ANNUAL SURVEY AND REPORT
AS OF
APRIL 01, 2010

REGIONAL
SOLID WASTE DISPOSAL SYSTEM

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA
CHESAPEAKE, VIRGINIA

R·W·BECK
An SAIC Company

April 20, 2010

An SAIC Company

Southeastern Public Service Authority of Virginia
723 Woodlake Drive
Chesapeake, VA 23320-1346

Ladies and Gentlemen:

Subject: Annual Survey and Report of the Waste Disposal System of the Southeastern Public Service Authority of Virginia

Submitted herewith is the Annual Survey and Report (the "Report") for the period ended April 1, 2010 on the Waste Disposal System of the Southeastern Public Service Authority of Virginia (the "Authority") prepared pursuant to the requirements of: (1) Section 714 of the Resolution Authorizing the Issuance of $186,435,000 Senior Revenue and Revenue Refunding Bonds Series 1989 (Regional Solid Waste System) and Thereafter of Additional and Refunding Senior Revenue Bonds Adopted August 16, 1989, amended and restated on September 26, 2007 and amended on May 14, 2009 by supplemental resolution; (2) the requirements of Section 714 of the Authority's Senior Subordinated Resolution dated February 28, 1998, as amended authorizing the issuance of the Authority's senior subordinated bonds; and (3) the requirements of Section 714 of the Authority's Guaranteed Subordinated Resolution dated May 14, 2009, authorizing the issuance of the Authority's guaranteed subordinated bonds. This is the twenty-third Annual Survey and Report prepared by R. W. Beck, Inc., and this Report has been prepared in accordance with a Professional Services Agreement dated as of February 12, 2010.

Financial, statistical, and operating data included in this Report regarding the Authority have been taken from the books, records, and reports of the Authority and from the audit report for the Fiscal Year ended June 30, 2009, as prepared by the Authority and as examined by KPMG, L.L.P certified public accountants. The information contained in this Report regarding the Authority, including the description of the operation of the facilities and projected construction cost estimates, has been provided by the Authority. In preparing this Report, we have had discussions with the Authority's management and supervisory personnel and have made a recent site visit to the System.

It is important to note the Authority's proposed budget assumes that the sale of its refuse derived fuel plant and power plant will occur by May 1, 2010 and that the sale proceeds will be used to reduce the Authority's future debt service.

Respectfully submitted,

R. W. BECK, INC.

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Annual Survey and Report of the Waste Disposal System

Southeastern Public Service Authority of Virginia

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Purpose and Scope of Report

This report (the "Report") is prepared by R. W. Beck, Inc. ("R. W. Beck") as of April 1, 2010, except as otherwise noted herein, for the Southeastern Public Service Authority of Virginia (the "Authority" and/or "SPSA") in accordance with Section 714 of the Resolution Authorizing the Issuance of $186,435,000 Senior Revenue and Revenue Refunding Bonds, Series 1989 (Regional Solid Waste System) and Thereafter of Additional and Refunding Senior Revenue Bonds, Adopted August 16, 1989, amended and restated on September 26, 2007, and last amended by a Supplemental Resolution on May 14, 2009 (hereinafter referred to as the "Resolution"). Section 714 of the Resolution requires that the Authority shall employ an independent engineer (the "Consulting Engineer"), who:

> "Shall annually prepare and deliver to the Authority and the Trustee, on or before April 1 of each year, a report regarding the Disposal System and containing its recommendations concerning the proper maintenance, repair and operation of the Disposal System during the following fiscal year, any necessary changes in the services to be provided through the Disposal System during the following fiscal year, any additions, improvements or renewals or replacements that should be made during the following fiscal year, the estimated Gross Revenues necessary for such purposes, and any necessary revisions to the tipping fees. If in any fiscal year, net revenues are less than the amount required by Section 502, the Authority will direct the Consulting Engineer to make recommendations with respect to the revision of its tipping fees, improvements to or changes in the operations of the Disposal System or the services rendered by the Authority through the Disposal System . . . .
>
> "The annual report of the Consulting Engineer shall also contain an estimate of the useful life remaining in all landfills which are a part of the Disposal System. Should that estimated useful life be less than the final maturity of Bonds outstanding, the Consulting Engineer shall submit to the Authority estimates of the costs of extending the estimated useful life of any landfills to at least equal the final maturity of Bonds outstanding and its advice and recommendations considering such extension and alternatives thereto. Based on such advice and recommendations, the Authority shall take such action as it deems reasonable to assure that the Disposal System, including the necessary

> landfill capacity, will be in operation at least through the final maturity of the Bonds."

The Authority's February 28, 1998 resolution, as amended, securing its senior subordinated bonds (the "Senior Subordinated Resolution") and the Authority's May 14, 2009 resolution, as amended, securing its guaranteed subordinated bonds (the "Guaranteed Subordinated Resolution") contain covenants virtually identical to the Resolution securing the Authority's senior lien bonds. Therefore, except for the discussions of the rate covenants (which are different), discussions of the covenants in the Resolution are equally applicable to the covenants in the Senior Subordinated Resolution and the Guaranteed Subordinated Resolution. This Report also satisfies the requirements of Section 714 of the Senior Subordinated Resolution and the Guaranteed Subordinated Resolution for delivery of an annual report of the Consulting Engineer to the Trustee under the Senior Subordinated Resolution. The three resolutions, as a group, are referred to herein as the "Resolutions".

R. W. Beck was employed by the Authority to prepare the Report in accordance with the terms and conditions of a Professional Services Agreement dated as of February 12, 2010 by and between the Authority and R. W. Beck. As is discussed later herein, during the time period this Report was being prepared, the Authority was undertaking a number of initiatives to address the serious financial challenges it faces. R. W. Beck can offer no opinion regarding any matters discussed in the Report subsequent to April 1, 2010.

It should be noted that the Resolution requires the Consulting Engineer's Report: (1) to be submitted to the Trustee by April 1 of each year and (2) to address all of the components of the Disposal System. Due to significant changes, all as discussed below, that the Authority anticipates will occur prior to May 1, 2010, the Authority determined that the Report this year should: (1) be delayed by one month in order to address the significant changes anticipated to occur in March and April 2010; and (2) not include a review of the refuse-derived fuel ("RDF") plant and the power plant (collectively, the "WTE Facilities") which the Authority expects will be sold by May 1, 2010. [(1)]

Significant Events During the Last Twenty-Four Months

The Authority is facing a number of financial challenges highlighted by decreased waste deliveries that have resulted in reduced tipping fee revenues. The decrease in net operating revenues has impacted the ability of the Authority to make debt service payments as the debt is currently structured. The Authority has identified a variety of reasons for the current financial challenges including the following:

- Downturn in the general economy resulting in decreased waste generation.

[(1)] Each of the three Resolutions was amended on March 24, 2010, effective upon the sale of the WTE Facilities. This Report does not reflect such amendments that in effect redefined the Authority's "System" to exclude the WTE Facilities, deleted references to the Navy Contract and made other technical amendments related to the Authority's disposition of its WTE Facilities.

- Failure of the Cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk, and Virginia Beach and the Counties of Isle of Wight and Southampton (collectively, the "Member Communities") to effectively enforce their several obligations that they will cause 95 percent or more of the solid waste generated within their jurisdictions be delivered to the Authority.
- The ability of commercial haulers to utilize a "grandfathered" landfill in Hampton Roads to subvert flow control efforts by the Member Communities.
- Historical decisions made by the Authority's Board of Directors resulting in the failure to increase the tipping fee paid by the Member Communities ("Municipal Tipping Fee") above minimum levels required for the Authority to meet its covenants to creditors, the failure to create reserves, the failure to fund long-term future liabilities and the over reliance on debt to fund capital repairs and improvements.

The Authority's ability to address these financial challenges is complicated by the fact that the City of Suffolk delivers waste without paying a Municipal Tipping Fee and Virginia Beach's Municipal Tipping Fee is capped at $56.01 per ton. As a result, the Municipal Tipping Fee for the six remaining Member Communities must be set to make up any system revenue shortfall and the six remaining Member Communities are currently paying a Municipal Tipping Fee of $170 per ton.

To address these financial challenges the Authority has reduced the services it provides, reduced staffing, restructured its debt, and committed to reduce its debt by selling its WTE Facilities. The Authority has entered into a Purchase and Sale Agreement with Wheelabrator Technologies Inc. ("Wheelabrator"), pursuant to which Wheelabrator has agreed to purchase, and the Authority has agreed to sell, the WTE Facilities for a purchase price that includes $150,000,000 cash and other consideration (the "WTE Transaction"). The proceeds of the sale are to be used to reduce a portion of the Authority's existing debt following approval by the Authority's various lenders including the Virginia Resources Authority ("the VRA"), Wachovia Bank, National Association ("Wachovia" or "Wachovia Bank"), the City of Virginia Beach and Ambac Assurance Corporation ("AMBAC").

The Authority's proposed budget assumes that the sale of the WTE Facilities will occur during the fiscal year ending June 30, 2010 ("FY2010") and that the Authority's debt will be reduced using the proceeds of the sale. The Authority reports that it intends to evaluate alternative operational approaches for its remaining operations, including its transportation operations, the transfer stations and the regional sanitary landfill located in the City of Suffolk, Virginia (the "Regional Landfill").

It should be noted that the sale of the WTE Facilities is contingent upon certain events, including receipt of a "closing agreement" with the Internal Revenue Service ("IRS") that will protect the tax status of the Authority's and VRA's tax-exempt bonds. The Authority and VRA have requested such an agreement on the terms that the IRS will accept an allocation private activity bond "volume cap" in lieu of financial penalties that may otherwise be owing on account of the change in ownership of the WTE Facilities from governmental to private ownership. On March 31, 2010, the Authority and VRA received an allocation of $100 million of volume cap from the

Commonwealth of Virginia. The volume cap allocation is subject to certain terms and conditions including, but not limited to the following:

- The proposed sale of the WTE Facilities must close no later than May 1, 2010.
- The Authority must enter into a closing agreement with the IRS no later than May 1, 2010 and such agreement must indicate that the IRS accepts the private activity bond volume cap in lieu of cash payment of taxes, penalties and interest related to the sale of the assets.

R. W. Beck is unable to determine the likelihood that all of the requirements will be met and that the sale of the WTE Facilities will occur as scheduled. Either significant delays in the sale of the WTE Facilities or the inability to close the sale will significantly impact the Authority in the future.

The Authority

The Authority is a public body politic and corporate created in 1973 pursuant to the Virginia Water and Waste Authorities Act (formerly, the Water and Sewer Authorities Act). The members of the Authority are the Cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk, and Virginia Beach and the Counties of Isle of Wight and Southampton. The Authority is governed by a Board of Directors consisting of two representatives from each of the Member Communities. One member of the Board for each Member Community is selected by the Governor from a list of three candidates nominated by each Member Community, all nominees must possess general business knowledge and none shall be an elected official. Each Member Community appoints an ex officio member as well who is an employee of that Member Community.

One of the purposes of the Authority, as stated in its articles of incorporation, is to acquire, finance, construct, operate, and maintain a garbage and refuse collection and disposal system.

In April 1984, the Authority issued its $26,000,000 Guaranteed Revenue Bonds, Series A (Regional Solid Waste Project) (the “Phase I Bonds”), the proceeds of which were used primarily to finance the acquisition and construction of the Regional Landfill, seven transfer stations and supporting equipment, rolling stock, and ancillary facilities (collectively, “Phase I”). These bonds were refunded in 1989.

In December 1984, the Authority issued its $107,800,000 Senior Revenue Bonds, Series A (Regional Solid Waste System) (the “Series A Bonds”). Proceeds of the Series A Bonds were used to finance a RDF plant and a fuel delivery system located on federally owned land in Portsmouth, Virginia (the “RDF Plant”), as well as a solid waste transfer station located in Suffolk, Virginia, and certain related equipment, rolling stock, and ancillary facilities (collectively with the RDF Plant, “Phase II”). These bonds were refunded in 1989.

Phase I and Phase II of the solid waste management system are referred to herein collectively as the “System” or the “Disposal System.” The System has been developed by the Authority to provide an environmentally sound method for disposal of solid waste in the service area of the Authority (the “Service Area”). The Service

Area covers approximately 2,000 square miles in southeastern Virginia and consists of the area served by the Member Communities.

Subsequent to 1984 and prior to July 1, 2008, the Authority has issued a series of additional revenue bonds to meet the capital requirements of the System. Certain of those series of revenue bonds have been repaid or defeased while others remain outstanding. A description of the bonds that were issued subsequent to 1984 is set forth in Section 3 of this Report.

In October 2008, the Authority obtained a Bond (direct loan) from Wachovia Bank, National Association in the amount of $12,100,000 for capital project financing needs.

In October 2008, the Authority obtained a line of credit in the amount of $13,200,000 from Wachovia Bank, National Association for capital project financing needs of the power plant portion of the WTE Facilities (the “Power Plant”). The Authority subsequently made arrangements with Wachovia Bank for an additional $4,000,000 revolving line of credit. In May 2009, these lines of credit were combined into a single line of credit in the amount of $17,200,000 that is scheduled to expire on May 11, 2010. The Authority paid off the balance on the line of credit in September 2009 and, having determined that its fund balances provided sufficient liquidity and reserves for its anticipated reduced level of operations, terminated the line effective March 29, 2010.

In May and June 2009, the Authority undertook a restructuring of its debt in order to reduce the large debt service payments that were scheduled to be made in 2009 and 2010. In May 2009 the Resolutions were amended, a Forebearance Agreement between the City of Virginia Beach and the Authority was executed, and a Guaranty Agreement among the Authority, the City of Chesapeake and the City of Norfolk was executed. In the Forbearance Agreement, the City of Virginia Beach agreed to defer payment, in an amount not to exceed $26,600,000, of operating and maintenance (“O&M”) costs incurred by the City for the operation of the Virginia Beach landfill and excess tipping fees paid to the Authority. In the Guaranty Agreement, the Cities of Chesapeake and Norfolk guarantee the Authority’s obligation under the combined $17,200,000 line of credit.

In June 2009, the Authority issued its $71,985,000 Guaranteed Subordinated Revenue Bonds, Refunding Series 2009 (Taxable) to the VRA to partially refund certain series of bonds previously issued by VRA and defease the Authority’s 1993A Refunding Bonds, 2004A Refunding Bonds, and 2004B Refunding Bonds, in an aggregate total of $78,950,000. The VRA's offer to purchase the Authority's bonds was contingent upon five of the Authority's members, the Cities of Franklin, Portsmouth and Suffolk and the Counties of Isle of Wight and Southampton, guaranteeing the full and timely payment of the Authority's bonds. A consequence of the refunding was the reduction in the Senior (debt service) Reserve Account by $12,818,854 which was applied to the refunding. The net proceeds, the excess Senior Reserve Account funds and other available funds in the total amount of $72,502,780 were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the Authority's 1993A Refunding Bonds, 2004A

Refunding Bonds, and 2004B Refunding Bonds are considered by the Authority to be defeased.

A portion of the funds previously transferred to the Trustee for benefit of the 1993A debt service was used to pay the 2007B Revenue Bonds in full.

The refunding resulted in a loss on defeasance of $5,068,456 that has been deferred and is being amortized as a component of interest expense over the life of the old debt. The refunding "back-loaded" the annual debt service payments thereby resulting in lower annual revenue requirements over the next four years.

Separate Systems

The Authority owns and operates the Power Plant which it acquired from the United States Navy on July 1, 1999. Prior to the acquisition, the Authority adopted on June 23, 1999, a resolution establishing the Power Plant and its related facilities (the "Power Plant System") as an independent system, separate and apart from the Disposal System, and provided that the assets and liabilities of the two systems were to remain solely the assets and liabilities of the respective systems. As such, the Disposal System is not entitled to the assets and is not responsible for the liabilities of the Power Plant System and vice versa.

The Authority also amended and restated the Resolutions on June 23, 1999, among other reasons, to recognize its assumption of ownership of the Power Plant System and the continued exclusion of the Power Plant from the definition of "Disposal System" in the Resolution, to require an allocation in accordance with the Generally Accepted Accounting Principals ("GAAP") to the Disposal System of the revenues and expenses of the Disposal System, to permit the financing of improvements for the Power Plant System in certain circumstances under the Resolutions, and to include in net revenues of the Disposal System payments owing from the Power Plant System to the Disposal System.

The Regional Solid Waste System

The System consists of the Regional Landfill; nine solid waste transfer stations and supporting equipment, rolling stock; ancillary facilities; the RDF Plant; and vehicles used in the curbside collection of recycled material. The Regional Landfill consists of two parcels of land which total 833 acres in an undeveloped area of Suffolk, Virginia. The original parcel of land was 308 acres. The Authority subsequently acquired an additional 525 acres. Ancillary facilities at the Regional Landfill include truck scales with scalehouse, an administrative/maintenance building, a tire chipping facility, a metals recovery facility, and a small quantity disposal area. The Regional Landfill commenced operations in January 1985. The Authority also owns and operates the Power Plant, but the Power Plant is not part of the Disposal System for the purposes of the Resolution and the Senior Subordinated Resolution. In the fiscal year ended June 30, 2009 ("FY2009"), the Disposal System received and handled 1,161,364 tons of waste, a 25 percent decrease over the 1,536,887 tons of waste received the previous fiscal year. Deliveries of commercial waste, construction demolition debris waste and out-of-area waste quantities were all down significantly. The System accepts waste five and one-half days per week.

The Franklin Transfer Station is situated on an Authority-owned 3-acre site on Route 671, approximately 2 miles west of Franklin in Southampton County. In addition to the City of Franklin, this station also serves a portion of Southampton County and Isle of Wight County. This transfer station is equipped with a single truck scale and includes a small building. The tipping area is uncovered. It has been designed to be capable of handling up to 150 tons per average day.

The Chesapeake Transfer Station is situated on property leased from the City of Chesapeake adjacent to the public works operation center. Approximately 4.8 acres are dedicated to this purpose. This facility has been designed to handle up to 500 tons per average day. This facility includes a hangar-type building and a single truck scale.

The Norfolk Transfer Station is situated on an Authority-owned 7-acre site near the intersection of Virginia Beach Boulevard and Ballentine Boulevard. The station is equipped with truck scales and a fully enclosed building. Capacity of this station is designed to be 1,300 tons per average day. This station operates 24-hours per day in order to efficiently provide waste to the RDF Plant.

The Boykins and Ivor Transfer Stations are located in Southampton County. The Boykins Transfer Station is located on a leased 1-acre site while Ivor Transfer Station is located on property owned by the Authority. These stations are designed to be capable of handling 50 and 30 TPD, respectively. The Boykins Transfer Station and the Ivor Transfer Station are currently attended by Southampton County personnel. Both stations have two drop boxes and a compactor.

The Isle of Wight Transfer Station, which is located on a leased site, is designed to be capable of handling up to 150 TPD. It is located on a 4-acre site and is a hangar-type building equipped with a tipping floor and single truck scale.

In July 1987, the Authority began operating the existing Oceana Transfer Station in Virginia Beach with a design capacity of up to 500 tons per average day. It is located on a four-acre site which is owned by the Virginia Department of Transportation (“DOT”). It is equipped with a hangar-type building, truck scale, and several small support buildings.

The Landstown Transfer Station, located on a 13-acre site leased from the City of Virginia Beach, is designed to handle up to 1,300 tons per average day. This station is equipped with two truck scales and is a fully enclosed facility. This station operates 24-hours per day in order to efficiently provide waste to the RDF Plant.

The Suffolk Transfer Station is located adjacent to the Regional Landfill in Suffolk. It is used to transfer solid waste from Suffolk to the RDF Plant for use as a fuel rather than dispose of such waste at the Regional Landfill. The Suffolk Transfer Station was designed to accommodate up to 500 tons per average day.

The RDF Plant is located on a 23-acre federally owned site on Victory Boulevard in Portsmouth. This facility was designed to operate initially five and one-half days per week for 16 hours each full day to process an average of 2,000 tons of solid waste per day into a combustible fuel (RDF) meeting specifications set forth in the fuel supply contract between the Authority and the U.S. Navy (the "Navy Contract" and/or the "RDF Service Contract") which is no longer in effect. However, the RDF Plant is now operated for 24 hours per day. RDF is being transported via belt conveyor to the Power Plant which was constructed by the Navy on an adjacent site on Victory Boulevard, approximately 2,000 feet from the RDF Plant. The RDF is burned as a replacement for coal to produce steam and electricity for the Norfolk Naval Shipyard in Portsmouth.

The Authority's Regional Landfill accepts the solid waste that cannot be processed at the RDF Plant or any portion of the RDF which cannot be delivered to the Power Plant. The Authority disposes of ash from the Power Plant at either the Regional Landfill or in the Virginia Beach Landfill, pursuant to a contract with the City of Virginia Beach for this use.

Additional Authority Actions

In addition to the principal components of the System identified above, the Authority has undertaken a number of additional actions and activities related to the management of solid waste. Such actions have included the development of curbside and drop-off recycling programs, a yard waste composting and mulching facility, a program for the management of household hazardous waste, a tire shredding facility, a program for the disposal of proprietary waste, and a facility for ferrous metal recovery. The Authority has also contracted with a private company for that company's right to use landfill gas from the Regional Landfill for generating electricity and as a direct fuel source. In January 2009, the Authority discontinued its yard waste composting and mulching operations. The Authority will discontinue its recycling program during FY2010. The Authority shreds collected tires and uses the shredded tires as an alternative daily cover material at the Regional Landfill.

In order to help preserve landfill space and to reduce operating expenses, the Authority is using "Other Wastes" as an alternative daily cover at the Regional Landfill. Other Wastes include: (1) ash from non-Authority sources; and (2) fines, residual and light fraction from construction and demolition ("C&D") material. The Other Wastes also provide an additional source of disposal revenues.

The Regional Landfill is currently being operated 24 hours per day, five and one-half days per week. The larger transfer stations are operated 24 hours per day. This mode of operation allows the Authority to accept deliveries of solid waste during the day and then transport the material at night when the traffic is lighter.

The Authority accepts white goods at the Virginia Beach Landfill and the Regional Landfill. The Authority extracts freon gas from the white goods and sells the material as scrap metal.

