

MSWE Financing Strategies and Options

September 8, 2010

Underlying question: What is the impact of start-up funding on available Operational funds?

General Assumptions

- MSW input at 1,000 tons/day
- 20MW power output
- New Enterprise Fund in DPU
- G.F. pays lower tipping fee
- G.F. pays less for Waste Collection personnel
- G.F. pays for ancillary Waste Collection services
- Electric prepay is on a take-and-pay basis (CPP pays if power flows and if it does not)
- New Division leases assets from G.F. for the first 3 years. Possible purchase thereafter.
- Federal and/or State funds are sought and obtained which lowers the need for the other start up funding options in the scenarios below.

Scenario A – 100% debt financing for the balance of the funds and New Division leases assets from G.F.

- Build American Bonds (BABs) available now
 - See BAB reference materials
- No prepay of electricity needed

Pros: Build America Bonds are available; all electric proceeds help support the new Division's Operating Funds; this approach represents the least risk for CPP; possible fixed power prices for CPP on a long term basis.

Cons: Question about the bonding capacity of the new division; may implicate the General Fund; BABs may be time limited; possible variable power rate for CPP over time

Scenario B – 100% Electric Prepay for the balance of the funds by CPP

- Trade off of electric revenues for start-up funds and available electric revenues for operational funds
- No direct debt for G.F.
- New Division would have to pay CPP for assets purchased through prepay

Pros: No BABs and no debt service obligations for the new Division; may be lowest direct risk to the G.F.; if Federal and/or State funds contribute in a significant way, a small prepay for the balance of

the funds would leave room for electric revenues to support the new Division's Operating funds

Cons: Zero electric revenues for Operating funds; the option represents the maximum risk for CPP (if facility does not operate CPP must still pay for the power to meet bond issuers' debt service requirements); pre paid amount may always be above the market price for the power paid.

Scenario C – 50% BAB and 50% Electric Prepay for the balance of the funds

- Prepay for half of the electric output. Pay as you go for the balance of the electric funds which help meet the new Division's Operating funds requirements

Pros: Depending on the level of Federal and State funding, a 50-50 split for the balance of the funds would most evenly distribute the risks; a lower prepay for the balance of the funds would leave room for electric revenues to support the new Division's Operating funds.

Cons: The new Division will have debt service obligations and the G.F. may have some exposure; CPP would still have some risk associated with the failure of the project and still having to pay for the power if not delivered.

Scenario D – CPP and Waste Management (G.F.) assume responsibility for parts of the project and respectively seek the balance of the funds.

- Waste Management (G.F.): purchases new trucks and tippers for City-wide recycling; MRF equipment; sorting and shredding equipment, and recycling packaging equipment. Waste Collection would sell its output as feedstock for CPP's steam compression and gasification processes. Waste Management would also be responsible for the sale of the recycled products. Waste Management would continue collections services, no tipping fees but charge an "MSW" processing fee; operate the MRF and be responsible for the labor, wages, and overhead for each of these functions.
- Cleveland Public Power: purchases gasification equipment; purchase steam compression equipment; purchase turbine generators and receive the power; purchase the feedstock from Waste Management; lease space it uses at Ridge Road from G.F.; sale the ash to the Decorative Brick maker; and be responsible for the labor, wages, and overhead for these function.

Pros: This scenario is closest to the *status quo* since Waste Management retains all of its current functions; this approach simplifies what

could otherwise be a complicated Project; CPP's risk may be a little lower with this approach depending on the consistency of the feedstock provided by Waste Management

Cons: This scenario is closest to the *status quo*; concerns about CPP's ability to operate based on Waste Management's feedstock and questions about whether further processing, sorting, shredding, would be required (this could lower the price CPP would pay for the feedstock); concerns about the two Divisions working together under separate Directors.

Scenario E – 3rd Party ownership

- None of the above general assumptions apply
- CPP buys the power out at market rate
- G.F. either out sources waste collection services or continues the *status quo*.
- G.F. sales Waste Collection assets to third party (lease may not be an option)

Pros: New owner may purchase Waste Collection buildings and equipment at fair market value; simplifies operation of the facility with minimal City input; private investors may operate the facility more efficiently;

Cons: City may end up paying higher tipping fees; CPP would pay a higher price for power; the loss of the City's use of its resources (transfer station and CPP's Ridge Rd station); the City-wide recycling program could be jeopardized

Scenario F – Do Nothing. Do not develop the project even if the City obtains the air permit.

- The City continues to pay millions of dollars a year to tip MSW in the landfill
- CPP continues to spend half a billion dollars for power every 5 to 6 years
- May face public pressure for having the air permit and not using it
- City and its partners will have spent nearly \$2 million in project development cost (\$1.5 million for facility design, \$250K for feasibility study, \$35K update to the feasibility study, \$40K for travel, \$5K other, and more) with only the air permit to show for it
- Feasibility Design contributors AMP, Cleveland Foundation, APPA, may question the City's decision not to proceed.