

**Finance Committee
Jan. 24, 2013 Regular Meeting
Draft Minutes**

Members Present by telephone: Chairman Timothy Griswold
Joel Freedman
Andrew Nunn (present by telephone)
Scott Shanley

CRRRA Staff Present: Tom Kirk, President
Jim Bolduc, Chief Financial Officer
Jeffrey Duvall, Director of Budgets and Forecasting
Nhan Vo-Le, Director of Accounting
Moirra Benacquista, HR Specialist/Board Administrator

Also Present: Jim Sandler, Esq. of Sandler & Mara.

Chairman Griswold called the meeting to order at 9:32 a.m. He said there were no members of the public who wished to comment and proceeded with the agenda.

1. Approval of the Minutes of the Nov. 15, 2012, Finance Committee Meeting

Chairman Griswold requested a motion to accept the minutes of the Nov. 15, 2012, Finance Committee meeting. The motion to approve the minutes was made by Director Nunn and seconded by Director Griswold.

The motion to approve the minutes was approved by roll call. Director Freedman and Director Shanley abstained as they were not present at the prior meeting.

2. Review and Recommend for Board Approval – RFQ for Economic Advisors

Chairman Griswold requested a motion regarding the above-captioned item. Director Shanley made the following motion which was seconded by Director Nunn.

RESOLVED: That the President is hereby authorized to enter into contracts with the following firms for economic advisory services to assist management with work on a variety of projects including, but not limited to, financial and economic evaluation with regard to the plans of the Authority, market information on other comparable solid waste authorities and innovations within the solid waste field; financial feasibility analyses; and analysis of state and federal laws and regulations relative to solid waste management and municipal bonds.

- Environmental Capital, LLC
- Alternative Resources, Inc.
- Gershman, Brickner & Bratton, Inc. (“GBB”)
- Connecticut Economic Resources Center, Inc. (“CERC”)

Mr. Bolduc said CRRA is required to go out to bid for contracts. He said most of the CRRA contracts are on a three year basis. He explained CRRA’s existing contract expires in a few months and as a result CRRA issued an RFQ. Mr. Bolduc explained an RFQ is a request for qualifications and does not involve any specific work. He said any needed work would follow the normal procurement process and be approved by the Board in line with those procedures.

Mr. Bolduc said a number of interested parties responded to the RFQ and their qualifications are summarized in the write up. He said an internal committee reviewed the submitted qualifications and billing rates which CRRA would agree to provide to the selected firms, should they be needed to provide services in the next few years. Mr. Bolduc said management is looking for the Finance Committee to approve these four entities as potential consultants for CRRA to use for the various areas outlined in the write-up.

Mr. Duvall noted that all vendors which submitted applications currently work with CRRA, and management is familiar with their work. Director Shanley asked if management is confident in the work quality of the bidders. Mr. Duvall replied yes.

Chairman Griswold asked what kind of activities CRRA has used these firms for in the past. Mr. Bolduc replied that these firms are occasionally used to evaluate the market and Wall Street, particularly for bonding issues. He said the primary issue for which Environmental Capital, LLC was used was to provide management assistance in closing the Mid-Conn bonds and to assist in the refinancing of the SCRRA. He said Environmental Capital worked very closely with CRRA and the SCRRA Board to do the solicitation for the banker and as a result management was able to reduce the funding on the SCRRA bonds and obtained a rate of 2.1% which saved SCRRA roughly \$3 million.

Director Freedman asked what type of work management expects the firms to be used for. Mr. Bolduc said that depends on the future of CRRA. He said financing for transfer stations or composting may be possible ventures for which CRRA would require the services of an economic advisor. He said this resolution is not a commitment and provides availability to those services only. Mr. Bolduc said this resolution provides for a stable of on-call advisors. Director Freedman asked if he was correct in stating this is not a retainer but an on-call service per hour for any of the four advisors if they are needed. Mr. Bolduc said that was correct.

Chairman Griswold asked why CERC is included when it only provides one service and the remaining three firms are more qualified. Mr. Bolduc said there may be times when management is looking for something more specific or if the other firms are conflicted out due to representing other parties in another area.

