Finance Committee
September 11, 2019
Regular Draft Minutes

Members Present:	Scott Shanley Bob Painter Jim Hayden (on the Telephone)
MIRA Staff Present:	Tom Kirk, President Mark Daley, Chief Financial Officer Laurie Hunt, Director of Legal Services Peter Egan, Director of Operations and Environmental Affairs Thomas Gaffey, Director of Recycling & Enforcement Cheryl Kaminsky, Manager of Accounting & Financial Reporting Vicki Arnum, Buyer/Administrative Assistant
Public Present:	Michael VanDeventer, CPA, Partner, Mahoney & Sabol John Pizzimenti, USA Hauling

PUBLIC COMMENT

Committee Chairman Shanley called the meeting to order at 9:31 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 10, 2019, Finance Committee Meeting.

Committee Chairman Shanley requested a motion to accept the minutes of the July 10, 2019 Finance Committee meeting. The motion to approve the minutes was made by Director Painter and seconded by Director Hayden.

The motion to accept the minutes was approved**.**

2. Review and Approve Draft Resolution accepting the Authority's Fiscal Year 2019 Annual Financial Report.

Committee Chairman Shanley requested a motion on the above referenced item. The motion to approve was made by Director Painter and seconded by Director Hayden.

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RESOLVED: That the Board of Directors hereby accepts the Fiscal Year 2019 Annual Financial Report as discussed and presented in this meeting.

Mr. Daley said Fiscal Year 2019 was probably the most challenging year MIRA has faced from many perspectives (operationally, financially and for the redevelopment project). Operationally speaking, MIRA began with Turbine 5 operating at a reduced load pending repair. Before it was brought down for repair on September 30, 2018, MIRA had already diverted 23,000 tons of waste. Then Turbine 6 had its catastrophic failure on November 5, 2018, and that left MIRA with no processing capacity, a situation which continued for three months.

Mr. Daley added Turbine 5 first came back in late November, but it failed to start, and had to be sent out for a second time. When it came back the second time at the end of January, it was successfully started and that ended the period of no processing capacity. Turbine 6 came back on line March 5th, 2019, but Turbine 5 only remained online through June 3, 2019 before MIRA had to send it back out for a third time. It wasn't back in operation until late August 2019, so overall for the fiscal year, CSWS functioned with two turbines for just five months out of the year -- and during those five months the boilers functioned at only 73% availability, which obviously had major impacts on all facility performance metrics. In total, we diverted 111,693 tons of waste in fiscal year 2019, which equated to a 22% drop in waste processed and a 25% drop in energy generation.

Mr. Daley said obviously, the financial impacts of this were substantial; which are documented in the MD&A, and MIRA did respond effectively to them. We declared force majeure events under all Hauler contracts and MSAs, allowing MIRA to turn away non-participating waste and to assess an additional cost recovery charge to the participating towns for costs not covered by insurance. MIRA reallocated operating capital resources to fund the diversion costs and the repair work, increased the subsidy of the CSWS through the Tip Fee Stabilization Fund and transfers out of the Property Division General fund, and drew down the CSWS operating accounts. We aggressively developed business interruption, extra expense and property damage insurance claims, and received the insurance proceeds in a structured manner so that we first reimbursed the Property Division General Fund and then proceeded with other reimbursements. Finally, MIRA restructured the CSWS business model moving forward so that we have flexibility and efficiency when we need to reduce waste deliveries, considering the age and condition of the plant and the likelihood of recurring problems like this until we get through the refurbishment.

Mr. Daley added, speaking of the refurbishment, we did resolve the major structural challenges that have slowed progress in the CSWS redevelopment by executing the MOU with SRRT at the end of the fiscal year. The MOU established a staged development framework which prioritizes refurbishment of the waste to energy facility, , a capacity and revenue sharing model, performance guarantees, public governance, Authority financing of the plant's rehabilitation, SRRT financing of the new diversion technology, and sets strict deadlines for the process to move forward with a term sheet and CDA.

Furthermore, Mr. Daley said, with respect to the Fiscal Year 2019 audited financial performance, total operating revenue increased by $3.6 million or 4.9% for the year. MIRA's CSWS member service charges increased by $5.7 million, that's 22.5% for the year. The deliveries of the member towns were up by 12%, which contributes to the increase, because of the addition of Newington and conversion of East Hartford to a Tier 1 customer. We also increased the Tip Fee by $4 and we imposed additional cost recovery in the fourth quarter of $9.65 a ton, which brought in about $1.1 million, so those three things combined to increase member service charges by $5.7 million. Energy revenues increased by $2.75 million, or 9% for the year which is all attributed to the Property Division capacity payments, which increased by roughly $3.4 million. CSWS energy was down by roughly $660,000. Energy generation was down 25% for the year but that was largely offset by legislatively enhanced Class II Renewable Energy Credits.

