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Hon. Robert G. Rolison, Chairman
Hon. James Miccio, Chairman RRWG
Dutchess County Legislature
22 Market St.
Poughkeepsie, NY 12601

Dear Chairman Rolison and Chairman Miccio,

At the request of the Dutchess County Legislature Resource Recovery Working Group (RRWG), dated April 13, 2010, a review of the Dutchess County Resource Recovery Agency (Agency) was conducted to provide information and perspective to assist the RRWG in managing the budgetary needs of the Agency going forward. Although your request focused on the years 2004-2009, it is helpful and necessary to examine aspects of the Agency over a broader time period to better account for the current state that exists. For this report our observations include Agency audited financial reports, contracts, documents, the New York State Authority Budget Office (ABO) report and interviews with officials from the Agency. Consideration of the findings and comments, from all these sources, is important in light of the Legislature's commitment to reducing payment subsidies to the DCRRA.

Although I recognize the RRWG's praise regarding the foresight and commitment to the Agency by both the previous and current County Executives and the historical support of the Legislature, I wish to stress that all parties, including previous Comptrollers, have unsatisfactorily managed oversight of the Agency. For too many years all parties have given the Agency too much autonomy in its operations and finances and have not sufficiently questioned Agency expenditures. It is overly apparent that the Agency has not been capable of managing its operations at a level required for the good of the County and its taxpayers.

In light of the findings of this review, I recommend an additional, independent analysis of all potential operational and financial alternatives for the Agency by professional consultants from the Solid Waste Industry. Further, this analysis needs to be conducted immediately to ensure that the Agency and the County can consider all available options, as it creates the Local Solid Waste Management Plan (LSWMP), which needs to be adopted by the Legislature and submitted to the Department of Environmental Conservation (DEC) by December 31, 2010.

It is critical to perform a total and complete analysis of the Agency because the LSWMP will dictate the direction of solid waste management by the County for the next twenty years; potentially dedicating substantial future tax dollars. Attempts to stop this additional study by claiming the lack of available funds will be an attempt at misdirection. Further, claims that there is not enough time left to complete the study and incorporate findings into the LSWMP, again, are an attempt to derail resistance to the Agency's commitment to the status quo. This study can be funded by a minor portion of the surplus funds that exist in the Agency's accounts or through other savings discussed in this report. I caution the Legislature to resist the pressure to quickly approve the current option endorsed by the Agency. Speed only hastens and exacerbates the effects of poor judgment.

The major findings of this review are:

- Initial operations from 1988-1994 created a surplus of $3.3 Million dollars in the Agency. (page 14 of financial section)
    - This surplus has not been reconciled with the County.
- Overstated interest expense totaled more than $1 Million dollars from 2006-2010 contributing to the Agency's Net Assets. (page 11 of financial section)
    - This overstatement has not been reconciled with the County.
- The Agency overestimated expenses annually from 2005-2008. This amounted to over $1.2 Million dollars; these funds provided the Agency with cash flow assistance for operations prior to reconciliation at year-end. (page 12 of financial section)
    - The County essentially provided a interest-free loan
- Inaccurate billing of Net Service Fees (NSF) resulted in $62,000 due back to the County for 2009. (page 13, 15 of financial section)
    - This inaccuracy will be reconciled with the County in the next NSF cycle.
- Contracts executed prior to 2010 have allocated burdens to the Agency and benefits to Contractors.
    - Contracts were constructed as long-term contracts. Once locked in the Agency cannot modify terms to reflect a more equitable distribution of revenues and expenditures.
        - Example: Service Agreement with Facility Operator-more than 20 years with amendments; finally expires June 2014.
            - Dictates all fees and revenue allocation
    - Opportunities to renegotiate better terms were squandered through the 1990s and early 2000s.
- The annual processing amount of solid waste 2005-2009 averaged 149,000 tons.
    - Facility maximum annual capacity is 164,000 tons under current DEC permit.
    - Recent years show downward trend in tonnage.
    - Additional revenue from tipping fees and energy sales would result from obtaining extra tonnage-the Agency should actively pursue extra haulers.
- Board Governance concerns
    - Some board members continue to serve in violation of Resolution 89-1989.
    - The County Legislature and the County Executive Office must work together to resolve this issue.
- The position and office of the Commissioner of Solid Waste Management has been left vacant for too long.
    - This office and position are critical to managing Agency operations and finances.

    - County Legislature and County Executive's Office must work together to resolve this issue.
- County funds spent, in the form of a semi-annual NSF, total $32,782,581.00 for the period of 1995-present.
- All future contracts should be negotiated by skilled and experienced professionals.
- The Agency should be required annually to have a more detailed audit of their financial statement by an independent accounting firm.
    - The current agreement has an independent accounting firm providing a limited audit of the Agency's financial statements.
    - The terms of the audit are set by the Agency. According to the accounting firm, it has suggested an increase in the scope of services they provide multiple times, but the Agency has not altered the terms.
    - The current auditing standard used is not conducted in accordance to GASB (Government Auditing Standards Board), which are the generally accepted accounting principles used by State and local governments.

Major Findings to Impact 2010 NSF

- Surplus Funds-$3.3 Million (page 14 of financial section).
- Post-combustion Metals Recycling-approximately $1,000,000 estimated for 2010 (According to Agency Management).
- Admin Savings-approximately $350,000 (See Chart I).
- Reduction in excessive use of lime will cut expenses in facility operations and the overall cost of ash removal.

Funds presently available as compared to previous years: almost **$5 Million dollars**

Historical Background and Agreements

In 1984, the Agency was created from the desire and express intent to migrate Dutchess County trash disposal methodology to a waste-to-energy facility from the use of landfills. This public-benefit corporation, authorized under the laws of New York State and resolutions by the Dutchess County Legislature, was charged with the task of the planning, construction, operations, and financing of a resource recovery plant. Public-benefit corporations operate like quasi-private corporations, with boards of directors appointed by elected officials. Public-benefit corporations share characteristics with government agencies, but they are exempt from many state and local regulations. They are often constructed by local and state governments due to advantages of their unique characteristics: their ability to make contracts; they are not part of the usual local budgetary process; and, of particular importance, they can issue their own debt.

Important aspects of Resolution No. 427-1984 (Solid Waste Disposal Agreement) that continue to influence and govern the relationship between Dutchess County and the Agency:

- Establishment of Net Service Fee
    - Semi-annual payments for operations and bond payments ending September 30 and March 31. These payments are calculated, ultimately, as the difference between revenues and expenditures, and, additionally, with consideration for bond payments (a far more complex formula is used to arrive at this figure, but if reduced to its simplistic form, this explains how it is determined).

- Obligation of both County and Agency to deliver and accept 120,000 tons/year of solid waste (current amount of obligatory solid waste was amended to 140,000 ton/year)
- The County will provide or cause to be provided all such cooperation and assistance as may reasonably be requested by the Agency in connection with the obtaining and maintaining in a timely manner of all licenses, approvals and permits to be obtained for the Facility.

Subsequent to this milestone resolution, numerous agreements have been executed between the Agency and various entities to assist in its operations of the facility. These agreements are negotiated and executed by the Agency. Most of these agreements are long-term contracts that were negotiated more than a decade ago. Some agreements are amended from original contracts executed twenty-five years ago. These agreements were negotiated with many of the benefits unevenly distributed to the Contractor while most burdens were allocated to the County. The result is that these contracts have, effectively, locked the Agency out of receiving much needed revenues; and, consequently, caused the County to increase payments of NSF. When these contracts expire, it is critical that experienced and skilled negotiators construct terms that restore equitable balance to the County.

The following are the major agreements in place that govern operations at the facility:

- Service Agreement
  - Agreement between the Agency and the Corporate Operator (currently Covanta)
  - Advantages: The Agency needs professionals to run the complex facility.
  - Drawbacks: The Operator receives substantial reimbursements that grossly inflate expenditures. Further, these expenditures continue yearly until June 2014.
- Power Sales Agreement
  - Agreement between the Agency and Central Hudson
  - Advantages: Provides almost $2.5 million/year in revenue
  - Drawbacks: Revenue is dependent upon output, which, in turn, is dependent upon the amount of solid waste delivered to the facility. The Operator shares in this revenue and the percentage to the Operator increases depending on certain benchmarks achieved in the amount of solid waste processed.
- Host Community Benefit Program (Benefit Program)
  - Agreement between the Agency and Town of Poughkeepsie. It is similar to other agreements normally established in the industry to offset any negative impact the facility may have on the town in which it operates.
  - Resolution 282-1987
  - Advantages: N/A
  - Drawbacks: Town of Poughkeepsie receives almost a $225,000/year based upon a formula of $1.50/ton solid waste delivered to the facility. This agreement was made more than twenty years ago; at a time when quantification of the facility's impact was speculative. Amount paid to Town over twenty-year period totals more than $4,000,000.
- Solid Waste Disposal Agreement
  - Agreement between the Agency and Royal Carting Service
  - Advantages: Royal Carting Service guarantees delivery of the predominant amount of solid waste to the facility. This delivery is critical to meeting Agency obligations with the Operator.

- Drawbacks: Royal Carting Service receives a negotiated discount on tipping fees for its guaranteed minimum delivery total.

- Post Combustion Scrap Metal Agreement
  - Advantages: Contractor removes metal residue and remnants following combustion of solid waste.
  - Drawbacks: The Agency paid the Contractor $10/ton to remove metals that had recyclable value and the contract did not share revenues resulting from the sale of non-ferrous metals. Estimated loss of revenue and impact of unnecessary expenditures is substantial.
  - Special Note: New contract executed with a new vendor, in March 2010, provides equitable allocation of revenues/expenditures. According to Agency Management, the expected revenue from this contract for 2010 is around $1 million.
- Ash Residue Agreement
  - Agreements between the Agency and a Broker for Regional Landfills and between the Agency and a local hauler
    - Multiple agreements with the Counties of Delaware, Madison and Steuben at a price per ton range $20-$21.50. A separate, additional agreement with a hauler to cart the residual ash to these landfills at price per ton range $17.50-$36.50.
  - Advantages: The Agency needs haulers to cart the ash and it needs locations that accept up to 55,000 tons of residual ash.
  - Drawbacks: Annual costs are rising, but no real solutions appear available in the near future. Cost for ash removal in 2009 totaled more than $2 million dollars.