Private Hauler Contracts

In February 2006, the Authority executed replacement disposal contracts with the largest commercial haulers in the Service Area. The initial term of the contracts was for five years, although there was a provision that the contracts could be terminated by either party after the first year by providing 12 months written notice. In January 2008, the Board of Directors of the Authority voted to exercise this option and to terminate the contracts effective January 31, 2009. Prior to the expiration of the commercial hauler disposal contracts, the Authority executed disposal contracts with eight commercial haulers with such contracts scheduled to terminate on June 30, 2010. The contracts allow for the disposal of solid waste originating outside of the Authority's Service Area so long as the waste originates from within Virginia or the North Carolina Counties of Currituck, Dare, Camden, Gates, Pasquotank or Perquimans. These disposal contracts will be assigned by the Authority to Wheelabrator in accordance with the WTE Transaction.

Power Sales

The Authority's power sales agreement with the Virginia Electric and Power Company (doing business as "Dominion Virginia Power") terminated on July 31, 2008. Prior to July 31, 2008 the Authority entered into an Interconnection Service Agreement ("ISA") with PJM Interconnection ("PJM") and Dominion Virginia Power for connection to the electrical grid which results in the Authority having greater flexibility in selling the electric power it produces. Effective August 1, 2008, the Authority began selling electric power to the American Electric Power Service Corporation ("AEP").

Changes in Solid Waste Quantities

When the Authority initially began operations, solid waste in the Service Area was delivered to the System due to a combination of the convenience of the location of the System facilities, the charging of a competitive tipping fee, and the absence of competing facilities. Since 1993, certain private haulers in the Service Area have been disposing of solid waste at privately-owned transfer stations located within the Service Area. Between fiscal years 1993 and 1996 solid waste deliveries to the System decreased each year from a high of 958,020 tons in 1993 to 853,318 tons in 1996. Starting in July 1995, the Authority modified its tipping fees for commercial waste deliveries to make the Authority more competitive with alternative means of disposal. Presented in Table 1-1 is a summary of solid waste deliveries to the System during the last ten fiscal years.

Table 1-1
Historical Annual Solid Waste Deliveries

Fiscal Year	Tons (000)	Percent Change from Previous Year
2000	1,099	6.6
2001	1,070	(2.6)
2002	1,190	11.2
2003	1,247	4.8
2004	1,427	14.4
2005	1,435	0.6
2006	1,506	4.9
2007	1,601	6.3
2008	1,537	(4.0)
2009	1,161	(25%)

Solid waste deliveries were down substantially during the most recent fiscal year, due to the shrinking economy and the expiration of the large private hauler contracts. The Authority currently estimates it will receive approximately 988,000 tons of waste in the FY2010; which is 25,000 tons lower that the amount assumed in the budget for the FY2010.

The Member Communities deliver only a portion of the total waste deliveries to the System and that portion has been decreasing over the last five years. Presented in Table 1-2 is a summary of historical waste deliveries by the Member Communities during the last five fiscal years.

Waste deliveries by the Member Communities decreased by 4.7 percent in FY2009 as compared to fiscal year ended June 30, 2008 ("FY2008") and deliveries by the Member Communities are down by 13 percent since fiscal year ended June 30, 2005 ("FY2005"). While some of the decrease in solid waste deliveries by Member Communities might be attributed to a downturn in the general economy of the Service Area, the Authority is concerned that either the waste generation rate is decreasing or that some portion of the municipal solid waste ("MSW") from the Member Communities is not being delivered to the System. Increased recycling rates may have resulted in reduced waste deliveries to the Authority. This decrease in deliveries of solid waste from the Member Communities places further pressure on the Authority's financial situation.

Table 1-2
Historical Waste Deliveries by Member Communities

Fiscal Year	Waste Deliveries (000 Tons)	Percent Change from Previous Year
2005	608	(6.4%)
2006	619	1.8%
2007	580	(6.3%)
2008	555	(4.3%)
2009	529	(4.7%)

Sale of the WTE Facilities

In May 2008, the Authority received an unsolicited proposal from Covanta Energy Corporation ("Covanta") to buy and operate the WTE Facilities. In accordance with the Public Private Education Facilities and Infrastructure Act of 2002 ("PPEA"), the Authority solicited competing proposals. In September 2008, following receipt of competing proposals from Energy Answers International, Foristar LLC and Wheelabrator, the Authority approved the proposals from Covanta and Wheelabrator for participation in the detailed review phase in accordance with its guidelines. From February 2009 though July 2009, the Authority's Chairman of the Board, staff and legal advisors conducted extensive competitive negotiations with both companies, resulting in the receipt of offers in July 2009.

Additionally, in July 2009, the Authority received an unsolicited conceptual proposal under the PPEA from ReEnergy Holdings LLC ("ReEnergy") for the purchase of substantially all of the Authority's assets including the WTE Facilities.

In September 2009, the Authority's Board of Directors tentatively accepted a binding and irrevocable offer from Wheelabrator to purchase and operate the RDF Plant and the Power Plant for a purchase price of $150 million. Simultaneously, the Authority accepted the ReEnergy proposal for a conceptual phase review and posted notice for a period of 45 days in order to encourage competition.

On November 9, 2009, the Authority received a competing proposal from Wheelabrator and an addendum to its original proposal from ReEnergy. Following considerable time, expense and effort in evaluating all proposals submitted under the PPEA, the Authority's Board of Directors adopted a resolution at its November 17, 2009 meeting rejecting the all asset purchase proposals received from ReEnergy and Wheelabrator and terminating the all asset procurement. Additionally, the adopted resolution accepted the Wheelabrator proposal to purchase and operate the WTE Facilities for a purchase price of $150 million and authorized the Authority's Executive Director to execute the contract with Wheelabrator.

The proceeds of the sale of the WTE Facilities are to be used to retire a portion of the Authority's debt following approval by the Authority's various lenders including the

VRA, Wachovia Bank, the City of Virginia Beach and AMBAC. The Authority anticipates closing the WTE Transaction by May 1, 2010.

Debt Retirement Plan

The Authority expects to receive $150 million as a result of the WTE Transaction on or before May 1, 2010. These proceeds are to be used to retire, as much as possible, of the Authority's outstanding debt owed to public bondholders, the VRA, the City of Virginia Beach and Wachovia Bank. As of May 1, 2010, SPSA will have over $218 million of debt, owed to four creditor categories on a variety of lien positions. Much of the debt was issued through VRA. A portion of the debt was loaned to the Authority by Wachovia or is secured by a direct pay letter of credit issued by Wachovia. On the latter, Wachovia makes payments of debt service directly to the Trustee, which payments are then reimbursed by Authority. There is also $33,350 million of bonds issued directly by the Authority in 1998, which are secured by an insurance policy from AMBAC. Finally, there is a loan of $18.928 million from the City of Virginia Beach representing past deferrals of payments owed to Virginia Beach under the Forbearance Agreement; these deferrals have ceased and no more debt is scheduled to accrue to Virginia Beach before the sale date.

A debt retirement plan has been developed by the Authority intended to achieve the following goals:

- Cost efficiency and maximization of the proceeds of the WTE Transaction
- Satisfaction of creditors' concerns to assure necessary creditor consents
- Reasonable pattern of debt service on bonds left outstanding
- Support in negotiations with the IRS over "change in use"
- Minimization of risk to Member Communities

The Authority anticipates that the outstanding debt retirement plan will result in a reduction in its debt to approximately $77 million with the VRA holding approximately 61 percent, Wachovia enhancing with its letter of credit approximately 24 percent and AMBAC insuring approximately 15 percent. The City of Virginia Beach loan will be fully repaid. The Authority terminated its $17,200 million line of credit with Wachovia effective March 29, 2010.

Implementation of Flow Control by Member Communities

In April 2007, the United States Supreme Court issued a ruling in a case involving United Haulers vs. Oneida Herkimer Solid Waste Authority. The Supreme Court determined that, in certain situations, municipal governments could adopt flow control measures to assure the delivery of solid waste to publicly-owned solid waste management facilities. Starting in April 2007, the Authority worked with the Member Communities to evaluate and understand the potential impact on the Municipal Tipping Fee if the Member Communities were to adopt flow control. During FY2008, the Authority presented information and analyses to the Member Communities for different options under consideration. The Authority's goal in having the Member Communities adopt flow control was to be able to charge the same tipping fee to commercial haulers and municipal governments. At that time, commercial haulers were paying $28 per ton and six of the Member Communities were paying $100 per ton. Six of the eight Member Communities adopted flow control ordinances for their jurisdictions. The Cities of Virginia Beach and Suffolk did not adopt flow control ordinances.

In order to implement flow control by the six Member Communities, the Authority had to provide one year's notice to terminate the disposal agreements the Authority had executed with private haulers. The notice of termination was given to private haulers in January 2008 and the contracts expired on January 31, 2009.

Subsequent to the adoption of the budget for the FY2009, Waste Management Inc., the largest hauler operating in the Service Area, took the position that waste delivered to one of its regionally located landfills was exempt from the flow control ordinances. Waste Management Inc. not only indicated that it was unwilling to deliver waste to the Authority at the proposed rate but that it would also offer tipping fees to the other haulers at prices lower than the rate the Authority was attempting to negotiate with the private haulers. Although the Authority does not accept Waste Management Inc.'s position on flow control, the Authority Members that passed flow control ordinances are not attempting to enforce their flow control ordinances.

Executive Management

Effective February 28, 2009, the incumbent resigned as the Deputy Executive Director – Administration and the Director of Finance. Liesl DeVary was hired as of May 26, 2009 to fill the position of Deputy Executive Director – Administration and the Director of Finance. Ms. DeVary previously served as Director of Budget and Finance for the Isle of Wight County. In August of 2009, the Controller position was eliminated. The Authority continues to face the challenges posed by the large staff reductions, particularly in the financial area.

Findings

Based upon our review of the Disposal System (which includes for purposes these conclusions the WTE Facilities), our principal findings are as follows:

1. In May and June 2009 the Authority restructured its debt, enabling it to maintain solvency and to comply with applicable bond resolutions without raising the Municipal Tipping Fee beyond the $170 that was established in April 2009. This debt restructuring, along with the anticipated WTE Transaction and planned debt reduction, are intended to address the serious financial problems that the Authority has experienced in the last few years.

2. The Authority is currently transitioning from an organization that operates a comprehensive program for overall solid waste management to one primarily focused on the disposal of solid waste. Historically, in addition to general

solid waste disposal, the Authority's programs included: proprietary waste disposal, waste management education of the general public and schools in the Service Area, recycling, landfill gas collection and power generation, household hazardous waste collection, ferrous clean-up, and solid waste inspection, in addition to solid waste transportation and the collection of recyclable materials. The Authority has discontinued its yard waste program and will not provide recycling services in fiscal year ending June 30, 2011 ("FY2011") and beyond. The Authority plans to close on the sale of its WTE Facilities by May 1, 2010 and at that point will no longer administer the proprietary waste program.

3. The Disposal System is currently being operated and maintained in good repair. However, capital repairs have been deferred and a continuation of this practice could impact the ability of the Authority over the long term to effectively and efficiently perform its required functions.

4. The revenues for the Disposal System that the Authority estimates it will realize from tipping fees and RDF sales, when combined with estimated interest income and other sources of revenues, are projected to be sufficient in FY2010 to provide (A) as required by the Senior Resolution, Net Revenues at least equal to each of: (1) 120 percent of debt service on the outstanding Senior Bonds; and (2) 100 percent of debt service on all indebtedness, including the outstanding Senior Bonds and Subordinate Bonds (the "Senior Bonds Rate Covenant"); (B) as required by the Senior Subordinated Resolution, Net Revenues and other funds available, therefore, at least equal to the greater of: (1) the sum of 100 percent of debt service on all Senior Bonds and 110 percent of Senior Subordinated Bonds; and (2) 100 percent of the debt service on all indebtedness and obligations of the Authority (the "Senior Subordinated Bonds Rate Covenant") and (C) as required by the Guaranteed Subordinated Resolution, Net Revenues and other funds available, therefore, at least equal to 100 percent of all indebtedness and obligations of the Authority (the "Guaranteed Subordinated Bonds Rate Covenant").

5. The actual operating revenues for the Disposal System which the Authority reported it realized from tipping fees and other sources of revenues for the 12 months July 1, 2008 through June 30, 2009, when combined with reported interest income, were sufficient to provide an amount sufficient to meet the Senior Bonds Rate Covenant and the Senior Subordinated Bonds Rate Covenant for the 12-month period ended June 30, 2009.

6. The actual operating revenues for the Disposal System which the Authority reported it realized from tipping fees and other sources of revenues for the eight months from July 1, 2009 through February 28, 2010, when combined with reported interest income and reduced by the amount of deferred payments owed to Virginia Beach as a tip fee rebate, were sufficient to pay all the O&M expenses of the System and the pro-rata share of debt service payments on the outstanding indebtedness for the eight-month period ended February 28, 2010.

7. Based on the February 24, 2010 draft of the Budget for the FY2011, Authority staff projects that, if the Municipal Tipping Fee is maintained at $170 per ton, the WTE Facility is sold as planned, and the proceeds of the WTE Transaction are used as planned to reduce the outstanding debt, that the revenues the Authority will realize from: (a) tipping fees; (b) interest income; and (c) other sources of revenues, will be sufficient to provide during FY2011 Net Revenues which will exceed the requirements of the Senior Bonds, Senior Subordinated Bonds and Guaranteed Subordinated Bonds Rate Covenants.

8. The Authority has estimated that following the WTE Transaction, the average rate of waste disposal at the Regional Landfill will decline from over 500,000 tons per year ("TPY") to approximately 100,000 TPY. As a result, the currently estimated remaining useful life of the Regional Landfill, even without the construction of Cell VII, is projected to extend well beyond the expiration dates of the Member Communities' Solid Waste Disposal Agreements in 2018, as explained and clarified in Section 6 of this Report.

9. During FY2010, the Authority deferred capital repairs it had planned to perform on the System. A continuation of this practice over the long term will have a negative impact on the ability of the System to properly and effectively perform its required functions.

The Board of Directors

The Authority is governed by a Board of Directors consisting of representatives from each of the Member Communities. There are a total of 16 board members, two for each Member Community. The Governor of Virginia appoints one board member to represent each Member Community. The Member Communities each appoint a second, ex-officio board member. The current members of the Authority's Board of Directors and their affiliations are as follows:

Table 2-1
Board of Directors

Member	Ex-Officio Member	Community
The Honorable Joseph A. Leafe	Ms. Regina V. K. Williams	Norfolk
Mr. Theodore M. Hardison	Mr. W. Douglas Caskey	Isle of Wight County
Mr. Marley A. Woodall, Jr.	Mr. Eric J. Martin, P.E.	Chesapeake
Mr. Everett C. Williams, Jr.	Ms. June Fleming	Franklin
Mr. G. Timothy Oksman	Mr. W. Douglas Harvey, P.E.	Portsmouth
Roy W. Chesson	Mr. Michael W. Johnson	Southampton County
Mr. James C. Adams, II	Ms. Selena Cuffee-Glenn	Suffolk
Vacant	Mr. John C. Barnes	Virginia Beach

Management and Personnel

The key members of the Authority's staff are as follows:

Table 2-2
Authority Staff

Position	Name	Employed by the Authority Since
Executive Director	Rowland L. Taylor	August 2008
Deputy Executive Director Administration and the Director of Finance	Liesl R. DeVary	May 2009
Director of Waste-to-Energy	Richard M. Cheliras	July 2001

The incumbent resigned from the positions of Deputy Executive Director – Administration and Director of Finance as of February 28, 2009. Liesl DeVary was hired as of May 26, 2009 to serve as Deputy Executive Director – Administration and the Director of Finance. She previously served as Director of Budget and Finance for the Isle of Wight County. In August of 2009, the Controller position was eliminated.

Presented in Table 2-3 is a summary of approved staffing levels for FY2010.

The budgeted staffing level for FY2010 was 409 employees which is a reduction of 76 positions from the 485 budgeted staffing positions in FY2009. As of January 31, 2010 the staffing level was reduced by 17 additional positions to 392 employees. The currently anticipated staffing level for FY2011 is 161, reflecting the reduction in force due to primarily to the sale of the WTE Facilities and the elimination of the recycling operations.

Table 2-3
Approved Staffing Levels

	As of 1/31/2010	Planned (1) FY 2011
ADMINISTRATION		
Accounting	5	5
Executive Offices	3	3
Purchasing	2	2
Information Technology	5	5
Human Resources	6	6
Public Relations and Marketing	0	0
Scalehouse Operations	12	12
Subtotal	33	33
ENVIRONMENTAL MANAGEMENT AND SAFETY		
Environmental Management	3	2
Safety	5	4
Household Hazardous Waste	4	4
Virginia Beach White Goods Program	2	2
Suffolk RLF White Goods Program	2	2
Subtotal	16	14
OPERATIONS		
Operations Management	1	1
Fleet Maintenance	24	24
Transportation	53	52
Norfolk Transfer Station	11	11
Chesapeake Transfer Station	5	5
Franklin Transfer Station	3	3
Isle of Wight Transfer Station	3	3
Oceana Transfer Station	5	5
Landstown Transfer Station	10	10

Table 2-3
Approved Staffing Levels

	As of 1/31/2010	Planned [1] FY 2011
Suffolk Transfer Station	4	4
Regional Landfill	28	29
Building Maintenance	0	0
Tire Processing	3	3
Subtotal	150	150
RECYCLING		
Recycling Collection	15	0
Recycling Administration	3	0
Yard Waste Management Program	0	0
Drop Off Collections	5	0
Subtotal	23	0
WASTE-TO-ENERGY		
RDF Plant	80	0
Power Plant	83	0
Proprietary Waste	7	0
RDF Tipping Floor Operations	0	0
Subtotal	170	0
TOTAL	392	197

(1) Although 197 positions are indicated, the budget assumes that an additional 36 positions will be eliminated.

The Consulting Engineer

Section 714 (a) of the Resolutions[2] states:

> "(a) The Authority covenants that it will, for the purpose of performing and carrying out the duties imposed on the Consulting Engineer by this Resolution, employ an independent engineer or engineering firm or corporation having a nationwide and favorable repute for skill and experience in such work. R. W. Beck and Associates, Denver, Colorado, are now employed by the Authority as such Consulting Engineer."

R. W. Beck has provided consulting engineering services to the Authority since 1978 and prepared the Consulting Engineer's Reports included in the Authority's Official Statements issued at the time of the sale of the Phase I Bonds, the Series A Bonds, the

(2) As discussed in Purpose and Scope of Report in Section I of the Report, the Authority's covenants (except its rate covenants which are discussed separately above in Section I under "Findings") in its Senior, Senior Subordinated and Guaranteed Subordinated Resolutions are virtually identical. The following discussion relates to the covenants in all three of the Resolutions.

Series B Bonds, the Series 1989 Bonds, the 1993 Senior Bonds, and the 1993 A Revenue Refunding Bonds. This annual report has been prepared in accordance with the terms and conditions of the Professional Services Agreement dated as of February 12, 2010. In March 2010, representatives of R. W. Beck visited the Authority for the purpose of undertaking the review of the operation of the portions of the Disposal System that will be retained by the Authority following the WTE Transaction ("Non-WTE System"). During the visit, personnel from R. W. Beck met with representatives of the Authority and performed general field observations of the major components of the Non-WTE System. The general field observations were visual, aboveground examinations of selected areas which we deemed adequate to comment on the condition of the existing facilities and were not in the detail which would be necessary to reveal conditions with respect to safety; the internal physical condition of any facilities; or the conformance with agreements, codes, permits, rules, or regulations of any party having jurisdiction with respect to the construction, operation, and maintenance of the properties.

Planning

The Hampton Roads Planning District Commission ("HRPDC") assisted the Authority in preparing, on behalf of the Member Communities, the solid waste management plans (the "Plans") which are required to be prepared pursuant to legislation enacted by the Virginia General Assembly in 1989. The purpose of the Plans was to focus on achieving recycling goals for the Years 1991, 1993, and 1995. Regulations to implement this legislation were promulgated by the regulatory authorities and became effective on May 15, 1990.

In May 1991, the HRPDC, in cooperation with the Authority, submitted the Regional Solid Waste Management Plan for Southeastern Virginia (the "Regional Plan"). The Regional Plan identifies: (1) the quantity of solid waste in the planning region; (2) current solid waste management practices; (3) an evaluation of alternative means of solid waste management; and (4) a recommended plan for meeting the State's requirements. The Regional Plan was reviewed by the regulatory authorities and, based on that review, was revised in August 1991. On March 31, 1992, the Regional Plan was formally approved by the State.

In 2008, the HRPDC retained a consultant to undertake a study of how solid waste could be managed by the eight Member Communities after 2018 when the current Use and Support Agreements are scheduled to end.

The HRPDC Study

On November 13, 2008, HRPDC received a Final Interim Report entitled "Solid Waste Management for Southside Hampton Roads Planning Horizon 2018-2047" (the "HRPDC Report"). The HRPDC Report identified a number of planning options for consideration by the Member Communities after 2018 when the existing Waste Disposal Agreements are scheduled to terminate and all existing bonds are scheduled to be repaid. Among the options that were discussed are: (1) a continued regional approach; (2) a breaking down of the region based on the size of the community; and (3) each community pursuing its own options. The HRPDC Report did not include consideration of any significant changes to the Authority prior to 2018 and in fact "recommends that SPSA continue to function with modifications" if the region continues to manage solid waste cooperatively after 2018 as set forth in the HRPDC Report.

The HRPDC Report contained recommended changes to the Authority's administrative and governance structures (namely, the number of members on the Board of Directors and their respective qualifications), debt management, and mission assuming it maintains its autonomy.

Auditor of Public Accounts Special Review

In February 2008, the General Assembly of Virginia directed Virginia's Auditor of Public Accounts to perform a review of the Authority's operations to "assess the Authority's financial stability and performance, compare the Authority's operations with similar public and private entities, and make such recommendations as he may deem relevant." In October 2008, the Auditor of Public Accounts published its report titled Special Review Southeastern Public Service Authority – October 2008. The report was critical of the Authority's governance, planning, operations, and financial position.

The management of the Authority has advised that several of the auditor's recommendations have been implemented.