Mr. Daley said non-participating waste service charges were down $4.5 million, or 32%, due to the status of the plant. Deliveries were down 38.5% compared to last year. However, all of the deliveries of non-participating waste came in under the hauler contracts at the highest price; there were zero tons of discounted waste in fiscal year 2019. In addition, non-participating deliveries to a transfer station paid a $2 per ton surcharge. All of that combined to maximize the revenue received from the non-participating deliveries that did occur. Revenue was down 32% based on deliveries being down almost 39%.

Non-operating revenue increased by $8 million and that's all attributed to the booking of the insurance proceeds from the Turbine 5 and 6 failures. MIRA booked $11.6 million in insurance proceeds for business interruption, extra expense and property damage. $7.9 million for business interruption and extra expense, and $3.7 million for property damage, totals $11.6 million in insurance proceeds for this year in comparison to $3.7 million in non-operating revenue last year received in the matter of *CRRA v. Lay*.

Mr. Daley said operating expenses before depreciation increased by $10.4 million or 18%. Solid waste operations was up $8.5 million or 16.5%, which is attributed to the diversions of the 111,693 tons of waste at $12 million. Furthermore, he said, savings in other areas helped mitigate these increases including waste transport and ash, which total $3.6 million. Maintenance and utilities increased by $1.9 million over last year. There were two main reasons for this increase. First, MIRA purchased energy from the grid to process waste when the plant was down. This allowed us to densify waste and increase storage capacity while turbine repairs were underway but increased utilities expense by $0.78 million. We have also reached the end of the book value useful life of major components of the waste to energy facility which has the effect of reducing capitalized expenses and increasing maintenance costs.

Mr. Daley added that depreciation expense increased by $17.6 million, or 82%, and that is also related to the end of the book value useful life of major components of the waste to energy facility. For example, in fiscal year 2019, $15.3 million in current year boiler work had to be fully depreciated and this was a major factor contributing to this increase.

In terms of the bottom line, the Authority generated $9.97 million in income before depreciation in Fiscal Year 2019. After depreciation and net non-operating revenue, our net position declined by $17.6 million.

Mr. Daley said the Authority's net position totals $101.7 million, reflecting total assets of $107.4 million less total liabilities of $5.7 million as of June 30, 2019. It reflects a $17.6 million decline from our net position as of June 30, 2018. There was a $20.0 million reduction in assets, offset by $2.4 million reduction in liabilities. We have a large reduction in depreciable capital assets attributable to the scheduled end of useful life of major components of CSWS. The WPF and boiler systems useful life ended June 30, 2019. Depreciable capital assets declined $22.1 million. MIRA also had a large increase in Accounts Receivable. This mostly reflected $4.7 million in insurance reimbursements that remained due as of June 30 which have all subsequently been received. MIRA also had a minor reduction in cash of $1.6 million, which included a $1.1 million reduction in cash associated with the Authority's active divisions, and a $0.5 million reduction is cash associated with the Mid Connecticut Project. Mr. Daley said all changes in cash are fully explained in the MD&A.

Mr. Daley said Cheryl Kaminsky did a great job taking over the fourth quarter after Deepa Krishna resigned, taking us through the fourth quarter, year-end close and coordinating all aspects of the audit while training other employees hired or promoted to the vacated positions. He mentioned, looking back at the year, that the Authority had a total of seven resignations to adapt to, which was challenging.

Mike Vandeventer, a partner at Mahoney Sabol, 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. He said no other attest or non-attest services were provided to MIRA that could impair our independence. Mr. Vandeventer said in terms of the overall status of the audit, we are substantially completed with our audit procedures. Items that need to be addressed before issuance include receipt of the external legal letters as well as the Authority's disclosures regarding any contingencies; we will be performing some subsequent event procedures through our audit report date; again, that could result in modification or additional disclosures in the financial statements. Although at this point in time, we do not anticipate any additional disclosures, we will need to obtain a management representation letter. I do not intend to include any unique representations in that letter. Again, they're all pretty much standard representations. We will also perform a review of the CAFR at a later date. The CAFR is due by the end of the year and the financial statements are obviously due by the end of this month. In terms of the audit reports that will be issued, the main report is the report on the financial statements; we do plan to issue an unmodified clean opinion on the financial statements. Again, important to note that our opinion does provide a reasonable but not absolute assurance that the financial statements have been prepared in accordance with generally accepted accounting principles, and that they are free from a material misstatement, whether due to error or fraud.

