

**Finance Committee  
June 29, 2005 Special Telephonic Meeting**

**Draft Minutes**

Members Present: Andrew Sullivan, Committee Chairman  
(via telephone) Michael Pace, Board Chairman  
Raymond O'Brien, Committee Vice-Chairman  
Edna Karanian  
Mark Lauretti  
Theodore Martland

CRRA Staff Present: Tom Kirk, President (via telephone)  
Bettina Bronisz, Assistant Treasurer & Director of Finance  
Tom Gaffey, Director of Recycling & Enforcement (Present beginning at  
9:25 a.m.)  
Floyd Gent, Director of Operations  
Kristen Greig, Secretary to the Board/Paralegal

Vice-Chairman O'Brien called the meeting to order at 9:20 a.m. and noted that there was a quorum.

Chairman Sullivan joined the meeting at 9:21 a.m.

**1. Review and Recommend Resolution Regarding the Pricing Options Associated with the Agreement with Casella Waste Systems, Inc. and FCR, Inc. for Design, Upgrade, Retrofit and Operation/Maintenance Services for the Regional Recycling Center for the Mid-Connecticut Project.**

Chairman Pace noted that the Committee would be looking at a comparison of the pricing options.

Vice-Chairman O'Brien stated that there were two things to discuss. The first item was the probability of the three scenarios to be discussed, "likely high", "likely low" and "likely average" compared to one another. The other item was present value. Vice-Chairman O'Brien pointed out that these revenue streams continue well into the future and pointed out that in the likely average, CRRA is \$1.9 million down over the 10-year term of the contract. Vice-Chairman O'Brien didn't think this was true, but stated that was what the hand-out indicated.

Chairman Pace noted that the Board had decided not to play the market with the Enron settlement. Chairman Pace said that he felt that CRRA should not play the commodities market and get the best price possible and calculate what the long-term dollar value would be. Chairman Pace asked how much CRRA was spending per ton to bail and move recyclables and what the income was from that. Mr. Gent responded that CRRA locked in very favorable fiber pricing and said that the income figure was around \$3 million. Mr. Gent added that the current recycling agreement relies on Murphy Road Recycling to transload the paper. Mr. Gent stated

that initially it was a \$4 per ton contract, but when they realized they really needed CRRA, they bumped it up to \$8/ton. Mr. Gent informed the Committee that Murphy Road Recycling does not want to not want to transload paper for the long term and CRRA has a contractual obligation to transfer our permit to them. Mr. Gent emphasized that CRRA has to move out of that facility. Mr. Gent explained that CRRA has been able to make the best of existing arrangements over the short term, but noted that there is not a long term benefit. Vice-Chairman O'Brien noted that, by comparison to the last fiscal year, recycling income was \$1.1 million and \$623,000 for fiscal year 03. Mr. Gent replied that Vice-Chairman O'Brien was correct and noted fiscal year 05 probably wouldn't be \$3 million because CRRA didn't enter into the Recycle America contract until February 1.

Mr. Gent continued that CRRA was able to lock into very favorable pricing for a limited time period because of market conditions and Recycle America entered into a financial hedge to protect their downside risk. Mr. Gent explained that those figures were not something that one could expect on a long-term basis. Mr. Gent stated that CRRA is contractually obligated to move out of the recycling facility at 123 Murphy Road.

Vice-Chairman O'Brien asked if any projections had been done on maintenance costs. Mr. Gaffey answered that under the current contract with FCR, CRRA is responsible for maintenance costs exceeding \$2,500 but the new contract places the responsibility for maintenance costs on FCR. Vice-Chairman O'Brien stated that in doing an evaluation of which makes the best deal for us, CRRA needs to include what our maintenance costs would have been if we had done nothing. Vice-Chairman O'Brien said that the Board needs to see a reasonable comparison of what they are being asked to approve. Mr. Gent replied that neither the fixed or variable price options have capital costs associated with them so CRRA would just be comparing the status quo. Mr. Gent explained that the status quo can not be maintained because CRRA has to move paper operations to 211 Murphy Road. Mr. Gent stated that it is clear based on historical information that either the base bid, which is variable pricing or the alternate bid, which is fixed is a much better deal than what CRRA has historically received at 123 Murphy Road. Vice-Chairman O'Brien agreed with Mr. Gent that the equipment at 211 Murphy Road is old and would require capital investments to update it, but it would still be old equipment. Vice-Chairman O'Brien stated that those costs are part of CRRA's avoided cost in entering into this contract, but said that he hasn't seen that quantified.

