

1. Executive Summary

The Connecticut Resources Recovery Authority (CRRA or the “Authority”) has been directed to prepare and submit this Transition Plan by Section 9 of Public Act 13-285. This Transition Plan presents a sustainable business model for attaining long-term financial stability, and discusses consequences of the dissolution of CRRA and disposition of its assets. The Transition Plan contains a number of specific implementation steps that will enable the Authority to:

- Sustain existing service capabilities
- Provide a competitive balance in the Connecticut and regional solid waste disposal market
- Sustain continued generation of large-scale base load renewable energy in central Connecticut
- Provide a reliable, cost-efficient, and environmentally superior solid waste disposal option for 33% of the municipal solid waste (MSW) generated in Connecticut

Currently, CRRA’s South Meadows Facility faces a financial gap (see Figure 1-1) that must be eliminated to allow the Authority to achieve fiscal sustainability for the next five years. The bottom line in Figure 1-1 shows the municipal service agreement (MSA) opt-out decision point price (i.e. tipping fee) for municipalities. Net Cost is the difference between total expenses, and revenues other than tipping fee revenues received under the MSAs. Net Cost pricing, shown in the dotted blue line, is CRRA’s projection of the tipping fee required to produce revenues that equal expenses, before gap mitigation options are implemented. The difference between the revenues generated at the MSA opt-out decision point price and the Net Cost to operate the South Meadows Facility ranges from approximately \$2 million to as high as \$4 million per year, and totals approximately \$12 million over a four-year period¹. The shaded area over \$80 per ton represents the cost of out-of-state disposal based on market research², the range expected to result if the South Meadows Facility were closed and the tonnages it receives were required to be transferred to out-of-state landfills from transfer locations either at South Meadows, through Authority transfer stations, or other privately-developed transfer stations.

¹ The \$12 million is net of the approximate \$2.5 million annual subsidy transferred from the Property Division in line with the BOD guidance in setting the FY 2014 budget.

² Transfer and disposal costs are estimated at \$70 to \$90 per ton for access to out of state disposal locations that can accept significant tonnages (250,000 to 500,000 tons per year) under a long-term arrangement; an additional \$10 per ton is estimated to cover transfer station operations and administration.

