RAMSEY/WASHINGTON COUNTY
RESOURCE RECOVERY PROJECT
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Financial Analysis Report

Introduction

The purpose of this report is to provide a comprehensive financial analysis of policy options related to system design and Newport resource recovery facility (Newport Facility) ownership under consideration by Ramsey and Washington Counties. This is one of several reports that provides information to the Resource Recovery Project Board as it approaches the May 2015 decision on Facility ownership.

This report has several parts:

A. **Current Solid Waste System Costs** - a description of how the current solid waste system is financed with cost data.
B. **Historic System Costs** – a history of the Newport Facility's capital and operating costs, as well as the counties' obligations from 1987 – present.
C. **Future System Costs** – an analysis and description of the East Metro solid waste system under several scenarios including public and private ownership.
D. Financial Analysis of Facility Ownership
   a. Public Ownership Financing Information
      i. Capital Costs – Options for financing purchase of the Newport Facility, including steps and a timeline
      ii. Operating Costs – Information about funding operating costs under public ownership
   b. Private Ownership Financing Information
      i. Options for paying for waste processing for privately-owned services
      ii. Options for paying for development of new technology under private ownership
E. Residual Value of the Facility
F. Economic Impacts of implementing the Scope for Resource Management

Attachments:

A. Flow of money throughout the mixed municipal solid waste (MSW) and recycling (including organics) system
B. Table: Solid Waste System Cost Data Analysis (2013 Data)
C. Financial History of Processing Costs, 1987 - 2014
D. *Life-Cycle Financial Analysis* – a report dated February, 2015 by Foth
E. *Financing Options*, Memorandum from Springsted, February 13, 2015
F. Table: Economic Analysis of the Scope for Resource Management

Current Solid Waste System Costs

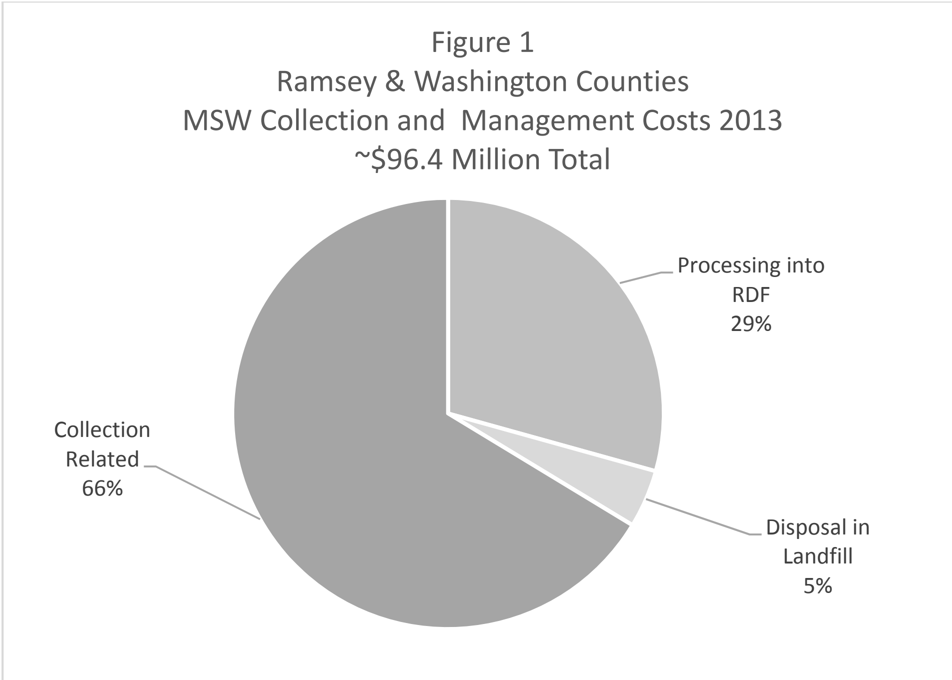
Attachment A includes a diagram that illustrates the flow of money throughout the solid waste system, related to mixed municipal solid waste (MSW), recyclables, and organics. The purpose of this diagram is to illustrate that solid waste financing is complex, and to identify the significant number of entities involved. Of note:

- All funding starts with waste generators: the residents, institutions and businesses that pay to have waste managed.
- In general, the East Metro is a user-fee based system, with generators paying haulers and recyclers for the services provided, as well as government (state, local) charges for waste management services.
- In certain communities the municipality bills the residents for garbage and/or recycling services, and provides services to residents through a contract vendor (organized collection).

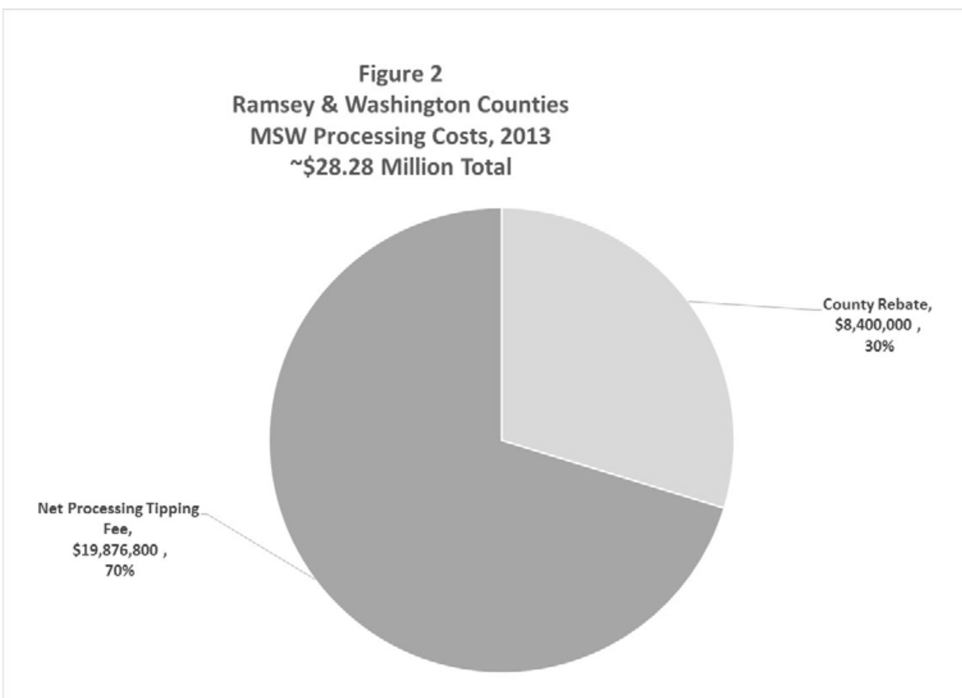
Attachment B is a matrix that shows current costs associated with solid waste management in the East Metro. This matrix serves as a baseline for comparison of financial projections for future changes to the system identified in the Scope for Resource Management, found later in the report. The collection and management cost data presented in Attachment B show the total amount of money collected by service providers for mixed municipal solid waste (garbage), recycling and source separated organics (SSO) for services. The costs in Attachment B are only for services that residents and businesses subscribe to and are provided on a regular basis, and do not include specialty or one-time services such as bulky waste pick-up, appliance disposal, yard waste collection or House Household Hazardous Waste (HHW) collection.

Key conclusions about waste collection and disposal costs in the current system are:

- The total costs for MSW services in the two counties approached $119 million in 2013. Of that, about $96.4 million was associated with MSW collection services.
- The cost paid by waste haulers to MSW facilities, for processing and landfilling, was about $32.5 million per year.
- The cost of processing and landfilling was about 33% of total MSW costs.
- Therefore, the major factor in MSW system costs, about 66% in these calculations, is associated mainly with collection and transportation, and not management of the waste. This is close to national estimates of collection costs being about 70% of total costs, which have been presented are recent national conferences.
- Figures 1 and 2 show these categories in graphic form. Discussions about waste processing will affect 29% of the costs or the portion of Figure 1 labeled “processing into RDF”. Figure 2 shows Ramsey and Washington 2013 processing costs of $28.28 million, discussions about future waste processing systems impacts the entire total of the chart.



