Finance Committee
Sept. 20, Regular Meeting
Draft Minutes

Members Present:	Chairman Timothy Griswold Joel Freedman Ted Martland
CRRA Staff Present:	Tom Kirk, President Jim Bolduc, Chief Financial Officer Jeffrey Duvall, Director of Budgets and Forecasting Lynn Martin, Risk Manager (present until 10:00 a.m.) Nhan Vo-Le, Director of Accounting Moira Benacquista, Secretary to the Board/Paralegal
Also Present:	Lisa Janney and Jenny Hook of AON Risk Services and Jeff Roude of Bollam Sheedy & Torani.

Chairman Griswold called the meeting to order at 9:32 a.m. He said there were no members of the public who wished to comment and proceeded with the agenda.

1. Approval of the Minutes of the July 19, 2012, Finance Committee Meeting

Chairman Griswold requested a motion to accept the minutes of the July 19, 2012, Finance Committee meeting. The motion to approve the minutes was made by Director Martland and seconded by Chairman Griswold.

The motion to approve the minutes was approved by roll call. Director Martland abstained as he was not present at the last meeting.

2. Review and Recommend for Board Approval – Casualty Program Renewal

Chairman Griswold requested a motion regarding the above-captioned item. Director Martland made the following motion which was seconded by Committee Chairman Griswold.

> **RESOLVED:** That CRRA's Commercial General Liability insurance be purchased from ACE American Insurance Company (Rating A+) with a $1,000,000 limit, $25,000 deductible, for the period 10/1/12 – 10/1/13 for a premium of $218,926 as discussed at this meeting; and
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> **FURTHER RESOLVED:** That CRRA's Umbrella Liability insurance be purchased from ACE Property & Casualty Insurance Company (Rating A+) with a $25 million limit, $10,000 retention, for the period 10/1/12 – 10/1/13 for a premium of $162,500 as discussed at this meeting; and
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> **FURTHER RESOLVED:** That CRRA's Pollution Legal Liability insurance be purchased from Illinois Union Insurance Company (ACE) (Rating A+) with a $20 million limit, $250,000 retention, for the period 10/1/12 – 10/1/13 for a premium of $243,012; as discussed at this meeting, and;

FURTHER RESOLVED: That CRRA's Commercial Automobile Liability insurance be purchased from ACE American Insurance Company (Rating A+) with a $1 million limit, liability coverage on all and comprehensive and collision on fifteen (15) passenger vehicles and light trucks with a $1,000 deductible, for the period 10/1/12 – 10/1/13 for a premium of $59,293.

Mr. Bolduc said management brings the insurance policies to the Committee and subsequently the Board in October and April of each year. He noted that the AON representatives as well as CRRA's risk manager Lynn Martin are present at the meeting today. Ms. Martin introduced Ms. Janney as CRRA's Account Executive and Vice President of Aon Risk Services and Ms. Jennifer Hook as CRRA's pollution legal liability broker.

Ms. Janney explained her office is in Washington D.C. She said she has been working as the Account Executive and team leader for all of AON's services to CRRA for about six years. She provided a brief overview of current insurance market conditions for both the casualty and property programs. Ms. Janney said that the property market has become more firm than it has been in the past because of losses suffered by insurance companies and reduced investment income. She said the casualty market is not quite as hard as the property market; however, it is feeling the same impacts because of what has happened as a result of property market conditions, in addition to reduced investment income due to their own losses. She explained prices are going up and there is more underwriting in the casualty market. MS. Janney said on the other hand, there is plenty of capacity, which means that there are plenty of carriers providing coverage. However, Ms. Janney said, there are a very limited number of markets which are willing to write CRRA's business because of the environmental exposures and public entity exposures.

Ms. Janney said that Chartis (or AIG) was on CRRA's program and ended the relationship in 2006. She said that for a number of years ACE was the only market willing to quote. Ms. Janney said last year there was a little bit more activity with some of the carriers offering a combined program, general liability and pollution. Ms. Janney said unfortunately, the coverage was not as broad as the program CRRA currently has, which has been in place since 2006.