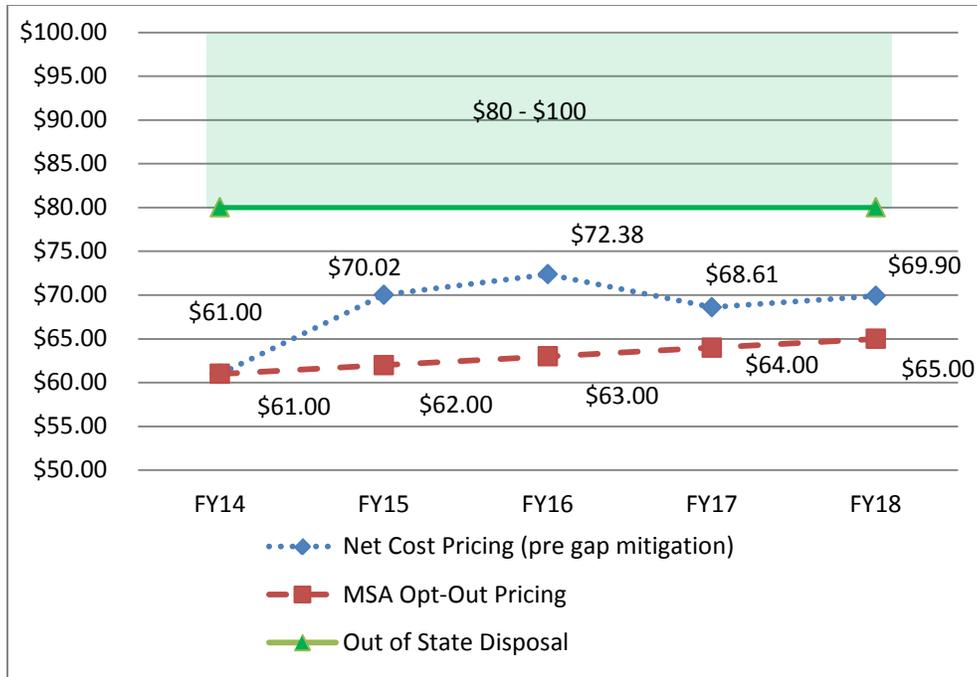


Figure 1-1

Authority South Meadows Resource Recovery Facility Tier 1³ Long-Term Pricing (\$/ton)

The finances of South Meadows are sensitive to small changes in the price of power sold. The current value of power generated at waste-to-energy facilities in Connecticut is well below what solar and wind renewable energy facilities currently receive because waste-to-energy facilities are ineligible for Class 1 Renewable Energy Credits (RECs). Moreover, unlike wind and solar, waste-to-energy facilities provide predictable, base-load power production in high demand areas.

The quantity of waste destined for disposal in Connecticut, currently approximately 2.3 million tons per year, is stable, and may decline if new infrastructure, practices, and services described in the Solid Waste Management Plan (SWMP) are developed and implemented, and the goals of the SWMP are met. The SWMP includes a list of suggestions as to how waste generation can be reduced, and recycling and composting increased, leaving less waste for disposal. (See Exhibit B – Executive Summary of the 2006 SWMP). CRRA analyzed possible outcomes of waste reduction and recycling programs, modeling the resultant MSW stream if the state’s levels of diversion of recyclables and organic materials rise, and concluded that the communities served by the South Meadows Facility will continue to generate enough waste to necessitate use of that facility (see Exhibit F). Waste quantities available to the South Meadows Facility include waste that can be directly delivered to the South Meadows Facility as well as by waste directed to the South Meadows Facility by CRRA’s transfer stations. The South Meadows Facility, therefore, benefits from waste available in Connecticut’s central region as well as in the regions of CRRA’s transfer stations in Essex, Torrington, Watertown, Ellington, and potentially Stratford. As a result of CRRA’s waste supply system, the South Meadows Facility is supported by a waste

³ Tier I Long-Term Pricing is the tipping fee that is available for waste committed for longer terms under the MSAs.

supply that is diverse and stable. Changes in the state's waste management system and waste generation practices will be influenced significantly by market factors.

1.1 Reaching Fiscal Sustainability

CRRA has identified a number of sources of funds and reductions in expenses that would eliminate the gap between the revenues generated by the MSA opt-out decision point price and the Net Cost of operation. These sources include:

Options under Authority Board of Directors (BOD) control:

CRRA BOD Preliminary Selection

- Reduction or elimination of the City of Hartford payment in lieu of taxes (PILOT); this is currently \$2.2 million per year.
- Eliminate Education Expenditures (\$97,000 per year)
- Sale of Unused Property (up to \$7.3 million)
- Application of FY 2013 surplus (\$988,000)

Not Included in Preliminary Selection

- Borrow \$7.4 million for Turbine Overhaul Costs
- Eliminate Recycling Rebates (\$420,000 per year; likely would result in loss of recyclables tonnage)
- Additional Program Reductions
- Increase in tipping fees charged to MSA towns (\$442,000 per one-dollar increase; not supported by BOD at this time)

Options outside of Authority control:

- Asserting CRRA's tax/assessment exemption to eliminate Solid Waste Assessment (dioxin tax); this is approximately \$1.1 million per year.
- Direct State Support of \$7.4 million for Turbine Overhaul Costs through Loans or Bonding
- A positive change in the value of power sold. For each one-cent improvement in the price of power, or the price of the renewable energy credits (REC) to which the facility is entitled, additional revenue of approximately \$4 million per year would result.
- Bi-lateral contracts for power sales

A more detailed analysis of the above, and other gap mitigation options are presented in Exhibit C.

