

CONNECTICUT RESOURCES RECOVERY AUTHORITY

SUBMISSION PURSUANT TO C.G.S 22a-261

FINANCIAL MITIGATION PLAN

FOR FISCAL YEAR 2004

Submitted to:

Treasurer,
State of Connecticut

Secretary, Office of Policy and Management
State of Connecticut

May 5, 2003

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The Honorable Denise Nappier
Treasurer
State of Connecticut
55 Elm St.
Hartford, CT 06106

Secretary Marc Ryan
Office of Policy and Management
State of Connecticut
450 Capital Ave., MS55SEC
Hartford, CT 06106

Re: Notice Pursuant to C.G.S. 22a-261, as amended
An Act Concerning the Connecticut Resources Recovery Authority and Prohibiting
Quasi-Public and State Agencies from Retaining Lobbyists
FINANCIAL MITIGATION PLAN

Dear Madame Treasurer and Secretary Ryan:

This Plan is provided to satisfy the requirement of Section 22a-261 of the Connecticut General Statutes, as amended (the "Statute"), that the Connecticut Resources Recovery Authority (the "Authority") submit a Financial Mitigation Plan (the "Plan") for approval by the State Treasurer (the "Treasurer") and the Secretary of the Office of Policy and Management ("Secretary" and "OPM"). Pursuant to the Statute, the Authority may borrow an amount up to one hundred fifteen million dollars (\$115,000,000) from the State of Connecticut (the "State"). This Plan is a formal request for up to \$22 million to be loaned from the State to the Authority for the fiscal year ending June 30, 2004. It is expected that any borrowings from the State will result in a loan to be amortized through January 2013 generally by level payments of principal and interest, all in compliance with a Master Loan Agreement to be entered into between the State and the Authority.

Section 3 of the Statute provides that the Financial Mitigation Plan include the following:

"...Such financial mitigation plan shall include information detailing the efforts that the authority has made to reduce the amount necessary to borrow from the state, including, but not limited to, the reduction of general administration and costs, renegotiation of vendor contracts, efforts to increase the price paid for the sale of steam or electricity, and efforts to assess the viability of the sale of hard assets of the project. In addition, the authority shall provide the State Treasurer and the Secretary with its proposed budget for the ensuing fiscal year, a three year financial plan, a cash flow analysis showing the need for the current and projected future borrowings, and the most recent certified audit of the authority."

In order to satisfy the foregoing requirements, attached as part of this Plan are the following exhibits:

- Exhibit A Plan To Minimize Tipping Fees For Municipalities
- Exhibit B Authority Efforts To Reduce Administrative Costs
- Exhibit C Authority Efforts To Renegotiate Vendor Contracts
- Exhibit D Authority Efforts To Increase Electricity And Steam Revenues
- Exhibit E Authority Efforts To Assess Viability Of The Sale Of Hard Assets
- Exhibit F Adopted Mid-Connecticut Budget For Fiscal Year 2004 and Three Year Financial Plan
- Exhibit G Cashflow Analysis Through Fiscal Year 2006
- Exhibit H Certified Audited Financial Statements For Fiscal Year 2002

In addition to the required exhibits, included as Exhibit I are the resolutions of the Authority's Board of Directors approving the Financial Mitigation Plan and request of the \$22 million loan from the State. Also included as Exhibit J is the Authority's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002.

Executive Summary of the Proposed Loan Drawdown

The Authority is a statewide quasi-public solid waste management authority created by the General Assembly in 1973. The Authority owns a waste-to-energy facility in Hartford called the Mid-Connecticut project, which generates approximately 445 megawatt hours of power each hour and processes approximately 790,000 tons of municipal solid waste per year.

On December 2, 2001, the Authority was informed that Enron Power Marking, Inc. ("Enron") had declared bankruptcy. This was significant in that the Authority had entered into a tri-party agreement with Enron and the Connecticut Light & Power Company ("CL&P") with regard to its Mid-Connecticut project on December 22, 2000. Among other things, the agreement obligated Enron to pay the Authority \$2.2 million per month in steam capacity charges and \$175,748 per month in Operations and Maintenance Fees until 2012. The impact to the Authority of the loss of these revenues is material, as illustrated on the following table:

ENRON PAYMENTS TO CRRA				
Payment Date	Steam Capacity Payments	Electricity Sales Revenues	Expenses	Monthly Total
Apr-01	\$ 2,200,000	0 *	\$ 175,748	\$ 2,375,748
May-01	2,200,000	\$ 1,258,048	175,748	3,633,796
Jun-01	2,200,000	652,903	175,748	3,028,651
Jul-01	2,200,000	0 *	175,748	2,375,748
Aug-01	2,200,000	1,122,167	175,748	3,497,915
Sep-01	2,200,000	1,219,301	175,748	3,595,049
Oct-01	2,200,000	1,153,496	175,748	3,529,244
Nov-01	2,200,000	1,119,991	175,748	3,495,739

* During these periods, CL&P purchased electricity from the Authority instead of Enron, per closing documents.