Committee Chairman Griswold asked if the firming market and limited available quotes indicate potential trouble for CRRA in the future. Ms. Janney replied that was possible. She said if ACE decides to stop writing CRRA's program due to possible losses, there are other markets which may step up to provide the coverage but it wouldn't be as broad as the current coverage. Ms. Janney said in the event there are no markets which would cover CRRA, AON had did a study several years ago of alternatives to insurance. She said that there are a number of mechanisms available by which CRRA could self-insure. Director Martland asked if the financial situation of the government and municipal debt is affecting the market. Ms. Janney replied that she did not think so. She said the losses or underwriting results and reduced investment income are affecting the insurance market.

Ms. Janney summarized the results of AON's marketing this year. She said twelve markets were approached in addition to ACE for the overall program for general liability of $1 million, auto liability of $1 million, a $25 million umbrella, and a $20 million pollution legal liability policy. Ms. Janney said the umbrella attaches on top of the general liability and the auto and the employer's liability, which is part of the workers compensation program.

Ms. Janney said none of the other markets were able to provide quotes this year. She said exhibit 1 and exhibit 2 in the Committee's package are documents that provide a summary of all markets which were approached by line of coverage and their responses. She said some markets are declining based on the nature of CRRA's business, or they are given a target range and declined because they cannot be competitive. Ms. Janney said for example Allied World Assurance Company (AWAC) quoted in the past and were not competitive and as a result do not want to quote again. She said in the event that ACE would not quote AWAC would likely step in with a quote.

Ms. Janney said in the interest of full disclosure, the directors should note that none of the premiums which are quoted here include any commission to AON, which is compensated on a flat annual fee. She said AON will not earn any commissions or contingency commissions as a result of placing CRRA's insurance. Ms. Janney said there are no intermediaries or third parties involved in placing CRRA's insurance program.

Ms. Janney referred the Committee back to the casualty insurance presentation in the package, on Page 5; there is a summary of the premiums. She said this year the first premium that came in from ACE for the general liability policy was $233,000, which would be a 10% increase. Ms. Janney said that AON was not willing to accept a 10% increase and negotiated with ACE to come down to a 3% increase to $218,926, an increase that equates to roughly $7,300. She explained AON accomplished this by asking ACE to look at an alternative rating basis and ACE did this be changing the basis from kilowatt hours to tons of municipal solid waste which AON believes is a better way of rating CRRA's program. Ms. Janney said as a result of this rating change, AON was also able to bring down the umbrella premium because it is based on the underlying premiums.

Ms. Janney said the auto quote did not change that much and came in originally at $60,156 which was a $12.5% increase over last year. She said AON negotiated it down to $59,293 or 11% and noted the reason AON was not able to provide further savings was because the auto rates by ACE and other carriers are filed with the State and do not provide much room to work with in credits. Ms. Janney said the $25 million umbrella came in initially at $166,450 (a 5% increase) and AON was able to negotiate that down to $162,500 (2.5%). She noted the overall increase for the entire program over last year is 2.6%. Ms. Janney said that Ms. Hook would address the marketing of the pollution insurance in detail.

Director Freedman asked if CRRA had changed coverage to garner these savings. Ms. Janney replied no. Committee Chairman Griswold asked if the 11% on auto is as a result of CRRA insuring an additional vehicle. Ms. Janney said there have also been some claims which contributed to the rate, in addition to providing coverage for a new vehicle. She said the market has also increased their rates. Committee Chairman Griswold asked if CRRA carries collision insurance. Ms. Janney said there is collision on fifteen (15) of the vehicles with $1,000 deductible. Committee Chairman Griswold asked why there would not be a higher deductible. Ms. Janney said CRRA's fleet is not that big and raising the deductible would not save enough money to make it worthwhile. After some discussion it was agreed that Ms. Janney would review this possibility for possible additional savings.

Ms. Janney said limits are looked at also by CRRA and AON. She said for the $25 million umbrella she and Ms. Martin looked at some benchmarking and CRRA's limit is right in the middle of what is being purchased. Ms. Janney said if CRRA was to purchase a $10 million limit it would cost $134,540, which although it provides $27,000 in savings the limit would be reduced significantly.

Ms. Hook said that she is the broker on the premises pollution legal liability policy. She said for every year AON has marketed this, ACE has done a good job of providing enhancements and additional language to improve the program. Ms. Hook said that this year a quote was received from Starr Surplus Lines Insurance Company. She said Starr is rather new in the marketplace and declined to quote in previous years because they were not licensed to sell this type of insurance in the State of Connecticut. Ms. Hook said now that Starr is licensed appropriately they made an attempt to get CRRA's business and came in with a premium which was about $3,000 cheaper than ACE's.

