

Finance Committee
Jan. 15, 2015
Draft Minutes

Members Present: Chairman Joel Freedman (present by telephone after 10:31 a.m. and then in person after 10:40 a.m.)
Jim Hayden (present by telephone and then in person after 10:40 a.m.)
Andy Nunn (present by telephone after 10:31 a.m.)
Scott Shanley (present by telephone after 10:34 a.m.)
Don Stein (present by telephone after 10:36 a.m.)

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
Tina Mateo, Assistant Director of Budgets and Cash Management
Roger Guzowski, Contracts and Procurement Manager
Eileen Kearney, Temporary Board Administrator

Others Present: John Pizzimenti, USA Hauling and Jim Sandler, Sandler & Marra

PUBLIC COMMENT

Chairman Freedman called the meeting to order at 10:35 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 Dec. 11, 2014, Regular Finance Committee Meeting

Chairman Freedman requested a motion to accept the minutes of the Dec. 11, 2014, Finance Committee meeting. The motion to approve the minutes was made by Director Shanley and seconded by Director Nunn.

The motion to approve the minutes was approved unanimously by roll call.

2. Review and Recommend for Board Approval – FY 2016 Property Division Operating and Capital Budget

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

RESOLVED: That the Fiscal Year 2016 Materials Innovation and Recycling Authority Operating and Capital Budget attached hereto as Exhibit A be adopted substantially in the form as presented in Exhibit B attached hereto and discussed at this meeting.

Mr. Daley began a discussion of the background of the motion and provided an analysis of the operating budget and the changes in it. He noted that there were improvements in the budget from FY'14 actuals to FY'15 adopted. He continued by saying that there was \$7,000,000 in operating revenue, \$3,500,000 of income distribution to reserves and \$720,000 in tip fee stabilization based on current needs to meet FY'16. Director Shanley asked for further details on the tip fee stabilization. Mr. Daley said that the Authority was doing better in the Property Division. He presented a full analysis on the \$7,250,000 figure and said that after the budget reached \$7,000,000, the contributions go over to the General and Improvement Funds. He noted that the main increase in revenues was due to a 3.4% increase in capacity payment in the jets and an increase in ISO rates. He also said that reserve credits and real time energy were held at FY'15 budget. He said that there was reduction to the VARS revenue. As way of background, he noted that there was a reduction to gas revenue from FY'14. He said that there was a small increase in Bridgeport project which reflects the terms and conditions of those leases. He noted that in South Central facility capacity used in the Property Division for the Wallingford plant had been reduced to reflect the need for that and the status of that facility. He then said that for the Trash Museum budget, education revenue was reduced.

Director Shanley asked if there had been any feedback from DEEP on the plans for the Trash Museum. Mr. Kirk responded that he had reached out to DEEP, but would do so again if the Committee felt it appropriate. Mr. Daley continued his discussion on the museum budget by saying that there had been a 23% allocated reduction from the Authority budget due to personnel and non-personnel services adjustments.

In the area of the jets, he said that the main areas of reduction in its budget were due to fuel; jets (down from 375,000 to 361,000) and that operating hours were reduced to 15.

Director Shanley asked a question on the \$2,200,000 contribution to PILOT. He said that he thought the Committee had decided it should be \$1,500,000 on spread. Mr. Daley reviewed the prior discussions of the full Board regarding PILOT.

Mr. Daley then continued his discussion on jets, noting that there had been a reduction on hours and provided further background in the area by saying that there is a five year testing cycle and that 2015 was the last year that it was done. Director Shanley asked a question on jet fuel asking how old are the figures and how accurate is the assessment today. Mr. Egan provided details on how the cost was calculated based on an average during the fall of 2014; noted the average price and said that the current price in January is \$2.50. He continued by saying that the Authority was being prudent on budgeted price as there will be unknowns in the next year. Director Shanley commented that the budget price might have been overly conservative. Discussion continued further with Mr. Egan providing further background on the matter. Mr. Kirk interjected on the impact to the bottom line is negligible as fuel is essentially a pass through cost.

