



CONNECTICUT RESOURCES RECOVERY AUTHORITY

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Arbitrators Rule Contractor Overcharged CRRA by \$12.7m; Authority to Net \$5m Now, Save \$3.7m More In Future Offer to Renegotiate Contract Elicits 'Encouraging' Response from MDC

HARTFORD, Conn. – An arbitration panel has ruled that a contractor has overcharged the Connecticut Resources Recovery Authority by more than \$12.7 million since 1996 and must reduce the price it charges CRRA for the remainder of their contract term.

Echoing findings of previous arbitrators, the panel ruled that the contractor, the Metropolitan District Commission, was improperly calculating the amount of overhead or “indirect costs” it was charging CRRA and ordered MDC to charge a lower fixed rate for those indirect costs. That portion of the ruling is expected to save CRRA and its affected ratepayers \$532,000 in the current fiscal year and about \$3.7 million through 2012, when the CRRA-MDC contract expires.

MDC operates the waste processing facility and landfill, both located in Hartford, for CRRA’s Mid-Connecticut Project, which serves 70 cities and towns. Until 2001, MDC had also operated the four Mid-Connecticut Project transfer stations, but after an arbitration panel ruled that CRRA’s contract with MDC gave CRRA the right to replace contractors for reasons of cost, quality of work or responsiveness, CRRA began exercising that right.

That ruling, in April 2000, also directed CRRA to divert a portion of the fees billed by MDC into an escrow account while the issue of indirect costs was decided. The latest arbitration ruling, dated July 29, ordered all of the escrowed funds – totaling more than \$5 million – to be returned to CRRA.

After an audit pointed out the MDC overcharges, CRRA put the Mid-Connecticut Project contracts out to bid in 1999. After the 2000 ruling upheld CRRA’s right to do so, CRRA over the next three years hired a lower-priced contractor to run the four transfer stations, a switch that saves the Mid-Connecticut Project cities and towns more than \$2.4 million per year.

“Since our new board and management team were put into place three years ago, our first priority has been to make sure we’re providing the best possible value for our ratepayers, so this decision is good news for the people of the 70 Mid-Connecticut Project cities and towns,” said Thomas D. Kirk, CRRA president.

Under Section 22a-268 of the Connecticut General Statutes, CRRA is required to use private industry to operate its facilities. MDC became CRRA's primary contractor for the Mid-Connecticut Project in 1984.

"It's important to remember that in this relationship, MDC is an independent contractor – nothing more, nothing less – and we expect the best possible service at the lowest possible cost from all our contractors," Kirk said. "We hope the arbitration ruling will remind MDC of that obligation."

The panel further ruled that MDC's indirect costs can total no more than 14.65 percent of its direct costs. That will reduce by \$532,000 the \$15.2 million CRRA was to pay MDC for operating the waste processing facility and the landfill in the current fiscal year.

The panel noted that according to MDC's own internal communications, MDC acknowledged as early as 1993 that it was overcharging CRRA. Subsequent MDC communications, including a report issued in July 2005 entitled "The Next 75 Years," state that revenue from indirect costs charged to CRRA subsidize MDC's sewer rates. That lost revenue, the report states, "will have to be made up in large part through an increase in the ad valorem tax paid annually by the eight MDC member communities."

"Even though this contractor has been ordered to give us a lower price, we know that there's still additional money to be saved, and we've made an offer that would extend our contract with MDC and, in the process, retain the valuable institutional knowledge of the contractor's employees," Kirk said.

CRRA and MDC are in confidential negotiations to restructure their contract to provide CRRA with a lower cost for MDC's services.

"Two arbitration panels have upheld our right to use the contractor that provides the best value, and we are fully prepared to exercise that right," Kirk said. "But we believe there is value in keeping MDC and its employees, and MDC's encouraging response to our offer to renegotiate gives us hope of accomplishing all those aims."

The Connecticut Resources Recovery Authority is a quasi-public agency whose mission is to work for – and in – the best interests of the municipalities of the state of Connecticut. CRRA's new board of directors and new management team develop and implement environmentally sound solutions and best practices for solid waste disposal and recycling management on behalf of municipalities. CRRA also runs environmental and recycling educational programs through its Visitors Center and Trash Museum in Hartford and Children's Garbage Museum in Stratford. For more information about CRRA and its activities, visit <http://www.crra.org>.