Director Martland added that if maintenance and capital improvements were avoided costs that can not continue, then he would not bother doing the calculations. Chairman Sullivan agreed and further noted that if CRRA stayed with the existing contract and did not have this option, CRRA would have to know what the actual cost of maintenance had been. Because of the fact that FCR is going to absorb all of the cost of maintenance and replacement, Chairman Sullivan stated that CRRA does not have to worry about those costs. Vice-Chairman O'Brien asked if the historical costs were anywhere near the \$190,000, which is the difference between the fixed price and differential price so CRRA can say to its stakeholders that CRRA is saving money. Vice-Chairman O'Brien said that CRRA could tell its stakeholders that, in addition to all the benefits, CRRA is also avoiding these costs. Mr. Gent said he included the capital costs in the expenditures. Vice-Chairman O'Brien said that it didn't separate out the contractual costs, but that was fine. Vice-Chairman O'Brien summarized that CRRA are avoiding all those costs. Mr. Gent replied in the affirmative. Mr. Gent further explained that under the current

arrangement with FCR, CRRA pays FCR a tip fee of \$22 per ton, CRRA covers capital costs above \$2,500, and CRRA and FCR split the revenue on the containers 50/50. Vice-Chairman O'Brien asked of CRRA would be avoiding the total \$1.4 million average cost in this contract. Mr. Gent replied that CRRA is currently making more revenues than expenditures. Mr. Gent explained that compared to what CRRA is currently earning in recycling revenues, either the fixed or variable options quoted by FCR are going to be less. Mr. Gent added that CRRA is in a short-term situation where CRRA made the best of the market conditions. Vice-Chairman O'Brien summarized that according to the documentation, CRRA averaged \$1.4 million per year in expenditures over ten years, which includes tip fee and maintenance. Vice-Chairman O'Brien asked if all of those expenses would be gone with this new contract. Mr. Gent answered in the affirmative and said that there will be no expenditures with respect to paying a tip fee and no expenditures for capital. Mr. Gent explained that the revenue sharing mechanism is a totally different structure than previous arrangements.

Director Karanian stated that her concern was that economic models are based on historical relationships with different variables and going ten years into the future is a long time where variables can change. Director Karanian suggested an option could be a floating rate with a ceiling or a floor, something like a no cost collar and asked Mr. Gent if that was something he had considered. Mr. Gent replied that if CRRA decides to go with the variable pricing commodity, FCR would still lock in the rates for its portion of the revenue sharing and FCR would let CRRA's portion float. Mr. Gent explained that because FCR has to guarantee a floor price, they will not take market risk and will be hedging their share of the recycling revenues. If CRRA decides to go with the fixed, FCR will hedge all of it. Director Karanian stated that CRRA would give up a lot of potential upsides over the course of ten years. Director Karanian stated that if CRRA has a guaranteed floor and shares in the upside, CRRA is protected against what the downside risk is by having a floor in place. Director Karanian further noted that she wanted to ask about the minimum commitment. Director Karanian said there was a \$12 figure in the formula and asked what that number represented. Mr. Gent replied that the \$12 figure was an estimate of the variable cost of processing the material. Mr. Gent explained how that figure was developed.

Mr. Gent explained that there was no doubt that if the Board chose the fixed option, that CRRA could miss some potential upsides, but pointed out that CRRA would still share on upsides on containers when they are over benchmark prices. Mr. Gent stated that, if CRRA delivered additional tons, which he expected CRRA would do because of the expanded list of recyclables, these would be some upsides due to those additional deliveries.

