



LESTI
Structured
Settlements
Incorporated

Environmental Structured Settlements

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Guarantee of Pre-funded Long
Term Stewardship obligations
up to 50 years.

Potential recapture of funds



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Presentation Outline

- History
- Ideal Sites
- Transaction
- Integrates into long term cleanup and stewardship solutions
- Differences and similarities other insurance products



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Presentation Outline

- Needs
 - Regulators
 - Responsible parties
 - Community



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Problem

- Currently lack of a large financial institution to guarantee payments of obligor.
- Currently difficult to guarantee long term obligations - longer than 10 years
- Owners or consultants do not benefit from new technology or being efficient



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Solution

Environmental Structured Settlement

- Agreement to make future payments
- May be assigned to a third party
- Vehicle to pre-fund and guarantee future obligations
- Bankruptcy of the Resp. Party or consultant does not affect this transaction.

LT Stewardship 4/11/07

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EPA Quotes

- “The primary purpose of the financial responsibility requirements for corrective action is to assure that funds will be available when needed to conduct necessary corrective action measures.”
- Transmittal of Interim Guidance on Financial Responsibility for Facilities Subject to RCRA Corrective Action. EPA September 30, 2003.



EPA Quotes

- “EPA recognizes that the main goal of regulators in implementing the corrective action requirements is to protect human health and the environment...and that financial assurance involves matters with which regulators are sometimes not familiar.”



EPA Quotes

- “ Because annuities are sold and administered by large, regulated, conservative financial institutions with substantial assets, their promise to pay over a long time may be more reliable than that of a business PRP lacking the same resources or long term financial stability.”

Exploring the Use of Annuities as Funding Tools for Superfund Settlements.
EPA April 17, 1995.



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Solution

Environmental Structured Settlement

- Provides guaranteed payments from a Fortune 50 Company
- Can currently guarantee payments for 50 years (looking at longer periods)
- Potential recapture of funds



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Structured Settlements Since 1982

- Physical injury torts
- \$6 billion last year.
- 1995 EPA Memo advocating Environmental Structured Settlements
Bruce Diamond get at www.lesti.com
- Ownership challenge now solved



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New and Innovative Assignment Product

- Can now do assignment such that Regulator / Government Authority does not have to own the annuity.
- First full year of production \$75 million.
- Now almost \$1 billion under contract.
- New entrants eager to enter market



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Security of Transaction

- Annuity is issued
- U.S. Life Insurance Company issues the Annuity Contract and guarantees the Assignment Company
- Rated A+, size XV (the highest)
- Fortune 50 Company



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Ideal Situations

- Fund future obligation today
- Have a Long Term Stewardship requirement and plan: cash flows
- Post Record of Decision for Superfund and similar sites
- Operations and Maintenance ideal



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Ideal Sites/Situations

- Closure of large industrial sites, nuclear, landfills, mines, RCRA, plug into requirements.
- Change of ownership
- Manage Earnings – reduce net income
- Manage disclosures – SOX, FIN 47 & others
- Cleanup funds already paid from others i.e. deminimus fund already exists.



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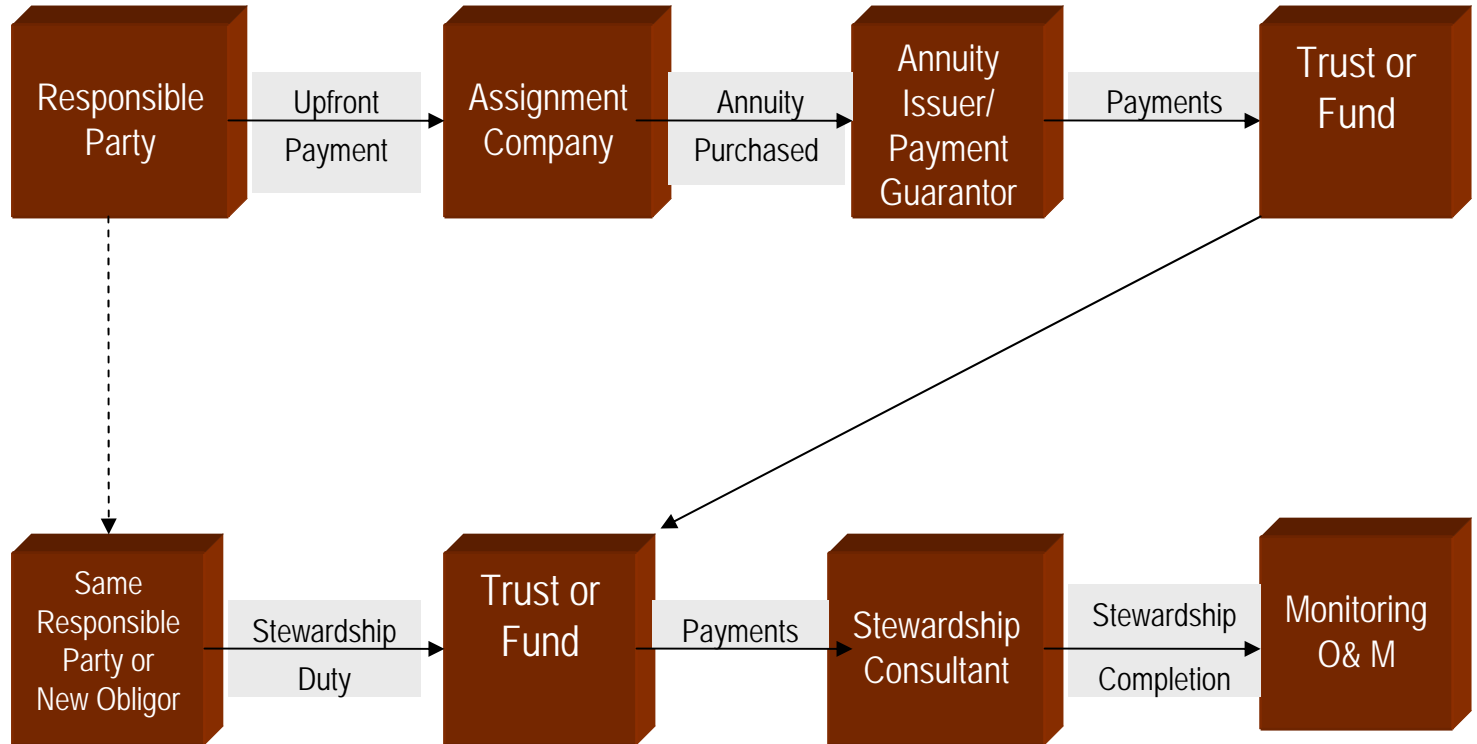
How it Works

