance the initial landfill construction. They based that estimate on borrowing \$29.3 million for construction, and reasonable assumptions over the terms and costs of municipal borrowing. Underlying assumptions also included a significant interest rate subsidy offered by the Clean Water State Revolving Fund program administered by the State Environmental Finance Corporation (EFC). EFC officials told us that a substantial portion of the project's costs qualified for program assistance, as they are directly related to protecting groundwater from contamination.

We identified two significant changes in the underlying assumptions supporting the debt service estimate. However, these changes offset each other and did not have a significant net impact on the projected debt service cost. The net impact decreased estimated debt service costs by about \$57,000 per year.

- Based on the actual contract awards, landfill construction costs increased by about \$1 million from the original estimates. (See the section of this report entitled Updated Cost Components.) However, OHSWA used \$1.4 million in operating funds to pay for some of the estimated construction costs during 2004. OHSWA's Executive Director told us that as a result of these two factors, OHSWA planned to borrow about \$400,000 less than had been originally estimated. To properly calculate revised disposal costs, we accounted for the \$1.4 million of project costs that were paid from operating funds by amortizing the cost over the 51 year expected useful life of the landfill. (See the section of this report entitled Amortization of Capital Development Costs.)
- An EFC official informed us that federal funding cuts limited the number of projects eligible for long-term financing assistance under EFC's Clean Water State Revolving Fund. OHSWA's financial advisor subsequently told us that the project was not included in EFC's most recent draft funding plan due to these funding constraints. Because of the uncertainty of future EFC funding, we asked the financial advisor to base annual debt service cost projections on a more conservative assumption that OHSWA will finance the entire borrowing with 30 year municipal revenue bonds without an EFC subsidy. This recalculated debt service projection has been used in our cost analysis. OHSWA's Executive Director and the financial advisor said they were optimistic the landfill project would eventually receive EFC assistance. The EFC program subsidy would reduce the average annual debt service by \$556,000 or 29 percent of the revised debt service estimate of \$1.9 million per year.

Landfill Operating Costs

When considering the landfill option officials must factor in annual costs such as hauling waste to the landfill, operating the landfill facility, and funding of necessary capital reserves. In addition, all related development costs should be estimated and considered.

Waste Transfer Hauling - OHSWA plans to hire private haulers to bring waste from the Utica and Rome transfer stations to the landfill. The April 2004 disposal cost estimate for this service ranged from \$1.6 to \$2.5 million per year, depending on which among many prospective transportation routes they would use. OHSWA staff members had since identified specific routes to be used, enabling us to narrow the projection to a single estimate. We also adjusted the estimate to correct an error in the number of tons hauled and to reflect significant increases in the price of diesel fuel as of June 30, 2005. Our updated estimate, using the same underlying methodology, calculated the waste transportation cost to be about \$1.5 million per year.

- We calculated the aggregate haul distance based on OHSWA's emerging transportation plans. OHSWA officials provided information identifying specific truck routes and estimating the traffic allocations among alternative routes.
- We reduced the estimated tonnage to be hauled by 13 percent, to 221,850 tons, based on a review of the amount of waste that some commercial waste generators historically delivered to landfills at no transportation cost to OHSWA. These waste generators will continue to bypass the transfer stations and deliver sludge, construction and demolition debris, and industrial wastes directly to the regional landfill.
- As of June 30, 2005, diesel fuel price increases had added \$99,000 to the estimated annual cost of transfer hauling.

Equipment Operations and Maintenance - OHSWA estimates of annual fuel, maintenance, and repair costs for landfill operating equipment totaled \$665,000. Officials supported these estimates with documented assumptions about the operating hours, fuel consumption, and purchase price for each piece of equipment. Although the underlying methodology and assumptions were reasonable, we increased the estimates by \$129,659 (19 percent) to reflect fuel and equipment price increases, changes to the proposed equipment list, and reasonable adjustments to the estimated operating hours and fuel consumption rates for several items

Omitted Costs - We identified minor landfill operating expenses that OHSWA should have included in the cost estimates such as property insurance on the facility (\$27,000) and the annual jet cleaning of the piping in the leachate collection system (\$4,500).

Allowances for Capital Reserve Funds

OHSWA's 2004 disposal cost estimates included \$2.5 million annually to fund three capital reserve funds. Future capital costs associated with these reserves include phased expansion of the landfill liner system, routine equipment replacement, and eventual landfill closure and post-closure maintenance. Our audit determined that annual costs will likely exceed OHSWA's projections by about \$59,000.

The engineering firm engaged to review OHSWA's cost estimates reported that some of the underlying assumptions used to estimate the 51-year useful life of the landfill were very conservative. These experts calculated that if OHSWA achieved industry norms for capacity utilization, the estimated life of the landfill would be extended by 39 percent to about 70 years. As a result,

the annual allowance necessary to fund future liner extension and closure costs could decrease proportionally. Despite this observation, we did not assume that OHSWA would achieve the industry norms the consultants cited. We retained OHSWA's conservative useful life estimate of 51 years for calculating revised annual disposal costs.

