



## Response to Questions on the 2016 LOBs

**Request By:** Supervisor Cook

**Relevant LOB(s):** LOB #358

**Question:** Please provide a summary of the current financial terms associated with the Covanta contract.

**Response:**

The Original Service Agreement between Covanta (Formerly Ogden Martin Systems) and Fairfax County was executed in FY 1988 for construction and operation of the waste-to-energy facility. The facility opened in FY 1991 and operated under terms of the original agreement for 20 years. Once the bonds were paid off, the original agreement was extended for another 5 years and the savings realized from the prior debt service were set aside for future rate stabilization needs in Fund 40160, Energy/Resource Recovery Facility (ERRF) totaling approximately \$53.9 million since FY 2011. Under this service agreement, the County participated in the facility's operation by paying the tip fee which was calculated as the cost of the debt service, operation and maintenance costs, and other approved pass through costs that were reduced by a share of electrical and metal revenue. On February 1, 2016, the facility converted to a merchant plant, wholly owned by Covanta, per the original service agreement. To meet the solid waste needs of Fairfax County, a new Waste Disposal Agreement (WDA) was negotiated with Covanta meeting the following Board objectives:

- Minimize environmental impact;
- Provide economic flow control and below market disposal pricing;
- Provide flexibility for recycling, changing waste streams, new technologies; and,
- Provide a reliable waste disposal solution.

The terms of the WDA met these objectives and included the following provisions:

- 5-year term with 2 potential mutual 5-year renewals;
- Fixed price, below market pricing, subject to escalation;
- Limits uncontrollable cost risks;
- Receipt of host community fee (merchant fee); and,
- Minimal customer impact.

The following table summarizes the Covanta Agreement, including the terms under the signed service agreement, during the 5-year extension and under the new Waste Disposal Agreement.



**Solid Waste Management Program**  
**Covanta Agreement Financial Analysis - February 1, 2016**

	Original Service Agreement FY 2010 (Actual)	5-Year Extension of Service Agreement FY 2015 (Actual)	Waste Disposal Agreement FY 2017 (Est.)
Total Tons Delivered to Covanta <sup>1</sup>	966,703	943,089	650,000
Cost per ton for waste delivered to Covanta <sup>2</sup>	\$36.67	\$17.66	\$28.70
Net Debt Service (Bonds)	\$22,532,050	\$0	\$0
Operations and Maintenance Costs (O&M)	\$26,385,797	\$29,355,887	\$0
Approved Pass Through Costs (APTC)	\$8,399,991	\$10,071,542	\$0
Less: Electrical Revenue	(\$20,875,238)	(\$21,003,795)	\$0
Less: Metal Revenue	(\$997,004)	(\$1,767,424)	\$0
<b>Total Cost to Dispose at Covanta</b>	<b>\$35,445,596</b>	<b>\$16,656,210</b>	<b>\$18,655,000</b>
<b>Other County Revenues from Covanta Deal</b>			
Merchant Fee - \$2.08/ton @400,000 tons <sup>3</sup>	\$0	\$0	\$832,000
Road Maintenance Fees for Landfill Access <sup>4</sup>			\$25,000
Ash Disposal Fee (24% of tons X \$25.50 Rate) <sup>5</sup>			\$2,448,000
Ash Hauling Fee (\$1.50 ton) <sup>6</sup>			\$1,575,000
Total Revenues	\$0	\$0	\$4,880,000
<b>Net Cost of Covanta Disposal</b>	<b>\$35,445,596</b>	<b>\$16,656,210</b>	<b>\$13,775,000</b>

**Footnotes:**

<sup>1</sup> Tons used as the basis of Waste Disposal Agreement annual delivery amount. The County meets the contract terms plus or minus 5 percent of the 650,000 tons.

<sup>2</sup> For FY 2017 the cost per ton is estimated because the indices used in the calculation are not available until May-June of 2016. However, the rate is approximately 27.8 percent lower than the rate charged the County in FY 2010.

<sup>3</sup> Covanta agreed to pay a merchant fee for each ton of waste (other than the County's) that is delivered to the facility. Based on an estimated total of 1,050,000 tons, of which 650,000 is Fairfax County, the calculation would be 400,000 tons times the \$2.08 per ton fee resulting in \$832,000 in revenue.

<sup>4</sup> Under the WDA, Covanta agreed to share in road maintenance expenses for the Landfill Access Road. The actual share will be based upon the amount of merchant waste tons delivered to the facility. \$25,000 or more would be a reasonable charge to Covanta for annual maintenance.

<sup>5</sup> Covanta agreed to bring its ash to the County's Landfill at the current disposal rate of \$25.50 per ton. The ash resulting from processing has been 23-24 percent of the total waste tons delivered to the facility. The calculation would be 24 percent of the total ash tons minus the County ash tons (1,050,000 tons minus 650,000) @ \$25.50 per ton.

<sup>6</sup> Covanta agreed for the County to transport all the ash generated by Covanta regardless of source from the facility to the County's landfill. The calculation is based upon 1,050,000 tons of waste delivered @ \$1.50 per ton.