Virginia House Bill 1872

During its 2009 General Session, the General Assembly of Virginia passed legislation (HB1872) that, significantly impacted the governance and management of the Authority. HB1872 changed the way that members of the Board are selected after January 1, 2010. These changes include requiring that one member of the Board for each Member Community be selected by the Governor from a list of three candidates nominated by each Member Community, that all nominees must possess general business knowledge and that none shall be an elected official. They also include provisions regarding the term of the members, the appointment of one ex officio member for each Member Community who shall be employees of that Member Community and provisions concerning the filling of vacancies. Effective July 1, 2009, the bill requires the Authority to:

1. Prepare a five-year strategic plan,
2. Consider outsourcing any or all functions that may result in reduced costs,
3. Maintain a detailed financial plan,
4. Evaluate landfill capacity annually,

5. Meet certain recordkeeping requirements, and
6. Impose approval requirements regarding contracts.

Effective September 30, 2009, it places new restrictions on the issuance of debt.

The Trustee

On September 29, 2006 SunTrust Bank sold its corporate trust business to U.S. Bank National Association ("U.S. Bank"). In connection with the sale, SunTrust resigned as Trustee and U.S. Bank was appointed by the Authority as successor Trustee for all outstanding bonds.

Legal Counsel

The law firm of Willcox & Savage, P.C., of Norfolk, Virginia serves as General Counsel to the Authority and is retained by the Authority to render legal opinions, counsel, and advice.

In a letter dated March 24, 2010, R. W. Beck was advised by a representative of Willcox & Savage that the following legal issues regarding the Authority remain outstanding as of the date of their letter:

1. "<u>City of Chesapeake, Virginia v. Southeastern Public Service Authority of Virginia, Case No. CL06-1876, Circuit Court of the City of Chesapeake, Virginia</u>. On June 30, 2006, the City of Chesapeake, Virginia filed a Complaint in the Circuit Court of the City of Chesapeake, Virginia containing six counts - four Counts asserting claims against the Authority and two Counts requesting various forms of relief. Count I alleges that Chesapeake will not remain liable for its obligations under its August 9, 1983 Agreement for Use and Support (the "Use and Support Agreement") if it elects to withdraw from the Authority because that agreement is not a "written obligation." Count II alleges that the Use and Support Agreement is not valid because certain actions allegedly taken by the Authority are in derogation of Chesapeake's right to protect the public health, safety and welfare. Count III alleges that the Authority's actions in accepting and disposing of out-of-area waste are "ultra vires." Count IV alleges that the Authority's actions in adopting tipping fees for private waste management companies including companies providing out-of-area waste are in violation of the Virginia Water and Waste Authorities Act. The relief called for in Counts V and VI includes a request for a declaratory judgment finding that the Use and Support Agreement is invalid and preliminary and permanent injunctions to preclude the Authority from taking certain actions described therein.

   "The Authority filed the responsive pleadings in Chesapeake Circuit Court including a Demurrer challenging the validity of the suit and a Special Plea of Estoppel alleging that because of its prior conduct and course of action, Chesapeake is barred from challenging SPSA's acceptance of out-of-area waste or contesting SPSA's right to charge competitive tipping fees for such waste. The Demurrer asked the Court to dismiss Counts I and II and any other elements of Chesapeake's Complaint related to Chesapeake's proposed withdrawal from SPSA.

"On September 28, 2006, the Chesapeake Circuit Court issued a letter opinion granting the Authority's Demurrer as to Counts I and II and dismissing those Counts with prejudice, in effect holding that Chesapeake's Complaint failed as a matter of law to state a cause of action for which the requested relief could be granted. The court also denied Chesapeake's motion for a temporary restraining order to enjoin the Authority from entering into out of area waste contracts. On December 15, 2009 the Circuit Court entered an Order confirming the ruling set forth in the September 28, 2006 letter opinion. Chesapeake has not appealed the Circuit Court ruling and Order. Chesapeake's ability to appeal is uncertain because of the pendency of matters alleged in Counts III and IV.

"Unless the Supreme Court of Virginia grants an appeal and reverses the trial court's ruling on Counts I and II, Chesapeake's claims under these Counts will be dismissed and forever barred and Chesapeake will be precluded from challenging its obligations under the Use and Support Agreement on the same grounds in the future. The matters alleged in Counts III and IV remain pending with the Chesapeake Circuit Court.

2. "<u>Claim by City of Portsmouth, Virginia for Payments in Lieu of Taxes (PILOT)</u>. By letter dated June 3, 2009, the City of Portsmouth, Virginia ("Portsmouth") assessed service charges or payments in lieu of taxes ("PILOT") pursuant to Va. Code Section 58.1-3400, et seq. claiming a total amount due of $1,532,946.39: $378,408.75 for 2009; $381,796.82 for 2008; $384,778.09 for 2007; and $387,962.74 for 2006. On September 24, 2009, SPSA filed a Petition in the Circuit Court of the City of Portsmouth, Virginia (Case No. CL09-002915) challenging the assessment of any PILOT against SPSA on the basis that SPSA as a public authority under the Virginia Water and Waste Authorities Act is exempt from such assessments. In this Petition, SPSA also asserts that if PILOT can be assessed, the amount of the assessment is too high.

   "The Authority and Portsmouth have agreed on a settlement of this matter contingent upon a closing on the sale of the Authority's waste-to-energy facilities to Wheelabrator Portsmouth Inc., execution of certain documents related to that sale, and approval of the settlement by the Authority's Board.

3. "<u>Leon Hayes, Jr., Administrator for the Estate of Leon Hayes, III v. Southeastern Public Service Authority of Virginia and Michael Thomas Jordan, Case No. CL10-320, Circuit Court of the City of Portsmouth, Virginia</u>. On February 11, 2010, Leon Hayes, Jr., Administrator for the Estate of Leon Hayes, III, filed a Complaint against the Authority and Michael Thomas Jordan, a SPSA truck driver, seeking judgment against SPSA and Mr. Jordan

> in the amount of $10,000,000 for losses resulting from the death of Leon Hayes III that allegedly arose out of a motor vehicle collision between a SPSA truck operated by Mr. Jordan and an automobile in which Leon Hayes, III was a passenger. SPSA has referred this matter to its primary insurance carrier for handling and has put its excess insurance carriers on notice of this litigation. The primary insurance carrier has retained counsel to defend SPSA in this matter."

Auditor

KPMG LLP, Certified Public Accountants, was engaged by the Authority to make an independent audit report of the Authority, in accordance with Section 709 of the Resolution, which states in part that:

> "The Authority further covenants that within ninety (90) days after the close of each Fiscal Year, it will cause an audit to be made of its books and accounts relating to the Disposal System for the preceding Fiscal Year by an Accountant. The opinion of the Accountant accompanying such audit shall state that the examinations were made in accordance with generally accepted auditing standards and that the financial statements have been presented in conformity with generally accepted accounting principles."

The audit report for the FY2009 was submitted to the Authority on December 4, 2009.

Summaries of information included in the Combined Balance Sheet and Consolidated Statement of Revenues, Expenses, and Changes in Net Assets for the FY2009 and FY2008 are presented as Tables 2-4 and 2-5, respectively.

Table 2-4
Combined Balance Sheet June 30, 2009 and 2008 (1)

Assets	2009	2008
Current Assets	$24,618,301	$8,899,617
Restricted Assets	32,436,625	46,958,547
Maintenance Parts, Net	3,074,572	3,156,213
Capital Assets, Net	159,115,619	170,267,298
Other Assets, Net	6,658,662	5,223,198
Total Assets	225,903,779	$234,504,873
LIABILITIES		
Current Liabilities	$32,532,357	$34,055,672
Long-term Liabilities	221,703,353	227,674,433
Total Liabilities	$254,235,710	261,730,105
NET DEFICIT		
Invested in Capital Assets, Net of Related Debt	$(31,184,052)	$(52,694,677)
Restricted	17,786,014	37,321,138
Unrestricted	(14,933,893)	(11,851,693)
Total Net Deficit	(28,331,931)	(27,225,232)
Total Liabilities And Net Deficit	$225,903,779	$234,504,873

(1) Source: Audit Report prepared by KPMG LLP, submitted December 4, 2009.

Table 2-5
Consolidated Statement of Revenues, Expenses, and Changes in Net Deficit Years ended June 30, 2009 and 2008 (1)

	2009	2008
Operating Revenue, Net	$100,812,098	$95,621,759
Less Operating Expenses:		
Compensation and Related Payroll Costs	27,010,037	25,654,058
Depreciation, Depletion and Amortization	17,005,555	19,915,272
Routine Maintenance and Vehicle Operation	16,059,797	15,942,804
Swap Waste Expense	-----	-----
Other Operating Expenses	31,128,054	27,774,355
Total Operating Expenses	91,203,443	89,286,489
Operating Income (Loss)	9,608,655	6,335,270
Less Non-Operating Expenses, Net	(10,715,354)	(10,757,099)
Change in Net Deficit	(1,106,699)	(4,421,829)
Net Deficit		
Beginning of Year	(27,225,232)	(22,803,403)
End of Year	$(28,331,931)	$(27,225,232)

(1) Source: Audit Report prepared by KPMG LLP, submitted December 4, 2009.

Included among the comments in the audit were the following:

- The Authority's net cash provided by operating activities decreased by $1.8 million in FY2009 compared to the prior year.
- The Authority's net deficit increased by $1.1 million as a result of this year's operations. The net deficit at June 30, 2009 equaled $28.3 million versus $27.2 million at June 30, 2008.
- Operating revenues were $100.8 million, an increase of $5.2 million over the prior year.
- Operating expenses were $91.2 million, an increase of $1.9 million over the prior year.
- Operating income (i.e., income before non-operating income and non-operating expenses) was $9.6 million, an increase of $3.3 million from the prior year due to the combined effect of the changes in operating revenues and expenses noted above.
- During September/October 2008, the Authority issued $12.1 million of tax-exempt, AMT, Senior Parity Revenue Bonds for Disposal System capital projects.
- In June 2009, the Authority issued its $72.0 million Guaranteed Subordinated Revenue Bonds, Refunding Series 2009A (Taxable) and from the proceeds and other available funds effected the refunding of $79.0 million of its outstanding bonds and the deferral of a portion of its debt otherwise payable in 2009-2011 to 2012-2017.
- During FY2009, SPSA has seen a significant drop in total employment.
- Productivity, as measured by tons of waste handled per employee, decreased 19 percent this year to 2,515 tons.
- The Authority entered into a new electric sales contract with AEP that expires on June 30, 2009. An additional contract for the delivery of power occurs through a new agreement signed with PJM Interconnection Association that provides SPSA with the opportunity to sell power at competitive market rates to a wide range of customers in the PJM service area.
- Litigation pending as of June 30, 2009 is deemed to be of little merit or less than material in potential impact to SPSA financial operations.

Covenant to Construct the 1989 Project and Any Additional Project

In Section 704 of the Resolutions, the Authority covenants that, “it will cause the 1989 Project and any Additional Project to be constructed substantially as contemplated hereby and by the Contracts and the Navy Contract . . . and that it will cause such Project and any such Additional Project to be completed with all expedition practicable.”

The Authority has caused the 1989 Project to be completed substantially as so contemplated.

Use and Operation of Disposal System

In Section 705 of the Resolutions:

> "The Authority covenants that it will establish and enforce reasonable rules and regulations governing the use of the Disposal System and the operation thereof, that all conditions of employment and all compensation, salaries, fees, and wages paid by it in connection with the maintenance, repair and operation of the Disposal System will be reasonable, that no more persons will be employed by it than are necessary, that all persons employed by it will be qualified for their respective positions, that it will maintain and operate the Disposal System in an efficient and economical manner, that, from Gross Revenues and from any other available moneys, it will at all times maintain the same in good repair and in sound operating condition and will make all necessary repairs, renewals and replacements, and that it will comply, subject to the right to contest, with all valid acts, rules, regulations, orders and directives of any legislative, executive, administrative or judicial body applicable to the Disposal System."

As discussed previously herein, under the Resolutions, the Power Plant is not part of the Disposal System.

Based upon our review of the Non-WTE System, as described in Section 6 of this Report, we are of the opinion that the Non-WTE System has been operated and maintained in good repair. As a result of the Authority's financial situation over the past few years, it has been difficult for the Authority to adequately fund capital repairs. The continued deferral of capital repairs could impact the ability of the Authority to effectively and efficiently perform its required functions.

Payment of Lawful Charges

In Section 706 of the Resolutions:

> "The Authority covenants that, except as provided in the Resolution, it will not create or suffer to be created any lien or charge upon the Disposal System or upon the Gross Revenues, and that, from such Gross Revenues or other available funds, it will pay all taxes and assessments, or payments in lieu thereof, or other municipal or governmental charges lawfully levied or assessed upon the Authority or the Disposal System or the Gross Revenues, and that it will pay or cause to be discharged, or will make adequate provision to satisfy and discharge, within sixty (60) days after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other objects

> which, if unpaid, might by law become a lien upon the Disposal System or the Gross Revenues…"

We have reviewed this matter with the management of the Authority, and they have advised that the Authority has complied with the requirements of Section 706 of the Resolutions.

Insurance

Section 707 of the Resolutions states:

> "The Authority covenants that it will maintain a practical insurance program, with reasonable terms, conditions, provisions and costs, which the Authority determines (i) will afford adequate protection against loss caused by damage to or destruction of the Disposal System or any part thereof and (ii) will include reasonable liability insurance on all of the Disposal System for bodily injury and property damage resulting from the construction or operation of the Disposal System. All such insurance policies shall be carried in a responsible insurance company or companies authorized and qualified to assume the risks thereof; provided that the Authority may self-insure against public liability for bodily injury and property damage, loss of Gross Revenues or other revenues normally covered by use and occupancy insurance and other risks not enumerated herein in accordance with and as permitted by law and up to such levels as may be recommended in writing by an independent insurance consultant having a favorable reputation for skill and experience in such work, who is qualified to survey risks and to recommend insurance coverage for public entities engaged in operating facilities similar to the Disposal System."

A list of those insurance policies in effect as of March 2010 is presented in Table 2-6 at the end of this section.

In March 2010, the Authority received the results of an updated review of the insurance policies performed by Marsh USA, Inc. ("Marsh"). In a letter dated March 8, 2010, Marsh advised that:

> "In connection with this letter, we have read Section 707 (the 'Insurance Covenant') of the Amended and Restated Senior Subordinated Bond Resolution, dated February 2, 2000 dealing with SPSA's insurance requirements. We have not read or reviewed the balance of the (Resolution), including without limitation any provision thereof which might relate to or influence the meaning of the language in the Insurance Covenant.

Table 2-6
Summary of Operating Insurance
In Effect as of March 2010 (1)

Coverage	Limits	Insurer(s)	Policy Number	Policy Term
Property	$250,000,000	Shared by 5 Companies		10/01/09-10/01/10
General Liability	$2,000,000 / $1,000,000	Chubb Insurance	3710-87-22	10/01/09-10/01/10
Automobile Liability and Physical Damage	$1,000,000 Combined Single	PMA Insurance Group	1509007627235	10/01/09-10/01/10
Workers' Compensation	$1,00,000 Employer's Liability	PMA Insurance Group (MAICO)	200900-7627235	10/01/09-10/01/10
Lead Excess/Umbrella	$10,000,000	States Self Insurance	SEL30131-08	10/01/09-10/01/10
Excess Liability	10,000,000	Chartis	7787862	10/1/09 – 10/1/10
Crime	$500,000	Travelers Property & Casualty	104992468	10/01/07-10/01/10
Pollution	$5,000,000	American International Specialty Lines Ins Co	PLS12962459	10/01/08-10/01/11
Flood – Power Plant	$500,000	Fidelity National	45251009327206	02/02/10-02/02/11
Public Officials	$1,000,000	National Union Fire	01-541-42-44	01/28/10-01/28/11
UST/AST – Storage Tanks	$2,000,000/$1,000,000	Great American Alliance	523696107	07/01/09-07/01/10

(1) Source: Letter from Marsh dated March 8, 2010.

> “We have placed the insurance which is the subject of this letter after consultation with SPSA and based upon SPSA’s instructions, which may not have contemplated or reflected the Insurance Covenant. Terms of coverage, including limits and deductibles are based upon information furnished to us by SPSA, which information we have not independently verified.
>
> “On the basis of the foregoing and subject to the other qualifications stated in this letter, we are pleased to confirm the following:
>
> 1. The insurance policies listed on the attached Schedule of Insurance are in full force and effect as of the date thereof;
> 2. As of this date, we have not received any notice of cancellation or non-renewal with respect to the policies and are not aware of any circumstances which would make the giving of such a notice by an insurer likely;
> 3. In our view, based upon our understanding of the language of the Insurance Covenant, the policies are consistent with the minimum requirements of the Insurance Covenant.
> 4. Based upon our experience as insurance brokers, the coverages provided by the policies are consistent with those normally provided to companies similarly situated to SPSA.
>
> “We express no view and assume no liability with respect to the solvency or future ability to pay of any of the insurance companies which have issued the policies. We assume no obligation to advise other parties of any developments regarding the policies subsequent to the date hereof.”

No Inconsistent Action

Section 708 of the Resolutions states:

> “The Authority covenants that none of the Gross Revenues will be used for any purpose which is inconsistent with the provisions of this Resolution and that no contract or contracts will be entered into or any action taken by it which shall be inconsistent with the provisions of this Resolution.”

We have reviewed this matter with the management of the Authority, and they have advised that the Authority has complied with the requirements of Section 708 of the Resolutions.

Contracts, Leases, and Other Agreements

Section 710 of the Resolutions requires, in part, that if the Authority enters into a contract, lease, or other agreement whereby the amount payable by or to the Authority in the then current or any subsequent fiscal year under any such lease, contract, or agreement, or any amendment or rescission thereof, shall exceed 5 percent of the Gross Revenues of the Authority for the preceding fiscal year, then, the Authority shall expressly determine by resolution, and shall obtain a statement from the Consulting Engineer affirming such determination, that such lease, contract, or agreement, or amendment or rescission thereof, does not materially impair the ability of the Authority to meet its rate covenant set forth in Section 502 of the Resolutions.

In addition, we have reviewed this matter with the management of the Authority, and they have advised that the Authority has complied with the requirements of Section 710 of the Resolutions.

Covenant Against Sale or Encumbrance and Exceptions Thereto

Section 711 of the Resolutions states that the Authority covenants that, except as Section 711 and Section 710 of the Resolutions otherwise permit, the Authority will not sell, exchange, or dispose of or encumber the Disposal System or any part thereof. Prior to closing of the WTE Transaction the Authority intends to obtain approval of the Authority's major creditors of the terms thereof and a waiver of the prohibitions against such sale in the Resolutions.

We have reviewed this matter with the management of the Authority, and they have advised that the Authority has complied with the requirements of Section 711 of the Resolutions.

Budgets and Covenants as to Operating Expenses

Section 712 of the Resolutions states that, "The Authority covenants that on or before the 15th day of May 1990 and of each fiscal year thereafter, it will prepare, with respect to the Disposal System, a preliminary budget of gross revenues and operating expenses and a preliminary budget of capital expenditures for the ensuing fiscal year and file copies of each such preliminary budget with the Trustee."

The Authority has completed the preparation of a draft, dated February 24, 2010, of the proposed operating and capital budgets for the FY2011.

Subordinate Obligations

Section 714 of the Resolutions addresses the requirements the Authority must meet with regard to issuing subordinate obligations. At the present time, the Authority's outstanding subordinate obligations include the Senior Subordinated Revenue Bonds Series 6, 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17.

Section 3
ADEQUACY OF REVENUES AND OTHER FINANCIAL DATA

Introduction

The Senior Resolution Rate Covenant in the Senior Resolution provides that:

> "The Authority further covenants that it will at all times fix, charge and collect reasonable rates and charges for the use of, and for the services and facilities furnished by, the Disposal System and that from time to time, and as often as it shall appear necessary, it will adjust such rates and charges so that the Net Revenues will be sufficient to provide an amount in each Bond Year at least equal to each of (A) one hundred twenty per centum (120%) of the Debt Service Requirements for such Bond Year on account of all the Bonds and Parity Indebtedness then outstanding, and (B) one hundred per centum (100%) of the sum of the Debt Service Requirements for such Bond Year on account of all Bonds and Parity Indebtedness then outstanding and the amount required to make all other deposits required by this Resolution and to pay all other obligations of the Authority related to the Disposal System, including Subordinate Obligations, and the Phase I Bonds, as the same become due.
>
> "The Authority further covenants that if the moneys available for the payment of the sum of the amounts set forth in the preceding paragraph shall not equal or exceed the amount required above for any Bond Year, it will revise the rates and charges for the services and facilities furnished by the Disposal System and, if necessary, it will revise its plan of operation in relation to the collection of bills for such services and facilities, so that such deficiency will be made up before the end of the Bond Year following that Bond Year in which such deficiency occurred. Should any deficiency not be made up in such following Bond Year, the requirement therefore shall be cumulative and the Authority shall continue to revise such rates until such deficiency shall have been completely made up."

The Senior Subordinated Rate Covenant in the Senior Subordinated Resolution was amended in 2009 to read as follows:

> "The Authority further covenants that it will at all times fix, charge and collect reasonable rates and charges for the use of, and for the services and facilities furnished by, the Disposal System and that from time to time, and as often as it shall appear necessary, it will adjust such rates and charges so that the Net Revenues in each Fiscal Year be sufficient to provide, together with any other funds available therefor, during such Fiscal Year an amount at least equal to the greater of (i) the sum of one hundred percent (100%) of the sum of the Net

> Accrued Debt Service in such Fiscal Year on all outstanding Senior Indebtedness and one hundred ten percent (110%) of the sum of the Net Accrued Debt Service in such Fiscal Year on all outstanding Bonds and (ii) one hundred percent (100%) of the Net Accrued Debt Service in such Fiscal Year on all outstanding Indebtedness and any other obligations of the Authority payable from Net Revenues, such obligations to include the deposits to be made to the Operating Expense Reserve required by the provisions of Section 505 and 712."

The Guaranteed Subordinated Rate Covenant in the Guaranteed Subordinated Resolution reads as follows:

> "The Authority further covenants that it will at all times fix, charge and collect reasonable rates and charges for the use of, and for the services and facilities furnished by, the Disposal System and that from time to time, and as often as it shall appear necessary, it will adjust such rates and charges so that the Net Revenues in each Fiscal Year be sufficient to provide, together with any other funds available therefor, during such Fiscal Year an amount at least equal to one hundred percent (100%) of the Net Accrued Debt Service in such Fiscal Year on all outstanding Indebtedness and any other obligations of the Authority payable from Net Revenues."

