MRC
Municipal Review Committee, Inc.
ENSURING AFFORDABLE, LONG TERM, ENVIRONMENTALLY SOUND DISPOSAL OF MSW

Town Hall

April 20, 2022

Zoom Virtual Meeting

Welcome
Karen Fussell, MRC President

- Today's program
  - Facility sale process and schedule
  - MRC roles in the process
  - What if the MRC ends up the owner?
  - Joining Member participation
  - Q & A

Facility sale process and schedule

March - April	New receiver appointed; investment banker retained. Data room in place; MRC providing tours to bidders. Bid documents finalized.
May 16 May 27	Preliminary bidder qualifications due. Final bidder qualifications and draft agreements due.
May 17 to June 3	MRC screens proposals for financial/technical capability. Receiver designates qualified bidders.
June 7	Bids due from qualifying buyers.
June 14	Auction for highest price bid among qualified bidders.
June 30	Target date for close on purchase.

Screening bidders for financial capability

- Cash ready to close the purchase on June 30, 2022
- Financing ready for upgrades, start-up
- No changes to tipping fee
- No sale or pledge of land by MRC
- No fatal flaws in mark-up of Key Agreements
- Reasonable high-level pro forma
- MRC will review and can disqualify bidders

Screening bidders for technical capability

- Project team experience with comparable facilities at scale
  - MRF equipment
  - Pulp production
  - Marketing recovered products
- Start-up and operating plan and schedule
  - Org chart and staffing plan
  - Diversion plan
- MRC will review and can disqualify bidders

If a Private Bidder Wins the Auction…

- Finalize/sign Key Agreements with MRC
  - Includes Master Waste Supply Agreement and Site Lease
  - Formalize MRC potential oversight and ownership/partnership roles
- Close on the purchase
- Add owner to permits and licenses
- Owner mobilizes at Facility for upgrades, start-up, ramp-up
- Take first MSW by late 2022/early 2023

If MRC's Stalking Horse Bid succeeds…

- MRC has cash set aside for purchase
- Needs more funds to successfully reopen plant

MRC stays sole owner

- Hire a contract operator
- Manage the effort
- Must raise $20 million

MRC brings in a qualified private partner

- Multiple interested parties
- Wide range of proposals
- Must happen quickly

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Preferred option: MRC as sole owner

- Full control and use of the facility
- Better long-term economics
- More services for Members

MRC Financing Options

- Grants, earmarks not available within timeframe needed
- Banks require loan guarantees
- Federal/state guarantee programs not assured/take too long
- *To access funding, MRC will need support from Joining Members*
- Joining Members can ***volunteer*** to
  - **Be a guarantor** – and co-sign for a portion of MRC's loan; or
  - **Be an investor** – and loan cash to the MRC

MRC Financing Options

How might a Joining Members **be a guarantor**?

1. Co-sign for part of an MRC loan
   - Must be able to authorize and approve guarantee timely
2. Get a guarantor fee when cash flow is positive [2% of loan balance]
3. Make loan payments if cash is not available from other sources

MRC Financing Options

How might a Joining Member **be an investor**?

1. Provide cash or loan proceeds to the MRC
   - Would reduce size of MRC loan
   - Same term and repayment schedule as MRC loan
2. MRC pays market rate plus a [2%] guarantor adder
3. Subordinated to bank loans, but superior to guarantor fees

MRC Financing Options: Compensation concepts

MRC can:

1. Pay back invested cash as if a loan at a market interest rate
2. Pay fees for guarantees
3. Provide a preferred return from funds left after those payments

Investors: 1, 2 & 3

Guarantors: 2 & 3

MRC Financing Option: Some sample numbers ($ in thousands per year)

