

ANNUAL SURVEY AND REPORT

REGIONAL  
SOLID WASTE DISPOSAL SYSTEM

SOUTHEASTERN PUBLIC SERVICE AUTHORITY  
OF VIRGINIA  
CHESAPEAKE, VIRGINIA

MARCH 2012

**SAIC**<sup>®</sup>



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March 30, 2011

*Via e-mail*

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

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

Ladies and Gentlemen:

Submitted herewith is the Annual Survey and Report (the "Report") for the period ended March 2, 2012 on the Waste Disposal System of the Southeastern Public Service Authority of Virginia (the "Authority") prepared pursuant to the requirements of: (1) Section 714 of the Resolution Authorizing the Issuance of \$186,435,000 Senior Revenue and Revenue Refunding Bonds Series 1989 (Regional Solid Waste System) and Thereafter of Additional and Refunding Senior Revenue Bonds Adopted August 16, 1989, amended and restated on September 26, 2007 and amended on March 24, 2010; (2) the requirements of Section 714 of the Authority's Senior Subordinated Resolution dated February 28, 1998, as amended authorizing the issuance of the Authority's senior subordinated bonds; and (3) the requirements of Section 714 of the Authority's Guaranteed Subordinated Resolution dated May 14, 2009, as amended authorizing the issuance of the Authority's guaranteed subordinated bonds. This is the twenty-fifth Annual Survey and Report prepared by SAIC Energy Environment & Infrastructure, LLC (formerly R. W. Beck), and this Report has been prepared in accordance with a Professional Services Agreement dated as of December 9, 2011.

Financial, statistical, and operating data included in this Report regarding the Authority have been taken from the books, records, and reports of the Authority and from the audit report for the Fiscal Year ended June 30, 2011, as prepared by the Authority and as examined by Dixon Hughes Goodman, LLP certified public accountants. The information contained in this Report regarding the Authority, including the description of the operation of the facilities and projected construction cost estimates, has been provided by the Authority. In preparing this Report, we have had discussions with the Authority's management and supervisory personnel and have made a recent site visit to the System.

Respectfully submitted,

SAIC Energy, Environment & Infrastructure, LLP

*SAIC Energy, Environment & Infrastructure, LLC*

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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

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### Purpose and Scope of Report

This report (the “Report”) is prepared by SAIC Energy, Environment & Infrastructure, LLC (“SAIC” formerly R. W. Beck, Inc.) as of March 2, 2012, 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."

SAIC was employed by the Authority to prepare the Report in accordance with the terms and conditions of a Professional Services Agreement dated as of December 9, 2011 by and between the Authority and SAIC. SAIC can offer no opinion regarding any matters discussed in the Report subsequent to March 2, 2012, except as specifically indicated in the report.

Facility visits were conducted during the period March 1 and 2, 2012 and this Report reflects the conditions observed at those times. During the course of our review, we have visited and made general observations of the subject facilities. The general field observations were visual, above ground examinations of selected areas which we deemed adequate to allow us to comment on the existing condition of the subject facilities, but which were not in the level of detail necessary to reveal conditions with respect to geological or environmental conditions, the internal physical condition of any equipment, or conformance with agreements, codes, permits, rules, or regulations of any party having jurisdiction with respect to the subject facilities or sites.

## 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 (collectively the "Member Communities"). 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 refuse derived fuel 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 “Disposal System.” The Disposal 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 issued a series of additional revenue bonds to meet the capital requirements of the Disposal 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 in 2010 through 2013.

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 Senior Parity Variable Rate Debt.

## The Regional Solid Waste Disposal System

The Disposal 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 certain limited assets of the RDF Plant. 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 Disposal System’s major facilities are listed in Table 1-1.

Table 1-1  
Major Facilities

	Design Capacity (Tons/Day)
Boykins Transfer Station	50
Chesapeake Transfer Station	500
Franklin Transfer Station	150
Isle of Wight Transfer Station	150
Ivor Transfer Station	30
Landstown Transfer Station	1,500
Norfolk Transfer Station	1,300
Oceana Transfer Station	500
Suffolk Transfer Station	1,300

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 contract metals recovery facility, and a small quantity disposal area. The Regional Landfill commenced operations in January 1985.

In the fiscal year ended June 30, 2011 (“FY2011”), the Disposal System received and handled 993,930 tons of waste, a 1.6 percent decrease from the 1,010,575 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. SPSA only accepts commercial waste that is delivered on behalf of Wheelabrator at the transfer stations. The Disposal 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 Convenience Centers are located in Southampton County. The Boykins Convenience Center is located on a leased 1-acre site while Ivor Convenience Center is located on property owned by the Authority. These stations are designed to be capable of handling 50 and 30 TPD, respectively. The Boykins Convenience Center and the Ivor Convenience Center are currently attended by Southampton County personnel. Both stations have two open-top collection containers 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 a hangar-type building equipped with a tipping floor and single truck scale located on a 4-acre site.

The Oceana Transfer Station is located in Virginia Beach 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 design capacity of the facility is 500 tons per average day.

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 that could not be delivered to the power plant, but as described in Section 4, since April 2010, this non-processible



or diverted waste is being delivered to landfills owned by Waste Management, Inc. (“Company Landfills”), the parent company of Wheelabrator Technologies, Inc. Currently, the Regional Landfill is accepting principally ash, soils, and construction and demolition debris.

The Authority operates five household hazardous waste (HHW) collection facilities. The HHW facility at the Regional Landfill is open six days per week, and satellite facilities at four transfer stations – Chesapeake, Franklin, Isle of Wight, and Norfolk – are open on a monthly schedule. At the Regional Landfill, SPSA also operates programs to accept and process white goods (e.g., old appliances and similar metal waste) and a tire shredding operation.

Historically, SPSA provided services including recycling collection and processing and yard waste management. The Authority no longer provides these services and currently focuses on its primary activities of waste transfer and disposal.

## Significant Events During the Last Twenty-Four Months

On April 29, 2010, the Authority sold its RDF plant and power plant (collectively “WTE Facilities”) to Wheelabrator Technologies Inc. (“Wheelabrator” or “Company”) a company affiliated with Waste Management, Inc. Wheelabrator purchased the WTE Facilities 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 April 2010, 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 has allowed the Authority to more effectively manage its operations.

With the sale of the WTE Facilities and other operational changes, the Authority has reduced staff from 410.5 full-time equivalent positions (FTE) in fiscal year 2010 to 152.5 FTE in fiscal year 2012.

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

In December 2010, SPSA adopted a Strategic Plan for fiscal years 2011 through 2016. The purpose of the plan is to identify major challenges facing the Authority and develop action plans to meet the challenge. The plan is a requirement of Virginia

House Bill 1872 adopted by the legislature in 2009. The plan identifies the goals and details the objectives necessary to accomplish the goals. The goals detailed in the plan are:

- Establish financial policies;
- Consider outsourcing SPSA functions;
- Develop employee incentive and retainage program;
- Obtain communities' responses regarding SPSA's role in waste disposal after January 24, 2018;
- Define "milestone dates";
- Obtain the permit for Cell VII at the Regional Landfill; and,
- Determine the future of the Regional Landfill by December 31, 2012.

In June 2011, the Virginia Department of Environmental Quality issued amended Permit #417 for Cell VII expansion of the SPSA Regional Landfill in Suffolk. SPSA permitted 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 and has the potential to add approximately 56 acres of lined disposal area to the landfill and bring the total lined disposal footprint to 244 acres.

In August 2011, SPSA eliminated deliveries of WTE ash to the Virginia Beach Landfill and began directing all ash deliveries to the Regional Landfill in Suffolk. This change was made based on management's determination that delivering ash to SPSA's Regional Landfill offers a more cost-effective option than delivering it to the Virginia Beach Landfill.

## Solid Waste Quantities

For more than a decade, 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 Disposal System, the Authority reduced the tipping fee it charged for commercial waste to a level that the Authority believed was competitive with alternative means of waste disposal. Beginning in 2010, with the sale of the WTE Facilities 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.

In FY2011, the Authority continued to see a decline in tonnage being delivered, but in FY2012 this trend appears to be reversing. Based on quantities of waste received during the first eight months of the fiscal year the Authority projects that municipal deliveries for FY2012 will be approximately 421,000 tons, a 3 percent increase over the actual tonnage received in FY2011.

Presented in Table 1-2 is a summary of the total solid waste deliveries to the Disposal System during the last five fiscal years.

