Background

The Alexandria/Arlington Resource Recovery Facility was jointly developed by the City of Alexandria and Arlington County (Jurisdictions) 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. 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.

In January 2012, the Jurisdictions entered into a new Waste Disposal and Services Agreement (Agreement) with Covanta for processing waste at the Facility at a rate considered to be below market rate, beginning in January 2013. This Agreement was approved unanimously by both the City Council and the County Board. This new Agreement left open several decisions that will 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. The issue at hand is whether or not the Jurisdictions should extend the term of the Agreement, and if so, in what timeframe.

The Economic Study

ARCADIS, US Inc. (ARCADIS) was retained 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, ARCADIS 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.
- 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.

Conclusions

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 costs and has the least amount of financial risk. Drawbacks of this option include loss of control of the Facility and Facility Site from 2025 to 2038 and potential unleveraged value from sale and/or operation of the Facility during this period. If such drawbacks are of manageable concern, then extending the Agreement in 2014 to maximize the savings available under the Agreement is considered a preferential course to follow. If concerns regarding the control of the Facility remain, consideration should be given to postponing the decision to extend the Agreement but with a reevaluation scheduled well in advance of July 1, 2018, while the Jurisdictions maintain the unilateral right to extent.

In making such a decision, it is important that the Jurisdictions also consider their tolerance for risk, as risk tolerance may be an overriding factor for exercising the extension and there is a cost (in this case, a loss of savings) associated with postponing the decision to extend. As discussed further in Section 6 and illustrated in Table 6-1 of the Report, postponing the extension results in increased costs in the amount of approximately $500,000 annually from now until July 1, 2018. The increased cost is directly related to the 2.75% annual increase in tipping fees per ton of waste processed which, under the Agreement, continues until the extension is exercised.