AUDITORS' REPORT

Materials Innovation and Recycling Authority

FISCAL YEARS ENDED JUNE 30, 2021 AND 2022

STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor

CRAIG A. MINER
State Auditor

CONTENTS

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

CRAIG A. MINER

March 7, 2024

INTRODUCTION

We are pleased to submit this audit of the Materials Innovation and Recycling Authority (MIRA) for the fiscal years ended June 30, 2021 and 2022 in accordance with the provisions of Sections 1-122, 2-90 and 22a-263 of the Connecticut General Statutes. Our audit identified a need for improvement in practices and procedures that warrant management's attention.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Materials Innovation and Recycling Authority during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Romina Andrade
George Meleounis
Michael Stemmler

Michael Stemmler
Principal Auditor

Approved:

John C. Geragosian
State Auditor

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Materials Innovation and Recycling Authority disclosed the following recommendation, which was not repeated from the previous audit.

Finding 1

Excessive Separation Terms in Employment Agreements

Background

In July 2022, MIRA closed its Hartford resource recovery facility. In connection with its decommissioning and closure, MIRA terminated employment agreements with four top executives, effective January 6, 2023.

Criteria

The MIRA employee handbook requires that any employee who is notified that their employment will be terminated pursuant to a position elimination, reorganization, restructuring, reduction in force, or other related circumstance is entitled to a separation payment at the conclusion of the three-month working notice period. The separation payment would equal two weeks of pay per year of service, with a minimum of ten weeks and maximum of sixteen weeks of separation pay.

The handbook includes a disclaimer that allows the authority to vary from its policies and procedures. However, sound business practice dictates that an organization should make reasonable efforts to conform with its policies and document any reasons for significant deviations.

Condition

In October 2022, the board approved $1,044,980 in lump sum severance and COBRA health insurance payments to four executives. In our review of four executives' employment agreements, we found a condition providing a year of severance pay at the employee's annual salary rate from the date of termination. In addition, the agreements included a year's COBRA reimbursement for the employee and their eligible dependents. This clearly exceeded the 16-week maximum in the employee handbook. MIRA cited its statutory authority and employee handbook language which permits it to deviate from its policy. However, the authority was unable to provide written justification for this deviation.

Context

In June 2021, the board adopted a $2,540,000 severance budget. In October 2022, the board authorized $1,044,980 in severance and COBRA payments to four executives. We reviewed all payments to these four executives.

Effect

The authority’s employment agreements allowed for severance payments that exceeded policies in its employee handbook.

Cause

It appears MIRA did not take into consideration established policies when developing the terms of these agreements.

Prior Audit Finding

This finding has not been previously reported.

Recommendation

The Materials Innovation and Recycling Authority should consider established policies when formulating employment agreements. The authority should document significant deviations from these policies and the reasons for these differences.

Agency Response

“The MIRA Dissolution Authority (the "Authority") appreciates the review by the APA with respect to certain executive employment agreements of (at the time) MIRA. We respectfully do not agree with this finding. Certain key facts and contextual circumstances might not have been fully appreciated in APA's review as will be explained briefly here. The MIRA Board did approve severance agreements that varied from the ‘handbook’. However, the handbook was not written for the dire circumstances MIRA faced and the Board did not consider the handbook conditions sufficient to retain key talent. MIRA's employment counsel provided APA with significant documentation of its legal authority to enter into the agreements which APA acknowledged as correct when stating that ‘The Employee Handbook includes a disclaimer allowing MIRA to vary from the policies and procedures’ Counsel also noted: ‘The executive employment agreements recognized the exemplary contributions of the executives and secured the retention of these highly qualified executives…’ Moreover, MIRA has been governed by a duly appointed Board of Directors specifically charged with making informed, sound business decisions necessary to ensure an essential government function (waste management). The Board has been cognizant of existential threats to the organization that have persisted for years, and acted appropriately within its authority, with advice and justification of counsel, to attract and retain qualified personnel despite these circumstances. These threats include volatile, sometimes plunging, wholesale energy and recycling market prices, surging plant maintenance costs and legislative mandates including funding sweeps. Needed personnel were successfully retained through completion of a managed shut down of MIRA's facility in Hartford and transition to waste transfer activity without interruption to waste management services. Accordingly, we submit that MIRA's actions were not only justified but absolutely necessary in the dire circumstances MIRA faced, and it acted appropriately within its legal authority."