**Table 1-2**  
**Historical Waste Deliveries**

Fiscal Year	Tons <sup>(1)</sup> (000)	Percent Change from Previous Year (Percent)
2007	1,578	6.5
2008	1,513	(4.1)
2009	1,139	(24.7)
2010	1,011	(11.2)
2011	994	(1.7)

Source: The Authority

(1) Tonnage values include both municipal and commercial deliveries, but not proprietary waste

## Findings

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

1. The Disposal System is currently being operated and maintained in good repair. The Authority appears to be effecting repairs and performing regular maintenance on its facilities. SAIC observed a marked improvement in the overall appearance of several facilities since its last visit.
2. The Authority is operating as an organization focused on the disposal of solid waste. With the sale of the WTE Facilities and 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, and (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 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 FY2012 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”).

4. 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, 2010 through June 30, 2011, when combined with reported interest income, provided 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, 2011.
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 six months from July 1, 2011 through December 31, 2011, 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 Disposal System and the pro-rata share of debt service payments on the outstanding indebtedness for the six-month period ended December 31, 2011.
6. In the 2013 Draft Budget, the authority is proposing to reduce the Municipal Tipping Fee from \$145 to \$125. Authority staff projects that even with this tip fee reduction, 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 FY2013 Net Revenues, which will exceed the requirements of the Senior Bonds, Senior Subordinated Bonds, and Guaranteed Subordinated Bonds Rate Covenants.
7. The Authority has developed estimates of the remaining useful life of the Regional Landfill. Even without the construction of Cell VII, the useful life of the Regional Landfill 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

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## The Board of Directors

The Authority is governed by a Board of Directors consisting of representatives from each of the Member Communities. There are 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. Ronald H. Williams, Jr.	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.	Mr. H. Taylor Williams, IV	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

Note: As of March 28, 2012

## 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 and Chief Financial Officer	Liesl R. DeVary	May 2009

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 Chief Financial Officer. 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 Bachelor's Degree from Old Dominion University.

The budgeted staffing level for FY2012 is 152.5 full-time equivalent positions (FTE) which is a reduction of 16 positions from the 168.5 FTE budgeted in FY2011. The currently anticipated staffing level for FY2013 is 148 FTE. A detail description of personnel count by function is shown in Table 2-3.

**Table 2-3  
Approved Staffing Levels**

	FY2012	Planned FY2013
<b><u>Administration</u></b>		
Accounting	3	3
Executive Offices	3	2
Purchasing	2	2
Human Resources	3	2
Information Technology	<u>4</u>	<u>3</u>
Subtotal	15	12
<b><u>Environmental Management</u></b>		
Environmental Management	6	6
<b><u>Operations</u></b>		
Operations	1	0
Safety	2	2
Regional Landfill	11	11.5
Tire Processing	3	3
Fleet Maintenance	17	17
Transportation	42	40
Chesapeake Transfer Station	5	5
Franklin Transfer Station	3	3
Isle of Wight Transfer Station	4	4
Landstown Transfer Station	10	10
Norfolk Transfer Station	11	11
Oceana Transfer Station	5	5
Suffolk Transfer Station	4	5
Scalehouse Operations	<u>13.5</u>	<u>13.5</u>
Subtotal	<u>131.5</u>	<u>130</u>
<b>TOTAL</b>	152.5	148

## The Consulting Engineer

Section 714 (a) of the Resolutions 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.”

SAIC, (previously as the successor company to 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 December 9, 2011.

## The Trustee

U.S. Bank National Association was appointed by the Authority as Trustee for all outstanding bonds in 2006, and continues to serve in this capacity.

## 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 27, 2012, SAIC 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. City of Chesapeake, Virginia v. Southeastern Public Service Authority of Virginia, Case No. CL06-1876, Circuit Court of the City of Chesapeake, Virginia. 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 occurring on June 19, 2008 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.

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 “non-suit”, essentially a dismissal of her claims against the defendants without prejudice.

As permitted by applicable law, Ms. Poole re-filed her suit on June 20, 2011 (reference the Case No. cited above), making substantially the same allegations and again seeking damages of \$1,000,000. SPSA was served on July 18, 2011 and once again referred the matter to its primary insurance carrier, which retained counsel to defend SPSA. On July 27, 2011, counsel for SPSA in this matter filed a plea of Immunity, Demurrer and Answer on behalf of both SPSA and Mr. Gavoni, and a hearing regarding the defendant’s plea of Immunity and Demurrer was held in the Chesapeake Circuit Court on November 9, 2011. At the hearing the Court took the Immunity Plea under advisement but has yet to rule on the issue. No trial date has been set for this matter as of the date of this letter.

3. Various Collection Proceedings. Through special counsel engaged largely on a contingency basis, SPSA has commenced litigation in Chesapeake courts in an effort to collect on the following delinquent customer accounts (specifically, collection of “tipping fees” owed to SPSA for waste and refuse previously received by SPSA from such customers):

Delinquent Customer	Principal Amount Owed*	Court
Todd James Cook and Atlas Recycling	\$10,713.98	Chesapeake General District Court
Marvin Hill and Hill Will Clean-Up Services, Inc.	\$4,284.88	Chesapeake General District Court
William D. Holly, III and Triad Disposal, LLC	\$79,864.99	Chesapeake Circuit Court
Jason A. Warren and Winston Disposal, LLC	\$29,052.10	Chesapeake Circuit Court

\* Amounts do not reflect interest, fees and costs also demanded.

To date, trials for these collection proceedings have not occurred.

## Auditor

Dixon Hughes Goodman LLP, Certified Public Accountants and Advisors, 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 FY2011 was submitted to the Authority on October 20, 2011.

Summaries of information included in the Condensed Summary of Net Assets and Summary of Revenues, Expenses, and Changes in Net Assets for the FY2011 and FY2010 are presented as Tables 2-4 and 2-5, respectively.

**Table 2-4**  
**Condensed Summary of Net Assets June 30, 2011 and 2010**

Assets	2011	2010
<b>ASSETS</b>		
Current and Other Assets	\$52,091,648	\$70,162,069
Capital Assets, Net	<u>43,746,827</u>	<u>47,912,441</u>
Total Assets	<u>95,838,475</u>	<u>118,074,510</u>
<b>LIABILITIES</b>		
Current Liabilities	10,587,397	14,749,441
Long-term Liabilities	<u>76,044,175</u>	<u>92,623,003</u>
Total Liabilities	<u>86,631,572</u>	<u>107,372,444</u>
<b>NET ASSETS (DEFICIT)</b>		
Invested in Capital Assets, Net of Related Debt	(8,227,177)	(24,385,951)
Restricted	7,928,497	12,769,258
Unrestricted	<u>9,505,583</u>	<u>22,318,759</u>
Total Net Assets (Deficit)	<u>9,206,903</u>	<u>10,702,066</u>
Total Liabilities And Net Assets (Deficit)	<u>\$95,838,475</u>	<u>\$118,074,510</u>

Source: Audit Report prepared by Dixon Hughes Goodman LLP prepared October 20, 2011.

**Table 2-5**  
**Summary of Revenues, Expenses, and Changes in Net Assets**  
**Years ended June 30, 2011 and 2010**

	2011	2010
<b>OPERATING REVENUES</b>		
Municipal Tipping Fees	\$54,045,775	\$74,132,528
Other Tipping Fees	2,618,621	15,961,205
Sale of Steam and Electricity	0	10,671,895
Recycling Revenue	0	3,309,847
Other Operating Revenue	<u>1,321,973</u>	<u>2,303,837</u>
Total Operating Revenue	<u>57,986,369</u>	<u>106,379,312</u>
<b>OPERATING EXPENSE</b>		
Personnel	9,781,555	22,825,872
Depreciation and Amortization	5,392,885	12,874,578
Routine Maintenance Operations	2,482,920	14,183,523
Ash and Residue Agreement	15,338,526	22,276,504
Other Operating Expenses	<u>22,852,921</u>	<u>19,408,572</u>
Total Operating Expenses	<u>55,848,807</u>	<u>91,569,049</u>
Operating Income	<u>2,137,562</u>	<u>14,810,263</u>
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Gain (Loss) on Sale of Assets	(773,331)	48,151,441
Investment Income	110,360	140,619
Interest Expense	(3,835,617)	(26,185,802)
Other Income (Expense), Net	<u>865,863</u>	<u>2,623,093</u>
Total Non-operation Revenue (Expense)	<u>(3,632,725)</u>	<u>24,729,351</u>
Net Change In Assets (Deficit)	(1,495,163)	39,539,614
<b>TOTAL NET ASSETS (DEFICIT)</b>		
Beginning of Year, as restated	<u>10,702,066</u>	<u>(28,837,548)</u>
End of Year	<u>\$9,206,903</u>	<u>\$10,702,066</u>

(1) Source: Audit Report prepared by Dixon Hughes Goodman LLP prepared October 20, 2011.