Processing and landfilling of waste was 1/3 of total MSW-related costs in Ramsey and Washington Counties in 2013.



The Ramsey/ Washington hauler rebate funded 30% of the cost of processing in 2013.

<u>Historic System Costs</u>

The Newport Facility has been privately owned since it opened in 1987. Since it opened, the cost of processing waste has been paid in two ways. The first is through tipping fees, in which the Facility owner collects fees from haulers for the delivery of waste. The second is through payments by the Counties to either the Facility owner, or to waste haulers that deliver waste for processing.

The original owner of the Facility was Northern States Power Company (NSP). The Service Agreement with NSP required the counties to assure delivery of waste to the facility and payment for processing of the waste (called a put-or-pay agreement).

- From 1987 – 1989 the counties subsidized the tipping fee to ease haulers into flow control, and from 1989 – 1993 the tipping fee revenue covered the entire cost of waste processing, without subsidy.
- After court decisions eliminated flow control as a policy tool, the tipping fee had to be reduced in order to compete with lower cost landfills to receive waste. As a result the counties paid the difference between that reduced revenue and the cost of processing with a subsidy payment.
- That system continued as the facility was sold by NSP to NRG Energy, Inc., which had been a wholly-owned subsidiary of NSP, and became an independent entity.
- In 2006 NRG Energy, Inc. sold the Facility to Resource Recovery Technologies (RRT). In the 2006-2012 Processing Agreement, RRT retained tipping fees as its revenue, and the counties paid for reducing the cost of the tipping fee to compete with landfills in two ways: a direct processing payment to RRT, and a rebate to haulers.
- In the current 2013 – 2015 Processing Agreement, the counties pay only a hauler rebate for waste delivered to the Facility.

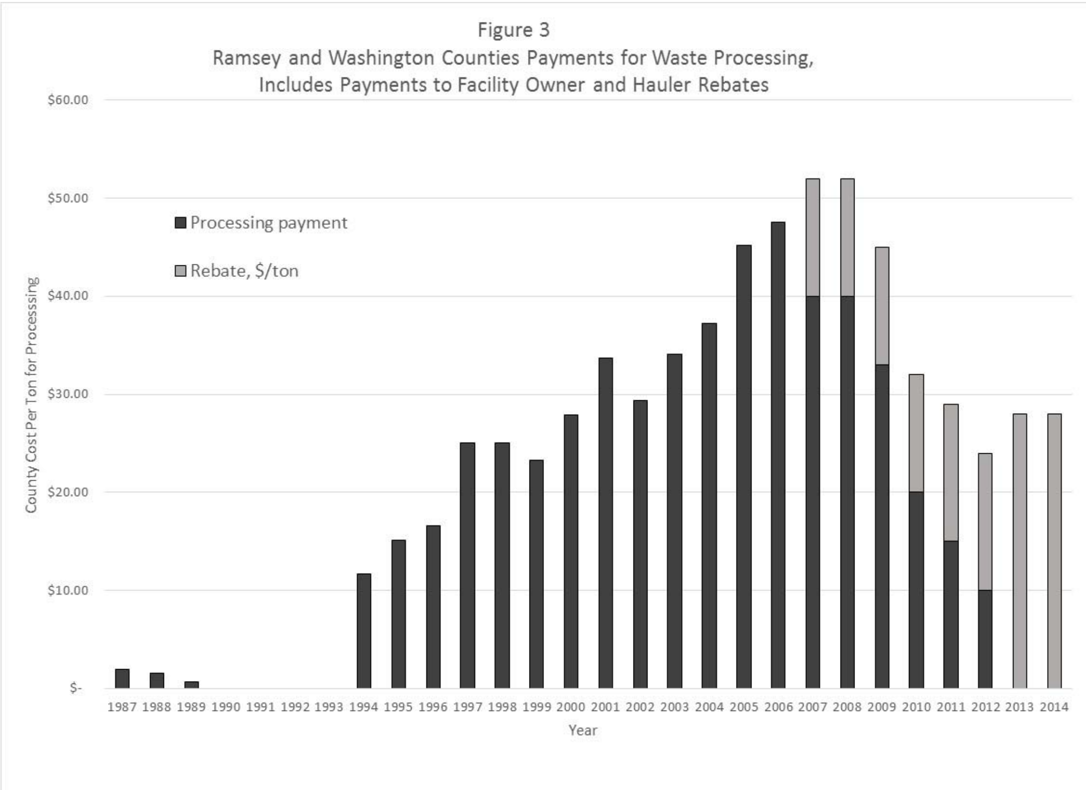
Attachment C is a table showing the history of county-funded costs associated with waste processing from 1987 – 2014. These do not include the tipping fee revenue, but include the costs to the counties to reduce the tipping fee and compete with landfills. These costs are collected by each county through a service charge (Waste Management Service Charge until 2003; County Environmental Charge thereafter). The costs in Attachment C do not include the total tipping fees paid by haulers to the Facility owners over time (NSP; NRG Energy, Inc.; RRT).

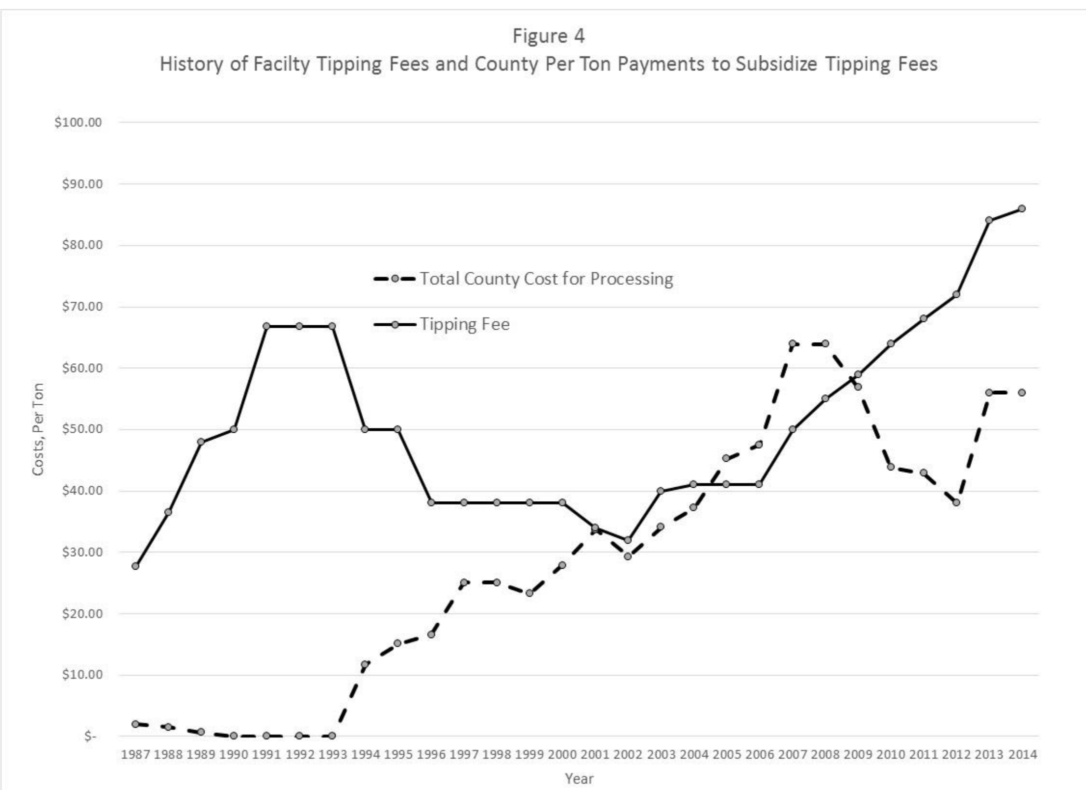
Figures 3 - 5 use the information in Attachment C to illustrate the history of the counties' costs. Figure 3 shows the per-ton fees paid, through payments directly to the Facility owner (service fee and processing fee) and hauler rebates. Figure 4 shows the per ton fees paid by the counties compared to tipping fees. Figure 5 shows the total costs paid over time to subsidize the tipping fee in order to compete with landfills.