Currently, the Authority has three series of bonds outstanding for its Mid-Connecticut project:

CRRA – Summary of Mid-Connecticut System Bonds as of March 1, 2003					
Bond Series	Original Par Value (\$000)	Currently Outstanding Par Value (\$000)	Credit Enhancement Security	Original Moody's/S&P Rating	Current Moody's/S&P Rating
1996 Series A	\$ 209,675	\$ 179,775	MBIA/SCRF	Aaa/AAA	Aaa/AAA
1997 Series A	8,000	4,000	MBIA/SCRF	Aaa/AAA	Aaa/AAA
2001 Series A	13,210	13,210	Subordinated	A2/A	Baa3/BBB

Monthly debt service requirements for these bonds total approximately \$2.2 million. The final maturity of the bonds is November 15, 2012.

These bonds are supported by contracts backed by the full faith and credit of the Mid-Connecticut project member towns and two are additionally secured by the State's Special Capital Reserve Fund ("SCRF"), as noted, as a further pledge to bondholders, in addition to municipal bond insurance. The third - the 2001 Series A Bonds - are subordinate debt that is not secured by the State's SCRF and do not carry municipal bond insurance. As such, they have received downgrades from both Moody's Investors Service and the Standard & Poor's Corporation as a direct result of the loss of Enron revenues to apply toward debt service. Both rating agencies have expressed concern with the ability of the Authority to set tipping fees for the Mid-Connecticut project at a level sufficient to cover its debt service, as required by the Mid-Connecticut bond resolution. With the loss of the Enron payments, the Authority has been forced to draw down on reserves related to the Mid-Connecticut project to fund operations in order to meet the Mid-Connecticut debt service obligations.

On December 31, 2002, the Steering Committee Report to the Board of Directors and the Connecticut General Assembly was released in compliance with the Statute. The Steering Committee Report contained a plan to restructure the Authority and presented a financial model to alleviate the pressure on the member towns of the Mid-Connecticut project and the State. This Financial Mitigation Plan details the Authority's plan to minimize tipping fees for the Mid-Connecticut project municipalities; its efforts to reduce administrative costs; its efforts to renegotiate vendor contracts; its efforts to increase electricity and steam revenues; and its efforts to assess viability of the sale of hard assets. In addition, the required financial models, budgets and audits are included.

The Authority started fiscal year 2003 on July 1, 2002. At that time, the Authority had over \$19.0 million in Mid-Connecticut project-related reserves and other surplus accounts (excluding the debt service reserve fund and SCRF accounts dedicated to support debt service on the Mid-Connecticut project bonds) that were used to mitigate the cashflow drain from the Mid-Connecticut project. In addition, through its contractual arrangement with CL&P and Enron for electricity sales, CL&P provided \$7.8 million in escrowed electricity revenues in March 2003. With the loss of both the monthly Enron steam capacity and O&M payments – representing approximately 30% of Mid-Connecticut's monthly revenues - the Authority's reserve utilization is approximately \$2.4 million per month. Without State support, the remaining available reserve funds of the Mid-Connecticut project are projected to be depleted by July 2003.

On February 27, 2003, the Board of Directors of the Authority adopted the fiscal year 2004 Budget for the Mid-Connecticut project, which included a tip fee of \$63.75 per ton – an increase of nearly 12% over the previous fiscal year. The budget incorporates a concerted effort by the Board to incorporate cost-saving measures but nonetheless utilized monthly loan drawdowns from the State-authorized \$115 million loan. The fiscal year 2004 Mid-Connecticut budget contemplates the use of \$18.4 million in loan drawdowns in support of the Authority's debt service obligations.


In conjunction with yearly tip fee increases and potential other sources of revenues, the monthly and yearly loans required from the State may diminish over the years. The Authority has projected the use of \$1.5 million in State loans for the balance of fiscal year 2003; \$18.4 million in State loans for fiscal year 2004; \$8.2 million in State loans for fiscal year 2005; and \$6.5 million in State loans for fiscal year 2006. Full repayment of these loans will occur from the drawdown date through January 2013. Notwithstanding the current projected use of State funds in 2005 and 2006, additional deliberations and decisions by the Authority's Board regarding tip fees and required loan terms may modify this projection.


