ANNUAL SURVEY AND REPORT
AS OF
MARCH 1, 2011

REGIONAL
SOLID WASTE DISPOSAL SYSTEM

SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA
CHESAPEAKE, VIRGINIA

R·W·BECK
An SAIC Company

March 31, 2010

An SAIC Company

Via e-mail

Ms. Nancy Blodinger, Account Manager
U.S. Bank Corporate Trust Services
1021 East Cary Street
Two James Center - Suite 1850
Richmond, VA 23219

**Subject: Annual Survey and Report –
Southeastern Public Service Authority of Virginia**

Dear Ms. Blodinger:

Attached hereto is an electronic copy of the Annual Survey and Report on the solid waste management system owned and operated by the Southeastern Public Service Authority of Virginia. Unlike prior years, this report is only being provided as an electronic document.

If you should have any questions with regard to this matter, please call me at (407) 648-3571.

Very truly yours,

R. W. BECK, INC.

David Gregory
Senior Project Manager

DG/dt
Attachment

c: Roland Taylor (w/attach)
Liesl DeVary (w/attach)

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Annual Survey and Report of the Waste Disposal System

Southeastern Public Service Authority of Virginia

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Section 1
INTRODUCTION AND SUMMARY

Purpose and Scope of Report

This report (the "Report") is prepared by R. W. Beck, Inc. ("R. W. Beck") as of March 1, 2011, 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 on March 24, 2010 (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 November 25, 2010 by and between the Authority and R. W. Beck. R. W. Beck can offer no opinion regarding any matters discussed in the Report subsequent to March 1, 2011, except as specifically indicated in the report.

Significant Events During the Last Twenty-Four Months

In 2008, the Authority faced a number of financial challenges highlighted by decreased waste deliveries that resulted in reduced tipping fee revenues. The decrease in net operating revenues impacted the ability of the Authority to make debt service payments. At the time, the Authority identified a variety of reasons for the current financial challenges including the following:

- Downturn in the general economy resulting in decreased waste generation, and an overall trend in reduced waste generation nationally.
- 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 was 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 (this cap increases to $65.35 per ton in July 2011 and remains in effect until December 31, 2015). As a result, the Municipal Tipping Fee for the six remaining Member Communities must be set to make up any system revenue shortfall.

To address these financial challenges the Authority reduced the services it provides, reduced staffing, restructured its debt, and sold its refuse derived fuel ("RDF") facility and power plant (collectively "WTE Facilities") to Wheelabrator Technologies Inc. ("Wheelabrator") a company affiliated with Waste Management, Inc. Wheelabrator purchased the WTE Facilities on April 29, 2010 for a purchase price that included $150,000,000 cash and other consideration (the "WTE Transaction"). The proceeds of the sale were used to reduce a portion of the Authority's existing debt held 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"). Additionally, the eight member jurisdictions were required to guarantee the future repayment of the debt originally issued by the VRA.

In May 2010, the Authority discontinued its recycling collection and processing operations and subsequently sold its recycling collection trucks and associated equipment.

With the sale of the WTE Facilities, the "Refuse Derived Fuels and Waste to Energy Facilities Service Agreement between Southeastern Public Service Authority and Wheelabrator Technologies, Inc." ("Service Agreement") dated September 9, 2009 became effective. The Service Agreement is described in more detail later in this Report. The Service Agreement requires Wheelabrator to assume certain operational responsibilities that previously had been the purview of the Authority. Shifting said responsibilities to Wheelabrator will allow the Authority to more effectively manage its operations. Significant operational elements of the agreement and their effect on the Authority are described below.

- Wheelabrator is responsible to remove, transport, and dispose of all non-processible waste and diverted acceptable waste to a landfill selected by the Wheelabrator, but excluding any SPSA landfill (the "Company Landfills"). With this requirement, non-processible and diverted wastes are disposed in Company Landfills, not Authority landfills. This change effectively extends the life of the currently developed landfill cells at the Suffolk Landfill beyond 2018.
- Wheelabrator is required to provide to each SPSA transfer station such number of trucks and trailers necessary to receive and transport all non-processible waste and diverted acceptable solid waste from SPSA transfer stations. With this requirement, the Authority is only responsible for transporting processible waste to the WTE Facilities. Combined with the above requirement, Wheelabrator is responsible for transporting all of the non-processible waste received at the transfer stations and WTE Facilities for disposal – relieving the

Authority of this burden and allowing it to reduce staff and equipment and end its contract hauling arrangement.

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 of the Commonwealth of Virginia 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 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 Forbearance 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 guaranteed 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 that 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.

In April 2010, the Authority sold its WTE Facilities. It used the proceeds to retire approximately $122,100,000 of its long term debt as follows: redeemed in whole its $12,100,000 Senior Parity Revenue Bonds, Series 2008A; called for redemption on June 1, 2010 $1,670,000 of its Senior Revenue Bonds, Series 2007A; and defeased to their respective maturity or earlier sinking fund redemption dates $21,615,000 of its Senior Revenue Refunding Bonds, Series 1998. In cooperation with the VRA, the Authority arranged for VRA to call for redemption (i) on June 1, 2010 $41,800,000 of its Infrastructure Revenue Bonds (Virginia Pooled Financing Program) Series 2006A (Taxable) and (ii) on May 1, 2012 $17,365,000 its Infrastructure Revenue Bonds (Pooled Loan Bond Program) Series 2003B (AMT); and provide for the defeasance of an additional $24,400,000 of VRA Infrastructure Revenue Bonds (Virginia Pooled Equity Finance Program) and (Pooled Loan Bond Program) of various series. In each case, the Authority defeased all or a portion of its corresponding principal of its outstanding debt to VRA.

Due to various restrictions in the Authority's bond resolutions, the Authority obtained the consent of its three lenders; the VRA, Wachovia Bank, and the bond insurance company (AMBAC) prior to executing the debt retirement plan. As part of the VRA's consent, the proceeds from the sale were to be applied proportionally among the lenders resulting in a residual level debt service. Additionally, the VRA required the eight member communities to guarantee, by general obligation, repayment of the remaining VRA bonds outstanding. Previous guarantee agreements with the communities were rescinded.

The Authority and VRA also entered into a closing agreement with the Internal Revenue Service ("IRS") the terms of which generally provide that the IRS will not challenge the tax-exempt status of such sale of the WTE Facilities provided (1) the facilities continue to be operated as "qualifying solid waste disposal facilities" within the meaning of Section 141 of the Internal Revenue Code of 1986. Wheelabrator has covenanted to cause the WTE facilities to be "operated as qualifying solid waste disposal facilities" so long as any of SPSA's or VRA's tax-exempt bonds remain outstanding, and (ii) the Authority obtained an allocation from the Governor of the Commonwealth of Virginia of volume cap equal to the principal amount of certain SPSA and VRA tax-exempt bonds portions of the proceeds of which SPSA determined were spent on the WTE Facilities.

In October and November 2010, the Authority used approximately $17.7 million in excess cash on hand and the balance of the Senior Reserve Fund to defease the balance of the 1998 Senior Revenue Bonds and called for early redemption of $3.665 million of 2007A Variable Rate Debt.

The Regional Solid Waste System

The System consists of the regional sanitary landfill located in the City of Suffolk, Virginia (the "Regional Landfill"); nine solid waste transfer stations and supporting equipment, rolling stock; ancillary facilities; and the RDF Plant tipping floor. (With the sale of the WTE Facility, the Authority did maintain ownership of the RDF Plant tipping floor, the access and egress roadways at the RDF Plant, and the scales and scale house at the RDF Plant. The Authority believes maintaining government ownership of these assets will allow it to address any challenges to solid waste flow control.) 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 scale house, 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.