Liner System Extension Reserve - OHSWA projected that it would need to set aside \$1.6 million annually to fund the phased expansion of the landfill over its expected 51 years of operation. OHSWA's consulting engineers supported this projection with an itemized cost schedule based on their landfill permit design drawings. We updated the cost estimate for the liner extension fund by adding another \$11,000 per year. That annual cost adjustment incorporates a \$289,000 increase in the estimated cost of creating replacement wetlands and \$276,000 for the cost of installing future groundwater monitoring wells that were omitted from the original estimate.

Closure and Post Closure Reserve - OHSWA projected it would need to set aside \$450,000 annually to fund the phased closure of the landfill and 30 years of post-closure monitoring, maintenance, and leachate disposal. OHSWA's consulting engineers based this projection on their analysis of reported construction costs for four previous landfill closure projects and previously estimated leachate disposal and groundwater monitoring costs. We did not identify any reason to revise OHSWA's closure and post-closure cost estimates.

Equipment Replacement Reserve - OHSWA projected \$405,000 per year to fund the regular replacement of landfill operating equipment. OHSWA's consulting engineers supported this projection with a schedule of annual replacement allowances for each item. We increased the annual allowance by \$48,000 to reflect net changes to the proposed landfill equipment list and some significant price increases that occurred after OHSWA prepared the April 2004 estimates.

Amortization of Landfill Development Costs and Some Construction Costs

We identified \$3.6 million in capital development costs that were excluded from the April 2004 disposal cost estimates. In addition, officials had funded \$1.4 million in 2004 construction costs from operating revenue instead of long term debt as originally estimated. To properly account for this \$5 million total, we amortized it over the 51-year estimated useful life of the landfill using the straight-line method.³ This amortization increased the disposal cost estimate by \$98,000 per year. The details concerning these adjustments are discussed below.

³ "Straight-line method" means we assigned an equal amount of cost to each year of operation by simply dividing the total cost by the number of years of operation.

Development Costs Incurred May 1, 2004 to June 30, 2005 - OHSWA recorded \$1.8 million in landfill development costs – not reflected in the disposal cost estimate – for engineering design and bidding services, environmental testing, legal fees for ongoing litigation, short term construction financing, and land acquisition. These costs were relevant to the economic decision about whether to proceed with the landfill project, and should be included in the cost estimate. Amortizing these costs increased the annual disposal cost estimate by \$35,000. They are further discussed in this report under Omitted Capital Development Costs.

Future Capital Development Costs - We identified estimated future development costs totaling \$765,000 for short term construction financing, the cost of an OHSWA employee assigned to the construction site, and the acquisition of adjacent property for traffic safety reasons. Amortizing these costs increased the annual disposal cost estimate by \$15,000 per year.

Opportunity Cost⁴ of Landfill Property - As of June 30, 2005, OHSWA had paid about \$1 million for land on which to construct and operate the landfill. The decision to use this land for waste disposal precluded the possibility of realizing future revenues by selling it. This represented an opportunity cost that should be incorporated into the cost estimates for the project. Amortizing the cost of the land increased the adjusted disposal cost estimate by \$20,000 per year.

Capital Construction Costs Paid From Operating Funds - We subtracted \$1.4 million from projected capital borrowing because OHSWA officials said they had already financed these costs from current operating funds. (See the preceding section of this report titled Debt Service Cost.) As these costs still need to be included in the disposal cost estimate, we included them in the amortization of development costs over the life of the landfill project. Amortizing these costs increased the adjusted disposal cost estimate by \$27,000 per year.

⁴“Opportunity Cost” describes the cost of forgoing an economic benefit. In this case, we assumed that OHSWA could have recouped the cost of purchasing the land for the landfill if it had decided not to proceed with the project.

Capital Construction Costs

OHSWA plans included issuing bonds to finance the construction of facilities and development of the first three of 19 planned landfill cells. The bonds will also finance the acquisition of operating equipment, and pay for professional services, wetlands mitigation, financing costs, and contingencies. As the debt matures it is to be paid by revenue generated from the landfill's operation. OHSWA incorporated its debt obligations into the estimated annual cost to calculate the average disposal cost per ton of solid waste. Thus, the accuracy of OHSWA's estimate of the cost of the landfill construction is a critically important question regarding the landfill's economic feasibility.