Revenues and Expenditures

There are multiple revenue streams that finance operations at the Agency. Likewise, there are numerous accounts payable that negatively impact the monthly fiscal state of the Agency. The largest revenue activities for the Agency are the monies received through tipping fees and payments from Central Hudson for energy sales. The largest accounts payable are the costs associated with contractor fees, ash removal and bond debt service.

Revenues

Tipping Fees

Tipping fees are the rate charged by the Agency to haulers to unload solid waste at the facility. This fee fluctuates, as it is constructed to influence haulers' choice to deliver solid waste to the facility rather than to landfills outside the County. This rate needs to be set high enough to collect revenue from haulers while not discouraging them to drive out of the County to landfills where tipping fees are cheaper. Recently, the ABO reviewed the Agency's operations and commented on the tipping fee: "the Agency is not setting tipping fees…at a level sufficient to meet it cost of operations."

Tipping fees totaled $11,019,285 for 2009. Although there are factors that affect the standard charge set as the tipping fee, such as seasonal incentives and discounts, the Agency needs to review the current rate it applies to ensure maximum revenue realization.

Energy Sales
The Agency sells the electricity produced by the facility's turbines exclusively to Central Hudson Gas & Electric Corp. Although this rate is set by the market, there is a minimum rate of $0.06/Kilowatt hour that the Agency receives for its energy sales. The total power sale revenue for 2009 was $2,596,053; the monthly average was $216,367.

In the early years of facility operations, additional monthly revenues were received from the sale of steam energy to IBM at its Poughkeepsie site. However, IBM discontinued purchase of the steam energy generated when it downsized operations. This negatively impacted overall energy revenues and contributed to the growing divergence between revenues and expenditures. From recent phone and email discussions, IBM has no plans to readdress steam energy needs currently.

Further, there were times in recent years when the market rate for electricity rose to $0.09/Kilowatt hour, which resulted in bonus revenue for the Agency. However, the market rate has returned to the minimum contracted rate and discussions with Central Hudson indicate there is no expectation of rate changes in the near future that would positively impact energy sales revenue.

There are further dynamics that affect the Agency's share of energy sales revenue due to the structure of the agreement with the current Operator. However, according to the Agency, the Appendix associated with the Amended and Restated Service Agreement that highlights and details the breakdowns in revenue sharing from energy sales has not been included in the Agreement since 1989. Although requested, this Office has not received copies of this and other Appendices associated with this Agreement at the time of the release of this report.

Post-Combustion Metal Recovery
From 2000-2009 the Agency was paying a contractor $10/ton to load, remove, and transport metals that remained after going through the incinerator. Further, the Agency shared no revenue from the sale of non-ferrous metals. The costs associated with this contract including loss of revenue over a decade are hard to calculate, but using 2010 estimate of $1 million dollars provides a conservative figure for lost revenue for the period of this contract at $5 million dollars ($500,000 x 10 years).

The Agency executed a new metals contract with a new Contractor in 2010. This contract finally resolves the inequitable structure that basically allocated all ferrous and non-ferrous recycling revenues to the Contractor while also requiring payment for these services. According to Agency Management, this agreement establishes a new revenue stream and is anticipated to provide $1 million dollars for 2010.

Expenditures

Contractor Fees
Under the Service Agreement, the Agency recognizes expenditures resulting from revenue sharing with and expense reimbursements to the Contractor. These expenditures totaled $10,888,843 in 2009; including, but not limited to, energy sales revenue, annual maintenance fees, and $34/ton of processed solid waste. The agreement, effectively, has the Contractor reimbursed for all expenses and allows it to share in a large percentage of various revenues.

This Agreement expires in June 2014. It is critical that the Agency negotiates a new and more mutually beneficial service contract with whichever entity runs the facility.

Municipal Solid Waste Ash Removal

The cost associated with Ash Removal has risen over the recent years. The cost for ash removal in 2009 totaled approximately $2.4 million dollars. This is an expense that the Agency has limited ability to affect dramatically. Residual ash must be removed and deposited somewhere. The County currently has no location to deposit, at limited expense, what has been determined by the DEC to have some beneficial use. Although this report has not explored the feasibility of depositing this ash locally, or what secondary markets exists for use, any diversion of the 55,000 tons of annual ash residue would assist in lowering the overall costs associated with removal.

The Legislature should explore options with both the Agency Management and the DEC to see what permissible use exists for the ash. Further, whether depositing some ash in local, abandoned quarries or other natural formations is possible or allowed. Diverting just 10,000 tons/year could conservatively reduce expenditures by $250,000.

However, there are factors that currently are negatively affecting the cost of this removal. According to Agency Management, the current Operator's use of lime, a necessary component to the combustion process, is excessive. This excessive use not only adds unnecessary costs to operations, as lime is expensive, but, more importantly, it causes the residual ash to retain more moisture and be heavier. The costs associated with hauling and depositing this residual ash is based on weight, so the Agency has been paying extra, unnecessary costs for ash removal.

Licensing/Insurance Issues

Another area of potential revenue lost over the last few years icludes the lack of additional haulers to deliver solid waste to the facility. Although the maximum capacity of the facility is 164,000 tons/year, the average tonnage of solid waste delivered recent years has been 149,000.

There are haulers that wish to enter the market of delivering solid waste to the Agency. Complaints from the haulers usually highlight the extremely long licensing process by the County and the high insurance burden that is placed upon them by the County. Under the original resolution between the County and the Agency, the County is responsible for "provid[ing]...all such cooperation and assistance as may reasonably be requested by the Agency in connection with the obtaining and maintaining in a timely manner of all licenses, approvals and permits to be obtained for the Facility."

Unfortunately, political wrangling and petty budgetary squabbles has hampered licensing activities. Moreover, the County's overly sensitive concern about haulers' connections with "unsavory characters" has dramatically increased the length of investigative background checks prior to rewarding licenses. Further, the argument that no permits can be issued while the position of Commissioner is vacant should not override the need of both the County and Agency to capture much needed revenue. Adding additional haulers at the earliest possible moment in the application cycle is in the best interest of both the County and the Agency. Agency Management has commented that it has had trouble, at times, to reach the obligatory 140,000 tons. Licensing additional haulers will assure that the Agency maintains its obligations while maximizing revenue. Additional haulers help eliminate the need by the Agency of negotiating lesser tipping fees to entice currently licensed haulers to divert extra solid waste to the facility,

when solid waste tonnage is insufficient. The combination of these two elements would provide additional revenue to the Agency.

Board Governance

Section 2824 of Public Authorities Law requires public authority board members to execute direct oversight of senior management and to understand, review, and monitor the implementation of fundamental financial and management controls and operational decisions of the authority. Further, good governance principles dictate that board members act in good faith and in the authority's best interest, and perform their oversight function consistent with the mission of the public authority and the public's interests. Ultimately, board members have a fiduciary duty to the residents of Dutchess County in regards to the fiscal health and operations of the Agency.

Resolution 89-1989

Although board members presumably possess valuable experience and knowledge after serving for multiple terms, the Legislature passed this resolution explicitly governing term limits for this particular board. This resolution states, "no person who has served as a member for two consecutive three year terms shall be eligible for reappointment as a member for a third term except after an interval of at least three years."

There has been great discussion regarding the service length of some board members in both the ABO report and in local newspapers. Although semantics and technicalities have been exercised to explain the continued service of certain members, it is highly questionable that the actions taken by these members do not violate the spirit and intent of this resolution. The use by nominating powers of "holdovers," the ability of members to remain serving until a replacement is approved, begins to fall short of a legitimate excuse the longer the holdover term continues. Ira Millstein, recognized as one of the top lawyers in America in the practice of corporate governance, came late spring 2010 to the Agency and met with the board to advise them on this issue. His commentary and opinion is that the continued service by some board members is a clear violation.

In light of increasing concerns over operational and financial activities at the Agency, it is essential to resolve this issue without delay. The board loses credibility regarding its decision-making when violations of a local resolution and Section 1047-c(1) of Public Authorities Law continue, especially when compliance is recognized nationwide as critical to proper organizational operations. Both the Legislature and the County Executive Office must work together to bring legitimacy to the board.

Management and Decision-Making Review

Although many of the operational decisions and the existing contracts that have negatively impacted the fiscal health of the Agency were made prior to the current Management, serious review of current Board members and Management should be done by both the Legislature and the County Executive's Office to ensure that any members that remain, and all future members that serve, have fundamental financial understanding, adequate business expertise, and a commitment to constantly improve Agency operations.

While recent changes in operations and newly executed contracts will hopefully alter conditions dramatically at the Agency, these improvements should be viewed as too little, too late. The

Board of Directors' and Agency Management's recent efforts to address operational expenses and contracts now that the Agency is under scrutiny, or only because the County is in the midst of extreme budgetary concerns, should not merit unnecessary praise or forgiveness. Over the last few years, meeting minutes consistently do not reflect voiced concerns about Agency operations and finances. Further, meeting minutes do not reflect any discussions about the current facility operations and how expenditures could be reduced.

Although this report recognizes that Agency Management and the Board of Directors currently do not have the ability to alter many Agency contracts that restrict revenue and exploit expenditures due to contract terms, there are a few obvious areas where they have not addressed cost-saving measures. Only recently has the Board and Agency Management recognized the excessive use of lime by the Operator during the combustion process, which if addressed earlier could have reduced annual costs (discussed in Ash Removal section).

Further, Chart I shows Agency Administration Expenses, which totaled $1,500,399 in 2009. This chart also offers suggested cost-savings regarding various administrative facets that could amount to more than $350,000/year. The fact that neither the Board of Directors nor Agency Management has ever addressed or attempted to reduce unnecessary expenditures calls to question whether this Board of Directors and Management are truly effective and whether they are truly committed to needed, cost-saving measures.

The Agency has a Benefit Program with the Town of Poughkeepsie. This agreement (discussed above) possesses a clause, which allows for modification of annual payments, if future conditions change. Currently, the Agency pays approximately $225,000/year to the Town. It does not appear as if Agency Management has ever discussed modifications with the Town. Conceivably the original intent of the Benefit Program was to offset or compensate the Town for any negative impact or excessive use of Town services (fire, police, etc.) that might occur. The fiscal downturn of the Agency surely qualifies as a change in "future conditions." Agency Management should have addressed this annual fee years ago to reduce this payment. Realistically, the Agency holds no more of a risk to the Town than any other major business or building. If the fee must continue to exist, it should be reduced by $100,000 to level out at $125,000/year.