Key things to note in reviewing these historic costs:

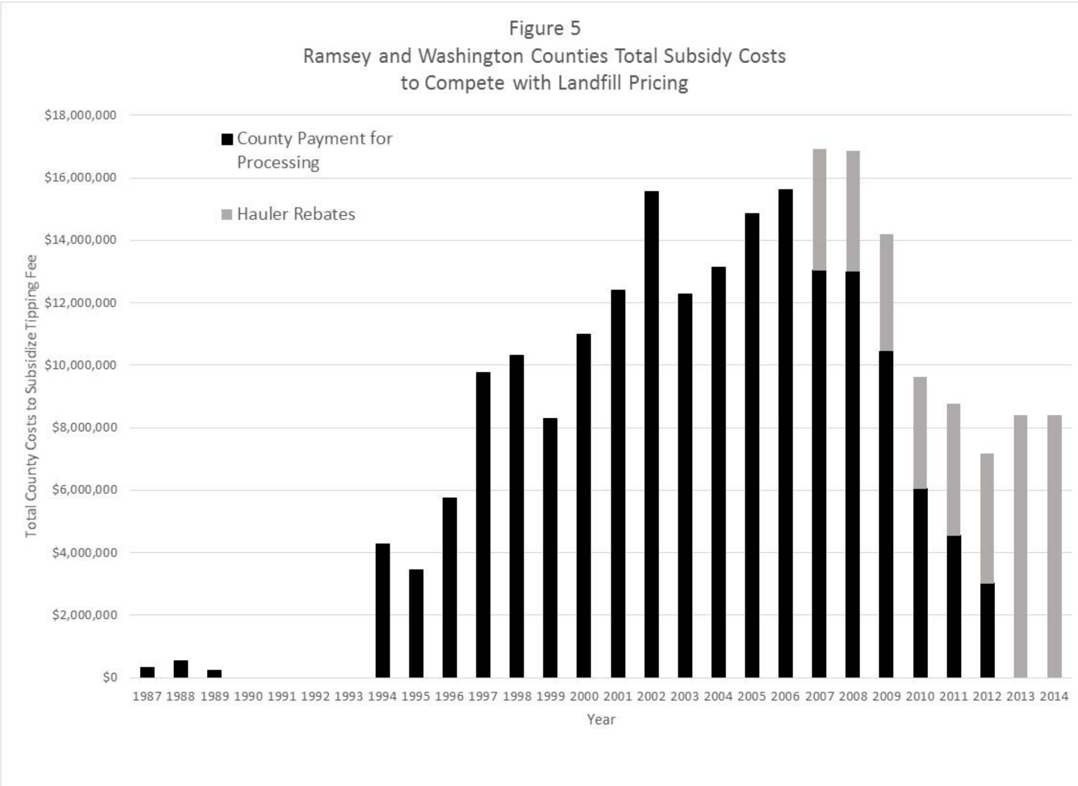
- ***The generator pays*****:** All funding starts with waste generators: the residents, institutions and businesses that pay to have waste managed.
- ***When flow control was in place, tipping fee revenue covered the full cost of processing waste.***
- County "subsidy" did not occur substantially until 1994, following court decisions that removed the ability to use waste designation (flow control).
- ***Processing costs more than landfilling.*** In order for the Newport Facility to compete with privately owned landfills, the counties had to pay to reduce the tipping fee.
- The court decisions forced the counties into using a separate funding tool, other than the tipping fee, to assure that waste was delivered to the facility by charging tipping fees competitive with landfills.

- In the Service Agreement with NSP and NRG (1987 – 2006) the cost of processing escalated by a number of factors, resulting in rising payments (Figure 3).
- In the Agreements with RRT, the cost of processing was highest during the first two years (2007-2008), as RRT recovered its cost to purchase the Facility, and then declined as RRT tried to make the Facility competitive with landfills.
- As RRT realized that it could not become a merchant facility, the tipping fees increased, as did hauler subsidies, to the levels in 2013-2015 of $8.4 million per year, or $28 per ton (Figures 3 and 4).
- ***From 1987 – 2014 the counties paid the facility owners $227 million to assure processing of 9.8 million tons of waste into materials and fuel, an average of $23.14 per ton.***
- Under both flow control and a market-based system, the waste generators pay all the costs; the difference is in who they pay.
- ***Waste generators in the two counties have paid for the facility three times since 1987.*** During the time period of 1987 - present, the facility has been owned by three different entities.
    - Northern States Power Company (NSP) was the original owner, and designed, built and operated the Facility beginning in 1987.
    - A special type of industrial development revenue bonds was used to finance that facility in the amount of $27.7 million. Under the financing arrangement, NSP was responsible to pay back the bonds, but the Counties were obligated to assure delivery of waste and payment of tipping fees ("put-or-pay" agreement). The debt service associated with NSP's ownership of the facility was a portion of the fees paid by the counties.
    - During the term of the original Service Agreement between the Counties and NSP, NSP sold the facility to NRG Energy, Inc., which had been a wholly owned subsidiary and became an independent entity. The counties are not privy to the sale price between those private parties, but NRG obviously recovered its costs of acquiring the facility from NSP.
    - In 2006 NRG Energy, Inc., sold the Facility to Resource Recovery Technologies for an undisclosed price. The 2007-2012 Processing Agreement between RRT and the Counties provided for sufficient revenue for RRT to cover its purchase costs.





Since 1993 tipping fees have had to compete with landfill prices. As tipping fees rose , so did county subsidy. From 2008 – 2012 county costs dropped, but the failure of the merchant approach increased subsidy costs again in 2012.



From 1987 – 2014 the counties paid the facility owners $227 million to assure processing of 9.8 million tons of waste into materials and fuel, an average of $23.14 per ton.

<u>Future system costs</u>

Staff and consultants have analyzed future system costs to understand the financial aspects of implementing the Scope for Resource Management. This analysis is significantly more advanced than preliminary information previously provided, during the technology review of this policy evaluation. The cost analysis examines the system costs under public and private ownership.

This section of the report addresses these questions:

- What will it cost to implement the Scope for Resource Management under public and private ownership?
- What will implementing the Scope for Resource Management mean for individual households and businesses?
- What will be the effect of the Scope of Resource Management on the CEC?

The process used to gather information to answer these:

- Developed an estimate for the current cost to operate the Facility
- Prepared lifecycle cost analysis for implementing elements of the Scope of Resource Management
- Analyzed the data and performed calculations

<u>Current cost to process waste</u>

Understanding the current cost to operate the facility is fundamental building future financial projections. RRT has not provided its current operating costs, nor did NSP and NRG in prior years. Because the Project does not have actual figures, it has had to prepare estimated operating costs.