It must be noted that the Authority has developed and oversees three other waste-to-energy projects in the State located in Bridgeport, Preston and Wallingford. None of the revenues, reserves or cashflows from these projects may be used to mitigate the financial strain that the Mid-Connecticut project is facing. All four projects are distinct and stand-alone projects from a financial perspective. The Authority is not permitted to use project funds from one project to support another project.

The Authority gratefully acknowledges the cooperation and support of both the Office of the State Treasurer and the OPM with developing the terms of the Master Loan Agreement and the cashflow models.

Dated: May 5, 2003

Respectfully Submitted On Behalf
of the Connecticut Resources Recovery Authority

By: 
Michael A. Pace
Chairman

By: 
Thomas D. Kirk
President


By: 
James P. Bolduc
Chief Financial Officer

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PLAN TO MINIMIZE TIPPING FEES FOR MID-CONNECTICUT MUNICIPALITIES

The Steering Committee Report to the Board of Directors and the Connecticut General Assembly submitted pursuant to Public Act 02-46, filed in December 2002, required a plan to minimize tipping fees for the Connecticut municipalities that utilize the Mid-Connecticut project. This Report detailed several approaches to mitigate the effect of the Enron loss on the Mid-Connecticut, which totals over \$26.4 million per year (or approximately 30% of annual Mid-Connecticut project revenues). However, these approaches, even if successful and taken in total, would not be enough to fill the budget gap. The Connecticut Legislature responded by providing a loan in an amount not to exceed \$115 million with the expectation that the loan would be used to help minimize the financial impact on the Mid-Connecticut project municipalities.

Tip fees to the municipalities are being minimized in the short term due to two factors: (1) cost reductions and (2) the Mid-Connecticut project maintained healthy reserve balances. These factors, in conjunction with a maximum \$115 million State loan would be utilized to minimize the tip fee impact on the municipalities over the longer term.

The Steering Committee Report anticipated yearly increases based upon the aforementioned assumptions and facts. Due to continued contractual disputes with the current operator of the Mid-Connecticut facility and larger than anticipated legal expenses in connection with the Enron bankruptcy, the Board was compelled to increase the tip fee for fiscal year 2004 by 12%, an increase larger than previously anticipated and projected. Tip fee increases for future years are now expected to be significantly higher than previously projected, as a result of the more stringent debt repayment terms that may be required by the State lending authorities.

In assessing the tip fee levels, the Authority considers many elements including:

- Debt service payments on outstanding debt. Currently, the annual debt service obligation of the Authority on its Mid-Connecticut debt is over \$26.0 million. Any debt service decrease accomplished through an economic refunding would have a direct impact on the expenses of the Authority.
- Impact of tip fee increases on the towns. This is a very difficult year for all Connecticut towns completing their fiscal year 2004 budgets in light of the State fiscal crisis and current projections for 2005 are expected to be equally difficult.
- Estimates of solid waste volumes. There is an inverse relationship between tip fees and solid waste deliveries as price elasticity impacts delivery volumes. It is critical to find a proper balance of price and deliveries in order to still attract enough waste volume to generate the revenue required. Historically, tip fee levels were at a below market level, such that some level of future increases can be implemented without negatively impacting waste volume.

- Estimates of recycling volumes. Currently, the Authority does not impose a charge for its recycling activities; however future economic and financial conditions may warrant a charge.
- Electricity revenues. The Authority may be able to increase electricity revenues from renegotiating its electricity contract (currently the Authority receives 3.2¢ per kilowatt hour, escalating to 3.3¢ on January 1, 2004) and the use of our electric supplier's license and acceptance into NEPOOL (the New England Power Pool), which will allow the Authority to sell its power on a wholesale basis into the electric power grid or a bilateral agreement with other NEPOOL electric suppliers.
- Municipal Solid Waste Contracts with Municipalities. The future operation of the Mid-Connecticut project is considered as contracts with municipalities start to expire in 2012.
- Operations and maintenance contracts associated with the Mid-Connecticut facility. Several of the programs and functions at the Mid-Connecticut facility are performed under contracts that are a premium to market and could be readily accomplished at a lower cost. The Authority is actively seeking to reduce these costs, which impact the tip fees directly and substantially.

