TECHNICAL MEMORANDUM

Eastern Idaho Regional Solid Waste District Municipal Solid Waste Landfill and Hauling Fleet Financial Model (Pro-Forma) Summary

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1.0 Introduction

This technical memorandum presents the 2022 Financial Model ("Pro-Forma") for the Eastern Idaho Regional Solid Waste District (EIRSWD or "District"). The purpose of this document is to summarize the approach, methodology, and results of the financial modeling exercise to assist the District in setting the financial frameworks for the proposed regional landfill and hauling fleet for the District's member counties. The model provides an overall analysis of the year-to-year finances that are anticipated from start-up to closure.

An Excel Spreadsheet accompanies this document as referenced herein. This model shall be considered a living financial forecast that is reviewed and updated on a routine basis to reflect current account balances and expenses / revenues. This forecasting tool utilizes best available information, engineering calculations, and engineer's opinion of probable costs for capital improvements.

Revision No. 1 included updates to the financial modeling for the District that were reflected in the Preliminary Engineering Report for the United States Department of Agriculture (USDA) Rural Development (RD) Loan Application.

Revision No. 2 includes further updates to the financial model, listed as follows: (1) added line item for the acceptance of an American Rescue Plan Act of 2021 (ARPA) Grant through the Idaho Department of Environmental Quality (IDEQ) in the amount of $3 million, awarded in two installments of $1.5 million each in 2023 and 2024; (2) revised interim and permanent loan terms to reflect current estimates; (3) renamed the Equipment Replacement Reserves (ERR) as 'Short-Lived Assets Reserves' to match the USDA Loan nomenclature; (4) set the purchase of landfill and hauling equipment short-lived assets to begin in one year earlier 2023 instead of 2024; (5) added a line item for the accounting of IDEQ-funded ARPA Eligible Expenses in 2023 in the amount of $1.5 million; and (6) re-ran the model which includes updates to the short-lived asset and landfill tipping fee forecasts.

1.1 Background

The EIRSWD is a municipal governmental entity consisting of participating members of Madison, Fremont, and Clark Counties. Teton County recently accepted the District's terms of membership but has not been officially voted in by the District Board at the time of this report. However, they are considered a member in this financial evaluation beginning July 1, 2025. The EIRSWD has acquired property for the development of a municipal solid waste (MSW) landfill, approximately 12 miles east of Rexburg in Madison County.

The details of the proposed regional landfill are presented in the *Eastern Idaho Regional Solid Waste District, Regional Municipal Solid Waste Landfill Preliminary Engineering Report* (Great West, December 2021). Each of the communities that make up the District are anticipated to grow at different rates based on United States census data. A constant per capita waste generation rate is assumed based on the 2020 population and waste tonnages for each of the contributing members. The landfill is anticipated to consist of four cells (Cells A-D) developed in phases and seven fill stages, providing a capacity of over 6.9 million cubic yards. This equates to approximately 42 years of expected life, or until year 2066.

2.0 Financial Modeling Overview

It is assumed that the District will maintain a solid waste enterprise account to operate and manage the landfill and the hauling fleet operation. The account will be self-supporting, continue indefinitely, and revenues will carry over from one year to the next, allowing the accumulation of funds. For the landfill, it is assumed that the District will maintain the following reserve accounts: (1) a capital reserve account for future capital improvements and facility expansion; (2) a financial assurance reserve account to fund Closure and Post-Closure of the landfill (30-year post-closure care period assumed); and (3) a short-lived asset reserve account to replace various types of equipment used at the landfill. The District also will maintain a short-lived asset reserve account for the hauling fleet operation.

2.1 Methodology and Approach

The financial model uses a Microsoft Excel platform and consists of multiple tabs of information and data worksheets. The landfill and the hauling fleet operation are modeled individually (tabs "Forecast_Landfill" and "Forecast_Hauling", respectively) and are then summarized on a separate worksheet (tab "Forecast_Summary"). In all three tabs, yearly revenues and expenses are tabulated in a cost accounting format.