Director Shanley asked if the \$50,000 is per engagement and how management monitors the allowance. Mr. Bolduc said the Policies & Procurement Committee monitors those amounts. He said the amount is triggered not only per event but also on cumulative amounts over \$50,000. Mr. Kirk said

CRRA's purchasing system tracks spending on such matters. Mr. Bolduc said reports are also provided to the Policies & Procurement Committee for review.

Director Freedman asked what CRRA has spent on economic advisors in the last three years. Mr. Bolduc said about \$180,000. Mr. Duvall said CRRA generally spends \$30,000 a year, with the exception of the year the SCRRRA bond refinancing was undertaken, which cost about \$150,000. He said an additional reason management recommends four potential advisors in the stable is to provide a comparison on price quotes.

Director Freedman asked for an explanation as to how work is proposed to the advisors. Mr. Bolduc explained management would choose an advisor based on its qualifications. He said for example, management knows that Environmental Capital has an ex banker out of NY and GBB has experience in Washington.

Mr. Bolduc said the overall consulting costs are in the budget and specific project pricing would depend on the nature of the work. Director Freedman asked where he would find that information in the budget. Mr. Bolduc replied that it can be found in the operational consulting line item.

Director Freedman asked if he was correct in stating that the authorization in this resolution is for management to go out and execute contracts with qualified vendors in which case they would then be on-call to provide services for CRRA as tasked. He said there would not be any monetary commitment up front and there is no penalty provision if CRRA decides not to use them or if the contract is cancelled. Mr. Kirk said that was correct.

The motion previously made and seconded was approved unanimously by roll call.

3. Review and Recommend for Board Approval – Southwest Budget

Chairman Griswold requested a motion regarding the above-captioned item. Director Shanley made the following motion which was seconded by Director Freedman.

RESOLVED: That the estimated Fiscal Year 2014 SouthWest Division operating budget be adopted substantially in the form as presented and discussed at this meeting; and

FURTHER RESOLVED: That an estimated municipal solid waste tip fee of \$67.77 per ton be adopted for contracted member waste; and

FURTHER RESOLVED: That the actual municipal solid waste tip fee per ton will be calculated using the actual annual change in the Consumer Price Index ("CPI") as reported in June 2013, which will be released prior to the commencement of the Fiscal Year 2014 billing for contracted member waste as prescribed in the Southwest Division's Municipal Solid Waste Management Services Agreements.

Chairman Griswold said this resolution contains an estimated tip fee of \$67.77 which will be refined when more information is available. Mr. Bolduc agreed. He said this budget differs from others which are presented to the Board for approval as it is not governed by a Municipal Service Agreement. He

said the budget consists of two components; the rate Wheelabrator charges CRRA and the contract the Southwest towns have with CRRA to provide access to the plant. Mr. Bolduc said the Southwest towns deliver roughly 250,000 tons to that plant under a fixed fee plus an escalator arrangement. He said the Wheelabrator charge is 75% of the CPI as defined in the contract.

Mr. Bolduc said the contract with the Southwest towns requires that by January 31, 2013, the Authority shall deliver to the authorized representatives and municipalities a final estimate as such fees and amounts and in July when the CPI is published for June a final number is provided. He said CRRA is obligated to provide the town municipal officials CRRA's estimate by July 31, 2013. Mr. Bolduc said the Wheelabrator number is defined by contract, CRRA's administration fee is a fixed fee formula, and the contract expires June 14, 2013. He said the contract itself determines how the numbers are calculated.

Mr. Bolduc said there are a couple of escalators in the contract for environmental costs and diesel fuel. Mr. Duvall said on the Wheelabrator side there is a threshold environmental cost which also escalates by CPI. He said if they exceed that they can charge the pro-rata share back to these towns. Mr. Duvall said there is also a fuel true-up which is based off the diesel fuel price of \$4.25. He said the true-up works in both directions and if diesel fuel is under \$4.25 for the year the towns receive a rebate and if it is over the towns pay the difference. Mr. Duvall said in past years the towns received a rebate because the environmental cap hadn't been reached or the diesel fuel offset the cost of that cap.