In particular, it is important to emphasize that the most significant gap mitigation option is enhancing the value of renewable energy credits. The current value of Class I RECs is approximately \$0.045 per kWh. If electricity generated by resources recovery facilities (RRFs) in the state was eligible to generate RECs above the current Class II market price, there would be a

significant reduction in CRRA’s Net Cost of operations. Assuming an added REC value of \$0.0225 per kWh, the resultant Net Cost pricing is shown as the solid green line in Figure 1-2.

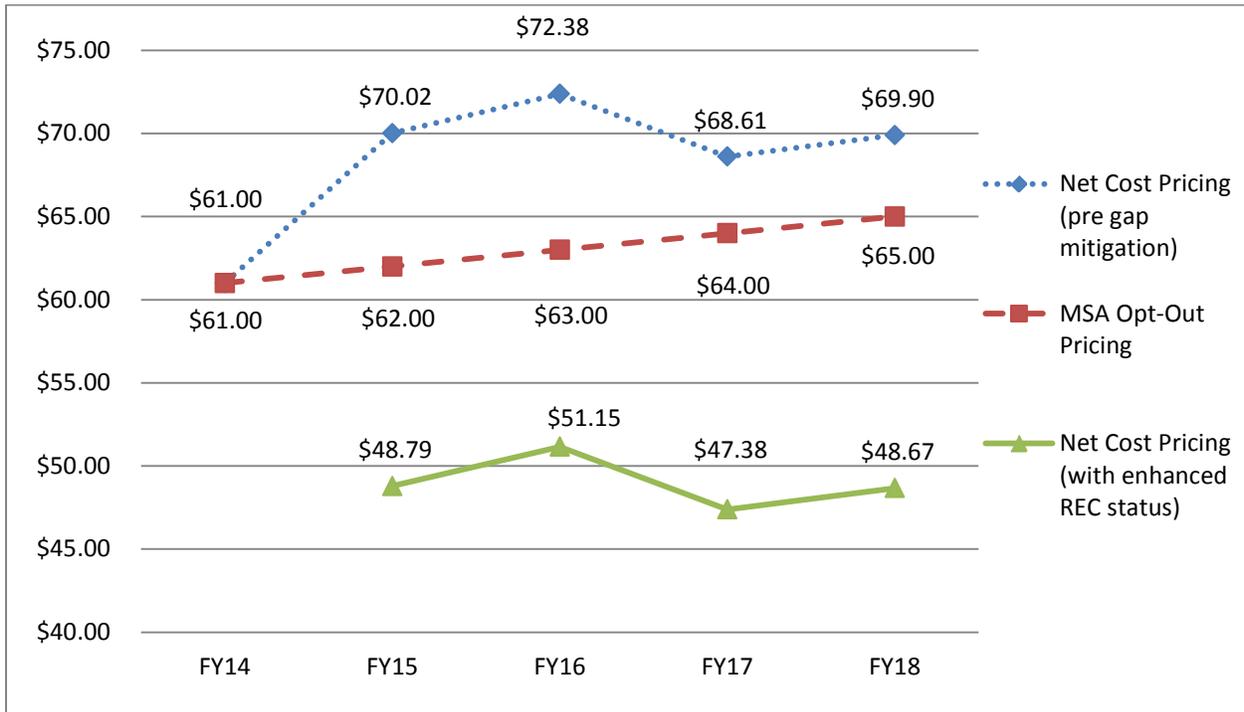


Figure 1-2
Authority South Meadows Resource Recovery Facility Tier 1 Long-Term Pricing
Reflecting Enhanced REC Status (\$/ton)

