

**Finance Committee
February 9, 2006 Regular Meeting**

Minutes

Members Present: Andrew Sullivan, Committee Chairman (present by telephone from 9:46 a.m. until 10:30 a.m.)
Michael Pace, Board Chairman
Raymond O'Brien, Committee Vice-Chairman
Benson Cohn
James Francis
Edna Karanian
Mark Lauretti (present by telephone from 9:46 a.m. until 10:55 a.m.).
Theodore Martland

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

Vice-Chairman O'Brien called the meeting to order at 9:30 a.m. and noted that there was a quorum.

Vice-Chairman O'Brien requested that everyone stand for the Pledge of Allegiance whereupon the Pledge was recited.

1. Executive Session

Vice-Chairman O'Brien requested a motion to enter into Executive Session to discuss pending litigation. The motion was made by Director Martland and seconded by Director Francis. The motion previously made and seconded was approved unanimously. Vice-Chairman O'Brien requested that the following people remain for the Executive Session, in addition to the Committee members:

Mr. Kirk
Mr. Bolduc
Mr. Constable
Mr. Egan
Attorney Hunt
Ms. Martin

The Executive Session commenced at 9:30 a.m. and concluded at 10:00 a.m.

The meeting reconvened at 10:00 a.m. and Vice-Chairman O'Brien noted that no votes were taken during Executive Session.

2. Approval of Minutes of the January 19, 2006 Finance Committee Meeting

Vice-Chairman O'Brien requested a motion to accept the minutes of the January 19, 2006 Finance Committee meeting. The motion was made by Director Martland and seconded by Director Cohn.

The motion previously made and seconded was approved unanimously.

3. Review and Recommend for Board Approval the Mid-Connecticut Fiscal Year 2007 Operating Budget, Tip Fees and Capital Budget

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

RESOLVED: That the fiscal year 2007 Mid-Connecticut Project operating budget and capital budget be adopted as presented at this meeting.

FURTHER RESOLVED: That the following tip fees be adopted for fiscal year 2007.

WASTE STREAM	PER TON TIP FEES
Municipal Solid Waste (MSW)	\$69.00
Metals	\$75.00
Bulky Waste – Municipal	\$85.00
Bulky Waste – Commercial	\$96.00
White Goods (Metals)	\$74.00
DEP Certified Soils	\$95.00
Non-Processible Waste Fee	\$85.00
Non-Municipal Mattress Surcharge (<i>Per Unit Fee</i>)	\$15.00
Recycling Tip Fee	\$00.00

Director Martland seconded the motion.

Vice-Chairman O'Brien noted that this is a recommended motion to be forwarded on to the Board of Directors for approval.

Chairman Sullivan asked what the status of CRRA's bond rating with Moody's and Standard & Poor's ("S&P") is. Mr. Bolduc responded that the Mid-Connecticut Project bond ratings have remained the same for the past several years and said that the rating for the odor bonds is irrelevant because they have been defeased. Mr. Bolduc explained that the remaining

outstanding Mid-Connecticut Project bonds are all rated AAA/SCRF¹ backed. Mr. Bolduc informed the Committee that CRRA will be meeting with Moody's and S&P next month. Chairman Sullivan noted that one of the factors involved in determining the bond ratings was based on the tip fee projections and whether or not the Projects were self-sustaining.

Chairman Sullivan stated that, based on the cost of doing business and every measure of CPI, he did not think that reducing the tip fee was a good business decision. Chairman Sullivan said that he can appreciate the message that Chairman Pace wants to send to the towns, but said the same message could be expressed by maintaining the tip fee, especially considering recent inflationary pressures. Chairman Sullivan said that, based on inflation, keeping the tip fee at \$70.00 per ton is essentially entering a reduction scenario just by maintaining the price.

Vice-Chairman O'Brien agreed, but noted that the Committee should recognize that the fiscal year 2007 budget includes approximately \$3.00 per ton of surplus from fiscal year 2006.

Chairman Pace stated that he would like to review the budget and then use those numbers to make a good business decision, keeping in mind that part of a good business decision includes providing services to CRRA's customers at the lowest cost possible.

