

**Finance Committee
January 18, 2005 Regular Meeting**

Minutes

Members Present: Andrew Sullivan, Committee Chairman
Michael Pace, Board Chairman
Edna Karanian
Mark Lauretti
Theodore Martland
Raymond O'Brien

CRRRA Staff Present: Tom Kirk, President
Jim Bolduc, Chief Financial Officer
Bettina Bronisz, Assistant Treasurer & Director of Finance
Rob Constable, Controller
Peter Egan, Director of Environmental Affairs & Development
Floyd Gent, Director of Operations
Laurie Hunt, Esq., Managing Director of Legal Services
Donna Tracy, Executive Assistant
Kristen Greig, Secretary to the Board/Paralegal

Chairman Sullivan called the meeting to order at 9:30 a.m. and noted that there was a quorum.

Chairman Sullivan requested that everyone stand for the Pledge of Allegiance whereupon the Pledge was recited.

1. Approval of Minutes of the December 9, 2004 Finance Committee Meeting

Chairman Sullivan requested a motion to accept the minutes of the December 9, 2004 Finance Committee meeting. The motion was made by Director O'Brien and seconded by Chairman Pace.

Regarding the minutes, Director O'Brien asked for confirmation that the proceeds from the sale of the Enron claim would be received in February. Chairman Sullivan confirmed. Director O'Brien asked if the authorization for a disbursement of the State Loan would be rescinded at the January Board meeting. Chairman Sullivan responded that the authorization would not be rescinded until the Enron funds were received.

The motion previously made and seconded was approved unanimously.

2. Review and Recommend for Board Approval the Wallingford Project Operating & Capital Budget for FY06.

Chairman Sullivan requested a motion regarding the above-captioned matter. Director O'Brien made the following motion:

RESOLVED: That the fiscal year 2006 Wallingford Project Operating budget in the amount of \$22,708,000 and the Capital Budget in the amount of \$651,000 be adopted as substantially presented and discussed at this meeting.

FURTHER RESOLVED: That the member tip fees for municipal solid waste be set at \$57.00 per ton and a tip fee of \$68.00 per ton be set for non-contracted waste for fiscal year 2006.

Chairman Pace seconded the motion.

Mr. Bolduc explained that the budget projected the tip fee would increase from \$56.00 to \$57.00 per ton. Mr. Bolduc stated that the budget was discussed at the Wallingford Policy Board meeting and the Wallingford Board approved the budget. Mr. Bolduc said there was a discussion with the Wallingford Board regarding the status of the project post 2009 when the electric purchase revenues decreased. Mr. Bolduc stated that CRRA continues to encourage the Wallingford Board to build future subsidization reserves.

Mr. Bolduc added that a future options study was being conducted to evaluate post 2010 options.

Chairman Sullivan asked if CRRA's role was advisory regarding the budget. Mr. Bolduc responded that the Wallingford Board had already approved the budget, but that CRRA was responsible for final approval.

Director O'Brien asked if CRRA was responsible for ash disposal. Mr. Kirk responded that the Project is responsible for ash disposal.

Mr. Constable noted that the proposed Wallingford budget included a \$2.8 million contribution to a future planning reserve.

Chairman Pace asked about the \$651,000 in construction expenditures. Mr. Constable responded that \$400,000 would be used for the installation of a dolomitic lime system and the remaining amount would be used for surface repair at the landfill.

Mr. Kirk explained that the resource recovery facility was consistently within an acceptable range, but noted that a study indicated that there were enough peaks to suggest that there was a possibility of a spike being detected. Mr. Kirk stated that every pound of ash deposited from the date of the last passing exam could then be considered hazardous waste. Mr. Kirk equated the dolomitic lime system to an insurance policy. Mr. Gent stated that Covanta was recommending the installation of the dolomitic lime system, but CRRA was conducting a statistical analysis to determine if such a system was actually necessary. Mr. Gent said CRRA

thought it would be prudent to have the funds available in the budget in case the system was required.

Chairman Pace asked what the chance was that the Wallingford facility would be used after 2009. Mr. Gent responded that the chance was remote. Chairman Pace stated that \$650,000 was a lot of money to spend for 3-4 years. Mr. Gent said that the dolomitic lime system was a risk management tool. Chairman Sullivan asked if the facility would be of any use to CRRA post 2009. Mr. Gent stated that if the facility was no longer being used for its intended purpose, Cytek could demand that the title be transferred back to them and CRRA would be obligated to dismantle the facility to its foundation. Mr. Gent stated that he thought that situation was unlikely because of the burden of expenses related to dismantling the facility in comparison to the value of the land. Mr. Gent said he thought CRRA could negotiate that condition with Cytek to use the facility as a transfer station.