Year after opening		1	2	3	4
Revenues					
	Tip fees	12,413	12,786	13,170	13,565
	Products	5,806	5,980	6,160	6,345
	Total revenues	18,219	18,767	19,330	19,910
Operating Expenses		15,388	15,850	16,326	16,816
Cash from Operations		2,832	2,917	3,004	3,093
Waterfall					
1	**Debt service**	**1,793**	**1,793**	**1,793**	**1,793**
	Available	1,038	1,123	1,211	1,300
2	**Guarantor payment**	**400**	**386**	**363**	**338**
	Available	638	737	848	962
3A	**Preferred return**	**500**	**483**	**454**	**423**
3B	General distribution	138	255	394	540

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Sample preliminary compensation numbers

Guarantor fees: $20M loan @ 2% fee is $400k/year for 102,513 tons per year

- If 100% of all JMs participate, equivalent to ~ $4 per ton
- If 50% of all JMs participate, equivalent to ~ $8 per ton (2X)
- If 25% of all JMs participate, equivalent to ~$16 per ton (4X)

Investor Returns: Could exceed 10% on invested cash

- 5.5% interest rate (to be determined)
- 2.0% guarantee fee share
- <u>2.5% preferred return</u>
- 10.0%   total return in this particular example

Next steps

- Refine member financing proposal and compensation plan
- Review bidder proposals for financial and technical capacity
- Work out terms with qualified bidders
- If signs indicate MRC likely to become plant owner:
  - Prepare formal request to members for financing assistance
  - Plan road show to talk with members

Questions & Answers
THANK YOU!

Upcoming Meetings

April 27 Quarterly Meeting

May 17 - June 3

multiple meetings expected

Questions?

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The Hampden Facility Re-development Plan

Executive Summary

The Municipal Review Committee, Inc. (MRC) seeks financial and political support for its efforts to re-develop and re-open the Coastal Resources Advanced Waste Processing Facility (the Facility) in Hampden, Maine. The Facility had operated to process municipal solid waste (MSW) successfully from November 2019 through May 2020, but was forced to close for inability to obtain supplemental financing at the start of the pandemic. Public benefits of re-opening the Facility include the following:

- **Needed MSW capacity**. The Facility represents critical infrastructure needed to provide affordable, long-term environmentally-sound management of MSW in central Maine. The Facility could provide capacity to process 140,000 tons per year or more of MSW that is now being bypassed to landfills and combustion facilities, or, in some cases, exported outside the region. If not re-opened, the MRC region would be dangerously dependent on exports to landfills outside the region, at costs outside of its control, to meet its needs for MSW management.
- **Recycling capacity**. The Facility is designed to recover as much as 80 percent of incoming MSW in the form of recyclable commodity materials, cellulose pulp and other products for beneficial use. Without the Facility, the region will struggle to meet recycling and landfill diversion goals.
- **Regional environment benefits.** By diverting MSW from disposal at combustion and landfill facilities, the Facility avoids emissions and adverse impacts on air quality and water resources resulting from those facilities. Moreover, local management of MSW reduces adverse environmental impacts of long-haul trucking to remote facilities.
- **Reduced carbon emissions.** The Facility would reduce carbon emission through multiple pathways. Processing MSW into materials and products for return to commerce would avoid carbon emissions by (a) recycling materials to reduce the carbon footprint through the full lifecycle process of materials extraction, manufacturing and use; (b) avoiding emissions from the MSW combustion process and from uncaptured landfill gas; and (c) avoiding fossil fuel use from truck transport and from industrial applications (e.g., cement production) that use fuel products made by the Facility.
- **Employment and economic benefits**. If re-opened, the Facility would employ a staff of approximately 55 positions with a payroll of over $4.8 million per year and would generate material and products valued at over $5.0 million per year, with additional indirect multiplier benefits to the regional economy. The Facility would produce cellulose pulp, which is a critical feedstock for Maine-based pulp and paper production facilities; as well as fuel briquettes that could be used by industrial facilities to reduce fossil fuel use. The Facility could also serve as a catalyst to develop complementary facilities that could use recovered material as feedstocks.