Included among the comments in the audit were the following:

- The net assets of the Authority at the close of fiscal 2011 were \$9,206,903 representing a decrease of \$1,495,163 from fiscal year 2010, primarily due to disposition of assets no longer in service and the use of excess cash on hand for the early retirement of debt.
- The Authority reduced the municipal tipping fee to \$145 per ton from \$170 per ton in fiscal year 2010.
- The Authority experienced a 15 percent decrease in municipal waste tonnages.

- The Authority used approximately \$13 million in excess cash on hand plus \$3.3 million held in a debt service reserve account to provide for the early retirement of debt in the principal amount of \$15,585,000.
- As of June 30, 2011, total debt outstanding was approximately \$58.74 million compared to the \$80.97 million outstanding the previous year.

### 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 SAIC’s visit it was observed that certain capital repairs, including those in process during our last visit had been completed, reversing a trend noted in reports prior to 2011.

## 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 2011, the Authority obtained property and general liability insurance through VML Insurance Programs, a municipal pooled insurance program. In an e-mail dated March 6, 2012, 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 Section 707 of the Senior Bond Resolution. The insurance coverages meet the requirements stated in Section 707.

“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 a legal review.”

A list of those insurance policies in effect as of March 2012 is presented in Table 2-6 at the end of this subsection.

Table 2-6  
Summary of Operating Insurance  
In Effect as of March 2012

Coverage	Limits	Insurer(s)	Policy Number	Policy Term
General Liability <sup>(1)</sup>	\$1,000,000	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Public Officials Liability <sup>(1)</sup>	Included in GL	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Excess Liability <sup>(1)</sup>	\$10,000,000	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Automobile Liability <sup>(1)</sup>	\$1,000,000	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Crime <sup>(1)</sup>	\$500,000	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Property <sup>(1)</sup>	\$32,167,800	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Miscellaneous (Equipment) <sup>(1)</sup>	\$13,758,463	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Workers Compensation <sup>(1)</sup>	Per Virginia Statue	VML Insurance Program	P-2011-2012-VML-0707-1	7/1/11 - 7/1/12
Pollution <sup>(2)</sup>	\$5,000,000	Chartis	12962459	10/1/11 - 10/1/14
UST/AST - Storage Tanks <sup>(2)</sup>	\$2,000,000/\$1,000,000	Great American Alliance	BTA 5236961-08	7/1/11 - 6/30/12

(1) Source: From VML Insurance Programs Certificate of Insurance, dated March 6, 2012

(2) Source: Provided by SPSA, February 21, 2012

## 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.

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 There to

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 February 22, 2012 of the proposed operating and capital budgets for the FY2013.

## 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, 14, 16, and 17.

## Planning

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

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

In July 2010, SPSA submitted its Solid Waste Management Plan 5-year update to the Virginia Department of Environmental Quality (“DEQ”), and on January 19, 2012 the DEQ sent a letter to SPSA accepting it. In September 2011, on behalf of SPSA, the HRPDC prepared an updated version of the Regional Plan.

## The HRPDC Study

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. 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 Solid Waste Disposal Agreements (as defined and described in Section 4) 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.

### HRDPC Report Update

In October 2011, the HRDPC issued its final report “Update to Solid Waste Management for Southside Hampton Roads Planning Horizon 2011-2047” (the “HRDPC Report Update”). In the HRDPC Report Update the consultant (1) reviews the existing regional solid waste management system, (2) assesses future solid waste technologies and needs, (3) assesses alternative institutional models, (4) presents the results of pro forma modeling of potential costs of 15 scenarios, and (5) and presents its findings.

In its findings, the consultant recommends that regional governments address solid waste management issues facing the region prior to the January 2018 expiration of the Solid Waste Disposal Agreements, and it presents timelines for decision making in the report. In general, the consultant supports continuing a regional approach to solid waste management as expressed in the following:

“For the Region as a whole, including municipal, institutional, and commercial sectors, Regional cooperation could provide significant reduction in costs through the operation of the Regional Landfill. This significant cost-control advantage would be lost if the Region does not cooperate. Retaining the ability to cost-effectively operate the Regional Landfill would be a useful factor in negotiating beneficial terms for short or long-term transportation and disposal contracts for the waste streams that are under the direct control of the regional governments. In addition, Regional cooperation would make it easier to achieve the integrated solid waste management requirements and goals of the Virginia Waste Management Board. The size, organization, and responsibilities of the Regional Authority would depend on the assets it would be required to manage (e.g., landfill, transfer station), and the services requested by its members (e.g., collection, recycling, yard waste, household hazardous wastes).

“Future cooperation of the Region’s members (either all eight communities or a subset of the eight) will allow for more efficient development and operation of the large-scale solid waste facilities needed to recycle, transfer, process, convert, and dispose of the Region’s solid waste as a result of economies of scale, regardless of whether the Regional Authority handles municipally collected waste only or provides services for commercially collected solid

waste as well. Maintaining a Regional Authority to provide for transfer, recycling, and disposal services is a logical approach to managing the Region's solid waste either through development of facilities and operations owned and operated by the Authority or through contracted services. However, many of the member communities have moved forward with providing recycling, yard waste, and household hazardous waste services in the absence of a reliable regional approach, and returning to a regional approach may be difficult in light of past experiences within the Region."<sup>1</sup>

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<sup>1</sup> SCS Engineers, Update to Solid Waste Management for Southside Hampton Roads Planning Horizon 2011-2047, Final Report, October 6, 2011, pp. 204-205.



## Section 3

# ADEQUACY OF REVENUES AND OTHER FINANCIAL DATA

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## 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 “Disposal System.” The Disposal 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 Revenue 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 \$3,390,000 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. The Series 12 bonds were paid off on October 1, 2011, and the Series 13 bonds are no longer outstanding as of 2010.

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. The Series 15 bonds are no longer outstanding.

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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 Disposal 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 Disposal 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 Quantities

Prior to the sale of the WTE System in 2010, SPSA managed waste delivered on behalf of Member communities as well as private hauler waste. Currently SPSA only manages waste delivered on behalf of the Member Communities. Private haulers contract directly with Wheelabrator for commercial waste disposal. SPSA transfers commercial waste delivered to its transfer stations 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 3-1 is a summary of solid waste deliveries to the Disposal System during the last ten fiscal years.

Table 3-1  
Historical Annual Solid Waste Deliveries

Fiscal Year	Tons <sup>(1)</sup> (000)	Percent Change from Previous Year
2002	1,190	11.2
2003	1,247	4.8
2004	1,427	14.4
2005	1,435	0.6
2006	1,482	3.2
2007	1,578	6.5
2008	1,513	(4.1)
2009	1,139	(24.7)
2010	1,011	(11.2)
2011	994	(1.7)

Source: The Authority

(1) Tonnage values do not include proprietary waste

The Member Communities deliver only a portion of the total waste deliveries to the Disposal System and that amount has been decreasing over the last five years. Waste deliveries by the Member Communities decreased by 15.1 percent in FY2011 as compared to fiscal year ended June 30, 2010. From FY2007 to FY2011 deliveries by the Member Communities decreased 24.7 percent. 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 Disposal System. Increased recycling and the elimination of the yard waste processing program have contributed to the reduced waste deliveries to the Authority.

While tonnages declined in FY2011, in contrast to recent years, based on waste receipts for the first eight months of the fiscal year, the Authority projects that municipal deliveries for FY2012 will be approximately 421,000 tons, a 3 percent increase over the actual tonnage received in FY2011. 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

hailed 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. Presented in Table 3-2 is a summary of historical waste deliveries by the Member Communities during the last five fiscal years.

**Table 3-2**  
**Historical Waste Deliveries by Member Communities**

Fiscal Year	Waste Deliveries <sup>(1)</sup> (000 Tons)	Percent Change from Previous Year
2007	543	(1)
2008	540	(1)
2009	518	(4.1)
2010	482	(6.9)
2011	409	(15.1)

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

## Adequacy of Net Revenues

The reported operating results and debt service coverage requirements for the FY2011, as prepared by the Authority, are presented in Table 3-3.