Auditors' Concluding Comments

We understand that the MIRA employee handbook allowed the authority to deviate from established policies. However, the authority should have documented its reasons for these significant deviations.

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our prior audit report on the Materials Innovation and Recycling Authority contained two recommendations. Both have been implemented or otherwise resolved.

Prior Recommendation	Current Status
The Materials Innovation and Recycling Authority should prepare and submit its annual plan of operations to the Department of Energy and Environmental Protection for consistency with the statewide solid waste management plan as required by Section 22a-264 of the General Statutes.	RESOLVED
The Materials Innovation and Recycle Authority should strengthen procurement procedures to ensure that it complies with its policies and procedures and sections 22a-268 and 22a-268a of the General Statutes.	RESOLVED

OBJECTIVES, SCOPE, AND METHODOLOGY

We have audited certain operations of the Materials Innovation and Recycling Authority in fulfillment of our duties under Sections 1-122, 2-90 and 22a-263 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2021 and 2022. The objectives of our audit were to evaluate the:

1. Authority's significant internal controls over compliance and its compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including as applicable, but not limited to whether the 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;

2. Authority's internal controls over certain financial and management functions; and

3. Effectiveness, economy, efficiency, and equity of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, meeting minutes, and other pertinent documents. We interviewed various personnel of the authority and certain external parties. We also tested selected transactions. This testing was not designed to project to a population unless specifically stated. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the 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 a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying financial information is presented for informational purposes. We obtained this information from various available sources including the authority's management and the authority's information systems. It was not subject to the audit procedures applied in our audit of the authority. For the areas audited, we:

1. Did not identify deficiencies apparent non-compliance with laws, regulations, contracts and grant agreements, policies, or procedures;

2. Identified apparent deficiencies in internal controls; and

3. Identified a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents a finding and recommendation arising from our audit of the Materials Innovation and Recycling Authority.

ABOUT THE AGENCY

Overview

The Materials Innovation and Recycling Authority (MIRA) was established as a successor to the Connecticut Resources Recovery Authority (CRRA) by Public Act 14-94, effective June 6, 2014. MIRA operates primarily under the provisions of Title 22a, Chapter 446e of the General Statutes. Section 22a-261(a) of the General Statutes names MIRA a public instrumentality and political subdivision of the state created for the performance of an essential public and governmental function. MIRA is a quasi-public agency subject to the requirements within Section 1-120 of the General Statutes. MIRA's financial information, as a component unit, is included in the State of Connecticut's Annual Comprehensive Financial Report (ACFR).

The mission of MIRA is to work for and in the best interest of the state's municipalities and residents in developing and implementing environmentally sound solutions and best practices for solid waste disposal and recycling management. MIRA provides solid waste management services to municipalities, regions, and persons within the state by receiving solid waste at MIRA facilities, recovering resources from solid waste, and generating revenues from the services sufficient for MIRA to operate on a self-sustaining basis. During the audited period, MIRA's financial interests and activities were focused within its operations of the Connecticut Solid Waste System (CSWS) and Property and Landfill divisions.