Foth Infrastructure & Environment, LLC (Foth) was asked to develop estimated operating costs for the Newport Facility. These estimates have been developed by Foth several times in the past, starting in 1998. The current updated cost estimate is provided at a time when the Project Board is considering an option to purchase the Newport Facility along with considering several other potential future waste processing options. Foth provides this cost estimate for information for the Board's decision making process regarding future processing options.

In developing the line items for the cost estimate, Foth was asked to obtain as much actual or representative information as possible. On occasion, the development of the operating cost estimates has been in the best interests of the owner, especially for the 2006 updated estimate in conjunction with a feasibility study conducted for the Rock-Tenn recycling facility.

Operating costs for the Newport Facility are estimated by Foth based on information provided by Resource Recovery Technologies, LLC (RRT), tax assessor information, local labor union rates, known data available to Foth, and business assumptions made where cost data were not provided or were not available. If the counties were to purchase the Facility, these are the costs that would be budgeted for operations.

As a result of Foth's extensive analysis, the estimated operations and maintenance (O&M) cost per ton (including metal revenues) is $53.00 based upon 400,000 tons per year delivered. They note that a potential range of $53 to $56 per ton may be appropriate for calculations at this time. This is the cost to operate the Facility under public ownership, and compares to the current price charged by RRT of $86.22 per ton.

<u>Life-cycle Public and Private Ownership Cost Analyses</u>
The tool used to determine the future costs associated with implementing the Scope for Resource Management is called life-cycle cost analysis. Attachment D includes a report, *Life-Cycle Financial Analysis,* February 2015, from Foth. That report is quite detailed, and is summarized here.

The purpose of this report is to provide preliminary annual cost estimates of the different waste diversion systems under consideration by the Project Board. Detailed life cycle financial analyses were prepared for each of the different potential systems, and then were combined in phases that represent the implementation of the Scope for Resource Management over time. This report summarizes the input data and key assumptions in the analysis and provides a financial comparison of the different systems. (The different systems covered in this financial analysis parallel the systems covered in the *Greenhouse Gas Systems Analysis*, February, 2015.)

The life-cycle analyses were prepared under an assumption of public ownership. An adjustment is made to the analyses to estimate costs under private ownership.

The seven scenarios analyzed include:

- **Existing System – Extended** – Essentially the "status quo" for waste delivery and managed in the same manner at the Newport Facility- processed RDF to combustion by Xcel, with an assumed contract extension;
- **Phase 1-SSO/SSR** – Increased Source Separated Recycling (SSR) and Source Separated Organics (SSO), with all MSW (assumed at 400,000 tons) delivered to the Newport Facility for processing RDF to combustion by Xcel;
- **Phase 2-SSO/SSR/MWP/AD** – Phase 1 plus the use of Mixed Waste Processing (MWP) and sending organics to an Anaerobic Digester (AD);
- **Phase 3-Gasification/SSO/SSR/MWP/AD** – Phase 1 and 2 plus the use of Gasification to manage all RDF instead of combustion by Xcel;
- **Alternative 1 – Processing and Gasification Only** – To illustrate the economics of the system of processing with all RDF going to Gasification (does not include increased SSO/SSR, MWP, AD)
- **Alternative 2 -Processing, AD, and MWP** – To illustrate the economics of the system of processing, using Mixed Waste Processing (MWP) and Anaerobic Digestion (does not include SSR/SSO**)**
- **Processing Only** (base case) – To illustrate the current system of processing all MSW (400,000 tons) into RDF and all RDF going to Xcel for combustion.

This life-cycle analysis compares projections of potential costs of the various waste processing scenarios. It should be noted that these are estimates and for comparison purposes only.

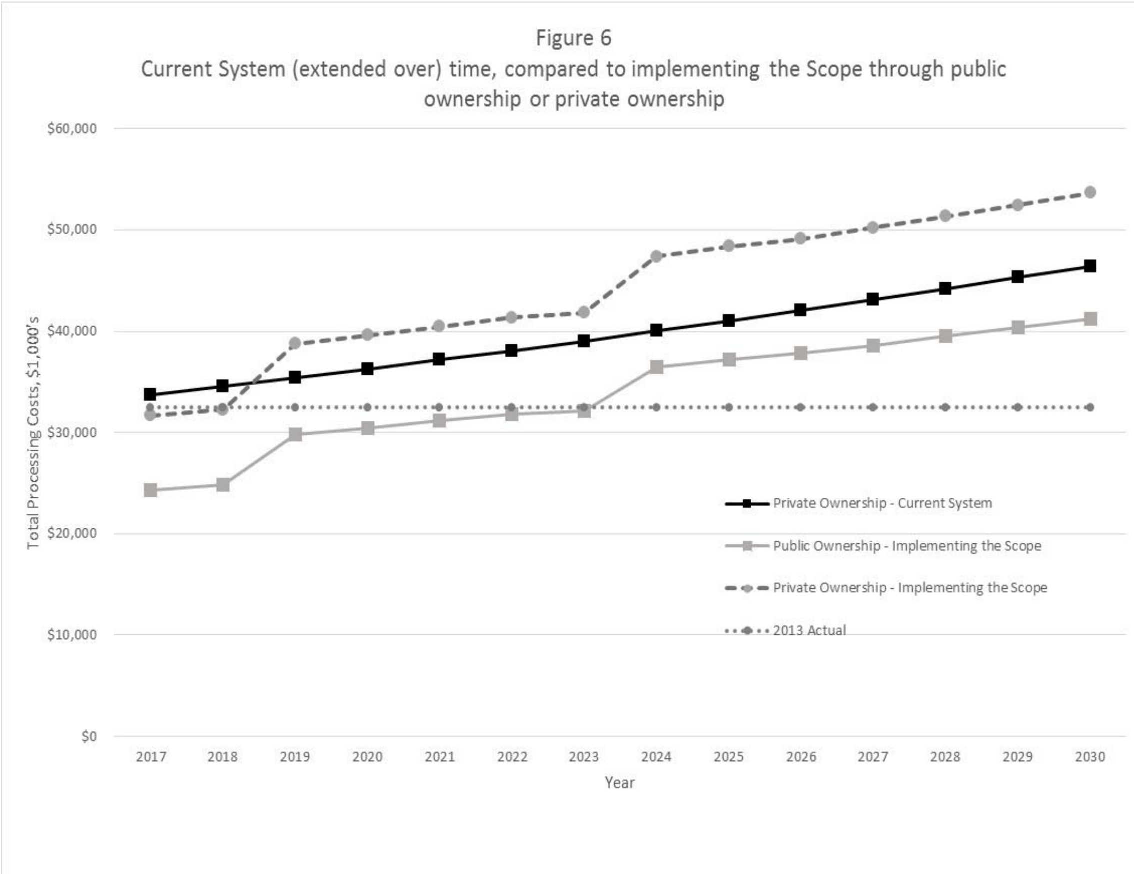
Public ownership of the Facility is shown for all scenarios except for the analysis of the "Existing System - Extended." The life-cycle financial analysis covers the life of debt (assumed to be 25 years) associated with the purchase. Other key assumptions include:

- 400,000 tons of MSW are managed in each year in each scenario;
- 2017 is the first full year of implementation in each scenario;
- The Facility is publicly owned and operated (including mixed waste processing);
- Xcel combustion, anaerobic digestion and gasification facilities are privately owned and operated
- 2.5% annual inflation of costs

Detailed tables are provided in the Foth report, and graphs are provided below. As a reference point, the 2013 Facility cost to manage 405,000 tons of waste was about $32,500,000.