Finally, for the duration of all currently serving members of the Board and Agency Management, budgets have been submitted annually to the County that grossly overstate expected County contributions through NSF. The fact that from 2004-2009 Agency Management, with Board agreement, submitted budget requests that were excessive shows that no one in management has a true grasp of Agency finances. The figures seem arbitrary and possess no financially logical basis to justify such drastic increases in projected expenses. The only way such figures could be submitted is if guesswork was involved. The overall result is that these excessive requests unnecessarily inflated the County budget over the last five years by more than $7 Million. This action alone provides overwhelming evidence of the lack of understanding of revenues and expenditures by Agency Management and the Board of Directors. See Chart II for annual budget requests versus actual payments.

Although Board members and Management may have been acting in "good faith" over the last decade, it is time for the Legislature and the County Executive to review all remaining Board members and replace those, in the quickest time period allowed, whose nonfeasance is evident. Those Board members who remain should recognize that they each have a fiduciary duty to the

residents of Dutchess County; this duty is to transact business and make financial decisions that are in the best interests of the Agency, and, ultimately, the taxpayers.

Commissioner of Solid Waste Management

Under the Dutchess County Charter and Local Laws No. 1 and 4, the Commissioner's powers and responsibilities include promulgating rules and regulations to effectuate the purposes of local solid waste management law. Further, the Commissioner or his designees are responsible for enforcement of all rules, regulations, and local resolutions.

Currently, there is neither a Commissioner of Solid Waste Management, nor anyone acting in this capacity. This is the result of budgetary disagreements between the former Legislature and the County Executive. Regardless of the reason, there is a real need to reestablish this Office and position. Given the current state of finances and inefficiency at the Agency, politics is no longer an acceptable reason for the non-existence of enforcement of solid waste in Dutchess County.

Article XVII of the Dutchess County Charter details the powers and duties of the Commissioner and the Office. Most notably, "[the Commissioner shall] have jurisdiction, direction and control over, administer, maintain, manage and operate all solid waste management facilities required by the County." Needless to say, the lack of a Commissioner during such a fiscally troubling time for the Agency approaches outrage. There is no real ability to accurately estimate the impact to expenditures due to the lack of a Commissioner to perform oversight of the Agency over this last year, but it is not beyond general understanding to recognize that an increase exists and any increase to what are already large costs is unacceptable.

In the middle to late 1980s the Commissioner held dual positions, including being the Executive Director of the Agency. This practice is something for the Legislature to reconsider as it works with the County Executive Office in constructing the Office of Solid Waste Management. Besides the simple cost-savings to the County by eliminating extra personnel, the responsibilities of the Commissioner dovetail seamlessly with that of the role of Executive Director. Regardless, of the actual extent of the role of the Commissioner, it is essential that the County Executive hire someone who has actual knowledge and experience in the solid waste industry.

Additionally, the Legislature should consider that one of the first roles of the Commissioner should be to work with and coordinate with local municipalities to ensure that their solid waste is delivered to the Agency. Currently, there is solid waste from various municipalities in Dutchess County that does not get delivered to the Agency.

Impact on Materials Recycling Facility (MRF)

Lack of enforcement of local solid waste management laws has contributed to a significant drop-off in revenue from tipping fees delivered to the facility and, consequently, revenue received from recyclables. The MRF historically averaged annually $375,000 in revenue to offset $300,000 in expenses. 2009 reflects a drastic change that took an operation, which generally broke even, to now operate at more than a $100,000 deficit. The Agency claims that it does not have the power to enforce Local Law No. 4, which provides for the collection and disposition of recyclables in Dutchess County.

Local Law No. 4 states "once deposited in the containers, all recyclable materials become the property of the county." The Agency claims that this provision needs enforcement to ensure the

County receives the benefits of maximizing recycling revenues. A Commissioner is needed to perform this role, as the Agency is neither willing, nor technically, legally able to enforce this law.

Future Financial Obligations and Potential Commitments

As of 2009, the Agency has paid more than $40 million dollars in principal and interest payments on its debt service. The next four years continue the brunt of debt service payments at $4.5 million dollars/year. However, after 2014 the annual debt service payments drop substantially to $1.6 million dollars/year and these obligatory payments continue annually until 2027. At the end of twenty-eight years (1/1999-1/2027), the Agency will have paid almost $85 million dollars in debt service payments. See Chart III for breakdown of the combined debt service schedules.

The Comptroller's Office fears that the Agency may consider re-bonding for capital improvements to the facility. The latest consultants' report that is being considered for the LSMWP has recommended upgrades to the turbine and fan components, as a strategy to increase revenue from energy sales. This strategy option must be cautiously reviewed in regards to the true cost of debt over time, after offsetting it by the estimated increase in annual revenue.

The reason for this fear results from a historical review of the Agency's borrowing. In 1998 the Agency defeased its outstanding debt service and, effectively "cashed out" to the amount of $1,130,250. The actual characterization of this activity in the Agency 2009 financial statements, on page 19, is written as "resulted in an economic gain." In 2007 the Agency issued bonds in the amount of $16,140,000 to upgrade the facility to comply with the Clean Air Act and standards established by the EPA. Although this upgrade was necessary, the total cost of this debt will be more than $26.2 million dollars when interest is factored in. Too often available money comes with high costs; the percentage of interest to principal for the 2007 bonds is almost 40%.

Capital improvements to the facility may ultimately be necessary, but the Legislature must carefully review any consideration of additional borrowing for upgrades in light of the true cost of debt compared to realistic expectations of additional energy sales revenue.

Professional Assistance in Negotiations

Going forward all agreements involving critical operational activities and revenue/expenditure streams that impact the financial state of the Agency should be negotiated by skilled and knowledgeable professionals. Further, the Agency should begin working with a Selection Committee interviewing consultants to perform this service as soon as possible. This selection committee should be made up of legislators from the RRWG with input from the Comptroller.

The consultant or consultants retained should begin reviewing all contracts and start identifying areas where inequity exists for the Agency. Even though the current contract with the Operator does not expire until 2014, the process of issuing various RFPs is complex. Moreover, negotiations of multi-million dollar, long-term contracts are not executed in a single year. It is also important to identify all potential companies that may be able to provide services at better terms.

The argument that professional negotiators are an unnecessary expenditure falls short in light of the current state of affairs at the Agency. Almost every contract, negotiated by laypersons, has

provided inequitable allocation of revenues and expenses to the Agency. The total amount of money that has been unrealized or spent is impossible to accurately calculate. It would not be unreasonable to state that at least $1 Million dollars/year has been lost to the Agency; calculated over twenty years this totals more than $20 Million dollars. The potential one-time cost of $150,000-$250,000 for professional negotiators should be an acceptable option to ensure millions in savings to the Agency and, ultimately, to the County.

Conclusion

Twenty-five years of funding, borrowing, extensive manpower and effort has been invested in the Agency and facilities. Twenty-five years of complacency, nonfeasance, mistakes and lost opportunities have also occurred at the Agency and facilities. However, it is easy to highlight mistakes and criticize decisions made after the fact. What is most important is that this "culture of acceptance" is eliminated going forward. The County is contractually obligated, through semi-annual NSF, to ultimately underwrite the Agency's debt and expenses. This obligation exists until 2014 in regards to the current Operator. Without issuing additional bonds for upgrades, this obligation exists until 2027 in regards to the combined debt service schedules. These dual obligations total more than $60 million dollars, so consideration of closing the facility is not a realistic option. Further, sale of the plant to a private entity is highly unlikely due to likely aversion to any assumption of the outstanding debt.

Given the reality of this situation the Agency should continue in existence, but with rigid County oversight of all Agency operations. This should be done by the Commissioner of Solid Waste Management in conjunction with the Legislature. Further, there should no longer be an annual budget for the NSF. The Agency should give quarterly presentations to the Legislature of its financial activities and through Legislative resolutions allocate semi-annual NSF.

In addition, the Comptroller's Office should conduct semi-annual audits of the Agency prior to its request for NSF to ensure proper and accurate billing. The independent accounting firm has a legal commitment to the Agency and not to the County. Further, its contractual agreement has it conducting a limited scope of services in regards to auditing (as requested by the Agency). The Comptroller's Office does not have this limitation and will be able to assist in greater review of Agency finances.

The harsh reality is that laypersons committed the Agency to long-term, contractual obligations that crippled its finances. This is the unfortunate economic situation for the near future; however, 2014 will bring financial relief to the Agency with the ability to negotiate a new contract with an Operator selected from the RFP process. This new contract will allocate revenues and expenditures more in favor of the Agency. Moreover, the debt burden lessens substantially around the same time period. The combination of these two major impediments to solvency will provide an opportunity for the Agency to run operations much closer to break-even. Coupled with rigid cost-saving measures and necessary cuts in administrative expenses will alleviate the financial shortfalls that have plagued the Agency for years.

Obstacles to any successful salvation of the Agency will be voices of opposition to this review from those who have committed and perpetuated the cycles of poor decisions and nonfeasance. Most of the opposition will stem from the fact that, unfortunately, this critical review cannot lessen slights to egos and damage to reputations. However, with the acceptance of their roles as a Director of the board and Agency Management come huge responsibilities to the taxpayers of

Dutchess County. These responsibilities cannot and should never have been taken lightly. The status of every serving member of the Board of Directors must be reviewed and, where necessary, be replaced.

The appointment of a new Commissioner is essential. Moreover, the new Commissioner must be someone with dedication, commitment, and belief in the purpose of the position. However, the filling of this position cannot be viewed as a panacea for all the troubles that afflict the Agency. This is just one step, albeit a critically necessary step, in the right direction. Without addressing all the other problems that currently exist, large NSF requests will continue.

Resistance to issuing additional bonds should be the default position of the Legislature. Further, the Agency must have Legislative approval prior to issuing bonds. This approval should only come after compelling financial evidence is provided by the Agency and supported by independent review.

Finally, I recommend that the Comptroller's Office, in conjunction with the Legislature, engage a consultant from the solid waste industry to immediately perform a complete analysis and review of the Agency and the facilities to provide the County with all necessary information to ensure the best possible option and solution is incorporated into the LSWMP. Although the Agency recently engaged a firm to provide some analysis, it recommended a very narrow choice of options for the Agency. This analysis also provided no real review of Agency finances or operations. In addition, the firm's study even recommends additional analysis of various aspects of Agency operations in its executive summary. Overall, I find this study suspect, as it recommends imposing a user fee (garbage tax) on residents and businesses in Dutchess County. Since this analysis did not review Agency revenues or expenditures, which are necessary to accurately assess the financial needs of the Agency, the suggested rates for user fees can only be seen as arbitrary. I caution the Legislature to view this user fee for what it is: a means of providing additional revenue to the Agency without addressing needed cost-saving measures. Only through a comprehensive study of all aspects of the Agency will the Legislature be presented with realistic and viable options to incorporate into the LSWMP.

