

2013 – 2015 Processing Agreement

Project Board Meeting

August 23, 2012

Background

- March 29, 2012 Terms and Conditions
- RRT misjudged the market
- Negotiations resumed July - August
- Revised Terms and Conditions agreed to
- Processing Agreement nearly complete

Big Picture

- Environmental objectives met: Assures that processing will continue for at least three years as outline in Master Plans
- Economics of solid waste will not currently support a merchant approach.
- Provides some continued stability in East-Metro solid waste market
- Continues operation as a private venture
- Provides time for Counties to analyze how to continue processing, and decide on facility ownership

Why?

- State, regional and county environmental policy
 - Reduced risk: environmental, economic
 - Groundwater protection
 - Resource conservation
 - Local, renewable energy source
 - Greenhouse gas reductions
- RRT is a local business; with Xcel and contractors over 100 jobs
- Cost of processing is an economic driver for the integrated system: it makes recycling, organics management work.

Terms and Condition

- 3-year term: 2013 – 2015
- Hauler rebate of \$28 per ton
- Total annual rebate capped at \$8.4 million; if Counties pay more, RRT will reimburse
- RRT guarantees delivery of specific tonnages of County Waste each year
- Option to Purchase language outlines a clear process

Option to Purchase

- Agreement includes
 - Exclusive option to purchase if RRT
 - Decides to sell
 - Decide to stop using the Facility to process waste
 - Defaults on the Agreement
 - Unconditional exclusive option beginning 1/1/15 through that year

Option to Purchase

- First step: Deciding on a purchase price
- Does not commit the Counties to buying
- Two phases to arrive at a price
 - From execution – 3/31/2013: good faith negotiations
 - If no agreement on a price, then binding arbitration by 12/31/2013.
- Purchase price limited to value of land and buildings, value of machinery, equipment, rolling stock, supplies, etc; documented capital costs, less depreciation. Value of hauler rebates not included.
- Need to enter negotiations with information from an appraiser

Option to Purchase

- If Counties exercise the option in 2015, RRT has the right to reject the purchase. If they do, then
 - Agreement automatically extends two years, through 2017.
 - RRT must meet its obligations and guarantees
 - Counties do not pay hauler rebates in 2016, 2017 (meaning, that RRT would have to survive as a merchant facility)
 - Counties have right of first refusal during the extended term

