

2019 STRATEGIC PLAN UPDATE

EXECUTIVE SUMMARY

The purpose of the Executive Team's annual Strategic Plan update is to identify any significant changes in LCSWMA's business or assumptions that have implications on the overarching strategy set forth in our 5-year Strategic Plan and vision for LCSWMA through 2022. The Executive Team is **not** recommending any changes to LCSWMA's 5-year Strategic Plan, as the vision, strategy, and directives remain consistent and applicable to 2019 and beyond. However, there were a few notable developments and sensitivities that were discussed by LCSWMA's Executive Team at various meetings throughout 2018, which are worth noting as part of this update.

MSW AND C&D WASTE GROWTH

LCSWMA's 5-year Strategic Plan was formulated using 2017 forecasted tonnage as a baseline. One of the most significant changes from the 2017 forecasted baseline has been organic growth in Municipal Solid Waste (MSW) and Construction and Demolition (C&D) waste. MSW exceeded original projections for 2018 by 6% (30K tons), while C&D surpassed the baseline outlook by 39% (44K tons). This has caused LCSWMA's Opportunity Capacity to decrease more rapidly than anticipated as organic growth in MSW displaced higher volumes of spot waste in the system. Current projections indicate that growth in these waste streams will continue through 2022, though it is not anticipated to sustain at these levels. While the available capacity in LCSWMA's Integrated System is sufficient to accommodate present and projected growth, LCSWMA's Executive Team continues to actively plan for contingencies within the residual line of business at the waste-to-energy facilities to ensure MSW growth can be managed utilizing existing waste-to-energy capacity should it exceed projections over the next four years. In response to the significant C&D waste growth, LCSWMA began evaluating the feasibility of developing a C&D recycling facility to alleviate the impacts on LCSWMA's Frey Farm Landfill capacity utilization. If feasible, this initiative could recover 50-70% of the C&D waste tonnage being delivered into the Integrated System, thereby conserving upwards of 90,000 cubic yards of capacity annually at the Frey Farm Landfill.

WORKFORCE DEVELOPMENT & STAFFING

While higher volumes into the system have had a positive impact on LCSWMA's tipping fee revenues, there have been challenges with respect to managing these volumes from a staffing and operational perspective. The interrelation between forecasting volumes and adequate staffing and equipment to manage those volumes was evident throughout 2018, particularly with the low unemployment rate and competitive labor market that characterized our region. A significant amount of effort was expended to address staffing in 2018. LCSWMA has reevaluated and revised staffing levels and recruitment strategies for 2019 and beyond to ensure there is sufficient bandwidth and flexibility to manage volume fluctuations within the System, while maintaining a safe and efficient work environment.

RECYCLING MARKET CRISIS

The impacts of China's National Sword Policy, which was implemented in January 2018, had significant ramifications for U.S. recycling markets. With 44% of Lancaster County's waste stream recovered for recycling each year, major shifts in recycling practices can have substantial impacts on volumes into the Integrated System as noted in LCSWMA's Strategic Plan. However, given that the impacts from China's policy were focused on single stream recycling, which constitutes a modest fraction of the total tons recycled in Lancaster County, the ramifications necessitated more of a philosophical change for recycling as opposed to an operational one. LCSWMA responded to the recycling crisis by assuming a leadership role to educate the community on practices to decrease contamination in single stream recyclables by reducing and simplifying acceptable materials for curbside collection. Considerable resources were expended to engage and educate the community on the "Big 4" in 2018, and this work will continue in 2019 and beyond.

FISCAL STRATEGY

As presented and discussed with the 2019 budget and five-year plan, LCSWMA is projecting several deviations from the Strategic Plan baseline fiscal outlook through 2022. Total system tons are anticipated to remain strong, averaging just over 1 million tons into the Integrated system annually. As a result, revenues are expected to exceed original projections by approximately 11% annually, which will be offset by increased operating and capital expenditures to manage higher volumes. LCSWMA's year-end unrestricted reserve position has been adjusted to \$42M in 2022 (vs. \$65M). This notable decrease is attributable to an intentional decision to initiate a Strategic Capital Investment Program (SCIP), which was included in LCSWMA's 2019 budget and approved by the BOD in November 2018. The SCIP initiatives involve strategic capacity and infrastructure enhancements (ex. satellite transfer station, C&D recycling facility and renewable natural gas) that are being evaluated to improve operational efficiencies, extend the useful life of current waste disposal and transfer assets, and diversify revenue. Additionally, in accordance with Section 7 of the Strategic Plan, LCSWMA has established a WTE Next Generation Fund to build critical reserves for future waste-to-energy capacity needs. The 2019 budget and 5-year plan include a provisional allocation of \$15M from unrestricted reserves or operating surpluses into this fund by 2023; the exact allocation will be determined annually by the Board of Directors. Although the next four years include a concentrated period of capital investment for strategic and core infrastructure, years immediately following 2022 will quickly reestablish unrestricted reserves to +\$50M.