

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

Members Present: Committee Chairman Joel Freedman
 Jim Hayden
 Scott Shanley

CRRA Staff Present: Tom Kirk, President
 Mark Daley, Chief Financial Officer
 Jeffrey Duvall, Director of Budgets and Forecasting
 Peter Egan, Director of Operations and Environmental Affairs
 Laurie Hunt, Director of Legal Services
 Nhan Vo-Le, Director of Accounting and Financial Reporting
 Moira Kenney, HR Specialist/Board Administrator

Also Present: Jeff Roude of Bollam, Sheedy, Jim Sandler, Esq. of Sandler & Mara

PUBLIC COMMENT

Chairman Freedman called the meeting to order at 10:33 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 Regular Sept. 19, 2013, Regular Finance Committee Meeting

Chairman Freedman requested a motion to accept the minutes of the Sept. 19, 2013, Finance Committee meeting. The motion to approve the minutes was made by Director Shanley and seconded by Director Hayden.

The motion to approve the minutes was approved unanimously by roll call.

2. Discussion - FY'13 Audit Management Letter

Mr. Daley said CRRA receives a management letter each year from its auditing firm as part of the concluding actions related to the audit. He said it is an opportunity for CRRA's auditing firm Bollam Sheedy & Torani ("hereinafter referred to as "BST") to offer suggestions for improvements to the way CRRA does business.

Mr. Daley said this year CRRA received one comment related to the spare parts inventory at the plant. He said the comment suggested that CRRA's operations department take steps to confirm with the contractor that several older spare parts are of some utility so the inventory isn't necessarily overvalued. He said the letter also contained a follow up to last year's comment which related to the reduction of staff

within the Finance and Accounting department and the subsequent need to look at cash management activities and segregation of duties.

Mr. Roude said the auditors are required to give a management letter to the Finance Committee as part of the audit. He said there have been different comments on different points of operation over the years. Mr. Roude said BST provides comments to management, who then review the comments the following month, at which point management's responses to the comments are added on after BST's observations and suggestions. He said BST will follow up next year to ensure that management implemented BST's suggestions.

Mr. Roude said BST made comments concerning the spare parts inventory and the cash management. He said BST conducted an additional study on the cash management procedure which involved interviewing staff and a detailed review of the processes. Mr. Roude said after the study BST made some suggestions to the cash management area which are included in the report.

Mr. Roude said there are no other comments affecting operations other than the spare parts comment. Chairman Freedman asked how long it will take to determine the value of the inventory and what those expected costs are. Mr. Daley said management expects this can be handled internally without additional costs by the operations department and CRRA's operator NAES.

Mr. Roude said every other year the auditors observe the spare parts inventory undertaken by CRRA management. He said the quantities and pricing are cross checked by management and then reviewed by BST. Mr. Roude said there are some parts which are very old and may not be necessary and may need to be disposed of.

Mr. Kirk said there is a recent history with the EGF PBF inventory. He said there were a number of disputes over the value and the ownership when Covanta's contract ended. Mr. Kirk said those issues were resolved. However, CRRA was left with a very substantial inventory which will need to be further categorized and sorted through very carefully.

Director Shanley asked if BST will be generating a report to the Finance Committee concerning the distribution of duties involved in cash management. Mr. Roude replied yes. Mr. Roude said there is a flow chart of the duties and there are a number of spots vacant in the accounting department.

3. Review and Recommend for Board Approval – Reserve Analysis

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

WHEREAS: the activities associated with the Mid-Connecticut Project's Transition Funds reserve have been completed and the remaining funds can be used for other Mid-Connecticut Project liabilities;

NOW THEREFORE, BE IT:

RESOLVED: That the funds in the Mid-Connecticut Transition Funds be transferred to the Mid-Connecticut Post Project Closure reserve and the Mid-Connecticut Transition Funds reserve be

dissolved and the corresponding Treasurer's Short Term Investment Fund ("STIF") account be closed.

Mr. Daley said CRRA management performs an annual review of the reserves. He said there are thirty-three reserve accounts with funds as of June 30, 2013, down from forty-two the prior year. He noted that BST had recommended reducing the number of reserve accounts, which management has and will continue to do. Mr. Daley said as an example some of the transfers from Mid-Connecticut Project reserves went to Mid-Connecticut Project operating accounts. He said the operating accounts are not part of the reserve analysis. Mr. Daley said CRRA's operating accounts went from \$9.5 million last year to \$24 million this year.

Mr. Daley said the resolution is to take \$1.8 million from the Mid-Conn Transition account and to close that account and move it to the Mid-Conn Project Closure reserve. He said there is only one move recommended in the resolution and for the most part the accounts recommendations remain status quo.

Mr. Daley said there are a few trust accounts which management will be taking steps to close out.

Chairman Freedman asked Mr. Daley if he will have further recommendations. Mr. Daley said he will be taking a closer look at these reserves and will possibly make more recommendations. Chairman Freedman said the sheer number of accounts is an issue the Board continues to wrestle with. Mr. Duvall noted that several accounts will close themselves out this year which will result in a further reduction in reserves.

Director Shanley asked for the reports to indicate the associated and true liability going forward. He requested some indication that a calculated liability is associated with each reserve also be provided. Director Shanley asked how frequently CRRA assesses the financial liability for closure for each landfill. Mr. Egan replied once a year. Director Shanley asked if the amount in each reserve equals the assessment value. Mr. Duvall replied yes, that amount indicates the net present value.

Director Shanley asked if a case has ever been made that those reserves should revert back to the original 70 communities which were part of the Mid-Conn Project. Mr. Kirk said there were quite a bit of legal examinations concerning ownership of the Project. He said it is CRRA's position that the reserves (to the extent they are surplus net of the Project liabilities) represent over collection of tip fees and would go back to the towns. Mr. Kirk said that Project would be complicated if CRRA was to cease existing by an act of Legislation.

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

6. Review and Recommend for Board Approval – Funding and Allocation of Section 7 Audit Cost

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

WHEREAS, The State of Connecticut (the “State”) passed Section 7 of Public Act 13-285 which states that the Connecticut Resources Recovery Authority (the “Authority”) shall pay the total cost of various audits, provided such payments shall not exceed \$500,000; and

WHEREAS, This Board of Directors (the “Board”) adopted the Fiscal Year 2014 Budgets which did not anticipate that the State would require the Authority to pay up to \$500,000 in additional audit(s) expenses; and

WHEREAS, The Department of Energy and Environmental Protection (“DEEP”) awarded a contract in the amount of \$460,000 to perform these additional audit(s); and

WHEREAS, The Board now considers it prudent to revise the Connecticut Solid Waste System (“CSWS”) Operating Budget, the Southeast Project Operating Budget, Property Division Operating Budget, and Landfill Division Operating Budget and to revise the funds retained in the Mid-Connecticut Post-Project Closure Reserve, the Bridgeport Post-Project Reserve, and the Wallingford Project Closure Reserve to incorporate these potential audit(s) expenses; and

WHEREAS, The funding from each operating account and reserve will be based on the five year historical pro-rata average contribution to the Authority Budget for the most recent audited five year period (Fiscal Year 2009 through Fiscal Year 2013);

NOW THEREFORE, it is

RESOLVED: That the approved Fiscal Year 2014 CSWS, Southeast Project, Property Division, and Landfill Division Operating budgets be revised in the form presented and discussed at this meeting; and

FURTHER RESOLVED: That the Mid-Connecticut Post-Project Closure Reserve, the Bridgeport Post-Project Reserve, the Wallingford Project Closure Reserve expenses be revised; and

FURTHER RESOLVED: That for the purpose of paying the State mandated expenses the amount of \$460,000 be allocated to the following operating budgets and reserves in the respective percentages and amounts:

Description	Avg. 5 year % Allocation	Pro-rata Funding
Mid-Connecticut Post Project Closure Reserve	76.58%	\$ 352,000
CSWS Division Operating Account	6.69%	\$ 31,000
Wallingford Project Closure Reserve	5.82%	\$ 27,000
Property Division Operating Account	3.33%	\$ 15,000
Bridgeport Post Project Reserve	3.32%	\$ 15,000
Southeast Project Operating Account	2.35%	\$ 11,000
Landfill Division Operating Reserves	1.91%	\$ 9,000
Total	100.00%	\$ 460,000

Mr. Daley said CRRA needs to anticipate the costs of the expected Cohn Reznick bill for auditing services. He said it was his understanding that there was a proposed allocation put forward to the Board earlier in the year. Chairman Freedman asked if CRRA had received any bills or invoices for this matter. Mr. Daley replied no. Mr. Egan said there was an indication from the Deputy Commissioner of the Connecticut Department of Energy and Environmental Protection (hereinafter referred to as "CT DEEP") Macky McCleary that an invoice would be received after the auditing process is completed and is expected to be about \$460,000. Chairman Freedman said he had heard at the task force meetings that additional work may also be requested.

Mr. Daley said in July there was a proposal to allocate the \$500,000 based on CRRA's charges to the Authority budget over a five year period. He said the five year look back was done originally back from FY'12. Chairman Freedman said this item was tabled in July.

Mr. Daley said this resolution reduces the originally proposed amount from \$500,000 to \$460,000. He said the FY'13 audit was just completed and management now has a better understanding of what the auditors are looking at in terms of history. He said the five year look back period now incorporates FY'13, which captures the first year of CSWS which picks up the 6.7% at the top of this table, reducing the share from other projects and divisions.

Chairman Freedman asked what the logic is behind the five year look back period, and why it is spread across the various reserve accounts. Mr. Daley explained the auditors are looking at all CRRA activities and there is a reasonable expectation that all the projects being looked at contribute in some way. Mr. Duvall said CRRA has historically used five years to determine distribution and other expenses and this method is consistent with what has been used in other projects. He said 7 years can be used however; going further back would include more participation from the Wallingford and Bridgeport Projects.

Chairman Freedman asked how CRRA intends to pay for its own transition costs. Mr. Daley said the Board passed a \$350,000 budget in August for those costs. He said the funds will come from different reserves. Mr. Duvall said the Board originally passed a \$350,000 budget for those expected costs which was subsequently adjusted to \$400,000. He said the funds will come from the Solid Waste Future Development reserve which was fully funded this year. Mr. Duvall said the transition vendors will be paid by the funds from the property division and will not impact the towns' tip fees.

FRIENDLY AMENDMENT

Director Shanley asked that the resolution be amended to include a third resolve which provides management the authority to spend up to \$500,000 on audit costs using the same distribution calculation. Director Hayden, seconder of the motion seconded the amendment.

VOTE ON RESOLUTION AS AMENDED

Chairman Freedman requested a motion on the motion as amended. Director Shanley made the following motion which was seconded by Director Hayden.

WHEREAS, The State of Connecticut (the “State”) passed Section 7 of Public Act 13-285 which states that the Connecticut Resources Recovery Authority (the “Authority”) shall pay the total cost of various audits, provided such payments shall not exceed \$500,000; and

WHEREAS, This Board of Directors (the “Board”) adopted the Fiscal Year 2014 Budgets which did not anticipate that the State would require the Authority to pay up to \$500,000 in additional audit(s) expenses; and

WHEREAS, The Department of Energy and Environmental Protection (“DEEP”) awarded a contract in the amount of \$460,000 to perform these additional audit(s); and

WHEREAS, The Board now considers it prudent to revise the Connecticut Solid Waste System (“CSWS”) Operating Budget, the Southeast Project Operating Budget, Property Division Operating Budget, and Landfill Division Operating Budget and to revise the funds retained in the Mid-Connecticut Post-Project Closure Reserve, the Bridgeport Post-Project Reserve, and the Wallingford Project Closure Reserve to incorporate these additional audit(s) expenses; and

WHEREAS, The funding from each operating account and reserve will be based on the five year historical pro-rata average contribution to the Authority Budget for the most recent audited five year period (Fiscal Year 2009 through Fiscal Year 2013);

NOW THEREFORE, it is

RESOLVED: That the approved Fiscal Year 2014 CSWS, Southeast Project, Property Division, and Landfill Division Operating budgets be revised in the form presented and discussed at this meeting; and

FURTHER RESOLVED: That the Mid-Connecticut Post-Project Closure Reserve, the Bridgeport Post-Project Reserve, and the Wallingford Project Closure Reserve expenses be revised; and

FURTHER RESOLVED: That for the purpose of paying the State mandated expenses the current contracted amount of \$460,000 be allocated to the following operating budgets and reserves in the respective percentages and amounts; and

Description	Avg. 5 year % Allocation	Rounded (000)
Mid-Connecticut Post Project Closure Reserve	76.58%	\$ 352,000
CSWS Division Operating Account	6.69%	\$ 31,000
Wallingford Project Closure Reserve	5.82%	\$ 27,000
Property Division Operating Account	3.33%	\$ 15,000
Bridgeport Post Project Reserve	3.32%	\$ 15,000
Southeast Project Operating Account	2.35%	\$ 11,000
Landfill Division Operating Reserves	1.91%	\$ 9,000
Total	100.00%	\$ 460,000

FURTHER RESOLVED: That any additional authorized expense related to such DEEP additional audits be allocated to the above stated operating budgets and reserves in such respective percentages subject to the statutory not to exceed amount of \$500,000.

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

EXECUTIVE SESSION

Chairman Freedman requested a motion to enter into Executive Session to discuss updates on pending litigation. The motion was made by Director Shanley and seconded by Director Hayden. The motion previously made and seconded was approved unanimously by roll call. Chairman Freedman requested that the following people remain for the Executive Session, in addition to the Committee members:

Tom Kirk
Mark Daley
Peter Egan
Laurie Hunt

The Executive Session commenced at 11:33 a.m. and concluded at 12:16 p.m.

The meeting was reconvened at 12:16 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.

INFORMATIONAL

There was a brief discussion regarding informational items in the package including electricity production and pricing.

ADJOURNMENT

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

The meeting was adjourned at 12:28 p.m.

Respectfully submitted,

Moira Kenney
HR Specialist/Board Administrator