Figure 6 compares the Existing System extended with the total processing costs associated with implementing the Scope for Resource Management, under public and private ownership. Also included is a line showing the 2013 actual cost of $32.5 million. The costs associated with the Scope assume:

- From 2017 – 2019 the current system is in place without change (processing MSW into RDF and sending to Xcel Energy for electricity generation);
- Adding mixed waste processing with anaerobic digestion of organics in 2019; and
- Changing the use of RDF from electrical generation to gasification in 2024. The cost to achieve the scope is higher in a private ownership scenario because a private owner and operator of the facility requires a return on investment. The return calculated in this chart assumes 30% which is standard in the waste industry.



Private ownership of Newport leads to higher costs over time than under a public ownership scenario, both when implementing the Scope for Resource Management and continuing just the current system.

Figure 7 shows the costs associated with implementing the Scope, under public ownership, on a total and per-ton basis. The 2013 actual cost is shown as well. Based on this analysis, under public ownership the cost to implement the scope, with 400,000 tons per year of MSW managed, would increase from about $61 per ton in 2017 to $93.50 per ton in 2030. The current tipping fee is $86.22. In this analysis that price point would not be reached until 2027.

Figure 8 illustrates the costs associated with implementing the Scope under private ownership, on a total and per ton basis. The 2013 actual cost is shown as well. Based on this analysis, under private ownership, the cost to implement the scope, with 400,000 tons per year of MSW managed, would increase from about $86 per ton in 2017 to $121 per ton in 2030. The current tipping fee is $86.22. In this analysis that price point would be reached at the onset in 2017.

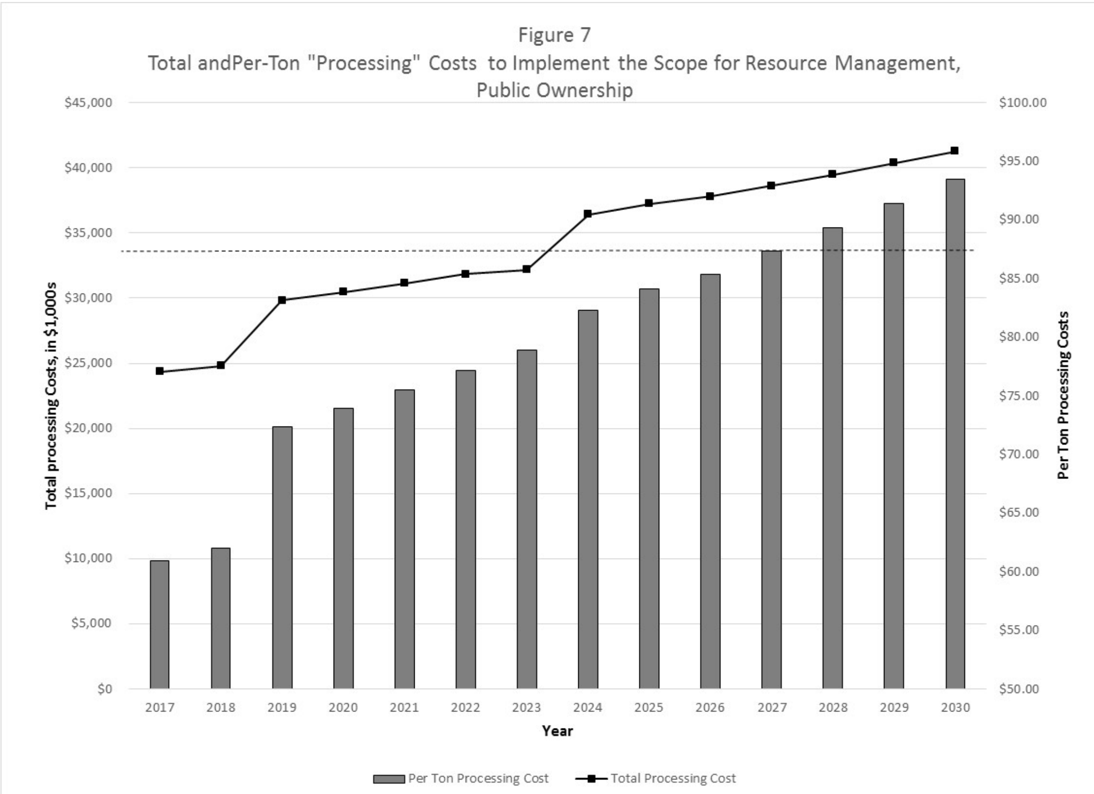


Figure 7
Total andPer-Ton "Processing" Costs to Implement the Scope for Resource Management, Public Ownership

Under private ownership, the cost to implement the scope would increase from about $86 per ton in 2017 to $121 per ton in 2030. The current tipping fee is $86.22. In this analysis that price point would be reached at the onset in 2017.

