

**Finance Committee  
September 20, 2007 Regular Meeting**

**Draft Minutes**

Members Present: Mike Pace, Board Chairman  
James Francis, Committee Chairman  
Edna Karanian  
Mark Lauretti (Present by telephone beginning at 10:20 a.m. ending 11:18 a.m.)  
Theodore Martland  
Raymond O'Brien

Board Member Present: Linda Savitsky

CRRA Staff Present: Tom Kirk, President  
Jim Bolduc, Chief Financial Officer  
Bettina Bronisz, Assistant Treasurer & Director of Finance  
Robert Constable, Controller  
Peter Egan, Director of Environmental Affairs  
Lynn Martin, Risk Manager  
Nhan Vo-Le, Director of Accounting Services  
Moira Kenney, Secretary to the Board/Paralegal

Also present: Lisa Janney, Gerard McStravick, and Kenneth Ayers of AON, and Scott Trenholm and Mike Vandeventor of Carlin, Charron & Rosen, LLP

Chairman Francis called the meeting to order at 9:32 a.m. and noted that there was a quorum.

Chairman Francis requested that everyone stand for the Pledge of Allegiance whereupon the Pledge was recited.

**1. APPROVAL OF MINUTES OF THE JULY 19, 2007 FINANCE COMMITTEE MEETING**

Chairman Francis requested a motion to accept the minutes of the July 19, 2007 Finance Committee meeting. The motion was made by Vice-Chairman O'Brien and seconded by Board Chairman Pace.

Vice-Chairman O'Brien asked management for an update regarding compliance on the conditions of obtaining a rebate regarding profit sharing. Mr. Kirk responded that a combination of both the honor system and a statistical average (to compare what the towns are expected to have versus what they actually produce) will be utilized to determine which towns are eligible for the rebate.

Mr. Kirk went on to explain that a handful of towns believe they have the right to remove junk paper from their project commitment and sell it privately. Correspondence to the towns will make it clear that the rebate is conditional upon receipt of all of the town's recyclables, (including junk mail). The standards which determine whether a town is eligible for the rebate are outlined in an arrangement that the Board approved which includes all of the recyclables under the town's control.

The National Recycling Council has been brought in to help with cities such as Hartford, where absentee landlords who don't put out recycling bins can cause a reduction in the amount of recycled items. Chairman Pace asked what a resident with an absentee landlord is to do in order to recycle. A possible solution broached by Mr. Kirk is the idea of a pilot program to explore single stream recycling program.

Director Karanian inquired if there are existing towns that have found single stream recycling to be successful. Mr. Kirk replied that those cities meeting with success are most often found in the U.S. Mid-West, and are often ones in which municipal recycling is firmly in government hands. These cities have a municipal commitment to recycling.

Director O'Brien asked for clarification on single stream recycling. Mr. Kirk explained that in single stream recycling one garbage truck picks up paper and containers, which is then sorted out by item at the facility. The difference between single stream recycling and current recycling is the size of the recycling bin in single stream, it is much larger and encourages more recycling. Much more volume and a greater menu of recyclables can be collected with the larger bins, and a greater menu of recyclables can be handled with single stream recycling.

Chairman Pace asked why a method of removing refundable cans from recyclables isn't employed for profit, and to offer a possible avenue of employment for the handicapped. Mr. Kirk explained that years ago a study on the costs of separating the material in order to obtain the funds was not found to be favorable due to the costs. Mr. Kirk explained that CRRA currently employs developmentally disabled people to do ground maintenance. Mr. Kirk stated that he will work with Recycling Director, Tom Gaffey to revisit the costs.

The motion previously made and seconded was unanimously approved. Chairman Pace abstained.

2. **RESOLUTION OF CONNECTICUT RESOURCES RECOVERY AUTHORITY BOARD OF DIRECTORS REGARDING THE PURCHASE OF COMMERCIAL GENERAL LIABILITY, UMBRELLA LIABILITY, POLLUTION LEGAL LIABILITY AND COMMERCIAL AUTOMOBILE LIABILITY INSURANCE**

Chairman Francis requested a motion on the above-captioned matter. Director Martland made the following motion:

**RESOLVED:** That CRRA's Commercial General Liability insurance be purchased from Ace (Illinois Union Insurance Company) with a \$1,000,000 limit, \$50,000 deductible for the period 10/1/07 – 10/1/08 for a premium of \$258,898 as discussed at this meeting; and