The Mid-Connecticut project was fortunate to have amassed significant reserves. As noted by Moody's, these reserves were able to keep the project (and rating) afloat during critical periods when the Authority did not receive monthly electricity revenues from CL&P. At the time of the Enron bankruptcy, the Revenue Fund of the Mid-Connecticut project had a balance of approximately \$10.1 million. All revenues of the project are deposited monthly into the Revenue Fund. Without the \$2.2 million steam capacity payments coupled with the loss of the actual electricity sales from Enron, this fund balance was depleted in April 2002. Subsequently, monthly transfers from other Mid-Connecticut reserves began in order to cover operating expenses and debt service payments.

Three other sources of funds were identified (not including the debt service reserve fund or State-backed SCRF funds) to augment the diminished cashflow of the Mid-Connecticut project. These funds totaled \$25.6 million at April 2002 and were used to mitigate the monthly cashflow deficiencies of the project. These funds are projected to be exhausted by June 2003, at which point, the monthly cash flow deficits are expected to be augmented by the loans from the State. The loans can only be used to support debt service payments on the outstanding Mid-Connecticut bonds, which total \$2.1 million per month.

The Authority's working financial recovery model currently contemplates tip fee increases augmented by State loans to mitigate the monthly cashflow deficiencies. In addition, the Steering Committee Report identifies other potential sources of revenues that would be applied either toward mitigating the tip fee increases or repaying the State loan. These include:

Bottle Escheats

The Authority supports escheats legislation that would distribute the unclaimed bottle and can deposit revenue of an estimated \$16.4 million to all Connecticut municipalities, including the

Authority's Mid-Connecticut project towns. The Mid-Connecticut Project towns are projected to receive approximately \$5.6 million, pro-rated, based upon population.

Authority Chairman Michael Pace, Vice Chairman Stephan Cassano, other Board Members and President Thomas Kirk testified on March 14, 2003 before the Environment Committee regarding Senate Bill 1030, An Act Concerning the Escheat of Unclaimed Beverage Container Deposits, which would return the revenue to the State. The bill was subsequently referred to the Finance, Revenue and Bonding Committee where it currently resides.

Elimination of Dioxin Tax

Section 22a-232 of the Connecticut General Statutes requires that owners of Resources Recovery Facilities ("RRF") pay the Connecticut Department of Environmental Protection \$1 per ton of solid waste processed as a "solid waste assessment." This Statute became effective October 1, 1987. The funds collected go into the "solid waste account", per Section 22a-233 of the Statutes, to be used for activities which include: (1) pollution prevention, (2) stack testing for dioxin and furan emissions, (3) preoperational and post-operational testing for dioxins and furans in the ambient air, soil, surface waters and biota in the area of existing or proposed resources recovery facilities, (4) residue testing, (5) leachate testing for dioxins and furans at resources recovery residue disposal sites, (6) inspection and enforcement, (7) operator and inspector training, and (8) staffing necessary to carry out such activities.

There are seven municipal waste combustion facilities in Connecticut subject to this "Dioxin Tax." (The facility in Sterling processes tires exclusively, but is regulated as a municipal waste combustor ("MWC")). The following table lists the approximate tonnage of municipal solid waste processed at these facilities during a 12-month period, the associated fee each facility pays for the tonnage it processes and the maximum reimbursement for which each MWC is eligible.

Facility/ Location	Annual Tonnage Processed	Annual Dioxin Tax	Number of Combustion Units	Maximum Allowable Reimbursement
CRRA/Hartford	668,950	\$668,950	3	\$82,500
CRRA/Wallingford	145,665	\$145,665	3	\$82,500
CRRA/Bridgeport	722,500	\$722,500	3	\$82,000
CRRA/Preston	247,094	\$247,094	2	\$55,500
Bristol RRF/Bristol	194,290	\$194,290	2	\$55,500
Wheclabrador/Lisbon	178,707	\$178,707	2	\$55,500
Exeter Energy/Sterling	108,616	\$108,616	2	\$55,500
Total	2,265,822	\$2,265,822	17	\$469,500

Section 22a-233a of the Statutes requires that any cost associated with testing air emissions from a resources recovery facility shall be paid from the "solid waste account," not directly by the owner of the resources recovery facility, provided the owner pays for certain other costs (DEP weather monitoring, initial emissions performance testing prior to permitting, emissions performance testing following modification of the facility, emissions performance testing if DEP suspects permit violation).

From at least 1993 through 2000, the DEP conducted annual air emissions testing of the resource recovery facilities in the State, with DEP staff performing the testing for dioxin/furans and ten metals (arsenic, beryllium, cadmium, chromium, copper, lead, manganese, mercury, nickel and zinc). The Dioxin Tax was used to fund the DEP's emission testing activities.