In the fiscal year ended June 30, 2010 ("FY2010"), the Disposal System received and handled 1,010,575 tons of waste, an 11 percent decrease from the 1,139,331 tons of waste received the previous fiscal year. Deliveries of municipal waste, commercial waste, construction demolition debris waste and out-of-area waste quantities were all down. Following the sale of the WTE Facilities to Wheelabrator, SPSA only accepts commercial waste on behalf of Wheelabrator at the transfer stations. The System typically 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 truck scales.

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 that 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 1,500 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 1,300 tons per average day.

The Authority's Regional Landfill historically accepted the solid waste that could not be processed at the RDF Plant or any portion of the RDF which could not be delivered to the power plant, but as described above, since April 2010, this non-processible or diverted waste is being delivered to Company Landfills. Currently, the

Regional Landfill is accepting principally construction and demolition debris. Pursuant to the Service Agreement, Wheelabrator disposes of ash from the power plant at the Virginia Beach Landfill at the direction of the Authority. The Authority has 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 historically undertook 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 discontinued its recycling program in May 2010. The Authority shreds collected tires and uses the shredded tires as an alternative daily cover material at the Regional Landfill.

The Landstown and Norfolk 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 Regional Landfill. The Authority extracts Freon gas from the white goods and sells the material as scrap metal. During the recent year, the Authority discontinued operation of the white goods program and the household hazardous waste (HHW) collection program at the Virginia Beach Landfill. The City of Virginia Beach implemented its own white goods and HHW programs.

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 facilities 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. As a result of the WTE System sale to Wheelabrator, private haulers contract with Wheelabrator. If the private haulers deliver the waste to a SPSA transfer station, SPSA transfers the waste to the RDF Plant, and per the Service Agreement the Authority receives a credit on its monthly invoice from Wheelabrator representative of a hauling fee. 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 (1)

Fiscal Year	Tons (000)	Percent Change from Previous Year
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 (2)	1,482	3.2
2007 (2)	1,578	6.5
2008 (2)	1,513	(4.1)
2009	1,139	(25)
2010	1,011	(11)

Source: The Authority
(1) Tonnage values do not include proprietary waste
(2) Values from prior years' reports restated to not include proprietary waste

Solid waste deliveries continued to decline during the most recent fiscal year, following a national trend partially attributable to the economic downturn, the expanded use of lighter-weight packaging, and the increase in recycling. The Authority currently estimates it will receive approximately 1,045,977, tons of waste in FY 2011 which is an increase of approximately 35,222 over the amount received in FY 2010. The increase is principally attributable to an increase in non-contract commercial waste.

The Member Communities deliver only a portion of the total waste deliveries to the System and that amount 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 8.8 percent in FY2010 as compared to fiscal year ended June 30, 2009 ("FY2009") and deliveries by the Member Communities are down by 22 percent since the fiscal year ended June 30, 2006 ("FY2006"). 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 and the elimination of the yard waste processing program have contributed to the reduced waste deliveries to the Authority.

With the implementation of the Service Agreement in April 2010, the Authority does not receive tipping fee revenue for all tons reported. For commercial waste received at the transfer stations and hauled to the RDF plant on behalf of Wheelabrator the

Authority receives a credit on its monthly invoice from Wheelabrator representative of a hauling fee, but it does not receive tipping fees for this waste.

Table 1-2
Historical Waste Deliveries by Member Communities (1)

Fiscal Year	Waste Deliveries (000 Tons)	Percent Change from Previous Year
2006 (2)	548	1.8
2007 (2)	543	(1)
2008 (2)	540	(1)
2009 (2)	518	(4.1)
2010	482	(6.9)

Source: The Authority
(1) Tonnage values reflect waste delivered by or on behalf of the member communities, and not other waste from within the jurisdictions
(2) Values from prior reports restated to reflect only waste delivered by or on behalf of the member communities

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 through 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.

On April 29, 2010, the sale of the WTE Facilities to Wheelabrator was completed.

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

The Authority’s Executive Director is Rowland Taylor. Mr. Taylor’s professional experience includes employment as the Franklin City Manager and as Southampton County Administrator, and his educational experience includes a Master’s Degree from Old Dominion University and a Bachelor’s Degree from the University of

Richmond. Liesl DeVary holds the positions of Deputy Executive Director and Director of Finance. Ms. DeVary's professional experience includes employment as the Director of Budget and Finance for the County of Isle of Wight and finance director for local government agencies in Pennsylvania, and her educational experience includes a Bachelors Degree from Old Dominion University.

Findings

Based upon our review of the Disposal System, our principal findings are as follows:

1. The Authority's management has addressed the serious financial issues highlighted in prior reports. With the sale of the WTE Facility on April 29, 2010 the Authority used the sale proceeds to retire approximately $140 million in debt.

2. The Authority is continuing its transition from a comprehensive solid waste management organization to one focused on the disposal of solid waste. The Authority ceased recycling collection and processing operations in May 2010. With the implementation of the Service Agreement with Wheelabrator in April 2010, the Authority shifted to the company the responsibility to transport and dispose of non-processible and diverted processible waste with the effect of (i) reducing waste deliveries to the landfill and extending the life of the currently developed cells, (ii) allowing Authority transfer operations to focus principally on the movement of processible solid waste from the transfer stations to the WTE Facility for disposal.

3. The Disposal System is currently being operated and maintained in good repair. The previously deferred maintenance noted in prior reports is being addressed.

4. The revenues for the Disposal System that the Authority estimates it will realize from tipping fees, when combined with estimated interest income and other sources of revenues, are projected to be sufficient in FY2011 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, 2009 through June 30, 2010, 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, 2010.

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 six months from July 1, 2010 through December 31, 2010, when combined with reported interest income and reduced by the amount paid 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 six-month period ended December 31, 2010.

7. Based on the March 23, 2011 draft of the Budget for the FY2012, Authority staff projects that, if the Municipal Tipping Fee is maintained at $145 per ton, 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 FY2012 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 with the implementation of the Service Agreement, 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 and the maturity of outstanding Bonds, as explained and clarified in Section 6 of this Report.

Section 2
ORGANIZATION AND MANAGEMENT

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 the Commonwealth 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	Mr. Stanley A. Stein	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. George M. Willson	Portsmouth
Mr. Roy W. Chesson	Mr. Michael W. Johnson	Southampton County
Mr. James C. Adams, II	Ms. Selena Cuffee-Glenn	Suffolk
Mr. Page Johnson	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

Presented in Table 2-3 is a summary of approved staffing levels for FY2011.

The budgeted staffing level for FY2011 was 168.5 full-time equivalent positions (FTE) which is a reduction of 242 positions from the 410.5 FTE budgeted in FY2010. As of January 31, 2011, the staffing level was reduced by 13 additional positions to 155.5 FTE. The currently anticipated staffing level for FY2012 is 152.5 FTE.