Revenues for the landfill are dependent upon tipping fees, which can be manually adjusted. Revenues for the hauling operation are dependent upon yearly estimated expenses. A per mile hauling fee is calculated by dividing estimated expenses by estimated miles driven for the combined member counties. The hauling fee is subsidized through the landfill to assist the member counties that have a farther hauling distance. As entered in the "Inputs" tab, the hauling subsidy is currently set at $2/ton. This subsidy results in a per mile hauling fee reduction of approximately 80 to 90 cents.

As shown in the "Forecast_Summary" tab, the District will be awarded a low interest Rural Development (RD) loan, from the United States Department of Agriculture (USDA). An interim 2-year loan will be awarded in fiscal year 2022 for approximately $16.8 million (estimated 3.00% interest rate) and will cover the initial costs of the landfill construction and fleet hauling operation. An approximate $18.115 million-dollar permanent loan will follow when the landfill construction is completed in 2024 with the first payment due 1-year later in 2025. The anticipated terms of that loan are 40 years at 2.625%.

The Idaho Department of Environmental Quality (IDEQ) will provide grant funding for this project through the American Rescue Plan Act of 2021 (ARPA) in an amount of approximately $3 million over two years (2023 and 2024).

The District's financial advisor, Cameron Arial of Clearwater Financial, provided input and advice to Great West on several components of the financial model. In particular, the cost schedule and breakdown of the interim and permanent loans. Cameron also set an annual inflation rate of 3% per year and earned interest on investment accounts of 0.2% per year. Summary of Inputs and Assumptions

- **Debt Service**: A low-interest RD loan will be obligated to the District in 2022 to cover the land purchase and initial startup costs for the landfill, such as the construction of Cell A and supporting infrastructure (buildings, roads, leachate ponds, domestic water well, power service, etc.), as well as the purchase of equipment and other ancillary necessities for the landfill and hauling fleet.
- **Start Year**: It is estimated the landfill will open August 2024 to provide enough time for permitting, design and construction of Cell A and the supporting infrastructure.
- **Landfill Life Expectancy:** Based on the Master Development Plan the life expectancy of the landfill is 42 years in total, assuming Teton County brings in waste starting July 2025. Four phases of development (Cells A-D) and seven fill stages are assumed for the landfill development. Engineering for each of the future phases is assumed to occur 2 years before the new cell is needed and the cell readied 1 year before it is needed.
- **Minimum Account Balance**: According to the Cameron, the minimum account balance is a for a given year, plus the expected revenues of the following year must be greater than 1.25 times the expenses of the following year. In other words, the District must have enough funds available to cover 1.25x their yearly expenses for the anticipated next year.
- **Tipping Fee Increase**: There are many possible tipping fee schedules. For the model run used for this pro-forma, tipping fees were held constant for three-year intervals and then increased on the fourth year for the last three year's rate of inflation. Beginning in 2030, however, and every six years following, landfill tipping fees were decreased for cost-savings in the model run. This too can be adjusted depending on actual expenses and revenues and the needed account balance.

2.2 Cost Accounting

2.2.1 Revenues

As previously discussed, a low-interest RD loan is assumed to be obligated to the District for this project. Once the landfill is operational, revenues will be generated through tipping fees. Revenues for the fleet hauling operation are generated through fees on per mile basis for each of the member counties. A subsidy from the landfill will offset hauling fees at a rate of $2/ton.

2.2.2 Initial Loan-Covered Items

The following is a list of items that will be covered by the loan for the startup of the landfill and fleet hauling operation.