OHSWA estimated it would cost \$29.3 million to construct and equip the landfill, including \$2.6 million estimated for contingencies. The methods used to estimate these costs were generally complete, objective and reasonable. In most cases major underlying assumptions were reasonably well-documented and verifiable. Our audit nevertheless identified a number of necessary adjustments that increased the total initial capital cost estimate by about \$1 million or four percent. OHSWA and its consultants underestimated costs to construct replacement wetland areas by about \$746,000. Capital construction costs increased by about \$2.1 million due to changes in final landfill design. Equipment price increases added about \$495,000. These increases were partially offset by cost decreases in other areas such as project contingences, and capital equipment bond issue costs. Finally, the April 2004 cost estimates did not include about \$2.6 million in development costs incurred after the cost estimate was prepared.

Estimated landfill capital construction costs and adjustments can be found in Appendix E.

Updated Cost Components

Wetlands Mitigation – Landfill construction will destroy some federally- and State-protected wetland areas. Under the detailed terms of a U.S. Army Corps of Engineers permit, OHSWA must create approximately 20 acres of replacement wetlands on landfill property during the initial construction phase, and take specific actions to restore or preserve 22 acres of other off-site wetlands areas. The Corps also required that OHSWA create another 13 acres of replacement wetlands on the landfill property when future waste cells are developed.

The April 2004 cost estimates included \$200,000 for wetlands mitigation during the initial construction phase. However, as of June 30, 2005, creation of the first eight acres of replacement wetlands had already cost \$457,000 and OHSWA's consulting engineers revised the cost estimate for the remaining 12 acres of wetlands to \$696,000. The 2004 cost estimate also omitted the cost of restoring or preserving 22 acres of off-site wetlands that OHSWA staff estimated would cost about \$165,000. Based on actual costs to date and the revised cost estimates, we calculated that wetland mitigation work during the initial construction phase would cost about \$946,000, or \$746,000 more than the original estimate. OHSWA officials did not retain written support for their \$200,000 cost estimate and said the projection had been based on a small, in-house experimental project.

Construction Contracts – The April 2004 cost estimates projected the cost of the major construction phases would be about \$20.7 million. The actual contract bid awards for 2004 and early 2005 exceeded cost estimates by about \$2.1 million, or 10 percent. Contract awards for site preparation, the liner system, and roadwork were consistent with the cost estimates, but OHSWA experienced higher bid prices for the construction of major landfill facilities such as buildings, utilities, and the leachate collection and storage systems. Prior to the bid opening, OHSWA officials and consultants said cost increases were expected because OHSWA had incorporated concept changes into the final landfill design. The independent engineers who reviewed the April 2004 cost estimates in May 2004 had commented that design changes might occur between the permit and final design stages.

Capital Equipment – OHSWA officials estimated the cost of capital equipment would be about \$2.4 million based on a list of necessary landfill equipment items and reasonable price estimates. We identified two changes to the estimate's underlying assumptions, causing an increase in the cost estimate by \$495,000, or 21 percent.

- OHSWA staff members indicated there were recent price increases totaling about \$320,000 on heavier equipment items. Manufacturer price increases were attributed to sharp rises in the cost of steel, and the added costs of meeting new diesel engine emission regulations.
- OHSWA staff members identified six smaller trucks and two other capital equipment items that should be added to the landfill equipment list at a total cost of about \$175,000.

Contingency Allowance – The April 2004 cost estimates included a \$2.6 million contingency allowance to manage cost escalation and underestimation risks. The contingency was based on 10 percent of project costs. After awarding the last of the major construction contracts in May 2005, OHSWA decreased the contingency allowance by \$2 million to \$557,000 because the majority of estimated project costs had been established through fixed-price contracts.

Professional Services – The DEC sets specific environmental testing requirements for landfill construction projects. OHSWA allowed for the cost of extraordinary soil testing requirements that landfill opponents sought. However, a subsequent DEC administrative decision concluded that the extraordinary testing requirements were not justified. OHSWA, therefore, did not incur these costs.

Bond Issuance Costs – OHSWA capital cost estimates included \$570,000 for bond issuance costs based on two percent of the total estimated construction costs. OHSWA’s financial advisor refined that estimate to \$511,000 when he prepared revised annual debt service projections for our audit.

Omitted Capital Development Costs

OHSWA properly excluded \$11.6 million of landfill development costs that had already been funded from OHSWA operating revenues over a 13-year period preceding the April 2004 cost estimates. These unrecoverable costs were irrelevant to the economic decision about whether to proceed with the regional landfill project. They included engineering and environmental studies, hydrological and geological testing, legal fees, and permit application costs.

However, the April 2004 cost estimates also excluded a significant amount of similar landfill development costs that were or will be funded by operating funds after April 2004. From May 1, 2004 to June 30, 2005 OHSWA incurred \$1.8 million of landfill development costs that had not been considered in the cost estimates. The development costs were primarily for engineering design, permitting, environmental testing, ongoing litigation, and short term construction financing. We also identified another \$765,000 of prospective landfill development costs as of June 30, 2005. Finally, the April 2004 cost estimates did not include the \$1 million opportunity cost associated with the decision to build the landfill. (For details see the section of this report entitled “Amortization of Landfill Development Costs and Some Construction Costs.”) We added these capital development costs to the revised disposal cost estimate by amortizing the total \$3.6 million over the 51 year estimated useful life of the landfill. These costs should have been considered in the cost projections because they were the direct result of the decision to construct the landfill.