Mr. Daley then provided analysis on total operating revenue and said that it was \$7,000,000 with electric generation from jets being the highest portion of it and lease income being the next highest component. Mr. Daley continued discussion on the budget of the museum and its future. He indicated that in FY'16, there will not be any confirmed visits scheduled at the museum and this was reflective of the uncertainty of the Foundation status. Chairman Freedman asked if we have told customers that will occur after July 1 and that this is tentative. Mr. Kirk responded that the museum was taking reservations.

Chairman Freedman then asked if the Authority had indicated this to DEEP. Mr. Kirk responded affirmatively and said that about a month ago he had sent an e-mail to Mr. Mackey and that he would contact them again at the request of the Finance Committee.

Mr. Daley presented a further analysis of operating expenses, allocated costs for personnel services, non-personnel services, direct personnel services and total allocated costs. He said that Direct Non Personnel Services totaled \$266,000 and other property O&M was \$402,000. He then directed his presentation to operating expenses relating to the jets. He said that \$820,000 of the expense came from the contract with NAES. For the Trash Museum, he said that operating expenses for it were budgeted at \$5,000. Director Stein asked if the museum was ready to shut down by June 30 if DEEP doesn't take it over. Mr. Kirk responded that there were no plans, but we'd play it by ear. Mr. Daley then interjected that after that date, the educators would be repurposed with their focus to be on customer service and that there was money in the FY'16 Authority budget for this purpose. He said that the building was fully funded. Mr. Shanley noted that the Authority should not embarrass DEEP about this issue. Director Stein commented that the Authority should focus on the right balance. Mr. Daley indicated that MIRA was trying to strike a balance. Chairman Freedman then noted that MIRA should be more robust and specific in its communication with DEEP, that the Authority was transferring to a customer service capacity on this and that it should request of the agency that MIRA needs to know its status on the issue and what the agency's intentions were on this.

Mr. Dailey then directed his presentation to the area of operating revenue and then discussed historical comparison of Property Division income. He said that there had been an increase in capacity, that this was \$2,300,000 in FY'15 and that for FY'16 it would be \$2,500,000. He then discussed the sustainability of jets; noted that the cost of recommended technology is estimated at \$13.6 million dollars; that the completed engineering report had concluded by saying that the feasibility of the retrofit exists to allow the jets to operate beyond the expiration of the trading order under the most stringent regulations and that an economic analysis is needed to determine the benefit/cost.

His presentation then continued by discussing upcoming ISO deadlines, regulation changes and how the Authority could respond to the changes that would affect the jets. He provided the details on dates, potential effects on FCA #10, FCA # 8 and FCA #9 on the Authority and the jets.

He further noted that there will be a new proposal from DEEP on its regulation relating to phased requirements and compliance alternatives. He noted that this occurs after the delist deadlines for FCA numbers 10 and 11 covering CSO's through May 31, 2021.

Director Shanley then made a related comment to Mr. Kirk and Director Stein stating that the Committee needs to have a discussion on how to comply with these regulations and show clarity regarding costs to handle trash and jets to provide energy. Mr. Kirk indicated his agreement and noted that the Authority would need to figure out the best way to handle this reporting. Mr. Daley then said that the draw on the tip fee for CSWS would be discussed in the Board package and also the liability withdrawals for CSWS to pay to the tip fee stabilization fund. Director Shanley then noted that the \$7,000,000 cap on this may be affected much sooner and that the Committee needed to be clear how and when this will have a direct impact on how to make a decision on this.

Mr. Dailey then continued discussion on the Property Division topic of jets. He noted that there was a \$936,600 contribution to the fund. He provided details noting that this includes Collins Building roof replacement; jet facility needs and that air intake screens needed to be done earlier with the cost for that being \$149,000. He said that for the Board meeting, he would revise this and take it off the list and put the cost on the general fund instead. He then continued by saying the Murphy Road air conditioning system was beyond its useful life, that it may not continue to operate and that this may need to be added to the HV budget. He said that the cost to redo the building would be \$131,000 and that CONSERV would be available to assist with this. He noted that there was \$41,000 in grants that were available to us in order to reduce cost to the Authority, that it represented a no interest loan and the cost could be spread out over a 4 year period at 0% interest. Mr. Egan indicated his agreement. Chairman Freedman asked when should the agreement be executed and Mr. Egan responded that there were no plans yet on it.

