City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 6, 2013

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER/s/

DOCKET TITLE:
Consideration of Extension of Waste Disposal and Service Agreement Among Alexandria and Arlington and Covanta Arlington/Alexandria, Inc. for the Alexandria-Arlington Waste-to-Energy Facility.

ISSUE: City Council consideration of an action to exercise an option to extend the Waste Disposal and Service Agreement among the City of Alexandria and Arlington County (the "Jurisdictions") and Covanta Arlington/Alexandria, Inc. ("Covanta").

RECOMMENDATION: That City Council authorize the City Manager to exercise the "Extension Option" under Section 2.3(c) of the Waste Disposal and Service Agreement among the City of Alexandria and Arlington County and Covanta Arlington/Alexandria, Inc. dated January 24, 2012.

BACKGROUND: The Alexandria/Arlington Resource Recovery Facility (Facility) was jointly initiated by the City of Alexandria and Arlington County (Jurisdictions) as a public/private partnership to handle the waste from the two Jurisdictions. It has been in operation since February 1988, is operated by Covanta Arlington/Alexandria, Inc. (Covanta), and is capable of handling 975 tons of waste each day, while producing 21 megawatts (MW) of energy equivalent to powering approximately 20,000 homes. The Facility was determined to be the most environmentally sustainable means of disposing of waste generated by the Jurisdictions after reduction, reuse and recycling, and has had a stellar environmental record, achieving emissions well below U.S. Environmental Protection Agency (EPA) permitted levels. The City and County have analyzed the useful life of the Facility, as well as other waste disposal alternatives and costs, and have concluded that the Facility's current good condition, replacement cost, and estimated remaining useful life are such that the Facility will remain the best environmentally appropriate alternative for waste disposal for the two jurisdictions for at least the next several decades.

On January 24, 2012, the Jurisdictions entered into a new Waste Disposal and Services Agreement ("Agreement," see Attachment 2) with Covanta beginning January 1, 2013 through June 30, 2019. This new agreement was approved unanimously by both the City Council and the Arlington County Board. The new Agreement left open several decisions that need to be made for the continued use of the Facility by the Jurisdictions. In brief, the Jurisdictions could take over ownership of the Facility in 2025, or could elect to extend their site lease with Covanta to 2038, with the Jurisdictional tip fee dropping to $0 for the period from 2025 through 2038, with the Facility and Facility Site then returning to the Jurisdictions in 2038.

After approval of the Agreement in 2012, the City Council and County Board directed City and County staff to conduct an independent economic analysis of the new Agreement, and other potential waste disposal options. The conclusion of this analysis supports the Manager's recommendation to exercise the extension option. The Environmental Policy Commission was briefed on the matter and has sent a letter in support of the Manager's recommendation (Attachment 3). The Arlington County Board will consider this matter at their November 16, 2013, meeting. Additionally, staff held a community meeting on October 28, 2012 at Tucker Elementary School in order to solicit feedback on the recommended course of action. At the meeting, residents generally supported the recommendation but raised questions regarding community impacts from emissions and trucks traveling to the Facility. Specifically, residents expressed concerns about smells, liquids/waste from trucks spilling onto streets and private property, excessive truck noise and traffic violations by haulers. Covanta and the City can address some of these issues with added street sweeping, increased hauler inspections and traffic enforcement. Residents also asked what would happen if possible new EPA regulations proved too costly for the Facility to maintain its emissions permits. In the unlikely event of such significant impacts from possible new EPA regulations, the Agreement does include change-in-law provisions including termination in the event such costs exceed Maximum Change in Law Costs envisioned in the Agreement.

DISCUSSION: The Jurisdictions retained a third-party consultant to conduct an independent economic evaluation of the Agreement, specifically to look at the extension options and costs of alternatives afforded to the Jurisdictions to support their decision-making process. As part of the study, the Jurisdictions' consultant (ARCADIS, Inc.) reviewed the Agreement, conducted a market study to estimate waste disposal capacity and costs, conducted workshops to refine the alternatives examined, and then identified the risks, benefits and costs of these alternatives. A financial model was developed for each scenario to calculate the net cost per ton during the planning period, the total cost of each scenario, and the potential range in cost based upon changing market conditions.

The three basic scenarios modeled through 2038 are as follows:

- Base Case: in which the Jurisdictions exercise the Extension in FY2014, at which point the tipping fee for Jurisdictional waste "freezes" at the current rate of $43.16/ton through 2024, dropping to $0/ton in 2025 through 2038.
- Case A: in which the Jurisdictions pay market rate (including transportation to access markets) from 2019 to 2025, and then in 2025, operate (or hire an operator to operate) the Facility to 2038.
- Case B: in which the Jurisdictions pay market rate (including transportation to access markets) from 2019 to 2025, and then sell the Facility in 2025, using the proceeds of the sale to offset their disposal costs through 2038.

From the economic analysis conducted in this study, it was concluded that the Base Case Scenario to Extend the Agreement in 2014 offers one of the lowest long-term costs and has the least amount of financial risk. Extending the Agreement in 2014 to maximize the savings available under the Agreement is considered a preferential course to follow. Consideration was given by City and County staff to postponing the decision to extend the Agreement with an extension decision deferred to prior to July 1, 2018. In recommending the extension decision not be postponed, staff considered the Jurisdictions tolerance for risk as risk tolerance is a factor in deciding whether or not to extend. However, there is a significant cost (in this case, a loss of savings) associated with postponing the decision to extend. As discussed further in the consultant's Economic Analysis Report, postponing the extension results in increased costs in the amount of approximately $500,000 annually from now until July 1, 2018.

FISCAL IMPACT: Each option identified a potential range of costs over a 24 year period that may vary substantially (higher or lower) from the mean forecast. The forecasted mean total net cost of the Base Case is $22.9 million. The mean forecasted cost for Case A is $31.5 million and Case B is $28.7 million. If the Jurisdictions extend the contract in FY2014, the Jurisdictions can expect to save approximately $26.1 million over the life of the Agreement (through 2038). The savings diminish annually if an extension decision is not made at this time. This savings figure is relatively consistent with the benefit to the Jurisdictions that was discussed in January 2012, although the projected savings is somewhat lower due to refinements in the Jurisdictions' estimated waste generation and the assumption of a higher (more conservative) discount rate. There is a cost/loss of savings associated with postponing the extension decision of approximately $500,000 annually from now until July 1, 2018.

ATTACHMENTS:
Attachment 1: PowerPoint presentation
Attachment 2: 2012 Waste Disposal and Service Agreement
Attachment 3: Environmental Policy Commission Letter of Support

STAFF:
Mark Jinks, Deputy City Manager
Richard J. Baier, P.E., LEED AP, Director, Transportation and Environmental Services
Yon Lambert, AICP, Deputy Director/Operations, T&ES
Jerome Fletcher, Special Assistant to the City Manager
Morgan Routt, Assistant Budget Director, Office of Management & Budget
Antonio Baxter, Division Chief, Strategic Management Services, T&ES