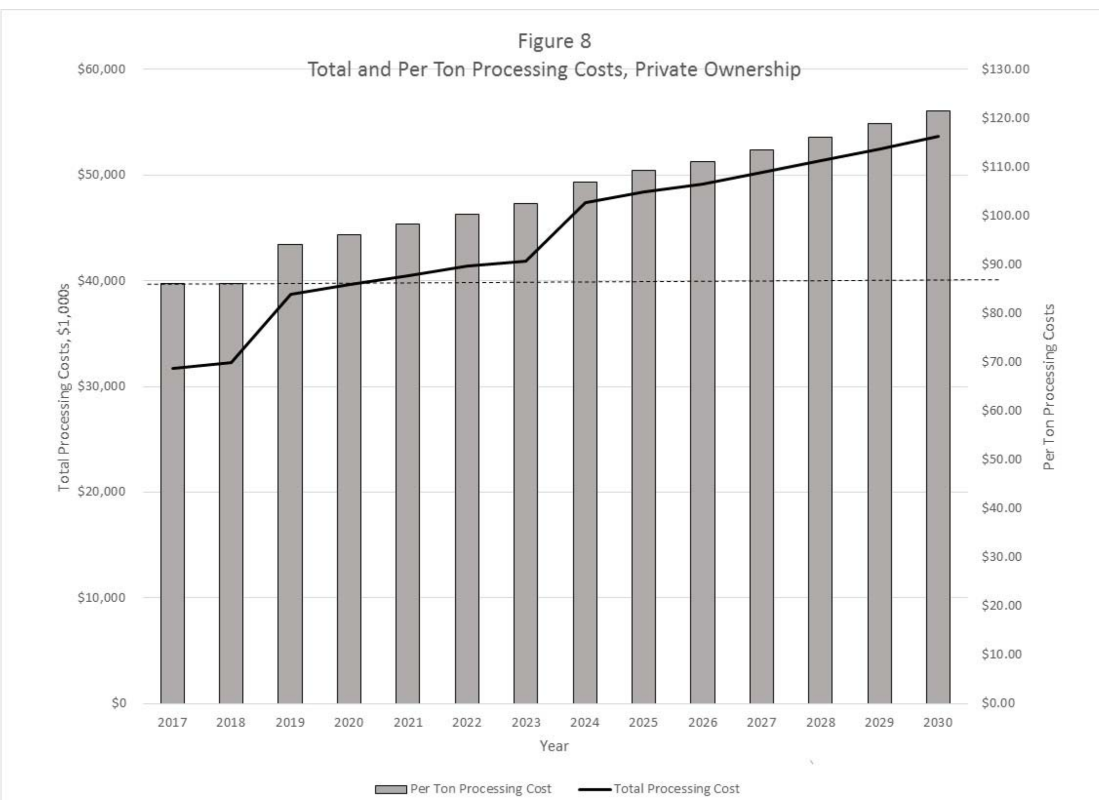


Figure 8
Total and Per Ton Processing Costs, Private Ownership

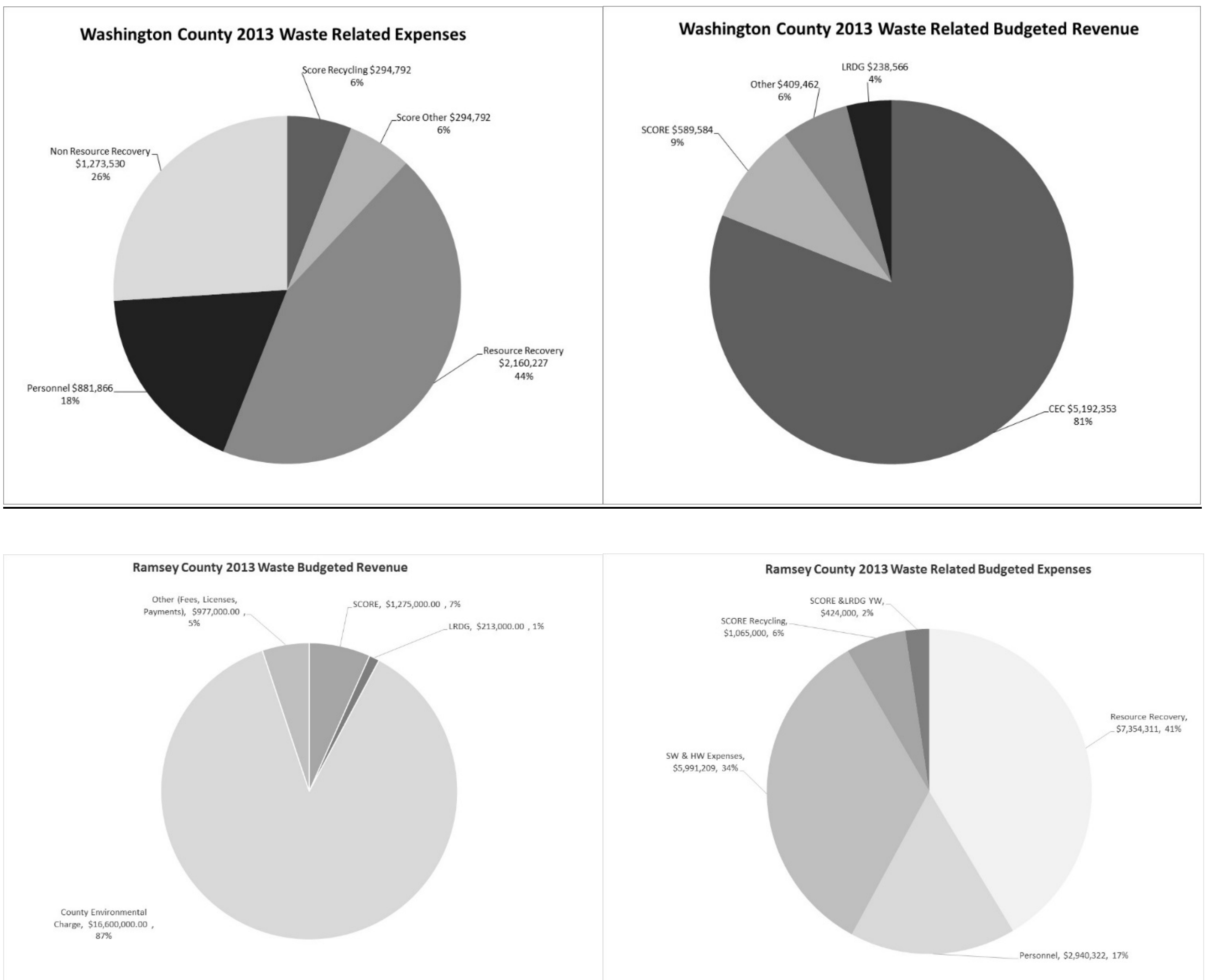
Under private ownership, county subsidies will rise as the Scope is implemented. The dotted line represents current subsidy of $8.4 million per year. There are two factors in this analysis that affect subsidy costs: the cost of processing, and the market price for landfills.

Effect of the Implementing the Scope on the CEC

Under a public ownership scenario, it is assumed that the tipping fee at the Facility would be set at a level to recover all costs associated with processing waste. There would, therefore, be no need to collect CEC funds for resource recovery. The counties would continue the CEC to pay for non-resource recovery programs, as outlined in their solid waste master plans.

Figure 9 shows financial information related to the CEC in each county.

Figure 9: 2013 Waste Related Financial Information for Ramsey and Washington Counties



Effect of implementing the Scope on Individual Households and Businesses

Using the analysis found in Attachment B, Solid Waste System Cost Data Analysis (2013), as well as projections from the life-cycle analysis and evaluation of costs associated with SSO and SSR, staff have estimated cost impacts based on the Scope for Resource Management.

Table 1, below, shows the cost of waste management only – processing and landfilling – for 2013, 2020, 2025, and 2030. These are presented on a per-household, per-employee, and per-ton basis. Key points:

- This table does not include the cost of collection, nor state and local taxes – it reflects the processing component for implementing the Scope of Resource Management on a unit basis.
- The household cost for processing rises from a current $48 per year to $54 per year by 2030, after having dropped until a period between 2020 and 2025 under public ownership; Per employee costs for non-residential generators follows the same trend: dropping first, then rising to about the same level in 2030 as 2013.
- The household cost for processing under private ownership rises from $48 per year to $70per year. For employee costs, the rate rises from $45 per employee to $60 per employee in 2030.

Table 1: Unit Cost Projections for Waste Processing in the Counties

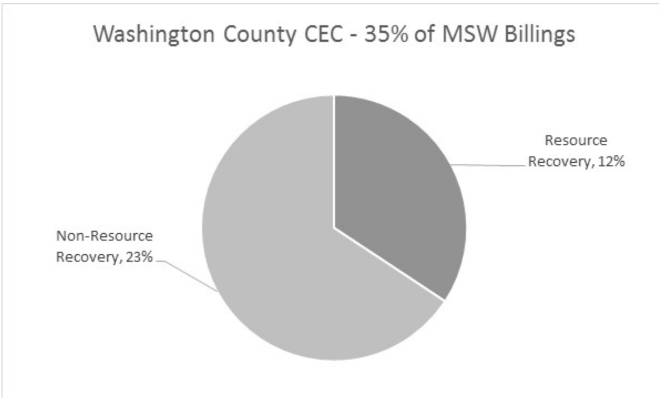
Future annual cost to process waste: per household, per employee, per ton. Does not include cost of collection								
	Cost Per Unit for management (processing) of MSW Under Public Ownership				**Cost Per Unit per year for management (processing) of MSW Under Private Ownership**			
Unit Cost	**2013***	**2020**	**2025**	**2030**	**2013**	**2020**	**2025**	**2030**
Residential, $/Household	$48	$43	$50	$54	$48	$56	$66	$70
Non Residential, $/Employee	$45	$37	$43	$46	$45	$48	$56	$60
Overall, $/ton	$80	$76	$93	$103	$80	$99	$121	$134

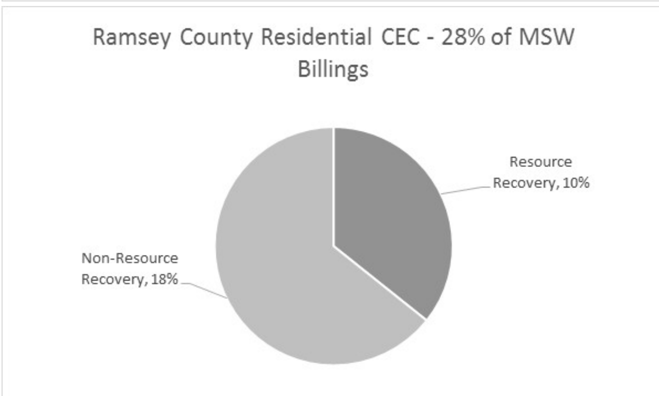
* 2013 data is for processing and landfilling at privately-owned facilties.