Ms. Hook explained, however, that ACE's coverage is superior to Starr's in several ways. She said ACE's program provides coverage for body injury and property damage from asbestos and lead based paint and provides coverage limitation and a reopener which Starr did not provide. Ms. Hook explained a reopener is for exclusions for known pollution conditions that a company has so that if the government was to provide a "no further action" letter because the contaminant have been remediated, ACE is willing to look at the agency's documentation. She said if ACE is satisfied the matter has been resolved then coverage will be given back for that pollutant.

Ms. Hook said ACE is providing emergency response coverage and divested property coverage, which was also not provided by Starr. She noted divested property coverage is very important as CRRA could always be called back into sites where it no longer is active, e.g., facility sites or transfer station sites, to address pollution issues. Ms. Hook said CRRA has divested nine (9) locations. Ms. Hook said that alone is worth the $3,000 price difference between ACE and Starr.

Ms. Hook said that transported cargo coverage and bioterrorism coverage were also offered by ACE and not Starr. She noted that these factors are why AON is recommending staying with ACE.

Director Freedman asked if $20 million is enough coverage for CRRA. Ms. Hook said benchmarking has been done in the past and considering CRRA's past history in terms of claims $20 million for one year seems to be right. She said that can always be increased, which would increase the premium or the limits can be stretched out over two years instead of one year. She explained that CRRA has looked at this option in the past but the premium savings did not justify that change.

Director Freedman asked if an estimate of CRRA's annual aggregate potential loss has been done. Mr. Bolduc replied yes. He said that CRRA's biggest exposure is the Hartford plant and when it was acquired from CL&P part of the deal was that CL&P would also provide CRRA with $26 million for remediation work. Mr. Bolduc said CRRA hired TRC to do the environmental work on the property and purchased a policy through AIG to cost-cap the undertaking.

Ms. Janney touched on why certain Connecticut-based companies did not provide quotes for CRRA. She said every market which was willing to write CRRA's type of business was approached. Ms. Janney said the insurance companies which are not on this list do not have the willingness or appetite to write this type of business and risks like CRRA's. Director Freedman asked if the Hartford or Travelers submitted any kind of interest in the business. Ms. Janney said that they did not. Ms. Martin pointed out that Travelers is the insurer for CRRA's Crime and Fiduciary policies.

The motion previously made and seconded was approved unanimously by roll call.

3. Review and Recommend for Board Approval – 2012 Year End Audit

Chairman Griswold requested a motion regarding the above-captioned item. Director Martland made the following motion which was seconded by Director Freedman.

> **RESOLVED**: That the Board hereby accepts the Annual Financial Report for the Fiscal Year Ended June 30, 2012, substantially as discussed and presented at this meeting.

Mr. Bolduc said the audit firms are bid out every three years and CRRA is required to switch auditors every six years. He explained this is the fourth year that CRRA has worked with Bollam Sheedy & Toranni (hereinafter referred to as "BST"). Mr. Bolduc noted that the Finance Committee operates as the Audit Committee as well. He said the Audit will go from this Committee to the Board for approval the following week and is required by statute to be filed by Sept. 30, 2012. Mr. Bolduc said the following month BST will provide a management letter if there are any comments to be made concerning the audit. He said following this management will provide a response to that letter which will then be provided to the Finance Committee for review in October. He said an Executive Session will be held for the Finance Committee members to meet with BST alone.

Mr. Roude provided the Committee with a review of the audit. He said the audit was performed in accordance with government auditing standards and in BST's opinion the operations fairly reflect the generally accepted accounting principles. He said everything was done in accordance with the standards and there are no incidences or objections. Mr. Roude explained this is called a clean opinion.

Mr. Roude said pg. 4 shows a summary of the current and not current assets under the restricted assets of cash. He explained the cash equivalents decreased from $35 million down to $3 million due to the regular payment and interest payments on the Mid-Conn bonds. Mr. Roude said there was about a $4 million decrease due to the reconstruction of the fuel tank and power turbines as well as about $1 million in jet fuel purchases.

Mr. Roude said the restricted cash and cash equivalents dropped from $14.7 million down to zero due to the purchase of about $7 million in Treasury bills for the landfill post-closure trust funds. He said the re-class of about $7.4 million of debt reserves to current restricted assets to fund the Mid-Conn final debt service payment was about $4.4 million. Mr. Roude said the other $3 million must be released by the Trustee's to reimburse the landfill post-closure reserve after the bonds are paid off.