The motion previously made and seconded was approved unanimously by roll call.

3. Review of FY 2016 CSWS Budget Development

Mr. Dailey provided an update on FY 2016 CSWS Budget Development review. He noted that MIRA is in the process of developing the CSWS budget and is setting priorities. He said that this will be discussed at the Finance Committee meeting and then presented at the February Board of Directors' meeting. He continued by saying that it will be the same format as last year; that there would be more resources to the power block; that resources will be needed to operate at level and the objective would be resource allocation. He said that to do this, the Authority will need to live within its means and discussed tip fee opt-out and CPI adjustment. He said that for non-disposal fees, there would be \$9,400,000 available for the Improvement Fund and that Mr. Egan and his group will work with this amount and some existing funds that will be rolled over from FY'15 – FY'16 to work within those parameters.

Mr. Daley then continued his discussion and covered the area of Uniform Base Disposal Fee for FY'16, which has a short term proposed disposal fee of \$64.58 for Tier 1 Short Term and \$62.58 for Tier 1 Long Term. He noted that the cuts were difficult. He then discussed how this would be done by postponing the five year scheduled outage of turbine 6 and that this would require a consultant engineer's opinion.

Mr. Daley suggested that the February Board adoption of the CSWS budget be put off noting the timeframe for I and that there will be an October 2015 final decision for following April, ten months before a final decision on the final turbine that would need to be made and that there would be opportunity to revisit the decision between then and the following October.

Director Shanley asked a question on the progress that would have to be made to reach its 2017 goal of identifying a new technology. Director Stein responded there had been some progress. Director Stein said that the state is trying to set up coordination meetings between Board staff and DEEP, the earliest that they are setting for this is early March and he is working with Lee Sawyer to get a date. He thinks the first time he and Tom, Mark, Peter, Dick Barlow and John will be in early March. Mr. Kirk then discussed the hard statutory date to set the RFP by DEEP, that the state is not in a sufficient position to write an RFP and that this would give MIRA a successful outcome. He is encouraged that this has to happen by a date certain. At the same time, he said that the state is challenged to write a solid waste management plan. Mr. Egan then noted that based on the 2016 timetable, this would result in six months to respond to the RFP; next would be the identification of 3 candidates for the bid and then by January

2017, a more detailed response would be required from the 3 top bidders. He said that it was promised by June of 2016 and eighteen months later, the result would occur.

Chairman Freedman asked if CSWS reserves for legal matters needed to be included as part of this discussion now or should it be discussed in executive session. Mr. Daley indicated that there was \$600,000 in it between now and June. Ms. Hunt commented that the discussion should take place in executive session. Chairman Freedman asked if the legal reserves were for non-litigation matters and Ms. Hunt responded that it was for CSWS. Mr. Daley then discussed how legal expenses would not get charged to the reserves unless the cost for them goes beyond the operating budget, that it was not anticipated that the reserves would have to be touched and said that this was done by asking for more in operating expenses for legal so that reserves would not have to be touched.

Mr. Daley then made a presentation on non-disposal fee revenue. He said that energy sales were \$22.5 million and this included the assumption of what could be paid for and what MIRA could get for contracts for FY'16 for the first 20 megawatts of power. He then noted that other recovered products was \$3.1 million (\$405,000 or a 15.3% increase) and this was due to container sales mainly and also to metal sales. For contracted waste, he indicated that contract rates and tonnage under contract was used for the calculation, that there were some changes in how waste comes in under some contracts and that the revenue in this category was \$14.4 million. In the category of spot waste, he said that the figure was a 15.3% reduction due to lock in prices, interruption and average price was down.

Director Stein asked a whether the ash could be going to other places. Mr. Egan responded no that this was due to regulatory issues with DEEP and Mr. Egan noted that this involved beneficial use of ash reuse. He also said that CRRA pursued the matter, and it was determined that the ash could not be viably reused. Director Stein asked for further clarification on the cost from DEEP to dispose of the ash and further discussion continued on ash composition and on DEEP and EPA concerns in use of this ash. Mr. Kirk indicated that in Pennsylvania and Florida ash disposal permits reuse yet it is still landfilled due to costs.

