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From: Gallo, Lisa <Lisa.Gallo@cga.ct.gov>
Sent: Monday, September 19, 2016 10:49 AM
To: Deepa Krishna
Subject: Audit Report - Connecticut Resources Recovery Authority (MIRA)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

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HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

September 19, 2016

Ms. Deepa Krishna, Manager of Accounting and Financial Reporting
Materials Innovation and Recycling Authority
200 Corporate Place, Suite 202
Rocky Hill, Connecticut 06067

Dear Ms. Krishna:

Today, our office released the [audit report](#) on the Connecticut Resources Recovery Authority, Predecessor Entity to the Materials Innovation and Recycling Authority, for the fiscal years ended June 30, 2012, 2013, and 2014.

Please note that this report contains zero recommendations.

Our audit staff is available to discuss this report if you so desire.

Sincerely,

Handwritten signature of John C. Geragosian.

John C. Geragosian
Auditor of Public Accounts

Handwritten signature of Robert M. Ward.

Robert M. Ward
Auditor of Public Accounts

STATE OF CONNECTICUT



***AUDITORS' REPORT
CONNECTICUT RESOURCES RECOVERY AUTHORITY
Predecessor Entity to the
MATERIALS INNOVATION AND RECYCLING AUTHORITY
FOR THE FISCAL YEARS ENDED
JUNE 30, 2012, 2013 and 2014***

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

State Capitol
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Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

September 19, 2016

AUDITORS' REPORT CONNECTICUT RESOURCES RECOVERY AUTHORITY Predecessor entity to the MATERIALS INNOVATION AND RECYCLING AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2012, 2013 and 2014

We have audited certain operations of the Connecticut Resources Recovery Authority (CRRA), currently the Materials Innovation and Recycling Authority (MIRA), in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes, for the fiscal years ended June 30, 2012, 2013 and 2014. The scope of our audit included, but was not necessarily limited to, fiscal years ended June 30, 2012, 2013 and 2014. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the department or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the Connecticut Resources Recovery Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants, and other financial assistance, as applicable; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the authority, and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of

legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from CRRA management and was not subjected to the procedures applied in our audit of the authority. For the areas audited, we found:

1. No deficiencies in internal controls;
2. No apparent noncompliance with legal provisions; and
3. No need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Resources Recovery Authority.

COMMENTS

FOREWORD

The Connecticut Resources Recovery Authority operated primarily under the provisions of Sections 22a-257 through 22a-285k of the General Statutes. The authority was a public instrumentality and political subdivision of the state, established and created as a public benefit corporation under the provisions of the Solid Waste Management Services Act (Title 22a, Chapter 446e of the General Statutes).

The function of the authority was to implement effective systems and facilities for solid waste management and large-scale resources recovery to achieve maximum environmental and economic benefits for the people and municipalities of the State of Connecticut. The authority was to provide solid waste management services to municipalities, regions and persons within the state by receiving solid waste at its facilities on a contractual basis. Revenue produced from such services and recovered resources provided for the support of the authority and its operations on a self-sustaining basis. Unrestricted net assets were available to finance future operations, returned through reduced tipping fees or rebates or designated for special purposes.

Under the provisions of Section 22a-262 of the General Statutes, the authority was authorized to utilize, through contractual arrangements, private industry to implement some or all of the solid waste management plan and such other activities it considered necessary.

Significant Legislation

Public Act 14-94, effective June 6, 2014, established the Materials Innovation and Recycling Authority (MIRA) as the successor to CRRA. As of that date, MIRA assumed control of all of CRRA's assets, rights, duties and obligations. The act revised the authority's activities, powers, and purposes and required the commissioner of the Department of Energy and Environmental Protection (DEEP), along with MIRA, to seek proposals to redevelop the Connecticut Solid Waste System.