**FURTHER RESOLVED:** That CRRA's \$25 million Umbrella Excess Liability insurance be purchased as follows: \$10 million from Everest National Insurance Company for a premium of \$129,948 and \$15 million from Allied World Assurance Company for a premium of \$76,500 for the period 10/1/07 – 10/1/08 as discussed at this meeting; and

**FURTHER RESOLVED:** That CRRA's Pollution Legal Liability insurance be purchased from Ace (Illinois Union Insurance Company) with a \$20 million limit, \$1 million retention for the period 10/1/07 – 10/1/08 for a premium of \$344,666; and

**FURTHER RESOLVED:** That CRRA's Commercial Automobile Liability insurance be purchased from Ace American Insurance Company with a \$1 million limit, comprehensive and collision only on eight vehicles with a \$1,000 deductible, for the period 10/1/07 – 10/1/08 for a premium of \$65,000.

The motion was seconded by Director Karanian.

Mr. Bolduc informed members present that a year ago CRRA struggled to find new coverage after AIG pulled out at the last minute. There was also a change to a new brokerage firm, AON, who was able to get CRRA at least one quote. He expressed his satisfaction with AON's procurement of possible insurance solutions.

Ms. Martin introduced the members of the AON team who then provided Board members with a synopsis on their procurement process.

AON recommended Ace for general liability, pollution legal liability, and auto liability, and Everest and Allied World Assurance (AWAC), for the umbrella policy.

Ms. Janney explained to the Board that thirteen markets were explored for the best price and quality. Ace offered general liability, auto liability and a \$25 million umbrella for a premium of \$612,648. Liberty Mutual offered a general liability policy and an auto policy but did not quote on the umbrella. AON found alternative umbrella markets (Everest and Allied World Assurance) to complete the program for a premium of \$548,007. Everest and AWAC agreed to sit on top of Ace's general liability and auto, bringing that overall premium down to \$530,346. The only quote for pollution legal liability was from Ace for \$344,666. Based on these figures AON recommends Ace on general liability, auto and pollution legal liability and Everest and AWAC on the umbrella for a total premium cost of \$875,012, an 18% decrease over last year's total premium.

Ms. Janney informed the committee that Everest and Allied World Assurance are non-admitted companies, which means that the State Guaranty Fund will not back them up if they have financial problems.<sup>1</sup> However, Ace, Liberty Mutual, Everest, and Allied World Insurance are all "A" rated by A.M. Best (a Nationally Recognized Statistical Rating Organization). She also explained that Liberty Mutual required a \$50,000 cash deposit up front as security for the \$50,000 deductible.

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<sup>1</sup> Subsequent investigation revealed only Allied World Insurance is a non-admitted company

Chairman Francis asked Ms. Martin why only five vehicles were covered for physical damage in the past in comparison to eight vehicles with this proposal. Ms. Martin explained that several older vehicles had been sold and all the newer vehicles would need coverage for physical damage.

Director Martland asked Ms. Janney why CRRA hadn't taken the low bid offered on auto insurance. Ms. Janney explained that no insurer would write stand-alone auto insurance.

Chairman Pace felt that the additional \$30,000 in order to secure admitted insurance companies was acceptable. Director Martland was in opposition and felt that AONs' diligence in monitoring the companies ratings was sufficient. After some discussion by the Board over why Everest and Allied World Assurance are non-admitted companies, the Committee agreed to accept the resolution as outlined in the package. Chairman Pace asked that the condition of the companies be reported every three months.

Mr. Ayers told the Board that Ace's newly acquired coverage for pollution legal liability has expanded to cover the jet fuel tank, and to cover the former property.

A roll call vote was taken and the motion passed unanimously

**3. REVIEW AND RECOMMEND FOR BOARD APPROVAL AND ENDORSEMENT FY '07 AUDIT FINANCIAL STATEMENT**

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

**RESOLVED:** That the Board hereby approves and endorses the Annual Financial Report for the fiscal Year Ended June 30, 2007, substantially as discussed and presented at this meeting.

Vice-Chairman Martland seconded the motion.

Mr. Bolduc gave the committee a review of the key points of the audit, stressing the large amount of work required to complete a project of such magnitude. The final report is still in draft form except for a few minor changes, but the document submitted to the Board at next Thursday's Board meeting will be final.

Ms. Vo-Le informed the committee that she is pleased to present an accurate and timely report. She and her accounting team were praised by the Committee members, CRRA President and the CFO, as well as the accounting firm for their hard work and meticulous attention to detail.

