City of Cleveland Memorandum
Frank G. Jackson, Mayor

TO: Chief Ken Silliman
Director Sharon Dumas
Director Barry Withers

From: Ivan Henderson
Interim Assistant Director Public Utilities

RE: Responses to Follow-up MSWE Questions

Date: September 26, 2010

Responses are provided below to the following questions.

1. <u>Explain the Savings to the General Fund information provided in the table at the bottom of the Scenario 1 and 2 Analysis and seek Commissioner Ron Owens's feedback to explain the labor reduction related to the recycling program. Explain the labor budget in the Scenario 1 and 2 Analysis in more detail.</u>

   The labor savings in the table are based on the MSWE Project's ability to accept displaced personnel from Waste Collection Services to new positions created and required by the Project. The example in the table is based on reallocation of 30% of the waste collection resources from the 2008 budget. Commissioner Owens explained that the actual waste collection staff for 2010 is lower than the 2008 budget for Waste Collection staff. This may mean fewer resources would need to be relocated. In either case, decreased labor cost to the General Fund from a City-wide recycling program that has upgraded waste collection trucks and equipment is based on efficiency gains. Commissioner Owens explained in an email that initially he expected 39 employees could be relocated but due to a smaller workforce only 20 would be relocated. MSWE will offer more new jobs than could be filled by relocated waste collection service staff. Less than half of the estimated 120 new jobs created by MSWE will be management and professional skill leveled positions which leaves many opportunities for displaced waste collection staff. Under either scenario, MSWE presents an opportunity to lower the General Fund's current waste collection labor cost by as much as 30% the first three years. After the third, year labor cost, processing fees and other cost would be reviewed and renegotiated.

   Lines 42-44 of the Analysis Tables could be revised based on the current number of waste collection employees. Savings to the General Fund may them be computed based on lower labor cost reflecting a decrease of up to 30% due to the efficiency gained from upgraded waste collection trucks and equipment. The savings are determinable after subtracting the cost of the reduced work force form the cost of the current waste collection workforce. The more collection staff that could reasonably be reassigned, the lower the cost to the General Fund for waste collection services. MSWE will pay for the labor for its own functions including the labor cost for resources transferred from waste collection to MSWE. Ideally, the fees presently assessed on the City's residence for waste collection could be reduced or eliminated during the initial three years of the Project.

2. Explain the bond cost, the applicable rate, and the type of bond.

There are two types of bonds currently discussed in reference to the MSWE Project. The first is the prepay bond associated with prepayment of electric power. The prepay approach was discussed in documents previously provided. The second is the Build America Bonds (BABs) Program which is part of the stimulus bill and is administered by the U. S. Department of the Treasury. The Program allows state and local governments that issue bonds to lower their borrowing costs due to the Treasury Department's subsidization of 35 percent of the interest payments. Local governments in nearly every state have saved billions of dollars by using Build America Bonds to finance critical capital projects that rebuild infrastructure and create jobs.

BABs provide a deeper federal subsidy to state and local governments (equal to 35 percent of the taxable borrowing cost) than traditional tax-exempt bonds and because of this federal subsidy payment, state and local governments will have lower net borrowing costs. The capital projects these bonds would fund include work on public buildings, courthouses, schools, transportation infrastructure, government hospitals, public safety facilities and equipment, water and sewer projects, environmental projects, energy projects, government housing projects and public utilities.

Example: If a state or local government were to issue a Build America Bond and paid to the bondholder $100 of interest on the bond, the Treasury Department would make a payment directly to the state or local government of $35. Thus, the state or local government's net interest expense would be only $65 on a bond that actually pays $100 to the bondholder.

The BABs are taxable; however, the Federal government pays a 35% subsidy on the interest payments to offset the tax hit. *Issuance of Build America Bonds may cease on December 31, 2010 unless the relevant provisions of the American Recovery and Reinvestment Act of 2009 are extended.* The City should consider issuing BABs this year if in fact they are not likely to be extended.

