Finance Committee
September 7, 2022
Regular Minutes

A Regular Meeting of the Finance Committee of the Materials Innovation and Recycling Authority was held on September 7, 2022. Present via video or audio conferencing were:

Members Present:

Bert Hunter (present until 9:57)
Jim Hayden
Susan Weisselberg
Carl Fortuna

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
Cheryl Kaminsky, Manager of Accounting & Financial Reporting
Tina Mateo, Asst. Director of Budget & Cash Mgmt.
Tom Gaffey, Director of Recycling and Enforcement

Others:

Thomas Goldfuss, Whittlesey
Nicole Pelletier, Whittlesey
Lindsay Tessler, Whittlesey

PUBLIC COMMENT

At the request of Committee Chairman Hunter, Director Hayden chaired the meeting.

Acting Committee Chairman Hayden called the meeting to order at 9:30 a.m. He determined that there were no members of the public who wished to comment and proceeded with the agenda.

1. **Approval of the Minutes of the July 6, 2022 Finance Committee Meeting.**

Acting Committee Chairman Hayden requested a motion to accept the minutes of the July 6, 2022 Finance Committee meeting. The motion to approve the minutes was made by Director Weisselberg and seconded by Director Hunter.

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

2. **Review Draft Annual Financial Report for Fiscal Year 2022.**

Mr. Daley began by thanking the audit team from Whittlesey including Tom Goldfuss, Lindsay Tessler and Nicole Pelletier for their hard work – and Cheryl Kaminsky, and her staff, as well, for their usual excellent performance.

He noted that the Committee's package includes the completed draft annual financial report for FY 2022, which includes Management's Discussion and Analysis, the financial statements, supplementary information and the notes to financial statements, and presented the following overview:

The goal is to go over the draft report today with the committee, wrap up a few final matters and request Board acceptance of the report at the 9/21 BOD meeting.

There are two highlighted notes to the financial statements that need to be completed and the final opinion letters issued.

We received a few edits to the document from Committee Chairman Hunter, which have been incorporated and communicated as appropriate.

In the MD&A we deleted reference to interdivisional transfer of funds and added reference to the termination provisions in the Recycling Facility O&M contract. We also requested a clarification in the opinion letter on discontinuing WTE facility operations in favor of transfer operations.

I will summarize the financial performance and MD&A topics and then Tom Goldfuss and Lindsey Tessler from Whittlesey PC, who are with us today, will go over the conduct and status of the audit.

There are three basic themes in the MD&A: that we had very strong financial performance in FY 2022; that we completed preparations for the transition to transfer activity; and that we experienced the long anticipated adverse effects of the CSWS business model and unsuccessful conclusion of Resource Rediscovery.

Very Strong Financial Performance

- In FY 2022 the Authority generated total operating income before depreciation of $19.4 million in comparison to a $1.6 million loss reported for last year.

- Operating revenue increased by $9.3 million, while operating expenses decreased by 11.7 million.

- The increase in operating revenue was from improved CSWS energy pricing, participating and non-participating tip fees.

- The decrease in operating expenses came from reduced CSWS O&M expenses, partially offset by an increase in administrative expenses -- both of which were driven by the planned shutdown of the Waste to Energy Facility.

- The Authority cut back on major maintenance activity because the Facility was being shut down, and we accrued over $1.2 million in Authority severance expense also expected in response to the shutdown.

- The Authority's unrestricted cash and cash equivalents increased by $23.3 million from June 30, 2021 to June 30, 2022.

- $17.1 million of this increase was within the CSWS associated accounts based on its financial performance, and $5.9 million was within the Property Division accounts, also based on CSWS financial performance. This is because the CSWS relied less on the Property Division's Tip Fee Stabilization Fund, which consequently increased by over $5 million in this period.

- After accounting for depreciation and non-operating revenues and expenses, the Authority's net position increased by $17.7 million from $74.4 million on June 30, 2021 to $92.1 million on June 30, 2022.

- The Authority's net position includes $30.2 million net investment in capital assets (mostly land but some equipment) and $61.9 million unrestricted and a $10,000 restricted bond associated with Ellington.

- The $10.9 million in accrued expenses on the balance sheet breaks down as follows:

Decommissioning	$ 3,300,000.00	
MIRA Severance	1,235,776.52	
Contractor Severance	2,236,944.95	
Hartford PILOT	1,500,000.00	
NAES Mng & Incent	1,688,432.00	
Accrued vacation	576,282.29	
Sub	$ 10,537,435.76	10537
Other (000)………………………………		370
Total (000)…………………………………..		10907

- GASB 87 was implemented by the Authority this year. This new rule requires recognition of lease assets and liabilities on the basis of the present value of lease payments.

- This is done in cases where the Authority is the Lessor, which produces a lease receivable and deferred inflow on the balance sheet.

- This is also done in cases where the Authority is the Lessee which produces a lease payable and right to use asset.

- The Authority is the Lessor under 5 leases producing a total lease receivable of $7.2 million and deferred inflow of $3.7 million as of 6/30/2022. (Wheelabrator, Golf, Shelton TS, Nextera solar project and Outfront media).

- The Authority is the Lessee under 2 leases producing a right to use asset totaling $220k and a lease payable of $242k.

- FY 2021 was restated on this same basis for purposes of an "apples to apples" comparison.
    - Lease receivable is present value of all payments less principle received to date

    - Deferred inflow is lease revenue received to date.

RFPs and awards for transfer activity

- The MD&A continues the documentation of the status of Resource Rediscovery and our transition to waste transfer operations.

- This is detailed in the Economic Factors and Outlook section and summarized up front.

- This year the focus is on the two RFPs for transportation and disposal of MSW, the RFP for O&M of the transfer stations and the proposed MSA amendment supporting the transition.

- We fully describe the background and rationale for undertaking the transition as well as the contract awards made to Covanta, Enviro Express, CWPM, towns that signed on to the amendment and the previously awarded contract for operation of the Recycling Facility as a transfer facility.

- This is all put in the context of right sizing the contracts and facility operations to the much smaller remaining base of participating municipalities.

Realized the long anticipated adverse effects of its challenging business model

- For quite some time we have been expressing concern over the CSWS business model's reliance on volatile non disposal fee revenue to avoid our existing MSA opt out levels because we can't continue offsetting the cost of operation through use of reserves indefinitely.

- This challenge has been compounded by the age and serviceability of the plant and the unsuccessful conclusion of Resource Rediscovery.

- This year we document the most recent $11 per ton increase in the tip fee for FY 2023, which followed a $14 increase in FY 2022.

- We also document the $5 per ton discount offered in the MSA Amendment for FY 2023, including the new future opt out values for towns signing on.

- And we disclose the ultimate outcome and impact of 29 municipalities opting out of their MSAs.

- We do note that the Authority is adequately positioned to fulfill all remaining MSA obligations within the new opt out levels, but desires to start a cooperative process to restructure contracts in a way that reduces the reserves being used to lower the cost of service to the remaining users versus other authorized purposes.

- Finally, we note the comparative nature of the new MSA opt out tip fees to the tip fees required for Resource Rediscovery which validate the Authority's expressed concerns over proceeding with such a redevelopment in the absence of significant changes to the business model.

Mr. Daley then turned to Tom Goldfuss, partner at Whittlesey, MIRA's independent auditor, to present the status and outcome of the audit.

Mr. Goldfuss summarized the status of the audit as nearly complete, with an unmodified (clean) audit opinion anticipated. He stated that the audit went smoothly with all required information provided timely and no disagreements with management. He further noted that there were no misstatements requiring correction.

3. **Informational.**

Mr. Daley reviewed the Board of Director's Financial Report for period ending July 31, 2022 with the Committee.

Authority

- The Authority Budget for personnel and non-personnel services was 25% under budget in July.

- Most of the savings was in non-personnel services including insurance, partially due to timing, and office rent which is due to GASB 87 changes.