The DEP's Source Emission Monitoring Group ceased performing emissions testing on municipal waste combustor facilities in 2000, and entered into contracts with each MWC for reimbursement of the costs associated with this annual emissions testing. The DEP's contract limits reimbursable expenses to \$25,000 per combustion unit plus a 10% contingency.

Therefore, the Authority estimates that elimination of the \$1.00 per ton dioxin tax would result in net annual Authority savings of approximately \$586,450.

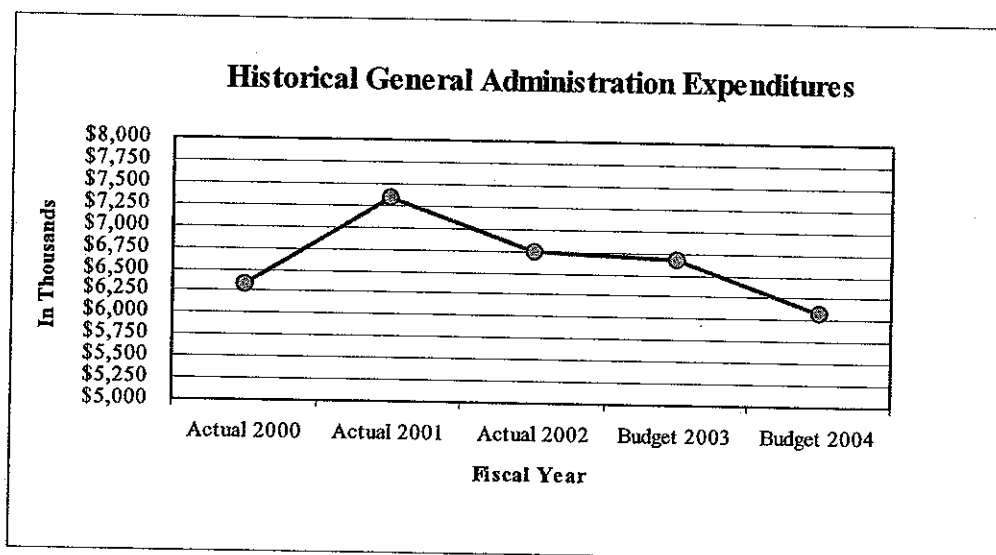
Enhancing Interest Income

The funds of the Authority are wholly invested in the State Treasurer's Short Term Investment Fund ("STIF"). The Cash Management Division of the State Treasurer's Office manages the STIF. Created in 1972, STIF serves as an investment vehicle for the operating cash of the State Treasury, state agencies and authorities, municipalities, and other political subdivisions of the State.

The Authority had a total of \$130.1 million Mid-Connecticut funds invested in STIF as of December 31, 2002. The current rate of STIF is 1.44%. One of the benefits of the STIF account is the daily liquidity of the fund, which provides flexibility in the Authority's treasury and accounting functions. The Authority is presently completing a reserve fund and investment analysis to identify funds and accounts that could be invested in longer-term instruments in accordance with the Authority's Investment Policy and Indenture requirements. It is premature to quantify the exact additional interest income that will be realized. However, a conservative estimate on the Mid-Connecticut funds alone indicates that potential increased interest income could be approximately \$425,000 per year (\$85 million at a 50 basis point improvement.)

AUTHORITY EFFORTS TO REDUCE ADMINISTRATIVE COSTS

As part of the Authority's plan to mitigate the loss of energy revenues to the Mid-Connecticut Project, Administrative expenditures have been reduced, as graphically summarized below:



Direct reductions were made to the Mid-Connecticut administrative budget for an additional \$137,000 for fiscal year 2003. The reductions were derived from the itemized list below:

- Non-Personal Services – reduced number of copiers, enter lower cost service plans for copiers/phones, advertising, business meetings; eliminate corporate giving and various contractual and miscellaneous services
- Capital Outlay - elimination of various office and computer-related purchases
- Personal Services - elimination of bonus and market adjustment pools mandated by previous policy; elimination of four vacancies; combination of four positions; postponement of vacancy fulfillment
- Eliminate lobbyist expenses
- Reduce use of outside consultants
- Limit public education expenses such as radio ads
- Implement policy changes for tighter controls on employee expenses
- Assume more services to be performed in-house (copying/duplication)
- Reduce general office expenses (supplies)

As shown in the above graph, the fiscal year 2004 budgeted Administrative expenditures were further reduced by 8.8%, as compared to the adopted fiscal year 2003 budget. Of these reductions, approximately 75%, or an estimated \$440,000, would have been allocated to the Mid-Connecticut Project.