On January 2, 2018, the Department of Energy and Environmental Protection (DEEP) announced its selection of the Sacyr Rooney Redevelopment Team (SRRT) to modernize and operate the Hartford plant on a long-term basis. To help fund the improvements, MIRA sought increases to tipping fees (charges to haulers for disposal of waste). However, the authority was not successful in securing these increases, due to already high tipping fees and the length of commitment. The authority sought state support to maintain the viability of the project. In early fiscal year 2021, the state formally rejected support of the redevelopment project, citing the magnitude of refurbishment investment required. The lack of state support, coupled with the decline in operational performance, led to MIRA shutting down the plant in July 2022. Due to the reduction of operations, MIRA reduced its staff by approximately 50%. This involved significant management reorganization, including the departure of the president and two directors in January 2023. The chief financial officer also assumed the president's role after his departure.

Public Act 23-170 created the MIRA Dissolution Authority (MDA) to succeed MIRA effective July 1, 2023. MIRA's waste transfer operations, reporting, and business activities would continue uninterrupted under the governance of MDA in fulfillment of existing municipal service agreements, operating, and other contracts. In addition to MIRA's existing statutory authority, MDA's interim mission is to identify the immediate environmental needs and knowledge necessary for future redevelopment of the South Meadows site. MDA would continue MIRA's waste management and related operations but will orderly and responsibly wind them down by July 1, 2026.

Organizational Structure

Board of Directors and Administrative Officials

Pursuant to Section 22a-261(b) of the General Statutes, the powers of MIRA are vested in and exercised by a board of directors. The MIRA board consists of 11 members who represent municipalities or are experts in the field of energy, environment, public or corporate finance, or business. The board includes three members 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. No director may be a member of the General Assembly. The Governor appoints the chairperson of the board. The board adopts bylaws and procedures it deems necessary to carry out its functions.

Board members with expired terms may continue to serve until a successor is appointed in accordance with Section 4-1 of the General Statutes. In addition, the board established several committees and subcommittees to assist the full board in making decisions. During the audited period, these committees were Finance, Synergy and Human Resources, and the South Meadows Transition (formerly Policies and Procurement).

Thomas D. Kirk served as president of MIRA throughout the audited period. Upon Thomas D. Kirk's departure in January 2023, Mark Daley, previously Chief Financial Officer, assumed the role of President and Chief Financial Officer.

Significant Legislative Changes

Public Act 23-170, effective July 1, 2023, created the MIRA Dissolution Authority (MDA) to succeed MIRA. MIRA's waste transfer operations, reporting, and business activities would continue uninterrupted under the governance of MDA in fulfillment of existing municipal service agreements, operating, and other contracts. In addition to MIRA's existing statutory authority, MDA's interim mission is to identify the immediate environmental needs and knowledge necessary for future redevelopment of the South Meadows site. MDA would continue MIRA's waste management and related operations but will orderly and responsibly wind them down by July 1, 2026. The Department of Administrative Services shall constitute a successor agency to MDA effective July 1, 2025.

Financial Information

Connecticut Solid Waste System Project

The Connecticut Solid Waste System (CSWS) is the primary operating division of the authority. As of June 30, 2022, CSWS provided solid waste disposal and recycling services to 23 municipalities and 19 private haulers in the state. The authority's reduced base of municipal customers allowed the authority to close its transfer station in Watertown and its recycling facility in Hartford. Ongoing waste transfer services are provided through operation of the Torrington and Essex transfer stations.

The Hartford resource recovery facility was officially closed in July 2022. Throughout the audited period, the plant was responsible for processing approximately one-third of the state's solid waste by burning and converting that energy to electricity. The facility has three combustion boilers to incinerate the refuse-derived fuel and create steam. The two steam turbines convert that steam into electricity. The facility processed 488,285 and 483,490 tons of municipal solid waste and generated 250,076 and 232,866 megawatt hours of energy in the fiscal years ended June 30, 2021 and 2022, respectively.

The member tipping fees for waste disposal are based on a tiered contractual arrangement at $105.00 per ton for the fiscal year ended June 30, 2022. The CSWS business model provides that participating town waste disposal fees be set at the level necessary to fund its net cost of operation. The net cost of operation is the total operating budget less the revenue from the sale of generated energy, the use of CSWS by non-participating municipalities, and the recycling activities. Therefore, the change in energy price directly affects the tip fees charged to participating towns. Some of the town contracts include tip fee opt-outs, which if exceeded, allow the towns to terminate the contract. Non-disposal fee revenues in recent years have been volatile enough to cause tip fees to approach and ultimately exceed this opt-out level through the 2022 fiscal year. As of the close of fiscal year 2022, 29 municipalities opted out of their municipal services agreement, 21 municipalities agreed to amend their contracts to incorporate more sustainable opt out levels, and two municipalities did not opt out or amend their contracts.

Below is selected revenue information from the audited financial statements along with the processed municipal solid waste (MSW) tonnage and member town tipping fees for the audited period and the preceding year:

	As of June 30,		
	2020	2021*	2022
Municipal Solid Waste Processed (ton)	518,198	489,082	475,119
Recyclable Processed (ton)	73,356	45,995	49,996
Member and Others Service Charge ($)	43,210,000	43,906,000	48,875,000
Energy Generation Net of In-Plant Usage (MWh)	272,654	250,076	232,866
Energy Sales ($)	13,322,000	13,928,000	20,584,000
Member Town Tipping Fee per Ton ($)	83	91	105

* Restated upon implementation of GASB 87.

Property Division

When the Mid-Connecticut and Bridgeport projects expired, all capital assets retained by MIRA, except for those associated with landfills, were assigned to the Property Division. These primarily included the Hartford resource recovery and recycling facilities, three transfer stations, jet-powered electric generating peaking units, the Bridgeport project's land, and the recycling facility in Stratford. The division derives operating income primarily from the lease of property and the sale of jet turbine electric generating capacity in various ISO New England energy markets.

MIRA established the Tip Fee Stabilization Fund within the Property Division to help address the challenge of energy revenue volatility. The primary source of revenue for this fund is the income generated by MIRA's peaking units. Management may draw funds to support the Connecticut Solid Waste System's net cost of operations when wholesale energy revenue is low. As of June 30, 2022, the cash balance of the fund was $5 million and $62.93 million had been used to subsidize CSWS tip fees, which is contingently due back to the fund from the CSWS. The authority's jet peaking units operated subject to a trading order with the Department of Energy and Environmental Protection that allowed the units to run through May 31, 2023, when they were retired. The authority's ability to subsidize tip fees is now primarily limited to the use of reserves.

Landfill Division

The Landfill Division consists of three closed landfills and adjoining properties in Ellington, Shelton, and Waterbury. Certain plant and equipment installations associated with these landfills, and the leased Hartford landfill, were also assigned to this division. During fiscal year 2016, the authority's Hartford Landfill lease and subsequent short-term access agreement expired resulting in the transfer of associated plant and equipment to the City of Hartford. Ownership of the solar array installed by the authority on top of the Hartford landfill remains with the authority subject to a new long-term site access and revenue sharing agreement with the City of Hartford. The authority's financial interests and activities concerning this solar array are recognized within the Landfill Division. The division generates revenue from the sale of electricity produced by the solar panel system on top of the Hartford landfill. The authority no longer has liabilities for closure and post-closure care of landfills as they have been certified as closed and the obligations transferred to the Department of Energy and Environmental Protection pursuant to state statute.

Statement of Net Position

Based on MIRA's audited financial statements, a summary of assets, liabilities, and net position follows:

	Fiscal Year Ended June 30,		
	2020	**2021***	**2022**
Assets			
Current Unrestricted:			
Cash and Cash equivalents	$ 31,991,000	$ 33,199,000	$ 56,440,000
Accounts Receivable, net of allowance	6,958,000	14,481,000	14,170,000
Inventory	5,833,000	5,572,000	5,869,000
Prepaid expenses	2,430,000	2,728,000	2,331,000
Current Restricted:			
Cash and Cash equivalents	230,000	1,103,000	343,000
Total Current Assets:	**47,442,000**	**57,083,000**	**79,153,000**
Non-Current Capital Assets:			
Depreciable, net	18,746,000	6,001,000	3,980,000
Non-depreciable	26,851,000	26,282,000	26,239,000
Total Non-Current Assets:	**45,597,000**	**32,283,000**	**30,219,000**
Total Assets:	**93,039,000**	**89,366,000**	**109,372,000**
Liabilities			
Current Unrestricted:			
Accounts payable	1,973,000	1,762,000	2,252,000
Accrued expenses and other current liabilities	3,330,000	8,801,000	10,907,000
Unearned revenue	38,000	38,000	-

Current Restricted:			
Accrued expenses and other current liabilities	179,000	1,052,000	333,000
Total Current Liabilities:	**5,520,000**	**11,653,000**	**13,492,000**
Long-term lease payable	-	85,000	71,000
Total Long-Term Liabilities:		**85,000**	**71,000**
Deferred Inflows:	-	**3,222,000**	**3,721,000**
Total Liabilities and Deferred Inflows	**5,520,000**	**14,960,000**	**17,284,000**
Net Position			
Net investment in capital assets	45,597,000	32,284,000	30,148,000
Restricted	51,000	51,000	10,000
Unrestricted	41,871,000	42,071,000	61,930,000
Total Net Position	**$ 87,519,000**	**$ 74,406,000**	**$ 92,088,000**

*Restated upon implementation of GASB 87.

Summary of Revenues, Expenditures and Net Income

Based on MIRA's audited financial statements, a summary of revenues, expenditures and changes in net position follows:

	Fiscal Year Ended June 30,		
	2020	**2021***	**2022**
Operating Revenues:			
Service Charges: Members	$ 33,585,000	$ 37,753,000	$ 39,060,000
Service Charges: Other	9,625,000	6,153,000	9,815,000
Energy Sales	26,898,000	24,228,000	31,081,000
Other Operating Revenues	4,172,000	3,294,000	753,000
Total Operating Revenues:	**74,280,000**	**71,428,000**	**80,709,000**
Operating Expenditures:			
Solid Waste Operations	54,944,000	54,147,000	52,532,000
Maintenance & Utilities	13,501,000	13,967,000	3,330,000
Legal Services - External	608,000	599,000	176,000
Administrative and Operational Services	5,074,000	4,333,000	5,243,000
Total Operating Expenditures Before Depreciation:	**74,127,000**	**73,046,000**	**61,281,000**
Operating Income (Loss) Before Depreciation and Amortization	**153,000**	**(1,618,000)**	**19,428,000**
Depreciation & Amortization	12,633,000	14,868,000	2,036,000
Operating Profit (Loss)	**(12,480,000)**	**(16,486,000)**	**17,392,000**
Non-Operating Revenues (Expenditures):			
Investment Income	423,000	168,000	272,000
Settlement Income	153,000	844,000	-
Settlement Expenses, Net	-	(1,319,000)	-
Distribution to SCRRRA	-	-	-
Distribution to Towns	(1,975,000)	-	-

Other Income (Expenses), Net	(330,000)	(132,000)	18,000
Total Non-Operating Revenues (Expenditures):	**(1,729,000)**	**(439,000)**	**290,000**
Change in Net Position	**(14,209,000)**	**(16,925,000)**	**17,682,000**
Total Net Position – Beginning of Year	**101,728,000**	**91,331,000**	**74,406,000**
Total Net Position – End of Year	**$ 87,519,000**	**$ 74,406,000**	**$ 92,088,000**

*Restated upon implementation of GASB 87.

Other Audits and Engagements

An independent certified public accountant audited the books and accounts of MIRA for each of the fiscal years ended June 30, 2021 and 2022. Those reports each expressed an unmodified opinion on the financial statements and reported no significant deficiencies or material weaknesses in internal control.