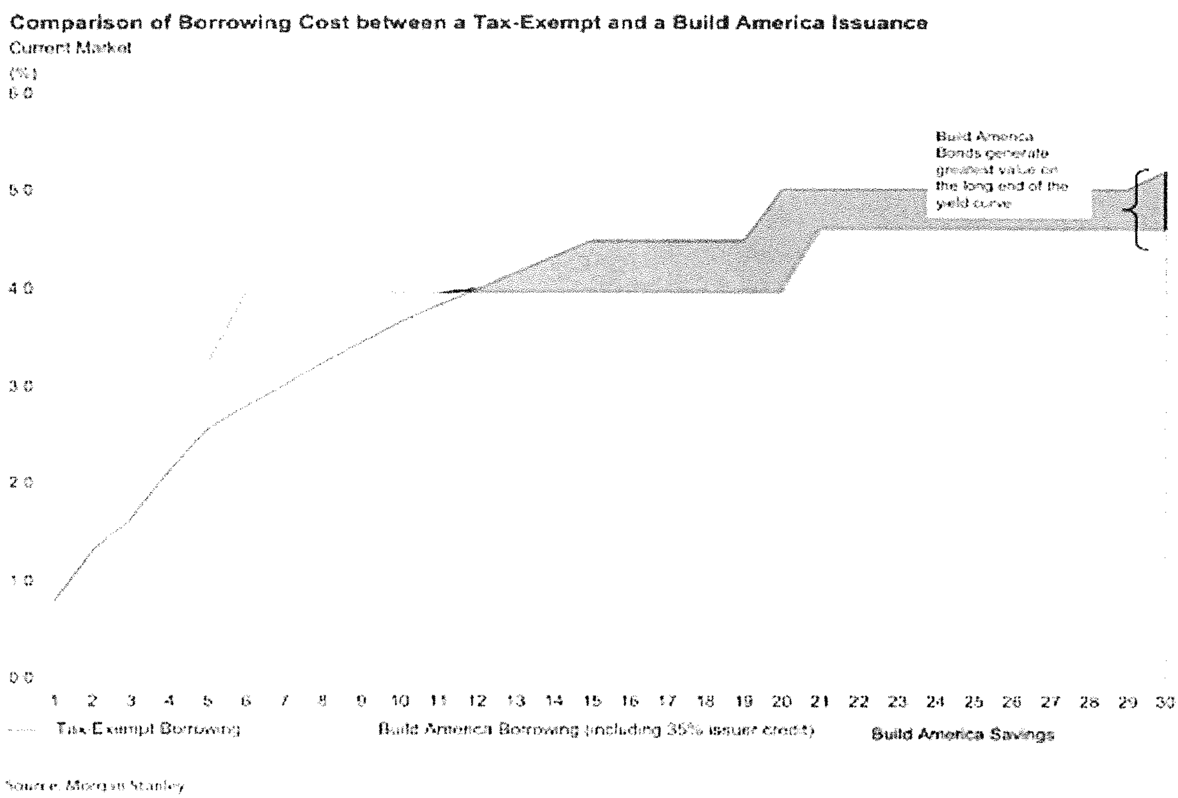
There are four types of BABs (Tax Credit BABs, Direct Payment BABs, Recovery Zone Economic Development Tax Credit BABs and Recovery Zone Economic Development Direct Payment BABs) and the City should seek professional advice to determine which one is most advantageous for this Project.

The following table represents a range of payout options for the Build America Bonds.

Bond Principal	Total Bond Interest Rate - 1	Interest paid by Issuer (City of Cleveland)	Interest subsidized by Federal BAB @ 35%	Monthly Payment	Yearly Total	Total Principal Paid	Total Interest Paid - 2	Total Paid
180,000,000	5.00	3.25	1.75	783,371	9,400,456	180,000,000	102,013,695	282,013,695
180,000,000	4.50	2.93	1.58	752,109	9,025,304	180,000,000	90,759,128	270,759,128
180,000,000	4.00	2.60	1.40	720,611	8,647,338	180,000,000	79,420,133	259,420,133
180,000,000	3.50	2.28	1.23	690,800	8,289,605	180,000,000	68,688,160	248,688,160

1 - In 2009, BABs offered an average yield of 3.69 percent. The federal subsidy thus brought down the cost of borrowing for states and local governments to 2.32 percent, on average.

2 - Subsidized interested not included in this amount



3. <u>Obtain two legal opinions</u>: (

Redacted- Attorney-client privilege

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.