**Table 3-3  
Historical Operating Results and Debt Service Coverage of the Disposal System for  
Fiscal Year 2011**

Disposal System Revenues <sup>(1)</sup>	\$ 58,962,595
Less: Disposal System Operating Expenses <sup>(2)</sup>	<u>(34,144,268)</u>
Net Disposal System Revenues	24,818,326
<b><u>Senior Debt Coverage</u></b>	
Net Disposal System Revenues will = or > 1.20 x Senior Debt	
Senior Debt	\$ 3,836,015
x 1.20	4,603,218
Coverage Test Net Revenue	<u>24,818,326</u>
Coverage Requirement is Exceeded by	\$ 20,215,108
<b><u>Senior Subordinated Debt Coverage</u></b>	
Net Disposal System Revenues will = or > 1.10 x Total Debt <sup>(3)</sup>	
Senior Debt	\$ 3,836,015
Senior Subordinated Debt	3,292,745
X1.10	3,622,020
Senior Debt plus +1.10 x Senior Sub Debt	7,458,035
Coverage Test Net Revenue	<u>24,818,326</u>
Coverage Requirement is Exceeded by	\$ 17,360,291
<b><u>Guaranteed Subordinated Debt Coverage (Debt Coverage on All Indebtedness)</u></b>	
Net Revenues must = or > 1.0 x Total Debt	
Senior Debt	\$ 3,836,015
Senior Subordinated Debt	3,292,745
Guaranteed Subordinated Debt Coverage	1,369,990
Total Debt	8,498,750
x 1.00	8,498,750
Coverage Test Net Revenue	<u>24,818,326</u>
Coverage Requirement is Exceeded by	\$ 16,319,576
<hr/>	
(1) As developed by the Authority, the Disposal System Revenue number includes the following components:	
1. Disposal System revenue from Trial Balance -----	\$58,962,595
2. Less insurance recoveries -----	0
Disposal System Revenue (reflects gross tipping fees paid by Virginia Beach) -----	\$58,962,595
(2) As developed by the Authority, the Disposal System Operating Expenses adjusted for coverage:	
1. Total Disposal System Expenses -----	\$30,292,293
3. Plus Pay as You Go Equipment Replacement -----	675,146
4. Plus Ash & Process Residue Agreement Payment -----	3,161,421
5. Plus DEQ Letter of Credit Fees -----	15,408
Disposal System Operating Expenses Adjusted for Coverage -----	\$34,144,268
(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.	

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Based on these reported operating results, the Authority had adequate funds available from operations, interest earnings, and capitalized interest during FY2011 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, 2011 and a comparison to the budget are presented in Table 3-4.

**Table 3-4**  
**Comparison of Budget and Actual**  
**Results of the Disposal System**  
**for the Period Ended December 31, 2011**

	Budget Six Months Ended December 31, 2011	Actual Six Months Ended December 31, 2011 <sup>(1)</sup>
<b>Disposal System</b>		
Total Operating Revenue <sup>(2)</sup>	\$ 22,889,237	\$ 24,133,096
Operating Expenses (Excluding Depreciation Expense)	<u>17,100,421</u>	<u>14,028,843</u>
Operating Income	\$ 5,788,816	\$ 10,104,253
Funds Available for Debt Service Payment		
Less:		
Accrued Debt Service - Senior Bonds Requirement	\$ 1,888,279	\$ 1,747,845
Accrued Debt Service - Other Indebtedness	<u>2,828,037</u>	<u>3,135,909</u>
Total Debt Service	4,716,316	\$ 4,883,754
Balance Available after Debt Service Payment	\$ 1,072,500	\$ 5,220,499
Other Uses		
Letter of Credit Fees	65,000	-
Virginia Beach Environmental Trust Fund	5,000	-
Suffolk Environmental Trust Fund	2,500	-
Deposit to Closure Fund	<u>1,000,000</u>	<u>-</u>
Total Other Uses	1,072,500	-
<b>Disposal System Operating Surplus (Loss)</b>	<b>\$ -</b>	<b>\$ 5,220,499</b>

(1) As reported by the Authority.

(2) Operating revenue reflects net tipping fees paid by the City of 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 3-5.

**Table 3-5  
Summary of Historical Operating Results  
for the Disposal System**

Fiscal Year	2007	2008	2009	2010	2011
Solid Waste Received (000 tons) (1)	1,578	1,513	1,139	1,011	994
System Revenues (000) (2)	\$77,567	\$91,638	\$92,421	\$96,521	\$58,852
Interest Income (000) (3)	\$2,400	\$2,111	\$1,615	\$140	\$110
Gross Revenues (000) (4)	\$79,967	\$93,749	\$94,036	\$96,661	\$58,962
Operating Expenses (000) (5)	\$38,230	\$43,031	\$38,590	\$33,741	\$34,144
Net Revenues (000) (4)	\$41,737	\$50,718	\$55,446	\$62,920	\$24,818
Debt Service Senior Bonds (000) (6)	\$17,216	\$18,986	\$23,727	\$5,496	\$3,836
Debt Service Coverage Senior Bonds (7)	2.42	2.67	2.34	11.45	6.47
Debt Service All Indebtedness (000)	\$33,080	\$34,132	\$38,563	\$19,785(9)	\$8,499
Debt Service Coverage All Indebtedness (8)	1.26	1.49	1.44	3.18	2.92

Source: The Authority.

(1) Proprietary Waste not included.

(2) Disposal System Revenues per June 30 Trial Balance plus interest income.

(3) "Interest Income" as per the June 30 Trial Balance, less investment income on invested balances in the Suffolk and Virginia Beach Environmental Trust Funds.

(4) As defined in the Senior Bond Resolution.

(5) "Operating expenses" as per the audited Financial Statements, less expenses associated with the WTE Plant, depreciation/depletion and landfill/post-closure costs (non-cash items). As defined in the Senior Bond Resolution.

(6) Excluding accrued and capitalized interest.

(7) Net Revenues divided by Debt Service Senior Bonds.

(8) Net Revenues divided by Debt Service All Indebtedness.

(9) Value restated to include Guaranteed Subordinated Debt Service Coverage

## Draft of Budget

On February 22, 2012, the Authority staff submitted to the Board of Directors a draft of the Annual Financial Plan for FY2013 (the "Draft Budget"). The Draft Budget included the following important assumptions and considerations:

1. A total budget of \$44,648,866 was presented in a balanced format;
2. The overall budget decreased of 9 percent;

3. Projects a 3 percent increase in municipal tonnages over the actual amounts received in FY2011.
4. The municipal tipping fee was reduced by \$20 per ton to \$125 per ton. It is staff's intention to maintain this tipping fee into the future by establishing a reserve for tip fee stabilization of \$3.36 million;
5. Incorporates the use of excess cash by planning to use \$9.48 million to call for the early redemption of 2007A variable rate debt, and committing \$6.5 million to the landfill closure fund;
6. Landfill gas royalties are budgeted at \$550,000, consistent with last year;
7. The Navy waste disposal contract expires June 28, 2012, and the budget anticipates this contract being renewed and that it will generate \$1.2 million in revenue;
8. Construction and demolition tonnage projections have been reduced by 12,000 tons or \$480,000 due to weak deliveries;
9. Personnel costs are budgeted with a 3 percent cost of living increase, a 3 percent health insurance increase, and a 3 percent workers compensation insurance increase;
10. The vehicle and equipment fuel budget has been increased by 6 percent due to increased tonnage, and fuel is budgeted at \$3.50 per gallon, the same as last year;
11. Building and site maintenance budgets are increased by \$161,632 to account for increased efforts to improve the physical appearances of facilities;
12. The service fee paid to Wheelabrator is projected to increase \$1 million in accordance with the \$2 per ton contractual increase paid at the waste-to-energy facility; and,
13. Capital improvement and replacements will be funded with cash, and no capital replacement is planned after 2015.

The Board of Directors plans to review the Draft Budget and approve a final budget for FY2013 prior to the last day of the current fiscal year, in accordance with Section 712 of the Resolutions. If the Authority achieves the Draft Budget, it should realize sufficient revenues to meet its debt service payment requirements.

## Current Rates and Charges

On June 1, 2011, the Authority implemented the tipping fees and charges as shown in Table 3-6.