Based on our experience, the MRC is confident that the Facility, if adequately capitalized, could achieve profitable operation at full capacity. At the time of its closure, a profitability improvement plan had been developed for the Facility, and reviewed by multiple outside sources, to achieve full capacity by addressing process inefficiencies experienced during the initial period of operation. Investment of up to $5 million could implement the plan. More generally, the market conditions for the material and products that the Facility would produce, including recycled commodities and cellulose pulp, have improved greatly since the 2020 closure. Also, the Maine DEP license for beneficial use of the pulp and the fuel briquette product was not issued until early in May 2020, just prior to closure. As a consequence, the Facility paid for landfill disposal of those products rather than benefit from their sale. Finally, the Facility closed before it had the opportunity to implement bolt-on projects for upgrading bio-gas to renewable natural gas for injection into the on-site pipeline and for making other planned additions to process plastic film in the Facility and hard-to-manage wastes such as tires at the Facility site. If the contemplated improvements and bolt-on projects are made, the products are sold rather than being landfilled and the Facility takes full advantage of current and projected product market conditions, the MRC is confident the Facility can be operated profitably and sustainably. The MRC projects that additional investment on the order of $20 million will be required to achieve sustainable operation.

The remainder of this Redevelopment Plan provides a brief introduction to the MRC; describes the initial development, operation and current status of the Facility; and presents the approach for re-starting the Facility and returning it to commercial operation.

The MRC

The MRC is a non-profit membership organization with a mission to ensure affordable, long-term environmentally-sound disposal of municipal solid waste (MSW) for its members. MRC membership includes 83 municipalities, groups of municipalities and other public waste management districts representing 115 municipalities across central and eastern Maine. Together, the member municipalities include a population of approximately 100,000 that generate approximately 115,000 tons per year of MSW from residential and commercial sources. The MRC is governed by an elected board of nine directors that include town managers, solid waste directors, and finance directors, with support from an executive director and outside consultants and advisors with special experience in the solid waste industry.

Since its inception in 1991, the MRC provided oversight on the operational, technical, contractual and economic performance of facilities accepting MSW from its members. The MRC also held an ownership position over a period of 17 years in a combustion facility that accepted MSW from its members. This experience provides the MRC with a unique perspective on practices and market conditions in the solid waste industry in central Maine and adjacent areas that will be invaluable for re-starting the Facility.

Development and Initial Operation of the Facility

In 2014, the MRC entered into an agreement with a private entity, Fiberight, LLC (Fiberight), for development of a facility using Fiberight technology (the Facility) that would accept and process MSW to recover commodity materials and recycled products. The Facility was designed to divert up to 80 percent of incoming MSW from disposal at landfills or combustion facilities. The MSW was intended to be supplied by MRC members starting on April 1, 2018, when then-existing waste disposal contracts were scheduled to terminate. The MRC acquired a 95-acre parcel located east of Coldbrook Road in Hampden, Maine, which it leased to Fiberight to host the Facility. The MRC also entered into long-term waste supply agreements with all of its members and into a master waste supply agreement with Fiberight. The MRC and Fiberight coordinated to secure environmental license for the Facility from the Maine Department of Environmental Protection (the Maine DEP). Fiberight formed a special purpose entity, Coastal Resources of Maine, LLC (Coastal), to own the Facility, acquire financing, and manage construction, testing and long-term operations.

For a variety of reasons, the development process was delayed and the Facility was not available to accept MSW as of April 1, 2018. The Facility accepted its first load of MSW in April 2019, and continued to accept MSW in increasing amounts on a start-stop basis through the summer and autumn of 2019. Coastal conducted a Performance Test on the Facility in October 2019, witnessed by the MRC, which was passed subject to ongoing conditions. Coastal then operated the Facility on a commercial basis through the first part of 2020. During this period, the Facility accepted and processed MSW from MRC members; recovered and sold recycled materials; and produced products. However, as indicated by the Performance Test and subsequent operations, Coastal was not able to sustain operations of the Facility at full capacity. MSW not processed at the Facility was bypassed to other disposal facilities at a significant ongoing cost to Coastal. Coastal and Fiberight attempted to raise additional capital in March and April 2020 for bypass costs and for an identified set of Facility improvements that would enable operation at full capacity, but the arrangements for supplemental financing fell through, in part due to market turmoil during the early months of the pandemic. On May 27, 2020, Coastal was forced to shut down the Facility due to a lack of cash to pay for services essential to continuing operations.

Status of the Facility

When Coastal ceased operations, Coastal and Fiberight went into default under their agreements with the MRC for failure perform their contractual obligations to accept and process MSW. Coastal was in default to its lenders for failure to pay debt service and had also accumulated unpaid bills to vendors. In July 2020, the indenture trustee for Coastal's lenders (the Trustee) filed an action for relief with the Superior Court of Penobscot County for the State of Maine (the Court). The Court appointed a receiver to take control of Coastal and its assets, including the Facility. Subsequently, the MRC worked with the Trustee and the receiver to identify an entity that would purchase and re-open the Facility.

When Coastal ceased operations, approximately 1500 tons of waste material were stranded at the Facility. To avoid non-compliance with environmental permits and licenses in the absence of actions by ownership and other parties, the MRC stepped in to remove and dispose of the stranded waste; clean-up and secure the condition of the Facility; provide a physical presence at the Facility; and pay for utility and other essential costs. The MRC has also arranged bypass disposal for the MSW from its members on an ongoing basis. Although some of these costs were reimbursed by the Trustee, at this point the MRC is and continues to be the sole entity providing resources to secure the condition of the Facility and to arrange and pay for bypass disposal for its membership. By taking such actions, the MRC has preserved elements that are essential for re-starting the Facility, including the following:

- The condition of the Facility has been monitored to maintain the integrity of the 144,000 square-foot building and protect the existing equipment. The Facility has been winterized and heated during the winter. The equipment remains in place and intact.
- The MRC, in its capacity as named co-permittee on the existing solid waste license from the Maine DEP, has ensured that the Facility is in compliance with the license conditions. Because of these actions, the Facility is in good standing with the Maine DEP. The MRC is confident that the Facility could be permitted to resume operations in its current form under the existing licenses under the auspices of the MRC without the need for significant re-permitting.

- By arranging bypass disposal for its members, the MRC has preserved the status of the 83 agreements with individual members (known as the Joinder Agreements) and the Master Waste Supply Agreement with Coastal. These agreements provide an ongoing commitment to deliver 102,513 tons per year of MSW over a 15-year initial term with five five-year renewals, and with tipping fees that started at $70 per ton and escalate with CPI. The total tip fee revenues under these agreements, projected to exceed $8.5 million per year, provide a secure revenue base to support re-financing and are a key element that would allow the Facility to be re-started without significant delays in contracting for MSW feedstock.

In the past year, the MRC and the Trustee received multiple proposals from potential buyers. None were accepted. Note that the Trustee has not yet initiated proceedings for foreclosure on Coastal 's pledged assets. Technically speaking, as of this writing the Facility is still owned by Coastal pending action by the Court, but Coastal has not addressed its contractual defaults.

Sale of the Facility out of Receivership

In spring of 2022, the MRC reached agreement with the Trustee on an auction process for selling the Facility and other Coastal assets out of receivership to a new purchaser. As of this writing the process is underway. Multiple interested and active potential purchasers have been identified, with a target date for completing the sale of June 30, 2022. As part of this process, the MRC has agreed to serve as a "stalking horse" for the auction; that is, in the event there are no qualified third-party bidders to purchase the Facility, the MRC would purchase the Facility from cash on hand at a price of $1.5 million net of certain expenses incurred by the MRC to secure the Facility, but with a net price not less than $1.0 million. In either event, whether the Facility is purchased out of receivership at auction by a qualified third-party purchaser or by the MRC pursuant to the stalking horse bid, the MRC anticipates that the Facility will be sold out of receivership by the target date of June 2022. If the MRC is the buyer, it would either finance the re-opening of the Facility itself or work with a private entity as a joint venture partner. Multiple such private entities have already indicated potential interest in a joint venture with the MRC. The MRC has also met with private entities interested in serving as a contact operator if the MRC retains ownership. In every scenario for ownership or operation, the MRC would have an active role in the oversight of Facility operations and performance.

