Finance Committee
September 14, 2017
Regular Draft Minutes

Members Present:	Committee Chairman Jim Hayden Lizz Milardo
MIRA Staff Present:	Tom Kirk, President Mark Daley, Chief Financial Officer Peter Egan, Director of Operations and Environmental Affairs Jeffrey Duvall, Director of Budgets and Forecasting Laurie Hunt, Director of Legal Services Deepa Krishna, Manager of Accounting and Financial Reporting Thomas Gaffey, Director of Enforcement/Recycling Thomas Edstrom, Risk Manager Kanchan Arora, General Accountant/Board Administrator
Public Present:	Amanda Burley, Assistant Account Executive; Kyle Strand, Senior Vice President; Susan Garrad, Senior Vice President; Megan Miller, Managing Director and Mary Walker Leighton, Assistant Vice-President of Beecher Carlson. Michael Vandeventer, CPA, Partner of Mahoney Sabol Ed Spinella, Esq. USA Hauling.

PUBLIC COMMENT

Director Hayden 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 July 20, 2017, Finance Committee Meeting

Director Milardo requested a motion to accept the minutes of the July 20, 2017, Finance Committee meeting. The motion to approve the minutes was made by Director Milardo and seconded by Director Hayden.

The motion to accept the minutes was approved. Director Milardo abstained.

2. Review and Approve- Resolution Authorizing the Renewal of Pollution Legal Liability Insurance for the Authority.

Director Hayden requested a motion on the above referenced item. The motion to approve was made by Director Hayden and seconded by Director Milardo.

> **Resolved:** That the MIRA Board authorizes President Kirk to purchase the Pollution Legal Liability from CHUBB in the amount and with the limit recommended by MIRA's broker and as presented and discussed in this meeting.

Mr. Daley said Mr. Edstrom and MIRA's broker Beecher Carlson did a great job on the renewal of Pollution Legal Liability Insurance policy and thanked them for their hard work and good results.

Ms. Leighton, Representative from Beecher Carlson, informed the Committee that our Pollution Legal Liability Insurance policy is coming to end in October 2017. Beecher Carlson discussed with MIRA different options most suitable for our needs. This is Beecher Carlson's first marketing of this policy; they were able to do full marketing and get reductions in our premium.

Ms. Leighton, Representative from Beecher Carlson informed the Committee that she will be our day to day contact, introduced Amanda Burley and Kyle Strand, part of the pollution team, and Megan Miller, who is the Account Executive taking over for Fred Wass.

Ms. Burley, Representative from Beecher Carlson, said Beecher Carlson reached out to a number of carriers to solicit quotes, including new and current carriers; CHUBB came in with the best pricing and best term. Ms. Burley reviewed the renewal proposal with the Board which includes all the covered locations, divested properties and description of the facilities. She said the only difference compared to the expiring policy is CHUBB's policy form changed. All the terms and conditions remain the same as expiring; the only difference is that some of the coverages that were endorsed on the policy are now built into the policy form, for instance, Premises Pollution Conditions or Indoor Environmental Coverage, Transportation Coverage, and Non-Owned Disposal Coverage. CHUBB's intent was to keep everything the same as the expiring policy.

Ms. Burley, Representative from Beecher Carlson, said Beecher Carlson received three limits of liability options. MIRA's current policy has a$40 million limit, with a $250,000 deductible. Beecher Carlson recommends a $20 million option for this year.

Director Hayden asked why it is that we are comfortable with a $20 million dollar option. Ms. Burley, Representative from Beecher Carlson, informed the Committee that MIRA's exposure has changed. MIRA has gone from having 18 to 13 covered location (with a corresponding increase in divested locations), which reduced our exposure. Therefore, Beecher Carlson recommends that we choose the $20 million dollar option.

Mr. Egan added since DEEP has taken over responsibility for the landfills, in particular the environmental control systems and specifically the landfill gas collection control systems, and since the Southeast project now carries insurance for the Montville landfill, MIRA doesn't feel the need to purchase additional insurance. Since responsibility for the landfills has been transferred to the state of Connecticut, Mr. Egan thinks that the $20 million option is appropriate for MIRA.

Ms. Burley, representative from Beecher Carlson, also reviewed the Endorsements & Premium Summary with the Committee. The net premium on the expiring policy is $585,276 with a $40 million limit; on the renewal policy it will be $255,154 with a $20 million limit. Prorated to July 1st, 2020 to match up with the rest of MIRA's insurance program. Terrorism coverage is optional, and Beecher Carlson recommends that MIRA reject it as they did with the rest of insurance program in July. There is also no brokerage commission included.

Director Hayden asked if Beecher Carlson can provide an explanation of why they would be comfortable rejecting the Terrorism Coverage. The representative from Beecher Carlson said it has to be a terrorism event certified by Homeland Security and has to be related to that loss. The company has to have at least $5 million of events. The thresholds are so high that they have never been met to date.

Mr. Daley said Beecher Carlson has done a great job and the decrease in the premium will certainly help MIRA and is pleased to carry out $250,000 retention considering the reserves MIRA has in the Landfill division.