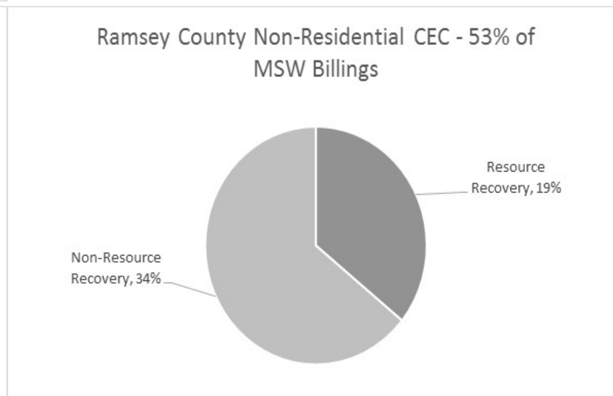
Figure 10 shows the subsidy needed under private ownership to implement the Scope. This analysis assumes that the Facility has to compete with landfill pricing, and that landfill pricing, currently assumed at $55 per ton, escalates about 2.5% each year. Thus the two factors in this analysis affecting subsidy costs are the cost of processing and the market price for landfills.

Figure 11 shows the CEC rates needed to cover the resource recovery costs associated with processing for each county. These rates do not include non-resource recovery program costs, such as for yard waste collection, household hazardous waste services, and other county programs higher on the waste management hierarchy.

- In 2013, for comparison, the resource recovery costs component of each county's CEC were:

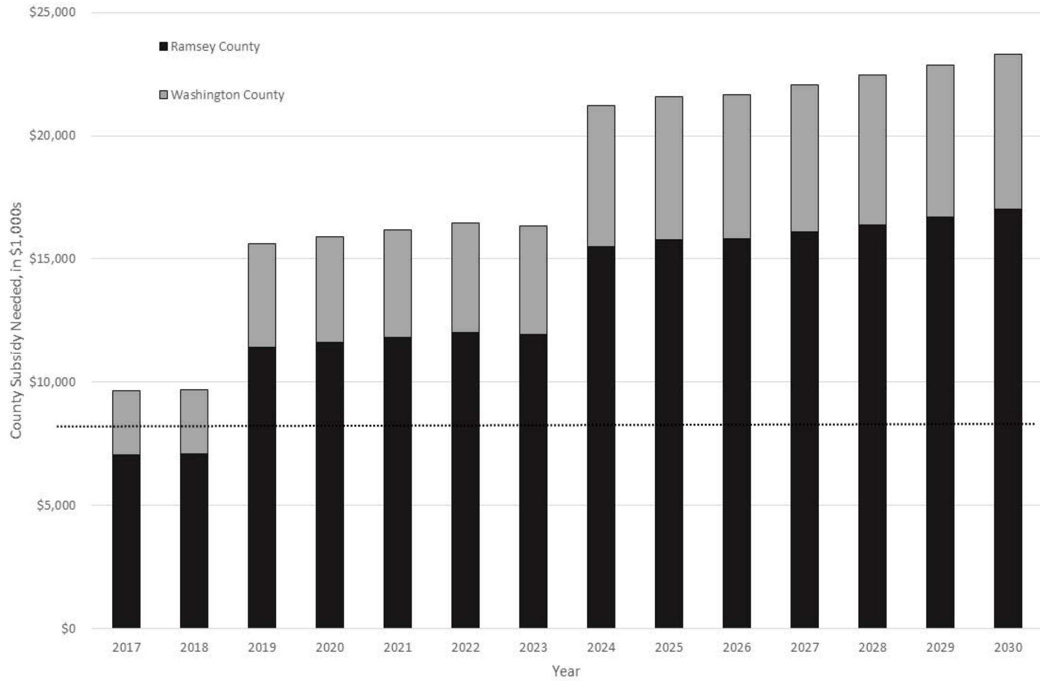






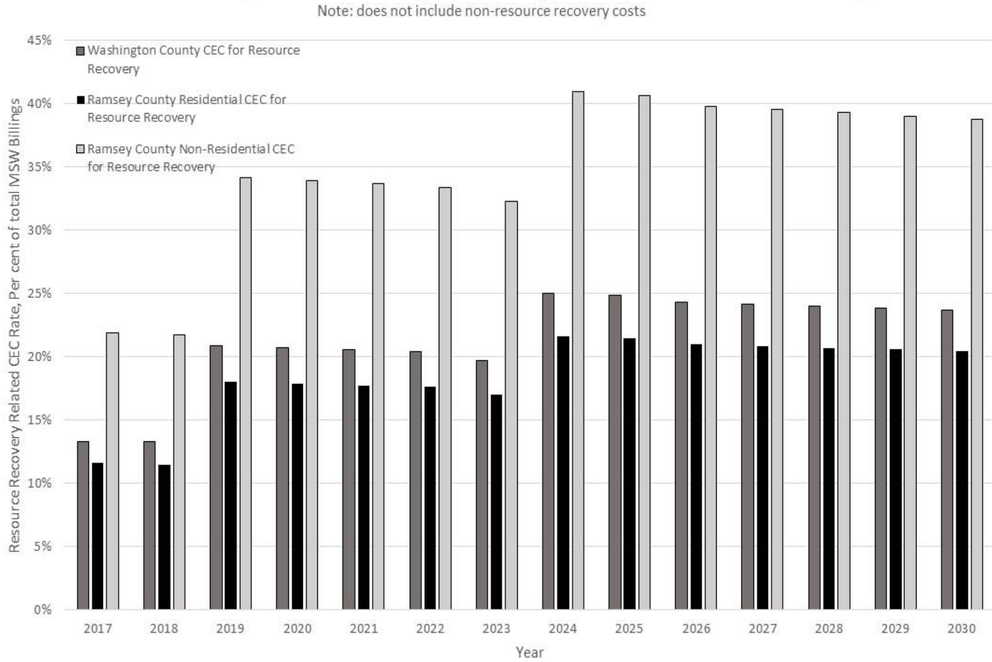
- For Washington County, the resource recovery related CECs projected in Figure 11 range from a low of 13% in 2017 to a high of 25% in 2024.
- For Ramsey County residential, the resource recovery related CECs projected in Figure 11 range from a low of 12% in 2017 to a high of 22% in 2024; for non-residential, the resource recovery related CECs in Figure 11 range from a low of 22% to a high of 41% in 2024.

Figure 10
County subsidy needed to implement the Scope under private ownership



Under public ownership the cost to implement the scope would increase from about $61 per ton in 2017 to $93.50 per ton in 2030. At the current tipping fee of $86.22; that price point would not be reached until 2027.

Figure 11
Resource Recovery Related CEC Rates, Implementing the Scope under Private Ownership)
Note: does not include non-resource recovery costs



Under private ownership, county subsidies will rise as the Scope is implemented. The portion of the CEC related to resource recovery costs increases from the current:

- Washington: 12%
- Ramsey Res: 10%
- Ramsey Non-res: 19%

Financial Analysis of Facility Ownership

The Recovery Project Board is looking at options for financing future solid waste processing efforts at the Newport Facility, currently owned by Resource Recovery Technologies (RRT). The specific areas being reviewed are capital and operating costs under public ownership, and financing improvements at the Newport facility under continued private ownership.

Regardless of public or private ownership, there are a number of steps related to financing future processing efforts that will need to occur. This includes revisions to the Joint Powers Agreement, various agreements, and specific financing commitments. A more detailed analysis on ownership issues, including those related to financing, will be presented to the Project Board in April, 2015.