Revenue Bonds Issued by the Authority

In April 1984, the Authority issued its $26,000,000 Guaranteed Revenue Bonds, Series A (Regional Solid Waste Project) (the "Phase I Bonds"), the proceeds of which were used primarily to finance the acquisition and construction of a new regional sanitary landfill located in the City of Suffolk, Virginia (the Regional Landfill), seven transfer stations and supporting equipment, rolling stock, and ancillary facilities (collectively, Phase I). These bonds were refunded in 1989.

In December 1984, the Authority issued its $107,800,000 Senior Revenue Bonds, Series A (Regional Solid Waste System) (the Series A Bonds). Proceeds of the Series A Bonds were used to finance the RDF Plant and a fuel delivery system located on federally owned land in Portsmouth, Virginia (the RDF Plant), as well as a solid waste transfer station located in Suffolk, Virginia, and certain related equipment, rolling stock, and ancillary facilities (collectively with the RDF Plant, "Phase II"). These bonds were refunded in 1989.

Phase I and Phase II of the solid waste management system are referred to herein collectively as the "System" or the "Disposal System." The System has been developed by the Authority to provide an environmentally sound method for disposal of solid waste in the Service Area. The Service Area covers approximately 2,000 square miles in southeastern Virginia and consists of the area served by the Member Communities.

In December 1985, the Authority issued its $20,000,000 Senior Revenue Bonds, Series B (the "Series B Bonds"). Proceeds of the Series B Bonds were used to finance certain other components of Phase II, including two transfer stations located in Virginia Beach, Virginia. These bonds were refunded in 1989.

In August 1989, the Authority issued $186,435,000 of Senior Revenue and Revenue Refunding Bonds, Series 1989 (Regional Solid Waste System) (the “1989 Senior Bonds”) and $23,175,000 Guaranteed Subordinated Revenue Refunding Bonds, Series 1989 (Regional Solid Waste System) (the “Series 1989 Guaranteed Subordinated Bonds,” collectively with the 1989 Senior Bonds, the “Series 1989 Bonds”). The proceeds of the Series 1989 Bonds were used to: (1) advance refund $23,175,000 outstanding principal amount of the Authority’s Phase I Bonds; (2) advance refund $107,605,000 outstanding principal amount of the Authority’s Series A Bonds; (3) advance refund $19,785,000 outstanding principal amount of the Authority’s Series B Bonds; (4) provide up to $8,500,000 to refund an obligation to the United States Navy (the “Navy”); (5) provide funds for the purchase of land to be utilized as a borrow pit; (6) provide funds for improvements to the existing sanitary landfill; (7) provide funds for certain additional capital improvements; (8) provide moneys necessary to fund and maintain certain reserve funds required under the Resolutions; and (9) pay certain other costs and expenses incurred in connection with the issuance of the Series 1989 Bonds. The borrow pit, the improvements to the existing sanitary landfill, and the additional capital improvements are referred to as the “1989 Project.” These bonds were refunded, in part, in 1993 with the balance defeased on July 1, 1999.

In July 1990, the Authority issued $550,000 of Subordinated Revenue Bonds, Series 1990 (Regional Solid Waste System Recycling Project) (the “Recycling Bonds”). The proceeds of the Recycling Bonds were used to help pay the capital costs of implementing a part of the Authority’s recycling program. The Recycling Bonds were paid off in August 1995.

In May 1992, the Authority issued $11,475,000 of Subordinated Revenue Bonds, Series 1992 (Regional Solid Waste System) (the “1992 Bonds”). The proceeds of the 1992 Bonds were used for the acquisition of rolling stock, the excavation of the borrow pit, and the acquisition of necessary land. These bonds were paid off in full on July, 1 1998.

In April 1993, the Authority issued $50,885,000 of Senior Revenue Bonds, Series 1993 (Regional Solid Waste System) (the “1993 Senior Bonds”). The proceeds of the 1993 Senior Bonds were used to pay for the cost of: (1) modifications to the air pollution control equipment of the co-generating power plant (the Power Plant) which had been constructed by the Navy; (2) the expansion of the Authority’s Regional Office Building (“ROB”); (3) additional collection vehicles for the curbside collection of recyclable materials; (4) the construction of a materials recovery facility; (5) solid waste transfer vehicles; and (6) certain additional capital improvements.

In November 1993, the Authority issued $147,250,000 of Senior Revenue Refunding Bonds, Series 1993 A (Regional Solid Waste System) (the “1993 A Senior Revenue Refunding Bonds”) and $10,485,000 of Guaranteed Subordinated Revenue Refunding Bonds, Series 1993 A (Regional Solid Waste System) (the “1993 A Guaranteed Revenue Refunding Bonds” and collectively with the 1993 A Senior Revenue Refunding Bonds, the “1993 A Revenue Refunding Bonds”). The proceeds of the 1993 A Revenue Refunding Bonds were used to refund a portion of the 1989 Senior Bonds and a portion of the Series 1989 Guaranteed Subordinated Bonds. These bonds were refunded in 2009.

In April 1998 the Authority issued $33,535,000 of Senior Revenue Refunding Bonds Series 1998 (the “1998 Senior Bonds”) and $7,080,000 of Senior Subordinated Revenue Refunding Bonds Series 1 (the “Series 1 Bonds”). The proceeds of the 1998 Senior Bonds were issued to provide the funds necessary to refund a portion of the outstanding $32,250,000 Series 1989 Series Bonds. The Series 1 Bonds were issued to provide the funds to: (1) prepay a Promissory Note issued by the Authority to the City of Virginia Beach, (2) prepay the outstanding balance of a line of credit with First Union National Bank (formerly Signet Bank) and (3) pay the costs of issuing the Series 1 Bonds.

In December 1998, the Authority issued $1,440,000 of Senior Subordinated Revenue Bonds, Series 2 (the “Series 2 Bonds”) the proceeds of which were used to fund: (1) the acquisition of rolling stock for the Authority’s daily operations and (2) certain improvements to Authority facilities.

In February 2000, the Authority obtained a one-year renewable letter of credit in the amount of $8,100,000 from a bank to meet the Authority’s obligations to the DEQ to provide financial assurance relating to the capital costs associated with the closure of the Authority’s landfill and other facilities. In evidence of its obligation to repay with interest the bank for any draws on the letter of credit, the Authority issued to the bank its $8,100,000 Senior Subordinated Revenue Bonds, Series 3 (the “Series 3 Bonds”).

In April 2000, the Authority issued its Senior Subordinated Revenue Bond, Series 4 Tax Exempt in the amount of $3,100,000 to provide funds to finance the purchase of rolling stock and other equipment, improvements to the ROB and the Chesapeake Transfer Station and installation of electrical service from the Power Plant to the RDF Plant. It also issued its Senior Subordinated Revenue Bond, Series 4 Taxable in the amount of $5,500,000 to provide funds to finance contractual obligations with the U.S. Navy to fund a trust fund for the Power Plant and purchase of improvements to the RDF feed systems at the Power Plant. These bonds were refunded in 2001.

In September 2000, the Authority issued its Senior Subordinated Revenue Bond, Series 5 Tax Exempt to secure a line of credit in an amount not to exceed $3,230,000 to provide funds to finance additional improvements to and for the benefit of the Disposal System and the Power Plant. The Authority issued its Senior Subordinated Revenue Bond, Series 5 Taxable to secure a line of credit in an amount not to exceed $3,230,000 to provide funds to finance additional improvements to and for the benefit of the Disposal System and the Power Plant. These bonds were refunded in 2001.

Beginning in 2001, the Authority has made extensive use of the VRA’s pooled loan programs. These programs offer several benefits to the Authority, chief among which are ready access to the public credit markets at interest costs associated with double and triple A credit ratings and project approvals required by federal tax law by a single elected official as opposed to elected officials in each community where Authority improvements are to be located.

In June 2001 the Authority obtained funding for capital improvements through the VRA’s issuance of $11,030,000 Tax Exempt Revenue Bonds and $9,480,000 Taxable Revenue Bonds. In evidence of its obligation to repay the loan from VRA, the Authority issued its Senior Subordinated Revenue Bonds, Series 6 and Series 7, respectively, in corresponding principal amounts. This financing refunded the Senior Subordinated Revenue Bonds, Series 4 and 5.

In December 2001, the Authority obtained additional funding for capital improvements through VRA’s issuance of $3,400,000 of Taxable Revenue Bonds. In evidence of its obligation to repay the loan from VRA, the Authority issued its Senior Subordinated Revenue Bonds, Series 8 in the principal amount of $3,400,000.

In December 2002, the Authority obtained funding for capital improvements to the Disposal System through VRA's issuance of $16,005,000 of Tax Exempt Revenue Bonds and funding for capital improvements to the Power Plant through VRA's issuance of $150,000 of Taxable Revenue Bonds. In evidence of its obligation to repay the loan from VRA, the Authority issued its Senior Subordinated Revenue Bonds, Series 9 in the principal amount of $16,155,000.

Also in December 2002, the Authority obtained funding for capital improvements to the Power Plant through VRA's issuance of $3,000,000 of Taxable Revenue Bonds. In evidence of its obligations to repay the loan from VRA, the Authority issued its Senior Subordinated Revenues Bonds, Series 10 in the principal amount of $3,000,000.

In May 2003, the Authority obtained $39,950,000 of financing through a loan from VRA, the proceeds of which were used to refinance a portion of the outstanding 1993 Senior Bonds. In December 2003, the Authority obtained funding for capital improvements to the Disposal System through VRA's issuance of $13,650,000 of Tax Exempt Revenue Bonds (AMT) and funding for capital improvements to the Power Plant through VRA's issuance of $3,490,000 of Taxable Revenue Bonds. In evidence of its obligation to repay the loans from VRA, the Authority issued its Senior Subordinated Revenue Bonds, Series 12 in the principal amount of $13,650,000 and Series 13 in the principal amount of $3,390,000.

In June 2004, the Authority issued $39,390,000 of Senior Revenue Refunding Bonds, Tax-Exempt, the proceeds of which were used to refund certain callable portions of the 1993 Senior Revenue Refunding Bonds. At the same time, the Authority also issued $1,360,000 of Senior Subordinated Revenue Refunding Bonds, Taxable, the proceeds of which were used to refund certain callable portions of the 1993A Senior Refunding Bonds. These bonds were refunded in 2009.

In November 2004, the Authority issued its $13,060,000 Series 14 Tax-Exempt and $2,300,000 Series 15 Taxable Senior Subordinated Revenue Bonds to VRA, with the proceeds of the VRA loans to be used for the Suffolk Transfer Station, recycling carts for automated collection, improvements to facilities and rolling stock in the case of Series 14 and improvements to the Power Plant in the case of Series 15.

In June 2006, the Authority issued $14,245,000 of Senior Subordinated Revenue Bonds, Series 16 Tax Exempt and $3,495,000 of Senior Subordinated Revenue Bonds, Series 17 Taxable. The proceeds of Series 16 and Series 17 Bonds were used to pay for capital improvements to the System.

In October 2006, the Authority made arrangements with Wachovia Bank, National Association for the issuance of $21,320,000 of Senior Subordinated Revenue Bond Series 21 Taxable. The proceeds were used to pay for capital improvements to the System. The Bond was refunded with a portion of the proceeds of the bonds described in the succeeding paragraph on October 4, 2007.

In October 2007, the Authority issued $25,145,000 of tax-exempt Senior Parity Revenue Bonds, Series 2007A AMT (Regional Solid Waste System) and $5,865,000 Senior Parity Revenue Bonds, Series 2007B Taxable (Regional Solid Waste System). The proceeds of the 2007 Bonds were used to refund the Series 21 Bond and to make capital improvements and replacements for the Disposal System and the Power Plant. The Series 2007A Bonds were issued with a term of five years ending July 1, 2013. The bonds were secured by a Letter of Credit issued by Wachovia Bank, National Association. The Series 2007B Bonds were issued for a maximum term of two years ending July 1, 2009. The Series 2007B Bonds were paid off in 2009.

In October 2008, the Authority obtained a one-year Line of Credit in the amount of $13,200,000 from Wachovia Bank, National Association for capital project financing needs of the Power Plant. The Authority made arrangements in October 2008 with Wachovia Bank, National Association to renew a $4,000,000 revolving line of credit. In May 2009, these lines of credit were combined into a single line of credit in the amount of $17,200,000 that is scheduled to expire on May 11, 2010. The Authority reports that the current outstanding balance is zero and that there is no intention for the Authority to use or renew this line of credit.

In June 2009, the Authority issued its $71,985,000 Guaranteed Subordinated Revenue Bonds, Refunding Series 2009 (Taxable) to the VRA to partially refund certain series bonds previously issued by VRA and defease the Authority's 1993A Refunding Bonds, 2004A Refunding Bonds, and 2004B Refunding Bonds, in an aggregate total of $78,950,000.

Solid Waste Supply

During the last 12 years, the Authority has closely monitored solid waste collection and delivery activities in the Service Area, as it determined that solid waste had been lost to competing landfills located outside the Service Area. In prior years, in order to reduce the loss of solid waste from the System, the Authority reduced the tipping fee it charged for commercial waste to a level which the Authority believed was competitive with alternative means of waste disposal.

Presented in Table 3-1 is a summary of solid waste deliveries to the System during the last five fiscal years.

Table 3-1
Historical Waste Deliveries

Fiscal Year	(000 Tons)	Percent Change from Previous Year
2004	1,427	14.4
2005	1,435	0.6
2006	1,506	4.9
2007	1,601	6.3
2008	1,537	(4.0)
2009	1,161	(25%)

The Authority had managed to increase total waste deliveries to the System during the four fiscal years 2004 thru 2007; however, waste deliveries decreased in FY2008 and FY2009 and are projected to further decrease in FY2010. The challenge the Authority has faced is the fact that there has been downward market pressure on the tipping fees the Authority has been able to charge for commercial waste, out-of-area waste, and waste from the Navy. This downward pressure has been caused by the lower tipping fees being charged at privately owned landfills that are competing for a decreasing quantity of solid waste that is being generated because of the current recession.

The Authority tried to address increasing tipping fee revenues from commercial haulers by one of two means: (1) having the Member Communities adopt flow control ordinances; and (2) executing new contracts with the commercial haulers that include higher tipping fees. In April 2007 in the case involving the United Haulers vs. Oneida Henkiner Solid Waste Authority, the U.S. Supreme Court decided that communities could adopt legal flow control in those cases involving public ownership of solid waste management facilities where use of flow control can be documented as critical to the viability of the public solid waste management program and its effectiveness. Following the decision, the Authority presented information to the Member Communities on how, under legal flow control, the Municipal Tipping Fees would be reduced if the private haulers paid the same tipping fee as the Member Communities. Six of the eight Member Communities adopted legal flow control. The Cities of Virginia Beach and Suffolk have not adopted legal flow control.

In January 2008, the Authority's Board of Directors voted to provide one year notice to the private haulers with whom the Authority had waste disposal agreements, that such contracts would terminate in January 2009. The Authority staff attempted to negotiate new contracts with the private haulers pursuant to which the tipping fees paid by the Member Communities and the private haulers would eventually become the same. These negotiations failed and prior to the expiration of the then current commercial hauler disposal contracts, the Authority executed new disposal contracts with eight commercial haulers. The contracts allow for the disposal of solid waste originating outside of the Authority's Service Area so long as the waste originates from within Virginia or the North Carolina Counties of Currituck, Dare, Camden, Gates, Pasquotank or Perquimans.

In the past the Authority accepted for disposal solid waste that is generated outside the Service Area. The sources of out-of-area waste were both in-state and out-of-state commercial haulers. Such out-of-area waste was delivered pursuant to short-term disposal contracts between the Authority and the commercial haulers which terminated on June 30, 2008. The Authority stopped accepting, on July 1, 2008, out-of-area waste provided by commercial haulers located outside the State of Virginia. The Authority does not currently plan to negotiate disposal agreements with commercial haulers located outside the Service Area.

The Authority has a program to attract certain "Proprietary Waste" to the System. The Proprietary Waste includes off-specification and out-of-date consumer products, office records and other waste material which requires assured destruction. During the FY2009, the Authority received 22,033 tons of Proprietary Waste. The Proprietary Waste Program will no longer be an Authority program upon completion of the WTE Transaction.

Measures Taken to Address Revenue Shortfall

In previous years, the Authority undertook a number of measures to address the ongoing operating deficit other than simply increasing the tipping fee being paid by the Member Communities. These measures included the execution of longer term contracts with private haulers, increasing the quantity of commercial waste, utilizing available reserve funds, developing the Proprietary Waste Program, increasing energy production and sales, accepting waste from outside the Service Area, increasing the Suffolk commercial tipping fee for the 40,000 tons per year ("TPY") of Suffolk commercial waste, refinancing existing debt, reducing operating costs, and evaluating the sale of energy to third parties.

In spite of these changes, the Authority has continued to face financial challenges during the last three fiscal years. The Board of Directors addressed this problem by increasing the tipping fee paid by Member Communities to: (1) $75 per ton effective January 1, 2007, (2) $100 per ton on July 1, 2007, (3) $104 per ton on January 1, 2008 and (4) $170 per ton on April 23, 2009.

The Authority staff indicated that the Board previously adopted a series of financial policies that include the following:

- Budget Policy
  - The annual operating budget will be balanced on a current revenue to current expense basis.
  - Unencumbered operating budget appropriations will lapse and close at the end of each fiscal year.
  - The Authority shall annually prepare a five-year forecast of revenues and expenses, to include the implications of forecasted future services, policies, and tipping fee impact on the ember Communities.

Beginning July 1, 2007, the Board of Directors decided to charge Member Communities tipping fees in excess of annual requirements. The excess revenue over and above current requirements were to be used as described below.

- First Priority
  - Closure/Post-Closure Care Fund
    - The Authority will fund all annual closure costs from current fiscal year excess revenue.
- Second Priority
  - Reserve and Contingency Fund
    - The Authority will deposit 20 percent of excess revenue each fiscal year into the Reserve & Contingency ("R&C") Fund until the fund equals 15 percent of that year's annual operating budget.
- Third Priority
  - Debt Management
    - The Authority will use all current fiscal year excess revenue remaining after satisfying the first and second priorities to cash fund Board approved capital expenditures.
    - The term of debt financing of Board approved capital expenditures will not exceed 75 percent of the average life of the assets being financed.

- Under no circumstances will the term of any debt financing extend beyond the term of the Authority’s Use and Support Agreements with its member communities.
- The Authority will meet or exceed all debt covenants in its bond resolutions.

As a result of the financial challenges discussed elsewhere in this Report, the Authority has not been able to operate in accordance with these polices.

Adequacy of Net Revenues

The reported operating results and debt service coverage requirements for the FY2009, as prepared by the Authority, are presented in Table 3-2.

Table 3-2
Historical Operating Results and Debt Service Coverage of the Disposal System for Fiscal Year 2009 (1)

Disposal System Revenues		$ 94,036,956 (1)
Less: Disposal System Operating Expenses		(38,589,577) (2)
Net Disposal System Revenues		$ 55,447,379
Senior Debt Coverage		
Net Disposal System Revenues will = or > 1.20 x Senior Debt		
Senior Debt		$ 23,727,115
	x 1.20	$ 28,472,538
Coverage Test	Net Revenue	$ 55,447,379
Coverage Requirement is Exceeded by		$ 26,974,841
Senior Subordinated Debt Coverage		
Net Disposal System Revenues will = or > 1.10 x Total Debt (3)		
Senior Debt		$ 23,727,115
Senior Subordinated Debt		14,836,023
	X1.10	16,319,625
Senior Debt plus +1.10 x Senior Sub Debt		40,046,740
Coverage Test	Net Revenue	55,447,379
Coverage Requirement is Exceeded by		$ 15,400,639
Guaranteed Subordinated Debt Coverage		
Net Revenues must = or > 1.0 x Total Debt		
Senior Debt		$ 23,727,115
Senior Subordinated Debt		14,836,023
Total Debt		$ 38,563,138
	x 1.00	$ 38,563,138
Coverage Test	Net Revenue	55,447,379
Coverage Requirement is Exceeded by		$ 16,884,241

(1) As developed by the Authority, the Disposal System Revenue number includes the following components:

1. Disposal System revenue from Trial Balance	$103,339,090
2. Estimated value of RDF	12,900,000
3. Less insurance recoveries	(116,397)
4. Less steam and electric sales from Power Plant	(22,085,737)
Disposal System Revenue	$94,036,956

(2) As developed by the Authority, the Disposal System Operating Expenses adjusted for coverage:

1. Total Disposal System and Power Plant Expenses	$53,009,394
2. Less Lower Plant Operating Expense	(17,763,458)
3. Plus Pay as You Go Equipment Replacement	8,243
4. Plus Ash & Process Residue Agreement Payment	2,804,236
5. Plus DEQ Letter of Credit Fees	130,120
6. Plus commissions paid on proprietary waste	401,041
Disposal System Operating Expenses Adjusted for Coverage	$38,589,577

(3) The 1.10 x rate covenant applicable to all Senior Subordinated Bonds was a June 2009 amendment. Previously certain series had a 1.05x covenant and others a 1.15x covenant.

Based on these reported operating results, the Authority had adequate funds available from operations, interest earnings, and capitalized interest during the FY2009 to meet the amended

Rate Covenants requirement set forth in Section 502 of the Resolution and the Senior Subordinate Resolution.

The reported operating results for the eight-month operating period ended February 28, 2010 and a comparison to the budget are presented in Table 3-3.