Director O'Brien stated that the Wallingford Board should build its reserves through 2008 to protect ratepayers from a large increase in tip fees to market rates after 2009. Director O'Brien said it may be premature to assume the facility not operate unless there were systematic problems that wouldn't allow it to continue. Mr. Gent stated that it was estimated that their tip fee would jump to approximately \$130 in 2010. Director O'Brien stated that jump could be mitigated with adequate reserves. Mr. Gent stated that Wallingford would then be subsidizing an above-market tip fee and noted that CRRA thought there were other options available at more reasonable rates.

A detailed discussion continued regarding future options for the Wallingford facility and Project.

Chairman Pace asked why the landfill postclosure reserve went through 2035. Mr. Constable responded that the landfill would be certified closed in Spring 2005 and the analysis showed 30 years from certification. Mr. Constable added that CRRA would have a third party review postclosure estimates for all of the projects to ensure the estimates were realistic.

Mr. Bolduc stated that CRRA was starting to look at post-project liabilities because CRRA had a responsibility to provide insurance and ancillary costs beyond the closure of a project.

In reference to the Landfill Postclosure Reserve Projection Analysis, Director O'Brien suggested that the word "current" be deleted from the heading "Inflation Postclosure Current Costs."

The motion previously made and seconded was approved unanimously.

3. Review and Recommend for Board Approval the Bridgeport Project Operating & Capital Budget for FY 06.

Mr. Constable handed out a revised resolution.

Chairman Sullivan requested a motion regarding the above-captioned matter. Director O'Brien made the following motion:

RESOLVED: That the fiscal year 2006 Bridgeport Project Operating Budget in the amount of \$53,504,000 and the Capital Budget in the amount of \$319,000 be adopted substantially in the form as presented and discussed at this meeting.

FURTHER RESOLVED: That the fiscal year 2006 member tipping fees for the market component be set at \$68.00 per ton and the minimum commitment component be set at \$8.00 per ton for an all-inclusive fee not to exceed \$76.00, unless the Authority receives and approves an executed agreement from the City of Stamford by January 27, 2005 in which event the member tipping fees for the market component be set at \$66.00 per ton and the minimum commitment be set at \$8.00 per ton for an all-inclusive fee not to exceed \$74.00.

Chairman Pace seconded the motion.

Mr. Constable explained that the substance of the budget was the same but the revised resolution recommended a tip fee not to exceed \$68.00 and a change to the market component because of deferring some contributions to the Waterbury post closure costs to FY07. Mr. Constable stated that CRRA was involved in discussions with Stamford to sign up approximately 75,000 tons of contract waste, but a contract was not finalized. When the contract is finalized, the tip fee would be lowered to \$66.00 effective July 2005.

Director Lauretti asked what needed to be done to finalize the agreement. Mr. Gent stated that two important issues, a recycling dispute and a three-year contract where CRRA responded to an RFP, were resolved at the most recent meeting with Stamford. Mr. Gent stated that he was expecting a revised draft of the agreement from Stamford by the end of the day. Mr. Gent stated he was much more confident that the agreement could be finalized after their recent meeting and noted that Stamford was motivated to get the issue settled because it would result in significant savings for Stamford.

Mr. Gent noted that CRRA had a 90-day contract with Stamford for disposal until the terms of the agreement could be finalized.

Director O'Brien asked what SWAB's right to capacity was. Mr. Gent stated that SWAB/CRRA had full capacity of the plant, but noted there was a dispute with Wheelabrator about diversion costs. Mr. Kirk added that part of the settlement of the dispute with Wheelabrator over the refinancing of the bonds included acceptance of CRRA's right to bring Stamford in without being assessed costs for waste that had to be diverted.

Director O'Brien suggested that Director Lovejoy provide the Board with an update on what the project was doing to consider future options. Director Lauretti asked if CRRA would be meeting with the SWAB board to discuss future options. Mr. Kirk responded that CRRA met with the Executive Committee of the SWAB board to present CRRA's view of the market and to outline CRRA's strategy for dealing with Wheelabrator. Mr. Kirk stated that CRRA was the

only entity that was permitted to negotiate with Wheelabrator and CRRA planned on doing that in the spring of 2005.

Director Lauretti stated that the cost of street pick up to municipalities was an issue that was controlled by Waste Management. Chairman Pace stated that CRRA had been trying to convey the message that if there was not another entity involved, the municipalities take the risk of being at the mercy of a monopoly. Director Martland asked why Wheelabrator would be motivated to negotiate with CRRA. Mr. Gent responded that Wheelabrator was contractually obliged to negotiate in good faith.

Chairman Pace asked why \$100,000 was added for the Waterbury landfill. Mr. Constable responded that there was a typo in the original document and stated that the total should have been \$400,000.

