Attachment 1

Economic Analysis of Covanta Extended Term Agreement

November 12, 2013

Agenda/Overview

- Brief History of Energy-from-Waste Facility
  - Background and previous studies
- Waste Disposal & Service Agreement (2012)
- Economic Analysis & Manager's Recommendation
  - Issue at Hand: Extend Agreement and, if so, when?

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Issue at Hand

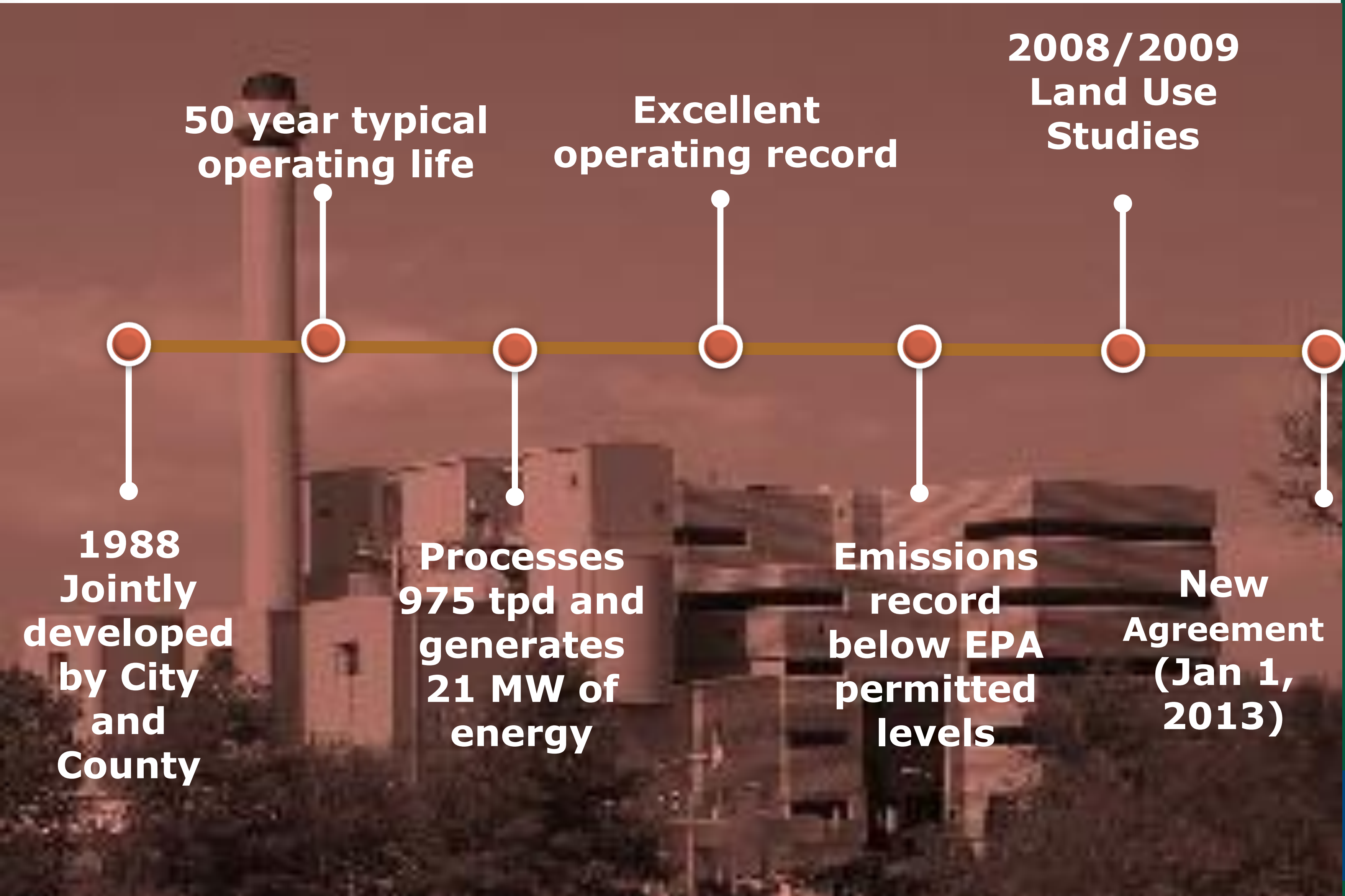
- Should the jurisdictions extend the term of the agreement and, if so, in what timeframe?