**Table 3-6  
Existing Rates and Charges**

	Rates for Services Effective June 1, 2011
<b>Solid Waste Acceptable at All Disposal Points</b>	
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 (Rate effective June 1, 2011 is \$35.35 per ton)	Per contract
Weighing Charge per Vehicle	\$20.00/incident
Residential Solid Waste Delivered in Private Automobile or Low-Side Pickup Truck	No charge
Suffolk Municipal (Waste Delivered by City of Suffolk)	No charge
Suffolk Contract Municipal Waste (Waste Delivered on behalf of City of Suffolk)	No charge
<b>Waste Disposal – Landfill Only</b>	
Non-processible Solid Waste (Non-contract)	\$ 60.00/ton
Industrial Process Wastes (acceptable only with prior approval)	\$ 60.00/ton
Dead Animals (household pets only, i.e., dogs and cats)	\$ 10.00 each
Water Treatment Plant Sludge from any Member Community Transported by SPSA	\$ 46.00/ton
Construction and Demolition Waste	\$ 40/ton
Special Handling Waste	Handling cost plus 25%
<b>Tires – Whole Tires Accepted at Landfill Only</b>	
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/tire
<b>Household Hazardous Waste</b>	
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
<b>Miscellaneous</b>	
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
<b>Gray Soils Used as Alternative Daily Cover</b>	
ADC5	\$ 5.00/ton
ADC10	\$ 10.00/ton
ADC15	\$ 15.00/ton
ADC20	\$ 20.00/ton

## Quantity of Solid Waste Disposed

The tons disposed and the disposal revenue received during the first six months of the current fiscal year are presented in Table 3-7.

**Table 3-7**  
**Revenues from Disposal Fees**  
**for Period Ended December 31, 2011**

	Tons	Revenue from Disposal Charges (\$) <sup>(1)</sup>
July	44,911	4,777,690
August	47,421	5,240,310
September	45,360	5,129,318
October	42,205	4,328,755
November	44,801	4,702,764
December	<u>39,883</u>	<u>4,502,504</u>
TOTAL	264,581	28,681,341

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 3-8.

**Table 3-8**  
**Summary of Annual Revenues**  
**from Disposal Fees**

Fiscal Year Ended June 30	Total Tons (000)	Revenues From Disposal Charges (\$000) <sup>(1)</sup>
2007	1,578 <sup>(2)</sup>	57,320
2008	1,513 <sup>(2)</sup>	69,269
2009	1,139 <sup>(2)</sup>	70,558
2010	1,011 <sup>(2)</sup>	88,734
2011	994	56,664 <sup>(3)</sup>

Source: The Authority. Reported on a cash basis.

(1) Does not include tipping fees for tires or proprietary waste, and includes Virginia Beach at full rate

(2) Tons includes commercial and municipal tons.

(3) Revenues reflect only receipts of municipal tons and landfill receipts of soil and construction and demolition debris.

## Long-Term Debt

Presented in Table 3-9 is a summary of the existing long-term debt of the Authority as of June 30, 2011.

**Table 3-9**  
**Summary of Outstanding Debt of the Authority**

Series – As of June 30, 2010	Date of Obligation	Amount Issued	Amount Outstanding on June 30, 2011
Senior Subordinated Tax Exempt Bonds Series 9	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	205,000
Senior Subordinated Tax Exempt Refunding Bonds Series 14 (held by VRA)	November 1, 2004	13,060,000	780,000
Senior Subordinated Tax Exempt Bonds Series 16	June 8, 2006	14,245,000	2,250,000
Senior Subordinated Taxable Bonds, Series 17	June 8, 2006	3,495,000	345,000
Senior Parity Tax Exempt Bonds Series 2007A <sup>(1)</sup>	October 4, 2007	25,145,000	15,375,000
Guaranteed Subordinated Refunding Bonds, Taxable Series 2009A	June 17, 2009	71,985,000	<u>30,185,000</u>
<b>Total Bonds Payable</b>			<b>\$ 58,735,000</b>

Source: The Authority's audited financial reports.

(1) 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, 2011 is shown in Table 3-10.

**Table 3-10**  
**Status of Bonds Funds and Accounts**  
**as of December 31, 2011**

Bond Accounts	December 31, 2011 <sup>(1)</sup>
1998 Series 1 Bond Fund	\$ 24
2002 Series 9 Tax-Exempt (VRA)	1,217,310
2003 Series 11 Bond Account (VRA)	671,936
2004 Series 14 Tax-Exempt (VRA)	105,108
2006 Series 16 Tax-Exempt (VRA)	371,819
2006 Series 17 Taxable (VRA)	39,118
2007 Series A Tax-Exempt	1,747,845
2009 Series Taxable (VRA)	<u>345,905</u>
<b>Total Bond Account Balance</b>	<b>\$ 4,499,065</b>

Source: The Authority.

(1) Market value as of 12/31/11. 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 3-11.

**Table 3-11**  
**Debt Service Requirements for All Authority Indebtedness**

Fiscal Year Ending June 30	Total Debt Service <sup>(1)</sup>
2012	\$ 6,087,130
2013	10,374,352
2014	11,382,312
2015	8,666,927
2016	7,590,768
2017	<u>24,875,707</u>
Total	<u>\$ 68,977,196</u>

Source: The Authority's audited financial reports.

(1) As of June 30, 2011.

## Introduction

The Authority is party to a number of long-term contracts related to waste disposal and the delivery of solid waste to the Disposal System. Presented below is a brief discussion of certain of the major issues addressed in the various contracts.

## Service Agreement with Wheelabrator Technologies Inc.

The Authority sold the WTE Facilities to Wheelabrator on April 29, 2010. 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 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 substantially all (at least 95 percent per year) the disposable solid waste which is generated or collected by or within or under the control of the contracting community. (In the agreements disposable solid waste is generally described as any solid waste other than hazardous waste, including especially material having energy value but currently discarded without recovery of such energy value) 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 Disposal 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.



Beginning in August 2011, the Authority is no longer directing or delivering any material to the Virginia Beach Landfill.

## 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 agreement had an initial term of one year and the Navy had the option to extend the contract for an additional four years. The Navy exercised the extensions and has renewed the agreement for one-year terms, most recently through June 28, 2012. The Authority anticipates that another one-year contract renewal is likely. Under the current agreement, the Navy pays a tipping fee of \$35.35 per ton for processible waste and \$60 per ton for non-processible waste.



## Section 5

# SUMMARY OF CAPITAL PROJECTS

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## Introduction

In the past the Authority undertook a number of major capital projects to develop the Disposal System. In recent years, capital projects have centered primarily on the capital maintenance of existing facilities and equipment renewal and replacement. It appears that the Authority has been diligently working to make capital repairs to its facilities.

## Capital Budget Funding Strategy

In FY2010, 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 Disposal 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 plans to review and update this plan annually.

## Capital Improvements and Equipment Replacement

The FY2012 revised budget contains \$2,349,153 in capital improvements and equipment replacement for the Disposal System. The Authority projects that \$2,058,471 will be expended during FY2012. On February 22, 2012, 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 as shown in Figure 5-2 does not anticipate capital improvement expenditures after 2015.

Section 5

Table 5-2  
Capital Improvement Plan  
FY2012 to FY2017

Description	FY2012 Projected	FY2013	FY2014	FY2015	FY 2016	FY 2017
<b><u>Regional Landfill</u></b>						
Site Improvements	\$300,000					
Pick Up Truck, 1/2T, 4WD		\$24,000				
Pick Up Truck, 3/4T, 4WD, Extended Cab		\$24,000				
Dozier w/ 6 way blade			\$470,000			
Brush Cutter / Mower				\$12,000		
Backhoe				\$85,500		
<b><u>Fleet Maintenance</u></b>						
Power Sweeper (LDF Shop)		\$42,000				
Pick Up Truck (OPC Shop)			\$28,700			
<b><u>Transportation</u></b>						
Road Tractors (FY11 Rollover Budget)	\$3,956					
Road Tractors (Qty. 10)	\$400,000		\$220,000	\$360,000		
MSW Trailers (Qty. 25)	\$550,000	\$450,000	\$560,000			
<b><u>Boykins Convenience Center</u></b>						
Hopper Replacement	\$38,941					
Compactor Box (Qty 2)				\$21,600		
Compactor				\$40,300		
<b><u>Chesapeake Transfer Station</u></b>						
Tipping Floor Wall Repair	\$17,818					
Tipping Floor Repair	\$146,084					
Replace Tunnel Floor, Entrance, Exit		\$120,000				
Tipping Floor Drainage System		\$190,000				
Asphalt Paving and Repair		\$300,000				
Yard Dog		\$74,700		\$82,400		
Re-Skin Main Bldg and Scalehouse		\$85,000				
<b><u>Franklin Transfer Station</u></b>						
Wheeled Loader 25,000 lb.			\$225,000			
<b><u>Household Hazardous Waste</u></b>						
Pick Up Truck, 1/2T, 4WD, Extended Cab		\$36,000				
Pick Up Truck 1/2T			\$28,000			
<b><u>Isle of Wight Transfer Station</u></b>						
Yard Dog		\$74,700				
Pick Up Truck, 1/2T				\$26,000		

