

ELTs as a Strategic Alternative to Traditional Environmental Remediation

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*Integrating
Environmental Liabilities*

Real Estate Assets

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Pricing Methodology – Base Model

■ $ELTC = (FMV) - (IC + EL + I + CC + R + K)$

■ ELTC	Environmental Liability Transfer Costs
■ FMV	Fair Market Value
■ IC	Investigative Costs
■ EL	Environmental Liabilities
■ I	Insurance
■ CC	Carry Costs
■ R	Repositioning Costs
■ K	Return on Projected Risk

$$\text{ELTC} = (\text{FMV}) - (\text{IC} + \text{EL} + \text{I} + \text{CC} + \text{R} + \text{K})$$

- **(IC)** Investigative Costs
 - The Cost to Perform and/or Analyze...
 - Phase I Analysis
 - Phase II Analysis
 - Natural Resource Damage Analysis
 - Third Party Damages Analysis

$$\text{ELTC} = (\text{FMV}) - (\text{IC} + \text{EL} + \text{I} + \text{CC} + \text{R} + \text{K})$$

- (EL) Environmental Liabilities
 - The estimated cost to cure and/or manage...
 - Known & Unknown Environmental Liabilities
 - Above Grade, Below Grade and At Grade
 - Onsite & Offsite (but originating onsite and naturally migrating offsite)
 - Past, Present and Future
 - Natural Resource Damages – Third Party Claims

$$\text{ELTC} = (\text{FMV}) - (\text{IC} + \text{EL} + \text{I} + \text{CC} + \text{R} + \text{K})$$

- (I) Insurance
 - The Cost to obtain...
 - Pollution Legal Liability Insurance
 - Cost Cap Insurance
 - Blended

$$\text{ELTC} = (\text{FMV}) - (\text{IC} + \text{EL} + \text{I} + \text{CC} + \text{R} + \text{K})$$

- (CC) Carry Cost
 - Requisite Carry Costs Incurred While Performing Remediation & Repositioning of Asset...
 - Real Estate Taxes
 - Time Value Money Loss of Escrowed Funds
 - Utilities
 - Site Security
 - Property Insurance
 - Site/Building Maintenance

$$\text{ELTC} = (\text{FMV}) - (\text{IC} + \text{EL} + \text{I} + \text{CC} + \text{R} + \text{K})$$

- **(R)** Repositioning Costs
 - Costs Incurred While Repositioning Property to the Highest and Best Obtainable Use
 - Demolition
 - Excavation
 - Grading
 - Rezoning
 - Curb Cuts
 - Modified or Extended Utilities
 - Brokerage Commissions

$$\text{ELTC} = (\text{FMV}) - (\text{IC} + \text{EL} + \text{I} + \text{CC} + \text{R} + \text{K})$$

- **(K)** Return on Projected Risk
 - Traditional Real Estate Returns Plus Risk Premium
 - Traditional Real Estate Return = 7.5% to 12.5%
 - Risk Premiums = 10%

WHEN TO USE A LIABILITY TRANSFER

Mergers and Acquisitions

By acquiring the associated environmental liability, Environmental Liability Transfer, Inc. (ELT) removes deal barriers between interested parties.



WHEN TO USE A LIABILITY TRANSFER

Divestitures

ELT will purchase environmentally contaminated holdings while providing complete environmental liability transfer services to the seller. These transactions often result in a positive net payment to the seller. Alternatively, ELT can assume the environmental liability to help facilitate a transaction between the seller and a traditional real estate buyer.



ENVIRONMENTAL
LIABILITY TRANSFER

A graphic element at the bottom of the logo consisting of a series of small circles connected by a line, resembling a stylized 'E' or a series of dots.

WHEN TO USE A LIABILITY TRANSFER

CATERPILLAR®

Sale / Leasebacks

ELT will purchase environmentally contaminated holdings while providing complete liability transfer services and will leaseback the facilities to the seller. By combining the value of the leased real estate and the value of the liability, these transactions often result in a positive net gain for the seller



**ENVIRONMENTAL
LIABILITY TRANSFER**

WHEN TO USE A LIABILITY TRANSFER

Bankruptcies

ELT will purchase environmentally impaired property and indemnify the seller from future liabilities associated with the site. This will allow the seller to emerge from bankruptcy without the environmental liabilities associated with the transferred site.

KAISER
ALUMINUM



**ENVIRONMENTAL
LIABILITY TRANSFER**

WHEN TO USE A LIABILITY TRANSFER

EPS

Financial Reporting Concerns Sarbanes Oxley and FIN 47

ELT works with corporations to transfer their environmental liabilities. Liability transfers allow corporations to remove environmental liabilities from their balance sheet while freeing up reserves earmarked for site cleanup.