1. The payments are agreed upon in Stewardship type agreement.
2. Responsible party assigns obligation to make future payments.
3. Assignee purchases annuity that pays periodic payments.
4. Large US life insurer guarantees assignee.



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Transaction Flow





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Features

- Safe
- Simple
- Guaranteed payments
- No ongoing fees:
 - Management
 - Investment
 - Commissions



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Integration

- Works in tandem with Guaranteed Fixed Cost Contracts / Site Insurance.
- Obtain cost overrun insurance if actual costs are greater than expected
- Risk: Minimize or transfer
- Best suited for stable: Sites Stewardship Obligations



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Comparison - Insurance Programs

- Strong Large U.S. Life Ins. Co.
 - Prepay present value of obligation
 - Actual annuity contract issued
 - Payments may be accelerated - no further action or similar finding
 - Recapture possible
 - No need to make a claim
 - Don't have to sue to get paid



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Different Than Other Insurance Programs

Life v. Property & Casualty

- P & C make money by taking risks
- Life markets make money on the spread (small mortality risk)
- Real risk is the owner of the obligation: Responsible Party, land owner, consultant's insolvency not Insurance Company. Eg. IT Corp.



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Life v. Property Casualty

Life Ins. Co

- Obligor Guaranteed
- A+ rated & higher
- U.S. Company
- Fund recapture possible

Prop. Casualty

- Obligor may be consulting Co.
- May be lower rated
- May be non-U.S.
- No fund recapture



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Example

- Immediate
- \$100,000/year for 50 yrs, 3%.
- Cost:
\$2,985,000
- Payout:
\$11,279,687
- Defer 10 years
- \$100,000/year for 50 yrs, 3%
- Cost:
\$1,827,000
- Payout:
\$11,279,687



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Meeting Needs – Responsible Party / Consultant

- **Recapture of funds**

As new technologies/techniques reduce the time and cost of oversight or cleanup
- Owner/Consultant/site fund/non-profit can be paid the savings

This gives an inherent incentive to innovate – to use new technology / techniques to reduce cost / time of Long Term Stewardship and cleanup obligation.



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Inherent Incentive to Innovate

- **The “Triple i” concept:**

Marketplace of new cleanup technologies and techniques allows recapture funds

Also application of existing technologies and techniques such as Triad, allows for cleanup savings



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Responsible Parties Needs

- Sarbanes- Oxley “SOX”
- FIN 47
- FASB 143 – Accounting for Asset Retirement Obligations
- Explicit reference to include unasserted legal obligation, I.e. environmental cleanup
- FASB 404 – Independent review of process.



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Responsible Parties Needs

- End of Mothballing assets requiring cleanup
- Manage Risk
 - Sell asset - avoids cleanup risk
 - Keep it and maintain liability – insure against risk
 - Keep asset and assign cleanup risk



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Meeting Regulators' Needs

- Secure funding: Large Life Company
- Safe from legislative raiding
- Can meet budgetary cycles of funding every 2 or 5 years e.g.
- Roll funds forward as come due.
- Global funding – many sites



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Meeting Regulators' Needs

- **Cleanup performed faster**

Inspire new technology / techniques or share cleanup savings specific new technology innovation



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Meeting Community's Needs

- Funding is secure for long term obligations, even if Responsible Party experiences financial difficulties
- Cleanup performed faster
- Property reused at higher/better use
- Secure funding of Stewardship issues ensures remediation in place



Risk

- Guaranteed money flow is critical for Long Term Stewardship as the entire remediation could be threatened.
- Duty – Responsible Parties and Regulators – to guarantee that the obligor and the future payments will continue as funding and safe ownership is an integral part of the cleanup.



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Sites

- Liquid Disposal, Region V
- Casmalia, CA - landfill
- Great Lakes Dock & Dredge
- Reeves Southeastern, Tampa
- Omega Chemical, Whittier
- Gardena, CA site



Summary

- Guarantee of future payments - large financial institution
- Pre-fund cleanup and Long Term Institutional Controls up to 50 years
- Potential for fund recapture
- Meets needs Responsible Parties, Regulators and Community



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