Attachment E, *Financing Options*, is a memorandum from Springsted that provides detailed information about capital and operational financing.

Key points made by Springsted include:

<u>Public Ownership - Capital Costs</u>

Springsted provides a summary of the financing options under public ownership, and feasibility projections of the annual cost of long-term financing for the acquisition of the Newport Facility.

- The Newport facility is a long-lived asset that can be financed in a variety of ways, including:
    - Cash purchase by one or both of the Counties
    - Short term financing by one or both of the Counties
    - Long term financing by one or both of the Counties
- Within each financing option there are a variety of strategies that may be used.
- In the interest of providing the most straightforward method, Springsted recommends that the use of long term fixed rate debt be considered if the Option to Purchase is exercised.
- Following discussions with the Finance departments of both counties, Springsted recommends that Ramsey County issue bonds on behalf of both counties to acquire the facility. Through a revised joint powers agreement and financial agreements, Washington County would be jointly responsible for the bonds.
- Should the Option to Purchase be exercised, the Joint Powers Agreement (JPA) will need to be amended. Key financial items to consider for the JPA (Parties: Ramsey and Washington):
    - Provide for the payment into and disbursement of public funds to carry out the purposes of the JPA
    - Provide for the strict accountability and reporting of all funds and receipts
    - Waste assurance obligations by each County
    - Debt repayment obligations
    - Pledge from Washington County to pay its percentage of debt service
    - Process for disposition of any property acquired through JPA
    - Process for distribution of surplus funds or losses upon completion of the JPA in proportion to the contributions of the counties
    - Joint Powers Board pledges revenues from operation of the Facility to the repayment of the County's bonds

<u>Public Ownership – Operating Costs</u>

- The two basic options for financing operating costs for the Newport Facility under a scenario in which the Project Board owns the Facility would be (1) tipping fee revenue, potentially in combination with (2) continued utilization of revenues from each County's Environmental Charge (CEC).
- Assuming ultimate implementation of waste designation, all costs could eventually be included in the tipping fee paid by haulers delivering waste to the Newport Facility pursuant to waste designation ordinances adopted by each County after completion of the statutory waste designation process with the Minnesota Pollution Control Agency.
- Because waste designation would likely require up to a two-year implementation time frame, utilization of CEC funds to subsidize the Facility tip fee to incentivize hauler deliveries pursuant to waste delivery agreements would very likely be needed until waste designation could be implemented.

Financing Under Continued Private Ownership

- Should the counties decide not to exercise the Option to Purchase, and under a continued private ownership scenario, the likely approach to payment of processing costs would continue to be a combination of hauler tipping fee revenue received by the Facility owner along with some form of payment to the Facility owner, or waste haulers.
- Such payments using funds collected by the County will be necessary for the Facility to compete economically with landfills. Both a payment for services and implementation of County hauler rebate programs would most likely be funded through County Environmental Charge revenues. The hauler rebate program, which provides funding to haulers that deliver waste to the Facility, would likely continue to be needed to subsidize the hauler tipping fee to incentivize hauler waste deliveries.
- An alternative or addition to a hauler rebate program would be County payment of a service or processing fee to the Facility owner, which was the key funding mechanism with NSP, NRG, and in the original agreement with RRT.
- More detail regarding the nature of and the mix between hauler rebates and processing payments to RRT or a successor owner of the Facility will be determined through upcoming discussions with RRT designed to develop continued private ownership financial scenarios.

Option Purchase Price: $26.4 Million

The arbitrated purchase price of the Newport facility has been established at $26.4 million. That purchase price is the result of an arbitration hearing conducted in late 2013 to establish the Option Purchase Price (OPP) for the Newport Facility) owned and operated by Resource Recovery Technologies, LLC (RRT). Negotiations earlier in 2013 between the RRT and Ramsey and Washington Counties failed to result in agreement on the OPP, and the arbitration process commenced as required by the Solid Waste Processing Agreement between the parties.

The positions of the Counties and RRT were primarily derived from the appraisals conducted by each party in 2012 and 2013. The fundamental difference between the two parties, and the two appraisals, arose from the differing methodologies used by the appraisers. The Processing Agreement between the Counties and RRT specifically required that any valuation of the Facility include a value of $0 for any County hauler rebates. This provision came to be known as the Value Determination Clause, and received much attention during the hearing.

The Value Determination Clause appears to have influenced the Panel's decision in that they denied RRT their full request. However, it also appears that the Panel disagreed with the Counties position that the valuation should be based entirely on a sale of the assets for the highest dollar value. Thus, the Panel came close to splitting the difference between the two parties, but gave slightly more weight to the Counties' position because the OPP is approximately $1 million closer to the Counties' amount than RRT's.

RRT's final position at the arbitration hearing advocated an OPP that was almost 2.5 times as much as the Counties' position. The three-member Arbitration Panel issued a decision setting the OPP at $26.4 million.

It is important to note that the Processing Agreement also requires that the final OPP include RRT's documented capital expenditures during the term of the Agreement, minus depreciation of such expenditures. The Panel did not address this issue other than to ensure that RRT's 2013 capital costs were not included in the final OPP~~.~~

It is also important to note that the Counties' Option is unilateral and voluntary during 2015. If the Counties choose to exercise the Option in 2015, RRT has the ability to negate exercise of the Option but, in doing so, would be agreeing to continue operation of the Facility for two additional years (through 2017) with no requirement that the Counties continue to provide Hauler rebates.

Residual Value of the Facility

One issue identified in the financial and risk analyses is the residual value of the Facility. The Facility's revenue generating ability and equipment value after the long-term debt is retired (public ownership) or the service/processing agreement expires (private ownership) is defined as the Facility's "residual value".

Under public ownership, the Counties would possess the residual value of the Facility, including land, buildings, equipment and permits. Under private ownership, all of those items are owned by the private owner, and the Counties will possess no residual value.

By way of example, the Facility had an original indebtedness of $27.7 million which was paid during the term of the original Service Agreement. As outlined above, three facility owners have recovered the cost of purchase – each time paying the residual value to the previous owners. At the conclusion of the current processing agreement with RRT, the Facility owner, RRT, will possess the residual value. That value to RRT under the Processing Agreement and pursuant to the Option Purchase Price, has been set at $26.4 million by the arbitration panel.

Economic Impacts of the Scope for Resource Management

This section of the report addresses these questions

- What will be the effect on jobs?
- What are the property tax implications to the City of Newport, Washington County, the School District, etc.?

Attachment F provides a table with information about the estimated impact on jobs and property valuation. Key conclusions

- Over 500 jobs are associated with collection and transport of MSW in the two counties. These are well paying jobs, in the range of $40,000 per year with benefits.
- As SSR increases, some of the MSW collection jobs will move to SSR collection, but there is no net loss of jobs and an estimated increase of 15 jobs at recycling facilities.
- As SSO increases, there is a net increase in an estimated 70 collection jobs.
- Adding a mixed waste processing system at the Newport Facility results in an estimated 110 construction jobs and 64 jobs associated with ongoing operations.
- Adding a privately owned anaerobic digester to the system results in 250 construction jobs and 19 operating jobs.
- Adding a gasification facility to the system results in 610 construction jobs and 30 operating jobs.
- The Newport Facility currently has 50 jobs.
- Xcel Energy's two combustion facilities employ a total of 60 people.

Since the Resource Recovery Facility in Newport is currently privately owned, it pays property taxes. The 2014 net property tax is $367,384. Of that, $79,059 goes to the City of Newport, and $36,377 to Washington County. The economic models in the life-cycle analysis include this under public ownership as a payment-in-lieu-of-taxes, to keep these local governments "whole."