Other Potential Costs and Revenue

We identified several potential costs associated with the development of the regional landfill that were not included in OHSWA's estimates as well as one potential revenue source. OHSWA is under no legal or regulatory obligation to implement the following initiatives, and we have not attempted to assess their probability, associated costs or revenues. We outlined these scenarios below in an effort to fully disclose the potential for significant additional landfill costs that were not included in landfill option's economic assessment.

By-Pass Road – Officials discussed building a road that would allow waste trucks to by-pass streets in the Village of Boonville. The Executive Director told us that OHSWA is not currently pursuing this option, and both the Town and Village of Boonville have refused to discuss any landfill issues with them.

School District PILOT Agreement – The Executive Director told us that OHSWA has not paid school taxes on the landfill property. The local school board voted unanimously against conducting talks with OHSWA officials on the matter.

Enhanced Community Benefits – OHSWA included a cost estimate for community benefits to local governments, consistent with arrangements with other municipalities in the region. The Executive Director said there was also a potential for other types of agreement with local communities to compensate them for hosting the landfill. However, the towns of Ava and Boonville have both refused to discuss any landfill issues with OHSWA.

Property Value Protection Program – OHSWA staff was investigating a program to protect or reimburse adjacent property owners, who elect to sell their property, for the potential devaluation that might occur as a result of the landfill being built and operated. The program under consideration would generally pay the property seller the difference between the hypothetical market value of the property without the landfill and the actual sales price.

Landfill Gas Power Generation – OHSWA's engineers estimated that the landfill would generate enough landfill gas to warrant installation of a power plant by the year 2013, and that production should increase through 2054. Although OHSWA had not developed formal plans for a power plant, the landfill design and initial construction included the station pad. The Executive Director said such facilities are net revenue producers for other landfills.

Recommendations

1. OHSWA officials should revise their current, published cost estimates based on the updated cost information contained in this report.
2. OHSWA officials should routinely update their published cost estimates as conditions change or more accurate information becomes available. This routine updating will provide more public transparency for this controversial governmental operation.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

ONEIDA-HERKIMER SOLID WASTE AUTHORITY

BOARD MEMBERS

Louis R. Critelli, Chairman
Donald Gross, Vice Chairman
Harry A. Herline, Treasurer
Neil C. Angell
James M. D'Onofrio

Barbara Freeman
Kenneth A. Long
Robert McLaughlin
David F. Yeaton

Hans G. Arnold, Executive Director
Peter M. Rayhill, Authority Counsel
Jodi M. Tuttle, Authority Secretary

December 7, 2005

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Local Government Services & Economic Development
Office of the State Comptroller
333 East Washington Street
Syracuse, NY 13202-1428

Dear ██████████

This is in response to the draft "Report of Examination of the Oneida-Herkimer Solid Waste Authority Estimated Disposal Costs for a Proposed Regional Landfill (2005M-87)." We reviewed this draft with ██████████ and ██████████ of your staff at the exit meeting on November 23, 2005. We appreciate this opportunity to respond to the draft report.

We are pleased that the work done by your office confirms that the cost estimates for construction of the regional landfill are complete, objective, and reasonable. We work hard to be as comprehensive as possible in analyzing the future solid waste facilities need for our region. Your report confirms that even after updates and adjustments to reflect more current information, the cost of developing the landfill is on target and will substantially reduce disposal expenses for our region.

STATE REQUIREMENTS DRIVE EXPENSES

It is important that the report reflect the context for the creation of the Authority and the landfill project. This Authority was created to enact policies and comply with the requirements established by New York State in the State Solid Waste Management Act of 1988 and all other State and Federal solid waste management requirements. The State Act of 88 was one of several major state initiatives that were enacted to implement the landmark federal legislation of RCRA (Resource Conservation and Recovery Act) and CERCLA (Comprehensive Environmental Response Compensation and Liability Act). During the 1980's the State closed hundreds of noncompliant disposal

December 7, 2005

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facilities (over 50 in Oneida-Herkimer Counties alone) for violations of newly enacted state and federal regulations protecting air and water resources. The State Act of 88 required localities to develop comprehensive plans and adopt mandatory source separation/recycling laws to implement the State hierarchy of reduction, recycling, energy recovery and disposal.

The governments of Oneida County and Herkimer County responded with the first region-wide solid waste management laws in the State. These local laws prioritized reduction and recycling and the Counties developed a local solid waste management plan that called for an integrated system to handle all categories of nonhazardous waste generated in the two-county region. The Counties then jointly asked the State to create a regional public benefit corporation (this Authority) to implement the Counties' policies and the State's requirements. During the early 1990's, and concurrent with the extensive public outreach to develop and implement the landfill siting methodology, the Authority developed a large scale \$10 million materials recovery facility, a green waste compost facility, a permanent household hazardous waste facility, and numerous reduction/recycling programs – all aimed to meet the objectives of the top priorities of the State and the Counties.

Developing such a system is a monumental and time consuming expense born by localities. While we have no problem with the State audit, we think it is important for the public to remember that the money spent to develop the landfill is to comply with the State's requirements and our localities' need for a cost effective disposal solution. In looking only at one component of the integrated system developed by the Authority, the landfill facility, the Authority on behalf of the Counties spent 12 years and \$12 million to implement New York State policies and comply with New York State and federal regulations.

CONSTRUCTION COST ESTIMATES REFLECT PLANNED USE OF CONTINGENCIES

Although the draft report confirms that cost estimates were based on generally conservative parameters, one clarification is necessary. When the original construction cost estimates were done, conservative contingencies were included to cover increases in expenses that would be expected to occur between the time of the original estimates and the time of the final contract award. In fact, that is exactly what occurred. After the final bids were received and construction contracts were awarded, the contingency amounts were re-categorized to cover the higher than estimated building and wetland creation costs. In large part, the higher building costs resulted from improvements and enhancements in design requested by the Authority. These included such things as the SCADA (Supervisory Control and Data Acquisition) and security system, a full crane,

freight elevator and wash bay in the maintenance building, an additional back up generator, and in-floor radiant heat in the maintenance building. The final construction contracts for the double composite liner system, site work, and leachate pumping and storage facilities are actually lower than the original estimates.

PROJECT FINANCING ESTIMATED CONSERVATIVELY

The draft report used traditional municipal bonds as the basis for calculating debt service due to apparent uncertainty with the New York State Environmental Facilities Corporation (EFC) Clean Water Revolving Loan Fund. Since the completion of the work on the report we have been advised by EFC that we will be included in the 2006 funding program. As noted in the draft report, this would reduce average annual debt service by over \$500,000.

The draft report correctly notes that we will establish a debt service reserve fund and that the interest expense will be offset by interest earnings. It should also be noted that this fund returns to the Authority upon the final satisfaction of the bonds, and can be used to make the final year's debt service payment or for any operating or capital expense. The debt service reserve fund will be shown in the Authority's financial statements as a restricted investment, not as a cost of the landfill. Therefore, this should not be included in the report as a cost. The debt service reserve fund will help reduce expenses in the future.

See
Note 1
Page 27

OPERATIONAL EFFICIENCY ACHIEVABLE

Contrary to the assumption used in the draft report, we are confident that we will meet the levels of waste compaction (and therefore capacity utilization) being achieved at operating landfills in New York State and in the industry in general at this time. We will be purchasing new equipment (compactors and GPS controls) that is superior to the equipment in use 8 years ago when the compaction rates were estimated by our consulting engineers. This will result in a more efficient operation and a longer useful life of the landfill facility, both of which will translate into lower, more stable costs over a longer period.

UPDATE – "OTHER POTENTIAL COSTS AND REVENUE"

Bypass Road – Officials of the Town and Village of Boonville have contacted the Authority to discuss community compensation, but they indicated that the question of a bypass road is premature.

December 7, 2005

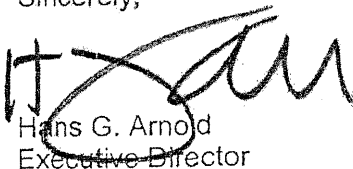
Page 4

School District – In response to our invitation, we met on November 8 with the Adirondack School Board to discuss the possibility of scheduling solid waste trucks to avoid peak school bus hours and a potential payment in lieu of tax (PILOT). We agreed to evaluate the data on bus routes and times. In addition, we provided our estimate of \$17,000 for a potential PILOT, which would approximately equate to the taxes paid by the prior private owners of the properties we acquired.

Landfill Gas Power Generation – Since the completion of your work, our consulting engineer has completed a preliminary calculation of revenue which can be expected from the generation of electricity produced from landfill gas. I have enclosed a table showing the estimate of power generation and corresponding revenue. The power generation will be an additional source of revenue that will help stabilize future rates charged by the Authority to cover disposal and other expenses.

We intend to implement the recommendations in the Report of Examination.

Sincerely,



Hans G. Arnold
Executive Director

HGA/aag

Enclosure: Landfill Gas Power Generation

Oneida-Herkimer Solid Waste Management Authority
LANDFILL GAS POWER GENERATION
 December 2005

Year	Annual Power Output (kwh) ¹	Projected Annual Revenue ²
2013	18,308,400	\$82,000 to \$430,000
2014	20,805,000	\$94,000 to \$489,000
2015	22,469,400	\$101,000 to \$528,000
2016	24,966,000	\$112,000 to \$586,000
2017	26,630,400	\$120,000 to \$626,000
2018	28,294,800	\$127,000 to \$665,000
2019	30,791,400	\$139,000 to \$724,000
2020	32,455,800	\$146,000 to \$763,000
2021	34,120,200	\$154,000 to \$802,000
2022	35,784,600	\$161,000 to \$841,000
2023	36,616,800	\$165,000 to \$861,000
2024	38,281,200	\$172,000 to \$899,000
2025	39,945,600	\$180,000 to \$939,000
2026	41,610,000	\$187,000 to \$978,000
2027	42,442,200	\$191,000 to \$997,000
2028	44,106,600	\$198,000 to \$1,036,000
2029	44,938,800	\$202,000 to \$1,056,000
2030	46,603,200	\$210,000 to \$1,095,000
2031	47,435,400	\$213,000 to \$1,114,000
2032	48,267,600	\$217,000 to \$1,134,000
2033	49,099,800	\$221,000 to \$1,154,000
2034	50,764,200	\$228,000 to \$1,193,000
2035	51,596,400	\$232,000 to \$1,212,000
2036	52,428,600	\$236,000 to \$1,232,000
2037	53,260,800	\$240,000 to \$1,252,000
2038	54,093,000	\$243,000 to \$1,271,000
2039	54,925,200	\$247,000 to \$1,291,000
2040	55,757,400	\$251,000 to \$1,310,000
2041	56,589,600	\$255,000 to \$1,330,000
2042	57,421,800	\$258,000 to \$1,349,000
2043	58,254,000	\$262,000 to \$1,369,000
2044	58,254,000	\$262,000 to \$1,369,000
2045	59,086,200	\$266,000 to \$1,389,000
2046	59,918,400	\$270,000 to \$1,408,000
2047	60,750,600	\$273,000 to \$1,427,000
2048	60,750,600	\$273,000 to \$1,427,000
2049	61,582,800	\$277,000 to \$1,447,000
2050	62,415,000	\$281,000 to \$1,467,000
2051	62,415,000	\$281,000 to \$1,467,000
2052	63,247,200	\$285,000 to \$1,487,000
2053	63,247,200	\$285,000 to \$1,487,000
2054	64,079,400	\$288,000 to \$1,506,000
2055	64,079,400	\$288,000 to \$1,506,000
2056	64,911,600	\$292,000 to \$1,525,000
2057	64,911,600	\$292,000 to \$1,525,000
2058	65,743,800	\$296,000 to \$1,545,000
2059	65,743,800	\$296,000 to \$1,545,000
2060	66,576,000	\$300,000 to \$1,565,000
2061	66,576,000	\$300,000 to \$1,565,000
2062	66,576,000	\$300,000 to \$1,565,000
2063	67,408,200	\$303,000 to \$1,584,000
2064	67,408,200	\$303,000 to \$1,584,000
2065	68,240,400	\$307,000 to \$1,604,000
2066	68,240,400	\$307,000 to \$1,604,000
2067	68,240,400	\$307,000 to \$1,604,000
2068	69,072,600	\$311,000 to \$1,623,000

Notes

(1) The power generation estimates are based on the landfill gas modeling performed for the Authority's DEC permit application in 1998. Waste placement is assumed to begin in 2007. The landfill gas collection system is projected to provide enough landfill gas to warrant development of a power plant fueled by landfill gas in 2013.

(2) Similar to other landfill gas power plants in New York State, it has been assumed that the Authority will contract with a developer who will pay for construction and operation of the landfill gas power plant in exchange for obtaining the right to use the Authority's landfill gas. Based on information from similar landfill gas power plants in NYS, projected annual revenues to the Authority are based on the following:

a) The low end of the projected annual revenues for the Authority is based on the Authority receiving a 50% share of the power sales revenues whenever the average sales price exceeds four cents per kilowatt-hour. A sales price of \$0.0490 per kwh has been assumed, hence the Authority's revenue share is based on 50% of \$0.0090 per kwh (i.e., \$0.00450 per kwh).

b) The high end of the projected annual revenues for the Authority adds in 50% of the revenues projected from the sale of Renewable Energy Certificates to the annual power sales revenues noted above. A sales price of \$0.0380 per kwh has been assumed, hence the Authority's revenue share from the sale of Renewable Energy Certificates is based on \$0.0190 per kwh.

c) Assumed no revenues from tax credits.

d) Assumed no revenues from a hydroponic greenhouse or other economic development projects that could be developed to make use of the heat released from the landfill gas power generation equipment.