Public Act 13-285 established a Resources Recovery Task Force to study the operations, financial stability, and business models for resource recovery facilities in the state. The act required DEEP, in consultation with the Office of Policy and Management, to begin at least one audit of CRRA by June 30, 2013. The act required a summary of the findings to be provided to the Governor and the joint standing committees of the General Assembly having cognizance of matters relating to the environment, appropriations and government administration by October 30, 2013. In addition, CRRA was required to develop a transition plan for either long-term financial stability or dissolution.

The above mentioned studies and audit determined that revenues generated from various CRRA sources would result in future revenue shortfalls. These shortfalls can be attributed to a drop in energy prices, increased competition, and capital equipment replacement needs. It was determined that CRRA would need to identify alternative revenue sources in order to maintain a competitive position in the industry.

Board of Directors and Administrative Officials

Section 22a-261c of the General Statutes provides for a board membership of eleven directors: three appointed by the Governor, two appointed by the president pro tempore of the Senate, two appointed by the speaker of the House of Representatives, two appointed by the minority leader of the Senate, and two appointed by the minority leader of the House of Representatives. In addition, no director may be a member of the General Assembly, nor shall more than two directors appointed by the Governor be a member of the same political party.

As of June 30, 2014, the directors of the authority were as follows:

Appointed by the Governor:

James M. Hayden
Joseph A. MacDougald
Joel Freedman

Appointed by Legislative Leaders:

John E. Adams
Richard J. Barlow, Vice-Chairman
David Damer
Ralph F. Eno Jr.
Andrew J. Nunn
Scott Shanley
Donald S. Stein, Chairman

There is one vacancy.

Section 22a-261(g) of the General Statutes provides that if the legislative body of a municipality that is the site of an authority facility passes a resolution requesting the Governor to appoint a resident of such municipality to be an ad hoc member, the Governor shall make such appointment upon the next vacancy for the ad hoc members representing such facility. The Governor shall appoint, with the advice and consent of the General Assembly, ad hoc members to represent each facility operated by the authority, provided at least one-half of such members shall be chief elected officials of municipalities, or their designees. Each facility shall be represented by two such members. The facilities to be represented as of June 30, 2014 are the Mid-Connecticut/Connecticut Solid Waste System, Bridgeport/Southwest, and Southeast Projects.

As of June 30, 2014, there were two ad hoc members appointed by the Governor and four vacancies.

Stephen Edwards	Bridgeport/ Southwest Project
Robert L. Painter	Mid-Connecticut Project/ Connecticut Solid Waste System

Ad hoc members are empowered to vote solely on matters pertaining to the projects they represent.

Thomas Kirk was appointed as president of the authority on January, 2003, and served in that capacity throughout the audited period.

State of Connecticut Loans and Special Capital Reserve Fund

As described in prior reports, the authority suffered a significant financial hardship as a result of a failed agreement between the authority's Mid-Connecticut Project and Enron. Subsequent to the bankruptcy of Enron, the General Assembly passed Public Act 02-46 in an effort to help ease the financial situation of the authority's Mid-Connecticut Project. Public Act 02-46 authorized a loan by the state to the authority of up to \$115,000,000 to support the repayment of the authority's debt for the Mid-Connecticut facility and to minimize the amount of tipping fee increases chargeable to the towns that use the Mid-Connecticut facility. In the following year, the General Assembly passed Public Act 03-5, which authorized a loan by the state to the authority for \$22,000,000 of the \$115,000,000 through June 30, 2004. The \$22,000,000

authorized included a previous authorization of \$2,000,000 from fiscal year 2003. During March 2004, the state further approved a \$20,000,000 loan to the authority for fiscal year 2005.

On October 26, 2006, the authority's board of directors authorized the full repayment of the state loans from the escrow established for such purposes. On February 15, 2008, the authority paid the state loans in full.

As of November 15, 2012, all debt issued in the development of the Mid-Connecticut system has been retired.

Other Examinations

The financial statements of the authority have been subject to annual audits by independent public accountants. We have excerpted data from these audited financial statements that we present in the project discussions in the following section of this report.