Chairman Pace asked if the numbers presented to the Finance Committee were the same as presented at the June 23<sup>rd</sup> Board meeting. Mr. Kirk responded in the affirmative and said that those were the same figures the Casella Board considered and approved. Mr. Kirk explained that the figures would be held through August to give the CRRA Board time to consider the options. Mr. Kirk stated that Mr. Gent's concern regarding the timing surrounding the approval of this agreement and the pricing options associated with it are valid because if there is a large drop in the market and FCR is no longer comfortable with the pricing, they could withdraw their bid and forfeit their \$25,000 bid bond. Mr. Kirk stated that FCR put a significant amount of thought into the pricing structure and said that it was not likely that the daily or weekly ups and downs would deter them from the ten year agreement.

Director Martland stated that if he were entering this contract as a private organization, he would accept the risk of the variable pricing option, but being a public entity, it was prudent to approve a more solid pricing method. Director Martland pointed out that there were matters on the political horizon that could affect the market. Chairman Pace stated that one of the key reasons the new CRRA Board was appointed was not to take risks, and Chairman Sullivan agreed. Director Karanian stated that the Committee should not be fooled into thinking that locking into the fixed price option was not taking a risk. Director Karanian pointed out that CRRA would be guaranteed a revenue stream, but CRRA is risking losing the potential upsides. Chairman Pace agreed and referred the Committee to RRT's 5-year averages. Chairman Pace asked if the market has outperformed the expectations over the last five years. Mr. Gent stated that ONP was the biggest driver and noted that ONP outperformed the market

Mr. Kirk stated that he understands Director Karanian's point of view and said that he finds comfort in the fact that the agreement is very lucrative, even at the fixed price. Mr. Kirk stated that the delta between the fixed price and potential highs is modest given the risk of a potential low. Mr. Kirk explained that recyclables have been an extraordinarily volatile commodity. Mr. Kirk added that over the last three years, the fiber prices have been high because of the demand of Chinese manufacturing companies. Mr. Kirk said that if the Chinese economy were to take a turn for the worse, it was possible that the commodity prices could do the same. Mr. Kirk stated that CRRA is in the recycling business, not the commodities sale business and said that CRRA is not in a position to effectively monitor commodities in a fast-moving market to maximize gain.

Vice-Chairman O'Brien stated that he understands that FCR is taking the risk for the downsides and giving CRRA an agreement so it can be protected, but said that he would like to see a number above the likely high where CRRA would start sharing in the revenues. Director Lauretti asked what the anticipated annual savings would be for expenses that CRRA will not incur. Mr. Gent responded that CRRA would be saving \$1.4 million. Director Lauretti stated that business decisions are made based on what your abilities allow and said that Mr. Kirk was accurate in highlighting the fact that CRRA is not able to manage commodities as private enterprise can. Vice-Chairman O'Brien agreed and said that he would like to see CRRA protect itself against the market increasing dramatically. Chairman Pace asked if CRRA could explore Vice-Chairman O'Brien's suggestion of sharing beyond the likely high, but cautioned that if CRRA asked for sharing on the upsides, FCR would likely look for protection from the downside in return. Director Karanian pointed out that a no cost collar would take care of the upside and the downside. Mr. Gent responded that the structure of FCR's bid was well thought out and noted that there was no limitation of liability for FCR in this agreement. Mr. Gent said that if FCR defaults under the agreement, they forfeit the assets. Director Karanian stated that the term of the agreement bothered her because ten years in a commodity driven market is so difficult to predict. Director Karanian said that she would like a method to minimize the risk and have some sharing in the upside. Director Martland stated that it is common to have a re-opener after a certain number of years if the climate changes dramatically. Mr. Kirk pointed out that if FCR agreed to a re-opener after a certain number of years, they would not want to just reopen the top side, but the bottom side also. The Committee agreed.

Chairman Pace suggested considering a vote to bring the matter to the Board, giving the Committee some time to consider the discussion. Chairman Sullivan agreed and said that the motion should move forward with a recommendation from the Finance Committee.