Table 2-3
Approved Staffing Levels

	As of 1/31/2011	Planned (1) FY 2012
ADMINISTRATION		
Accounting	3	3
Executive Offices	3	3
Purchasing	2	2
Information Technology	4	4
Human Resources	3	3
Subtotal	15	15
ENVIRONMENTAL MANAGEMENT		
Environmental Management	5	5
Suffolk RLF White Goods Program	1	1
Subtotal	6	6
OPERATIONS		
Operations Management	1	1
Fleet Maintenance	17	17
Safety	2	2
Transportation	42	42
Norfolk Transfer Station	11	11
Chesapeake Transfer Station	5	5
Franklin Transfer Station	3	3
Isle of Wight Transfer Station	4	4
Oceana Transfer Station	5	5
Landstown Transfer Station	10	10
Suffolk Transfer Station	4	4
Regional Landfill	14	11
Tire Processing	3	3
Scalehouse Operations	13.5	13.5
Subtotal	134.5	131.5
TOTAL	155.5	152.5

The Consulting Engineer

Section 714 (a) of the Resolutions[1] 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 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 November 25, 2010. In March 2011, a representative of R. W. Beck visited the Authority for the purpose of undertaking the review of the operation of the Disposal 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 Disposal 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

[1] 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.

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.

The HRPDC's consultant is currently working on a revision to the report. The updated report will address the many changes that have occurred in the region since the final interim report was prepared. It is expected that a draft report will be delivered in April 2011.

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 of the Commonwealth of Virginia 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. The bill places new restrictions on the issuance of debt and 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.

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 February 16, 2011, 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. Jeanette Poole v. Southeastern Public Service Authority of Virginia, Christopher Gavoni, City of Chesapeake and Commonwealth of Virginia, Case No. CL10-1454, Circuit Court of the City of Chesapeake, Virginia. On September 17, 2010 Jeanette Poole filed a Complaint against the Authority and Christopher Gavoni, a SPSA truck driver, as well as the City of Chesapeake and the Commonwealth of Virginia, seeking judgment in the amount of $1,000,000 for losses resulting from bodily injuries that allegedly arose out of a motor vehicle incident between a SPSA truck operated by Mr. Gavoni and an automobile that Ms. Poole was driving (specifically, Ms. Poole has alleged that a tire dislodged from the SPSA vehicle, striking her vehicle and causing injuries to Ms. Poole). SPSA has referred this matter to its primary insurance carrier for handling. The primary insurance carrier has retained counsel to defend SPSA in this matter."

In a letter dated March 1, 2011, Willcox & Savage provided an update on the litigation involving SPSA, styled as Jeanette Poole v. Southeastern Public Service Authority of Virginia, Christopher Gavoni, City of Chesapeake and Commonwealth of Virginia, Case No. CL10-1454, Circuit Court of the City of Chesapeake, Virginia (the "Poole Litigation"). In the update, Willcox & Savage indicated the following:

> "On February 28, 2011, counsel defending SPSA attended a preliminary hearing regarding the Poole Litigation conducted in Chesapeake Circuit Court. At the hearing, the plaintiff Ms. Poole was represented by new counsel in lieu of the attorneys that originally initiated the Poole litigation. At the advice of such new counsel, Ms. Poole filed a "nonsuit", essentially a dismissal of her claims against the defendants without prejudice. Ms. Poole has six (6) months from the date of the nonsuit to refile her claims against one or more of the defendants, including SPSA. Counsel defending SPSA expects Ms. Poole to refile within such six-month period."

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 FY2010 was submitted to the Authority on October 22, 2010.

Summaries of information included in the Combined Balance Sheet and Consolidated Statement of Revenues, Expenses, and Changes in Net Assets for the FY2010 and FY2009 are presented as Tables 2-4 and 2-5, respectively.

Table 2-4
Combined Balance Sheet June 30, 2010 and 2009 (1)

Assets	2010	2009
ASSETS		
Current Assets	$43,207,147	$24,618,301
Restricted Assets	21,887,931	32,436,625
Maintenance Parts, Net	214,603	3,074,572
Capital Assets, Net	48,418,058	159,115,619
Other Assets, Net	4,852,388	6,658,662
Total Assets	118,580,127	225,903,779
LIABILITIES		
Current Liabilities	14,749,441	32,532,357
Long-term Liabilities	92,623,003	221,703,353
Total Liabilities	$107,372,444	$254,235,710
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	(23,880,334)	(31,184,052)
Restricted	12,769,258	17,786,014
Unrestricted	22,318,759	(14,933,893)
Total Net Assets (Deficit)	11,207,683	(28,331,931)
Total Liabilities And Net Assets (Deficit)	$118,580,127	$225,903,779

(1) Source: Audit Report prepared by KPMG LLP, submitted October 24, 2010.

Table 2-5
Consolidated Statement of Revenues, Expenses, and Changes in Net Deficit
Years ended June 30, 20010 and 2009 (1)

	2010	2009
Operating Revenue, Net	$106,379,312	$100,812,098
Less Operating Expenses:		
Compensation and Related Payroll Costs	22,825,872	27,377,625
Depreciation and Amortization	12,874,578	17,005,555
Routine Maintenance Operations	14,183,523	16,059,797
Ash and residue agreement	22,276,504	13,943,759
Other Operating Expenses	19,408,572	16,816,707
Total Operating Expenses	91,569,049	91,203,443
Operating Income (Loss)	14,810,263	9,608,655
Less Non-Operating Revenue (Expense), Net	24,729,351	(10,715,354)
Change in Net Assets (Deficit)	39,539,614	(1,106,699)
Total Net Assets (Deficit)		
Beginning of Year	(28,331,931)	(27,225,232)
End of Year	$11,207,683	$(28,331,931)

(1) Source: Audit Report prepared by KPMG LLP, submitted October 24, 2010.

Included among the comments in the audit were the following:

- The net assets of the Authority at the close of fiscal year 2010 were $11,207,683. Not since fiscal year 2004 has the Authority demonstrated a positive net asset position.
- On April 29, 2010, SPSA sold its waste to energy facilities, including a steam power plant and refuse derived fuel plant (RDF Plant), to Wheelabrator Technologies, Inc., an affiliate of Waste Management, Inc. for approximately $150 million in cash and other consideration. Simultaneously with the closing of the sale, SPSA used the proceeds to reduce its outstanding debt by approximately $140.2 million through a combination of bond redemptions and legal defeasances.
- The capacity life of the regional landfill has been extended beyond the expiration of the member community contracts (January 24, 2018) as a result of the sale of the waste to energy facilities.
- As of June 30, 2010, total debt outstanding was approximately $80.97 million compared to the nearly $223 million outstanding the previous year.
- Moody's Investor Services affirmed the A3 rating on SPSA's Senior Revenue Refunding Bonds, Series 1998.
- The Authority's workforce reduced from approximately 411 employees in fiscal year 2009 to 163 employees as of June 30, 2010.
- The Authority terminated its recycling services.

- A new Board of Directors was appointed effective January 1, 2010 resulting from change in state legislation.

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."

Based upon our review of the Disposal System, as described in Section 6 of this Report, we are of the opinion that the Disposal System has been operated and maintained in good repair. At the time of our visit we observed certain capital repairs underway, and staff reported that several additional capital repairs were imminent for certain facilities, reversing a trend noted in previous reports. Staff reported that this change was principally attributable to the sale of the WTE, which will allow the Authority to focus its available capital budget on the remaining elements of the Disposal System.

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."

In 2010, the Authority obtained property and general liability insurance through VML Insurance Programs, a municipal pooled insurance program. In an e-mail dated March

28, 2011, as clarified in a follow-up e-mail dated March 29, 2011, Greg Dickie, Director of Member Service for VML Insurance Programs provided a Certificate of Insurance documenting the insurance coverages provided to the Authority by VML Insurance Programs. In his e-mail, Mr. Dickie stated:

> "Attached is a certificate of insurance for coverages provided to the Southeastern Public Service Authority by VML Insurance Programs. I have read the section of the Amended and Restated Senior Bond Resolution dated March 24, 2010. The insurance coverages meet the requirements as stated.
>
> "I would add that I am an employee of the Virginia Municipal League. The Virginia Municipal League is the administrator of VML Insurance Programs (VMLIP). VMLIP is a non-profit group self insurance association of Virginia local governments. While I have a valid Virginia insurance agent license, I am not an independent insurance consultant. I do however have the skill and experience to understand the insurance coverages listed. Further I am not an attorney and my comments are not legal advice. Nor are my comments a substitute for legal review."