The Authority Board of Directors will determine which of the above options to apply in order to cover the gap. The Board will analyze revenues and expenses and make similar determinations to the extent necessary to resolve any gap in the next four years. It does not appear necessary nor in the best interests of the Authority’s customers to cease resources recovery operations at South Meadows and to shift to transferring waste to out-of-state disposal facilities. Estimates for out-of-state disposal are in the \$80 to \$100 per ton range for the level of tonnage the Authority currently manages.⁴ If increased power sale revenues are not realized, and if non-tipping fee gap mitigation options are not selected, the Authority is faced with implementing modest tipping fee increases, still well below the estimated out of state transfer costs. While there may be some small capacity availability at spot rates at regional disposal facilities and Connecticut resources recovery facilities on a seasonal basis, there is not sufficient capacity to absorb significant tonnage. Therefore, the risk of losing significant tonnages to competing facilities is viewed as small.

⁴ Transfer and disposal costs are estimated at \$70 to \$90 per ton for access to out of state disposal locations that can accept significant tonnages (250,000 to 500,000 tons per year); an additional \$10 per ton is estimated to cover transfer station operations and administration.

The Authority plans to continue operating the South Meadows Facility and associated transfer stations, and the Hartford Recycling Facility for its existing customers. CRRA will continue to set a cost of operations-based ceiling on prices. As a publicly controlled organization, CRRA charges its MSA customers on a Net Cost of service basis. Because CRRA has sufficient capacity, this has the effect of creating a price ceiling on waste disposal in the state. Anyone facing tipping fees in excess of CRRA tipping fees may simply bring their waste to CRRA.

CRRA has the experience, and statutory capabilities to provide education, participate in implementation of the SWMP, and be instrumental in the development of new projects that transform the way MSW is managed in the state. However, the Authority's funding sources from non-disposal revenues are presently, and are projected to be, fully consumed in maintaining competitive tipping fees at South Meadows. Accordingly, the Authority has at present no discrete funding available for SWMP implementation, conducting solid waste and recycling education, and developing new technology. Legislation is needed to provide a funding source for these critical activities. If a source of funding is not identified and provided, CRRA should be relieved of its legislated responsibility to implement the SWMP, and that responsibility transferred to another designated organization. Since new technologies benefit from and often require unique contractual arrangements, guarantees and/or statutory authorities (flow control) in order to be economically viable, there is substantial advantage to utilization of quasi-public or public agencies partnered with the private sector.

1.2 CRRA is Dissolved

In this Transition Plan, CRRA evaluated several different business model scenarios under which the South Meadows Facility is either sold or closed, and CRRA is dissolved (See Section 5).

In particular, CRRA evaluated the scenario of selling the South Meadows Facility, the Hartford Recycling Facility, and its transfer stations to a private operator(s), who would continue to operate the facilities. In this scenario, CRRA would also sell its other assets (See Section 5.2).

There may be limited financial benefits to the dissolution of CRRA under this scenario. Assuming the private owner did not change operations at South Meadows, there would be minimal disruption to established patterns of in-state MSW disposal, and electric power generation from the facility would continue to supply the state. If assets are sold, proceeds from the sale of the South Meadows Facility site, if any, and from other assets would be available to offset CRRA liabilities and claims. Any proceeds found to be surplus to the liabilities and claims would be property of the State of Connecticut. The purchase price for the South Meadows Facility may not be a positive number, and if positive, may not be sufficient to offset the liabilities and claims associated with the facility.

For the purchase of the South Meadows Facility to be attractive to a private party, it would likely require that the private operator have flexibility to set tipping fees at a market rate (i.e. toward forecasted pricing for out-of-state disposal - \$80-\$100 per ton).