Mr. Daley then discussed key drivers. He noted that total MSW deliveries were 701,000; that this was a 200 ton reduction; that total MSW to RDF production rate was a 97.6% reduction; that total RDF was 693,000 tons; RDF to kW hours production rate was 541kW hours/ton; energy production was \$.0549 kW hours; RDF to ash production was 26.0% and he noted that ash to disposal was 174,000 tons which Mr. Egan confirmed.

Chairman Freedman asked for clarification on the 395 at \$.0546 calculation. Mr. Daley responded that this assumption may change depending on this and next month. He commented that November and December's prices were terrible. Mr. Kirk indicated agreement. Chairman Freedman then commented that 5 cents may be too optimistic. Mr. Kirk noted that this assumption and the bid in December were based on best information we had. Mr. Daley concurred and made reference to the La Capra report. He also said that he didn't see the basis going lower and the calculation was based on the best information we have. Mr. Kirk commented on profit margin and gas margin.

Chairman Freedman asked Director Stein if the tip fee discussion to be made at the Board would be open for discussion at this meeting. Director Hayden and Chairman Freedman agreed that it should. Mr. Kirk then noted that it would be a helpful to get consensus from the Board next week.

4. Update on FY 2016 Southeast Project Budget

Mr. Daley began the discussion of the topic by saying the Board had adopted this budget at the November meeting and that SCRRRA had adopted the budget at \$100,000 at their subsequent Board meeting. He noted the differences between the two adopted budgets in the exhibit presented at this meeting. He also said that there will be a joint board meeting between MIRA and SCRRRA on Jan. 28, 2015. Mr. Daley that both budgets can be accommodated and no action will be required at this meeting.

5. Discussion of MIRA Financial System Upgrade

Mr. Daley presented an update on the MIRA Finance System Upgrade and said that it was needed. He said that the cost was just under \$50,000 (somewhere between \$44,000 and \$45,000). Director Shanley commented that MIRA should not go cheap on training and this should be included in the price. Mr. Daley said that if the cost exceeds \$50,000, the issue will have to be presented to the Policy & Procurement Committee due to purchasing authority limits and intellectual property authority. Mr. Gusowski confirmed that it related to intellectual property. He continued by saying that he wanted the Committee to be aware of the cost and noted to the Committee that there were two capability issues: server and operating system and Report Writer/JAVA. Mr. Daley also noted that part of the estimate covered changes to graphic interface and it also eliminated customization which was a problem last time.

6. Informational

The informational section was reviewed. Mr. Daley noted that income was at \$750,000 and was \$195,000 less than budget. He also said that total operating income year to date was \$2,200,000 and this was \$1,500,000 under budget. He discussed electric prices and production; noted expenses were on target and discussed operating expenses. He also noted that recycling revenue was a bright spot and was well above budget. He then noted the Property Division financials were 40% above on income and operating expenses were over budget due to jet fuel purchases made to replenish storage from prior use. He then continued and discussed cash flow. He said that there were \$1,200,000 receipts from November and December and that the December report on tip fee shows \$5,000,000 replenished as of December 31. He also told the Committee that the CAFR is done and that Mr. Kirk has presented it to the Board. Mr. Kirk indicated that this was done to customers to show transparency. Mr. Daley then said it had been submitted to GSDA for a May timeframe. Mr. Daley also noted that he wanted to commend Deepa Krishna for her efforts on the report.

EXECUTIVE SESSION

Chairman Freedman requested a motion to enter into Executive Session. The motion was made by Director Hayden and seconded by Director Shanley. The motion previously made and seconded was approved unanimously by roll call. Chairman Freedman requested that the following people remain for

the Executive Session, in addition to the Committee members:

Tom Kirk
Mark Daley
Laurie Hunt
Peter Egan

The Executive Session commenced at 12:10 p.m. and concluded at 12:29 p.m.

The meeting was reconvened at 12:29 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

Chairman Freedman requested a motion to adjourn the meeting. The motion was made by Director Hayden and seconded by Director Shanley.

The meeting was adjourned at 12:30 p.m.

Respectfully submitted,

Eileen Kearney
Temporary Board Administrator