A list of those insurance policies in effect as of March 2011 is presented in Table 2-6 at the end of this subsection.

Table 2-6
Summary of Operating Insurance
In Effect as of March 2011

Coverage	Limits	Insurer(s)	Policy Number	Policy Term
General Liability (1)	$1,000,000	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2011
Public Officials Liability (1)	Included in GL	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2011
Excess Liability (1)	$10,000,000	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2011
Automobile Liability (1)	$1,000,000	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2011
Crime (1)	$500,000	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2011
Property (1)	$32,167,800	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2012
Miscellaneous (Equipment) (1)	$14,374,109	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2011
Workers Compensation (1)	Per Virginia Statute	VML Insurance Program	P-2010-2011-VML-0707-1	10/1/2010 - 7/1/2011
Pollution (2)	$5,000,000	American International Specialty Lines Ins. Co	PLS12962459	10/1/2008 - 10/01/2011
UST/AST - Storage Tanks (2)	$2,000,000/$1,000,000	Great American Alliance	BTA 5236961-08	7/1/2010 - 7/1/2011

(1) Source: From VML Insurance Programs Certificate of Insurance, dated 03/24/2011
(2) Source: Provided by SPSA, February 14, 2011

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.

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 March 23, 2011 of the proposed operating and capital budgets for the FY2012.

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 9, 11, 12, 14, 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 therefore, 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. These bonds are no longer outstanding.

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. These bonds are no longer outstanding.

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. These bonds are no longer outstanding.

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. These bonds are no longer outstanding.

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"). These bonds are no longer outstanding.

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. These bonds are no longer outstanding.

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. These bonds are no longer outstanding.

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. These bonds are no longer outstanding.

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 issued $12,100,000 of tax-exempt Senior Parity Bonds, Series 2008A to fund Disposal System capital improvements. These bonds have been fully redeemed.

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. Beginning in 2010, with the sale of the WTE System to Wheelabrator, the Authority only accepts on its behalf, solid waste from the Member Communities. SPSA transfers commercial solid waste on Wheelabrator's behalf, for a credit on its monthly invoice from Wheelabrator that is representative of a hauling fee per the Service Agreement. The Authority does not collect a tip fee for the commercial waste.

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 (1)

Fiscal Year	(000 Tons)	Percent Change from Previous Year (Percent)
2006 (2)	1,482	3.2
2007(2)	1,578	6.5
2008(2)	1,513	(4.1)
2009	1,139	(25)
2010	1,011	(11)

Source: The Authority
(1) Tonnage values do not include proprietary waste
(2) Values from prior years' reports restated to not include proprietary waste

Adequacy of Net Revenues

The reported operating results and debt service coverage requirements for the FY2010, 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 2010 (1)

Disposal System Revenues		$ 96,660,884 (1)
Less: Disposal System Operating Expenses		(33,741,027) (2)
Net Disposal System Revenues		$ 62,919,857
Senior Debt Coverage		
Net Disposal System Revenues will = or > 1.20 x Senior Debt		
Senior Debt		$ 5,495,760
	x 1.20	6,594,912
Coverage Test	Net Revenue	62,919,857
Coverage Requirement is Exceeded by		$ 57,424,097
Senior Subordinated Debt Coverage		
Net Disposal System Revenues will = or > 1.10 x Total Debt (3)		
Senior Debt		$ 5,495,760
Senior Subordinated Debt		10,908,949
	X1.10	11,999,844
Senior Debt plus +1.10 x Senior Sub Debt		17,495,604
Coverage Test	Net Revenue	62,919,857
Coverage Requirement is Exceeded by		$ 45,424,253
Guaranteed Subordinated Debt Coverage		
Net Revenues must = or > 1.0 x Total Debt		
Senior Debt		$ 5,495,760
Senior Subordinated Debt		10,908,949
Total Debt		$ 16,404,709
	x 1.00	$ 16,404,709
Coverage Test	Net Revenue	62,919,857
Coverage Requirement is Exceeded by		$ 46,515,148

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

1. Disposal System revenue from Trial Balance	$109,782,958
2. Estimated value of RDF	0
3. Less insurance recoveries	(1,810,244)
4. Less steam and electric sales from Power Plant	(11,311,829)
Disposal System Revenue	$96,660,884

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

1. Total Disposal System and Power Plant Expenses	$46,073,194
2. Less Lower Plant Operating Expense	(15,362,974)
3. Plus Pay as You Go Equipment Replacement	0
4. Plus Ash & Process Residue Agreement Payment	2,583,538
5. Plus DEQ Letter of Credit Fees	199,776
6. Plus commissions paid on proprietary waste	247,493
Disposal System Operating Expenses Adjusted for Coverage	$33,741,027

(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 FY2010 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 six-month operating period ended December 31, 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
for the Period Ended December 31, 2010

		Budget Six Months Ended December 31, 2010		Actual Six Months Ended December 31, 2010 (1)
Disposal System				
Total Operating Revenue	$	25,266,588	$	23,270,024
Operating Expenses (Excluding Depreciation Expense)		18,013,160		16,405,703
Operating Income	$	7,253,428	$	6,864,321
Funds Available for Debt Service Payment	$	7,253,428	$	6,864,321
Less:				
Accrued Debt Service – Senior Bonds Requirement	$	826,700	$	1,370,022
Accrued Debt Service – Other Indebtedness		2,338,522		2,321,888
Total Debt Service		3,165,222	$	3,691,910
Balance Available after Debt Service Payment	$	4,088,206	$	3,172,411
Other Uses				
Letter of Credit Fees		144,066		146,051
Virginia Beach Environmental Trust Fund		5,000		-
Suffolk Environmental Trust Fund		2,500		-
Deposit to Closure Fund		1,250,000		-
Total Other Uses		1,401,566		146,051
Disposal System Operating Surplus (Loss)	$	2,686,640	$	3,026,360

(1) As reported by the Authority.
(2) Operating Revenues are under budget by approximately 4 percent (based on a straight-line basis of the budget) due to a decline in tonnages.
(3) Operating Expenses are under budget by approximately 4 percent primarily in the areas of contracted services, fuel, and utilities.
(4) Accrued Debt Service exceeds the budget due to a delay in defeasing the 1998 Senior Revenue Bonds.
(5) The rebate owed to Virginia Beach on account of the cap on its tipping fee of $56.01/ton (versus the $150/ton Disposal System Municipal Tipping Fee rate at which it has been billed) for FY2011. Between July 1, 2010 and December 31, 2010, the rebate amount was $6,126,529. The total operating revenue shown is net of the rebate owed to Virginia Beach.