The Redevelopment Plan

MRC's redevelopment of the Facility would require completion of the following steps:

1. Purchase Coastal's assets through an asset sale conducted through the receivership under the authority of the Court. Such process would also address the claims of the lenders in their position as senior secured creditors and the claims of other parties that have filed liens and lawsuits to seek repayment of amounts claimed as payable.

2. Make arrangements to re-start the Facility after it has been purchased. For either a priate owner or the MRC as owner, such arrangements would include, at a minimum:
   - Retain a contract operator to bring in on-site management, hire and train operating and administrative staff, re-start relationships with suppliers, vendors and customers, and confirm condition of existing equipment and systems and of parts and material inventories.
   - Develop plans and scopes of work for repair or remediation actions to return the equipment to operating condition.

- Develop a plan for Facility modifications and improvements, drawing upon the previous operating experience, to enable sustained profitable operation at full capacity.
- Develop a start-up schedule. The plan would balance the desire to begin accepting MSW as soon as practicable with the challenges of implementing Facility modifications during operations.
- Establish relationships with potential purchasers of Facility recovered materials and products. Focus on renewing relationships with potential off-takers of the cellulose pulp product that would be produced from materials (largely low-grade mixed paper) exiting the front-end processing and materials recovery equipment.
- Work with Maine DEP to address technical and administrative requirements to prepare to resume operations under the existing licenses, and to address any needed license modifications.
- Secure commitments to provide sufficient financing to accomplish all of these tasks on acceptable terms.

3. Close on supplemental financing, implement the Facility assessment and improvement plans, and re-start and operate the Facility.

The MRC is well positioned to facilitate this process in a number of ways that include the following:

- The MRC is actively working through the details of potential contractual arrangements with private entities that would be joint venture partners; with entities interested in being contract operators; and with potential sources of financing for either approach, all with a view of minimizing the time after closing the purchase to begin the re-start effort.
- The MRC has developed and maintained working relationships with Facility essential suppliers, including local electricity and gas distribution utilities, and with other key service providers. The MRC has also been in contact with potential off-takers of recovered materials and products. The MRC can draw on these relationships to support the re-start effort.
- The MRC continues to maintain communication with key former employees of Coastal and with other local workers that are interested in returning to the Facility for employment and would contribute their expertise and experience with Facility operations.
- Through its strong working relationship with the Maine DEP, to the extent that permit transfer and modifications may be required prior to re-starting the Facility, the MRC is confident that the process for securing needed approvals can be completed efficiently and in an expedited fashion.

The MRC has also developed a detailed pro forma economic analysis of the Facility re-start effort and of long-term operations after commercial operation has been achieved. The pro forma accounts for revenues from MSW tip fees and product sales; expenses for Facility operations and maintenance, residual disposal costs, administrative and general costs; and financing costs; and sources and uses of financing to purchase and secure the Facility, implement the re-start plans, and address cash flow and capital investment needs until the Facility achieves profitability. Details, which are continuing to evolve, are considered confidential in order protect the MRC's negotiating position. The analysis is premised on completing a sale of the Facility out of receivership by July 1, 2022 and achieving commercial operation by the end of 2023. Generally, the analysis indicates that the financing required to re-start the Facility would be on the order of $20 million, or up to $25 million including allowances for bolt-on projects.

For more information, contact Michael Carroll, MRC Executive Director, at (207) 664-1700 or at execdirector@mrcmaine.org.