APPENDIX B

OSC COMMENTS TO THE OHSWA RESPONSE

Note 1

These comments refer to \$2.1 million that OHSWA will borrow to establish a debt service fund. We concur that the funds should not be classified as a cost of the landfill and have revised the disclosure in Appendix E accordingly.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our audit included the following procedures to achieve our stated audit objectives:

- We interviewed appropriate officials and staff at the Oneida-Herkimer Solid Waste Authority (OHSWA) and a representative of the consultant engineering firm OHSWA engaged to develop the proposed regional landfill. We also interviewed the financial advisor OHSWA hired for services related to project borrowing.
- We reviewed two reports on the economic costs and benefits of the proposed regional landfill. The reports, dated December 1997 and May 2004, were prepared by two different outside consultants OHSWA engaged.
- We reviewed a report by the United States Environmental Protection Agency on trends in municipal solid waste generation and disposal.
- We discussed the proposed landfill project with representatives of the State Department of Environmental Conservation (DEC) and the State Environmental Facilities Corporation (EFC).
- We reviewed OHSWA financial records and reports, budgets, project documents, studies, contracts and agreements, and correspondence. The project-related documents we reviewed included Environmental Impact Statements and Local Solid Waste Management Plans OHSWA developed, reports on the solid waste management system prepared by consultant engineers, relevant sections of the DEC permit application and the associated engineering reports and drawings, and OHSWA waste disposal contracts with local haulers and outside landfill facilities. We also reviewed reports on decisions by various Federal and State courts and the DEC regarding flow control laws and various actions filed to either block landfill construction or the landfill operating permit application.
- We reviewed the minutes of OHSWA Board meetings for the period January 1, 2003 through January 17, 2005, and the lists of Board resolutions for the years 1989 to 2002.
- We visited OHSWA's Eastern Transfer Station to observe waste processing operations, and the landfill construction site to observe construction activity.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to adequately assess those municipal operations within our audit scope. Further, those standards require that we understand the municipality's management controls and those laws, rules and regulations that are relevant to the municipality's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX D

DISPOSAL COST ESTIMATES

<u>Annual Costs</u>	<u>4/21/04 Authority Estimates</u>	<u>Audit Adjustments</u>	<u>Adjusted Estimates</u>								
<u>Operations & Maintenance</u>											
Annual Debt Service	2,004,954	(56,560)	1,948,394								
Equipment O&M	665,000	129,659	794,659								
Leachate Disposal	385,000	0	385,000								
Environmental Monitoring	85,000	0	85,000								
Labor	580,000	0	580,000								
Utilities & Misc.	50,000	0	50,000								
Community Benefits	255,000	0	255,000								
Contingencies (5%)	185,000	12,520	197,520								
Waste Transfer Hauling ⁵	2,500,000	(926,690)	1,573,310								
Insurance premiums	0	27,000	27,000								
Sewer Jet service	0	4,500	4,500								
Daily Cover Revenue	(510,000)	0	(510,000)								
subtotal operating costs	6,199,954	(809,572)	5,390,382								
<u>Reserve Allowances</u>											
Landfill Liner Extension	1,600,000	11,000	1,631,000								
Equipment Replacement	405,000	48,232	453,232								
Closure & Post Closure	450,000	0	450,000								
subtotal reserve allowances	2,455,000	59,232	2,534,232								
Amortization of Development Costs ⁶	not included	97,530	97,530								
Total Annual Disposal Costs	<u>\$8,654,954</u>	<u>(\$652,810)</u>	<u>\$8,022,144</u>								
Landfill Disposal Cost Per Ton	\$34.62	(\$2.61)	\$32.09								
2007 Contracted Disposal Price	\$49.00		\$49.00								
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Projected Savings (per ton)</td> <td style="width: 30%; text-align: right;">\$14.38</td> <td style="width: 30%;"></td> <td style="width: 10%; text-align: right;">\$16.91</td> </tr> <tr> <td>x 250,000 tons per year</td> <td style="text-align: right;">\$3,595,046</td> <td></td> <td style="text-align: right;">\$4,227,856</td> </tr> </table>				Projected Savings (per ton)	\$14.38		\$16.91	x 250,000 tons per year	\$3,595,046		\$4,227,856
Projected Savings (per ton)	\$14.38		\$16.91								
x 250,000 tons per year	\$3,595,046		\$4,227,856								

¹ High cost estimate from Authority projections.

² \$5 million amortized over 51 years for development costs after 4/30/04, construction costs funded by operating funds, and opportunity costs associated with land owned by OHSWA for the landfill.