**SUMMARY OF CAPITAL PROJECTS**

Description	FY2012 Projected	FY2013	FY2014	FY2015	FY 2016	FY 2017
<b><u>Landstown Transfer Station</u></b>						
Wheeled Excavator 39,000 lb.		\$280,000		\$300,000		
Wheeled Loader 55,000 lb.				\$500,000		
Tipping Floor Overlay	\$142,155					
Parking Lot & Ramp Resurfacing	\$117,311					
Hopper Repair Holes 1,2,3		\$65,000				
Capping of Crane Walls		\$17,250				
Power Sweeper			\$44,000			
<b><u>Norfolk Transfer Station</u></b>						
Tipping Floor (Phase 3)	\$84,199					
Concrete Wall Repair	\$26,200					
Replace steel on top of tipping floor walls	\$33,000					
Booster Pump replacement	\$17,935					
Pressure Washing / Painting Exterior		\$100,000				
Pressure Washing / Painting Interior		\$75,000				
Wheeled Loader 55,000 lb.		\$470,000				
Power Sweeper		\$42,000				
Tunnel Reinforcement / Concrete Pad		\$34,500				
Asphalt Resurfacing All Roadways		\$149,500				
Replace Flooring in Office Building		\$18,400				
<b><u>Oceana Transfer Station</u></b>						
Yard Dog		\$74,700		\$82,400		
Expanding Gate Exit		\$82,118				
Sidewalk Replacement		\$15,059				
Asphalt Employee Parking Lot		\$9,707				
Outbound Ramp Off Tipping Floor		\$26,450				
Outbuilding for Equipment		\$5,865				
<b><u>Tire Shredder Operations</u></b>						
Tire Cutter			\$45,000			
<b><u>Systemwide</u></b>						
Systemwide Software Conversion	\$110,172					
Tank Monitor System	\$12,200					
Server Upgrades	\$58,500		\$30,000			
<b><u>Undesignated Project Funds</u></b>						
<b>GRAND TOTAL</b>	<b><u>\$2,058,471</u></b>	<b><u>\$2,885,949</u></b>	<b><u>\$1,650,700</u></b>	<b><u>\$1,510,200</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

Source: The Authority



# Section 6

## MAINTENANCE AND OPERATION OF THE FACILITIES

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### Introduction

As part of the preparation of this Report, a representative of SAIC conducted a site visit of the SPSA's facilities in March 2012 and met with representatives of the Authority, for purposes of reviewing the operation and condition of the facilities. The principal observations and findings are discussed below.

### Transfer Stations

At the time of SAIC's site visit, eight of the transfer stations were in operation. The Chesapeake Transfer Station was closed for concrete repairs, but the Authority reports that the facility was returned to service on March 5, 2012. Overall, the amount of solid waste delivered to the transfer stations in FY2011, was 761,856 tons, up approximately 1 percent from the 753,593 tons delivered in FY2010. In most cases, the transfer stations are being operated within design capacities, except for unusually heavy days or during peak periods.

Under the terms of the Service Agreement, Wheelabrator is responsible for providing transportation and disposal of non-processible waste, and the Authority's Transportation Division 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.

Consistent with last year's visit, maintenance projects appear to be on going, and a number of projects appeared to have been completed at several locations. Staff reported that maintenance and repairs were an on-going priority at number of facilities. 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.

At the time of our site visit, all of the transfer stations appeared to be operating satisfactorily, and all appeared to be in good working condition. The Authority continues to use operating budgets for minor repairs, as needed and uses in-house labor to complete certain types of work (e.g., painting and minor building repair).

## Boykins Convenience Center

The Boykins Convenience Center is configured in a similar manner the Ivor Convenience Center. 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 2 TPD, overall a 43 percent decline in total tonnage received was experienced 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 facility appears to be in good condition.

## Chesapeake Transfer Station

The Chesapeake Transfer Station consists of a three-sided steel building with a tipping floor that encloses a single hopper that allows open-top loading of transfer trailers. The Chesapeake Transfer Station averaged approximately 513 TPD in FY2011, an increase of approximately 15 percent from the previous year. The facility is open Monday through Friday and for a half-day on Saturday. Six personnel are assigned to the transfer station operation.

SPSA owns the improvements on land leased from the City of Chesapeake. The lease expires May 12 2012, with an option to extend the lease for four more years until May 31, 2016.

At the time of the site visit, the transfer station was closed to the public, and new concrete construction was in the process of curing. The concrete repairs included new curb and gutter to improve site drainage. Additional small areas of concrete were being repaired at the time of the site visit. The building shows some wear typical for a transfer building of this age, but overall the facility is in satisfactory condition.

## Franklin Transfer Station

The Franklin Transfer Station consists of open tipping floor area screened with a fabric chain link fence; it does not include a building enclosure. Waste is typically dumped into the single hopper directly into open-top transfer trailers. The facility is open Monday through Friday and for a half-day on Saturdays. The Franklin Transfer Station averaged approximately 73 TPD in FY2011, waste deliveries increased less than 1 percent from the previous 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.

The chain link fencing around the hopper, the asphalt and concrete pavement and the concrete retaining wall appeared to be in good repair. In the past year, the open hopper structure was sandblasted and painted, and site work had been performed to improve draining in the lower truck staging area.



Overall, the facility appears to be in good condition.

## Isle of Wight Transfer Station

The Isle of Wight Transfer Station is a push-wall transfer station with a three-sided metal building superstructure. At the Isle of Wight Transfer Station, trailers travel on a loading lane situated at a lower grade than the tipping floor so that the sides of the trailers are approximately 4 feet above the tipping floor, and a front-end loader lifts waste into the transfer vehicles. All of SPSA's other transfer stations are top-load facilities where waste is pushed over the floor, into a hopper, and falls into open-top trailers. In FY2011, the transfer station averaged deliveries of 88 TPD a reduction of approximately 5 percent over the previous fiscal year. 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. Loaded trailers at the Isle of Wight Transfer Station are hauled to a Company landfill by Wheelabrator's subcontractor; SPSA drivers typically do not service this facility. Loaded trailers from the Isle of Wight Transfer Station are hauled to Wheelabrator's landfill by its subcontractor; SPSA drivers typically do not service this facility.

In the past year, new asphalt was installed over a portion of the facility's pavement and the push-walls were extended and repaired. Corrosion was observed on the vertical members of the steel building's back wall, and should be addressed as part of the facility maintenance program.

The facility appears to be in good condition.

## Ivor Convenience Center

The Ivor Convenience Center 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. The facility consists of an elevated area where customers can deposit waste into a stationary compactor or two open-top roll-off containers. The average daily tonnage in FY2010 was about 2 TPD; overall 44 percent less waste was managed at this facility compared to the prior fiscal 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 facility support. 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.

In the past year, the Authority installed a leachate containment system and a new 2,000-gallon storage tank at the center. In addition, a new water supply well was installed and a fire hose has been installed near the compactor.

The facility appeared in good condition at the time of the inspection.

## 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 and operation to the Norfolk Transfer Station. The station averaged 692 TPD in FY2012, a 7.5 percent decrease from the previous fiscal 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.

In the past year, an asphalt overlay of pavement on the entire site was completed. The concrete tipping floor was resurfaced, also. Some spalling of the concrete hopper walls was observed, but this damage is not excessive and is consistent with a high-use transfer station. Capping of these walls is included in the FY2013 capital plan. A skylight noted as missing in last year's report has been replaced. A poorly functioning window to the tipping floor has been removed and replaced with concrete block. A traffic signal was installed at the entrance to the tipping floor to control customer access.

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

## Norfolk Transfer Station

The Norfolk Transfer Station, with a design capacity of 1,300 TPD, is capable of loading three trailers at one time. It is an enclosed, top-load facility with compaction accomplished by use of a mobile excavator. The facility averaged 752 TPD in FY2011 approximately a 2.5 percent increase in tonnage compared to the previous fiscal 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.