Mr. Roude reviewed some highlights on the liability side on pg. 11. He said the big items include the closure and post-closure of the landfills and the current liabilities which dropped by $2.9 million. Mr. Roude explained some of the liability was paid down. Chairman Griswold asked where the funds CRRA receives for accepting soil are located. Mr. Bolduc said those funds are reflected in two accounts, the landfill closure and landfill post-closure account. Mr. Roude said with the long term liabilities the bonds payable net is not current and noted that a little over $4 million dropped out of the long term liability total. Mr. Bolduc said CRRA's current assets to liabilities demonstrate a very good ratio of approximately $125 million on current assets and $26 million in liabilities.

Mr. Roude said pg. 14 shows the revenues and expenses. He said the operating revenue between 2001 and 2012 was flat. Mr. Roude said the difference in the income of loss before depreciation was in the operating expenses. He said there was about a $17 million decrease in operating expenses which swung the loss in 2011 to a small profit in 2012. Mr. Roude said there is a comment regarding the different combinations of decreases and increases between the twelfth year and the eleventh year. He said as far as the operating expenses go in 2011 there were some distributions to the member towns, specifically Wallingford in June of 2011, which accounted for a big part of the difference between the 2001 and 2012 total operating expenses.

Ms. Vo-Le said $19.4 million was distributed to Wallingford and $1.2 million to Bridgeport. Chairman Griswold said in spite of the fact that over the last few years there has been roughly a 15% reduction in tonnage these numbers are staying fairly static. He said next year between tonnage and electric issues that will change. Mr. Roude said pg. 17 provides a breakdown of the categories which make up the total operating revenue.

Mr. Roude said the charts on pg. 19 show the operating and non-operating expenses in chart form. He said there are $128 million and $140 million in operating expenses and the other swing (besides the $20 million to town members) was in the solid waste operations which increased by about $3 million in 2011 and 2012.

Mr. Roude said pg. 27 discusses the outstanding bonds as of 2012. He said the Mid-Conn Project expires as of Nov. 15, 2012. Chairman Griswold asked what the coupon price of the retiring debt was. Mr. Bolduc said he believed it was around 5.5%. He said there is a debt service reserve fund which means 100% of the last year P&I was already set up with the trustee. He said the SCRRRA Project was at about a 3.5% rate and was refunded in December for about 2.1%.

Mr. Bolduc reminded the Committee that SCRRRA is a different entity than the other projects. He said CRRA was the conduit issuer of some of Covanta's debt. Mr. Bolduc said at the end of November this year CRRA will have paid off 100% of its debt. Mr. Roude said pg. 41 provides more detail and verbiage as far as the debt is concerned.

Mr. Roude addressed the footnotes within the audit. He said footnote J begins on pg. 36 and refers to capital assets and unrestricted net assets as far as what's been allocated to each of these breakdowns between 2012 and 2011 in the designated area. Mr. Roude said a little over $35 million was designated in 2012 up from $27 million in 2011. Mr. Bolduc said these unrestricted net assets are the reserves which management refers to; he noted the reserves will be reviewed in detail at the October Finance meeting.

Mr. Roude said there is a discussion on pg. 36 of long lived assets and whether there is any impairment. He explained impairment refers to an asset which is not operating under the auspices that it was supposed to operate, or if there has been a change in the actual valuation of the asset or life of the asset. He said if that occurs management has to revalue the asset through impairment. Mr. Roude said this is reviewed with management every year and as of June 30, 2012; there are no losses for any impairments on any assets. He said this indicates that the auditors feel the assets are properly valued. Mr. Roude said there was one item which was discussed concerning the Mid-Conn Project.

Mr. Bolduc said there are two notes concerning that item and management intends to add another note on pg. 50. He said impairment refers to a change in the use of the asset which can be estimated, or if there is an event or change of circumstances outside its normal life cycle. Mr. Bolduc said the big issue here is the plant. He said there have been no reserves concerning the plant. Mr. Bolduc said management and BST have agreed that at this point in time there is not an impairment concerning the plant.