APPENDIX E

CAPITAL COST ESTIMATES

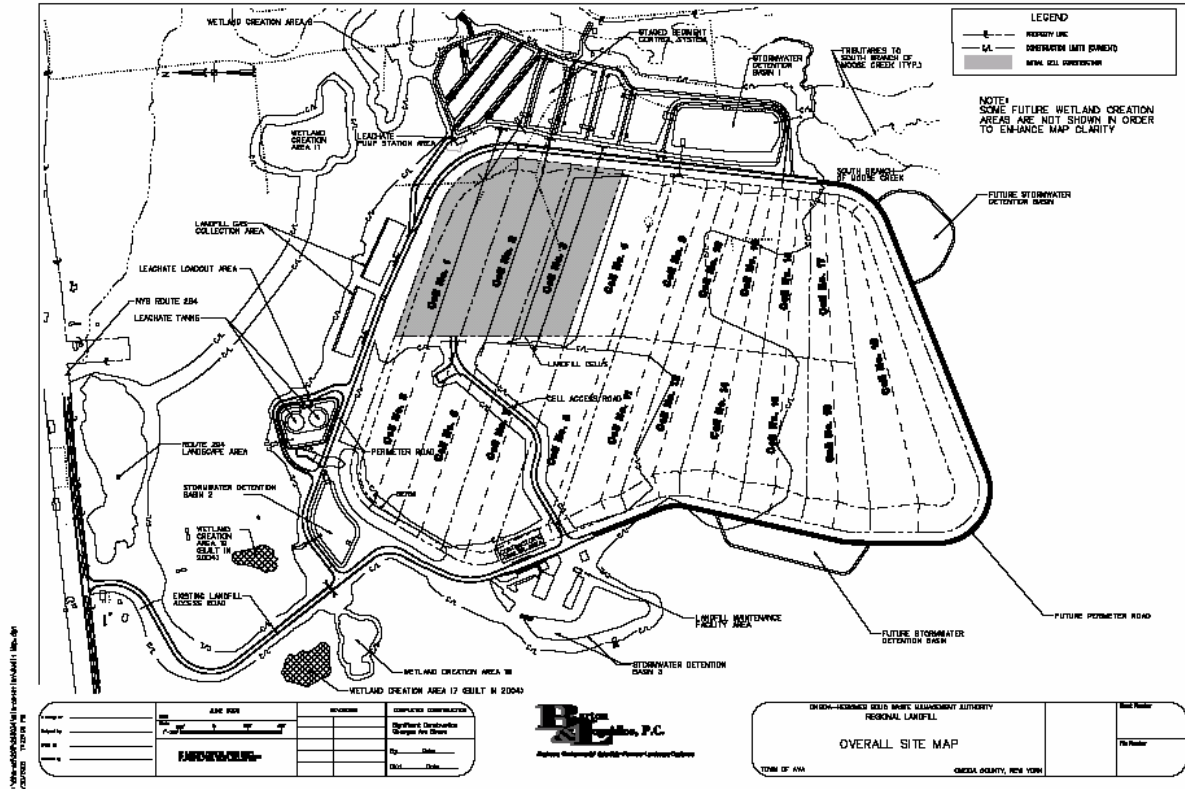
	4/21/04 Authority Estimates	Audit Adjustments	Adjusted Estimates
<u>Initial Landfill Capital Costs:</u>			
Major construction contracts	20,760,000	2,103,000	22,863,000
Capital Equipment	2,405,000	495,000	2,900,000
Professional Services	2,760,000	(195,000)	2,565,000
Wetlands Mitigation	200,000	745,663	945,663
Contingencies	2,610,000	(2,052,867)	557,133
Bond Issue Costs	570,000	(59,350)	510,650
subtotal	29,305,000	1,036,446	30,341,446
Other Development Costs Incurred After April 30, 2004	0	2,558,574	2,558,574
Total for Initial Landfill	\$29,305,000	\$3,595,020	\$32,900,020
<u>Future Landfill Capital Costs:</u>			
Construct remaining cells	80,976,230	275,835	81,252,065
Construct wetlands	472,500	288,600	761,100
Closure costs	17,089,300	0	17,089,300
Post closure maintenance	5,917,214	0	5,917,214
Total for Future Landfill	\$104,455,244	\$564,435	\$105,019,679
<u>Debt Service Reserve Fund</u>	0	2,100,000	2,100,000

⁹ Other Development Costs includes development costs after 4/30/04, but does not include the construction costs funded by operating funds or the opportunity cost associated with the land owned for landfill site.

¹⁰ Bonds to be issued for the project will include an amount sufficient to fund a debt service reserve fund (DSRF). The DSRF will remain an asset of the Authority, held in escrow, and will not be expended unless Authority operations do not generate sufficient revenues to fund the debt service payments. Authority officials anticipate that interest earned on the DSRF will largely offset interest expense. Consequently, we did not include interest expense on funds borrowed for the DSRF in the disposal cost estimate

APPENDIX F

MAP OF THE PROPOSED LANDFILL



APPENDIX G

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APPENDIX H

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