CRRA has identified a number of undesirable consequences that would necessarily follow if the Authority were to be dissolved. Under its authorizing legislation, CRRA cannot be dissolved

without new legislation. New legislation would be required that recognizes and provides for the rights of CRRA's bondholders and other contract counterparties. CRRA has issued four series of conduit bonds for the Southeastern Project that remain outstanding, totaling \$60,600,000 as of June 30, 2013. Perhaps more problematic, CRRA has municipal services agreements (contracts) with 51 towns that provide that those towns receive disposal services at the South Meadows Facility, at the cost of those services. The contracts expire at a variety of dates through 2027. The rights of those towns would need to be protected. Significant legal, solid waste, environmental, and policy expertise and time would be required to prepare various bid specs and RFPs to sell CRRA assets, and address all of the legal and environmental issues relating to any property transfers and contractual terminations. CRRA is party to a variety of litigation and claims that would need to be resolved prior to dissolution. A number of state statutes and regulations govern CRRA, and the dissolution of CRRA would require revision of some of these. Exhibit K presents an analysis of statutory considerations if CRRA were to be dissolved.

Additional undesirable consequences that would necessarily follow if the South Meadows Facility were to close, include the following: The cost of disposal would increase throughout the state, as the vast majority of the waste from South Meadows would have to be shipped out of state, resulting in over 64,000 truck trips to and from New York State, Massachusetts and Pennsylvania each year. The truck trips and deposition of solid waste in landfills would have undesirable environmental effects, increasing greenhouse gas emissions from current levels, and reducing the amount of MSW that is managed in accordance with the solid waste management hierarchy. This would be a major step backward for the state from an environmental perspective. If the South Meadows Facility were to close, there may be the loss of up to 150 Connecticut jobs, approximately \$50 million that is currently spent in-state would be spent transporting and disposing of MSW at out-of-state landfills, and in-state consumers would be exposed to the risk of additional solid waste disposal costs caused by other states imposing extra fees on waste disposal in landfills.

If CRRA were to be dissolved, its responsibilities regarding the SWMP would have to be transferred to another state agency or quasi-public authority.

1.3 Recommendations: Implementing the Authority Transition Plan

Presented in Table 1-1 is a year-by-year summary of activities that the Authority can follow to implement the Transition Plan. In Table 1-1, alternative technologies are assumed to be ready to advance in 2016 for providing commercial capacity in 2020. The Authority would need CTDEEP's support in seeking administrative and legislative support to obtain the necessary funding from either current or new funding sources that will be needed for accomplishing the many goals of the SWMP, including the achievement of 58 percent waste diversion from disposal in Connecticut on or before 2024, or alternatively, CRRA should be relieved of its responsibility to implement the SWMP.

**Table 1-1
Authority Transition Plan Steps and Schedule**

Year	Description	Involved Parties
2014	<ul style="list-style-type: none"> BOD provides direction on filling South Meadows tipping fee gap for FY 2015 Authority requests additional legislative support for the Transition Plan Procurement strategy for regional AD and C&D materials recovery and recycling facilities Authority monitors alternative technologies 	<ul style="list-style-type: none"> Authority Authority, Governor's Office, CTDEEP, and Legislature Authority Authority
2015	<ul style="list-style-type: none"> BOD provides direction on filling South Meadows tipping fee gap Authority monitors alternative technologies Authority begins implementing regional AD and C&D materials recovery and recycling facilities Authority monitors alternative technologies 	<ul style="list-style-type: none"> Authority Authority Authority Authority
2016	<ul style="list-style-type: none"> BOD provides direction on filling South Meadows tipping fee gap Authority begins implementing replacement disposal capacity for South Meadows as capacity needs allow Authority begins implementing regional AD and C&D materials recovery and recycling facilities 	<ul style="list-style-type: none"> Authority Authority Authority
2017	<ul style="list-style-type: none"> BOD provides direction on filling South Meadows tipping fee gap Authority continues implementing replacement disposal capacity for South Meadows as capacity needs allow Regional AD and C&D infrastructure begins operating 	<ul style="list-style-type: none"> Authority Authority Authority
2018	<ul style="list-style-type: none"> BOD provides direction on filling South Meadows tipping fee gap Authority monitors alternative technologies and continues implementing replacement disposal capacity for South Meadows; estimated start up 2020 	<ul style="list-style-type: none"> Authority Authority