Director Martland asked if the MDC labor costs included in the budget are solid numbers. Mr. Constable responded that CRRA received MDC's budget on February 1st and noted that CRRA would be going through the budget with MDC line item-by-line item. Mr. Constable said that the figures included in the proposed Mid-Connecticut budget were worst-case scenario because the budget review with MDC often results in reductions. There was a brief discussion regarding the potential costs associated with the labor board decision regarding MDC employees who were moved into new positions when CRRA replaced MDC at the transfer stations.

Regarding the surplus from fiscal year 2006, Chairman Sullivan asked if those funds could be allocated to a Board-designated reserve. Mr. Constable responded that the Municipal Service Agreements require that any surpluses be incorporated into the budget process. Mr. Constable said that, in October, the Board reviewed a reserve analysis and approved using half of the surplus to fund the Ash Development Reserve and half to be deposited into the Debt Service Stabilization Reserve.

Director Martland asked if there could be any other surprise expenditures in relation to MDC. Chairman Pace explained that CRRA and MDC are again trying to resolve the differences between the organizations. Director Martland stated that there should be a line item in the budget for potential legal fees so the towns can see that they are paying every time there is a dispute with MDC. Mr. Kirk said that legal costs are broken out in the budget and said that the relationship with MDC is moving in a positive direction. Mr. Kirk said he is not expecting any surprises from MDC because the CRRA Board has decided that it is not worth pursuing replacing the contractor at the Waste Processing Facility (WPF). Mr. Kirk said that because of that decision, MDC appears to be willing to give CRRA increased management oversight and involvement at the plant. Mr. Kirk said that management still believes that there are savings to be had if a new contractor was running the plant, but agrees that working cooperatively with

¹ Special Capital Reserve Fund

MDC can have value and allow CRRA to focus its attention in other areas. Mr. Kirk also noted that, since winning the arbitration, the indirect costs are much more reasonable and CRRA will now have the opportunity to impact how the plant is run and ensure that appropriate capital investments are made.

Director Martland asked if there was money in the budget to take care of the poor maintenance that has occurred at the WPF over the years. Mr. Kirk responded in the affirmative and said that there is a CRRA employee assigned to the facility to conduct an analysis of the condition of the facility. Mr. Constable added that the budget assumes a \$500,000 increase in the Facilities Modification Reserve, which is used for capital projects at the WPF and other facilities, and said that the capital budget for the WPF itself is \$1.9 million.

Chairman Pace stated that he is extremely pleased that a tip fee reduction is on the table for discussion because it shows the municipalities that the services provided by CRRA are secure. Chairman Pace emphasized that one of the mandates given to the Board and then to management was to mitigate the impact of the failed Enron deal and reducing the tip fee is one step in accomplishing that task. Chairman Pace said that he would sincerely hope that the Board would support the \$1 reduction per ton for the sake of the municipalities.

Chairman Pace pointed out that this budget assumes contributions to a landfill development fund and to a risk fund and said that, at the direction of the Board, management is trying to put CRRA in a good position going forward. Chairman Pace said that, with a legal budget of \$2 million, there should also be sufficient funds for legal expenses.

Chairman Pace asked if there was a plan to increase electronics recycling. Mr. Constable said that the amount budgeted will allow CRRA to increase its efforts to an extent and said that CRRA has typically not spent all of the budgeted funds in this line item. Chairman Pace said that this is a matter of real interest to the public so he would like to see these funds spent. Mr. Gent stated that the intent was to increase electronics recycling, which would bring in positive revenues.

Chairman Pace asked if the \$100,000 under the Recycling Education Reserve is the money given to Hartford under the PILOT Agreement. Mr. Constable responded in the affirmative. Chairman Pace noted that this is important because there was some discussion at the last Board meeting regarding justice to the City of Hartford. Chairman Pace said he would like to ensure that the public is given this information.

Director Cohn said that, when deciding whether to support the reduction, the deciding factor is whether there is a strong possibility CRRA will have to return the tip fee to \$70 per ton or higher in the next fiscal year. Referring the Committee to the last page in Tab B, Mr. Constable explained that the graph shows that there is still a \$65 million loss that needs to be mitigated to keep the tip fees from rising significantly in fiscal year 2009.

Mr. Bolduc noted that there were several factors that caused the surplus in the current fiscal year including rising interest income and accelerated recycling rates, which generated additional revenues. Mr. Bolduc said that he did not anticipate that the Short-Term Investment

Fund (“STIF”) rates would decrease significantly or the strength of the recycling market would change in the next year.

Director Karanian said that the ability to stay within the budget at the reduced tip fee depends on how conservative the budget is and said that it seems that most of the assumptions are fairly conservative. Mr. Bolduc agreed, but also noted that the proposed reduction in the tip fee would have a cumulative effect on the future years as shown in the graph on page 21, and added that as long as funds would continue to be put into the Debt Service Stabilization Reserve it would help to offset some of the impact. Mr. Bolduc summarized that there is a risk by reducing the tip fee in fiscal year 2007, but because this is a conservative budget, the risk should be minimal.

Mr. Kirk said that, from a strict business standpoint, knowing that there is a \$65 million hole in years to come is problematic, but said that it may not be as big a problem as it appears to be because CRRA has a reasonable plan to fill that gap. Putting aside the strict business evaluation, Mr. Kirk stated that there are significant practical and organizational credibility factors to consider in making this decision. Mr. Kirk said that CRRA has made a remarkable turn-around in three years. Mr. Kirk said that CRRA will be moving from a defensive posture in the legislature to an active, offensive position that addresses a legislative agenda that provides CRRA significant authority and responsibility in implementing the Solid Waste Management Plan. Mr. Kirk stated that, for a little less than \$1 million, CRRA can buy significant credibility as an organization with the public, the legislature and other stakeholders that will be well worth the cost. Based on that, Mr. Kirk said that he would recommend the reduction and said that the \$1.00 per ton reduction is worth much more in credibility with our customers than \$1.00 of revenue to the organization.

Director Lauretti said that he does not want to give anyone a false sense of where CRRA is and what still needs to be done. Director Lauretti stated that he does appreciate that it is important to let people know that CRRA’s rates will be stable, but said that could be accomplished by simply maintaining the tip fee. Director Lauretti said that he would not like too big of a reduction because there is still work to be done.

Vice-Chairman O’Brien said that he would rather maintain the tip fee because the budget anticipates that CRRA will just break even in fiscal year 2007. Vice-Chairman O’Brien added that he does not think that CRRA will get as much credit as some people think, but said that credit would also be earned by the fact that CRRA has stabilized the rate for three consecutive years. Director Lauretti agreed that the status quo is an accomplishment in and of itself. Vice-Chairman O’Brien suggested that the Finance Committee recommend a \$70.00 per ton tip fee to the Board and recognized that the Board might agree to a reduction, but said that he was concerned about announcing a reduction at the upcoming Annual Meeting if it was not yet approved by the Board.

Chairman Pace disagreed and said that the only reason CRRA is still in existence is because the organization has made aggressive decisions. Chairman Pace added that the only way CRRA will be able to continue its existence is to send out a very strong signal that CRRA is here to stay. Chairman Pace said that if CRRA cannot handle this small reduction in tip fee, there is something wrong.

Director Karanian said that, from a financial perspective, she would not have any issue with reducing the tip fee, but said that CRRA has to look forward to the credibility issue CRRA could face next year if the tip fee has to go back up. Mr. Kirk stated that he shares that same concern and recognized that any credibility gained as a result of the reduction could be lost if the tip fee was increased to \$71.00 per ton next year. Mr. Kirk noted that the \$65 million deficit would eventually have to be addressed either through recoveries from legal actions, raising the tip fee, or signing up towns in a new Project. Director Karanian said that the budget seems conservative enough and that she trusts management’s analysis regarding the benefit of improved public perception.

Director Francis said that he would support the recommended \$69.00 per ton and explained that it would be hard for CRRA to justify not passing on the savings when the organization just reduced its debt service by \$10 million dollars, added \$4 million in contributions to reserves, and got favorable results in the arbitration with MDC with funds being returned to CRRA. Director Francis also stated that he did not think CRRA would have a hard time if the tip fee had to go to \$71.00 per ton next year because that would still be an increase of less than 3%. Director Francis said that the towns expect that costs will rise eventually.