- In 2013-14, the jurisdictions can:
  - Elect to extend the site lease with Covanta to 2038

  - Elect to make no decision (watch and wait) until June 30, 2018 (when Covanta has the right to opt out) or as late as Sept. 30, 2025

  - Elect to make no decision, intending to take ownership of facility in 2025

Brief History of the Alexandria/Arlington Waste-to-Energy Facility



Land Use Background

- Eisenhower West Industrial Use Study (2009)

  "Covanta… represents a resource in which the City (and Arlington County) have placed a significant investment, a resource that provides a vital municipal service… expected to have a useful life… past the contractual relationship with Covanta that terminates in 2025." (p. 67)

- ULI Planning and Development Considerations for Eisenhower West report (2008)

  "The panel was in agreement that heavy industrial users should have their place in the City and given how established the corridor is, and how it ties into a natural industrial area along Fairfax County's border, industrial companies should remain on the corridor." (p. 22)

Existing Governing Agreements

- **Waste Disposal and Service Agreement (2012)**
  - Incorporates Operating and Site Leases **(Oct. 1, 2025)**
  - Goal: Provide a reasonably-priced waste disposal option & ensure any future agreement allows flexibility to enhance environmental controls
  - Trustees were directed to negotiate an agreement through 2025 and provide an option to extend the term through 2038
  - Included 'value of deal' estimate of approx. $42 million in <u>savings</u>
- **Interjurisdictional Joint Action Agreement (2012)**

Waste Disposal and Service Agreement Extension Options

Initial Term
Jan 2013 to Jun 2019

- Current rate of $43.16 per ton, escalated annually at 2.75% thru Jun 2019
- If Extend, rate freezes (e.g. $43.15); then drops to $0 per ton from Oct 2025 thru Dec 2038
- Jurisdictions can extend at anytime, however, Covanta can opt out from Jul 2018 thru Dec 2018

Renewal Term
Jul 2019 - Sep 2025

- If not extended during Initial Term, rate jumps to $60.56 in Jul 2019, and escalates annually at 2.75% thru Sep 2025
- If Extend, rate frozen thru Sep 2025; then drops to $0 from Oct 2025 thru Dec 2038
- Jurisdiction have sole right to Extend

Extension Term
Oct 2025 to Dec 2038

- Rate is $0 per ton thru Dec 2038
- Jurisdictions protected from Change-in-Law risks
- Facility and site revert back to Jurisdiction ownership on January 1, 2039