Director Karanian asked if there could be any other business impact on CRRA if the market increases dramatically and CRRA misses out on that opportunity with the fixed price. Mr. Kirk said that he does not think there would be any negative impact aside from the lost opportunity. Mr. Kirk stated that the impact of recycling on CRRA as a whole is negligible. Mr. Kirk said it is important to get the recyclables out of the plants, but having it there has very little impact on the financial performance of the plants so the real impact would only be the lost opportunity of that revenue stream. Mr. Gent pointed out that there was a risk in the market going below the benchmarks associated with the fixed price option, which CRRA has historically gone well below. Mr. Gent stated that with the fixed price, CRRA will still receive a minimum guarantee if the market softens. Mr. Kirk said his concern if the market were to soften, would be the condition of the counterparty in the agreement, but added that FCR has Casella standing behind them. Mr. Kirk said that the impact on CRRA could be criticism for leaving money on the table if market rates skyrocket.

Mr. Kirk suggested that management approach FCR with an amendment that would allow CRRA to enter into the variable pricing at the 5 year mark if the average pricing hits an arbitrary number high enough that FCR would be comfortable. Mr. Gent noted that FCR has only committed to the fixed pricing option through the ten years of the agreement, but the five year renewal option is only offered at the variable price. Director Karanian suggested approaching FCR to discuss a number, above and beyond what is reasonably expected, that beyond which point FCR would be comfortable sharing with CRRA. Mr. Kirk said that CRRA could suggest an amendment that would affect years 6-10, perhaps a collar agreement. Mr. Kirk said that CRRA could move forward with the existing agreement with the fixed pricing option with the agreement that the parties will try to come to terms on a number above the likely high for revenue sharing. Director Martland said that the public outcry if the market increased dramatically could possibly affect FCR, so it was prudent for FCR to consider a number that they would be comfortable sharing.

Mr. Kirk further stated that in discussing a proposed amendment for years 6-10, CRRA would likely have to give up something on either the fixed price on the down side or guarantees to be able to get a sharing above some collar price. Mr. Kirk said his desire was to not have that hold up the contract.

Chairman Sullivan stated that if CRRA asked FCR for the potential to re-evaluate the figures from years 6-10, FCR would probably lower the fixed price by whatever percentage risk they think they're giving up to CRRA. The gap would be greater between fixed price and variable price. Mr. Kirk said he expects that they will do that, but if CRRA moves forward with the signed contract and discusses this as a proposed modification or amendment, CRRA can retreat back to the fixed price. Mr. Kirk said that he doesn't want to reopen the contract, but wants to sign this and talk about a modification that will give CRRA some of the upside benefit understanding that we might have to accept some downside risk.

Director Karanian noted that CRRA should support a scenario where in case there are extreme changes in the market, CRRA would be protected. Director Karanian said that it should not be a dramatic change. Mr. Kirk said he did not think the contract should be renegotiated now because it is a good contract for all parties. Chairman Sullivan asked why, if CRRA entered into a 10-year contract with a fixed price option, FCR would even consider a re-opener. Mr. Kirk responded that FCR would only consider an amendment or re-opener if CRRA accepted some risk or if there was some benefit to FCR.

Chairman Pace noted that the term of the contract is ten years and the project ends in 2012, so if it is to be considered, why not put this "reopener" at the 2012 mark. Chairman Pace asked if CRRA can commit to a contract beyond 2012. Mr. Kirk said that CRRA can commit to a contract beyond 2012 because this agreement is independent of the Municipal Service Agreements, which are what expire in 2012. Mr. Gent added that Laurie Hunt, CRRA's Director of Legal Services and Halloran & Sage have reviewed the contract. Mr. Gent explained that the contract was structured with an "out" and said that CRRA can opt for the \$3 million buy-out any time in 2012. Chairman Sullivan added that it would be better to re-open for pricing purposes in 2012 because, ideally, CRRA would have all of the contracts renewed prior to that date. Mr. Gent added that FCR's biggest concern is that in 2012 they don't want the \$3 million, they want to stay in business especially if pricing is high. Mr. Gent said he is sure that if CRRA threatens to terminate, CRRA can use that as an opportunity for a price "reopener." Mr. Kirk said that if commodity pricing has risen to a point where a \$3 million check written to FCR doesn't scare us, that's certainly an opportunity to talk about a better sharing for commodities revenue after 2012. Director Karanian asked if CRRA could do a financial hedge on this outside the contract saying that she was trying to figure out a way to protect CRRA against the potential loss on the upside. Mr. Gent explained that he thinks that FCR is not getting any upside because they are forfeiting that upside to a financial hedge in turn for protection against the downsides.