RÉSUMÉ OF OPERATIONS

The authority's financial operations are comprised of two comprehensive solid waste disposal systems, two divisions (Property Division and Landfill Division), a general fund, and three inactive projects (Mid-Connecticut, Bridgeport and Wallingford). Each of the operating systems has a unique legal, contractual, financial and operational structure described as follows:

Mid-Connecticut Project/ Connecticut Solid Waste System

On November 15, 2012, CRRA brought to an end the Mid-Connecticut Project, a solid-waste system that since it began official operation in 1988 had processed more than 17.6 million tons of garbage and used it to generate more than 10.1 million megawatt hours of electricity. CRRA assigned the assets of Mid-Connecticut project to its Property Division and put them into service in the form of the Connecticut Solid Waste System (CSWS). Assets in service to the CSWS include the resource recovery facility, four transfer stations and a major recycling facility. On November 16, 2012, the CSWS began serving 50 towns. The cost to operate the CSWS is lower than the cost to operate the Mid-Connecticut project. The Mid-Connecticut project remains active under the control of CRRA/MIRA solely for administrative close out purposes.

CSWS uses a refuse-derived fuel (RDF) trash-to-energy facility located in Hartford, operated by NAES Corporation, three satellite transfer stations in Watertown, Torrington and Essex, a regional recycling center and the CRRA Trash Museum in Hartford.

The waste processing facility, owned by the authority, converts municipal solid waste into refuse derived fuel (RDF) by removing ferrous metals; screening and removal of process residues consisting of glass, grit, and other inert materials; and then shredding the trash. The shredded mixture is then blown into boilers located in the power block facility.

The authority's CSWS member tipping fees are based on a tiered contractual arrangement resulting in member fees ranging between \$61 and \$65 per ton for the fiscal year ended June 30,

2014. Below are selected revenue amounts extracted from the audited financial statements along with processed municipal solid waste (MSW) tonnage and member town tipping fees.

	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>
MSW Tonnage Processed:			
1) Mid- Connecticut Project	0	304,983	823,972
2) CSWS	680,554	420,809	0
Member and other Service Charges:			
1) Mid-Connecticut Project	\$0	\$20,345,000	\$54,806,000
2) CSWS	\$40,191,000	\$25,042,000	\$0
Energy Sales:			
1) Mid-Connecticut	\$0	\$8,945,000	\$28,171,000
2) CSWS	\$26,806,000	\$9,346,000	\$0
Member Town Tipping Fee Per Ton:			
1) Mid-Connecticut Project	-	\$69.00	\$69.00
2) CSWS	\$63.50	62.50	-

The permitted rated capacity of this project is 888,888 tons of MSW per year.

The CRRA/MIRA CSWS Recycling Facility is an intermediate processing facility located in the South Meadows section of Hartford. At this facility, recyclable materials are delivered from member towns, separated and sold to end markets. The facility processes all recyclable materials – fiber (newspaper, cardboard, mixed paper, catalogs, magazines and junk mail) and containers (glass, steel, plastic and aluminum).

The financial transactions of the recycling facility are accounted for within the CSWS Fund. To date, the authority has not charged member towns a disposal fee for recyclables brought to the facility as a way to encourage recycling. The recycling operation is not financially self-sustaining, as operations are subsidized by service charges (MSW tipping fees) and energy generation revenue of the CSWS. CRRA, now MIRA, assumed responsibility for all CRRA debt issued in the development of the Mid-Connecticut system and CSWS.

The authority operates four transfer stations as part of CSWS: Watertown, Torrington, Essex and Ellington.

The Hartford Landfill, owned by the City of Hartford, is leased to the authority. The landfill contains a methane gas extraction and collection system, which had been installed to reduce the odors and emissions produced. The Hartford Landfill closed as of December 31, 2008. The authority still owns the Ellington Landfill, which was closed in 1993. Once a landfill is closed, state regulations require monitoring and maintenance for 30 years.

Southwest Division / Bridgeport Project

The Bridgeport Project closed on December 31, 2008, when the Bridgeport Project bonds matured and ownership of the Bridgeport facility was transferred to Wheelabrator. On January 1, 2009, the authority created the Southwest Division to service 13 of the 18 Bridgeport Project towns to provide solid waste disposal capacity on their behalf at the former Bridgeport facility. CRRA contracted with Wheelabrator to deliver trash to the mass-burn trash-to-energy facility. In contrast with the Mid-Connecticut Project, there is no shredding of trash and there is minimal separation of ferrous metals, as trash is delivered and burned with no processing. The mass-burn technology is much simpler than the RDF technology.

On January 1, 2009, the authority transferred seven Bridgeport Project transfer stations to their host towns. Recyclables from the member towns of the Southwest Division are delivered to the CRRA recycling transfer station in Stratford. These recyclables are then delivered to the single-stream recycling processing facility in Hartford. Ash residue is disposed of at the Putnam Landfill under contract with Wheelabrator. Below are selected revenue amounts, extracted from the audited financial statements, along with processed municipal solid waste (MSW) tonnage and member town tipping fees.

	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>
MSW Tonnage Processed	0	0	0
Member and Other Service Charges	\$13,389,000	\$13,603,000	\$13,618,000
Energy Sales	\$0	\$0	\$0
Member Town Tipping Fee per Ton	\$67.31	\$66.41	\$65.11

Wallingford Project

The authority's contract with the Wallingford Project municipalities ended on June 30, 2010, along with the operating contract between CRRA and the project. CRRA did not exercise its option to purchase the facility, which is now owned by the vendor. However, the authority has assumed CRRA's interests and obligations with respect to certain ongoing project close out and asset transfer activities.

Southeast Project

The Southeast Project utilizes a mass-burn resources recovery facility in Preston. This project provides solid waste disposal service to 12 municipalities. The resources recovery facility began operation in 1992 and is owned by the authority. It is leased to a private vendor, which has beneficial ownership of the facility under a long-term lease. The vendor is responsible for operating the facility and servicing the debt, other than the portion allocable to authority purposes, for which the authority is responsible. The authority derives revenues from service fees charged to participating municipalities and pays the vendor a service fee for the disposal service.

The tipping fee for this project is set by Southeastern Connecticut Regional Resources Recovery Authority (SCRRA), which operates in accordance with Sections 7-273aa to 7-273pp

of the General Statutes. Currently, ash residue is disposed of at the Putnam Landfill under a contract with Wheelabrator.

Revenue and tonnage data shown in the table below were obtained from the audited financial statements. Electric energy and nonmember town revenues accrue to the private vendor with certain contractually prescribed credits to the service fee for these revenue types.

	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>
MSW Tonnage Processed	262,739	251,569	264,246
Member and Other Service Charges	\$8,521,000	\$8,608,000	\$8,375,000
Energy Sales	\$20,674,000	\$19,550,000	\$18,376,000
Member Town Tipping Fee per Ton	\$58.00	\$60.00	\$60.00

Property Division

CRRA created the Property Division on January 1, 2009, to account for multiple funds, assets, and liabilities. These include landfill post-closure reserves related to the former Bridgeport Project, the Shelton Transfer Station, and the Garbage Museum. On July 1, 2010, the authority transferred similar assets and liabilities associated with the Wallingford Project. The new division reflects the status of said assets and liabilities, which are no longer project specific. In addition, landfill post-closure reserves related to the Mid-Connecticut Project have been transferred to the Property Division in fiscal year 2013.