The County has committed over $30 Million dollars in NSF over the course of the Agency's existence. Additionally, inequitable contracts have unnecessarily expended $20 Million dollars, through a combination of lost revenues and unnecessary expenditures. This has resulted in a practical loss to the County of over $50 Million dollars in just over twenty years. The taxpayers of Dutchess County cannot shoulder any further commitment to another twenty years of similar operations. It is critical that all options are explored immediately and the only County Department that has the independence, ability and commitment to oversee this review is the Office of Comptroller.

Respectfully submitted,

James L. Coughlan
Dutchess County Comptroller

CHART I

Administrative Expenses 12/31/09			Comptroller's Office Observations and comparisons with Authority Budget Office (ABO) report dated February 22, 2010 and Flow Control and the Waste Management Alternatives Study dated September 2009.
(Administration Expenses Received from RRA 7/21/10)	12/31/09	Potential Savings	
Salaries	**$349,830.00**	**$100,000.00**	Review staffing needs and explore part time/hourly positions.
Overtime	**$26,933.00**	**$26,933.00**	Per ABO report p 10: "The Agency is paying overtime to employees in violation of its policy. This policy also does not authorize compensatory time that is being provided to staff."
Retirement	**$35,015.00**		
Social Security	$22,934.00		
Medicare	$5,382.00		
Health Insurance	**$161,047.00**	**$100,000.00**	Health Insurance expense appears high at an average cost of $23,007.00 per employee (7). The cost of health insurance should be reviewed for increased employee participation for cost savings.
Workmen's Comp	$20,000.00		
Long Term Disability	$870.00		
Life Insurance	$421.00		
Total Personnel Services	**$622,432.00**	**$226,933.00**	
Books, Periodicals	**$4,923.00**	**$3,923.00**	$4,923 books and periodicals expense appears to be excessive. The comptroller's office with a staff of 14 expended $535.00 for all of 2009.
Office supplies	**$6,628.00**	**$4,000.00**	$6,628 office supplies' expense appears to be high. The comptroller's office with a staff of 14 expended $2,870.01 for office supplies in 2009.
Data Proc supplies	$518.00		
Board Expenses	**$900.00**	**$900.00**	Board member meals should not be claimed to Dutchess County. The ABO p11 stated: "we believe that the Agency should be especially dilligent in controlling its costs given that it has an annual operating deficit and must rely on an annual County subsidy."
Photocopy Supplies	$780.00		
Uniforms			
Postage	$2,900.00		
Commercial Printing	$861.00		
Professional Membership	$1,627.00		
Telephone	**$9,109.00**	**$6,000.00**	The telephone expense appears to be high. The comptroller's office with a staff of 14 expended approximately $4,600.00 for 2009 telephone expenses.
Public and Legal Notices	$0.00		
Public Relations & Education	$880.00		
Statutory Fees	$12,011.00		
Laboratory Tests	$0.00		
Advertising	-$114.00		
Bank Charges	**$173.00**	**$173.00**	Bank charges: credit card late fees, overdraft charges, or other bank fees should not be incurred.
Other Administration	**$1,652.00**	**$1,652.00**	Per ABO report p11: "The Agency has used its funds to make more than $3,000 in payments that appear to be inappropriate." Meal payments, flowers and employee gifts were included in these expenses.
Total Administration	**$42,848.00**	**$16,648.00**	
Furniture & Furnishings	$468.00		
Office Equipment	**$3,724.00**	**$2,724.00**	Office equipment expenses of $3,724.00 appears excessive for 7 employees. The ABO stated: "we believe that the Agency should be especially dilligent in controlling its costs given that it has an annual operating deficit and must rely on an annual County subsidy."
Heavy Equipment	$0.00		
Other Equipment	$0.00		
Repairs & Maint-Equip	$94.00		
Service & Support Contracts	$21,663.00		
Total Equip&ServContracts	**$25,949.00**	**$2,724.00**	

Sources: RRA Administrative Expenses and Authority Budget Office Report and Comptroller's Office Financial records

CHART I

Administrative Expenses 12/31/09			Comptroller's Office Observations and comparisons with Authority Budget Office (ABO) report dated February 22, 2010 and Flow Control and the Waste Management Alternatives Study dated September 2009.
(Administration Expenses Received from RRA 7/21/10)	12/31/09	Potential Savings	
Repair & Maint-Vehicles	**$9,920.00**		The Board of Directors should review the automobile policy.
Vehicle Fuel	**$3,407.00**	?	The distance between the RRF and MRF is 6.5 miles. This fuel charge seems excessive given a daily mileage demand of 13 miles.
Total Vehicle Expense	**$13,327.00**	**$0.00**	
Maintenance supplies	$0.00		
Repair & Maint. Bldg	$611.00		
Repair & Maint Equip	$10.00		
Total Buildings & Grounds	**$621.00**	**$0.00**	
Electricity	$85,235.00	?	Could the Agency possibly get some kind of discounted rate from Central Hudson, since the plant is generating electricy? Could the Agency generate and use the electricity it generates?
Water & Sewer	$19,948.00		
Heating Oil	$1,195.00		
Total Utilities	**$106,378.00**	**$0.00**	
Travel & Conference	**$1,733.00**	**$866.50**	These expenses should be for Employee mileage and approved conference expenses only. The ABO stated: "we believe that the Agency should be especially dilligent in controlling its costs given that it has an annual operating deficit and must rely on an annual County subsidy."
Total Travel & Conference	**$1,733.00**	**$1,733.00**	
Insurance-Vehicles	**$19,123.00**	**$12,000.00**	The Board of Directors should review the automobile insurance policy
Insurance-Fire	$1,507.00		
Insurance-D&O Liability	$20,770.00		
Insurance-Other	$2,439.00		
Total Insurance	**$43,839.00**	**$12,000.00**	
Maintenance Serv-Scale	$2,009.00		
Prof Serv. Engineering	$105,978.00		
Prof Serv. Legal	$110,325.00		
Prof Serv. Accounting	$51,996.00		
Prof Serv. Other	$135,646.00		
Total Professional Services	**$405,954.00**	**$0.00**	
Host Community Benefit	$237,239.00	**$112,239.00**	Readdress the Facility's impact on the Town of Poughkeepsie since the original agreement was made 20 years ago. Per ABO report p 10: "The Agency is making payments that it is not obligated to make." There is no written agreement for the MRF(expired 2003).
Property Taxes	$79.00		
Total Host Community Benefit	**$237,318.00**	**$112,239.00**	
Total Administrative Expenses	**$1,500,399.00**	**$372,277.00**	**Potential Savings**

Sources: RRA Administrative Expenses and Authority Budget Office Report and Comptroller's Office Financial records

CHART II

The Dutchess County Department of Solid Waste Management and the Dutchess County Resource Recovery Agency

Year	Fund/Acct	Approved Budget		Total Paid	
2000	A8130	$850,501.00		$850,000.00	Mainframe - History
2001	A8130	$850,501.00		$850,000.00	Mainframe - History
2002	A8130	$1,235,001.00		$1,226,000.00	Mainframe - History
2003	A8130	$1,883,297.00		$1,880,671.00	Mainframe - History
2004	A8130	$1,883,297.00		$1,074,825.00	Mainframe - History
2005	A8130	$2,260,001.00		$1,291,896.50	Mainframe - History
2006	A8130	$4,106,001.00		$1,877,995.00	per LOGOS
2007	*A8160**	$4,053,395.00		$2,547,911.00	per LOGOS
2008	A8160	$5,005,364.00	**	$3,778,477.00	per LOGOS
2009	A8160	$6,330,611.00	***	**$3,516,584.00**	per LOGOS
2010	A8160	$0.00		**$2,517,610.00**	per LOGOS
Totals		**$28,457,969.00**		**$21,411,969.50**	