In the past year, the Authority completed phase III of a planned three phase tipping floor resurfacing project. The phase III work repaired concrete and improved drainage on the tipping floor. New lighting was installed on the tipping floor improving visibility, and all lights were working at the time of our visit. A new booster pump to increase water pressure on the tipping floor wash-down hoses appeared to have been recently installed. Improvements were made to the outbound scale. The interior of the inbound scale house was refurbished as an operating repair, and the scale operator reports the facility is nicer and better to work in.

Damage to the push-wall near the exit door noted during SAIC's last inspection had been repaired. Additional repairs to the steel diverters above the concrete push-walls are included in the FY2012 budget.

The work to repair the hoppers observed during our last visit has been completed, and all three hoppers have been refurbished and appear to be in good condition. The general accumulation of debris and dirt on the floor, in corners, and around various obstacles was observed to be significantly reduced during the visit. The site supervisor reported that a diligent effort is made by operations staff to keep the facility clean. While the facility exhibits the wear and grime associated with an operating transfer station, it is apparent that the facility is subject to regular sweeping and wash-down. 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 initially observed during the site visit in 2008 has been resolved. The stockpile of soil adjacent to the roadway has been removed, and the area has been graded to allow sheet flow drainage off of the asphalt. The night before SAIC's site visit the area experienced heavy thunderstorms, and no standing water was observed on the pavement.

A section of siding noted as separated from the CMU wall at the rear of the building on the 2010 report has not yet been repaired. The damage does not appear to affect the structural integrity of the building. Additional damage to the wall's girts and vertical members was observed, and should be addressed as part of SPSA's on-going maintenance program.

## Oceana Transfer Station

The Oceana Transfer Station averaged approximately 299 TPD in FY2011, a decrease of less than 1 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 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. The advantage of the drop and hook operation is that trailers can be loaded and staged during the day, and hauled to the disposal during hours when there is less traffic on area highways. As part of the agreement with VDOT to use the lot, the Authority is required to maintain its condition.

In April 2011, the Authority completed a significant reconstruction of the facility. The steel building was demolished and a new superstructure was erected. The tipping floor was resurfaced, the site asphalt pavement was resurfaced, and the facility's push-wall was refurbished. The onsite leachate manhole, piping, and storage tank were refurbished. Additionally, it was observed that minor damage to the facility scales observed during last year's visit had been repaired.

The facility appears to be in good condition.

## Suffolk Transfer Station

The Suffolk Transfer Station, located near the entrance to the Regional Landfill, allows the Authority to divert waste from the Regional Landfill to the RDF Plant, thereby extending the remaining life of the Regional Landfill. The facility is similar in size to the Landstown Transfer Station. It is constructed with two open-top hoppers, and it is designed for 53-foot long trailers. The facility is open Monday through Friday and for a half-day on Saturdays. The station averaged 244 TPD in FY2010, an increase of approximately 4 percent from the previous year. Five employees are assigned to the transfer station. 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.

During the past year, the building siding near the parking lot/personnel entrance that was observed to be rusted near ground level during the last site visit has been repaired and repainted. Additional observations made during the site visit include that new rubber skirting has been installed at the load-out hoppers and a new storm water conveyance ditch excavated behind the facility.

The facility is maintained in good condition.

## Transportation Operations

The Transportation Division is responsible for conducting hauling operations transferring processible waste from the transfer stations to the WTE. Overall coordination of the transfer stations and transportation operations is the responsibility of the transportation superintendent. The Transportation Division is staffed by a transportation manager, 40 drivers (36 full-time and 4 part-time). In addition to transporting MSW, the Transportation Division operates roll-off trucks, a tanker, a lowboy trailer, and hauls sludge from the City of Norfolk's wastewater treatment plant to the regional landfill. Transportation operations are conducted in two shifts – a daytime shift from 9:00 am to 6:00 pm, and a night shift from 8:00 pm to 6:00 am.

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

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

Transfer Station	Design Capacity (TPD)	2007		2008		2009		2010		2011	
		Total Annual (Tons)	Daily Average <sup>(1)</sup> (TPD)	Total Annual (Tons)	Daily Average <sup>(1)</sup> (TPD)	Total Annual (Tons)	Daily Average <sup>(1)</sup> (TPD)	Total Annual (Tons)	Daily Average <sup>(1)</sup> (TPD)	Total Annual (Tons)	Daily Average <sup>(1)</sup> (TPD)
Boykins	50	1,242	8	691	4	698	4	526	3	302	2
Chesapeake	500	159,169	557	158,209	553	148,159	518	127,883	447	146,621	513
Isle of Wight	150	35,511	124	31,831	111	27,464	96	6,626	93	25,254	88
Franklin	150	27,095	95	24,643	86	23,910	84	20,867	73	21,000	73
Ivor	50	881	6	719	5	653	4	536	3	300	2
Landstown	1,500	251,372	879	237,378	830	223,688	782	213,975	748	198,042	692
Norfolk	1,300	288,694	1,009	274,543	960	232,640	813	209,769	733	214,934	752
Oceana	500	120,213	420	106,401	372	96,622	338	85,954	301	85,579	299
Suffolk	1,300	<u>65,289</u>	<u>228</u>	<u>68,780</u>	<u>240</u>	<u>70,385</u>	<u>246</u>	<u>67,457</u>	<u>236</u>	<u>69,825</u>	<u>244</u>
<b>Total</b>		<b>949,466</b>	<b>3,326</b>	<b>903,195</b>	<b>3,161</b>	<b>824,219</b>	<b>2,885</b>	<b>753,593</b>	<b>2,637</b>	<b>761,856</b>	<b>2,665</b>

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 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 of its permitted facilities. Each manual provides information about station functional arrangement and throughput capacity; emergency and contingency plans; routine inspection plan; and closure.
9. **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 SAIC's visit.

## The Regional Landfill

The Regional Landfill is located on an 833-acre parcel off the merged US Routes 58, 13 and 460 in Suffolk, Virginia. Facilities at the Regional Landfill include:

- Closed landfill Cells I through IV;
- Active landfill Cells V and VI;
- Scale facility (that also serves the Suffolk Transfer Station);
- Operations and vehicle maintenance building;
- Household hazardous waste collection center;
- Tire processing facility;
- Soils management facility (a tenant on the site);
- Ferrous processing facility (a tenant on the site);
- Leachate collection system and lined treatment/holding ponds;
- Gas-to-energy plant;
- Landfill expansion area (Cell VII); and,
- Other support facilities and appurtenances.

The Authority began disposing of solid waste in Cell I of the Regional Landfill in January 1985. Cells I through IV were closed in the summer of 2009. The Authority is currently operating Cells V and VI. Cell V began operation in May 2000 and Cell VI began accepting waste in May 2006. 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 1,767 pounds per cubic yard since Cell V operations began<sup>2</sup>. The figures in Table 6-2 include provision for the residue ash deposited in the Regional Landfill. The Authority estimates that during calendar year 2011, the Regional Landfill accepted a total of 189,438 tons of waste consisting of MSW, construction and demolition debris, ash, and other wastes.

The marked decline in tonnages received at the Regional Landfill starting in 2010 is principally the result of the Service Agreement implementation. During the fiscal year, all non-processible waste or diverted solid waste was directed to Company Landfills for disposal. With the reduce tonnages, the Authority scaled back the number of personnel and hours of operation at the Regional Landfill. As of April 3, 2011, the Regional Landfill reduced hours of operation to ten hours per day, four days per week and reduced staff from 13 to 11 assigned personnel. Currently, the largest

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<sup>2</sup> HDR Engineering Inc., Regional Landfill, Cells V and VI, Suffolk Virginia, Airspace Management, Prepared for Southeastern Public Service Authority, Revised March 2012.

waste streams being received by the landfill are WTE ash, soils, and construction and demolition debris. The Authority began directing WTE ash deliveries to the Regional Landfill in August 2011, prior to this date ash deliveries had been directed to the Virginia Beach Landfill.

**Table 6-2**  
**Summary of Waste Disposed at the Regional Landfill**

	Total for Period (Tons)	Average Per Day <sup>(1)</sup> (Tons)
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
January – December 2011	189,438	810

Source: The Authority.

(1) Based on 6.0 days per week in calendar year 2007 through 2010, and assumes 4 days per week beginning April 2011.