Mr. Roude said the impairment relates to the asset and not to the liability. He said there are no impairments on the asset side. Mr. Bolduc said there is an issue of a liability and economic value. He suggested that a statement be added to the audit which addresses this issue. Mr. Bolduc said language will be added prior to the presentation to the full Board which reads: "future plans for dismantling and/or major renovations to the Mid-Connecticut facilities have not been determined. This matter is too preliminary to estimate any future costs". He explained this note will alert the reader this is a material item which should be referred to.

Mr. Roude said BST is auditing through June 30, 2012, and until the financial statements are actually issued BST is responsible to report and update the audit through the actual issuance date of the report in about four months.

Mr. Roude said pg. 49 contains the contingencies. He said the biggest item is the MDC arbitration litigation. He said last year MDC confirmed that CRRA (and the auditors looked at their yearend 2010 report) owed MDC between $32 and $36 million.

Mr. Roude said after much effort BST was able to review MDC's 2011 report which contains different information. He explained MDC has put a receivable on their books from the Mid-Conn Project (the original receivable was a little over $53 million, of which MDC took a reserve against of about $11 million). Mr. Roude said MDC now has a net receivable from CRRA of about $42 million on their books.

Mr. Bolduc said there are two different pieces here, what MDC used to detail in communications to CRRA and what it is now claiming. He said the accountants look at what is actually on the financial statements on a calendar year. He said MDC's calendar year 2010 has no receivable recorded.

Mr. Bolduc said MDC's 2011 financials show $53 million plus $10 million of uncollectibles and bad debt reserve of $42 million. He said the footnotes state CRRA owes MDC in excess of $60 million. Mr. Roude said there are some calculations for the pension costs and also in the post-retirement cost for the employees which are somehow integrated into the overall liability.

Mr. Roude said CRRA's legal counsel does not agree with most of the positions MDC has taken as well as the way the pension and post-retirement benefit costs were calculated. He said arbitration will decide this and noted that CRRA alerted the member towns to this issue. Mr. Bolduc said CRRA's attorneys had previously sent a letter to the member towns.

Mr. Bolduc said management agreed that a second certified letter will be sent in November concerning this issue. He said in addition it will be noted in the audit that this responsibility will ultimately be the existing 70 towns because on Nov. 15, 2012, the Mid-Conn project will expire and become a new entity. He said this footnote will be added to make it clear to the reader this issue is still unresolved.

Mr. Roude said another litigation issue is the American International Specialty Insurance Company (hereinafter referred to as "AIG") which is requesting reimbursement for payments issued for a lawsuit concerning the Hartford Landfill. He explained AIG is claiming the payments were not covered under the insurance policy. He said there have been a number of motions which CRRA made which were ruled in CRRA's favor and that the issue is ongoing.

Mr. Roude said a number of new accounting pronouncements issued by the Government Accounting Standards Board are coming up over the next few years, most of which relate to retirement and pension costs. He said BST is not sure if the issues will affect CRRA however BST is required to list them and the dates that they become effective.

Mr. Roude said BST issued a letter on the internal controls of CRRA, a requirement of the audit to determine if there are deficiencies in design or operations or material weaknesses in the accounting principles. He said as in the past BST did not find any deficiencies or material weakness and everything is in order and accounted for correctly which is a good thing. Mr. Roude said Ms. Vo-Le and Mr. Bolduc and the employees do an excellent job in assisting BST.

The motion previously made and seconded was approved unanimously by roll call subject to the changes and edits made by the Committee.

INFORMATIONAL SECTION

Chairman Griswold said the Informational section had been thoroughly reviewed and noted the Committee had no comments.

EXECUTIVE SESSION

Chairman Griswold requested a motion to enter into Executive Session to discuss pending litigation, pending RFP responses, trade secrets, feasibility estimates and evaluations. The motion was made by Director Martland and seconded by Director Freedman. The motion previously made and seconded was approved unanimously by roll call. Chairman Griswold requested that the following people remain for the Executive Session, in addition to the Committee members:

Tom Kirk
Jim Bolduc

The Executive Session commenced at 11:00 a.m. and concluded at 11:35 a.m.

The meeting was reconvened at 11:35 a.m., the door was opened, and the Board secretary and all members of the public (of which there were none) were invited back in for the continuation of public session.

ADJOURNMENT

Chairman Griswold requested a motion to adjourn the meeting. The motion was made by Director Martland and seconded by Director Freedman.

The meeting was adjourned at 11:36 a.m.

Respectfully submitted,

Moira Benacquista
HR Specialist/Board Administered