Table 3-3
Comparison of Budget and Actual
Results of the Disposal System and the Power Plant
for the Period Ended February 28, 2010

	Budget Eight Months Ended February 28, 2010	Actual Eight Months Ended February 28, 2010 (1)
Disposal System		
Total Operating Revenue	$ 65,363,480	$ 65,178,338
Operating Expenses (Excluding Depreciation Expense)	23,689,689	20,141,142 (2)
Operating Income	$ 41,673,791	$ 45,037,196
Funds Available for Debt Service Payment	$ 41,673,791	$ 45,037,196
Less:		
Accrued Debt Service – Senior Bonds Requirement	$ 4,784,347	$ 4,067,959
Accrued Debt Service – Other Indebtedness	16,712,944	16,273,138 (3)
Total Debt Service	21,497,291	$ 20,341,097
Balance Available after Debt Service Payment	$ 20,176,499	$ 24,696,099
Other Uses		
Ash and Process Residue Agreement Payment	-	$ 7,324,780 (4)
Letter of Credit Fees	90,000	78,067
Virginia Beach Environmental Trust Fund	6,667	-
Suffolk Environmental Trust Fund	3,333	-
Deposit to Closure Fund	1,000,000	-
Total Other Uses	1,100,000	7,402,847
Disposal System Operating Surplus (Loss)	$ 19,076,499	$ 17,293,252 (5)
Power Plant		
Revenues		
Steam Sales	$ 5,625,606	$ 5,115,119
Electrical Sales	6,266,667	4,015,286
Total Revenues	11,892,273	9,130,405
Power Plant Expenses	12,134,299	11,862,150
Total Expenses	12,134,299	11,862,150
Power Plant Operating Surplus (Loss)	$ (242,026)	$ (2,731,745) (6)
Consolidated (Disposal System and Power Plant)		
Operating Surplus (Loss)	$ 18,834,473	$ 14,561,507

Footnotes to follow on next page.

(1) As reported by the Authority. Does not include an adjustment for the increased value of the RDF to the Disposal System. Figures are presented on a cash basis.
(2) Operating Expenses are under budget by approximately 10 percent primarily in the areas of contracted services, fuel and utilities.
(3) Accrued Debt Service exceeds the budget due to the early payment in full of the $9.2 million line of credit that was outstanding as of June 30, 2009. Budgeted and actual debt service does include debt service on bonds allocable to the Power Plant System. Post fiscal year-end, the Authority may, in accordance with the provisions of its bond resolutions, reimburse the Disposal System from Power Plant System Revenues for debt service incurred by the Disposal System but allocable to the Power Plant.
(4) The original budget included the deferral of payments to the City of Virginia for the ash and process residue agreement in accordance with the Forbearance Agreement dated May 2009. Due to positive cash flow and budgetary savings in debt service and capital expenses, the SPSA Board of Directors terminated the forbearance period effective November 1, 2009. The expense shown does not include the deferred amounts which totaled approximately $18.9 million as of October 31, 2009. The expense illustrated above represents approximately $604,000 for O&M expense and approximately $6.7 million in tipping fees paid in excess of the capped rate of $56.01 versus $170 per ton.
(5) Does not reflect entire amount of the rebate owed to Virginia Beach on account of the cap on its tipping fee of 56.01/ton (versus the $170/ton Disposal System Municipal Tipping Fee rate at which it has been billed) for FY2010. Between July 1, 2009 and October 31, 2009, the rebate amount was $7,288,779.
(6) Electrical Sales are under budget by approximately 24 percent primarily driven by the reduction in the electrical re-sale rate and the downtime of the boilers due to carbon monoxide issues.

The reported operating results for the first eight months of the current fiscal year indicate that for the Disposal System, the Authority had sufficient funds from the Disposal System operating revenues and interest income to meet the pro-rata share of the annual debt service requirement of the Disposal System.

A summary of historical operating results and debt service coverage for the last five fiscal years is set forth in Table 3-4.

Table 3-4
Summary of Historical Operating Results
for the Disposal System

Fiscal Year (1)	2005	2006	2007	2008	2009
Solid Waste Received (000 tons)	1,436	1,482	1,601	1,537	1,139 (9)
System Revenues (000) (2)	71,974	78,235	77,567	91,638	92,421
Interest Income (000) (3)	1,661	1,775	2,400	2,111	1,615
Gross Revenues (000) (4)	73,635	80,010	79,967	93,749	94,036
Operating Expenses (000) (5)	39,010	42,043	38,230	43,031	38,590
Net Revenues (000) (4)	34,625	37,967	41,737	50,718	55,446
Debt Service Senior Bonds (000) (6)	17,391	17,221	17,216	18,986	23,727
Debt Service Coverage Senior Bonds (7)	1.99	2.20	2.42	2.67	2.34
Debt Service All Indebtedness (000) (6)	30,996	31,229	33,080	34,132	38,563
Debt Service Coverage All Indebtedness (8)	1.12	1.22	1.26	1.49	1.44

Source: The Authority.
(1) Excludes debt service payable on July 1 of the same fiscal year; includes debt service payable on July 1 of the following fiscal year.
(2) Disposal System Revenues per June 30 Trial Balance plus interest income.
(3) "Interest Income" as per the June 30 Trial Balance, less investment income on invested balances in the Suffolk and Virginia Beach Environmental Trust Funds. Interest Income is not included in the Disposal System Revenues shown in Table 3-2 resulting in the higher Debt Service Coverage being shown on Table 3-4 as compared to Table 3-2.
(4) As defined in the Senior Bond Resolution.
(5) "Operating expenses" as per the audited Financial Statements, less expenses associated with the Navy Power Plant (See note 2 above), depreciation/depletion and landfill/post-closure costs (non-cash items). As defined in the Senior Bond Resolution.
(6) Excluding accrued and capitalized interest.
(7) Net Revenues divided by Debt Service Senior Bonds.
(8) Net Revenues divided by Debt Service All Indebtedness.
(9) Proprietary Waste not included.

Draft of Budget

On February 24, 2010, the Authority staff submitted to the Board of Directors a draft of the proposed budget for FY2009 (the "Draft Budget"). The Draft Budget included the following important assumptions.

1. Maintaining the current Municipal Tipping Fee of $170 per ton;
2. The completion of the WTE Transaction prior to July 1, 2010;
3. The completion of planned debt restructuring using the proceeds from the WTE Transaction;
4. The termination of recycling services;
5. Reduction in staff of approximately 249 positions;
6. No increase in employee salaries and wages;
7. Projected increase in health insurance of approximately 15 percent;

8. A cash funded capital improvement and equipment replacement plan;
9. Projects the average price per gallon for diesel fuel at $2.25 versus $3.50;
10. A $3.4 million contribution to the landfill closure fund; and
11. No funding for the expansion of Cell VII at the Regional Landfill.

The Board of Directors plans to review the Draft Budget and approve a final budget for FY2011 at the May 26, 2010 Board Meeting. If the Authority achieves the Draft Budget, it should realize sufficient revenues to meet its debt service payment requirements.

Current Rates and Charges

On April 23, 2009, the Authority implemented the tipping fees and charges as shown in Table 3-5.

Table 3-5
Existing Rates and Charges

	Rates for Services Effective April 23, 2009
Solid Waste Acceptable at All Disposal Points	
Municipal Solid Waste	$ 170.00/ton
Contract Municipal Waste	$ 170.00/ton
Commercial Solid Waste	$ 60.00/ton
U.S. Navy Waste	$ 28.58/ton
Weighing Charge per Vehicle	20
Residential Solid Waste Delivered in Private Automobile or Low-Side Pickup Truck	No charge
Contract Commercial ($40 if contract was signed after 12-17-08)	$35/ton
Solid Waste Acceptable at Landfill Only	
Suffolk Municipal (Waste Delivered by City of Suffolk)	No charge
Suffolk Contract Municipal Waste (Waste Delivered on behalf of City of Suffolk)	No charge
Non-Processible Solid Waste	$ 60.00/ton
Industrial Process Wastes (acceptable only with prior approval)	$ 60.00/ton
Dead Animals (household pets only, i.e., dogs and cats)	$10.00 each
Dead Animals (bagged)	$25.00 each
Water Treatment Plant Sludge from any Member Community	$ 46.00/ton
Ash Material (Meeting Specifications for Landfill daily cover)	$ 10.00/ton
Special Handling Waste (accepted only with prior approval)	Same
C&D Waste	$30.00/ton
Special Handling Waste	Handling cost plus 25%
Whole Tires Accepted at Landfill Only	
Automobile and Light Truck	$ 77.50/ton
Truck and Light Industrial up to 24.5”	$ 140.00/ton
Heavy Equipment and Off-the-Road Tires	$ 155.00/ton
Tires with Rims	Additional $ 2.00/ton
Hauling and Disposal of Used Tires	$ 950.00/pull
Proprietary Waste Delivered to RDF Plant	
There are 65 different disposal rates which vary from $50 to $500 per ton dependent upon the type of waste	
Recycling Fees	
Curbside Recycling Fee – Manual Collection (monthly fee per home)	$ 1.47
Curbside Recycling Fee – Automated Collection (monthly fee per home)	$ 3.47
Multi-family and Commercial Collection (monthly fee per container) Plus the Cost of the Containers	$ 11.83/container
Drop-Off Recycling Container (Weekly Fee)	$ 107.00/container
Household Hazardous Waste User Fee (Rates per customer visit, charged to customer’s Member Community)	$ 35.00/visit
Batteries (lead and rechargeable)	$ 60.00/ton
Cell Phone Batteries	$ 60.00/ton
Alkaline Batteries	$ 0.75/pound

Quantity of Solid Waste Disposed

The Authority reports that during the first six months of the current fiscal year, it disposed of the quantities of solid waste and received the following revenues, reported on a cash basis, from disposal charges shown in Table 3-6.

Table 3-6
Revenues from Disposal Fees
for Period Ended December 31, 2009 (1)

	Tons Disposed (000)	Revenue from Disposal Charges ($000)
July	88	8,113
August	83	7,549
September	92	7,896
October	82	7,353
November	89	8,806
December	88	8,484
TOTAL	522	48,201

(1) Source: Provided by the Authority. Reported on a cash basis.

A summary of tonnages and revenues from disposal fees for the last five fiscal years is presented in Table 3-7.

Table 3-7
Summary of Annual Revenues
from Disposal Fees (1)

Fiscal Year Ended June 30	Tons (000)	Revenues From Disposal Charges ($000) (2)
2005	1,436	48,904
2006	1,506	53,369
2007	1,601	60,296
2008	1,537	72,424
2009	1,139	71,062

(1) Source: The Authority. Reported on a cash basis.
(2) Includes tipping fees for tires and proprietary waste, except for 2009, which does not include proprietary waste.

Long-Term Debt

Presented in Table 3-8 is a summary of the existing long-term debt of the Authority as of July 1, 2009.

Table 3-8
Summary of Outstanding Debt of the Authority (1)

Series – As of June 30, 2008	Date of Obligation	Amount Issued	Amount Outstanding on June 30, 2009
Series 1993 A Senior Revenue Refunding Bonds	October 15, 1993	$ 147,250,000	$ 0
Series 1998 Senior Revenue Refunding Bonds	April 1, 1998	33,535,000	33,535,000
Series 2004 Senior Revenue Refunding Bonds, Tax-Exempt	June 30, 2004	39,390,000	0
Series 2004 Senior Subordinated Revenue Refunding Bonds, Taxable	June 30, 2004	1,360,000	0
Senior Subordinated Tax Exempt Bonds Series 6 (held by VRA)	June 28, 2001	11,030,000	2,940,000
Senior Subordinated Taxable Bonds, Series 8 (held by VRA)	December 14, 2001	3,400,000	1,925,000
Senior Subordinated Tax Exempt Bonds Series 9 (held by VRA)	December 1, 2002	16,155,000	6,445,000
Senior Subordinated Tax Exempt Refunding Bonds Series 11 (held by VRA)	May 21, 2003	39,950,000	28,445,000
Senior Subordinated Tax Exempt Refunding Bonds Series 12 (held by VRA)	December 4, 2003	13,650,000	2,425,000
Senior Subordinated Tax Exempt Refunding Bonds Series 14 (held by VRA)	November 1, 2004	13,060,000	5,950,000
Senior Subordinated Tax Exempt Bonds Series 16	June 8, 2006	14,245,000	14,245,000
Senior Parity Tax Exempt Bonds Series 2007A (2)	October 4, 2007	25,145,000	23,685,000
Senior Parity Tax Exempt Bonds Series 2008A	October 8, 2008	12,100,000	12,100,000
Guaranteed Subordinated Refunding Bonds, Taxable Series 2009A	June 17, 2009	71,985,000	71,985,000
Total Bonds Payable – Disposal System			$ 203,680,000
Senior Subordinated Taxable Bonds, Series 10 (held by VRA)	December 1, 2002	3,000,000	1,260,000
Senior Subordinated Taxable Bonds, Series 13 (held by VRA)	December 4, 2003	3,390,000	465,000
Senior Subordinated Taxable Bonds, Series 15 (held by VRA)	November 1, 2004	2,300,000	1,130,000
Senior Subordinated Taxable Bonds, Series 17	June 8, 2006	3,495,000	3,495,000
Senior Parity Taxable Bonds Series 2007B (2)	October 4, 2007	5,865,000	0
Total Bonds Payable – Power Plant			$ 6,350,000
Total			$ 210,030,000

(1) Source: The Authority's audited financial reports.
(2) Also considered as "Senior Bonds" for purposes of determining debt service coverage.

Establishment of Fund and Accounts

Section 504 of the Resolution establishes certain funds and accounts which the Authority is to maintain. The reported status of those funds as of December 31, 2009 is shown in Table 3-9.

Table 3-9
Status of Bonds Funds and Accounts
as of December 31, 2009 (1)

Bond Accounts	December 31, 2009
1993A Senior Bond Fund	$ 0
1998 Series 1 Bond Fund	850,868
2001 Series 6 Tax-Exempt (VRA)	2,238,014
2001 Series 7 Taxable (VRA)	0
2001 Series 8 Taxable (VRA)	191,786
2002 Series 9 Tax-Exempt (VRA)	1,165,648
2002 Series 10 Taxable (VRA)	228,684
2003 Series 11 Bond Account (VRA)	1,884,131
2003 Series 12 Tax-Exempt (VRA)	481,206
2003 Series 13 Taxable (VRA)	121,382
2004 A Tax-Exempt Bond Fund (VRA)	0
2004 B Taxable Bond Fund (VRA)	0
2004 Series 14 Tax-Exempt (VRA)	447,094
2004 Series 15 Taxable (VRA)	78,679
2006 Series 16 Tax-Exempt (VRA)	181,302
2006 Series 17 Taxable (VRA)	49,695
2007 Series A Tax-Exempt	1,487,500
2008 Series 2008 Tax-Exempt	12
2009 Series Taxable (VRA)	824,061
Excess Bond Funds	2,037,323
Total Bond Account Balance	$ 12,267,384
Reserve Account	
Senior Reserve Account	$ 3,401,246

(1) Source: The Authority. Market value as of 12/31/09. Does not include balances in bond construction funds.

Debt Service Payments

The projected annual debt service payments on the Authority's long-term debt are shown in Table 3-10.

Table 3-10
Debt Service Requirements for All Authority Indebtedness (1)

Fiscal Year Ending June 30 (2)	Total Debt Service (3) (4)
2010	19,244,987
2011	18,883,097
2012	36,292,741
2013	30,943,654
2014	36,715,419
2015 – 2017	120,802,993
Total	$ 262,882,891

(1) Source: The Authority's audited financial reports.
(2) Excludes principal and interest due on July 1 of such fiscal year. Includes interest due on January 1 of such fiscal year and principal and interest due on July 1 of the next fiscal year.
(3) As of June 30, 2009.
(4) Represents the total debt service should the WTE Transaction not occur. The anticipated WTE Transaction and subsequent debt retirement will result in a reduction of the total debt service.

Section 4
CONTRACTS

Introduction

The Authority has executed a series of contracts which deal with the delivery of solid waste to the System, the sale of electricity, the disposal of residue from the RDF Plant, the disposal of ash from the Power Plant, and the operation of the Power Plant. Set forth below is a brief discussion of certain of the major issues addressed in the various contracts.

Purchase and Sale Agreement with Wheelabrator Technologies Inc.

Purchase Agreement

The Authority has entered into a Purchase and Sale Agreement with Wheelabrator, pursuant to which Wheelabrator has agreed to purchase, and the Authority has agreed to sell, the WTE Facilities for a purchase price that includes $150,000,000 cash and other consideration. The Authority has negotiated a Service Agreement for solid waste disposal services with Wheelabrator that will take effect upon the closing of the sale of the WTE Facilities. The initial term of the Service Agreement will be through January 24, 2018.

The WTE Transaction will be implemented in accordance with two agreements between the Authority and Wheelabrator: (1) the Purchase and Sale Agreement and (2) the Service Agreement.

According to the Purchase and Sale Agreement, the assets to be sold and transferred to Wheelabrator (“Acquired Assets”) include:

- RDF Plant that sorts and processes solid waste into fuel
- Power Plant that generates electricity and steam
- Equipment, rolling stock, trucks and fixtures used in RDF and Power Plant operations
- Easements with Navy conveying land rights scheduled to expire in 2049
- Governmental permits (to the extent transferable) relating to the WTE Facilities

- Important contracts, including:
  - Power Purchase Agreement for electricity sales to AEP
  - Agreement with Navy for steam sales
  - Waste Disposal Agreements with commercial haulers delivering third-party solid waste to SPSA transfer stations
  - Contract for disposal of proprietary waste
  - Other O&M contracts relating to the WTE Facilities

The Authority will retain the following assets:

- Regional Landfill
- Transfer stations
- Tipping floor, scales, scale houses and roadways at the RDF Plant
- Truck maintenance facility adjacent to the RDF Plant
- Equipment and fixtures used in transfer station operations
- Trucks, trailers and equipment used in the Authority's loading and hauling operations
- All other assets not relating to the WTE Facilities

Wheelabrator will acquire the WTE Facilities from the Authority for $150 million in cash or immediately available funds, subject to certain defined cost adjustments.

The closing of the Purchase and Sale Agreement and transfer of the Acquired Assets to Wheelabrator is expressly contingent on numerous approvals and other actions. These include, but are not limited to, the following:

- Approval of the Authority's Board of Directors;
- Approval of the Department of Navy;
- Consent or approval of certain Authority creditors, including VRA, bond insurers, trustees and Wachovia Bank;
- Installation of certain carbon monoxide control measures at the Power Plant;
- Execution of a mutually acceptable Lease and Good Neighbor Agreement;
- Private activity bond volume cap allocation from the Commonwealth of Virginia;
- Consents from counterparties to certain Authority contracts being assigned to Wheelabrator; and
- Satisfaction of all conditions precedent contained in the Service Agreement.

Service Agreement with Wheelabrator Technologies Inc.

The key terms of the Service Agreement include:

- Initial Term. Wheelabrator will accept and process the Authority's solid waste at the WTE Facilities from closing of the transaction until January 24, 2018.
- Extension. The Authority may unilaterally extend the initial term of the Service Agreement for an additional period not to exceed ten years by giving notice to Wheelabrator by December 31, 2014.
- The Authority's Annual Waste Delivery Guarantee. During each year of the Service Agreement, the Authority is required to deliver, and Wheelabrator is required to accept, 500,000 tons of solid waste delivered by the Authority at the RDF Plant.
- Annual Fee Payable by the Authority. For Wheelabrator's disposal of the Authority's solid waste, the Authority is required to pay Wheelabrator an annual fee of $18,000,000. Based on an annual delivery guarantee of 500,000 tons, the annual fee for the Authority in FY2010 is $36 per ton. In subsequent years, the annual fee is subject to a fixed annual increase of $2 per ton (i.e., a $1 million aggregate annual increase, before adjustments). The annual fee is payable in 12 equal monthly installments.
- Put or Pay Arrangement. The Service Agreement is structured as a "put or pay" contract – meaning that the Authority is required to pay the fixed monthly fee regardless of how much waste the Authority delivers to the RDF Plant (i.e., regardless of whether the Authority satisfies the 500,000 ton annual delivery guarantee). Regardless of volume, the Authority is required to deliver to Wheelabrator all acceptable solid waste of the Authority's Member Communities.
- Excess Tonnage Fee. The Authority is required to pay an additional $36 (as adjusted each year by the adjustment factor) for each ton of the Authority's waste delivered to the RDF Plant in excess of 500,000 TPY. The Authority has the right to divert any such "excess" waste to a disposal facility of the Authority's choice, in which case, the Authority will not pay an excess tonnage fee to Wheelabrator for such waste.
- The Authority Delivery of Third-Party Acceptable Waste to the RDF Plant. The Authority will continue to accept third-party hauler waste (i.e., contracted waste arrangements) and non-contract waste at the Authority's transfer stations. Wheelabrator will pay the Authority a hauling fee for delivery of this authorized hauler waste to the RDF Plant.
- Third-Party Tipping Fees. Wheelabrator will receive or be credited for the tipping fees associated with such third-party waste and non-contract waste received at SPSA's transfer stations (other than tipping fees for waste received at the Suffolk Landfill).
- Disposal of WTE Facility Ash at the Regional Landfill. During the Term, the Authority will make its Regional Landfill and any other Authority-contracted landfill (including the Virginia Beach Landfill) available to Wheelabrator to dispose of residue (which includes ash) from the WTE Facilities. The Authority may direct the residue to a landfill of its choosing.

- No obligation to expand the Regional Landfill. The Authority has no obligation to undertake any expansion of its landfills or to maintain any landfill or any landfill capacity for disposal of ash, residue or any other waste.

Member Solid Waste Disposal Agreements

All eight of the participating jurisdictions have entered into Agreements for Use and Support of a Solid Waste Disposal System (the “Solid Waste Disposal Agreements”) with the Authority. More specifically, each Member Community has agreed to deliver or cause to be delivered to the Authority at least 95 percent of all “disposable solid waste” (generally any solid waste other than hazardous waste, including especially material having energy value but currently discarded without recovery of such energy value) generated within, collected by, or otherwise under the control of the contracting community. Each of the participants will be assessed a per ton tipping fee (with the exception of Suffolk), as established under fee schedules imposed by the Authority in accordance with the Virginia Water and Sewer Authorities Act, for the disposal of disposable solid waste delivered to any of the Authority’s specified delivery points.

For seven of the jurisdictions, the Solid Waste Disposal Agreements became effective on January 22, 1985, the date on which the Regional Landfill began accepting solid waste. In the case of Virginia Beach, the Solid Waste Disposal Agreement became effective on the date fixed under the Navy Contract as the start-up date of the RDF Plant. The Solid Waste Disposal Agreements shall remain in effect until January 2018.

Agreement with Suffolk

The Regional Landfill is located in the City of Suffolk. Pursuant to the original Solid Waste Disposal Agreement between Suffolk and the Authority as amended (the “Suffolk Agreement”), no tipping fee is being charged to Suffolk for the following types of uses: (1) disposal at the Regional Landfill of solid waste collected and delivered in City of Suffolk vehicles; and (2) disposal at the Regional Landfill of solid waste collected within the City of Suffolk by municipal contractors operating under contract with the City of Suffolk. The Suffolk Agreement also addresses the terms and conditions for the use of the property in the City of Suffolk as the Regional Landfill.

On June 26, 2002, the Authority and the City of Suffolk signed an amendment to the original Suffolk Agreement (the “Amended and Restated Agreement”) which includes, but is not limited to, the following provisions:

- The agreement shall terminate in January 2018.
- The Authority will modify its access to U.S. Route 58 pursuant to specific requirements in the agreement. This route is used by vehicles carrying solid waste to the Regional Landfill.
- The maximum permitted height of the Regional Landfill will be 220 feet above mean sea level.

- The City of Suffolk agrees to deliver or cause to be delivered substantially all of the solid waste generated in the City.
- The City of Suffolk shall not be required to pay a disposal fee for its disposal of solid waste collected within the City that is delivered to the Regional Landfill or to any transfer station operated by the Authority at the Landfill site: (a) by the City-in-City vehicles or (b) by municipal contractors operating under contract with the City of Suffolk.
- Upon completion of construction of the Suffolk Transfer Station, general users may be required to pay the same tipping fees charged to other users of the System.
- The Authority shall maintain an Environmental Protection Trust Fund, which was initially funded with $50,000, with additional annual contributions of $5,000. The trust fund shall remain in existence for a period of 30 years after the cessation of operations at the Regional Landfill.

On December 22, 2005, the Authority and the City of Suffolk executed a first amendment to the Amended and Restated Agreement (the “First Amendment”). The First Amendment addresses the disposal of “Disaster Waste” which followed Hurricane Isabel in 2003 and provides that the City of Suffolk agrees not to dispose of Disaster Waste (as such term is defined in the Suffolk Amendment) at the Regional Landfill or at any transfer station operated by the Authority so long as other Member Communities do not dispose of Disaster Waste at these facilities.

On September 5, 2007, the City of Suffolk signed a second amendment to the Amended and Restated Agreement (the “Second Amendment”) that includes, but is not limited to the following:

- An acknowledgment that various improvements required to be constructed under the Amended and Restated Agreement have been completed.
- Provisions requiring the construction of two transfer stations in the City of Suffolk as a condition for disposing of waste in Cell VII.
- A deletion of all of the provisions in the Amended and Restated Agreement regarding the Authority’s obligation to Suffolk regarding site closing and conveyance of closed landfill property to Suffolk.

The Second Amendment further provides that if the Board elects by Resolution not to construct Cell VII, the Second Amendment shall be null and void.

The Ash Disposal Agreement

The Authority entered into an agreement (the “Ash Disposal Agreement”) with Virginia Beach, dated August 5, 1984, for the disposal at Mt. Trashmore II or a successor landfill (the “Virginia Beach Landfill”) of: (1) ash from the Navy’s Power Plant; and (2) residue from the operation of the trommels and other equipment of the RDF Plant. Included among the terms and conditions of the Ash Disposal Agreement are the following:

- The agreement shall remain in effect until December 31, 2015; however, the agreement shall terminate in the event the capacity of the Virginia Beach Landfill is reached and Virginia Beach cannot provide an alternative landfill.
- For the disposal services provided by Virginia Beach, the Authority shall pay Virginia Beach the reasonable costs incurred by Virginia Beach in operating the Virginia Beach Landfill, less all fees received by Virginia Beach from other sources for disposal of solid waste there. Additionally, the Authority is required to pay to Virginia Beach an adjustment based upon the excess of the average tipping fee paid by Virginia Beach over a calculated rate for each year as shown on Exhibit B to the agreement. This payment has resulted in Virginia Beach's tipping fee being capped.
- Virginia Beach will charge all persons and entities, other than the Authority and Virginia Beach, not less than the tipping fee which the Authority charges non-municipal entities and contractors for the disposal of waste at the facilities of the Authority.

The Navy Contract

Since the initial execution of the Navy Contract on July 24, 1984, the Authority and the Navy have renegotiated a series of amendments to the Navy Contract. The most significant modification to date involved the transfer of ownership of the Power Plant from the Navy to the Authority. Such transfer was undertaken pursuant to an amendment dated July 1, 1999 to the Navy Contract. Included among the provisions of the amendment are the following:

- The Authority is permitted to sell steam or other services to other customers.
- The Authority shall install and place into service a back-up boiler system which will be capable of providing no less than 100,000 pounds per hour of steam.
- The Navy agrees to consume all electricity produced by the Power Plant up to the demand of the connected station loads.
- The Navy shall provide the Authority the use of the Navy-owned electrical distribution system for the purpose of delivering electrical power to third parties.
- The Navy shall purchase no more than 1,000,000,000 pounds of steam per year ("Maximum Steam Purchase") without the Authority's prior consent.
- The Navy's peak steam demand shall not exceed 320,000 pounds of steam per hour without the prior consent of the Authority.
- The Navy shall take delivery from the Authority of all steam required to meet its steam loads.
- The Navy shall have the right to terminate the Navy Contract without cause. In such an event, the Navy shall satisfy with the Trustee all of the "Debt Service Requirement" (as defined in the Navy Contract) as of the effective date of termination and in addition shall pay to the Authority normal convenience

termination costs. The amount to satisfy with the Trustee all of the Debt Service Requirement shall not exceed $98,500,000 or the amount of the Debt Service Requirement plus termination costs, whichever is less.

- If the Navy terminates the Navy Contract and pays the Debt Service Requirement, the Authority shall transfer ownership of the Power Plant back to the Navy.
- The Navy's monthly payment for steam service is the sum of the following:

  Fixed Steam Payment + Variable Steam Payment
  where
  Fixed Steam Payment = $385,700 x Escalation Factor
  Variable Steam Payment = Variable Rate x (Ending Steam Meter Reading – Beginning Steam Meter Reading)
  Variable Rate = $1.50 x Escalation Factor

- The Navy will make monthly payments to the Authority for electric service. The Navy will pay the Authority an estimated monthly electric service payment equal to a value agreed upon by the Navy and the Authority, as adjusted. The payment for electric service will include both an estimated quarterly amount and an adjustment for the actual calculated cost of electricity based upon actual performance and consumption. This clause is no longer relevant as the Authority sells all of the net electricity production of the Power Plant to the electric grid and the Navy purchases electricity from the local electric utility.

In addition to the modifications to the Navy Contract made in July 1999, the Navy also executed a Quitclaim Deed; a Grant of Easement which provides the Authority the right to use the site of the Power Plant for a 50-year period; and a second Grant of Easement by the Navy to the Authority with 50-years of access to the site of the RDF Plant.

The WTE Transaction includes the novation of this contract to Wheelabrator.

Navy Contract for Waste Disposal Services

The Authority executed an agreement dated June 24, 2006 with the Navy for waste disposal services. The terms and conditions of such agreement include, but are not limited to, the following:

1. The agreement has an initial term of one year. The Navy has the option to extend the contract for an additional four years. The Navy has exercised its extension rights through June 28, 2010.
2. The Navy will deliver two types of solid waste:
   a. Processible Solid Waste – this refers to solid waste that can be processed at the RDF Plant for use as fuel.
   b. Non-Processible Solid Waste – this refers to solid waste that cannot be processed into fuel such as appliances, rope, wire, large metal objects, etc.

Non-Processible Solid Waste is to be delivered to specified transfer stations or to the Regional Landfill.

3. The Navy will pay the following tipping fees shown in Table 4-1.

Table 4-1
Navy Tipping Fees

Fiscal Year Ending June 30,	Processible Waste ($/Ton)	Non-Processible Waste (1) ($/Ton)
2009	31.46	67.42
2010	33.35	71.47
2011	35.35	75.76

(1) The Authority cannot charge the Navy a tip fee greater than the then current commercial tipping fee which is currently $60.00.

Commercial Disposal Contracts

In January 2008, the Board of Directors voted to terminate its Commercial Disposal Contracts with commercial haulers operating in the Authority's Service Area effective as of January 31, 2009. As discussed elsewhere in this Report, these contracts were terminated in the anticipation that flow control ordinances would result in the delivery of waste by these haulers. The Authority subsequently determined that flow control would not result in the delivery of all commercial waste at tip fees equal to the Municipal Tipping Fee and decided to negotiate new contracts with commercial haulers. In December 2008, the Authority executed Solid Waste Delivery Agreements with the following eight commercial haulers:

- TFC Recycling
- Waste Industries
- RDS
- Meeks
- Bay Disposal
- Allied Waste Disposal
- Alliance Waste Disposal
- All Virginia Environmental Solutions

The Solid Waste Delivery Agreements allow the haulers to deliver waste from areas of Virginia outside the SPSA Service Area and the North Carolina Counties of Currituck, Dare, Camden, Gates, Pasquotank or Perquimans.

The WTE Transaction includes the assignment of these contracts to Wheelabrator.

Electricity Sales Agreement

The Authority executed an Agreement for the Sale of Electrical Output to the Virginia Electric and Power Company (the “Electricity Sales Agreement”) dated as of July 1, 1999. The Electricity Sales Agreement sets forth the terms and conditions pursuant to which the Authority sells power to Dominion Virginia Power.

In October 2006, the Authority and Dominion Virginia Power executed the Amendment and Restatement of the Agreement for the Sale of Electrical Output to Virginia Electric and Power Company (the “Amended Power Sales Agreement”).

On April 30, 2007, the Authority and Dominion Virginia Power executed an additional Amendment and Restatement of the Agreement for the Sale of Electrical Output to Virginia Electric and Power Company (the Second Amendment). The Second Amendment terminated on July 31, 2008.

The Authority entered into an ISA with PJM and Dominion Virginia Power for connection to the electrical grid which results in the Authority having greater flexibility in selling the electric power it produces. Effective August 1, 2008, the Authority began selling electric power to the AEP.

The WTE Transaction includes the assignment of the Electricity Sales Agreement to Wheelabrator.

Introduction

For many years the Authority undertook a major program of capital projects for the Disposal System. In recent years capital projects have centered primarily on the expansion of the Regional Landfill and the capital maintenance of existing facilities. With the planned sale of the WTE Facilities, and the expected reduction of waste flow to the Regional Landfill, the Authority expects capital project expenditures will be lower in the coming years as compared to prior years.

The System

A summary of the currently operating major facilities is presented in Table 5-1.

Table 5-1
Disposal System Components

	Design Capacity (Tons/Day)
Regional Landfill	Not Applicable
Chesapeake Transfer Station	500
Norfolk Transfer Station	1,300
Franklin Transfer Station	150
Boykins Transfer Station	50
Ivor Transfer Station	30
Isle of Wight Transfer Station	150
Landstown Transfer Station	1,300
Oceana Transfer Station	500
Suffolk Transfer Station	500
RDF Plant	2,000

All components of the System are currently in operation.

Capital Budget Funding Strategy

In fiscal year ending June 30, 2007 ("FY2007"), the Authority staff modified the capital budget funding strategy by planning to use operating revenues to fund a significant portion of the capital improvements. For the previous 22 years, most of the capital improvements to the System were funded through the issuance of long-term, tax-exempt and taxable revenue bonds.

The Authority reports that future capital expenditures shall be funded from operating revenues exclusively.

Fiscal Year 2010 Capital Improvements and Equipment Replacement

The 2010 revised budget contained $7,866,831 in capital improvements and equipment replacement for the Non-WTE System. The Authority projects that only $1,745,127 will be expended during FY2010. The following factors were the most significant factors resulting in the reduced level of capital expenditure:

- Delayed expenditures related to the development of Cell VII
- Deferred purchase of road tractors and MSW trailers
- Deferral of Oceana Transfer Station projects and equipment replacement

Future Capital Improvements and Equipment Replacement

On February 24, 2010, the Authority staff submitted its Draft Budget to the Board of Directors. The Draft Budget included a five-year capital improvement and equipment replacement plan. The plan included expenditures for the Regional Landfill, fleet maintenance, transfer vehicles, the transfer stations, the tire program, the household hazardous waste program and the white goods program. Over the next five years, the Authority has projected the levels of capital expenditure presented in Table 5-2.

Table 5-2
Five-Year Projected Expenditures

Fiscal Year	Planned Capital Expenditure
2011	$8,256,600
2012	$4,444,600
2013	$1,773,700
2014	$1,480,700
2015	$349,200

Section 6
MAINTENANCE AND OPERATION OF THE SOLID WASTE MANAGEMENT SYSTEM

Introduction

For the purposes of this Report, we have categorized the Authority's solid waste management assets and programs into two distinct systems. The "Solid Waste Management System" includes: the Subtitle D Regional Landfill, nine transfer stations, a ferrous metal recovery facility, a landfill gas collection/electrical generating facility, a tire shredding operation, a household hazardous waste collection program, a petroleum contaminated soils remediation facility, a curbside collection of recyclables program, and a series of drop-off locations for recyclable material and the maintenance of rolling stock and mobile and heavy equipment. The WTE Facilities consist of the RDF Plant and the Power Plant. The Authority has worked to assure that both Systems are operating and performing their principal function of managing the solid waste of the Member Communities.

As part of the preparation of this Report, a representative of R. W. Beck visited the Solid Waste Management System in March 2010 and met with representatives of the Authority, for purposes of reviewing the operation and condition of the Solid Waste Management System. The principal observations and findings are discussed below.

Transfer Stations

At the time of R. W. Beck's site visit, all of the Solid Waste Management System's transfer stations were in operation. Overall, the amount of solid waste delivered to the transfer stations in FY2009 was 842,221 tons, down 61,054 tons from FY2008. The Authority indicated that a portion of the reduction is attributed to Waste Management Inc. no longer delivering commercial waste from Virginia Beach and other areas within the Authority's service area to Authority facilities, such as the Norfolk and Oceana Transfer Stations. Waste Management Inc. has been direct hauling filled containers to their Big Bethell Landfill in Hampton, Virginia.

In most cases, the transfer stations are being operated within design capacities, except for unusually heavy days or during peak periods. The Authority reports that all transfer stations are operating adequately with regard to capacity. Implementation of drop and hook procedures at some facilities has allowed the continued operation without undergoing major facility improvements.

The Authority continues to contract with First Tee Transport, a private hauling company, to haul trailers from the Chesapeake, Isle of Wight and Franklin Transfer Stations, thereby, reducing the amount of overtime required by Authority drivers.

However, Authority staff indicated that First Tee Transport is having difficulty providing the level of service the Authority anticipated, which is requiring the Authority to take on a portion of First Tee's work. First Tee is in the final year of a five-year contract with the Authority.

Based on our visual observations, review of operating records and discussions with Authority staff, we are of the opinion that the Authority's transfer stations are being properly operated. Given the Authority's current financial situation, some facility maintenance, which is not currently impacting facility operations, continues to be deferred. However, necessary repairs are being evaluated by Authority staff. Implementation of such repairs will take place pending approval and funding allocation. Where possible, Authority employees are completing repairs and improvements to reduce costs. The repairs and improvements are typically cosmetic or based on skill sets and availability of existing staff to perform.

The dedication of the supervisory and operating staff appears to remain reasonably high given the recent financial challenges of the Authority. Facility supervisors reported that staff continue to work hard and do quality work. However, staff continue to be concerned about the unknown future of the Authority. Some reductions in station operating staff have occurred during the past year to reduce operating costs in light of reduced tonnages handled at each facility.

During our site visit, station personnel identified desired capital improvements which have been previously discussed with Authority management, most of which are currently scheduled or budgeted, or being considered in future fiscal years as part of the updated five-year budget which is scheduled to be reviewed within the next few months.

Due to the financial position of the Authority, major improvements scheduled for completion in previous years have been rescheduled or cancelled altogether. However, at the time of our site visit, none of the nine transfer stations appeared to be suffering operationally from lack of repairs. The Authority continues to use operating budgets for minor repairs, as needed and in-house labor to complete certain types of work (e.g., painting and tile work in office/employee buildings).

Norfolk Transfer Station

The Norfolk Transfer Station, with a design capacity of 1,300 TPD, continues to be the busiest station in the Solid Waste Management System. It is capable of loading three trailers at one time. It is an enclosed, top load facility with compaction accomplished by use of a mobile crane. The facility accepts waste Monday through Saturday and a half-day on Sunday. The tonnage received in FY2009 is down approximately 15 percent from the previous year. This station continues to operate 24 hours per day in order to facilitate the transfer of waste during nighttime hours to the RDF Plant. The facility is open ten hours per day for waste receipt.

Norfolk is generally in a good state of repair. During FY2008, the Authority completed Phase I of a planned three phase tipping floor resurfacing project. The Authority reported that Phase II has been awarded but that the contractor is in the process of obtaining appropriate bonding. The project, originally scheduled for an April 30, 2010 completion, prior to the increase of tonnages which occur starting in spring, is in jeopardy of being delayed as the full tipping floor will be needed. Replacement of both in-bound scales have been completed, the second of which occurred during the past year. The outbound scale, which was delivered over a year ago, continues to be stored on site for future installation. The Authority did not indicate when this work would be completed but that it was included in the proposed budget for the upcoming year. The facility previously received an electrical system upgrade to accommodate more tipping floor lighting. Other than the replacement of a few light ballasts, no other work appears to have occurred to date. A few lights were not working during the site visit. This facility has the least lit tipping floor of all the stations.

During the site visit, it was observed that the transfer building tipping floor level exit door frame and adjacent block wall had been damaged. The station supervisor indicated that one of the facility's equipment operators hit the door during operations. The insurance company had been contacted for repairs.

Also during the site visit, some damage to the tipping walls was observed. The damage appeared to be surficial (not structural) in nature and was most likely caused by waste and equipment impact and abrasion during operations. This is typical for the station's level of service. A section of siding has been separated from the CMU wall at the rear of the building. The station supervisor indicated that the base plate needed to be rebolted to the foundation. Finally, covers for several of the exterior building lights were missing from the rear of the building and need to be replaced.

The Authority identified future work at the station to include armor plating of hopper No. 2 (eventually all three will be completed), repair to sections of damaged/rusted building siding and soffit, pressure washing and painting the siding (including the scale houses) and upgrade of the tipping floor lighting. Some building metal wall panels (siding) have been damaged from waste being pushed inadvertently over the push walls.

The drainage issue observed during the site visit in 2008 has not been resolved. Localized ponding of storm water runoff was again observed during this year's site visit. The ponding, near the in-bound scale facility along the site access road and access to the parking lot is prevented from draining to the on site drainage system due to a stockpile of soil material imported for construction of a drop and hook lot. This proposed project was subsequently determined by the Authority to not be needed for current operations. The Authority previously indicated plans of using Authority staff and equipment to re-grade the stockpile and remedy the drainage issue. A perforated drain along the edge of the access road that collected drainage for infiltration was crushed during delivery of the soil material. It is not yet clear whether the perforated drain will need to be replaced.

The Authority continues to operate the station on Saturday and Sunday afternoons serving only self-haul customers. The City of Norfolk pays the cost to operate the facility during these hours which reduces traffic on weekdays when commercial customers utilize the station. Self-haul customers significantly restrict tipping floor operations due to the time required to unload waste onto the tipping floor.

Landstown Transfer Station

The Landstown Transfer Station is a 1,300 TPD facility that contains three hoppers for loading, similar to the Norfolk Transfer Station. The station averaged 742 TPD in FY2009, an 11 percent decrease from the previous year. This station also operates 24 hours per day to facilitate waste transfer to the RDF Plant during night-time hours.

The Landstown Transfer Station remains in good condition. In FY2007, the Authority pressure-washed and painted the exterior of the transfer building; however, there is some evidence of paint chipping. It was noted during the site visit last year that the painting contractor did not use a primer; the Authority was trying to resolve this issue with the contractor. At the time of this year’s visit, the Authority reported that they were no longer actively pursuing a resolution with the painting contractor. Painting repairs have not been made. The condition of the exterior painting does not visibly appear to be getting any worse.

Several other improvements have been discussed for subsequent years including, but not limited to, resurfacing the entire tipping floor (which has not been resurfaced since it was installed but appears to remain in good condition compared to other facilities) and repairing damage to the top of the concrete hopper walls by capping them with welded metal armor plating. The Authority also plans to replace the inbound and outbound pit scales which have been in service since 1992.

The Authority relocated an on-site well resulting from the sale of approximately 1.8 acres to the rear of the transfer station site to the City for redevelopment. The area consisted of lawn and a wooded drainage channel.

Oceana Transfer Station

The Oceana Transfer Station averaged approximately 338 TPD in FY2009, a decrease of 9 percent from the previous year. This station has one hopper for transfer trailer loading. The Authority had planned in FY2008 to undertake a $2.5 million rebuild to replace the transfer building – expanding the tipping floor for increased temporary storage capacity and installing a pedestal crane for waste compaction, reducing the number of trips to the RDF Plant. The station rebuild has been postponed indefinitely.

Two large sections of wall panels and some roof panels, which fell off or were significantly damaged and removed during a summer storm in 2008, have not been replaced. The Authority had planned to replace all roof and wall panels. However, contractors, during the bid process, expressed concern regarding the condition of the structure steel and concrete foundations. The Authority is currently evaluating options for the station with their design consultant. The station supervisor indicated current plans involve replacing the steel superstructure on the existing foundation. Some foundation repairs would be required, including at the hopper where a metal chute would be added. Replacement of the superstructure would allow the Authority to bring the building into compliance with current codes.

Generally, the tipping floor appeared to be in moderate condition as some rebar is exposed near the front of the building.

During the site visit, station staff were repairing the roofing of the employee building which was damaged during a recent winter storm.

The Authority and DOT have an arrangement which allows the Authority the use of a vacated park and ride lot adjacent to the transfer station property as a drop and hook lot. As part of the agreement to use the lot, the Authority is required to maintain its condition. The Authority acknowledged working with the DOT to develop a long-term lease agreement for the property. The ability to obtain this agreement may impact plans for this facility.

Chesapeake Transfer Station

The Chesapeake Transfer Station operates with one hopper for transfer trailer loading. The average daily tonnage at this station decreased 6 percent to 518 TPD during FY2009. All waste from this facility is hauled by a private contractor - First Tee Transport.

Approximately two years ago, the drop and hook lot was repaved; however, large potholes and pavement damages were observed throughout the site, but primarily in the trailer parking area and near the tipping floor. Concrete pads were installed to reduce damage from staged trailers. Last year, the Authority reported that they are planning to repair the pavement and install additional trailer pads in the future. There is still some minimal pavement damage, but it does not appear to be impacting operations.

The Authority had planned to replace the inbound scale, but the existing scale is still low maintenance and, therefore, is not considered by the Authority to be a priority item. There are some building siding dents, typical for a transfer building of this age, but overall the building is in good condition. The Authority also plans to add an excavator and replace the sweeper and loader in future years.

Franklin Transfer Station

The Franklin Transfer Station is a three-person operation, including a full-time driver to assist with drop and hook. The tipping floor area is screened with only fabric chain link fence; it does not include a building enclosure. Waste deliveries to this station decreased by about 3 percent to a daily average of 84 tons during the past fiscal year.

The station is generally in good operating condition. Steel rails installed in the tipping floor three years ago to protect and extend its useful life were significantly exposed. During the past year, the Authority completed resurfacing of the tipping floor. Other facility improvements included replacing the flooring in the on-site office building, which had become a tripping hazard.

Building improvements planned for previous years have still not been completed, including screen repairs (to the chain link fabric) and sandblasting/repainting of the hopper and structure. The Authority has previously indicated that the improvements were maintenance and, therefore, capital funds could not be used. Authority staff now indicates that the work is considered a capital project. The Authority plans to rebid the work.

The Authority plans to perform some repair work on the hopper before the end of the current fiscal year. In addition, the station supervisor noted that the trailer parking area needs to be extended to accommodate longer trailers that are now being used at this facility. The station supervisor indicated that this could be accomplished with crushed rock for surfacing and staff labor and in-house equipment. The turning radius of on-site access roads needs similar improvements to accommodate the longer trailers.

Isle of Wight Transfer Station

The Isle of Wight Transfer Station is the Authority's only facility that uses a front-end loader to lift waste into the transfer vehicles. At all of the other transfer stations, the waste is pushed over the floor, falling into the trailers. At the Isle of Wight Transfer Station, the sides of the trailers are approximately 4 feet above the tipping floor. The average daily tonnage increased by 14 percent in FY2009 to about 96 TPD.

There were no major improvements at this transfer station during the past year. The Authority has been planning to sandblast and repaint the building interior and exterior due to some peeling paint on structural members. Wall panels at the rear of the building are also dented as a result of waste spilling over the trailer during loading. The tipping floor showed reasonable wear for its age and station throughput at the time of the site visit.

The major capital expenditures planned for this facility in upcoming years involve replacing or purchasing new equipment. During a previous site visit, the station supervisor expressed interest in higher push walls to increase temporary storage capacity on the tipping floor.

Suffolk Transfer Station

The Suffolk Transfer Station, located near the entrance to the Regional Landfill site, allows the Authority to divert additional waste from the Regional Landfill to the RDF Plant, thereby extending the remaining life of the Regional Landfill. Operation of the Suffolk Transfer Station began in April 2005. The facility is of similar size to that of the Landstown Transfer Station and is designed for 53-foot long trailers, although it only has two hoppers for loading transfer trailers. The facility is open Monday through Friday and for a half-day on Saturdays. The station averaged 246 TPD in FY2009, an increase of 2 percent from the previous year.

This facility is maintained in excellent condition. The tipping floor is cleaned everyday after closing and washed down every Saturday. As observed during the previous site visit, the building siding near the parking lot/personnel entrance was rusted near ground level, most likely caused by irrigation for planting beds. No repairs have been made.

Ivor Transfer Station

The 50 TPD Ivor Transfer Station is located on U.S. Route 460, 1 mile east of the Town of Ivor and is used primarily for self-haul disposal. Southampton County collection vehicles are also permitted to use the facility. Waste is deposited directly into two top-load roll-off containers. Southampton County collection vehicles use the compactor which is located behind a locked gate. There is no tipping floor or transfer building.

The average daily tonnage in FY2009 was about 4 TPD; which is essentially the same as the prior year. To restrict haulers from North Carolina and local businesses using this facility and to prohibit illegal dumping, Southampton County provides a site attendant during operating hours. The Ivor Transfer Station is open three days per week - Wednesday, Friday and Sunday. The Authority's operating staff from the Isle of Wight Station continues to inspect this station, operate the compactor, and provide grounds maintenance and litter control. Waste containers from this station are taken by an Authority's Recycling Department driver to the Isle of Wight facility where the waste is reloaded into transfer trailers and hauled to the Regional Landfill for disposal.

The Authority still plans to install leachate facilities at this site to collect drainage from the compactor. Leachate is currently being collected by a drip tray and straw bales are placed around the compactor base.

Boykins Transfer Station

The Boykins Transfer Station is similar to the Ivor Facility. It is now also staffed by Southampton County personnel and operated three days per week on Tuesday, Thursday and Saturday. The Authority's operating staff from the Franklin Transfer Station services this facility.

In FY2009, the daily average tonnage was approximately 4 TPD, which represented a 10 percent decrease in the total tonnage received at the facility. Approximately once per week, waste from this facility is transferred to the Franklin Transfer Station by the Authority's Recycling Department, where it is placed in transfer trailers and hauled to the Regional Landfill. Based on observations during our site visit, the grounds appear to be well maintained.

Based on interviews with each of the station managers during our site visit, Authority management appears to be aware of all of the repairs and replacements that have been identified as required to help maintain the operation of the facilities. Authority management is closely monitoring the situation at each facility. Necessary repairs and replacements are being evaluated by Authority management and completed when funds are allocated. Also, Authority employees will be used to undertake repairs and maintenance where feasible. Based on the current budget constraints the Authority is facing, we are of the opinion that this is a prudent approach for the short term.

Information on historical waste deliveries to the transfer stations is presented in Table 6-1.

Table 6-1
Waste Quantities Received at Transfer Stations
(Fiscal Year Ended June 30)

Transfer Station	Design Capacity (TPD)	2005 Total Annual (Tons)	2005 Daily Average [(1)] (TPD)	2006 Total Annual (Tons)	2006 Daily Average [(1)] (TPD)	2007 Total Annual (Tons)	2007 Daily Average [(1)] (TPD)	2008 Total Annual (Tons)	2008 Daily Average [(1)] (TPD)	2009 Total Annual (Tons)	2009 Daily Average [(1)] (TPD)
Norfolk	1,300	304,116	1,063	289,318	1,012	288,699	1,009	274,562	960	232,642	813
Oceana	500	126,282	442	127,525	446	120,213	420	106,412	372	96,622	338
Chesapeake	500	161,164	564	164,815	579	159,168	557	158,210	553	148,159	518
Isle of Wight	150	32,881	115	31,603	111	36,115	126	31,831	111	27,464	96
Franklin	150	32,740	114	31,276	109	28,018	98	24,643	86	23,910	84
Boykins	50	1,189	8	1,237	8	1,027	7	727	5	653	4
Ivor	50	1,708	11	1,618	10	1,278	8	702	5	698	4
Landstown	1,300	246,189	861	249,196	871	251,373	879	237,385	830	212,118	782
Suffolk	500	9,170	180	57,715	202	65,290	228	68,803	240	70,385	246
Total		**915,169**	**3,200**	**952,303**	**3,330**	**951,181**	**3,326**	**903,275**	**3,165**	**842,221**	**2,882**

(1) Based on 5.5 days per week; 286 operating days per year, except Boykins and Ivor which operate 3 days a week.

Operating Records and Programs

The Authority continues to maintain its records in an excellent manner. They are readily retrievable and available for reference.

1. Daily Reports – Daily operating data such as waste type, vehicle identification, weight, and charges are entered into a computer at each transfer station. The computer transmits (via phone line) to the main computer at the RDF Plant. We noted that all staffed transfer stations are currently upgrading network connections through the local cable service for faster data transfer.

2. Monthly Reports – Monthly records are being kept which show actual and budgeted expenditures. Monthly tonnages and waste types are also summarized.

   The actual transfer station operating costs, excluding transportation of waste, depreciation, financing, and administration, expressed on a per ton basis, for the past five fiscal years are presented in Table 6-2.

Table 6-2
Five-Year Historical Operating Costs of the Transfer Stations

Transfer Station Location	2004/2005 ($/Ton)	2005/2006 ($/Ton)	2006/2007 ($/Ton)	2007/2008 ($/Ton) (1)	2008/2009 ($/Ton) (2)
Suffolk	2.22	6.58	4.65	10.29	4.92
Norfolk	2.89	3.20	2.92	10.30	4.51
Chesapeake	2.94	3.02	2.79	9.83	8.46
Franklin	4.51	5.99	6.01	22.41	18.49
Ivor	4.54	3.95	4.89	11.01	9.23
Boykins	5.13	7.65	6.63	8.43	13.45
Isle of Wight	5.66	5.88	6.16	17.62	18.00
Oceana	2.73	3.20	2.97	11.18	4.64
Landstown	3.21	3.37	3.05	9.67	4.90

(1) Reported costs for facilities increased significantly from previous years based on a decrease in tonnages processed at each facility and the assignment of drivers and transfer trailers to station operations.
(2) Reported costs for facilities decreased significantly from prior year as costs were reduced to match reduced tonnages.

3. Construction Budget – The Authority maintains records showing capital expenditures for the individual transfer stations.

4. Safety Administration – The Authority maintains an active, internal safety program which includes safety training and safety inspection.

5. Industrial Permit Program – The Authority continues to serve the industrial customer by use of a permit process which enables the Authority to review a waste and determine its acceptability at the Regional Landfill. Hazardous

waste is not accepted by the Authority, and four inspectors monitor and sample vehicles on a random basis to ensure compliance.

6. Recycling Program – The recycling program is discussed in greater detail later herein.

7. Environmental Management – The Environmental Management Department coordinates with governmental agencies having jurisdiction over the Authority to ensure compliance with environmental regulations.

8. Household Hazardous Waste – The household hazardous waste program consists of permanent collection facilities at the Regional Landfill, the RDF Plant, and the Chesapeake, Oceana, Norfolk, Landstown, Isle of Wight and Franklin Transfer Stations. The service is strictly for residential use. The Authority's solid waste inspectors operate the household hazardous waste program. Several transfer station operators are also trained to operate this program. The Authority has a contract with a private company to remove and properly treat the waste.

9. Operations Manuals – The Authority has completed detailed operations manuals for each of the transfer stations, as well as for all permitted facilities in the Solid Waste Management System. Each manual provides information about station functional arrangement and throughput capacity; emergency and contingency plans; routine inspection plan; and closure.

Maintenance of the Transfer Stations and Transfer Vehicles

The equipment maintenance schedule and record keeping system is computerized. The system produces schedules and records of maintenance work and maintains a parts inventory and purchase record. The vehicle maintenance department uses the same maintenance/accounting software program that the rest of the system uses (the "SAP" program). The Regional Office Building, Power Plant, RDF Plant and vehicle maintenance facilities all use the SAP program. Only the scale house software is not SAP.

The Regional Landfill

The Authority began disposing of solid waste at the Regional Landfill in January 1985. Presented in Table 6-3 is a summary of waste quantities reported to have been disposed of during the last five calendar years at the Regional Landfill. Based on this historical data, the cumulative average in-place density of solid waste is reported to be approximately 1,733 pounds per cubic yard since Cell V operations began in May 2000. The figures in Table 6-3 include provision for the residue ash which was deposited in the Regional Landfill. The Authority estimates that during calendar year 2009 (through October), the Regional Landfill accepted a total of 506,305 tons of waste consisting of MSW, C&D and ash.

Table 6-3
Summary of Waste Disposed at the Regional Landfill (1)

	Total for Period (Tons)	Average Per Day (2) (Tons)	Cubic Yards (3)
January – December 2004	737,700	2,579	1,109,268
January – December 2005	885,732	3,097	719,026
January – December 2006	675,533	2,362	830,541
January – December 2007	1,225,405	3,928	1,755,288
January – December 2008	1,014,967	3,253	1,368,062
January – October 2009	506,305	1,618	240,400

(1) Source: The Authority.
(2) For 2005 and 2006, based on 5.5 days per week; 286 operating days per year. Based on 6.0 days per week in calendar year 2007 through 2009.
(3) Includes daily and intermediate soil cover. Variation in cubic yards due to annual changes in compaction, settlement and soil cover.

Expansion of the Regional Landfill

Since 1988, the Authority has been involved in a continuous effort to obtain additional landfill space for the Solid Waste Management System. The efforts have included obtaining permits for both vertical and horizontal expansions of the Regional Landfill, attempting to find additional landfill sites in the Service Area, conducting environmental reviews of additional land adjacent to the Regional Landfill, and reviewing disposal options at privately owned landfills. In addition, the Authority has constructed a bulky waste shredder at the RDF Plant which has further reduced the amount of material being landfilled. Set forth below is a brief discussion of the current status of the Authority's efforts to secure additional disposal capacity for the Solid Waste Management System.

The Authority completed construction of Phase I of Cell VI in Spring 2006 and began placing waste there in May 2006. Construction of Cell VI, Phase II was completed in December 2007. Based on an historical in-place density of 1,640 pounds per cubic yard and the 2009 12-month average disposal rate of 51,238 tons per month (614,853 TPY), the Authority anticipates that the 38-acre Cell VI, including the airspace between Cells V and VI, will extend the useful life of the Regional Landfill to March 2017. As a result of the WTE Facilities sale, the Authority expects that the average disposal rate at the Regional Landfill will decline to approximately 100,000 TPY and as a result extend the site life well beyond the expiration dates of the Member Communities' Solid Waste Disposal Agreements in 2018.

The proposed Cell VII area is located east of Cell V. Cell VII occupies approximately 65 acres. If Cell VII is constructed, the Authority also plans to eventually fill the valley area created between Cells V and VII with additional solid waste; thereby creating a single contiguous landfill and further extending the site life. The area for Cell VII has been cleared. Soil materials are being excavated and used as daily cover for Cell VI operation.

Closure of the Regional Landfill

The Authority has completed closure construction of Cells I through IV. There is some minor repair work required to address erosion that has occurred prior to the establishment of a good stand of grass. The Authority reports that the contractor will return to complete this work when the weather permits.

Status of Permits for Expansion of the Regional Landfill

On October 25, 2002, the Authority received its Section 404 Permit from the U.S. Army Corps of Engineers (the "Corps") related to an expansion of the Regional Landfill onto land located adjacent to the Regional Landfill (the "Expansion Site"). The receipt of the 404 Permit culminated an effort by the Authority which began in 1988 when the Authority began its efforts to obtain additional landfill capacity. The Expansion Site was reduced from 525 acres which were considered in 1988 to 68 acres east of Cells I through IV. Twelve of those acres contain non-tidal wetlands. The Authority has developed a 98-acre mitigation plan, consisting of a combination of restoration of upland forest, wetland creation, and preservation of forested wetlands, to compensate for the loss of the 12 acres of wetlands.

Pursuant to regulatory changes which became effective in October 2001 the Authority also obtained a wetlands permit for the Expansion Site from the DEQ, which was issued on June 3, 2002.

Status of Permitting for Cell VII

Obtaining final approval in Virginia of a permit application for a new landfill cell requires a two-step process: (1) Part A involves an initial application to the DEQ that identifies the proposed site and provides preliminary design information and (2) Part B involves the submittal to DEQ of the final design drawings.

The Part A solid waste application for Cell VII was submitted by the Authority and was approved by the DEQ as of June 10, 2008. In addition, the Part B application has been submitted and has been deemed complete by DEQ. The Authority indicated that meetings with DEQ were occurring on the day of the site visit in regards to permitting of Cell VII.

In addition to receiving permit approval from DEQ for Cell VII, the Authority must also receive a Conditional Use Permit ("CUP") from the City of Suffolk for the two new transfer stations that are to be constructed in conjunction with Cell VII. In order to address concerns with truck traffic, the City of Suffolk requires that the new Northern Suffolk Transfer Station be operational when Cell VII is ready for commercial operation. While the Authority has considered five potential sites for the location of the Northern Suffolk Transfer Station, a final site selection has not yet been made. The Southern Suffolk Transfer Station must be operational within 18 months of the date that Cell VII becomes operational.

The Service Agreement with Wheelabrator requires Wheelabrator to dispose of any waste that is not processed by the WTE Facilities at a location other that the Regional

Landfill. As such the Authority's need for landfill space will be greatly reduced in the future and the need for a construction schedule for Cell VII is being reconsidered by the Authority.

The Authority continues to maintain similar type records at the Regional Landfill as it does for the transfer stations. Scales for weighing the waste are located at the Regional Landfill entrance and exit. Records include daily and monthly tonnages, types, and quantities of waste. The data compiled include the number of tires received, capital and operating budgets, leachate volumes and strength, safety records and inspection reports, risk assessment, and industrial permit records.

A permanent gas collection and utilization system has been installed by a private contractor. US Energy, under contract with the Authority, operates the gas facilities, including a 3.2 MW power plant using internal combustion engines to convert a portion of the landfill gas collected to electricity for sale. US Energy also installed a water knockout and 2.3-mile pipeline to sell gas to BASF (formerly CIBA Specialty Chemicals, Inc.), a company located adjacent to the west side of the Regional Landfill. Landfill gas not used to generate electricity is supplied to BASF and some is flared as a last resort.

Leachate treatment facilities, consisting of two lagoons (one each for aeration and sedimentation) at the north end of the landfill, continue to be operated on a fill and draw basis. Discharge is to the Hampton Roads Sanitation District ("HRSD"). The Authority reported that in 2008 the lagoons were drained and cleaned.

Other observations made at the Regional Landfill during the site visit include:

- The Authority is no longer using the alternate daily cover ("ADC") Posi-Shell© due to odor concerns. During the site visit, monitoring for odor around the landfill site migrating from the active face was ongoing.
- The Authority also uses shredded tires from the tire recycling plant as ADC and in down chutes.
- The Authority continues to contract for operation of the on-site petroleum contaminated soil ("PCS") remediation facility with Soilex. PCS is used for daily cover.

Landfill supervisory staff also indicated during the site visit that the Authority was looking at eliminating shifts and operating days at the Regional Landfill.

Estimated Useful Life of the Regional Landfill

The remaining useful life of the Regional Landfill is dependent on the following factors:

- The total amount of waste in the Service Area which is delivered to the System.
- Whether any out-of-area waste is accepted at the Solid Waste Management System.

- The amount of unprocessible waste generated in the Service Area and the ability of the bulky waste shredder to convert a portion of that material to processible waste. However, all unprocessible waste will be handled by Waste Management and disposed of at another facility.
- The in-place density at the Regional Landfill.
- The annual availability of the RDF Plant and the Power Plant.
- The amount of processible waste that is not capable of being handled at the RDF Plant and the Power Plant.
- The quantity of solid waste which has already been placed in the Regional Landfill.
- The quantity of material recovered by the recycling program.
- The amount of cover material used.
- The design capacity of the Regional Landfill.

As part of the preparation of this Report, we have reviewed the Authority's updated estimate of the useful remaining life of the Regional Landfill based on the estimates of the quantities of material which must be landfilled. The annual volume of material already placed in the Regional Landfill is measured by an annual topographic survey which has been performed by a series of engineers and surveyors (collectively, the "Surveyors") for the Authority. Since 1986, the Surveyors have calculated the volume of solid waste deposited in the Regional Landfill on an annual basis. The total volume for the last five calendar years is shown in Table 6-2.

The Authority estimates that, under the current level of operation of the Solid Waste Management System, of approximately 600,000 TPY of waste being landfilled, Cell VI will allow the life of the Regional Landfill to be extended to approximately March 2017, but this will depend upon the actual waste tonnages disposed. As a result of the potential sale of the WTE Facilities, the Authority expects that the average disposal rate will decline to approximately 100,000 TPY and as a result extend the site life well beyond the expiration dates of the Member Communities' Solid Waste Disposal Agreements in 2018.

Virginia Beach Landfill

Pursuant to the terms and conditions of the Ash Disposal Agreement between the Authority and Virginia Beach, as discussed in Section 4 of this Report, the Authority is contractually required to pay the net operating costs for the disposal of up to 300,000 TPY of ash and residue at the Virginia Beach Landfill. Historically the Authority has disposed of ash at both the Virginia Beach Landfill and the Regional Landfill. In FY2011, the Authority expects to dispose of 100 percent of the ash from the WTE Facilities at the Virginia Beach Landfill.

Recycling

The Authority began developing various recycling programs when it began operations in 1985. During the FY2009, the Authority recycled a total of approximately 40,402 tons of various wastes from its own programs, including curbside/drop-off yard waste and metals. More information about each of these programs is included below. The Authority is phasing out its provision of recycling services and such services will not be provided by the Authority in FY2011.

A total of 20,515 tons of material was collected for recycling in calendar year 2009. The following materials were currently collected as part of the fully-automated program:

- Clear, brown and green glass, bottles and jars
- All plastic bottles
- Newsprint, magazines, catalogues, and corrugated cardboard
- Aluminum cans, pie tins and foil
- Steel cans

In 1996, the Authority successfully negotiated a new contractual arrangement with Tidewater Fibre such that Tidewater Fibre would accept and process commingled materials from the Authority at no charge and share gross revenue from the sale of all materials. The Authority has been able to secure recycling markets for all of the collected materials as a result of signing the contract with Tidewater Fibre. The contract includes provisions for the processing and sale of all materials included in the contract for ten years. In 2003, a contract extension was executed for the single-stream material.

Business/Multi-Family Recycling

Following the completion of a pilot program in 1998 for businesses and multi-family units, the Authority officially established a fee for the service and began an aggressive marketing strategy to increase its customer base. Using 95-gallon, semi-automated containers, the Authority is currently providing collection services to approximately 300 customers. Creative routing and management skills have developed a collection system that integrates the business routes with the household curbside program. This has proven to increase collection efficiency and lower operating costs.

Yard Waste Program

The Authority discontinued the yard waste program in December 2008.

Tires

The Authority accepts tires in bulk at the Regional Landfill and also separates tires from the solid waste at all facilities. All tires are taken to the Regional Landfill where they are shredded or otherwise recycled. Shredded tires are used as ADC and for slope repairs at the Regional Landfill.

Ferrous Metals

As part of its overall recycling program, the Authority contracts with Bi-Metal Corporation ("Bi-Metal") to: (1) process the ferrous metals that are removed at the RDF Plant and (2) remove ferrous metal from the ash at the Power Plant.

Landfill Gas Recovery System

In October 1991, the Authority executed several contracts (the "Landfill Gas Agreements") with Suffolk Energy Partners LLC ("SEP") a wholly owned subsidiary of U.S. Energy Biogas Corporation ("U.S.E."), for the extraction, processing, and utilization of landfill gas generated at the Regional Landfill. SEP is currently owned by Biogas Energy Solutions, LLC. The 1991 contract was amended in December 1996 with additional amendments in November 1997, June 2000 and August 2000. Included among the terms of the various agreements are the following:

- The Authority leased to SEP a portion of the Regional Landfill that is being used by SEP for the operation of the gas-processing portion of the Landfill Gas Facilities.
- The term of the Landfill Gas Agreements is 20 years with provisions for renewal.
- The equipment that SEP installed at the Regional Landfill provides for the extraction of landfill gas and constituent products in commercial quantities and is intended to be a system that will assist the Authority in the control of emissions and migration of landfill gas.
- SEP pays the Authority a royalty equal to 10 percent of the gross proceeds received by SEP from the sale of constituent products for the first 15 years beginning in 1991 and 12.5 percent for the last five years beginning 2006. Pursuant to the June 2000 amendment, SEP also pays an incremental amount of proceeds to the Authority generated from emission reduction values.

The landfill gas recovery system began full operation November 17, 1994. The system includes gas collection wells strategically located throughout Cells I through V with temporary collection in Cell VI. In addition to the gas collection wells the system includes gas collection piping, a flare system, condensate drains and a 3.2 MW power plant using four internal combustion engines.

The Authority recently received and is reviewing an unsolicited Public-Private Education Facilities and Infrastructure Act proposal from SEP for new agreements that would extend the term, expand operations to Cells VI and VII as needed, and increase royalty payments.

Maintenance of Rolling Stock and Mobile Heavy Equipment

The maintenance of rolling stock is performed under the supervision of the Equipment Maintenance Superintendent. Authority personnel perform both preventive maintenance and repairs on all tractors, recycle trucks, trailers, wheeled loaders, and landfill equipment as required. Much of the loaders and heavy equipment are under warranty, as are a portion of the curb side and automated recyclables collection trucks. Trained Authority mechanics can and do handle all major engine, transmission, and rear-end work on the tractors and wheeled loaders. Major transmission repair work on recycle trucks is performed pursuant to contracts with private companies. There is a fixed-price contract in-place to manage all tire work for the tractor trailers and a flat rate contract for the wheeled loaders.

The fleet which was available during FY2009 included 60 tractors, 120 MSW trailers, 21 ash trailers, 24 curbside collection trucks, 6 roll-off trucks, 28 pieces of equipment at the Regional Landfill, 19 pieces of equipment at the RDF Plant, 12 pieces of equipment at the Power Plant, 34 wheeled loaders or other equipment at the transfer stations, approximately 44 pick-up trucks, 10 miscellaneous trucks (water trailers, flatbeds, dump trucks), yard tractors, and other necessary equipment. The side-dump ash trailers have worked out well, so the push-type trailers will continue to be phased-out of service. There are 7 pieces of equipment dedicated to the RDF operations area which are included in the 19 pieces mentioned above for the RDF Plant.

The Authority's staffing plan for the equipment maintenance activities remained relatively constant during FY2009 at a total of 31 approved positions. The maintenance department continues to make every effort to perform tasks in-house for cost savings. Such in-house tasks include recovering refrigerant, assembling hydraulic hoses as needed, performing all aluminum trailer repairs, and providing maintenance requirements at the tire shredding and yard waste composting sites.

During FY2009, the 25 recycle trucks totaled 32,228 hours, and logged 284,976 miles. These vehicles used 26,983 gallons of fuel for an average of 2.7 gallons per hour or 3.25 miles per gallon. Approximately $45,490 was spent on maintenance, and $13,923 was spent on tires.

The 60 tractors logged 1,429,681 miles during FY2009, consuming 346,978 gallons of fuel for an average of 4.1 miles per gallon. Maintenance costs were $309,645 while tire costs were $146,373.

For the 120 trailers that handle MSW, $113,470 was spent on maintenance and $124,498 on tires during FY2009 while traveling approximately 1.28 million miles.

The 21 ash trailers incurred $122,846 for maintenance expenses and $31,130 for tires during FY2009 while traveling approximately 142,968 miles.

At the Regional Landfill, 42,825 hours of operation for the 28 pieces of equipment consumed 172,415 gallons of fuel at a rate of approximately 4.03 gallons per hour. The cost of maintenance was $348,414, and $28,660 for tires.

At the RDF Plant, the 12 active pieces of processing equipment consumed 10,693 gallons of fuel in 5,504 hours, or 1.9 gallons per hour. The cost of maintenance was $44,210 and $5,878 for tires. The 7 pieces of RDF equipment on the tipping floor logged 12,232 hours of run time, consuming 79,789 gallons of fuel, costing $115,463 on maintenance and $456,367 on tires. Additional transportation moneys were spent on vehicles/equipment at the transfer stations, the Power Plant, and on the fleet of small pick-up trucks. Tables 6-4 through 6-7 summarize the cost for O&M of the rolling stock and heavy equipment for the last four fiscal years.

Table 6-4
Cost Summary
Fiscal Year Ended June 30, 2006

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	$0.132/mile	$0.470/mile	$0.085/mile	2,818,108 miles
MSW Trailers (2)	$0.096/mile	Not Applicable	$0.099/mile	2,000,856 miles
Recycle Trucks	$1.47/hour	$5.13/hour	$0.230/hour	35,767 hours
Landfill	$6.95/hour	$8.82/hour	$0.516/hour	36,124 hours
Transfer Stations (1)	$9.04/hour	$7.30/hour	$4.17/hour	33,122 hours
RDF Plant	$10.09/hour	$10.17/hour	$6.79/hour	23,808 hours
Ash Trailers (2)	$0.095/mile	Not Applicable	$0.079/mile	817,251 miles
Roll-Off Trucks	$0.236/mile	$0.36/mile	$0.043/mile	156,838 miles
Steam/Power Plant	$5.69/hour	$3.32/hour	$0.0/hour	14,152 hours
Yard Waste and Compost Landfill (3)	$19.31/hour	$7.99/hour	$0.406/hour	13,389 hours

(1) MSW and ash trailer mileage is estimated.
(2) Includes Norfolk, Chesapeake, Franklin, Isle of Wight, Oceana, Landstown and Suffolk Transfer Stations.
(3) The compost site was moved from Suffolk Landfill to the Virginia Beach Landfill and combined with the yard waste operation.

Table 6-5
Cost Summary
Fiscal Year Ended June 30, 2007

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	$0.191/mile	$0.491/mile	$0.103/mile	1,911,096 miles
MSW Trailers (2)	$0.113/mile	Not Applicable	$0.124/mile	1,337,760 miles
Recycle Trucks	$1.03/hour	$5.39/hour	$0.528/hour	34,302 hours
Landfill	$10.59/hour	$9.72/hour	$1.095/hour	36,895 hours
Transfer Stations (1)	$9.50/hour	$6.28/hour	$9.50/hour	36,461 hours
RDF Operations (4)	$17.29/hour	$14.39/hour	$23.16/hour	10,539 hours
RDF Processing (4)	$10.31/hour	$5.60/hour	$0.332/hour	12,608 hours
Ash Trailers (2)	$0.148/mile	Not Applicable	$0.062/mile	573,336 miles
Roll-Off Trucks	$0.080/mile	$0.374/mile	$0.055/mile	154,556 miles
Steam/Power Plant	$2.35/hour	$1.99/hour	$0.250/hour	16,514 hours
Yard Waste and Compost Landfill (3)	$21.43/hour	$10.65/hour	$1.083/hour	29,996 hours

(1) Includes Norfolk, Chesapeake, Franklin, Isle of Wight, Oceana, Landstown and Suffolk Transfer Stations.
(2) MSW and ash trailer mileage is estimated.
(3) The compost site was moved from Suffolk Landfill to the Virginia Beach Landfill and combined with the yard waste operation.
(4) The RDF Plant was separated into processing and operations work centers during FY2007.

Table 6-6
Cost Summary
Fiscal Year Ended June 30, 2008

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	$0.181/mile	$0.674/mile	$0.088/mile	1,694,786 miles
MSW Trailers (2)	$0.095/mile	Not Applicable	$0.098/mile	1,525,307 miles
Recycle Trucks	$2.74/hour	$7.52/hour	$0.457/hour	33,745 hours
Landfill	$9.62/hour	$13.45/hour	$0.651/hour	41,048 hours
Transfer Stations (1)	$11.40/hour	$8.30/hour	$11.56/hrou	36,600 hours
RDF Operations (4)	$12.67/hour	$17.47/hour	$35.12/hour	12,530 hours
RDF Processing (4)	$11.43/hour	$6.36/hour	$0.447/hour	10,684 hours
Ash Trailers (2)	$0.652/mile	Not Applicable	$0.347/mile	169,478 miles
Roll-Off Trucks	$0.179/mile	$0.485/mile	$0.084/mile	157,963 miles
Steam/Power Plant	$6.45/hour	$1.56/hour	$2.63/hour	17,256 hours
Yard Waste and Compost Landfill (3)	$19.03/hour	$15.26/hour	$2.776/hour	29,440 hours

(1) Includes Norfolk, Chesapeake, Franklin, Isle of Wight, Oceana, Landstown and Suffolk Transfer Stations.
(2) MSW and ash trailer mileage is estimated.
(3) The compost site was moved from Suffolk Landfill to the Virginia Beach Landfill and combined with the yard waste operation.
(4) The RDF Plant was separated into processing and operations work centers during FY2007.

Table 6-7
Cost Summary
Fiscal Year Ended June 30, 2009

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	$0.217/mile	$0.571/mile	$0.102/mile	1,429,681 miles
MSW Trailers (2)	$0.088/mile	Not Applicable	$0.097/mile	1,286,713 miles
Recycle Trucks	$1.41/hour	$6.20/hour	$0.432/hour	32,228 hours
Landfill	$8.14/hour	$9.46/hour	$0.669/hour	42,825 hours
Transfer Stations (1)	$8.83/hour	$6.57/hour	$12.56/hour	33,119 hours
RDF Operations (4)	$9.44/hour	$15.14/hour	$37.31/hour	12,232 hours
RDF Processing (4)	$8.03/hour	$4.43/hour	$1.07/hour	5,504 hours
Ash Trailers (2)	$0.859/mile	Not Applicable	$0.218/mile	142,968 miles
Roll-Off Trucks	$0.086/mile	$0.387/mile	$0.094/mile	158,230 miles
Steam/Power Plant	$2.38/hour	$3.24/hour	$0.17/hour	24,877 hours
Yard Waste and Compost Landfill (3)	Not Applicable	Not Applicable	Not Applicable	Not Applicable

(1) Includes Norfolk, Chesapeake, Franklin, Isle of Wight, Oceana, Landstown and Suffolk Transfer Stations.
(2) MSW and ash trailer mileage is estimated.
(3) Program was eliminated.
(4) The RDF Plant was separated into processing and operations work centers during FY2007.

Summary of Operation of Solid Waste Management System

The current overall operation of the Regional Landfill, transfer stations and rolling stock is satisfactory. Key personnel involved in the operation of the transfer stations, the Regional Landfill, and the maintenance area are qualified to perform their work, and they have been provided with the proper equipment and facilities to meet the Authority's objective of disposing solid waste in an environmentally sound and cost-effective manner. Maintenance of the rolling stock fleet has been adequate to meet the needs of the Solid Waste Management System. Based on our observations and reviews as described herein in Section 6, we are of the opinion that the Solid Waste Management System is currently being properly operated and maintained. We note that certain capital improvements to the Solid Waste Management System have been deferred due to financial constraints. Continued deferral could impact the ability of the Solid Waste Management System to effectively and efficiently perform its intended functions.

Section 7
MAINTENANCE AND OPERATION OF THE WASTE-TO-ENERGY SYSTEM

Introduction

In prior years, as part of the preparation of this Report, a representative of R. W. Beck visited the WTE Facilities and met with representatives of the Authority for purposes of reviewing the components of the WTE Facilities. Because the Authority expects to sell the WTE Facilities prior to May 1, 2010, the Authority determined that it would not be necessary for an R. W. Beck representative to visit the WTE Facilities. Therefore, our discussion of the WTE Facilities is limited to a comparison of certain reported annual performance and cost data. R. W. Beck is not able to offer any opinion regarding the current operation of the WTE Facilities.

The RDF Plant

The RDF Operations Manager and the WTE Maintenance Superintendent have the primary responsibility for operations and maintenance activities at the RDF Plant respectively. Both report to the Director of Waste to Energy. The FY2010 budget included 81 full-time positions within the RDF Plant, excluding the Director of Waste to Energy. We note that in some cases, such as the Maintenance Superintendent and Head Buyer, certain personnel also have duties at the Power Plant.

RDF Plant Performance

During the calendar year 2009, the RDF Plant processed 601,237 tons of MSW, and produced approximately 546,052 tons of RDF. It was reported that 398 tons of tires were processed during 2009.

The performance information provided by the Authority indicates that the RDF Plant appears to continue to operate satisfactorily and, since 1991, has demonstrated the ability to be operated at a nameplate capacity of 2,000 TPD of solid waste. The 2,000 TPD level has been reached repeatedly during the last five fiscal years.

The information presented in Table 7-1 is a summary of production data for the last five calendar years, obtained from records furnished by the Authority. On a calendar year basis, 2009 experienced a lower operating level than the 2008 level and similar to the 2007 level in terms of MSW processed.

Table 7-1
Production Data for RDF Plant
(Calendar Year)

	2005	2006	2007	2008	2009
RDF Yield	90.5%	88.9%	89.3%	89.9%	90.8%
RDF Delivered	649,065	583,549	540,451	584,254	546,052
Rejects to Landfill (1)	55,123	57,862	52,371	54,512	60,037
Ferrous Processed	12,743	13,040	12,218	10,488	9,985
Total MSW Processed	662,335	656,683	605,532	649,789	601,237
Total MSW Received (2)	717,459	780,817	747,267	765,791	661,274
Tires (tons)	n/a	499	492	533	398

(1) Removal of process residue discontinued in 2003.
(2) Total MSW received includes the MSW processed and the MSW diverted. The diverted amounts typically go directly to the landfill.

The Authority takes samples of the RDF in order to monitor the condition of the shredder hammers and to comply with the Commonwealth of Virginia regulations. The results of such analyses for the last five calendar years are presented in Table 7-2.

Table 7-2
Results of RDF Analysis

Category	2005	2006	2007 (1)	2008 (2)	2009
Percent by Weight, Less than 4 inches	90.1	91.7	93.2	89.9	89.8
Percent by Weight, Less than 1 inch	52.2	56.7	34.8	53.6	56.4
Density, lbs. cu. ft.	8.1	8.5	4.5	10.1	9.7
Percent Moisture	28.5	30.9	31.8	29.8	28.7
Percent Ash	11.2	12.9	14.6	14.2	12.7
Higher Heating Value, Btu/lb	5,078	4,653	5,023	4,693	4,829

(1) The reported results for 2007 vary from previous years as a result of a change in the sampling protocol used by an outside laboratory.
(2) For 2008, the Authority returned to the previous method of sampling.

RDF Plant Operations and Maintenance

Preventive maintenance and repairs are performed during all shifts. Major maintenance work on the process lines is conducted primarily during the day shift and, depending on the processing schedule, cleaning is performed primarily either on the night shift or on the weekends.

The SAP management system is utilized System-wide. At the RDF Plant, SAP utilizes a database of parts information, recommended PM programs, employee labor rates, and recorded work orders to develop information regarding maintenance functions. The major functions provided by the SAP include budget tracking, scheduling, maintaining equipment history files, work-order storage, and maintaining inventory control. The equipment histories can help to predict maintenance requirements prior to failures, which help to improve operations and maintenance planning. SAP also maintains labor hours (through card readers), parts cost information for budget reports, and communicates with the warehouse computer to assist in development of weekly reordering reports. The primary function of the SAP analysis is to maintain and update the information stored in SAP. SAP is also used for generating purchase orders, and for tracking those same items.

The Supervisors and numerous staff members are connected to a local area network ("LAN") with the ROB, the ROB "annex," and within the RDF Plant and the Power Plant. The Authority has upgraded computer systems over the past several years.

Summary of RDF Plant Operation

The RDF Plant is operated at capacity levels sufficient to process the quantity of solid waste received. The quantity of RDF that is produced is sufficient to allow the Power Plant to meet the steam demands of the Navy and offset a portion of the Navy's electrical needs, exclusively with RDF. RDF delivered to the Power Plant during calendar year 2009 was lower than in previous years due primarily to a reduction in boiler availability at the Power Plant. The Authority reports that the Power Plant burned approximately 564,000 tons of RDF compared to 584,000 tons during 2008 and 540,000 tons during 2007.

Power Plant

The Power Plant has been in commercial operation for approximately 23 years. It was originally operated by the Naval Civil Service. The Authority took over operations of the Power Plant in May 1990, and since that time RDF consumption has generally increased from 325,000 tons in 1995 to approximately 500,000 tons during 2000 through 2004 to a high of almost 650,000 tons in 2005. In 2008 the Power Plant consumed approximately 546,000 tons of RDF.

Numerous modifications have occurred since May of 1990, that are partially responsible for the steady increase in RDF consumption, such as changes to the RDF feed chutes, application of a protective weld overlay in the boilers, change-out of rotary valves on the fly ash removal systems, installation of new bottom and fly ash systems, additional feed system changes, and control system improvements. A list of recently completed or approved projects is presented below. The Authority has also undertaken a number of major modifications including a retrofit of the air pollution control systems, installation of a non-ferrous removal system, additional improvements in the ash handling systems, boiler modifications to reduce the level of carbon monoxide ("CO") emissions from the boilers and process modifications at the RDF Plant to increase the amount of RDF available to be burned. Each of the modifications has contributed to increased RDF consumption over the years. The Authority reports that total downtime of the boilers was approximately 25 percent during 2009, 16.2 percent was reported as scheduled, 8.4 percent was reported as unscheduled and 0.4 percent was reported to be due to lack of RDF. The amount of unscheduled downtime exceeds what we would normally expect to see for WTE facilities, even those of similar age to the Power Plant. We would consider a more appropriate level to be approximately 15 to 17 percent total downtime, of which 60 percent of that is scheduled (9 to 10 percent) and the remaining amount is forced downtime (5 to 6 percent).

We have discussed the reason for the reduced Power Plant throughput with representatives of the Authority. They advised that the Power Plant was experiencing difficulties achieving permitted CO emissions levels on a consistent basis. Operating at a reduced level of waste throughput also impacted the amount of electricity the Power Plant was able to generate during the last calendar year. The Authority reports that Wheelabrator is aware of the situation with CO emissions and that the matter has been contractually addressed as part of the WTE Transaction. If for any reason the WTE Transaction is not concluded, the Authority will have to address the CO emissions in order to increase solid waste throughput and energy generation.

Historical information on RDF consumption for the last five years is set forth in Table 7-3 below. The information in Table 7-3 is based on the conveyor data from the daily reports generated at the Power Plant. The “official” RDF delivered value is based on truck scale data from the RDF Plant and calculations based on the amount of materials removed from the process.

Table 7-3
Consumption of RDF by Power Plant (Tons) (1)

	RDF Delivered 2005	RDF Delivered 2006	RDF Delivered 2007	RDF Delivered 2008	RDF Delivered 2009
January	53,548	52,371	44,700	43,253	49,670
February	48,702	48,527	36,313	42,595	37,465
March	57,149	43,003	44,597	30,162	44,927
April	59,352	47,889	38,717	58,609	52,324
May	59,177	59,910	42,023	56,302	49,078
June	60,245	60,806	45,047	52,229	51,089
July	64,823	51,122	51,851	59,107	54,735
August	59,424	49,220	53,761	49,676	44,643
September	55,700	30,727	41,906	54,190	42,941
October	46,905	43,025	52,112	54,913	37,109
November	58,857	49,823	45,938	58,684	36,662
December	57,728	52,267	48,401	61,115	45,409
Total	681,611	588,693	545,366	620,835	546,052
Monthly Average	56,801	49,058	45,447	51,736	45,504

(1) Source: The Authority.

Performance data from the Power Plant is maintained on a daily basis by the Power Plant staff. Table 7-4 below summarizes the production/performance data for the last four years based on the reports prepared by the employees at the Power Plant. We have made no distinction between the "RDF Fired" and the "RDF Delivered," although there could be a small difference due to changes in pit inventory. Further, we have reported the "official" RDF delivered value, not the value based on the belt scales. After the Authority placed the RDF auger feed system into service, the weigh belts used for measuring the RDF Fired were no longer used for official reporting.

Table 7-4
Power Plant Production Summary

	2006	2007	2008	2009	Units
RDF Received	588,693	540,451	584,255	546,052	Tons
RDF Fired	588,693	540,451	584,255	546,052	Tons
Coal Fired	0	0	0	0	Tons
Oil Fired	388,553	358,367	309,870	371,934	Gals (1)
Boiler Availability	81.5	74.5	76.2	75.4	%
Steam Production	3,609,025	3,359,155	3,568,362	3,278,006	Klbs (2)
Steam Export	561,755	607,024	521,511	490,599	Klbs
Electricity Generation	248,880	237,248	257,090	220,406	MWh (3)
Electricity to RDF	11,065	11,833	12,303	11,559	MWh
Electricity Used-SPP	62,396	59,801	59,394	42,967	MWh
Power Sold	175,419	165,614	185,393	165,879	MWh

(1) Gallons ("Gals").
(2) 1,000 pounds ("Klbs").
(3) Megawatt-hour ("MWh").

Summary

R. W. Beck did not make a site visit to the WTE Facilities and, therefore, can offer no opinion regarding their current condition. A review of comparative performance data for the calendar year 2009 with similar data for previous years indicates that the annual solid waste processing capacity of the Power Plant and the attendant energy generation capability of the Power Plant were down in the last calendar year. Our discussion with representatives of the Authority indicate that such problems were associated with CO emission levels and the need to reduce the level of loading on the boilers so as not to exceed CO permit requirements. The Authority and Wheelabrator have reportedly addressed this matter as part of the WTE Transaction. In the event the WTE Transaction is not concluded, the Authority will have to address CO emissions in order to increase solid waste throughput of the Power Plant and the associated electricity generation.