

STATE OF CONNECTICUT



**AUDITORS' REPORT
CONNECTICUT RESOURCES RECOVERY AUTHORITY
FOR THE FISCAL YEARS ENDED
JUNE 30, 2010 and 2011**

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

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AUDITORS' REPORT CONNECTICUT RESOURCES RECOVERY AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2010 and 2011

We have audited certain operations of the Connecticut Resources Recovery Authority (CRRA) in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes, for the fiscal years ended June 30, 2010 and 2011. The scope of our audit included, but was not necessarily limited to, fiscal years ended June 30, 2010 and 2011. 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 operates primarily under the provisions of Sections 22a-257 through 22a-285k of the General Statutes. The authority is 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 is 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 is 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 are to provide for the support of the authority and its operations on a self-sustaining basis. Unrestricted net assets are available to finance future operations or to be returned through reduced tipping fees or rebates. The board of directors of the authority may also designate unrestricted net assets for special purposes.

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

Significant Legislation

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 the Department of Energy and Environmental Protection (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 Appropriations, Environment, and Government Administration and Elections committees by October 30, 2013. In addition, CRRA was required to develop a transition plan for either long-term financial stability or dissolution.

Public Act 14-94, effective June 6, 2014, dissolved CRRA and established the Materials Innovation and Recycling Authority (MIRA) as a successor authority. The act revised the authority's activities, powers, and purposes and required the commissioner of DEEP, along with MIRA, to seek proposals to redevelop the Connecticut Solid Waste System.

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, 2011, the directors of the authority were as follows:

Appointed by the Governor:

Michael A. Pace, Chair
Louis J. Auletta, Jr.
Timothy C. Griswold

Appointed by Legislative Leaders:

David Damer
Michael J. Jarjura
Dot Kelly
Theodore H. Martland
Scott Slifka
Don Stein

There were two vacancies.

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 are the Mid-Connecticut, Bridgeport, Southeast and Wallingford Projects.

As of June 30, 2011, there were four ad hoc members appointed by the Governor and four vacancies.

Stephen Edwards	Bridgeport Project
Mark Tillinger	Bridgeport Project
Steven Wawruck	Mid-Connecticut Project
Robert L. Painter	Mid-Connecticut Project

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 November 21, 2002, 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.

The authority's debt for the Mid-Connecticut facility is secured by revenues from participating member towns under service agreements that commit the towns to deliver a minimum amount of waste to the facility each year. In addition, the non-defeased Mid-Connecticut project bonds are further secured by municipal bond insurance and by the Special

Capital Reserve Fund (SCRF) of the State of Connecticut, whereby the state is obligated to maintain a minimum capital reserve for the bonds to the extent the authority uses monies in the SCRF to pay debt service on the authority's outstanding bonds. As of June 30, 2010, the authority had approximately \$8,050,000 in Mid-Connecticut bonds outstanding, comprised of 1996 Series A Bonds, secured by the state's SCRF.

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, a general fund, and two inactive projects. Each of the operating systems has a unique legal, contractual, financial and operational structure described as follows:

Mid-Connecticut Project

The main components of this project are located in Hartford and consist of a waste processing facility, power block facility and regional recycling center located in Hartford. There are four operating transfer stations located in Torrington, Essex, Watertown and Ellington, and landfills in Hartford and Ellington. The Mid-Connecticut Project was certified for commercial operation on October 25, 1988.

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 Mid-Connecticut Project is the only facility in Connecticut to utilize RDF technology.

In conjunction with the deregulation of the state's electric industry, the authority acquired energy generating assets that include four peaking jet turbines, two steam turbines, and certain land and other assets from the Connecticut Light and Power Company.

The authority set the Mid-Connecticut Project tipping fee for municipalities at \$69 per ton for fiscal year 2011. 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>2010-2011</u>	<u>2009-2010</u>
MSW Tonnage Processed	786,138	789,333
Member and other Service Charges	\$53,847,000	\$49,496,000
Energy Generation	\$29,223,000	\$30,258,000
Member Town Tipping Fee Per Ton	\$69	\$69/\$63

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

The Mid-Connecticut Project includes two intermediate processing facilities located in Hartford. At these facilities, recyclable materials are delivered from member towns, separated and sold to end markets. One facility processes newsprint, corrugated cardboard, and office paper. The second processes glass, plastic, and metal containers. The authority owns the container processing portion of the Regional Recycling Center and leases the paper processing portion. A new combined recycling facility, replacing the container only processing facility, opened in May 2007. This new facility was designed and built by FCR. Under the FCR agreement with CRRA, FCR paid the entire cost of the project.