Summary of Revenues, Expenses and Net Income

Revenues, expenses and net income of the authority for the audited period, are as follows:

	<u>2013-2014</u>	<u>2012-2013</u>	<u>2011-2012</u>
Operating Revenues:			
Service Charges: Members	\$45,588,000	\$ 49,145,000	\$55,966,000
Service Charges: Others	16,513,000	18,512,000	20,860,000
Energy Sales	56,451,000	42,261,000	46,547,000
Other Revenues	<u>4,810,000</u>	<u>9,948,000</u>	<u>8,670,000</u>
Total Operating Revenues	<u>123,362,000</u>	<u>119,866,000</u>	<u>132,043,000</u>
Operating Expenses:			
Solid Waste Operations	97,583,000	99,194,000	116,261,000
Maintenance and Utilities	1,313,000	1,024,000	900,000
Landfill Closure/Post-Closure	(3,392,000)	1,862,000	415,000
Legal Services - external	3,012,000	1,209,000	1,803,000
Administrative and Operational services	6,191,000	7,525,000	7,019,000
Distribution to:			
Member Towns	0	810,000	0

SCRRRA	1,375,000	0	1,401,000
SWEROC	<u>0</u>	<u>489,000</u>	<u>0</u>
Total Operating Expenses	<u>106,082,000</u>	<u>112,113,000</u>	<u>127,799,000</u>
Operating Income (Loss) before Depreciation and Amortization	17,280,000	7,753,000	4,244,000
Depreciation and Amortization	<u>16,101,000</u>	<u>15,085,000</u>	<u>16,242,000</u>
Operating Income (Loss)	<u>1,179,000</u>	<u>(7,332,000)</u>	<u>(11,998,000)</u>

Fiscal year 2013 operating revenues decrease by \$12,177 million or 9.6% from fiscal year 2012. The reduction was the result of decreases in member service charges, closure of the Mid Connecticut Project, and a decrease in energy sales. Revenue for the fiscal year ended June 30, 2014, increased by \$3,496 million or 2.9% over the previous year. The increase was the result of a substantial increase in revenue from the sale of energy offset by reductions in member service charges.

Operating expenses declined by \$13.6 million or 9.4% between fiscal years 2013 and 2012. The decline was primarily the result of a decrease in ash and non-processible waste deliveries and lower payments in lieu of taxes (PILOT). Operating expenses declined \$6.031 million or 5.4% from fiscal year 2013 to 2014. The decline is attributable to the reduction in estimated liability from the closure of the Hartford Landfill, and the resolution of contract operating charges related to the Mid Connecticut project, and savings associated with the transition from Mid Connecticut to Connecticut Solid Waste System.

Statement 18 of the Governmental Accounting Standards Board

Governmental Accounting Standards Board (GASB) Statement 18 requires owners and operators of municipal solid waste landfills to accrue total closure and post-closure costs over the life of the landfill. These owners and operators must be legally liable for these costs. This statement is effective for fiscal years beginning after June 15, 1993. It defines closure and post-closure costs as those costs expected near or after the date each landfill stops accepting waste. These costs include, but are not limited to, equipment to be installed, facilities to be constructed, final cover to be applied, monitoring to be performed and maintenance after closure of the landfill. Accruals for closure and post-closure costs are based on the following formula:

$$\frac{\text{Estimated Total Current Cost} \times \text{Cumulative Capacity Used}}{\text{Total Estimated Capacity}} - \text{Amount Previously Recognized} = \text{Accrual}$$

Estimated accrued closure and post-closure liability for the fiscal year ended June 30, 2014, was \$43,000.

CONDITION OF RECORDS

Our examination of the records of the Connecticut Resources Recovery Authority for the fiscal years ended June 30, 2012, 2013 and 2014 did not reveal any matters requiring disclosure.

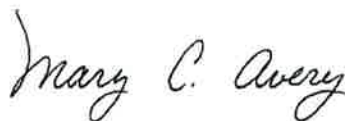
RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit, covering fiscal years 2010 and 2011, did not contain any recommendations.

CONCLUSION

In conclusion, we wish to express appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Materials Innovation and Recycling Authority during the course of this examination.



Mary C. Avery
Associate Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts