

**Finance Committee
April 21, 2005 Regular Meeting**

Minutes

Members Present: Andrew Sullivan, Committee Chairman (Present by Telephone)
Michael Pace, Board Chairman
Raymond O'Brien, Committee Vice-Chairman
Benson Cohn
Jim Francis
Mark Laretti (Present by Telephone beginning at 9:50 a.m.)
Theodore Martland

CRRA Staff Present: Tom Kirk, President
Jim Bolduc, Chief Financial Officer
Rob Constable, Controller
Donna Tracy, Executive Assistant
Kristen Greig, Secretary to the Board/Paralegal

Vice-Chairman O'Brien called the meeting to order at 9:33 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. Approval of Minutes of the March 17, 2005 Finance Committee Meeting

Vice-Chairman O'Brien requested a motion to accept the minutes of the March 17, 2005 Finance Committee meeting. The motion was made by Director Martland and seconded by Chairman Pace.

The motion previously made and seconded was approved. Director Cohn abstained, as he was not present at the meeting.

2. Review and Recommend for Board Approval a Resolution for the Establishment of the South Meadows Site Remediation Reserve

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

RESOLVED: That a reserve be established to cover costs not included in the original scope of the South Meadows property remediation project for the Jets/Energy Generating Facility.

Director Cohn seconded the motion.

Mr. Bolduc stated that the creation of this reserve emanated from the original transaction with CL&P and Enron. Mr. Bolduc explained that \$26 million was paid to AIG for the TRC environmental clean up. In the process of the clean up, it was determined that the removal and replacement of a certain tank was not necessary. As a result, a third-party engineer was called in to determine the value and the contractor's scope of work was decreased to reflect that \$250,000 credit. Mr. Bolduc added that there were also some items that needed to be completed that were outside of the original scope of work. Mr. Bolduc stated that the resolution recommended that the Board designate the \$250,000 credit as part of a Board-designated reserve.

Chairman Pace asked the size of the property. Mr. Kirk responded that the property, which was approximately 60-acres, was adjacent to the facility that was transferred to CRRA in the original Enron deal. Mr. Kirk explained that the property was being mitigated under the insurance agreement that was written as part of the Enron deal. Chairman Pace asked if the South Meadows property would be viable property at some point. Mr. Kirk responded in the affirmative and added that the intent of the mitigation was to make the real estate usable to CRRA.

Chairman Sullivan emphasized that it was important to remember that this would establish the initial funding and the reserve would be reviewed in the October reserve analysis. From a budgetary standpoint, Chairman Sullivan stated that CRRA would have to evaluate its ultimate exposure to ensure the reserve is adequately funded. Chairman Sullivan noted that CRRA was not setting up reserves without having committed assets on its balance sheet.

Vice-Chairman O'Brien asked for confirmation that the \$26.5 million for the reserve was set aside on CRRA's books. Mr. Bolduc stated that the money was paid to AIG for a policy for this purpose. Mr. Kirk explained that the policy has the same beneficial effect as a reserve. Vice-Chairman O'Brien asked if AIG would be returning the \$250,000 difference resulting from the change order. Mr. Bolduc responded in the affirmative and Mr. Constable informed the Committee that CRRA already received the \$250,000.

Mr. Bolduc explained recent activity that was out of the scope of work that CRRA would have to address and added that he believed there could be additional matters that could come up because of the age of the facility. Mr. Kirk stated that the reserve was one way of dealing with the unexpected issues that arise as the remediation continues. Mr. Kirk told the Committee that when there is activity outside of the scope of AIG's policy, CRRA evaluates the transaction with CL&P to ensure CL&P did not misrepresent the condition of and the risk associated with the real estate.

Vice-Chairman O'Brien pointed out that while \$250,000 seemed like a significant amount of money, it actually only represented less than one percent of the total cost of the remediation. Vice-Chairman O'Brien added that, whether or not the property could be developable in the future, CRRA had an obligation to clean it up. Chairman Pace noted that the South Meadows site was likely one of the largest parcels of empty real estate and if the property was clean, CRRA could evaluate how that property could be leveraged for the benefit of CRRA and the taxpayers.

Director Francis asked if there had been any thought given to on-going funding of this reserve. Mr. Bolduc responded that when the reserves were reviewed in October, the determination would be made as to how much CRRA would need for this particular reserve.

The motion previously made and seconded was approved unanimously.

3. Review and Recommend for Board Approval a Resolution Regarding the Establishment of the Waterbury Landfill Postclosure Reserve

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

RESOLVED: That a reserve be established to cover postclosure costs for the Waterbury Landfill for the Bridgeport Project.