Mr. Duvall said the contract is based on 261,000 tons and each town has committed a specific amount of tons. He said CRRA's administrative fee guarantees whatever that final number turns out to be. Mr. Duvall said in this case that final number comes out to 261,000 tons times \$2.61 or \$576,800. He said Wheelabrator will get whatever their fee turns out to be times the actual tons delivered. Mr. Duvall said in FY'10 CRRA only delivered 207,000 tons and Wheelabrator was paid based on that tonnage, however, CRRA is paid based on 261,000 tons.

Mr. Bolduc said if the towns deliver less than 261,000 tons a penalty is owed to Wheelabrator. He said so far CRRA has been successful at getting Wheelabrator to waive that fee. Mr. Kirk said CRRA was successful at getting Wheelabrator to waive the fee because CRRA is short on tons as Wheelabrator has been attracting those tons in as their private customers.

Director Freedman asked how long the agreement with Wheelabrator runs. Mr. Kirk replied until June 2014. Director Shanley asked if management is confident in their estimate of 261,000 tons. Mr. Bolduc said that is likely an overestimate but is the minimum required by the contract. Director Griswold asked if the FY'12 shortfall of \$112,002 is rolled into the next year, or if it comes out of a reserve. Mr. Duvall replied that management has already billed the towns for the shortfall and noted that CRRA has already been paid as a separate billing. Director Griswold said that would be a subsequent event then. Mr. Duvall replied yes.

The motion previously made and seconded was approved unanimously by roll call.

INFORMATIONAL SECTION

Mr. Bolduc handed out an update to the cash flow to the Committee. He said the primary difference from the original in the package was due to an issue concerning the PILOT for the City of

Hartford. He said the PILOT hasn't been signed and management is still uncertain of the numbers based on some of the conversations being held with the Connecticut Department of Environmental Protection.

Mr. Bolduc said the handout contains a change under the landfill reserve. He said the new CSWS project is running fairly tight and without the \$4 million cash contribution would be negative. He said going forward the balances build up through June in anticipation of the second period PILOT to the City of Hartford. Mr. Bolduc said the burn rate on a normal monthly basis is about \$5-6 million.

Director Shanley asked how management intends to replenish the borrowing of the additional \$2.6 million. Mr. Bolduc said the resolution passed by the Board last year addressed the recovery. Mr. Kirk said the resolution the Board passed concerning this issue stated that whatever is borrowed out of the reserves will be repaid.

Director Griswold asked if the budget can afford the repayment of the \$2.6 million. He said with respect to the assumption page and the energy payments, when does the day ahead pricing begin. Mr. Kirk replied July 1, 2013. He said that is currently the plan; however there is time to do an auction if the Board chooses to do so. Director Griswold asked if management has already seen that energy prices have trailed upward. Mr. Bolduc replied yes. Director Griswold said in July those numbers may be bigger. Director Shanley asked what the current day ahead rate is. Mr. Kirk said it varies according to a number of factors and is above the 3.5 rate.

Mr. Bolduc said an updated version of the variance report was handed out for several reasons. He said the Jets came in on a net basis at about a million more than what was in the package because of the way the ISO market has been operating. He explained when CRRA took back the operation from Select Energy (NY subsidiary) there were some payments which now come through to CRRA. He said these are not guaranteed because of the way that ISO runs it, as they dispatch on a daily basis. Mr. Bolduc said CRRA is always the highest cost producer so the likely hood of always getting in is very slim. He said it was unknown revenue and management does not know enough about it to predict it with any certainty. Director Shanley said that was a very significant percentage variance. Mr. Bolduc said management did not even know about this because under the recently expired deal Select Energy was getting those things as part of their deal.

Mr. Kirk said management has sold all products relating to the Jets and all production costs as a unit to Select Energy, which enjoyed all the revenues. He said there are a lot of little revenue streams, locational reserve markets, and black start markets which influence these payments and revenues.

Mr. Bolduc said another reason the variance report was updated is because the legal was off by about \$700,000. He explained administrative expenses have also gone down by almost \$300,000 which accounts for the big items which make up the \$2 million. Mr. Bolduc said the rest falls into the operational swings due to reduced tonnage.

Director Freedman asked concerning legal why it says \$218,000 here and then on the actual legal page under tab 3 it says \$462,000. Mr. Duvall explained the next page in the legal section explains how the \$462,000 is broken out by Project and the \$218,000 is the CSWS portion.