- Land Purchase
- Site Reconnaissance / Site Certification
- Master Development Plan & Financial Pro-Forma
- Preliminary Engineering Report, Environmental Assessment, & RD Funding Application
- Hydrogeologic / Geotech Investigation & Characterization / Reporting / Monitoring Well Network
- Prelim Design Plan / MSWLF Permit Application
- Final Design Report / Bidding Documents / Permit to Construct
- Bidding Support / Construction Contract Administration (CA)
- Post Construction Services / Regulatory Plans / Permit to Operate
- Construction (Cell A, Leachate Ponds, and Support Infrastructure)
- Landfill Equipment

- Hauling Equipment

Also covered by the loan are the estimated construction contingencies and sales taxes. Interest on the interim loan as well as closing fees for both the 2-year interim and 40-year permanent loan are accounted for in the model.

2.2.3 Debt Service

Revenues from the hauling fleet operation are modeled to match expenses. In other words, the hauling operation will not generate any excess revenues. This means that revenues from the landfill will cover the loan repayment. In the pro forma, loan repayments are shown on the summary tab ("Forecast_Summary"). The interim loan will be paid off in fiscal year 2025, with the issuance of the 40-year loan. Beginning in fiscal year 2026, annual payments will made to toward 40-year loan. In addition, for ten years, there will be an annual payment to a 10-year debt service repayment (per Cameron). The 10-year debt service repayments sum to 10% of the loan amount.

2.2.4 Landfill Expenses

The landfill expenses are broken up into seven categories, listed below:

- **Salaries and Benefits**: Salary and benefits for the full-time and/or part-time staff are required to operate the landfill. Some staff will be shared with the fleet hauling operation. The number of employees and associated salaries and benefits were provided by the District.
- **General Site Operating Expenses**: This category includes all general operating expenses for the landfill, such as yearly legal fees, office supplies, utilities, miscellaneous repairs, as well as environmental monitoring and engineering expense.
- **Vehicles and Heavy Equipment Operation**: Operating costs are included in this category for maintenance and fuel as provided by the District.
- **Capital Reserve Account**: This account provides yearly contributions to an account to pay for future landfill cell expansions and infrastructure. See below a more detailed description of the set asides to fund this account.
- **Financial Assurance Account**: This account provides yearly contributions to an account to pay for future landfill closure and an assumed 30 years of post-closure care. See below a more detailed description of the set asides to fund this account.
- **Short-Lived Assets Reserve Account**: This account provides yearly contributions to an account to cover the replacement of short-lived assets. See below a more detailed description of the set asides to fund this account.
- **Hauling Subsidy**: This line item accounts for the subsidy for hauling waste to the landfill at $2/ton of waste disposed in the landfill.

2.2.5 Fleet Hauling Expenses

The fleet hauling expenses are broken up into four categories, listed below:

- **Salaries and Benefits**: Salary and benefits for the full-time staff are required for the fleet hauling operation. The landfill staff will assist / supplement the fleet hauling operation as directed by the District. The number of employees and associated salaries and benefits were provided by the District.
- **General Site Operating Expenses**: General operating expenses for the hauling operation, such as yearly legal fees, office supplies, and insurance.
- **Vehicle (Truck) Operations**: Fuel and maintenance costs for the fleet as provided by the District.
- **Short-Lived Assets Reserve Account**: This account provides yearly contributions to an account to cover the replacement of short-lived assets. See below a more detailed description of the set asides to fund this account.

Capital Reserve Account
Future capital improvements, after the initial startup costs covered by the loan, will be covered by the Capital Reserve Account. The model is setup to set aside a portion of the revenues from the landfill tipping fee to fund the projected capital improvements.

The following lists future capital improvements and the expected year of construction. It is assumed that engineering design fees are paid the year before construction.