Director Martland seconded the motion.

Chairman Pace questioned why the resolution referred to the Bridgeport Project. Mr. Kirk responded that, even though Waterbury waste was delivered to the Mid-Connecticut Project, the Waterbury Landfill was part of the Bridgeport Project.

Mr. Constable stated that \$400,000 was included in the FY06 budget, which was approved by both the CRRA Board and SWAB, for the creation of this reserve. Mr. Constable explained that it was currently anticipated that the landfill would be closed in 2007 at which point CRRA would need a reserve to cover operation and maintenance of the landfill for 30 years. Chairman Pace asked what the initial cost of closure was. Mr. Constable responded that \$500,000 would be needed for initial closure and it was projected that approximately \$1 million would be needed over the course of 30 years. Mr. Bolduc explained that the reserve would be funded between now and the end of the Project in 2008. Mr. Constable noted that CRRA was projecting funding \$300,000 in FY07, \$200,000 in FY08 and \$100,000 in the last six months of the Project.

Vice-Chairman O'Brien asked if the funding for closure was also in place. Mr. Constable responded that \$100,000 would be set aside in FY05 and \$400,000 in FY06.

Chairman Pace asked if the title to the landfill would be in CRRA's name after closure and asked if Waterbury had any postclosure use plans for the property. Mr. Kirk responded that he was not aware of any plans for postclosure use but noted that CRRA had been in contact with the City. Director Marland asked what could be done with the property after the landfill is closed. Mr. Kirk stated that there were limited uses for a post-landfill property, but noted that this particular property could be useful because there would not be methane collection wells because it is a bulky waste landfill.

The motion previously made and seconded was approved. Director Lauretti abstained.

4. Review and Recommend for Board Approval a Resolution Regarding the Establishment of the Future Use/Planning Reserve

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

RESOLVED: That a Future Use/Planning Reserve be established for the Wallingford Project for the purpose of funding termination costs associated with the existing project, funding extension costs associated with the existing project or funding costs associated with developing a new strategy for the member towns upon termination of the existing project.

Director Martland seconded the motion.

Mr. Bolduc explained that this reserve was a post-project reserve driven by the Wallingford Advisory Board. Mr. Constable stated that this reserve was being established for future options of the Project post 2010 and stated that CRRA would be working with consultants over the next 4-6 months to determine options for the Project. Mr. Constable said that the Wallingford Advisory Board wanted to set funds aside to cover potential future costs post 2010. Mr. Constable informed that Committee that it was projected that there would be approximately \$35 million set aside by 2010, but it was not yet determined how much would be needed. The Wallingford Advisory Board decided they would set aside \$2.8 million of the FY06 surplus to fund this reserve.

Director Martland asked if the Wallingford Project would own the plant post 2010. Mr. Kirk responded that the plant would transfer to the operator for \$1.00, but added that with the loss of the favorable energy contract, it was unlikely that it would be economical to continue to operate the plant beyond 2010.

Director Laretti asked what CRRA's role was in setting up the reserve. Mr. Bolduc explained that the Wallingford Project's financials were part of CRRA's consolidated financials and because the Wallingford Board is an advisory board, the reserve requires CRRA Board action to designate the funds. Mr. Bolduc added that CRRA required the Project to set up a reserve to stabilize tip fees after the decline of the energy contract revenues because the agreement with the Wallingford Project supports the bond indenture. However, Mr. Bolduc noted that CRRA could not direct this reserve because this is a post-project reserve.

There was a brief discussion regarding post-project ownership and Mr. Bolduc informed the Committee that the information would be brought to the Board when the post-project ownership research was complete.

The motion previously made and seconded was approved unanimously.

5. Review and Approve Bond Counsel Short List

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

RESOLVED: That the Finance Committee agrees with the Policies & Procurement Committee's selection of the following firms to be invited for oral interviews for the position of Bond Counsel for the fiscal years 2006 through 2008:

Hunton & Williams
Levy & Drony
Pullman & Comley
Sidley Austin Brown & Wood

Director Martland seconded the motion.

Vice-Chairman O'Brien noted that several of the Finance Committee members participated in the discussion of this matter with the Policies & Procurement Committee.

Director Cohn stated that there were six proposals submitted for the Bond Counsel Request for Qualifications and the Policies & Procurement Committee voted to invite four firms for interviews. Director Cohn added that of the two firms that were not chosen for interviews, one was a Kansas City firm with only local experience and the other was a one-person firm, which was too small to serve the purposes of the Authority. Director Cohn said that all of the firms to be interviewed were likely competent to work for CRRA and the Policies & Procurement Committee was recommending interviewing all four firms.

Chairman Pace noted that the Finance Committee was reviewing this to acknowledge their agreement with the Policies & Procurement Committee's recommendation.

The motion previously made and seconded was approved unanimously.

6. Informational

Mr. Bolduc noted that in the Key Assumptions of the Mid-Connecticut Source and Use of Funds Analysis, the section under Energy Payments for the period covering 1/1/06 – 6/30/06 should read \$0.0330 per kilowatt hour. Mr. Constable added that the \$0.0330 per kilowatt hour reflected the excess over 250,000 kilowatts.

Chairman Pace asked why the State Loan draws were still showing under the "Debt Service Existing" section. Mr. Bolduc responded that the report was as of February and the defeasance of the State Loan took place in March. Mr. Bolduc stated that new assumptions would be seen on next month's report. Mr. Bolduc referred the Committee to the chart on the second page of the Source and Use of Funds Analysis where they could see the how the projections showed the drop in the "Debt Service – Existing" and Debt Service – State Supplemental Financing" line items.

Mr. Bolduc referred the Committee to the Financial Results section of the Mid-Connecticut Project's Financial and Variance Report and pointed out the "Use of State Loan" Projection. Mr. Bolduc then pointed out that under the Debt Service/Administration expenditure line item, \$29 million was originally budgeted, but the Projection was lowered to \$20.2 million

because the payments for the defeased bonds were coming out of the Trustee account. Chairman Sullivan suggested including a separate page in the analysis to show the amortization of the Trustee account. Mr. Bolduc said that two reports, one for the defeasance of the bonds and one for the defeasance of the State Loan, would be made part of the Source and Use of Funds report.

Director Lauretti asked if the Interest Income was from one source. Mr. Bolduc responded that the interest was from all of the reserve accounts. Mr. Bolduc noted that with restricted or Trustee reserves, the interest is invested back into the reserve. Director Lauretti asked if all of the reserves were held in one source, such as a STIF account or if the accounts were held in diverse accounts. Mr. Bolduc responded that management was in the process of evaluating how to diversify to enhance interest yield without compromising principal protection for the reserves for all of the Projects.

Vice-Chairman O'Brien noted that total waste deliveries were down 3%, ash was up 3%, but kwh sales were down 9% and asked for an explanation. Mr. Constable stated there were revised figures in the handout for the Mid-Connecticut Financial Results and noted that the ash figures included in the package were through March. The figure in the package stated that ash tons were 128,270, but the ash tons through February were actually 113,214. Vice-Chairman O'Brien stated that the revision made the difference between the kwh sales and the ash tons greater. Mr. Kirk explained that there generally was not a relationship between ash and evaporation rate or kilowatts per ton. Mr. Kirk said that ash tends to be more constant and explained that what varies substantially is the heating value of the fuel. Mr. Kirk stated that, in this case, CRRA was seeing lower quality fuel, which could be attributed to moisture or a variety of other factors. Mr. Kirk said that he did not want to discount the differences, but said that it was difficult to draw conclusions from 3-4 months because there are so many variables. Mr. Kirk said that he concentrates on operating in a manner that ensures that all of the waste that is supposed to be delivered is, and that CRRA is able to burn all of that waste.

Vice-Chairman O'Brien asked how much RDF and non-processible waste was generated per ton of waste and requested that information regarding non-processible waste be included in the report. Director Martland asked what made up non-processible waste. Mr. Kirk responded that non-processible waste was grit smaller than one inch.

Mr. Kirk stated that, in reviewing operating assumptions, what most jumps out at him is the impact that the two operators have on CRRA. For example, when an operator takes an unscheduled outage, CRRA is hurt in two ways. First, CRRA is not able to process the waste and collect the \$70 tip fee and second, it costs more than the \$70 tip fee to divert the waste. Similarly, Mr. Kirk said that if an operator does not maintain the front end of the plant, waste has to be diverted and lines get so long that CRRA ends up with a customer service problem. Mr. Kirk said that both of those situations happened in the first quarter.

Mr. Kirk said that another variable to consider was that processible waste was removed from the front end in a trommel system, which is a giant drum with holes drilled in it to work as a screen. The small pieces fall through, get collected and get hauled to the landfill. Mr. Kirk said that Covanta had been operating with $\frac{3}{4}$ inch holes for many years, but after a dispute, CRRA changed back to the original design of 1 inch holes. As a result, Mr. Kirk stated that there has been an increase in the amount of residue. Mr. Kirk stated that if there was an expansion to the Mid-Connecticut facility to a mass burn unit, the process residue could potentially be

dumped in the mass burn unit and CRRA would not have to worry about the cost of landfilling the residue.