Director Griswold said revenues for the Southeast Project were up, however the number of tons were down. Mr. Bolduc said that is because when the metal's come out of their processing the Project receives some remuneration for it and there were also a couple of accrual reversals. Mr. Duvall said he believed that Covanta received \$1.6 million for the metal removed during processing and Southeast received about \$260,000 of that. Mr. Duvall said the member towns have a put or pay and at the end of the year and the SCRRA Board has decided to rebate the towns which overpaid in that put or pay. He said in this case \$600,000 was reversed.

Director Shanley asked what kind of earnings the reserves are earning. Mr. Bolduc said they are invested in STIF which earns about .018%.

Mr. Bolduc noted that All Waste had pre-paid about \$7 million which is sitting in a pre-payment account.

Ms. Vo-Le noted that the first management letter under Tab 7 is related to the FY'09 audit. She said during the audit there is a standard requirement for the auditors to conduct an interview with personnel in order to understand CRRA's process. She said as a result of the auditor's interview with procurement personnel (and their observation of the process) the auditors concluded that CRRA does not use the procurement software exactly the way it was originally designed for other businesses. Ms. Vo-Le said the auditors recommended that management review the system and see if the process can be improved.

Ms. Vo-Le said that another CPA firm was hired to review the system. She said the firm also interviewed the employees on the procurement side, accounts payable, and billing department. Ms. Vo-Le said the firm wants to understand the process by which CRRA does thing to see if there is room for improvement. She said BST sent its draft report to CRRA yesterday and management is reviewing it. Director Shanley asked how old the system is. Ms. Vo-Le said it was purchased in 2005 and the last upgrade was done in 2007.

Mr. Bolduc explained the system CRRA purchased was an off the shelf software in order to save costs. He said a custom design is significantly more expensive and requires specific changes for each ongoing upgrade. Mr. Bolduc explained as a result of this cost saving measure CRRA has had to make certain adjustments in order to utilize this system. He said the system is tied into the budgeting system in order to satisfy the needs of the Board.

Mr. Bolduc said the second management letter is from FY'12. Ms. Vo-Le explained with the departure of CRRA's Director of Finance, Ms. Ferguson, CRRA reassigned her responsibilities and duties to other personnel in Finance and Operations. She said the auditors in FY'12 wanted to be sure that the employees which took on those responsibilities and duties have adequate training and internal controls. Ms. Vo-Le said this management letter addresses that the auditors wanted to ensure proper segregation of responsibilities and duties.

Ms. Vo-Le said management hired BST to conduct a review of the cash management system to ensure proper control and segregation of duties. She said that review was done recently and BST is going to provide management with a report and recommendations. Mr. Bolduc said the reduction of force and limited staff makes it difficult to have all the segregation of duties in place. Director Shanley asked if

management is confident that the segregation of duties has been maintained adequately. Mr. Bolduc replied yes.

Mr. Bolduc said the risk management report is also enclosed and provides a good summary on an annual basis. He said attachment five is a new report that the Committee will be seeing in the future. Mr. Bolduc said it provides tracking of the repayments of those funds borrowed out of the reserve account.

EXECUTIVE SESSION

Committee Chairman Griswold requested a motion to enter into Executive Session to discuss pending litigation, pending RFP responses, trade secrets, feasibility estimates and evaluations. The motion was made by Director Freedman and seconded by Director Shanley. The motion previously made and seconded was approved unanimously by roll call. Chairman Griswold requested that the following people remain for the Executive Session, in addition to the Committee members:

Tom Kirk
Jim Bolduc

The Executive Session commenced at 11:15 a.m. and concluded at 1:34 p.m.

The meeting was reconvened at 1:34 p.m., the door was opened, and the Board secretary and all members of the public (of which there were none) were invited back in for the continuation of public session.

ADJOURNMENT

Chairman Griswold requested a motion to adjourn the meeting. The motion was made by Director Freedman and seconded by Director Nunn.

The meeting was adjourned at 1:34 p.m.

Respectfully submitted,

Moira Benacquista
HR Specialist/Board Administrator