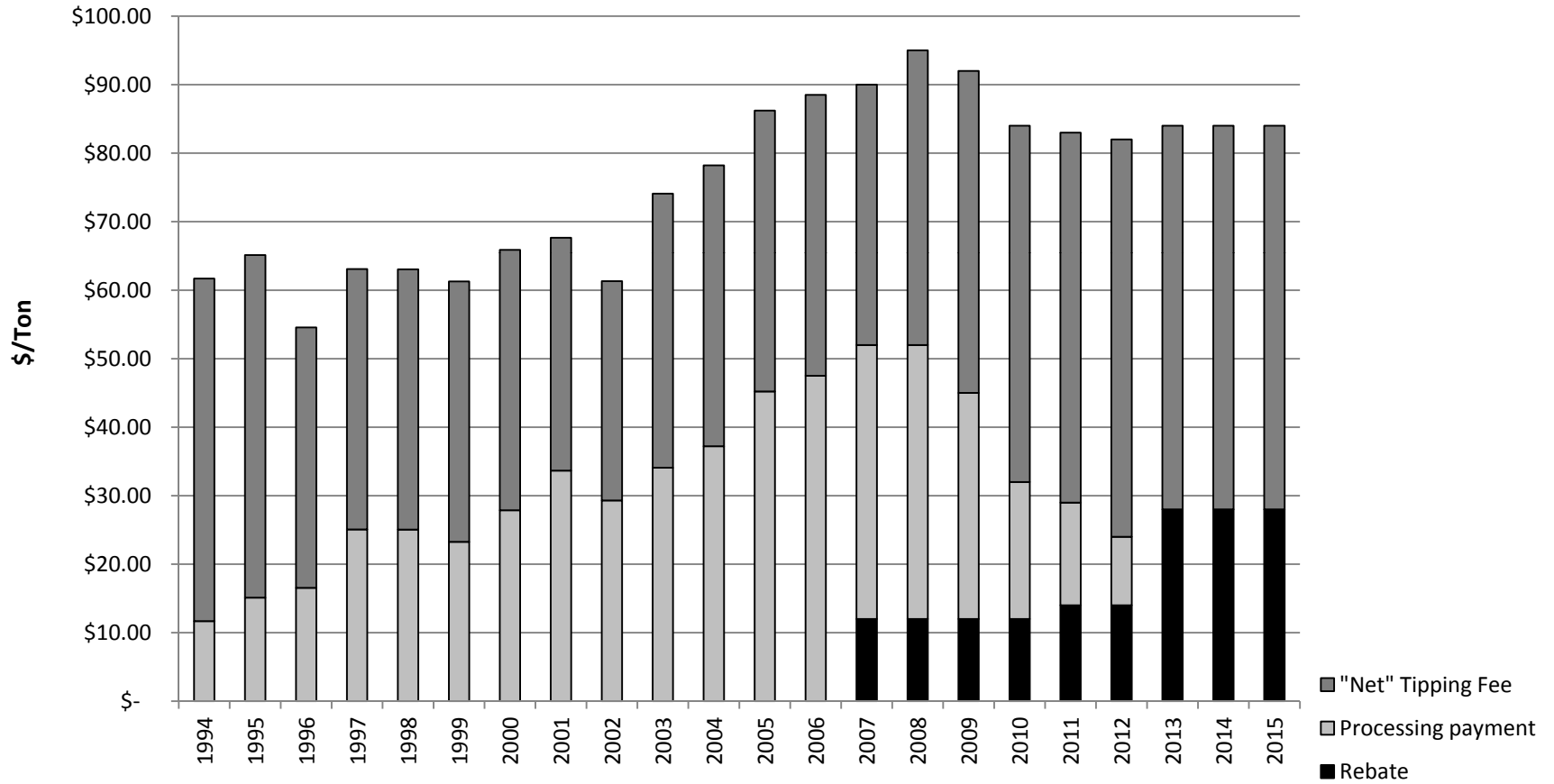
Financial considerations

- Attachment C (page 5) of Board memo
- 2012 budgeted amount for processing is \$8.4 million
- 2013 – 2017 annual maximum is \$8.4 million: no increase in Project budget for processing for three years
- Historical perspectives: 3 graphs