*LOGOS Implementation during 2006 Department number changed

** 2008 AP $1,114,710.00 paid 7/3/09 for 2009

CHART III DUTCHESS COUNTY RESOURCE RECOVERY AGENCY - COMBINED DEBT SERVICE SCHEDULES FOR 1998A,1998C,1999A,2007

	1998A,B	S1998C				S1999A				S2007				TOTAL ALL		
		PRIN	COU-PON	INT	FISCAL TOTAL	PRIN	COU-PON	INT	FISCAL TOTAL	PRIN	COU-PON	INT	FISCAL TOTAL	PRIN	INT	FISCAL TOTAL ALL
01/01/99	1,944,555.64			78,214.28	78,214.28									0.00	78,214.28	2,022,769.92
07/01/99				107,470.00											107,470.00	
01/01/00	2,698,991.67	340,000.00	4.10%	107,470.00	554,940.00			336,226.64	336,226.64					340,000.00	443,696.64	3,590,158.31
07/01/00				100,500.00				796,326.25							896,826.25	
01/01/01	520,650.00	350,000.00	4.20%	100,500.00	551,000.00	1,130,000.00	4.45%	796,326.25	2,722,652.50					1,480,000.00	896,826.25	3,794,302.50
07/01/01				93,150.00				771,183.75							864,333.75	
01/01/02	396,500.00	360,000.00	4.25%	93,150.00	546,300.00	1,305,000.00	4.55%	771,183.75	2,847,367.50					1,665,000.00	664,333.75	3,790,167.50
07/01/02				85,500.00				741,495.00							826,995.00	
01/01/03	377,300.00	360,000.00	5.00%	85,500.00	531,000.00	1,400,000.00	4.65%	741,495.00	2,882,990.00					1,760,000.00	826,995.00	3,791,290.00
07/01/03				76,500.00				708,945.00							785,445.00	
01/01/04	353,100.00	375,000.00	5.00%	76,500.00	528,000.00	1,490,000.00	4.70%	708,945.00	2,907,890.00					1,865,000.00	785,445.00	3,788,990.00
07/01/04				67,125.00				673,930.00							741,055.00	
01/01/05	339,200.00	395,000.00	5.00%	67,125.00	529,250.00	1,570,000.00	5.00%	673,930.00	2,917,860.00					1,965,000.00	741,055.00	3,786,310.00
07/01/05	paid in full			57,250.00				634,680.00							691,930.00	
01/01/06		415,000.00	5.00%	57,250.00	529,500.00	1,990,000.00	5.00%	634,680.00	3,259,360.00					2,405,000.00	691,930.00	3,788,860.00
07/01/06				46,875.00				584,930.00							631,805.00	
01/01/07		435,000.00	5.00%	46,875.00	528,750.00	2,090,000.00	5.00%	584,930.00	3,259,860.00					2,525,000.00	631,805.00	3,788,610.00
07/01/07				36,000.00				532,680.00							568,680.00	
01/01/08		455,000.00	5.00%	36,000.00	527,000.00	2,195,000.00	5.00%	532,680.00	3,260,360.00					2,650,000.00	568,680.00	3,787,360.00
07/01/08				24,625.00				477,805.00				468,274.20			970,704.20	
01/01/09		480,000.00	5.00%	24,625.00	529,250.00	2,305,000.00	5.05%	477,805.00	3,260,610.00			371,318.75	839,592.95	2,785,000.00	873,748.75	4,629,452.95
07/01/09				12,625.00				419,603.75				371,318.75			803,547.50	
01/01/10		505,000.00	5.00%	12,625.00	530,250.00	2,420,000.00	5.15%	419,603.75	3,259,207.50			371,318.75	742,637.50	2,925,000.00	803,547.50	4,532,095.00
07/01/10								357,288.75				371,318.75			728,607.50	
01/01/11						3,075,000.00	5.25%	357,288.75	3,789,577.50			371,318.75	742,637.50	3,075,000.00	728,607.50	4,532,215.00
07/01/11								276,570.00				371,318.75			647,888.75	
01/01/12						3,235,000.00	5.35%	276,570.00	3,788,140.00			371,318.75	742,637.50	3,235,000.00	647,888.75	4,530,777.50
07/01/12								190,033.75				371,318.75			561,352.50	
01/01/13						3,410,000.00	5.40%	190,033.75	3,790,067.50			371,318.75	742,637.50	3,410,000.00	561,352.50	4,532,705.00
07/01/13								97,963.75				371,318.75			469,282.50	
01/01/14						3,595,000.00	5.45%	97,963.75	3,790,927.50			371,318.75	742,637.50	3,595,000.00	469,282.50	4,533,565.00
07/01/14												371,318.75			371,318.75	
01/01/15										925,000.00	5.00%	371,318.75	1,667,637.50	925,000.00	371,318.75	1,667,637.50
07/01/15												348,193.75			348,193.75	
01/01/16										975,000.00	5.00%	348,193.75	1,671,387.50	975,000.00	348,193.75	1,671,387.50
07/01/16												323,818.75			323,818.75	
01/01/17										1,020,000.00	5.00%	323,818.75	1,667,637.50	1,020,000.00	323,818.75	1,667,637.50
07/01/17												298,318.75			298,318.75	
01/01/18										1,070,000.00	5.00%	298,318.75	1,666,637.50	1,070,000.00	298,318.75	1,666,637.50
07/01/18												271,568.75			271,568.75	
01/01/19										1,125,000.00	5.00%	271,568.75	1,668,137.50	1,125,000.00	271,568.75	1,668,137.50
07/01/19												243,443.75			243,443.75	
01/01/20										1,180,000.00	4.25%	243,443.75	1,666,887.50	1,180,000.00	243,443.75	1,666,887.50
07/01/20												218,368.75			218,368.75	
01/01/21										1,230,000.00	4.25%	218,368.75	1,666,737.50	1,230,000.00	218,368.75	1,666,737.50
07/01/21												192,231.25			192,231.25	
01/01/22										1,285,000.00	4.25%	192,231.25	1,669,462.50	1,285,000.00	192,231.25	1,669,462.50
07/01/22												164,925.00			164,925.00	
01/01/23										1,340,000.00	4.50%	164,925.00	1,669,850.00	1,340,000.00	164,925.00	1,669,850.00
07/01/23												134,775.00			134,775.00	
01/01/24										1,400,000.00	4.50%	134,775.00	1,669,550.00	1,400,000.00	134,775.00	1,669,550.00
07/01/24												103,275.00			103,275.00	
01/01/25										1,465,000.00	4.50%	103,275.00	1,671,550.00	1,465,000.00	103,275.00	1,671,550.00
07/01/25												70,312.50			70,312.50	
01/01/26										1,530,000.00	4.50%	70,312.50	1,670,625.00	1,530,000.00	70,312.50	1,670,625.00
07/01/26												35,887.50			35,887.50	
01/01/27										1,595,000.00	4.50%	35,887.50	1,666,775.00	1,595,000.00	35,887.50	1,666,775.00
	6,630,297.31	4,470,000.00		1,493,454.28	5,963,454.28	31,210,000.00		14,863,096.64	46,073,096.64	16,140,000.00		10,105,655.45	26,245,655.45	51,820,000.00	26,462,206.37	84,912,503.68

DUTCHESS COUNTY RESOURCE RECOVERY AGENCY
NET SERVICE FEE
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NET SERVICE FEE

DEFINED

The county's statutory fiscal responsibility to subsidize the RRA is provided by Resolution #427 of 1984, Article IV – Payment of Service Charges to the Agency. Subsidies are made in accordance with the due dates and the calculation formula included in Article IV Section 4.01.

The Net Service Fee Contractual Formula

In accordance with the agreement, the Net Service Fee is billed twice a year for both the Solid Waste Facility (RRA) located at Sand Dock Road and Materials Recovery Facility (MRF) located at Fulton Street. Billings for each entity are received from DCRRA. The following is a synopsis of the Agency Net Service Fees Calculation, the complete description defining the provisions is contained in Resolution #427.

Expenses minus Revenues:

(BDS + BRF + CSF + AE) minus (TF + ER + RMR + OR)

BDS - Bond Debt Service, the amount of principal and interest on Bonds accrued and to accrue during the calculation period.

BRF - Bond Reserve Funds, the amounts, if any, required to be deposited during the calculation period in the Debt Service Reserve Fund and Reserve and Contingency Fund established under the Trust Indenture.

CSF - Contractor Service Fee, the base compensation to the Contractor accrued during the calculation period consisting of the Service Fee for Net Tonnage Processed.

AE - Agency Expenses, the accrued expenses of the Agency for the calculation period, including costs incurred for providing alternate disposal.

TF - The total of the per **Ton Fees*** accrued by the Agency for disposal of Solid Waste at the Facility or at the Alternate Disposal Site. ** TF is labeled Waste Disposal Fees in **RRA** billings & Recycling Fees in **MRF** billings*

ER - Energy Revenues, the total amount of revenues accrued by the Agency during the calculation period from the sale of energy generated by the Facility.

RMR - Recovered Materials Revenues, the total amount of revenues accrued by the Agency during the calculation period from the sale by the Contractor of Recovered Materials.

OR - Other Revenues, the total amount of other funds available to the Agency under the Trust Indenture for purposes of meeting its obligations ...during the calculation period.

The bi-annual billings included the MRF facility expenditures (per the Recyclables Processing Agreement) and RRA – Solid Waste Facility (per the Solid Waste Disposal agreement) for the following time periods.

June Payment				
	MRF Expenditures	July - December	RRA - SWF	October – March
December Payment				
	MRF Expenditures	January - June	RRA- SWF	April – September

HISTORICAL

Historical Presentation of Net Service Fee – Budgeted and Actual Payment History

A historical review of the budgeted funds and budget adjustments for net service fees for RRA follows:

Year	Net Service Fees Budgeted	Date of Budget Modification	Budget Adjustments	Modified Budget for Net Service Fees
1984-1994	$0			
1995	$0	05/26/95	$705,459	
		12/14/95	$1,530,325	$2,235,784
1996	$0	06/21/96	$2,050,394	
		12/05/96	$1,597,664	$3,648,058
1997	$0	05/27/97	$1,486,479	
		11/24/97	$1,965,736	$3,452,215
1998	$1,500,000			$1,500,000
1999	$858,000			$858,000
2000	$850,000			$850,000
2001	$850,000			$850,000
2002	$725,000	12/17/02	$500,000	$1,225,000
2003	$1,878,296			$1,878,296
2004	$1,878,296			$1,878,296
2005	$2,254,000			$2,254,000
2006	$4,100,000			$4,100,000
2007	$4,047,394	12/31/07	($1,600)	$4,045,794
2008	$5,005,363			$5,005,363
2009	$6,330,608			$6,330,608
2010	$0			$0

Observations:

- In reviewing adopted budgets dating back to 1984, we noted the first net service fee was allocated in 1995. However, as shown above, the net service fee was not budgeted until 1998. During 1995, 1996 and 1997, resolutions were passed twice each year for the bi-annual billings to provide the net service fee subsidy.
- Since 1998 the county provided funding through the annual budget for the net service fee. An additional funding resolution was only requested in 2002.
- Funds were not budgeted in 2010.

Net Service Fee Payments – 1995 - 2010

The following chart illustrates how net service fees budgeted/allocated were used to fund various years. Funds for selected years were encumbered and made available for the following year's billings. In some cases allocations were used to fund multiple years.