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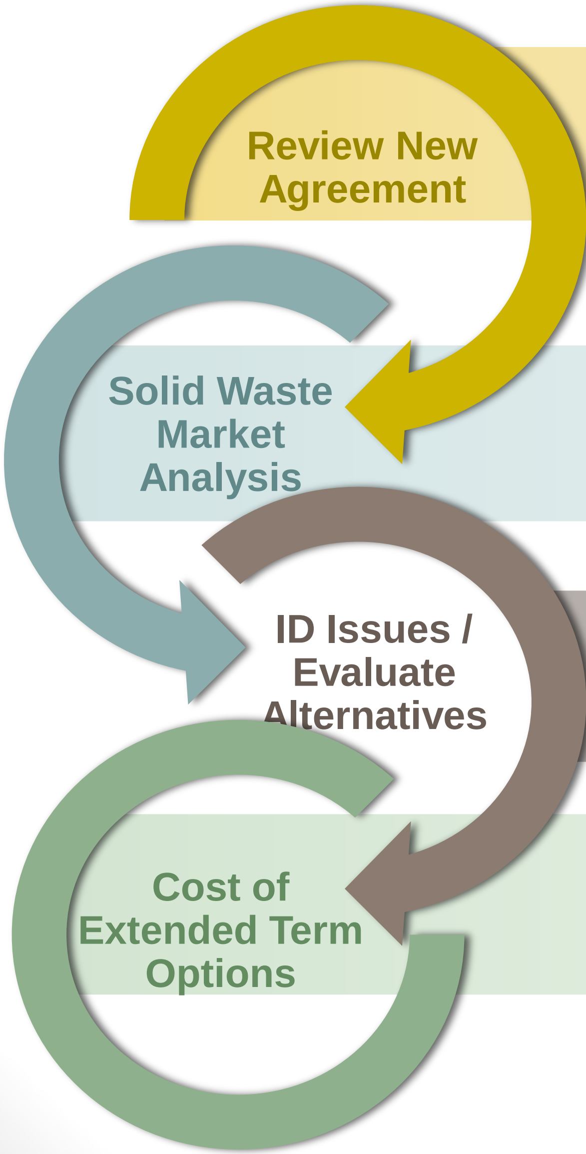
  - Elect to make no decision, intending to take ownership of facility in 2025