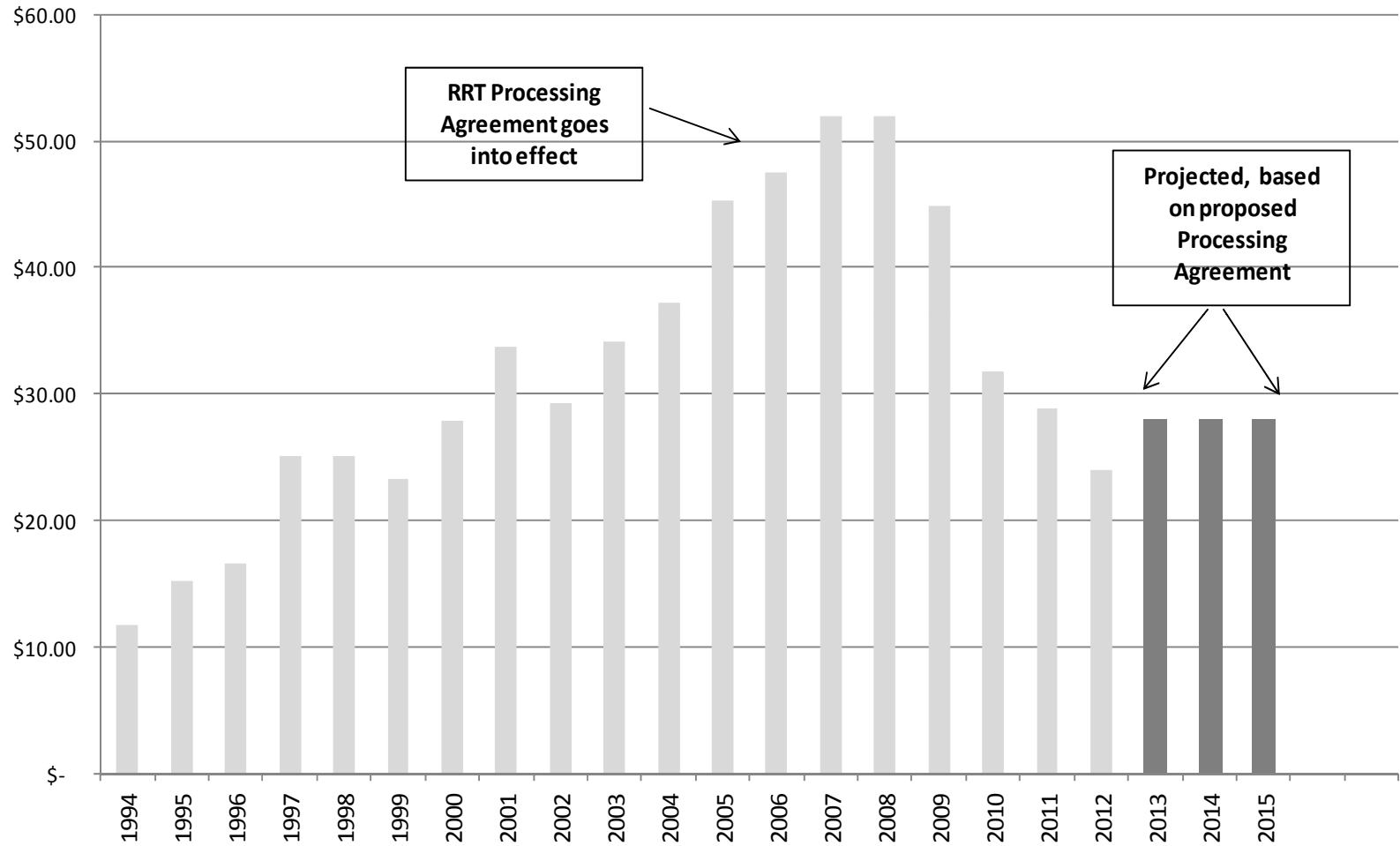
Financial Context

- This is an Agreement in which the Counties are purchasing waste processing services on behalf of generators in the Counties.
- Generators pay in two ways: to their hauler as part of their hauler bill, to the County through the CEC.

Revenue for Resource Recovery Services, 1994 - 2015, including Tipping Fees, Rebates, Processing Payments



Total Annual Cost per Ton 1994 - 2015



Next Steps

- Agreement
 - Complete negotiations
 - County Board consideration: likely 9/18/2012
- 2013 Project Budget
 - Budget Committee - 9/7/2012
 - Project Board - 9/20/2012
 - County Boards – October

Next Steps

- Retain appraiser, complete appraisal
- Begin good faith negotiations with RRT for purchase price
- Develop scope of work for future of processing discussions in 2013
 - Technology issue
 - Market issues
 - Ownership issue

Public Ownership Issues

- Legal
 - Governance structure
 - Legal risk analysis
 - Plans, ordinance changes
 - Federal court decisions and flow control
- Operational
 - Waste assurance
 - Labor
 - Contracted services
 - Various agreements (fuel, landfill, hauler)
- Financial
 - Capital expenditures and financing options
 - Operational costs and modeling
- Transactional
 - Appraisal, arbitration, pricing
 - Due diligence related to facility operation and condition
 - Financial analyses

Action Requested

- Resolution
 - Accept the revised Terms and Conditions for the Processing Agreement 2013 – 2015
 - Recommend that the County Boards approve and execute the Processing Agreement based on these terms.