Mr. Vandeventer said our opinion does not extend to the MD&A. We do read the MD&A and make sure it's consistent with the information that we obtained during the course of the audit,

but our opinion does not actually cover the information included in the MD&A. Our opinion does extend to be combined schedules, which is the project financial statements. Our opinion covers those schedules in relation to the overall financial statements as a whole. In addition, in accordance with government auditing standards, we do issue a report on compliance and internal control for financial reporting. He said it is important to note here that we are not actually expressing an opinion on the effectiveness of the Authority's internal controls, or on its compliance with laws and regulations.

Mr. Vandeventer said what this letter basically says is that, during the course of our audit, if we become aware of a material weakness in your internal controls, or material non-compliance with laws or regulations, we are required to include it in that letter. We did not identify any material noncompliance or material weaknesses in the internal controls. In terms of our required communications, the first bullet in this letter here talks about our responsibility under our auditing standards. In this case, MIRA management does take full responsibility for the financial statements, including the preparation of those financial statements, so we do not assist in the actual preparation of the financial statements. Again, it's our responsibility to perform audit procedures and express our opinion on those financial statements. In terms of the plan, scope, and timing of the audit, there were no changes in the overall scope or timing of the audit.

The motion previously made and seconded was approved unanimously.

2. Discussion of Informational Reports

Mr. Daley reviewed the informational reports through July 31, 2019 with the Committee. Mr. Daley said the Authority budget for Personnel and Non-personnel services presently has a 19% favorable variance year to date as of July 31, 2019. Mr. Daley said the Property Division generated $1.3 million in revenue in the month of July, which was 7% above budget. Property Division operating expense was $11.3% above budget, leaving income of $1.02 million, which is 5.9% above budget.

Mr. Daley said in the month of July, CSWS generated $5.5 million in operating revenue, which was 1% above budget. It incurred $4.6 million in accrued expense, which was 1% above budget. This is not bad, considering Turbine 5 was offline and offsite for its third round of repair work the entire month.

Furthermore, Mr. Daley said, energy production was 16% under budget but our average price was 4% above budget, leaving us about $100,000 short on electric sales revenue. This was more than made up by surplus REC sales. MIRA sold 54,088 MWH at $8 each reflecting January, February and March production. MIRA received a total of 45,261 tons of waste, and had to divert 3,731 tons at a cost of $316,749, included in accrued expenses. This diversion was the first one done under the new Hauler contracts, which allow the Authority to declare the WTE

facility impaired and reduce deliveries of Non-participating waste. MIRA declared the facility 60% impaired effective July 15, 2019, which was the earliest we could do it. We reduced scheduled deliveries and delivery caps which apply to Non-participating waste by 60%. Haulers may leave or pay bypass charges. In July 2019, Non- participating deliveries to transfer stations wore 63% under budget, which helped reduce the diversion requirement and produced savings in other areas of the budget that kept us within 1% of budgeted expenses.

Mr. Daley said Recycling Facility revenues were 5% below budget in July. Paid residue and CSWS-sourced deliveries were strong, but export revenue was low due to a lack of revenue share on ONP and OCC. Non-participating surcharges were 14% above budget. Metal sales prices continued the recent downward trend, putting MIRA at 40% below budget for metal sales revenue.

In regard to Cash Flow, Property Division distributed $800,000 to the Tip Fee Stabilization Fund from monthly receipts and another $1.03 million reflecting the true-up of the operating account done annually to ensure 6 months cash on hand. Both count against the Fiscal Year 2020 cap of $8.7 million. Mr. Daley added CSWS received $6.3 million in receipts, which was sufficient to fund distributions to its operating and improvement fund. Since Property Division has been fully reimbursed for the funds used for Fiscal Year 2019 turbine challenges, the CSWS receipts included $1.62 million in insurance proceeds.

Mr. Daley informed the Committee that MIRA has received the Certificate of Achievement for Excellence in Financial Reporting for Fiscal Year 2018 from GFOA, which will be included in the CAFR to be produced by year end. He added as a reminder, all fourth quarter and annual state reports are now being produced before the CAFR to enable more timely submission of them.

EXECUTIVE SESSION

Committee Chairman Shanley 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 Painter. The motion was approved.

Committee Chairman Shanley 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 10:10 a.m. and concluded at 10:30 a.m. The meeting was reconvened at 10:35 a.m. The door was opened, and the Board Secretary and all members of the public were invited back in for the continuation of public session.

ADJOURNMENT

Committee Chairman Shanley requested a motion to adjourn the meeting, which was made by Director Hayden and seconded by Director Painter.

The meeting was adjourned at 10:40 a.m.

Respectfully submitted,

Kanchan Arora
Conusltant