Chairman Sullivan referred the committee to Tab 3, Page 9 and stated that when FCR is referring to 210 tons and 350 tons that they were taking all the risk. Mr. Gent explained that the 210 tons and the 350 tons is what the facility has to be designed for. They have to be able to process, in any given day, 350 tons of paper and 210 tons of containers. FCR is relying on our commitment that CRRA is going to provide a minimum guarantee. That minimum guarantee is 19,800 tons of containers and 50,400 tons of paper. Mr. Gent further explained that our historical average for paper for the last five years is a little over 50,000 tons. Our guarantee of 50,400 is 90% of our 5-year average. On the containers our 5-year average is 21,833 which is 91%.

Mr. Gaffey explained that CRRA is expanding the list of acceptable recyclables so there will be new material coming in including junk mail, cereal boxes, dry goods box board, shoe boxes, oversized containers, and aerosol cans. Vice-Chairman O'Brien asked about clean office paper, computer paper and chip board. Mr. Gaffey answered that office paper is acceptable. Vice-Chairman O'Brien asked what the price for that would be. Mr. Gaffey responded that office paper (unless from municipalities, boards of education and city halls) would be coming in on the commercial market on a spot basis. Mr. Gent continued that CRRA has the option to approach non-member towns to see if they want to utilize our facility for containers and paper. Mr. Gaffey said that there is an opportunity for CRRA to bring in other towns that are not currently Mid-CT members, which may be something the Authority would like to do. Further,

Mr. Gaffey explained that there are also opportunities on the spot ton on the commercial side. If there were additional spot tons brought in because CRRA has available capacity, revenues would be shared on an equal basis once the cost of processing is covered. Mr. Gaffey concluded that there are plenty of opportunities for CRRA to share in some upsides on getting additional tons in both on the commercial side and on the residential side for non-member towns.

Chairman Sullivan stated that he preferred the fixed pricing option for the same reasons that he wanted to get into the sale of our claim at a significant gain over what our bankruptcy award represented. Chairman Sullivan said that it took CRRA out of market risk. Chairman Sullivan said that CRRA could still build a case if the market goes wild, as CRRA are not in the investment game. Chairman Sullivan emphasized that CRRA should concentrate on operations, recycling, and the revenue from the business. Director Sullivan said that he was inclined to go with the fixed price. Chairman Sullivan added that he wouldn't worry about a re-opener at this point because he is concerned that there was a re-opener, CRRA would have a "lose" situation on the fixed price.

Director Lauretti indicated that he agreed with Chairman Sullivan and added that CRRA cannot ignore the savings that occurs annually over the ten years.

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

**WHEREAS:** The Board of Directors approved an agreement with Casella Waste Systems, Inc. and FCR, Inc. for the design, upgrade, retrofit and operation/maintenance services for the Mid-Connecticut Regional Recycling Center; and

**WHEREAS:** The pricing options associated with the approved agreement required further review; and

**RESOLVED:** The President is authorized to enter into an agreement to include the Fixed Pricing Option, substantially in the form as discussed at this meeting.

The motion was seconded by Director Martland.

The motion previously made and seconded was approved. Director Karanian voted nay. Director Karanian noted that she was voting against recommending the fixed price to the full Board because ten years was too long of a term to commit to the fixed price option without further review of options should the market improve dramatically.

Vice-Chairman O'Brien noted that the Finance Committee thoroughly discussed this matter for one hour and fifteen minutes.

**2. ADJOURNMENT**

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

The meeting was adjourned at 10:20 a.m.

Respectfully submitted,

Kristen B. Greig  
Secretary to the Board/Paralegal