Date Paid	Budget Year	Service Fee Payments	June	December	Total Annual - Net Service Fees
06/14/95	1995	$ 705,459.00	$ 705,459.00		
12/20/95	1995	$ 1,530,325.00		$ 1,530,325.00	$2,235,784.00
06/28/96	1996	$ 2,050,394.00	$ 2,050,394.00		
12/24/96	1996	$ 1,597,664.00		$ 1,597,664.00	$3,648,058.00
06/27/97	1997	$ 1,486,479.00	$ 1,486,479.00		
12/26/97	1997	$ 1,233,736.00		$ 1,233,736.00	$2,720,215.00
06/18/98	1997	$ 732,000.00			
06/18/98	1998	$ 550,056.00	$ 1,282,056.00		
12/23/98	1998	$ 876,973.00		$ 876,973.00	$2,159,029.00
06/28/99	1998	$ 72,971.00			
06/28/99	1999	$ 14,466.00	$ 87,437.00		
12/28/99	1999	$ 377,553.00		$ 377,553.00	$464,990.00
06/21/00	1999	$ 202,123.00	$ 202,123.00		
12/22/00	2000	$ 231,575.00		$ 231,575.00	$433,698.00
06/11/01	2000	$ 112,457.00	$ 112,457.00		
12/18/01	2001	$ 645,927.00		$ 645,927.00	$758,384.00
06/24/02	2001	$ 54,073.00			
06/24/02	2001	$ 150,000.00			
06/24/02	2002	$ 334,427.00	$ 538,500.00		
12/26/02	2000	$ 160,981.00			
12/31/02	2002	$ 890,573.00		$ 1,051,554.00	$1,590,054.00
06/24/03	2000	$ 157,343.00			
06/24/03	2003	$ 573,186.00	$ 730,529.00		
12/18/03	2003	$ 707,236.00		$ 707,236.00	$1,437,765.00
06/18/04	2000	$ 157,444.00			
06/18/04	2003	$ 597,874.00			
06/18/04	2004	$ 100,596.00	$ 855,914.00		
12/21/04	2004	$ 972,729.00		$ 972,729.00	$1,828,643.00
06/17/05	2005	$ 548,823.00	$ 548,823.00		
12/23/05	2005	$ 741,136.00		$ 741,136.00	$1,289,959.00
06/22/06	2005	$ 710,724.00	$ 710,724.00		
12/18/06	2006	$ 1,167,271.00		$ 1,167,271.00	$1,877,995.00
06/22/07	2006	$ 837,176.00	$ 837,176.00		

12/11/07	2007	$ 1,688,160.00		$ 1,688,160.00	$2,525,336.00
06/27/08	2007	$ 1,257,550.00	$ 1,257,550.00		
11/28/08	2008	$ 2,520,927.00		$ 2,520,927.00	$3,778,477.00
07/03/09	2008	$ 1,114,710.00	$ 1,114,710.00		
12/04/09	2009	$ 2,401,874.00		$ 2,401,874.00	$3,516,584.00
06/04/10	2009	$ 2,517,610.00	$ 2,517,610.00		$2,517,610.00
	Totals	$ 32,782,581.00	$ 15,037,941.00	$ 17,744,640.00	$ 32,782,581.00

Liquidated Funds

In addition to expensing excess budget funds in subsequent years, funds were also liquidated. In fact, as shown below, 2009 budgeted funds totaling $1,411,124 were liquidated.

	Modified Budget for Net Service Fees	Liquidated funds
1995	$2,235,784	
1996	$3,648,058	
1997	$3,452,215	
1998	$1,500,000	
1999	$858,000	$263,858
2000	$850,000	
2001	$850,000	
2002	$1,225,000	
2003	$1,878,296	
2004	$1,878,296	$804,971
2005	$2,254,000	$251,379
2006	$4,100,000	$2,095,553
2007	$4,045,794	$1,100,084
2008	$5,005,363	$1,369,726
2009	$6,330,608	$1,411,124
2010	$0	$0
		$7,296,695

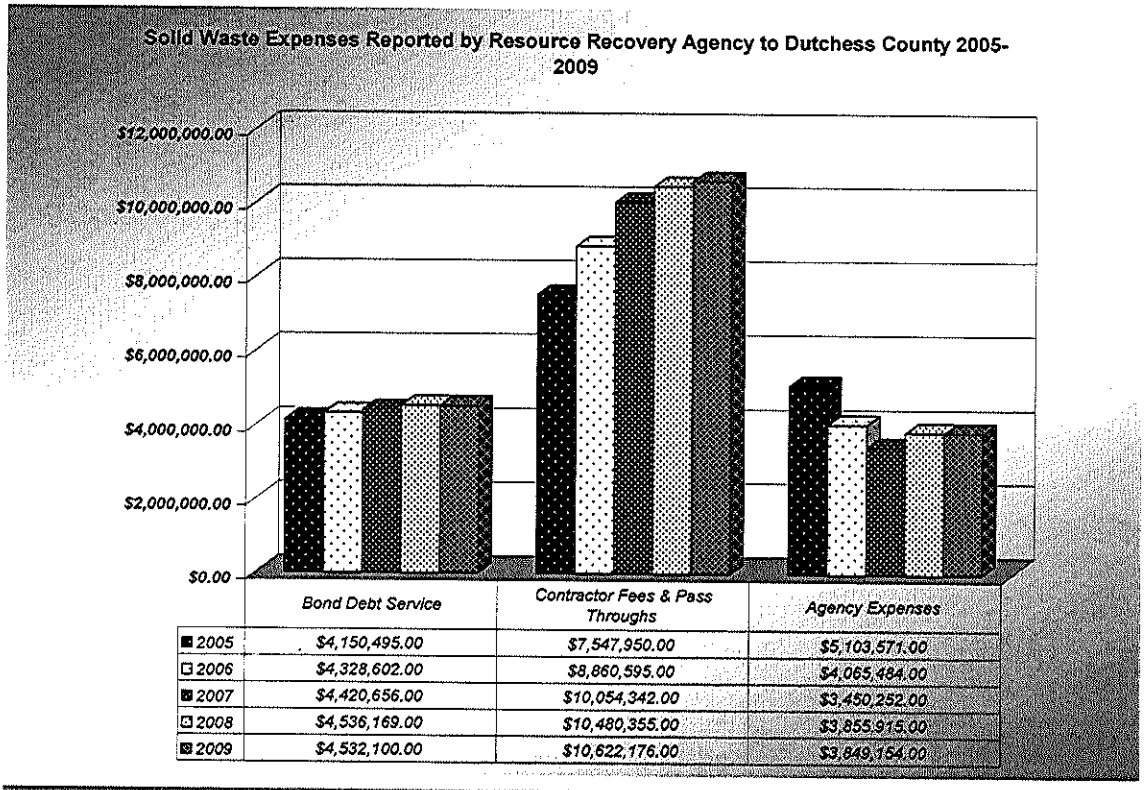
BILLINGS

Net Service Fees Based on Claims to Dutchess County

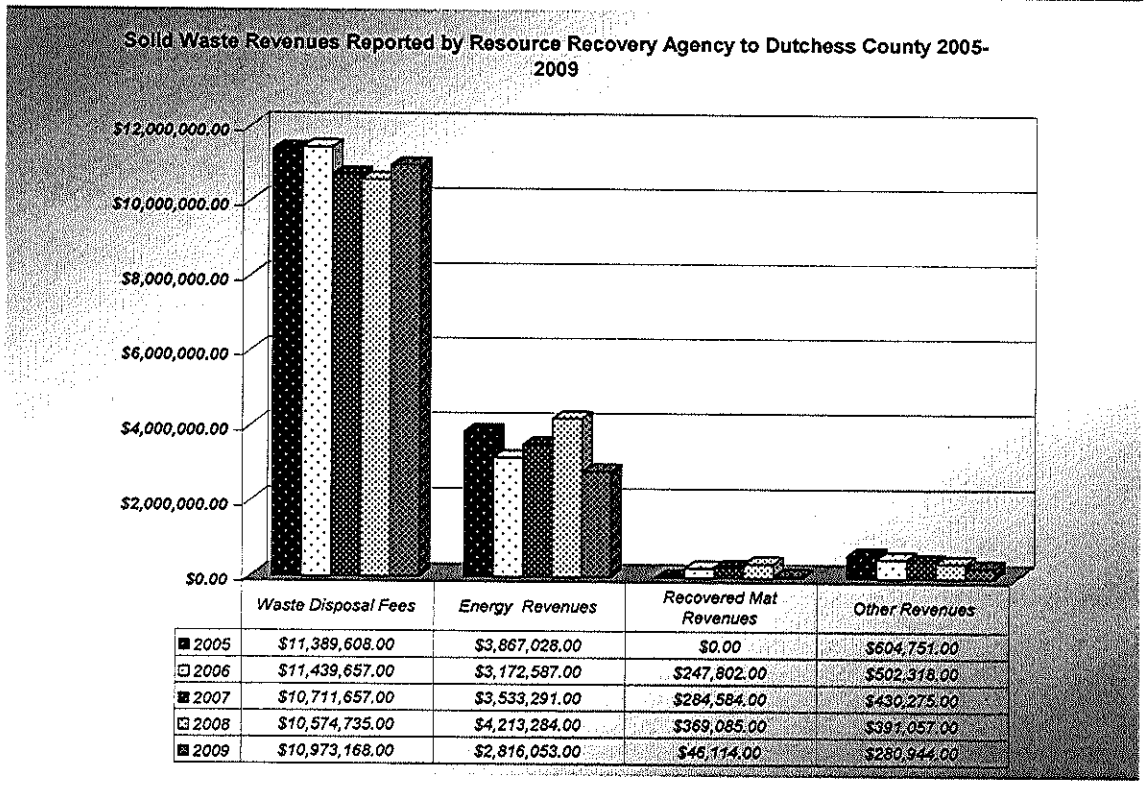
From the RRA billing data, the Net Service Fee Summary shown below for 2005-2009 was prepared to present the annual expenses and revenues. As exhibited, the Net Service Fees billed to Dutchess County has grown exponentially since the 2005 billing of $1,180,942 to $5,008,703 for 2009. Charts follow to illustrate each billing component.

Net Service Fees Based on Claims to Dutchess County					
Expenses					
	2005	**2006**	**2007**	**2008**	**2009**
Bond Debt Service	$4,150,495	$4,328,602	$4,420,656	$4,536,169	$4,532,100
Required DSR Deposit	$0	$0	$0	$0	$0
Contractor Fees & Pass Throughs	$7,547,950	$8,860,595	$10,054,342	$10,480,355	$10,622,176
Agency Expenses	$5,103,571	$4,065,484	$3,450,252	$3,855,915	$3,849,154
Total Expenses	**$16,802,016**	**$17,254,681**	**$17,925,250**	**$18,872,439**	**$19,003,430**
Revenues					
Waste Disposal Fees	$11,389,608	$11,439,657	$10,711,657	$10,574,735	$10,973,168
Energy Revenues	$3,867,028	$3,172,587	$3,533,291	$4,213,284	$2,816,053
Recovered Mat Revenues	$0	$247,802	$284,584	$369,085	$46,114
Other Revenues	$604,751	$502,318	$430,275	$391,057	$280,944
Total Revenues	**$15,861,387**	**$15,362,364**	**$14,959,807**	**$15,548,161**	**$14,116,279**
SWF NSF Fees	**$940,629**	**$1,892,317**	**$2,965,443**	**$3,324,278**	**$4,887,151**
	2005	**2006**	**2007**	**2008**	**2009**
Contractor Service Fee-CSF	$250,000	$250,000	$250,000	$249,998	$266,665
Agency Expenses-AE	$373,483	$53,789	$81,018	$40,904	$57,686
CSF+AE	**$623,483**	**$303,789**	**$331,018**	**$290,902**	**$324,351**
MRF NSF	**2005**	**2006**	**2007**	**2008**	**2009**
Recovered Materials Revenues-RMR	$221,087	$184,519	$191,926	$40,761	$161,101
Per Ton Fees-Recycling-TF	$162,083	$186,316	$183,255	$78,221	$41,698
RMR+TF	**$383,170**	**$370,835**	**$375,181**	**$118,982**	**$202,799**
MRF NSF	**$240,313**	**($67,046)**	**($44,163)**	**$171,920**	**$121,552**
RRA Net Service Fees	**$1,180,942**	**$1,825,271**	**$2,921,280**	**$3,496,198**	**$5,008,703**