- **Cell B (2032):** Cell B will be constructed to provide additional airspace adjoining Cell A.
- **Flare Station (2034):** It is assumed a flare station will be required in 2033 to meet air quality requirements for fugitive gas emissions. The flare station is assumed to have a lifetime of roughly 20 years.
- **Cell C (2040):** Cell C will be constructed to provide additional airspace adjoining Cells A and B.
- **Flare Station Replacement 1 (2052)**: With 20-years of life, the original flare station is anticipated to be replaced.
- **Cell D (2052):** Cell D will be constructed to provide additional airspace. This is the final cell within the total landfill footprint adjoining Cells A-C.
- **Flare Replacement #1 (2052):** This is the first flare station replacement scheduled to be done approximately 18 years after it the first one is installed.
- **Future Landfill Cell (2066):** With closure of Cells A-D anticipated to occur in 2066, it is expected that another landfill cell will be constructed adjacent to Cells A-D within the District property.
- **Flare Station Replacement #2 (2066):** As part of closing Cells A-D but separate from the landfill closure account reserves, a second flare replacement is assumed to occur. This is an early replacement scheduled to fit in the modeling forecast period and can likely be extended by several more years before it is truly needed.

Financial Assurance Account
The regulations require financial assurance for closure and post-closure care of the landfill. This can be done in several ways but the most common is to create a financial assurance account to set aside monies for these future expenditures. Like the Capital Reserve Account, the financial model sets aside a portion of the revenues from the tipping to fund closure and post-closure care costs. The post-closure care period is assumed to last 30 years. Post-closure costs are generally comprised of maintenance, inspections, environmental monitoring, and reporting.

Short-Lived Assets Reserve Account
Equipment for both the landfill and fleet hauling operation will need to be replaced such as computers, printers, vehicles, trucks and trailers, and landfill heavy equipment. Each piece of equipment has an expected service life and replacement value. This account will accrue funds for the landfill from a portion of tipping fee revenues. The account for the hauling fleet will be funded by a portion of the fee charged to the member counties to provide this service.

3.0 Summary and Results

This financial model (pro-forma) was developed for the District to aid in planning and eventual operation of the proposed landfill and fleet hauling operation. The model assumes a 40-year, low-interest RD loan in the amount of $18.115 million to cover initial startup costs, such as landfill permitting, design, equipment, and construction of Cell A and the supporting facilities, as well as purchasing equipment for the fleet hauling operation.

Both the landfill and the hauling fleet will be services provided to the member counties. Revenues generated by these operations are simply to maintain the services, set aside funds for reserve accounts, and meet the minimal account balance as required by the RD loan.

Exhibit 1 shows the forecasted relationship between revenues and expenses for the landfill and fleet hauling operation as well as the ending balance and fluctuating minimum balance to meet the RD loan requirements. Expenses rise steadily with time because of inflation. The graph also shows a large bump in expenses and revenues in the beginning, which correlates to the loan and construction costs followed by loan payments.

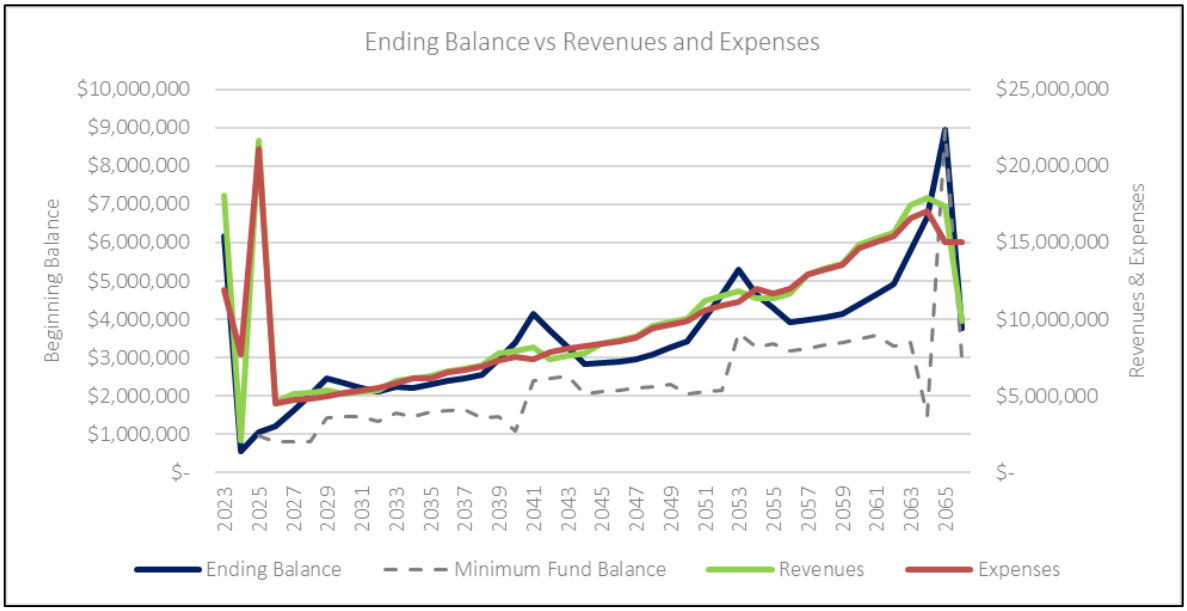

Exhibit 1 – Yearly Operating Account Balance vs. Revenues and Expenses

It is forecasted that the District will be able to reduce tipping fees to provide cost-savings for the member counties, while continuing to set aside funds for future capital improvements, equipment, and closure and post-closure care of the landfill. **Exhibit 2** shows the landfill tipping fee, throughout the life of the landfill. Tipping fees are anticipated to be reduced every 6 years, beginning in 2030. Actual reductions are dependent on future factors.

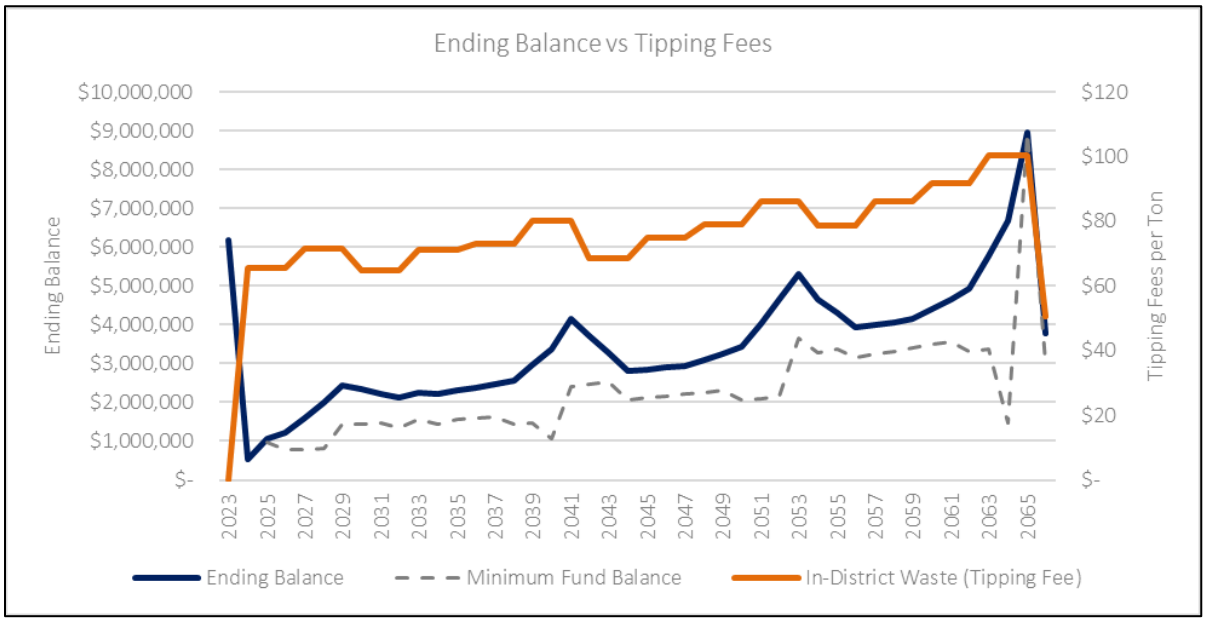

Exhibit 2 – Yearly Tipping Fees vs. Ending Operating Fund Balance and Minimum Balance

As shown in **Exhibit 3**, the projections for these possible reductions in the tipping fee are made even more evident (beneficial) when the effects of inflation are adjusted (discounted).