A brief discussion ensued regarding the funds appropriated for waste transport and their relation to the closure of the Hartford Landfill.

Director Cohn said that he prefers a more conservative approach because there are so many risks and other issues that are unresolved. Director Cohn said that the Risk Reserve is prudent, but it only covers known risks. Director Cohn stated that he thinks the tip fee should remain at \$70.00 per ton with the difference between that and the recommended reduction being deposited into the risk reserve to serve as a cushion for unknown risks.

Director Karanian pointed out that there is a benefit to having an organizational motivation around something that the organization will have to work hard to achieve. Director Karanian said that, on a psychological level, knowing that the tip fee is going down could serve as a motivating factor to help keep the organization running efficiently.

The motion previously made and seconded was approved by roll call with the votes recorded as follows:

Committee Member	Aye	Nay	Abstain
Michael Pace, Board Chairman	X		
Raymond O'Brien, Committee Vice-Chairman	X		
Benson Cohn		X	
James Francis	X		
Edna Karanian	X		
Mark Lauretti		X	
Theodore Martland	X		

4. Pepe & Hazard Renegotiation of Contingency Fees

Attorney Hunt stated that Attorney Richard Goldstein of Pepe & Hazard approached Chairman Pace about the contingency fee arrangement with regard to Hawkins, Delafield & Wood. Attorney Hunt explained that Attorney Goldstein pointed out that the way the contingency fee arrangement was structured, Pepe & Hazard was likely to go all the way through litigation and not recover any significant fee, if any fee at all. Attorney Hunt said that Attorney Goldstein is asking that the Board consider making a change to that arrangement, but was not asking for anything specific.

Director Cohn stated that he thinks it is reasonable to make a change because the circumstances have changed significantly.

Director Cohn made a motion to request that Pepe & Hazard submit a specific proposal regarding the contingency fee arrangement for the Hawkins, Delafield & Wood suit.

The motion was seconded by Director Francis.

A brief discussion ensued regarding the existing agreement and the potential costs associated with a renegotiated agreement.

Vice-Chairman O'Brien stated that he was deeply concerned that Attorney Goldstein believes that CRRA's success in the recovery from the bankruptcy claim and the subsequent sale of the claim substantially reduces CRRA's claim. Vice-Chairman O'Brien said that he hopes that Attorney Goldstein believes that CRRA's success has not, in any way, diminished CRRA's claim.

Vice-Chairman O'Brien said that he was also concerned with the statement at the end of the second paragraph that states, "The grounds on which the Hawkins exemption was based no longer exist." Vice-Chairman O'Brien said that is inaccurate because some of the grounds do still exist. Vice-Chairman O'Brien stated that the statement seems to imply that Pepe & Hazard should have the same arrangement on this case as the others cases being handled by the firm. Attorney Hunt said that she spoke with Attorney Goldstein about that specific matter. Attorney Hunt explained that she asked Attorney Goldstein if Pepe & Hazard thought the existing arrangement would be appropriate if the litigation that has been the problem with finalizing the settlement were to go away. Attorney Hunt stated that Attorney Goldstein felt that it would not be appropriate because there is still substantial work to be done. Vice-Chairman O'Brien agreed that there is still substantial work to be done, but said that the grounds on which the exemption was based still exist so that statement needs to be more accurate.

Attorney Hunt noted that she would also ensure that Pepe & Hazard is on the same page as CRRA regarding section (f) of the agreement that states that any recovery is net of previous fees paid on the case.

The motion previously made and seconded was approved unanimously.

5. Informational

There was no discussion on informational items.

ADJOURNMENT

Vice-Chairman O'Brien requested a motion to adjourn the meeting. The motion made by Director Martland and seconded by Director Cohn was passed unanimously.

The meeting was adjourned at 11:12 a.m.

Respectfully submitted,

Kristen B. Greig
Secretary to the Board/Paralegal