Illustration of Expenditures and Revenues reported for the Solid Waste Facility

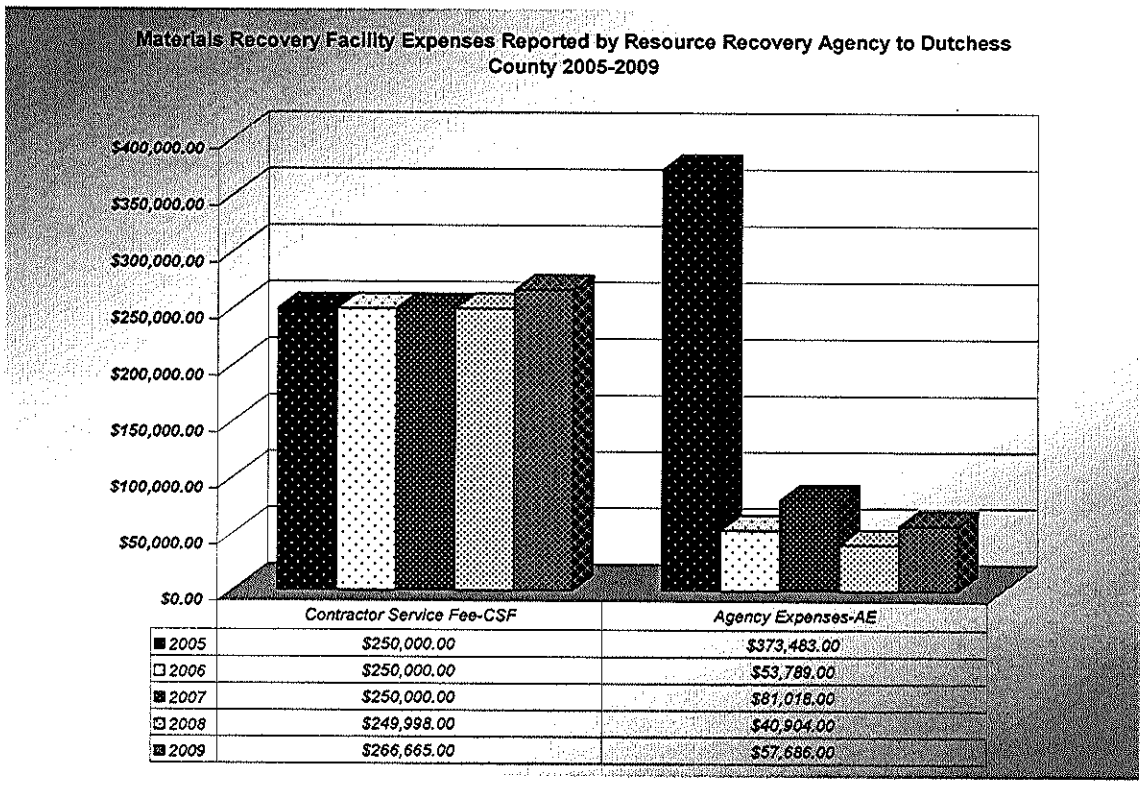


	Bond Debt Service	Contractor Fees & Pass Throughs	Agency Expenses
2005	$4,150,495.00	$7,547,950.00	$5,103,571.00
2006	$4,328,602.00	$8,860,595.00	$4,065,484.00
2007	$4,420,656.00	$10,054,342.00	$3,450,252.00
2008	$4,536,169.00	$10,480,355.00	$3,855,915.00
2009	$4,532,100.00	$10,622,176.00	$3,849,154.00

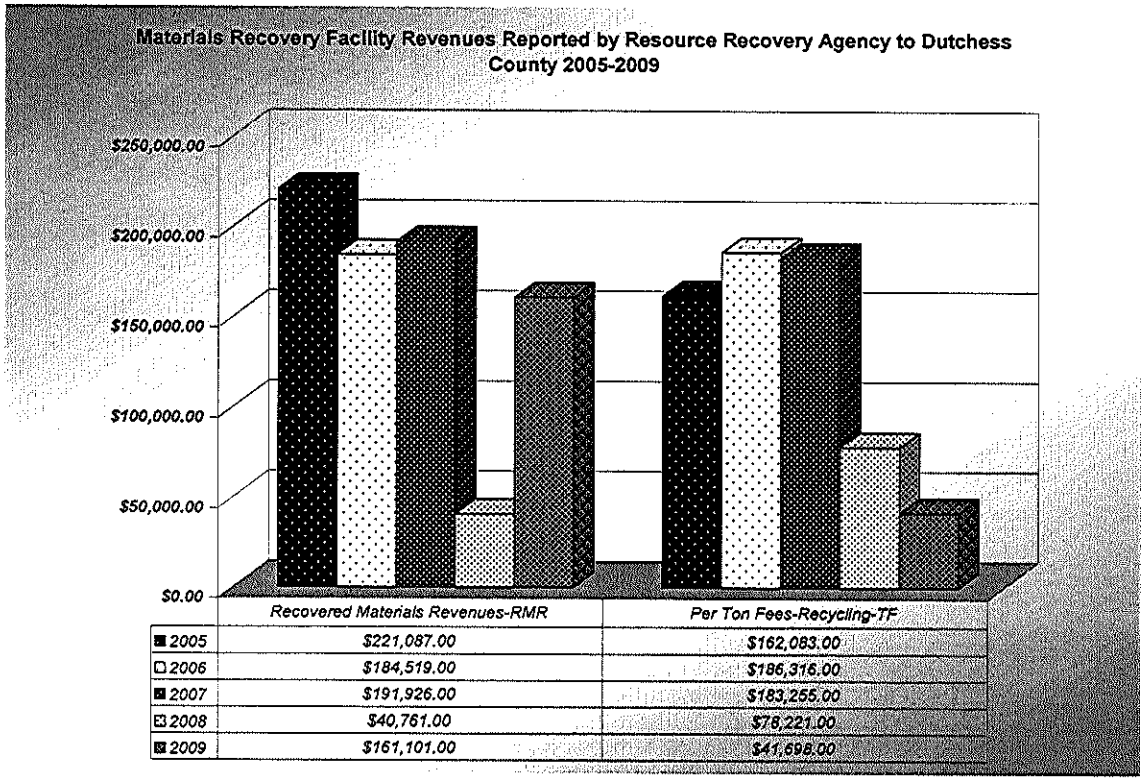


	Waste Disposal Fees	Energy Revenues	Recovered Mat Revenues	Other Revenues
2005	$11,389,608.00	$3,867,028.00	$0.00	$604,751.00
2006	$11,439,657.00	$3,172,587.00	$247,802.00	$502,318.00
2007	$10,711,657.00	$3,533,291.00	$284,584.00	$430,275.00
2008	$10,574,735.00	$4,213,284.00	$369,085.00	$391,057.00
2009	$10,973,168.00	$2,816,053.00	$46,114.00	$280,944.00

Illustration of the Expenditures and Revenues reported for the Material Recovery Facility



	Contractor Service Fee-CSF	Agency Expenses-AE
2005	$250,000.00	$373,483.00
2006	$250,000.00	$53,789.00
2007	$250,000.00	$81,018.00
2008	$249,998.00	$40,904.00
2009	$266,665.00	$57,686.00



	Recovered Materials Revenues-RMR	Per Ton Fees-Recycling-TF
2005	$221,087.00	$162,083.00
2006	$184,519.00	$186,316.00
2007	$191,926.00	$183,255.00
2008	$40,761.00	$78,221.00
2009	$161,101.00	$41,698.00

Net Service Fee Summary of Expenditures and Revenue -Observations

Solid Waste Facility

Expenses

- Bond Debt Service has increased each of the years from 2005-2008.
- The Required Debt Service Reserve Deposit was not billed. *We were informed by the RRA auditor that the agency had substantial reserves 'in excess' of the amount required. Based on our observations and discussions with the RRA auditor, funds were obtained through the billing of the Bond Debt Service.*
- Contractor Fees & Pass Through Expenses steadily rose in all years with substantial increases in 2006 and 2007.
- Agency Expenses were reported at their highest in 2005 and their lowest in 2007.

Revenues

- Waste Disposal Fee revenues were highest in 2006 and lowest in 2008
- Energy revenues surged in 2005 and 2008 and plummeted in 2006 and 2009.
- There were no Recovered Material Revenues in 2005 reported and in 2009 they plummeted to $46,114 from a five year high of $369,085.
- Other Revenues reported were highest in 2005 and steadily decreased each year to a low of $280,944 in 2009.

Material Recovery Facility

Expenses

- The Contractor Service Fee was stable for 2005 – 2008: however, increased expenditures were recorded in 2009.
- Agency Expenses were highest in 2005 and were reduced substantially after 2005: however, in 2007 and 2009 expenditures increased.

Revenues

- Recovered Materials revenues fluctuated with a high of $221,087 in 2005 to a low of $40,761 in 2008.
- Per Ton Fees – Recycling revenue ranged from $162,083 - $186,316 from 2005-2007 but plummeted to $78,221 in 2008 and further dropped to $41,698 in 2009.

Net Service Fee for Solid Waste & Material Recovery Facility

	2005	2006	2007	2008	2009
SWF NSF Fees	$940,629	$1,892,317	$2,965,443	$3,324,278	$4,887,151
MRF NSF	$240,313	($67,046)	($44,163)	$171,920	$121,552
Total Net Service Fees	**$1,180,942**	**$1,825,271**	**$2,921,280**	**$3,496,198**	**$5,008,703**

Observations:

- The MRF showed a profit in 2006 and 2007; and surplus revenues were used to offset Net Service Fee Expenditures for the Solid Waste Facility.
- In 2005 the MRF facility reported a loss of $240,313 and resumed losses in 2008 of $171,920 and in 2009 of $121,552.

