Why Lease Financing, Rather than Depreciation, Is Required to Cover Full Cost of West Wing and Contingent Projects

- **OR on depreciation is insufficient to cover financing costs.**
  - Depreciation recovers project construction costs *but not* financing costs.
  - Therefore, financing costs have to be covered elsewhere.
  - OR on depreciation is designed to compensate for the risks of capital investments, not for the costs of financing.
  - But even if OR on depreciation was considered a mechanism to cover financing costs, OR would be insufficient since annual interest expense will be higher than OR (see accompanying chart).
  - Lease financing allows for fair recovery of both construction costs and financing costs because financing costs are embedded in lease rates.

- **Historic Practice.** The Director and the Rate Board have historically allowed for recovery of the cost of acquiring capital assets through lease financing (e.g., current iMRF, Pier 96 equipment, trucks, etc.). Lease financing for the three proposed facilities will continue that practice.

- **Reasonable Return on Investment Required for Financing.** To obtain sufficient financing for construction of the three proposed facilities, Recology will have to demonstrate to financing sources a reasonable return on investment, consistent with market. That showing can only be made through lease financing.