The reported operating results for the first six 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)	2006	2007	2008	2009	2010
Solid Waste Received (000 tons) (2)	1,482	1,578	1,513	1,139	1,011
System Revenues (000) (3)	78,235	77,567	91,638	92,421	96,521
Interest Income (000) (4)	1,775	2,400	2,111	1,615	140
Gross Revenues (000) (5)	80,010	79,967	93,749	94,036	96,661
Operating Expenses (000) (6)	42,043	38,230	43,031	38,590	33,741
Net Revenues (000) (5)	37,967	41,737	50,718	55,446	62,920
Debt Service Senior Bonds (000) (7)	17,221	17,216	18,986	23,727	5,496
Debt Service Coverage Senior Bonds (8)	2.20	2.42	2.67	2.34	11.45
Debt Service All Indebtedness (000) (9)	31,229	33,080	34,132	38,563	16,405
Debt Service Coverage All Indebtedness (9)	1.22	1.26	1.49	1.44	3.84

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) Proprietary Waste not included.
(3) Disposal System Revenues per June 30 Trial Balance plus interest income.
(4) "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.
(5) As defined in the Senior Bond Resolution.
(6) "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.
(7) Excluding accrued and capitalized interest.
(8) Net Revenues divided by Debt Service Senior Bonds.
(9) Net Revenues divided by Debt Service All Indebtedness.

Draft of Budget

On March 23, 2011, the Authority staff submitted to the Board of Directors a draft of the proposed budget for FY2011 (the "Draft Budget"). The Draft Budget included the following important assumptions.

1. No change in the current Municipal Tipping Fee of $145 per ton;
2. A $10 per ton increase (to $40 per ton from $30 per ton) in the tipping fee for construction and demolition debris;

3. Municipal tonnage receipts will remain flat compared to the current fiscal year projections, or a 10 percent reduction in aggregate waste flow from the FY 2011 budgeted amounts;
4. Renewal of the disposal contract with the Navy that expires on June 29, 2011;
5. Royalties from the sale of landfill gas will generate $550,000 (compared with $775,000 budgeted in FY2011);
6. Reduction in staff of approximately 16 positions;
7. A 3 percent increase in employee salaries and wages;
8. Projected increase in health insurance of approximately 10 percent;
9. A cash funded capital improvement and equipment replacement plan;
10. Projects the average price per gallon for diesel fuel at $3.50 versus $2.25; and,
11. A $2 million contribution to the landfill closure fund.

The Board of Directors plans to review the Draft Budget and approve a final budget for FY2012 at the May 25, 2011 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 January 1, 2011, 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 January 1, 2011
Solid Waste Acceptable at All Disposal Points	
Municipal Solid Waste (delivered by any SPSA Member Jurisdiction)	$ 145.00/ton
Contract Municipal Waste (delivered on behalf of a SPSA Member Jurisdiction)	$ 145.00/ton
U.S. Navy Waste	$ 35.35/ton
Weighing Charge per Vehicle	$20.00/incident
Residential Solid Waste Delivered in Private Automobile or Low-Side Pickup Truck	No charge
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 (non-contract)	$ 60.00/ton
Waste Disposal – Landfill Only	
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 Transported by SPSA	$ 46.00/ton
Construction and Demolition Waste	$30.00/ton
Special Handling Waste	Handling cost plus 25%
Tires – 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
Household Hazardous Waste	
Household Hazardous Waste User Fee (Rates per customer visit, charged to customer’s Member Community)	$ 35.00/visit
Waste Accepted at SPSA’s Regional Landfill from Businesses	
Batteries (lead and rechargeable)	$ 60.00/ton
Cell Phone Batteries	$ 60.00/ton
Alkaline Batteries	$ 0.75/pound
Miscellaneous	
Appliances with CFC Disposed at SPSA’s Regional Landfill	
Member Communities or Residents (Billed to Customer’s Local Government)	$12.00/each
Businesses	$12.00/each
White Goods Containers Based upon Distance from the Suffolk Regional Landfill)	$75.00 - $125 per pull
Gray Soils Used as Alternative Daily Cover	
Twenty-six material types identified with prices of $5 to $30 per ton	

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, 2010 (1)

	Tons Disposed	Revenue from Disposal Charges ($000)
July	45,165	$5,398,720
August	44,836	$5,122,706
September	42,561	$4,767,131
October	42,834	$4,601,938
November	47,106	$4,410,005
December	37,019	$4,164,031
TOTAL	259,522	28,464,530

Source: Provided by the Authority. Reported on a cash basis.
(1) Amounts include Virginia Beach at full rate.

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)
2006	1,482	58,044
2007	1,578	57,320
2008	1,513	69,269
2009	1,139	70,558
2010	1,011	88,734

(1) Source: The Authority. Reported on a cash basis.
(2) Does not include tipping fees for tires or proprietary waste, and includes Virginia Beach at full rate.
(3) Prior years restated to reflect exclusion of proprietary waste

Long-Term Debt

Presented in Table 3-8 is a summary of the existing long-term debt of the Authority as of June 30, 2010.

Table 3-8
Summary of Outstanding Debt of the Authority [1]

Series – As of June 30, 2010	Date of Obligation	Amount Issued	Amount Outstanding on June 30, 2010
Series 1998 Senior Revenue Refunding Bonds	April 1, 1998	33,535,000	$11,920,000
Senior Subordinated Tax Exempt Bonds Series 9 (held by VRA)	December 1, 2002	16,155,000	2,005,000
Senior Subordinated Tax Exempt Refunding Bonds Series 11 (held by VRA)	May 21, 2003	39,950,000	7,590,000
Senior Subordinated Tax Exempt Refunding Bonds Series 12 (held by VRA)	December 4, 2003	13,650,000	2,050,000
Senior Subordinated Tax Exempt Refunding Bonds Series 14 (held by VRA)	November 1, 2004	13,060,000	2,285,000
Senior Subordinated Tax Exempt Bonds Series 16	June 8, 2006	14,245,000	2,250,000
Senior Parity Tax Exempt Bonds Series 2007A [2]	October 4, 2007	25,145,000	22,015,000
Guaranteed Subordinated Refunding Bonds, Taxable Series 2009A	June 17, 2009	71,985,000	30,185,000
Total Bonds Payable – Disposal System			$ 80,300,000
Senior Subordinated Taxable Bonds, Series 13 (held by VRA)	December 4, 2003	3,390,000	325,000
Senior Subordinated Taxable Bonds, Series 17	June 8, 2006	3,495,000	345,000
Total Bonds Payable – Power Plant			$ 670,000
Total			$ 80,970,000

(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, 2010 (1)

Bond Accounts	December 31, 2010
1998 Series 1 Bond Fund	24
2002 Series 9 Tax-Exempt (VRA)	20,813
2003 Series 11 Bond Account (VRA)	94,310
2003 Series 12 Tax-Exempt (VRA)	53,046
2004 Series 14 Tax-Exempt (VRA)	104,974
2006 Series 16 Tax-Exempt (VRA)	237,504
2006 Series 17 Taxable (VRA)	18,643
2007 Series A Tax-Exempt	189
2009 Series Taxable (VRA)	345,934
Total Bond Account Balance	$ 875,437

(1) Source: The Authority. Market value as of 12/31/10. 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)
2011	9,806,061
2012	10,718,770
2013	11,052,617
2014	11,982,856
2015	15,147,052
2016 – 2017	38,498,600
Total	$ 97,205,956

(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, 2010.

Section 4
CONTRACTS

Introduction

The Authority has executed a series of contracts that deal with the delivery of solid waste to the Disposal System, the sale of the Power Plant, and the provision of solid waste disposal services by the operator 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 sold the WTE Facilities to Wheelabrator on April 29, 2010 in accordance with a Purchase and Sale Agreement, pursuant to which Wheelabrator purchased the WTE Facilities for a purchase price that included $150,000,000 cash and other consideration. The Authority executed a Service Agreement for solid waste disposal services with Wheelabrator that took effect upon the closing of the sale of the WTE Facilities. The initial term of the Service Agreement is through January 24, 2018.