FINANCIAL STATEMENT ANALYSIS 2005 - 2009

To further analyze the Net Service Fee, we reviewed the RRA's audited financial statements for the five year period to available documentation and information. The following reviews are presented:

- Five-year Increase in Net Service Fee
- Comparison of Interest Expense
- Over- estimated Expenses on Claims
- Excess Net Service Fees
- Change in Net Assets
- Agency Surplus

Five-year Increase in Net Service Fee

The table below lists data from RRA Audited Financial Statements for the years 2005 to 2009. The last 2 columns compare 2009 to 2005 to show the actual dollar amounts and percentage increases and decreases.

As shown, RRA expenses increased over the five-year period by $2,102,192 or 12.78% while revenues less net service fee decreased by $1,846,884 or 11.42%. This increase in expenses and decrease in revenue resulted in an increased Dutchess County obligation for NSF of $3,703,887 or a 298.15% increase.

	2005	2006	2007	2008	2009	5 Yr $ Increase	5 Yr % Increase
Expenses	16,450,457	17,739,581	18,156,481	18,878,932	18,552,649	**2,102,192**	**12.78%**
Revenue (*less Net Service Fees*)	16,165,967	15,733,196	15,334,982	15,667,141	14,319,083	**(1,846,884)**	**11.42%**
Net Service Fees	1,242,302	2,124,528	2,921,279	3,496,200	4,946,199	**3,703,897**	**298.15%**

Source: RRA Audited Financial Statements

Comparison of Interest Expense

A Debt Service Schedule provided by RRA's auditors was used to compare interest costs reported on the schedule to interest costs reported on the audited financial statements. At a meeting with RRA we were informed that the only interest costs the agency incurred was debt service. We compared interest due in July and the following January on the schedule to interest payments on the audited financial statements. In the years 2005 and 2009 these amounts matched. However, in 2006, 2007 and 2008 total expenses claimed on the financial statements exceeded the amounts listed on the debt service schedule by $1,080,007. Any increase in interest expense has the effect of increasing NSF. It appears Dutchess County was charged an additional $1,080,007 in NSF for the years 2006, 2007 and 2008.

RRA Debt Service Schedule for 1998 a, 1998C, 1998 ,2007

	Principal Per Schedule	Interest Per Schedule	Combined Interest Per Schedule	Audited Financial Statement Year	Audited Financial Statement Amount	Financial Statement vs Schedule
7/1/04		741,055				
1/1/05	1,965,000	741,055	**1,482,110**			
7/1/05		691,930				
1/1/06	2,405,000	691,930	**1,383,860**	2005	**1,383,862**	**-2**
7/1/06		631,805				
1/1/07	2,525,000	631,805	**1,263,610**	2006	**1,803,610**	**-540,000**
7/1/07		568,680				
1/1/08	2,650,000	568,680	**1,137,360**	2007	**1,770,648**	**-633,288**
7/1/08		970,704				
1/1/09	2,785,000	873,749	**1,844,453**	2008	**1,751,169**	**93,284**
7/1/09	0	803,548				
1/1/10	2,925,000	803,548	**1,607,095**	2009	**1,607,096**	**-1**
Total						**-1,080,007**

Over Estimating Expenses on Claims

RRA claims Net Service Fee based on estimated expenses. When expenses are estimated higher than what is needed, the County is unnecessarily required to make a higher payment and the agency receives cash it is not entitled to. RRA over estimated expenses in 2005, 2006, 2007 and 2009; expenses in 2008 were under estimated for a net total of $1,222,124. Review of individual expense lines indicate debt service expense caused a major portion of the over estimate for 2006 and 2007 and an under estimate for 2008. It appears the debt service schedule which we received from RRA was not used to estimate expenses.

Total Expenses	RRA Claimed Expenses	Financial Statement Expenses	Adjust Financial Statement for Depreciation, Amortization, Post Employment Benefits	Adjust Financial Statement For Principal	Adjust for apparent interest errors	Adjusted Financial Statement	RRA Over-claimed
2005	$17,425,499	16,450,457	1,808,825	2,405,000	-2	17,046,630	$378,869
2006	$17,558,470	17,739,581	2,406,856	2,525,000	-540,000	17,317,725	$240,745
2007	$18,256,268	18,156,481	2,550,219	2,650,000	-633,288	17,622,974	$633,294
2008	$19,163,341	18,878,932	2,500,591	2,785,000	93,284	19,256,625	($93,284)
2009	$19,327,781	18,552,649	2,212,367	2,925,000	-1	19,265,281	$62,500
	91,731,359	89,778,100	11,478,858	13,290,000	(1,080,007)	90,509,235	1,222,124

Excess Net Service Fees

The following table includes information from RRA's audited financial statements and auditor's NSF Reconciliation. The auditor's NSF reconciliation was not available for 2005 and 2006, therefore we calculated the NSF for 2005 and 2006 using the amounts reported on the audited financial statements and the apparent methodology the auditors used for 2007, 2008 and 2009.

The table compares the NSF reported on the financial statements to the calculation of the NSF.

- In 2005 the amount reported on the audited financial statements for NSF exceeded the calculated amount by $361,639 which appears to be an overpayment of $361,639.
- In 2009 the amount reported on the audited financial statements was $4,946,199 for NSF; however, RRA claimed and was paid $5,008,703 resulting in an overpayment of $62,504.

Increase in Net Service Fee due to Principal Payment being used

	2005	2006	2007	2008	2009	Total 5 Yr Cost
Expenses	16,450,457	17,739,581	18,156,481	18,878,932	18,552,649	89,778,100
Revenue less NSF	16,165,967	15,733,196	15,334,982	15,667,141	14,319,083	
Calculated NSF	284,490	2,006,385	2,821,499	3,211,791	4,233,566	
Adjust Expenses for NSF Reconciliation						
Deduct Depreciation	1,307,174	1,928,093	1,944,298	2,030,168	2,065,453	9,275,186
Deduct Amortization	501,651	478,763	542,721	415,870	97,127	2,036,132
Deduct Post Employee Benefit Costs	0	0	63,200	54,553	49,787	167,540
Total Deductions	1,808,825	2,406,856	2,550,219	2,500,591	2,212,367	11,478,858
Add Principal	2,405,000	2,525,000	2,650,000	2,785,000	2,925,000	13,290,000
Adjusted Expenses	17,046,632	17,857,725	18,256,262	19,163,341	19,265,282	91,589,242
Adjusted NSF Calculation	**880,665**	**2,124,529**	**2,921,280**	**3,496,200**	**4,946,199**	**14,368,873**
NSF Reported on Audited Financial Statement	**1,242,302**	**2,124,528**	**2,921,279**	**3,496,200**	**4,946,199**	**14,730,508**
Financial Statement vs NSF Calculation	**361,637**	**(1)**	**(1)**	**0**	**0**	361,635

Claimed and Paid by Dutchess County	**1,242,304**	**5,008,703**
Overpaid	**361,639**	**62,504**

Change in Net Assets

The following table depicts the increase in net assets reported from RRA's audited financial statements.

Year	Increase in Net Assets	Total Net Assets at Year End
2004		$9,463,014.00
2005	$957,812.00	$10,420,826.00
2006	$118,143.00	$10,538,969.00
2007	$99,781.00	$10,638,750.00
2008	$284,409.00	$10,923,159.00
2009	$712,633.00	$11,635,792.00
	$2,172,778.00	

Agency Surplus

The RRA auditor explained that an analysis of net assets is complicated; however, the following explanation was offered:
Restricted Assets (current and non current) plus Other Assets (non current) less Bonds Payable less Deferred Revenue comprises Net Assets; any difference could be considered surplus. When we applied this formula to the 2009 audited Financial Statements we arrived at Net Assets of $8,277,235; however the Financial Statements reported Net Assets as $11,635,792, resulting in excess funds or surplus of $3,358,557.

ANALYSIS OF NET ASSETS	**2009**
Assets	
Restricted Assets Current & Non Current	6,109,858
Other Non Current Assets	
Net Property & Plant	34,245,358
Net Debt Issue Costs	885,214
Total Non Current Assets	35,130,572
Total Assets	**41,240,430**
Liabilities	
Bonds Payable	32,380,000
Deferred Revenue	583,195
Total Liabilities	32,963,195
Net Assets	**8,277,235**
Financial Statements Reported Total Net Assets End of Year	11,635,792
Surplus	3,358,557

The 2009 RRA Net Service Fee Billing

To further validate the 2009 billing, a comparison of the RRA's Net Service Fee Billings to the RRA's Audited Financials for 2009 follows:

	RRA 2009 Total Claims	2009 Financial Statements
Revenues		
Operating Revenues		
Waste Disposal Fees	$10,973,168	
Tipping Fees		$11,222,085
Energy Revenues	$2,816,053	$2,816,053
Recovered Mat Revenues	$46,114	
Other Revenues	$280,944	
Interest Income		$235,947
Recovered Materials Revenues-RMR	$161,101	
Per Ton Fees-Recycling-TF	$41,698	
Total Revenues – Operating	**$14,319,078**	**$14,274,085**
Non Operating Revenues		
Net Service Fees (NSF)		$4,946,199
State Grants		$36,286
Other Income (Expense)		$8,712
Total Non Operating Revenue		$4,991,197
Total Revenue Operating & Non Operating	**$14,319,078**	**$19,265,282**
Revenue Less NSF	$14,319,078	$14,319,083
Expenses		
Bond Debt Service	$4,532,100	
Disposal Fees		$2,393,731
Required DSR Deposit		
Service Fees		$10,888,843
Contractor Fees & Pass Throughs	$10,622,176	
Administrative Expenses		$1,500,399
Agency Expenses	$3,849,154	
Contractor Service Fee-CSF	$266,665	
Agency Expenses-AE	$57,686	
Interest Expense		$1,607,096
Depreciation		$2,065,453
Amortization		$97,127
Total Expenses	**$19,327,781**	**$18,552,649**
RRA Calculate Net Service Fee (Expenses in Excess of Revenues(net of NSF))	$5,008,703	
FS NSF		$4,946,199
NSF Claim vs FS - OVERBILLED AMOUNT		**$62,504**
Change in Net Assets		**$712,633**

Observations:

- The 2009 billing was over billed by $62,504.

- The 2009 billing which was validated by the auditor was dated April 29, 2010 which was after the Auditor's Financial Report dated March 22, 2010.
- We addressed the 2009 over billing of $62,504 with the RRA agency's Executive Director and the RRA's auditor. It was indicated that the difference could be attributed to several entries which may have included estimates. We requested a full accounting of the $62,504 at the meeting and are awaiting a response. The auditor stated that an adjustment would be included in the agency's next billing.