**ENVIRONMENTAL
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WHEN TO USE A LIABILITY TRANSFER

Superfund Site Liability

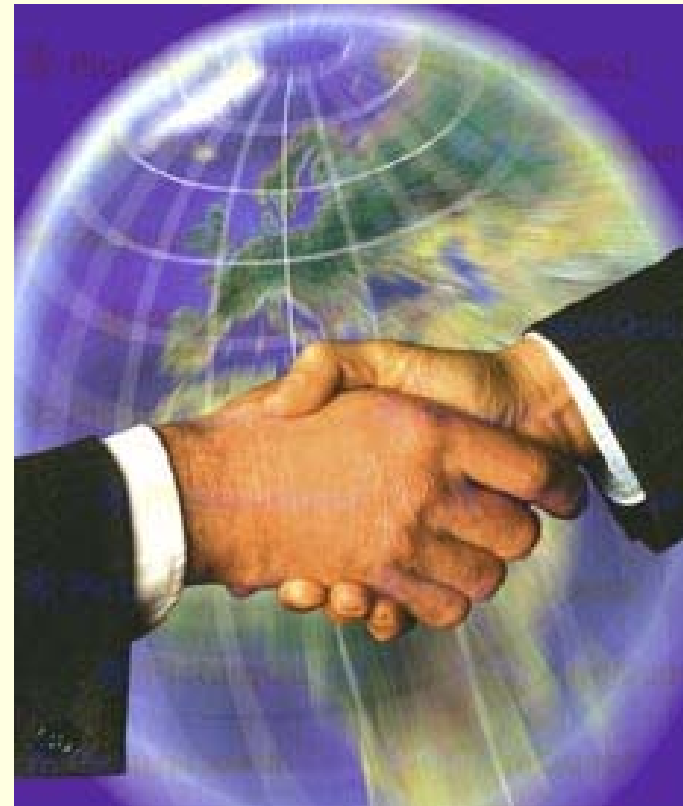
ELT will assume responsibility for PRP Superfund site liability, often at a cost below EPA or PRP managed cleanup costs.



WHEN TO USE A LIABILITY TRANSFER

Structured Settlements

ELT provides a cost-efficient mechanism for dispute resolution between parties. PRPs, owners, operators, buyers and sellers can utilize ELT to avoid costly delays and litigation.



BENEFITS OF UTILIZING AN ELT

- **Transference of Liability:** All liabilities, known and unknown, contractual and legal are transferred to ELT affording maximum allowable release and insulation from future liability.
- **Guaranteed Cost Certainty:** ELT provides a fixed-cost solution for environmental obligations and uncertainties.
- **Elimination of Compliance Issues:** ELT assumes all regulatory compliance obligations freeing manpower and capital.
- **Economic Considerations:** ELT provides its clients with the best possible economic methods to transfer environmental liability – winning approvals from the nation's most sophisticated accounting departments and boardrooms.

CASE STUDY:

Shell Global – *Canadian Portfolio*

Real Estate: 134 Oil Transfer and Refining Facilities Throughout Canada

Environmental Impact:

PetroHydrocarbons, Soil Contamination, Groundwater Contamination

Remedial Activity:

In Situ Soil Treatment, Groundwater Capture & Treatment, Excavation & Off-Site Soil Disposal, Vapor Intrusion Studies & Mitigation, Groundwater Studies

Project Status: Site Remediation Underway, Market Assessments, Land Studies, Redevelopment



The ELT transaction enabled Shell to:

1. Divest non-core, contaminated real estate
2. Transfer the environmental liabilities to a third party
3. Secure remediation of the environmental conditions w/ fully-funded trust

CASE STUDY:

Shell Global – *ELT Process*

- **RE/Liability Transfer:** 134-site Canadian portfolio, primarily former bulk oil terminal sites. ELT paid Shell market rate for the real estate.
- **Corporate Indemnification:** ELT accepted all environmental liabilities for known and unknown environmental conditions including those associated with migration to off-site properties. The transfer included ELT providing a significant corporate guarantee which was vetted and accepted by Shell.
- **Remedial End Points (REP):** Shell designated REPs at each site; REPs followed Ministry obligations and often included the most aggressive MOE option. Shell required certain risk reduction restrictions such as non-residential use, slab on grade construction, which were placed on the title.
- **Secured Remediation:** A fully-funded environmental trust was established to pay for the environmental expenses. An allocated amount for each site was designated and ELT could not draw more than that amount per property. Shell retained rights to approve payments from the trust.
- Holdbacks, payments for milestones were established, including a method to release excess funds for properties remediated for less than the allocated amount.
- **Repurposed Real Estate:** ELT is currently performing land studies and market assessments to determine the highest and best use for these sites going forward.

CASE STUDY:

EVRAZ Steel – *Claymont, DE*

Acquisition: In 2015, ELT acquired and began redevelopment plans for a 425-acre, environmentally-distressed former EVRAZ steel mill in Claymont, DE (outside Philadelphia).

Liability Transfer / Remediation: ELT assumed environmental liabilities and initiated environmental remediation.

Results: Estimated to bring in 5,000 jobs, the “First State Crossing” redevelopment initiative is slated to break ground following environmental remediation in 2017.



CASE STUDY: EVRAZ Steel Concept Plan

- Prepared Concept Plan Showing Highest & Best Uses
- **Uses:** Office, Retail, Transit Center, Industrial, & Rail-Truck Logistics Center
- **Process:** Presentations to elected officials & public
- **Voluntary Clean-up Program (VCP):** DE-DNREC
- **Status:** Three buyers and many prospects



CASE STUDY:

Sparrows Point / RG Steel – *Baltimore, MD*

Acquisition: 3,100-acre former steel mill outside Baltimore, MD

Environmental Impact:

Soil and groundwater impacted by over 125 years of manufacturing

Liability Assumption:

ELT agreed assume specified legacy environmental liabilities – and entered into regulatory consent orders with MDE and the U.S. EPA Region 3.

Status: ELT sold the land to a vertical developer and retained the environmental liabilities

Environmental remediation is ongoing, major redevelopment planned 2018+

“The potential for redevelopment could yield as many as 10,000 jobs within 10-15 years.”

– Baltimore Sun



ELT was the catalyst needed to jumpstart the remediation & redevelopment of North America's largest brownfield site.

THANK YOU FOR YOUR TIME

Questions?



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