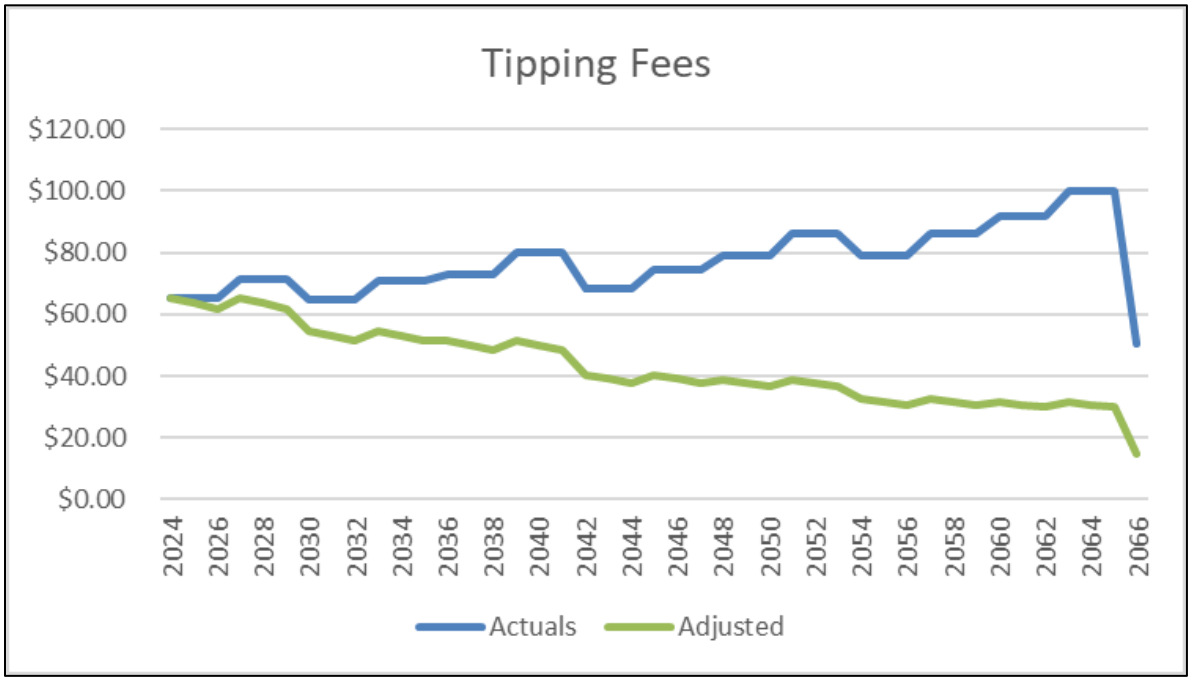

Exhibit 3 – Landfill Tipping Fees (Actuals vs. Adjusted Rates)

Starting in 2024 when the landfill is anticipated to open, the tipping fee is modeled to be set at $65.43/ton. It stays relatively flat over the life of the landfill in actual year dollars as shown by the blue line in the graph. Adjusting for inflation over that same period, the tipping fee declines substantially to almost $30/ton as shown by the green line. Note the sharp decline in the tipping fee in 2066. This is where the financial model ends for future expenditures. This decline is artificial. If another landfill is permitted and constructed next to the Cells A-D, the landfill tipping fee would be expected to follow the same pattern as before in order to fund construction and continued operations of the facility.