Regarding the management letter to the FY04 Audit, Vice-Chairman O'Brien requested that the table be provided to the full Board. On Item 1, Vice-Chairman O'Brien stated that CRRA's implementation was vague and did not clearly say whether CRRA had addressed the recommendation. Vice-Chairman O'Brien stated that if there were reserve accounts that had not yet been addressed, those should be listed in the response.

Vice-Chairman O'Brien asked that CRRA's Implementation response for Item 2 detail the status of the new software and the timeframe for the recommended segregation of duties and training associated with that segregation.

With regard to the State Auditor's report, Vice-Chairman O'Brien asked if this table was supplied to the State Auditor and asked how often a State Audit was performed. Mr. Bolduc responded that the report was created and supplied to the Finance Committee and Board so they know that CRRA was addressing the issues. Mr. Bolduc noted that all of the auditors' recommendations were complete, with the exception of one, which has to do with the DEP's Solid Waste Plan. Mr. Bolduc said that the DEP is in the process of updating the Solid Waste Plan and the implementation of the recommendation could not be completed until the DEP completed their update. Mr. Bolduc noted that the FY03 and FY04 audit began approximately one week ago.

Vice-Chairman O'Brien, referencing the third item in the summary (Page 3 of 7), asked what a "set-aside" is and asked how CRRA had completed that recommendation. Mr. Constable reported that a set-aside program encouraged organizations to employ minority businesses or small business when they go to bid. Mr. Constable stated that CRRA reports to the Department of Administrative Services what portion of the total amount of money paid to vendors is paid to minority or small businesses on a quarterly and annual basis. Mr. Constable stated that CRRA also creates and submits annual goals for approval by the State. Director Martland asked if a set-aside company bids, but is not the low bidder, if CRRA was required to select them to meet set-aside standards. Mr. Constable responded in the negative. Mr. Kirk stated that it was part of CRRA's plan to be inclusive of minority and small businesses in the bid process, but noted that CRRA would choose the business that could provide the best services at the best price. Mr. Kirk stated that, in addition to meeting the statutory requirement, CRRA makes a good faith effort to diversify the pool of vendors and contractors. Mr. Constable noted that CRRA also does business with many small businesses or minority-owned businesses that are not registered with the Department of Administrative Services, and those are not considered in the set-aside figures. Vice-Chairman O'Brien suggested clarifying what a "set-aside" program was for the purposes of the table.

Vice-Chairman O'Brien stated that on page 4 of 7, regarding the monitoring of expenses for outside consultants, consultant costs were being tracked, but CRRA was still seeking legislation. Vice-Chairman O'Brien said that he did not want it to be implied that CRRA was through pursuing new legislation.

Vice-Chairman O'Brien stated that the response to Item 6 did not say that CRRA has documentation regarding compliance with its internal procedures.

Director Lauretti asked where CRRA stands with the proposed legislation affecting CRRA. Mr. Kirk responded that a full report would be available at the next Board meeting, but noted that the bill that would restrict telephonic participation in Board meetings had been attached to an ethics bill, which would likely be passed. Mr. Kirk said that his last communication with leadership indicated that they were prepared to amend the bill to prohibit the use of the telephone for participation and voting at regular meetings, but allow telephonic participation for special meetings. In addition, Mr. Kirk said that there was a bill that would require all expenditures over \$25,000 to be approved by the Comptroller. Mr. Kirk said that his discussions with leadership indicate that it was unlikely that the bill would survive. Mr. Kirk stated that the bill would be very damaging to CRRA if it was passed and CRRA would rely on the Governor not to sign that bill.

Director Francis informed the Committee that he and Chairman Pace had been attending meetings at the Governor's Office regarding quasi-public agencies and their personnel policies and procedures. Director Francis stated that many benefits had been reviewed and noted that the intent was to have one more meeting and then the Governor's Office would produce a report with suggestions for consideration by the quasi-public agencies. Director Francis said that, of the policies covered to date, he did not think there was anything that CRRA would have to change, except one small portion of the compensatory policy. Chairman Pace noted that the meetings made it clear that all of the quasi-public agencies have very different missions and, in many cases, blanket policies across the board would not be possible.

Chairman Sullivan reminded the Committee to reserve extra time after the May 19th Finance Committee meeting for interviews of the potential Bond Counsel firms.

ADJOURNMENT

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

The meeting was adjourned at 10:45 a.m.

Respectfully submitted,

Kristen B. Greig
Secretary to the Board/Paralegal