Director Lauretti stated that CRRA needed to be more aggressive with the Bridgeport Project in respect to future planning. Mr. Gent stated that it was incumbent on CRRA not to let a facility that is currently controlled by CRRA "get away." Mr. Gent stated that CRRA had a good opportunity to negotiate a fair deal with Wheelabrator for the capacity.

Chairman Sullivan asked if it would be possible to maintain the tip fee at \$74.00 rather than lowering it after the agreement with Stamford was finalized to build a reserve. Director Lauretti stated that some communities were paying \$76.00 per ton and they would not be happy about losing the savings for a reserve when they are currently struggling with municipal budgets. Chairman Pace agreed stating that local budgets were getting more difficult and any increase, even \$2.00 per ton, compounds and makes taxpayers and municipalities uneasy.

Chairman Pace asked if there was a way to take advantage of the favorable recycling market. Mr. Kirk stated that CRRA had a right to recyclables such as cardboard if it comes into a CRRA transfer station and Mr. Kirk stated that recycling those products should be encouraged.

Mr. Constable noted that the second resolution on the page was the resolution adopted by SWEROC and said the CRRA Board only had to vote on the first resolution.

Director Lauretti stated that Stamford could lose its incentive to finalize the agreement if the Board approves the higher tip fee. Director Lauretti asked why the tip fee could not be set at the lower amount assuming finalization of the Stamford agreement. Mr. Bolduc responded that CRRA was not allowed to raise the tip fee once it was set.

The motion previously made and seconded was approved. Director Lauretti voted nay.

4. Review and Recommend for Board Approval Increase in Legal Expenditures

Chairman Sullivan requested a motion regarding the above-captioned matter. Chairman Pace made the following motion:

WHEREAS, CRRA has entered into Legal Service Agreements with various law firms to perform legal services; and

WHEREAS, the Board of Directors, on September 23, 2004, authorized certain amounts for payment of fiscal year 2005 projected legal fees; and

WHEREAS, CRRA has incurred greater than anticipated legal expenses in connection with the settlement of its Enron bankruptcy claim and certain other matters;

NOW THEREFORE, it is RESOLVED: That the following additional amounts be authorized for payment of projected legal fees to be incurred through June 30, 2005:

<u>Firm:</u>	<u>Amount:</u>
Anderson Kill & Olick	\$100,000
Halloran & Sage	\$150,000

Director Martland seconded the motion.

Director O'Brien asked if the increase in Halloran & Sage's fees would be offset by a decrease in expenditures for another firm. Mr. Bolduc stated that both of the increases were due to the Enron settlement, the sale of the Enron bankruptcy claim, and the CL&P settlement.

Attorney Hunt pointed out that all the funds approved for Halloran & Sage had not actually been spent, but an increase was required because the funds were allocated to all of the different matters that Halloran & Sage spent time on. The increase was required to pay the Enron related bills.

Director O'Brien asked if those funds would be taken directly from the Enron settlement. Mr. Bolduc responded that the settlement funds would be used for the project's debt service and by servicing the debt, funds used for operating costs would be freed up for that purpose.

Director O'Brien asked how contingency fee arrangements, such as the arrangement with Pepe & Hazard, would be paid. Mr. Kirk stated that those fees would be deducted from any funds recovered from a settlement.

Mr. Bolduc noted that the \$100,000 for Anderson Kill & Olick would likely be sufficient to resolve the matters being worked on by the firm.

Chairman Sullivan asked for an informational report of the cumulative amount spent with Anderson Kill & Olick, Pepe & Hazard, and Halloran & Sage on Enron/Enron related matters. Mr. Bolduc stated that Bond Counsel fees should also be included in that figure because of their work on the State Loan, which was a result of Enron. Director O'Brien stated that it was important to let CRRA's stakeholders know what it cost to recover the \$111 million from the bankruptcy claim. Mr. Bolduc stated the report would be created in detail and Chairman

Sullivan could edit it to include the information he was looking for. Chairman Sullivan requested that June 2002 be the starting point of the referenced report.

The motion previously made and seconded was approved unanimously.

5. Review of Informational Materials

Regarding the Variance Report for the Mid-Connecticut Project, Chairman Pace asked why the Watertown transfer station expenditures were over budget. Mr. Constable responded that there was some construction activity incurred by a rock slide that damaged a fence and required removal of debris.

Chairman Pace asked why the expenditures for 171 Murphy Road were over budget. Mr. Constable explained that there had been an effort to book expenditures, such as electricity, where they were actually occurring rather than rolling them into expenses for an adjacent property. Mr. Constable stated that the expenditures for 171 Murphy Road consisted of electricity and taxes.

Chairman Pace noted that the Jets underperformed a bit, but pointed out that the Jets provided CRRA with significant revenue overall. Chairman Pace asked if there was any way to further capitalize on the Jets. Mr. Bolduc stated that the Jets were actually separate from the Mid-Connecticut Project which raised the question of who is the equity owner of the Jets. Mr. Bolduc said that question should be answered by the end of the week.

Chairman Pace asked for an explanation of the poor performance referenced in the Variance Analysis for the Mid-Connecticut Project. Mr. Bolduc responded that there was an unscheduled boiler outage. Mr. Bolduc stated that the boiler super-heaters were replaced in 2000, but in 2003 Covanta began experiencing down time due to super-heater leaks. Mr. Bolduc stated that there was a 5% reduction in processing, which also affected the electricity sold. Mr. Bolduc added that Covanta anticipates returning to historic operating levels of 90% efficiency. Chairman Pace asked if Covanta received less money for running the plant when efficiency was down. Mr. Gent responded that Covanta had electric revenue sharing so Covanta lost revenue when the plant was not performing efficiently. Mr. Gent stated that Covanta was motivated to make the necessary changes to run efficiently and noted that CRRA would be more diligent in monitoring Covanta's performance.

Director O'Brien asked for confirmation that Covanta was receiving \$0.025 of the \$0.033 CRRA was receiving from CL&P. Mr. Gent confirmed and added that the agreement had not been re-negotiated after Enron claimed bankruptcy. Mr. Gent stated that the agreement was initially based on CRRA receiving revenue of \$0.08 per kilowatt, but after the Enron bankruptcy the price changed dramatically. Mr. Constable noted that the revenue sharing was a line item under the Power Block Facility.

6. Review Investment Considerations for Enron Settlement Claim Proceeds

Chairman Sullivan referred the Committee to Tab D of the Investment Considerations for Enron Settlement Claim Proceeds document. Mr. Bolduc requested that the Committee strike the language "full repayment of the State Loan balance" be stricken from the paragraph under the table on the first page of Tab D. Mr. Bolduc stated that management was not recommending payment of the State Loan.

Director O'Brien asked for more information regarding funding of jet operations. Mr. Bolduc explained that the operation of the jets was independent of setting the tip fee for the Mid-Connecticut Project. Mr. Bolduc explained that the impact of the jets was zeroed out in cash flow so that there was a neutral impact.

Director O'Brien asked if there were reserves set aside for dealing with the Ellington Landfill. Mr. Bolduc responded that there was approximately \$4 million, but there were varying projections as to the needs for potential litigation or possible land acquisition.

Chairman Pace asked what the rates were for the 1996 Bonds. Mr. Bolduc stated that the rates were between 5.25% and 5.5%. Mr. Bolduc stated that management was not recommending paying the State Loan off because of the low interest rate, but that some of the other, higher interest rate Bonds would be paid off.

There was a detailed discussion regarding the Summary of Assumptions and the Board's obligation to prepare for future years where there was a potential that expenditures could outweigh revenues.

Mr. Bolduc stated that money that could otherwise be used to pay the State Loan should be invested in conservative U.S. Treasury bills and agencies for the time being. If the rate on the State Loan started to go up, the invested funds could be used to pay the State Loan without prepayment penalties.

Mr. Bolduc pointed out that the \$19.4 million State Loan balance due could also be held in a STIF account and the 25 basis point differential would cost \$185,000 over the 8.5 years for a line of credit. Chairman Pace stated that he favored paying off the State Loan, but if that could not be done, the money should be put in a STIF account to "collateralize" the State Loan. Chairman Pace stated that the perception that CRRA could stand on its own was important to the organization. Chairman Sullivan stated that he would strenuously urge the Board not to pay off the State Loan.

A lengthy discussion followed regarding the various investment options and the applicable interest rates.

Ms. Bronisz pointed out that CRRA was paying \$2.6 million principal on the State Loan every year. Chairman Sullivan suggested that a reverse investment philosophy be considered. As the principal on the State Loan decreased, options could be considered to move funds from STIF to a different investment.

Director O'Brien stressed that CRRA needed to be able to show the towns that funds for debt obligations were set aside and stated that he felt it was important that CRRA not look as if it was "playing the market" or speculating. Mr. Bolduc explained that the investment instrument chosen would limit risk.

Mr. Bolduc noted that all of the investment considerations were in accordance with CRRA's Investment Policy.

Director O'Brien suggested that this matter be deferred to the February Board Meeting so Chairman Sullivan could be present to express his views and answer any questions. Mr. Bolduc agreed and stated the funds would be kept in a STIF account until the February Board Meeting.

ADJOURNMENT

Chairman Sullivan requested a motion to adjourn the meeting. The motion made by Director O'Brien and seconded by Chairman Pace was passed unanimously.

The meeting was adjourned at 11:34 a.m.

Respectfully submitted,

Kristen B. Greig
Secretary to the Board/Paralegal