Mr. Kirk asked can you explain how we plan to manage a claim where we have dual responsibility. For example, the Truck Wash Facility is not owned by MIRA but MIRA has legacy responsibility. Mr. Strand, representative from Beecher Carlson, said if it's a third party suit, everyone is involved and dually responsible.

The motion previously made and seconded was approved unanimously.

4. Review and Approve- Draft resolution accepting the Authority's Fiscal Year 2017 Annual Financial Report.

Director Hayden requested a motion on the above referenced item. The motion to approve was made by Director Milardo and seconded by Director Hayden.

Resolved: That the Board of Directors hereby accepts the Fiscal Year 2017 Annual Financial Report as discussed and presented in this meeting.

Mr. Daley reviewed the Audit report status with the Committee. He said we are essentially complete with the Finance package absent the signed opinion letters which will have once we have completed everything, legal contingency note, which are still being prepared by the attorneys and the audit will be submitted to the State and to the Directors, not to expect anything to change on the final numbers. Mr. Daley thanked Deepa Krishna and her Team and Michael VanDeventer and his team from Mahoney Sabol for all their hard work. He said the

Financial Statements and all the tables are on a consolidated basis. The Board is normally used to seeing targeted budget vs actual numbers on CSWS and Property Division. However at this stage of the year; everything is consolidated financial performance for Fiscal year 2017 and financial position as of June 30, 2017. There is supplementary information attached that provides a breakdown by projects and division's.

Mr. Daley reviewed the consolidated performance in Fiscal Year 2017 with the Committee. MIRA's generated total operating revenue of $63.43 million and incurred $58.96 million in operating expenses before depreciation resulting in operating income before depreciation of $4.47 million. After deducting our depreciation and amortization expenses of $22.64 million, MIRA incurred an operating loss of $18.17 million. MIRA also earned net non-operating revenue of $2.71 million resulting in a total reduction in the net position of $15.46 million for FY 17. The operating revenue of the $63 million reflects almost a $20 million reduction from last year which is associated with the closeout of the Southeast project. The South east project closed out the financials in fiscal year 2016 and went to $0 revenue for fiscal year 2017.

Mr. Daley said CSWS operating revenue reduced by $1.7 million from fiscal year 2016. With regards to operating expense of $58.96 that reflects a $20.5 million reduction from fiscal year 2016. This decline was associated with closing of the Southeast project, MIRA's relationship in closing out with the facility and SCCARA. The southeast project expenses were reduced by $23.9 million, which offset an increase in CSWS expenses by $3.3 million.

Mr. Daley said our operating income before depreciation increased from $3.9 in fiscal year 2016 to $4.5 million in fiscal year 2017 due to decrease in revenue and expense. Income before depreciation increased by 14.1% from fiscal year 2016 to fiscal year 2017, however the operating expenses before depreciation of $22.64 is a large increase from last year of $3.2 million increase (17%). Our bulk of depreciation is on the Resource Recovery facility in Hartford and the useful life of that is ending June 30, 2019. As MIRA work on the Resource Recovery Facility, it gets each year shorter and shorter period which gets amortized and MIRA will see those expenses ramps up in the next several years which will have an impact on the reductions in MIRA's Net position.

The operating loss of $18.17 Million reflects an increase of $2.67 million from last year's loss of $15 million. On a consolidated basis it is largely due to an increase in the depreciation. Net non-operating revenue of $2.71 million reflects an increase of $4.5 million from last year due to the gain on sale of the Stratford Recycling Facility. The reduction in net position of $15.5 million reflects a $1.8 million reduction from last year's reduction in Net position of $17.3 million due to the increase in income. MIRA's Net Position as of June 30, 2017 is $126.6 million including $86.1 million invested in capital assets and $40.5 million in Net Current Assets. MIRA's Net Position will continue to reduce over the next several years as we fully depreciate the Resource Recovery Facility.

Mr. Daley said some of the significant financial highlights in the MD&A are reduction in Cash & Equivalent of $2.1million from last year which includes mitigating effects of $4.8

million proceeds from the Sale of Stratford. CSWS budget variance caused MIRA to rely on the use of Tip Fee Stabilization Fund than planned, which left MIRA with a cash balance of $2 million at year end and $13.7 million contingently due back from CSWS to the fund.

CSWS revenue declined by $1.7 million which includes mitigating effect of nearly $1 million increase in recycling and metal sales revenue. Landfill Division revenue declined substantially from fiscal year 2016 due to the Hartford Landfill solar panels being off line for nearly half the year due to the lighting strike. MIRA has no long term debt outstanding and is also no longer associated with any conduit bond issues. MIRA's liabilities primarily consist of Accounts Payable, Accrued Expenses and some Prepaid Revenues.

Mr. Daley highlighted some economic factors and outlook section for MIRA which are addressed in the MD&A. The most significant economic factor with potential to adversely affect MIRA is CSWS business model and DEEP's Resource Rediscovery. CSWS Business model relies on declining non disposal fee revenue to support the Tip Fee charge to the participating towns and help keep that opt out Tip Fee under the long term contracts. MIRA has been using the Tip Fee Stabilization Fund from the start of the establishment to successfully using it to not exceed the opt-out. During planning initiatives for fiscal year 2018 budget, Stakeholder involvement and economics, MIRA thinks we will exceed the opt-out and none of the towns actually opted out of their contracts. The sustainability of the Tip Fee Stabilization fund is due to the JETS & capacity payments and DEEP's new adopted Compliance program, which extended the life of these assets from May 31, 2017 to May 31, 2023. It is a major milestone and the increase in future capacity payments and enhanced class II Rec legislation will help the sustainability to TIP FEE Stabilization Fund.

Mr. Daley highlighted DEEP's Resource Rediscovery statue and timeline which includes a update on milestones achieved including issuance of Phase II RFP and receipt of proposals from three finalist. He noted that contract principles and other RFP provisions involve MIRA transferring key aspects of its governance to the private sector in return for acceptance of risk and providing of firm pricing on Tip Fee. Furthermore, it was noted that RFP and principals state that MIRA will be paid up to $1 million for its oversight of the projects and other statutory duties but provides only contingent revenue shares payable to MIRA. In addition, that statue requires that DEEP considers that best interest of CSWS participating towns in selecting a final proposal and the economic framework will be challenging for private sector due to lack of guarantee waste or price support which will affect private sectors ability to accept risk. It's also challenging for MIRA due to lack of secure payment provision and at this point MIRA is evaluating its contract objectives in event DEEP project moves forward and also evaluating alternative projects if it does not move forward.

Lastly Mr. Daley touched upon the status of Landfill closures in New England area, pending closures and how it will affect our pricing in the entire region which is expected to be expanded upon next year's MD&A.

Mike Vandeventer, a partner of MahoneySabol, gave the Finance Committee a presentation on the audit. Mr. Vandeventer performed an audit of the financial statements of MIRA in accordance with the Auditing Standards issued by the American Institute of Certified

Public Accountants and Government Auditing Standards issued by the Government Accountability Office. No other Attest or non-attest services were provided to MIRA that could impair our independence.

Mr. Vandeventer noted that no significant issues were identified during the audit of the Finance statements. He said in terms of outstanding items the receipt of the external legal letters is still ongoing, an update of subsequent events may still needed, sign offs of the management representation letter is required, and the CAFR review will take place later in December after the audit is finalized.

Mr. Vandeventer said MahoneySabol plans to issue an unmodified clean opinion on MIRA's financial statements which mean the firm is not aware of any internal material misstatements. MahoneySabol opinion provides reasonable but not absolute assurance. Mr. Vandeventer discussed the planning scope and timing of the Audit, Auditors responsibility under U.S Generally Accepted Auditing Standards and significant Audit findings.

The motion previously made and seconded was approved unanimously.

3. Discussion-Informational

Mr. Daley reviewed the informational reports through July 31, 2017 with the Committee. He said CSWS generated $0.85 million in operating income for the month of July, which is 28% above budget. Total operating revenue was just 7% under budget due to weak MSW deliveries and energy production, partially offset by strong metal sales, recycling revenue and other energy markets, while operating expenses were 12% below budget in the month of July with savings in waste transport and NAES contract operating charges. The average energy price was 2.6% above budget but energy production was 15.8% below budget. The plant ran at full capacity in the month of July for 13 of 31 days.

Mr. Daley explained the recycling facility continued its strong performance and came in 78% above budgeted revenue for the month of July due to strong pricing of all commodities and strong CSWS-sourced volume. He said metal sales were 96% above budget for the month of July due to strong pricing; Waste deliveries were 14.8% under budget due to other contract waste being curtailed due to plant performance.

Mr. Daley said that, with regard to operating income, Property Division was slightly below budget -- about 3.5% revenue shortfall, substantially offset by savings on the expense side. MIRA is executing flow of funds in accordance with the new budget, including funding of new Jets major maintenance accounts, refunding PD General Fund borrowing for FY17, some draws from Tip Fee Stabilization including back up funding. Mr. Daley pointed out that MIRA has a new format for the CSWS Improvement Fund tracking report, which depicts each project funding to NAES for budget vs. actual on a monthly basis.

Mr. Daley said priorities reflected in FY 18 adopted budget have evolved at the request of Operations to provide additional funds for Bag House major maintenance, which required a push back on the turbine overhaul and delay/cancelation of WPF funding.

EXECUTIVE SESSION

Director Hayden requested a motion to go into Executive Session to discuss pending litigation and pending RFP responses, trade secrets, personnel matters, security matters and feasibility estimates and evaluations.

The motion was made by Director Hayden and seconded by Director Milardo. The motion was approved unanimously Committee Chairman Hayden requested that the following people remain for the Executive Session in addition to the Committee members:

Tom Kirk
Peter Egan
Laurie Hunt
Mark Daley

The Executive Session commenced at 11.36 a.m. and concluded at 12:06 p.m.

The meeting was reconvened at 12:06 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

Director Hayden requested a motion to adjourn the meeting, which was made by Director Hayden and seconded by Director Milardo.

The meeting was adjourned at 12:10 p.m.

Respectfully submitted,

Kanchan Arora
Board Administrator/General Accountant