The assets sold and transferred to Wheelabrator ("Acquired Assets") included:

- 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 retained 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

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 until January 24, 2018.
- Extension. The Authority may unilaterally extend the initial term of the Service Agreement under the same terms and conditions 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. In subsequent years, the annual fee is subject to a fixed annual increase of $1 million. 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.

On June 23, 2010, The Authority adopted a resolution stating that it will not construct Cell VII at the Regional Landfill, at this time. The resolution further indicates that this election was made without prejudice to or waiver of any future right to construct and operate Cell VII or any other solid waste disposal facilities on the property should circumstances change, and SPSA reserves the right to do so. With the adoption of this resolution, the Authority is no longer pursuing the construction of two transfer stations in the City of Suffolk.

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

In July 24, 1984, the Authority negotiated a contract with the Navy establishing a relationship related to the use of waste as fuel at the Navy Power Plant. The agreement was amended over time to address the sale of the Power Plant to SPSA and the Navy's use of electrical power and steam generated at the Power Plant. With the sale of SPSA's WTE Facility to Wheelabrator, the Navy Contract was assigned 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, 2011. The Authority anticipates that a contract renewal is likely.
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 delivered to specified transfer stations or 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

With the sale of the WTE Facilities, the Authority's commercial disposal contracts were assigned to Wheelabrator. For commercial waste received at the transfer stations and hauled to the RDF plant on behalf of Wheelabrator, the Authority receives a credit on its monthly invoice from Wheelabrator that is representative of a hauling fee.

Electricity Sales Agreement

With the sale of the WTE Facilities, SPSA's Electricity Sales Agreement was assigned to Wheelabrator.

Introduction

For many years the Authority has undertaken 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 sale of the WTE Facilities, and the resulting reduction of waste flow to the Regional Landfill, the Authority capital project expenditures are lower 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	1,500
Oceana Transfer Station	500
Suffolk Transfer Station	1,300

All components of the System are currently in operation, except the Oceana Transfer Station. The Oceana Transfer Station is temporarily closed and undergoing a major repair. It is expected to be operational in April 2011.

Capital Budget Funding Strategy

In FY 2010 the Authority staff implemented a cash-based capital budget funding strategy, using only operating revenues to fund all capital improvements. In prior 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. The Authority's general approach to capital improvement is to maintain and renovate the transfer stations in an effort to maintain operating efficiencies. Equipment replacement is undertaken on a modified replacement schedule where equipment replacement is not projected beyond 2015. SPSA will review and update this plan annually.

Fiscal Year 2011 Capital Improvements and Equipment Replacement

The FY2011 revised budget contained $6,720,161 in capital improvements and equipment replacement for the Disposal System. The Authority projects that $5,101,557 will be expended during FY2010.

Future Capital Improvements and Equipment Replacement

On March 23, 2011, 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
2012	$1,940,100
2013	$3,741,100
2014	$1,515,700
2015	$1,076,200
2016	$0

Section 6
MAINTENANCE AND OPERATION OF THE SOLID WASTE MANAGEMENT SYSTEM

Introduction

The Disposal 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, the RDF Plant tipping floor, and the maintenance of rolling stock and mobile and heavy equipment. The Authority has worked to assure that the Solid Waste Management System is operating and performing its principal function of providing disposal for 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 2011 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 FY2010, was 753,593 tons, down 70,626 tons from FY2009. A portion of this tonnage decline is attributable to the overall decline in the solid waste stream nationally and the continued diversion of commercial solid waste to private facilities. 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. Under the terms of the Service Agreement, Wheelabrator is responsible for providing transportation and disposal of non-processible waste, and the Authority is responsible for providing transportation of processible waste to the WTE Facility. At most of the transfer stations, processible waste and non-processible waste are separated on the tipping floor. Non-processible waste is loaded into trailers that are provided by Wheelabrator and hauled by its subcontractor. In most cases, processible waste is loaded into Authority trailers and hauled by Authority road-tractors to the WTE Facility for disposal. 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. During the visit it was noted that maintenance that has been reported as deferred in prior reports appeared to be underway at several locations. Staff reported its opinion that significantly more capital repairs were currently being conducted than had been performed in recent years. The dedication of the supervisory and operating staff appears to remain high given the recent financial challenges of the Authority. Facility supervisors reported that staff continues to work hard and do quality work.

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.

At the time of our site visit, none of the nine transfer stations appeared to be hampered 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 tonnage received in FY2010 is down approximately 10 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 for general waste receipts from 5:00 am to 5:00 pm Monday through Friday and 7:00 am to Noon on Saturday. The Authority continues to operate the station on Saturday and Sunday afternoons serving only City of Norfolk 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. By allowing residents to deliver waste on the weekend, self-haul customers that significantly restrict tipping floor operations due to the time it takes them to unload waste onto the tipping floor are diverted from the facility on busy weekdays. Eleven personnel are assigned to the transfer station operation.

During FY2010, the Authority completed Phase II of a planned three phase tipping floor resurfacing project. The Authority reported that Phase III of the project has been designed and was being prepared to go out for bid, and that the plans include improving the drainage of leachate on the tipping floor. The outbound scale, which was delivered over a year ago, continues to be stored on site for future installation. Scale installation work is included in the FY 2011 budget. The facility previously received an electrical system upgrade to accommodate more tipping floor lighting and staff indicated that a lighting upgrade is planned for FY 2011. A few lights were not working during the site visit, but it is expected that this will be remedied during the lighting upgrade.

During the site visit, it was observed that the transfer building tipping floor level exit doorframe and adjacent block damage noted in the previous report had been repaired.

Some damage to the push 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 and repairs are included in the FY 2012 capital budget.

A section of siding noted as separated from the CMU wall at the rear of the building during in last year's report had not yet been repaired. The damage does not appear to affect the structural integrity of the building. Covers for several of the exterior building lights that were noted as were missing from the rear of the building in last year's report have been replaced.

Work to repair hopper No. 2 was underway at the time of the visit. During the visit, minor damage to wall panels was noted as well as some accumulation of dirt and debris. This damage and grime is consistent with a high-use transfer station and should be addressed as part of a regular maintenance program. The transfer station is constructed with exposed interior insulation which presents a cleaning challenge (i.e., interior pressure washing would wet and damage the insulation).

The drainage issue observed during the site visit in 2008 has not been resolved. A stockpile of soil placed adjacent to the roadway appears to be blocking sheet flow of rainfall runoff from the asphalt pavement. Localized ponding of water was noted during the site visit. Staff indicated that engineers had completed designs to improve the site drainage and that the project will be let for bid in coming weeks.

Landstown Transfer Station

The Landstown Transfer Station is a 1,500 TPD facility that contains three hoppers for loading. The facility is similar in design to the Norfolk Transfer Station. The station averaged 748 TPD in FY2011, a 1 percent increase from the previous year. The facility is open Monday through Friday and for a half-day on Saturday to receive waste. This station also operates 24 hours per day to facilitate waste transfer to the RDF Plant during nighttime hours. Ten employees are assigned to the transfer station operation

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. The condition of the exterior painting does not visibly appear to be getting any worse.

An overlay of the tipping floor is included in the FY 2011 budget and work is planned for this year, but the work needs to be scheduled in concert with repairs at other transfer stations. Some spalling of the concrete hopper walls was noted, but this damage is not excessive and is consistent with a high-use transfer station. Funding for hopper repairs is included in the capital plan for FY 2013.

A skylight was noted as missing, and staff reported that it was planned for repair.

Overall, the facility appears in sound working order and in good repair.

Oceana Transfer Station

The Oceana Transfer Station averaged approximately 301 TPD in FY2010, a decrease of 11 percent from the previous year. This station has one hopper for transfer trailer loading. The facility is open Monday through Friday and for a half-day on Saturday. Five staff are assigned to the transfer station operation.