## Closed Landfill Cells

The Authority completed closure construction of Cells I through IV in the summer of 2009. Minor erosion noted in last year's report was observed to be repaired at the time of SAIC's site visit. Recent erosion near the top of the closed cells was observed during the recent visit. Regular repair of erosion is an on-going maintenance issue at most closed landfills. At the time of the site visit, the closed portion of the landfill was covered by a lush stand of turf grass, and it appeared that the side-slopes and perimeter ditched received regular maintenance.

## Expansion of the Regional Landfill

Since 1988, the Authority has been involved in a continual effort to obtain additional landfill space. 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.



On June 8, 2011, the Virginia Department of Environmental Quality issued amended Permit #417 for Cell VII expansion of the SPSA Regional Landfill in Suffolk. SPSA permitted 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. 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.

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 maintains 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 is operating on closed Cells I through IV and active Cells V and VI.
- 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.

## 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.

## White Goods

The Authority has a program to accept white goods (typically appliances and other metal objects). In accordance with environmental regulations, technicians properly remove refrigerants from white goods containing such substances. The collected white goods are recycled as scrap metal.

## 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 landfill gas recovery system began full operation November 17, 1994. The system includes gas collection wells strategically located throughout Cells I through 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, 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 anticipated to be disposed of in the Regional Landfill.
- The in-place density at the Regional Landfill.
- 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, SAIC has 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 WTE ash, soils, and construction and demolition debris.

In the Revised March 2011 Surveyor's report<sup>3</sup>, the 12 month rolling average intake of all waste types is reported as 196,817 tons per year (or 16,401 tons per month) and the in-place density for waste disposal was reported as 1,654 pounds per cubic yard. The amount of available airspace was estimated at 5,419,716 cubic yards. Based on the current intake rate of 16,401 tons per month and the average in-place density over the past ten years of 1,654 pounds per cubic yard, the Surveyors estimate that the landfill will reach capacity in November 2034, 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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<sup>3</sup> HDR Engineering Inc., Regional Landfill, Cells V and VI, Suffolk Virginia, Airspace Management, Prepared for Southeastern Public Service Authority, Revised March 2012.

## 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 August 2011, the Authority began to dispose of 100 percent of the ash from the WTE at the Regional Landfill.

## 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 maintenance staff performs overhauls of road-tractors. In this process, the road-tractors are completely rebuilt, including the replacement of engines and transmissions. Management indicates that this work can be completed in-house at less cost than contracting the work, and that rebuilding the road-tractors extends the life of these assets at a fraction of the cost of acquiring new equipment.

The principal equipment in SPSA's fleet during FY2011 included 55 tractors, 97 MSW trailers, 2 roll-off trucks, 28 pieces of equipment at the Regional Landfill, and 45 wheeled loaders or other equipment at the transfer stations. Tables 6-3 and 6-4 present summaries of equipment operating and maintenance costs.

**MAINTENANCE AND OPERATION OF THE  
FACILITIES**

**Table 6-3  
Operation and Maintenance costs for Landfill and Transfer Stations**

Facility	Equipment Count	Hours	Maintenance Cost	Tire Cost	Gallons of Fuel Used	Fuel Cost
Chesapeake Transfer Station	10	8,032	\$ 34,313	\$48,576	14,824	\$ 40,924
Franklin Transfer Station	5	2,067	\$ 11,379	\$350	3,204	\$ 9,744
Isle of Wight Transfer Station	5	2,118	\$ 10,981	\$ 844	3,499	\$ 9,807
Landstown Transfer Station	7	8,267	\$ 64,558	\$140,587	25,695	\$ 69,615
Norfolk Transfer Station	6	8,033	\$ 86,612	\$173,545	29,177	\$ 79,828
Oceana Transfer Station	8	3,918	\$ 32,160	\$49,882	8,863	\$ 23,201
Suffolk Regional Landfill	28	12,124	\$210,142	\$12,248	60,830	\$ 154,485
Suffolk Transfer Station	4	3,871	\$ 29,011	\$ 34,893	8784	\$ 22,614

**Table 6-4  
Operation and Maintenance Costs for Transportation**

Transportation	Equipment Count	Miles	Maintenance Cost	Tire Cost	Gallons of Fuel	Fuel Cost
Tractors	55	823,420	\$ 237,465	\$ 63,103	209,721	\$542,744
Trailers-MSW	97	823,420	\$ 87,304	\$ 24,829	-	-
Roll-Off Trucks	2	27,493	\$ 935	\$ 1,562	5,015	\$13,029

Tables 6-5 through 6-8 summarize the cost for operations and maintenance of rolling stock and heavy equipment for the last four fiscal years.

**Table 6-5  
Cost Summary  
Fiscal Year Ended June 30, 2011**

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	\$0.299/mile	\$0.659/mile	\$0.076/mile	823,420 miles
MSW Trailers <sup>(1)</sup>	\$0.106/mile	Not Applicable	\$0.030/mile	823,420 miles
Landfill	\$14.645/hour	\$11.217/hour	\$0.281/hour	12,124 hours
Transfer Stations <sup>(2)</sup>	\$7.410/hour	\$7.040/hour	\$12.360/hour	36,306 hours
Roll-Off Trucks	\$0.033/mile	\$0.473/mile	\$0.056/mile	27,493 miles

(1) MSW and ash trailer mileage is estimated.

(2) Includes Norfolk, Chesapeake, Franklin, Isle of Wight, Oceana, Landstown, and Suffolk Transfer Stations.

## Section 6

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

<b>Rolling Stock/Equipment</b>	<b>Maintenance</b>	<b>Fuel</b>	<b>Tires</b>	<b>Miles or Hours</b>
Tractors	\$0.291/mile	\$0.509/mile	\$0.081/mile	1,215,012 miles
MSW Trailers <sup>(1)</sup>	\$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	\$0.47/hour	42,651 hours
Transfer Stations <sup>(2)</sup>	\$10.64/hour	\$6.14/hour	\$15.68/hour	29,815 hours
RDF Plant <sup>(3)</sup>	\$13.40/hour	\$9.42/hour	\$26.81/hour	15,060 hours
Ash Trailers <sup>(1) (3)</sup>	\$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 <sup>(3)</sup>	\$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 6-7  
Cost Summary  
Fiscal Year Ended June 30, 2009**

<b>Rolling Stock/Equipment</b>	<b>Maintenance</b>	<b>Fuel</b>	<b>Tires</b>	<b>Miles or Hours</b>
Tractors	\$0.217/mile	\$0.571/mile	\$0.102/mile	1,429,681 miles
MSW Trailers <sup>(2)</sup>	\$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 <sup>(1)</sup>	\$8.83/hour	\$6.57/hour	\$12.56/hour	33,119 hours
RDF Operations <sup>(4)</sup>	\$9.44/hour	\$15.14/hour	\$37.31/hour	12,232 hours
RDF Processing <sup>(4)</sup>	\$8.03/hour	\$4.43/hour	\$1.07/hour	5,504 hours
Ash Trailers <sup>(2)</sup>	\$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 <sup>(3)</sup>	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 6-8  
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 <sup>(2)</sup>	\$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 <sup>(1)</sup>	\$11.40/hour	\$8.30/hour	\$11.56/hour	36,600 hours
RDF Operations <sup>(4)</sup>	\$12.67/hour	\$17.47/hour	\$35.12/hour	12,530 hours
RDF Processing <sup>(4)</sup>	\$11.43/hour	\$6.36/hour	\$0.447/hour	10,684 hours
Ash Trailers <sup>(2)</sup>	\$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 <sup>(3)</sup>	\$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.

## Summary

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 Disposal System. Based on our observations and reviews as described herein in Section 6, we are of the opinion that the Disposal System is currently being properly operated and maintained. During the visit, it was obvious that the Authority has completed and is continuing a number of capital repair initiatives.





## Information Concerning Financial Challenges

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 in their disposal agreements to “deliver or cause to be delivered . . . substantially all (at least 95 percent per year) the [Disposable Solid Waste] which is generated or collected by or within or under the control of” the jurisdictions be delivered to the Authority as described in the Agreements for Use and Support of a Solid Waste Disposal System.
- 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.

## Additional Authority Actions

In addition to the principal components of the Disposal 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.

In January 2009, the Authority discontinued its yard waste composting and mulching operations. The Authority discontinued its recycling program in May 2010.

During 2011, 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.

## 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.

## 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.

## **Purchase and Sale Agreement with Wheelabrator Technologies Inc.**

### **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.

### 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

## Permitting Background on 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. The permit was granted in June 2011.