Economic Analysis Process



- Agreement & Complementary Documents
- Jurisdictional Planning Information

- Current & Potential Future Markets
- Transportation & Disposal Cost Analysis

- Short-term Options
- Longer-term Options

- Risks, Benefits and Costs
- Financial Model Developed for Three Scenarios

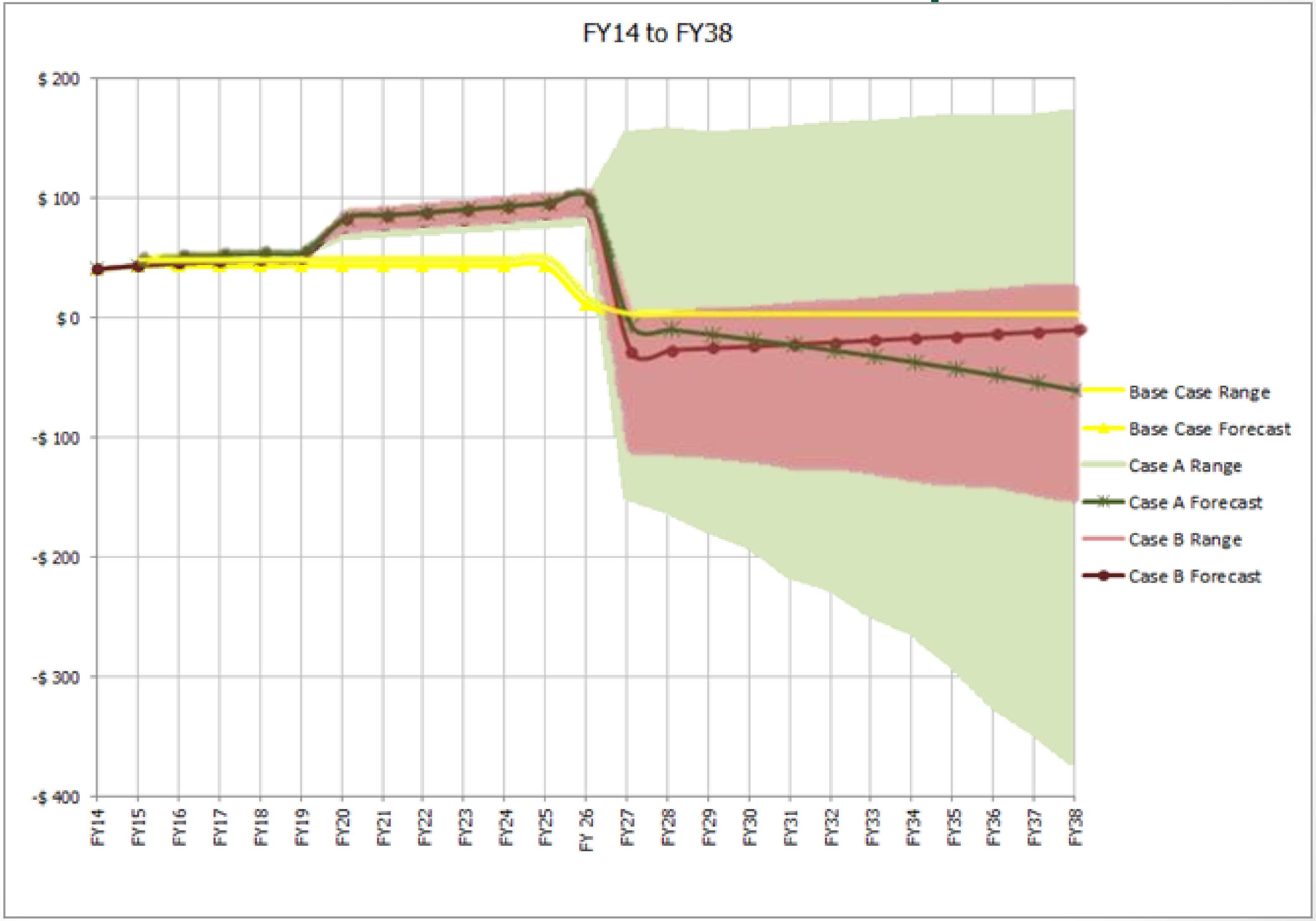
Scenarios and Assumptions

Base Case	Case A	Case B
Extend in FY 2014	Pay Market Rate 2019-2025 (In the range of $58-$88)	Pay Market Rate 2019-2025 (In the range of $58-$88)
Tip Fee freezes at $43.16 per ton then drops to $0 in 2025	Facility transfers back to Jurisdictions in working order in 2025	Sell Facility in 2025, use proceeds to offset disposal costs
Covanta operates Facility through 2038	Jurisdictions operate or hire from 2025 to 2038	Require operator to accept Jurisdictional waste through 2038 at market rate

Estimated Costs of Scenarios

	Base Case	Case A	Case B
Forecasted Total Net Cost	**$22.9 million**	**$31.5 million**	**$28.7 million**
Forecasted Net Cost Per Ton	$16/ton	$23/ton	$21/ton
90% Confidence Range in Total Net Cost (Revenue)	$15 million to $26 million	($11 million) to $75 million	($5 million) to $40 million

Comparison of Range of Forecasted Annual Cost per Ton



Extension Benefits & Risks

- Benefits:
  - Maintains current waste disposal system
  - Provides cost certainty (tip fee freezes, drops to $0 in 2025)
  - Maintains below market rates
  - Can provide immediate savings
  - Protects against change-in-law risks
  - The sooner exercised the greater the savings
  - Savings allow expansion of reuse and recycling programs
- Risks:
  - Potential future under-leveraged Facility value
  - Facility at end of its useful life in 2038
  - Unknowns

Cost of Deferral

NPV of Contract Extension Savings (5% discount rate)		Loss in Savings by Waiting to Extend*	
If extend by June	**Savings Over Contract Term**	**Annual Cost for Delay in Extension**	**Cumulative Cost of Delay in Extension**
2014	**$26.1M**	$0	$0
2015	$25.6M	**$520,000**	$520,000
2016	$25.1M	$513,000	$1,033,000
2017	$24.6M	$463,000	$1,546,000
2018	$24.2M	$413,000	$1,959,000

Conclusion

- For Case A and Case B scenarios, majority of assumptions used in models are outside of jurisdictions' control so actual costs may vary substantially
- Each scenario has potential for providing cost-effective, below market-rate disposal options
- **Base Case contains least pricing risk and is more cost effective**
- Both Case A and Case B have potential for revenue generation in favorable economic conditions and significant pricing risk given poor conditions
- Risks inherent in the Base Case are on balance outweighed by the benefits

Thank You.

Questions?

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