Mr. Trenholm explained that the "Independent Auditors' Report" covers the financial reports, footnotes, and supplementary information such as the Management Discussion and Analysis. Mr. Trenholm reviewed the report in detail, noting that there is a delineation of

responsibility with the financial statements being the responsibility of management and the opinion based upon those financial statements is the responsibility of CRRA as the auditor. Mr. Trenholm stated that CRRA was issuing an unqualified opinion, which extends to the attached schedules detailing the balance sheets of each project.

Mr. Trenholm referred the Committee to the report on Internal Control over Financial Reporting and Compliance on other Matters. Mr. Trenholm explained that this report, required by government auditing standards, requires the auditor to report any weaknesses with regard to control over financial reporting and to report any non-compliance of laws or regulations. Mr. Trenholm said that CRRA came across six matters that are reportable conditions. The first matter discussed is the \$54 million debt defeasance. The second matter, Enron related lawsuit settlements, discussed settlements in Enron related lawsuits which resulted in gains. The third matter discussed was the New Hartford Judgment. The fourth matter discussed a settlement for \$1.15 million for land acquired by the Authority. Director Karanian asked why the New Hartford judgment is shown as a loss on the financial statements if the final judgment hasn't been made. Mr. Trenholm explained as far as the CRRA is concerned the term reflects a loss until the appeal is won. At the urging of the committee Mr. Trenholm, Mr. Kirk, and Mr. Bolduc will work together to revisit the term to more accurately represent the situation.

The fifth matter discussed the Mid-Connecticut Project Settlement, which pertained to the \$500,000 amount credited or to be paid to CRRA over six years. It has been recorded as its' present value in the financial statement. MDC had never responded to confirmation of payable balance, when they finally sent back a reply to confirmation showing it as accounts receivable, they came back with an amount significantly lower than what CRRA's books reflected. The difference related to the 2001 balance rolled forward each year.

The sixth and final matter is the City of Hartford agreement. The Authority's agreement with the city resulted in significant changes in the estimated post closure care costs associated with the Hartford landfill. Approximately \$11.9 million has been recorded as a liability and related expenses recorded in statement of operations to the Authority. Permit changes also increased the amount of the estimate, the expenses were \$33 million, and \$600,000 is associated with permit changes cost attributable to the city of Hartford.

Mr. Trenholm stated that the second half of the letter concerns compliance with laws and regulations governing reporting and said that CRRA did not find any non-compliance in the course of the audit.

Mr. Trenholm gave an overview of the compliance letter that discloses any non-compliance with the Mid-Connecticut Bond Indenture, in which he noted that CRRA did not find anything that showed that the Authority failed to comply with the terms, covenants, provisions, or conditions of the resolution authorizing the issuance of the Mid-Connecticut bonds.

Mr. Trenholm reviewed the Required Communication Letter in detail, fully explaining each section and reviewing significant events. In this discussion, Mr. Trenholm noted that there were no disagreements with management on matters of accounting or auditing.

Mr. Trenholm reviewed with the Committee what will be expected within the management letter. There are a couple of prior matters which will be in this years' letter. The

first is the designation of unrestricted net assets. The summarization of the break down of the unrestricted net assets which the board has made over the years is shown. The issue lies in the designations that have been made in the Mid-Conn and Bridgeport project, which are in excess of the amount of undesignated assets left to assign. This will be in the letter because ideally net assets you don't have can't be assigned. The Committee will need to address this issue at next months' Finance Committee meeting when reserves are viewed.

Mr. Kirk explained the Bridgeport issue is problematic, as there is only \$900,000 in unrestricted net assets. This will become problematic in the 2009 fiscal year when the Bridgeport project costs need to be captured, and when bills come that CRRA won't have funds available for. Mr. Bolduc informed the Committee he felt a stub audit be done in that period to stave off questions going forward.

Mr. Kirk added participating towns may want to consider the benefits (should the towns choose renewal of a contract) with the excess payments spread out last over 6 months. The tip fee will be going up, perhaps substantially, another option is to take the tip fee increase and spread it out over a longer term.

Mr. Trenholm informed the committee that an update will be made with regard to segregation of duties, a project which management is currently addressing.

The motion previously made and seconded was unanimously approved.

4. **REVIEW AND RECOMMEND FOR BOARD APPROVAL CREATING A BOARD DESIGNATED RESERVE**

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

**WHEREAS**, according to the Order of the Superior Court dated September 7, 2007, in the matter of the Towns of New Hartford and Barkhanstead v. Connecticut Resources Recovery Authority, investment income ("the Escrow Investment Income") on the sum of (A) \$35,873,732.25 and (B) the interest accrued on such a sum from June 19, 2007 to September 7, 2007 (the sum of the amount described in (A) and this (B), collectively, the "Escrowed Funds") is thereafter free from prejudgment attachment and is available for disposition by the Connecticut resources Recovery Authority (the "Authority"); and

**WHEREAS**, the Authority now has outstanding under its resolution adopted March 13, 1985 as supplemented and amended (the "Bond Resolution") \$27,954,898 in debt, consisting of \$15,290,000, Mid-Connecticut System Bonds, 1996 Series A and \$12,664,898 Subordinated Indebtedness owing to the State; and

**WHEREAS**, the Authority anticipates that it will from time to time realize additional funds as a result of further settlements of litigation relating to its prior transactions with affiliates of Enron corporation; and

**WHEREAS**, the Board of Directors of the Authority (the “Board”) had determined to confer upon senior management of the Authority, acting with the advice of the counsel, discretion as to when, which and what amounts of the escrow Investment Income, additional funds received in the settlement of litigation and other unrestricted funds to the credit the Authority’s General Fund under the Bond Resolution (collectively, “Available Funds”) shall be transferred to a reserve created hereby to provide for the circumstance that the Authority shall be required by a final, non-appealable order of a court of competent jurisdiction to pay additional amounts as interest on the Escrowed funds and for associated legal expenses for which other funds may not be available;

**NOW THEREFORE**, it is

**RESOLVED:** That there is hereby a reserve (the “reserve”) in the General fund of the Authority under the Board resolution the sums to the credit of which shall be conserved for the circumstances that the Authority shall be required by a final, non-appealable order of a court of content jurisdiction to pay additional amounts as interest on the Escrowed Funds and for up to \$800,000 of associated legal expenses for which other funds may not be available; and

**RESOLVED:** That the Board hereby authorizes the President and the Chief Financial Officer of the Authority (the “Officials”), acting with the advice of counsel, in their discretion, to determine from time to time when, which and what amounts of the Available funds shall be transferred to the Reserve for application as the Board may determine.

Director Martland seconded the motion.

Mr. Bolduc provided some background information to the committee. The courts’ decision was \$35.8 million, which came in from settlements with Hawkins, Delafield & Wood; Murtha, Cullina, and other law firms. The judge also previously specified funds to be held by the State Treasurer. The court decision allows approximately \$2 million in excess of the \$35.8 million plus the interest from the June 19<sup>th</sup> date to be released to the Authority.

There was a hearing on the FY ’08 budget which dealt with roughly \$800,000 of legal costs for bank settlements costs which related to money needed by Pepe & Hazard to pay potential experts on the Global Bond Suits, which was in CRRA’s \$69 FY ’08 tip fee. The court said the Authority couldn’t charge any Enron related dollars after the budget had already been adopted, which created a problem. Pepe and Hazard and the Attorney General needed money to pay the experts; the question was where it would come from.

Pepe & Hazard suggested taking the money out of the extra funds from the Treasurers’ account. Mr. Bolduc reminded the firm that was a judgment strictly determinable by the Board. Pepe & Hazard also pointed out that there is the potential in state stature that the Authority could be subject to a post judgment interest rate of 10%. Mr. Bolduc explained that the accountants had already started an accrual on the books, and we needed to avoid getting stuck with an accruing liability without putting adequate funds aside.

Chairman Francis pointed out that if CRRA loses the appeal, it will end up paying the 10%, if similar recently decided cases are any indication. Director Martland inquired as to the rate of return currently earned, which Mr. Bolduc informed the Committee is approximately 5%.

Vice-Chairman O'Brien repeated that he prefers a final decision on this resolution be held off on until the next Finance Committee meeting. Mr. Bolduc asked Vice-Chairman O'Brien if he would be comfortable with removing the funds out of the Treasurers' account to a separate Stif account. Vice-Chairman O'Brien agreed too as long as the money was not placed in a specific reserve, and be placed in the undesignated account. Mr. Bolduc agreed to modify the resolution.

## **5. EXECUTIVE SESSION**

Chairman Francis requested a motion to enter into Executive Session to discuss pending litigation with appropriate staff. The motion made by Director Martland and seconded by Director Karanian was approved unanimously. Chairman Pace requested that the following people be invited to the Executive Session in addition to the Committee members:

Director Savitsky  
Tom Kirk  
Jim Bolduc

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

The Executive Session began at 11:43 a.m. and concluded at 12:30 p.m. Chairman Francis noted that no votes were taken in Executive Session.

The meeting was reconvened at 12:32 p.m.

## **ADJOURNMENT**

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

The meeting was adjourned at 12:34 p.m.

Respectfully submitted,

Moira Kenney  
Secretary to the Board/Paralegal