Property Division

- The Property Division generated $1.88 million in operating revenue for July, which is $1.04 million better than budget. This was more than double the budget due to very high real time energy sales, largely offset by fuel cost but also due to very high reserve credits.

- In late April we cleared the Jets in forward reserve market for the summer period (4 months June through September) at a very high price of $7,386 / MW / month for 64 MW. Total revenue is $1.89 million.

- Then last week we cleared the Jets in forward reserve market for the winter period (8 months October through May) at the very high price of $2,500 / MW / month for 63 MW. Total revenue is $1.26 million.

- So we will likely end the year $2.75 million better than budget on the reserve credits.

- Operating expenses were $0.7 million over budget in July which is due to jet fuel purchases.

- Operating income 38.4% ($275k) better than budget for July.

- Note that the monthly budget spread provided in May for the Property Division has been modified to establish an operating contingency of $1.99 million made available by reducing Property Division income use for tip fee stabilization in the final stages of FY 2023 budget adoption.

- This operating contingency is being used to fund the NAES Jets operating contract in the absence of WTE Facility operations as provided in The Resolution Regarding Fiscal Year 2023 CSWS Deficit Funding Under Modified Program Of Operations which authorized Management to administratively implement modifications to the fiscal year 2023 Property Division and Connecticut Solid Waste Operating and Capital Budgets necessary to reflect the modified Program of Operations.

- The Property Division budget spread was also modified to incorporate the additional $520,000 in Jets real time energy sales and fuel purchase cost recently approved by the Board.

CSWS

- The CSWS generated $1.77 million in operating revenue in July, which was 49% under budget, mostly due to the absence of non- participating waste deliveries. We budgeted 15,000 tons needed to run the plant for the month of July which were not contracted or needed based on the facility's operating capability and July 19th shut down. There were offsetting savings in operating costs.

- Total accrued expenses in July were $3.57 million, which was $1.6 million (31%) under budget.

- The CSWS operating loss for July was $123k worse than budget.

- We have also done well in the CSWS reconfiguration auctions used to satisfy our capacity supply obligations to ISO New England that remain through May 2024.

- For FY 2023, we have auctioned all but a portion of our obligations for November through May in a manner that nets MIRA $1.24 million in capacity payments. This is substantially above the $53k budgeted for net capacity payments. Some of the surplus will be needed to cover expected shortage of REC sales considering the generation achieved in July, but overall, as of now, the budget for Other Energy Markets looks like it will be over a half million in surplus as the year winds down.

- The risk environment associated with these capacity supply obligations has substantially declined over the past several months.

- We have also recently auctioned off most of our obligation for FY 2024 in a manner that will net MIRA approximately $500k.

- Note need to review variances in recycling transportation and member deliveries.

Cash Flow

- In terms of cash flow, the property division generated sufficient receipts to transfer $700,242 to the Tip Fee Stabilization Fund, which applies toward the FY 2023 cap of $3,811,000. This is now a cap on Property Division transfers to the fund, and CSWS draws from the fund, in order to implement the use of reserves provided in the final adopted budget.

- The CSWS generated sufficient receipts to refund $2,512,647 to the tip fee stabilization fund.

- I want to point out that with the July flow of funds we executed the annual adjustment of the operating accounts to reflect 120 days cash for CSWS and 180 days cash for the Property Division.

Major Maintenance

- We have set up the CSWS Major Maintenance fund detail sheet to show the $2 million BOD-approved use of the Transition Contingency for Contractor Severance. In July we paid NAES approved severance for the first 9 employees laid off. These will be reported each month through the expected completion of WTE Facility layoffs, which would be reflected in the Board report for period ending September 30.

- As of now:
    - 89 originally eligible employees
    - 6 left early and became ineligible
    - 11 remain with Jets
    - 69 paid
    - 3 WTE to be paid

Decommission Reserve

- This is now set up in our financial system and shown in the BOD report. Budget reflects consultant estimates and original funding of the reserve.

4. Adjournment

Acting Committee Chairman Hayden adjourned the meeting at 10:17 a.m.