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. These plans have been superseded by a plan to conduct significant repairs to the existing facility.

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. At the time of the visit, Authority staff indicated that the station was planned to be shut down beginning the week of March 7, 2011 to accommodate a major repair effort. The repairs include a complete teardown and reconstruction of the transfer station metal building, repair work to the hopper, concrete, and asphalt pavement repairs and rebuilding of an on-site pump station.

The Authority and the Virginia Department of Transportation (VDOT) have an arrangement which allows the Authority the use of a vacated VDOT 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 Oceana Transfer Station is in need of repairs that have been scheduled by the Authority. At the time this report was prepared, the Authority reports that the station is closed and the repairs are underway with the reopening of the station planned for April 2011.

Chesapeake Transfer Station

The Chesapeake Transfer Station operates with one hopper for transfer trailer loading. The average daily tonnage at this station decreased 14 percent to 447 TPD during FY2010. The facility is open Monday through Friday and for a half-day on Saturday. Five personnel are assigned to the transfer station operation.

A series of repairs had recently been completed to the transfer station at the time of the visit. The tipping floor was resurfaced, although staff report that some cracks have appeared in the new floor. SPSA is working with the contractor to address its concerns and repair the cracks. Repairs have been made to the hopper structure and the scales had been recently replaced. A new roof has been put on the transfer station and new parking lot lighting has been installed.

The steel push walls show signs of being regularly maintained and repaired. The building shows some wear and tear typical for a transfer building of this age, but overall the building is in good condition.

Franklin Transfer Station

The Franklin Transfer Station is a three-person operation, including a full-time driver to assist with drop and hook. The facility is open Monday through Friday and for a half-day on Saturdays. The open 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 13 percent to a daily average of 73 tons during the past fiscal year.

The chain link fencing around the hopper, the asphalt and concrete pavement and the concrete retaining wall appeared to be in good repair. At the time of the visit, some work related to expanding the trailer parking area was underway. The open hopper structure is in need of painting, and the Transfer Superintendent indicates that this work is planned for this fiscal year. Loaded trailers from the Franklin Transfer Station are hauled to Wheelabrator's landfill by its subcontractor; SPSA drivers typically do not service this facility.

Overall, the facility appears to be in good condition.

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 decreased by 3 percent in FY2010 to about 93 TPD. The facility is open Monday through Friday and for a half-day on Saturdays. Three personnel are assigned to the transfer station operation, plus one supervisor responsible for both the Franklin and Isle of Wight transfer stations.

Wall panels at the rear of the building that were reported as damaged in last year's report have been repaired. The tipping floor showed reasonable wear for its age and station throughput at the time of the site visit.

The facility appears to be in good condition.

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. 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 236 TPD in FY2010, a decrease of 4 percent from the previous year. Four employees are assigned to the transfer station.

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.

The tipping floor has steel rails embedded in the concrete. The concrete has eroded in some areas caused by refused being pushed into the hopper. This wear appears normal.

The facility is maintained in very good condition.

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 FY2010 was about 3 TPD; overall 24 percent less waste was managed compared to 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 inspects this station and provide grounds maintenance. Waste containers from this station are taken by an Authority roll-off driver to the Isle of Wight facility where the waste is reloaded into transfer trailers and hauled 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. The facility appeared in good condition at the time of the inspection.

Boykins Transfer Station

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

In FY2010, the daily average tonnage was approximately 3 TPD, overall an 18 percent decline in total tonnage was received at the facility. Approximately once per week, waste from this facility is transferred to the Franklin Transfer Station by the Authority staff and it is placed in transfer trailers and hauled for disposal. Based on observations during our site visit, the grounds appear to be well maintained.

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)

		2006		2007		2008		2009		2010	
Transfer Station	**Design Capacity (TPD)**	**Total Annual (Tons)**	**Daily Average (1) (TPD)**	**Total Annual (Tons)**	**Daily Average (1) (TPD)**	**Total Annual (Tons)**	**Daily Average (1) (TPD)**	**Total Annual (Tons)**	**Daily Average (1) (TPD)**	**Total Annual (Tons)**	**Daily Average (1) (TPD)**
Norfolk	1,300	289,326	1,012	288,694	1,009	274,543	960	232,640	813	209,769	733
Oceana	500	127,525	446	120,213	420	106,401	372	96,622	338	85,954	301
Chesapeake	500	164,819	576	159,169	557	158,209	553	148,159	518	127,883	447
Isle of Wight	150	30,808	108	35,511	124	31,831	111	27,464	96	26,626	93
Franklin	150	30,104	105	27,095	95	24,643	86	23,910	84	20,867	73
Boykins	50	1,340	9	1,242	8	691	4	698	4	526	3
Ivor	50	1,629	10	881	6	719	5	653	4	536	3
Landstown	1,500	249, 262	872	251,372	879	237,378	830	223,688	782	213,975	748
Suffolk	1,300	55,715	195	65,289	228	68,780	240	70,385	246	67,457	236
Total		**950,528**	**3,333**	**949,466**	**3,326**	**903,195**	**3,161**	**824,219**	**2,885**	**753,593**	**2,637**

Source: The Authority
(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 operations office.

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

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.

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

7. Household Hazardous Waste – The household hazardous waste program consists of a permanent collection facility at the Regional Landfill. Satellite locations are operated on a periodic basis at the Chesapeake, Isle of Wight, Norfolk, 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.

8. 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 Authority's vehicles appear to be well maintained and several new replacement pieces of equipment were observed at the time of the visit.

The Regional Landfill

The Authority began disposing of solid waste at the Regional Landfill in January 1985. Presented in Table 6-2 is a summary of waste quantities reported to have been disposed of during the last five calendar years at the Regional Landfill. The cumulative average in-place density of solid waste is reported to be approximately 1,748 pounds per cubic yard since Cell V operations began in May 2000. The figures in Table 6-2 include provision for the residue ash which was deposited in the Regional Landfill. The Authority estimates that during calendar year 2010, the Regional Landfill accepted a total of 196,206 tons of waste consisting of MSW, construction and demolition debris, ash and other wastes.

The marked decline in tonnages received at the regional landfill in 2010 is principally the result of the Service Agreement implementation. During the year, all non-processible waste or diverted solid waste was directed to Company Landfills for disposal, and all ash was directed to the Virginia Beach Landfill for disposal. With the reduce tonnages, the Authority is scaling back the number of personnel and hours of operation at the Regional Landfill. As of April 3, 2011, the Regional Landfill will reduce hours of operation to ten hours per day, four days per week and reduce staff from 13 to 11 assigned personnel. Currently the largest waste stream being received by the landfill is constructions and demolition debris.

Table 6-2
Summary of Waste Disposed at the Regional Landfill (1)

	Total for Period (Tons)	Average Per Day (2) (Tons)
January – December 2006	675,533	2,362
January – December 2007	1,225,405	3,928
January – December 2008	1,014,967	3,253
January – December 2009	431,300	1,382
January – December 2010	196,206	629

(1) Source: The Authority.
(2) For 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 2010.

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.

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. With the implementation of the Service Agreement, and the subsequent reduction of waste intake at the landfill, the current constructed landfill has adequate disposal capacity beyond the expiration of the Solid Waste Disposal Agreements and the final maturity of the Bonds. SPSA is continuing with the permitting of Cell VII to assure that the Authority has disposal options into the future and to increase the value of the landfill as a going concern. The proposed Cell VII area is located east of Cell V. Cell VII will add approximately 56 acres of lined disposal area to the landfill and bring the total lined disposal footprint to 244 acres. 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. Regular repair of erosion is an on-going maintenance issue at most closed landfills.