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

The authority owns four transfer stations. The Torrington Transfer Station opened in March 1988. The Essex Transfer Station opened in October 1988. The Ellington Transfer Station opened in August 1990 and the Watertown Transfer Station opened in December 1990. The authority leases the land for the Essex Transfer Station and the paper-processing portion of the Regional Recycling Center and owns the land for the Resources Recovery Facility.

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 owns the Ellington Landfill, which was closed in 1998.

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 Bridgeport. On January 1, 2009, the authority created the Southwest Division to service 12 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. The mass-burn technology is much simpler than the RDF technology. The Bridgeport facility has an annual rated capacity of 821,250 tons of municipal solid waste.

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.

Member fees provided \$14,361,000 and tipping fees were set at \$64.16 for the Southwest Division for the fiscal year ending June 30, 2011.

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. The authority retained the right to deliver 25,000 tons per year of solid waste. The five original Wallingford Project towns continue to deliver their solid waste to the facility under separate agreements.

Southeast Project

The Southeast Project consists of a mass-burn resources recovery facility in Preston and a landfill in Montville, which has been closed. 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 permit capacity of this project is 251,850 tons of municipal solid waste per year. 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>2010-2011</u>	<u>2009-2010</u>
MSW Tonnage Processed	261,254	268,984
Member and other Service Charges	\$8,152,000	\$9,358,000
Energy Generation	\$17,301,000	\$16,514,000
Member Town Tipping Fee per Ton	\$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, as compared to the previous fiscal year, were as follows:

	<u>2010-2011</u>	<u>2009-2010</u>
Operating Revenues:		
Service Charges: Members	\$ 56,889,000	\$ 64,393,000
Service Charges: Others	19,439,000	17,597,000
Energy Sales	46,524,000	49,203,000
Ash Disposal and Other Revenues	<u>9,215,000</u>	<u>6,929,000</u>
Total Operating Revenues	<u>132,067,000</u>	<u>138,122,000</u>
Operating Expenses:		
Solid Waste Operations	113,219,000	125,407,000
Depreciation/Amortization	18,009,000	17,292,000
Maintenance and Utilities	1,237,000	1,365,000
Landfill closure/Post-Closure	214,000	(2,495,000)
Project Administration	8,795,000	9,095,000
Distribution to Member Towns	<u>20,656,000</u>	<u>1,639,000</u>
Total Operating Expenses	<u>162,130,000</u>	<u>152,303,000</u>
Operating (Loss)/Income	(30,063,000)	(14,181,000)
Non-Operating (Expenses) and Income	<u>(1,614,000)</u>	<u>5,363,000</u>
Net Income (Loss)	<u>\$ (31,677,000)</u>	<u>\$ (8,818,000)</u>

Operating revenues during fiscal year 2011 decreased by \$6.1 million, or 4.6 per cent, from fiscal year 2010. This decrease is attributable to a \$7.5 million reduction in member service charges and a \$2.3 million reduction in other operating revenues. These decreases were offset by \$4.1 million increases in other service charges and other operating revenues.

Operating expenses, net of depreciation, increased by \$9.1 million, or 6.7 per cent, from fiscal year 2010 to fiscal year 2011. Most of this increase can be accounted for by a \$19 million increase in distributions to member towns and a \$2.7 million increase in landfill closure and post-closure care costs. These increases were primarily offset by a \$12.2 million decrease in solid waste operations.

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 costs for the fiscal year ended June 30, 2010, were \$214,000.

CONDITION OF RECORDS

Our examination of the records of the Connecticut Resources Recovery Authority did not reveal any matters requiring disclosure.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit, covering fiscal year 2009, contained one recommendation.

The authority should allocate the necessary resources to ensure that sample test counts are performed on all its operating vendors' quarterly physical inventories. We found that the authority substantially implemented this recommendation. Therefore, it is not being repeated.

CONCLUSION

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



Patricia Wilson
Administrative Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts