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 *i*MRF, 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.