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 that 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. A DEQ public hearing to obtain comments on the Cell VII permit is scheduled for March 31, 2011 in Suffolk, Virginia. The public comment period concerning the issuance of the permit is from March 1, 2011 to February 15, 2011.

Under the terms of the Suffolk Agreement, the Authority is obligated to construct two new transfer stations in conjunction with the construction of Cell VII. The Authority does not foresee constructing Cell VII before the termination of the Suffolk Agreement, so transfer station permitting and construction is no longer being pursued.

Landfill Operations

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.

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

- The landfill gas collection system has been expanded into Cell VI to collect additional gas volumes and address certain odor issues.
- Disposal activities appear to be conducted with due care. Temporary and permanent litter fenced were placed around active work areas, the work face appeared reasonably compact, and reasonable erosion control measures (including recent hydroseeding) appeared to be in place.
- The facility appears well maintained.

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 new collection in Cell VI. In addition to the gas collection wells the system includes gas collection piping, a flare system, condensate drains, a 3.2 MW power plant using four internal combustion engines, 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 supplied to BASF is used to generate electricity and some is flared as a last resort.

In January 2011, the Authority entered into a new Landfill Gas Rights, Easement and Lease Agreement with Suffolk Energy Partners, LLC (operating as "Gasco") replacing several contracts that had initially been entered into in October 1991 and subsequently amended.

The terms of the new agreement include the following:

- Gasco shall construct, operate, maintain, repair, and replace the landfill gas collection system and certain equipment at the power station site, at no cost to the Authority.
- The Authority grants to Gasco the right to develop a gas collection system into Cell VI of the landfill. The gas collection system was extended into Cell VI in 2010.
- The term of the agreement is for 20 years, and Gasco may extend the term of the agreement for two additional five-year periods by providing the Authority written notice.
- Gasco agrees to pay the Authority 30 percent of revenues received during any month from the sale of recovered gas, 20 percent of revenues from the sale of electricity produced from recovered landfill gas, and $0.25 for each mmBTU of recovered landfill gas that is flared annually in excess of an average of 300 standard cubic feet per minute.

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 in-place density at the Regional Landfill.
- The annual availability of the WTE Facility.
- Wheelabrator's continued disposal of non-processible and diverted processible waste in Company Landfills.
- The quantity of solid waste which has already been placed in the Regional Landfill.
- 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. With the Authority entering into the Service Agreement with Wheelabrator, Wheelabrator became responsible for the management of non-processible waste. With this change in operation, the landfill is currently accepting principally construction and demolition debris, and has seen a significant decline in tonnage intake.

In the January 2011 Surveyor's report[2], the 12 month rolling average intake of all waste types is reported as 240,954 tons per year (or 20,080 tons per month) and the in-place density for waste disposal was reported as 1,748 pounds per cubic yard. The amount of available airspace was estimated at 5,395,091 cubic yards. Based on the current intake rate of 20,080 tons per month and the average in-place density over the past ten years of 1,644 pounds per cubic yard, the Surveyors estimate that the landfill will reach capacity in November 2028, well beyond the expiration dates of the Member Communities' Solid Waste Disposal Agreements in 2018 and the final Bond maturity. The actual rate of landfill airspace consumption will depend on the rate of waste intake over time.

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[2] HDR Engineering Inc., Regional Landfill, Cells V and VI, Suffolk Virginia, Airspace Management, Prepared for Southeastern Public Service Authority, January 2011.

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 began to dispose of 100 percent of the ash from the WTE Facilities at the Virginia Beach Landfill.

Recycling

The Authority discontinued its recycling collection and processing programs in May 2010.

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

The Authority has an arrangement with Bi Metal Corporation for the company to operate a ferrous recycling operation at located at the landfill. The company processes ferrous metals removed at the WTE Facility.

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, trailers, wheeled loaders, and landfill equipment as required. Much of the loaders and heavy equipment are under warranty. Trained Authority mechanics can and do handle all major engine, transmission, and rear-end work on the tractors and wheeled loaders. 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. Seventeen personnel are assigned to fleet maintenance.

The fleet that was available during FY2010 included 57 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, 41 wheeled loaders or other equipment at the transfer stations, approximately 35 pick-up trucks, 10 miscellaneous trucks (water trailers, flatbeds, dump trucks), yard tractors, and other necessary equipment. With the phase out of the recycling program in May 2010, and the sale of the WTE Facility in April

2010, the equipment related statistics for these activities reflect partial-year operations. During FY 2011 the Authority sold its recycling fleet.

During FY2010, the 25 recycle trucks totaled 23,298 hours, and logged 171,363 miles. These vehicles used 62,718 gallons of fuel for an average of 2.7 gallons per hour or 2.73 miles per gallon. Approximately $52,140 was spent on maintenance, and $21,839 was spent on tires.

The 57 tractors logged 1,215,012 miles during FY2010, consuming 302,140 gallons of fuel for an average of 4.0 miles per gallon. Maintenance costs were $353,060 while tire costs were $98,658.

For the 120 trailers that handle MSW, $108,318 was spent on maintenance and $99,121 on tires during FY2010 while traveling approximately 1.09 million miles.

The 21 ash trailers incurred $96,487 for maintenance expenses and $19,692 for tires during FY2010 while traveling approximately 121,501 miles.

At the Regional Landfill, 85,302 hours of operation for the 28 pieces of equipment consumed 153,806 gallons of fuel at a rate of approximately 1.80 gallons per hour. The cost of maintenance was $303,094, and $20,058 for tires.

At the RDF Plant, the 12 active pieces of processing equipment consumed 70,981 gallons of fuel in 15,060 hours, or 4.71 gallons per hour. The cost of maintenance was $201,769 and $403,826 for 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 6-3 through 6-6 summarize the cost for O&M of the rolling stock and heavy equipment for the last four fiscal years.

Table 6-3
Cost Summary
Fiscal Year Ended June 30, 2010

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	$0.291/mile	$0.509/mile	$0.081/mile	1,215,012 miles
MSW Trailers (1)	$0.10/mile	Not Applicable	$0.09/mile	1,093,511 miles
Recycle Trucks	$2.24/hour	$5.53/hour	$0.94/hour	23,298 hours
Landfill	$3.55/hour	$3.70/hour	$0..24/hour	85,302 hours
Transfer Stations (2)	$10.64/hour	$6.14/hour	$15.68/hour	29,815 hours
RDF Plant (3)	$13.40/hour	$9.42/hour	$26.81/hour	15,060 hours
Ash Trailers (1) (3)	$0.075/mile	Not Applicable	$0.16/mile	121,501 miles
Roll-Off Trucks	$0.10/mile	$0.34/mile	$0.11/mile	133,197 miles
Steam/Power Plant (3)	$3.53/hour	$2.29/hour	$0.10/hour	22,479 hours

(1) MSW and ash trailer mileage is estimated.
(2) Includes Norfolk, Chesapeake, Franklin, Isle of Wight, Oceana, Landstown, and Suffolk Transfer Stations.
(3) Partial year operations

Table 6-4
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) Yard Waste and Compost Program was eliminated.

Table 6-5
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/hour	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.

Table 6-6
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, and subsequently sold as part of the WTE Facility in 2010.

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. In previous reports we noted that certain capital improvements to the Solid Waste Management System have been deferred due to financial constraints, but during the visit it was obvious that the Authority is currently undertaking a number of capital repair initiatives.