

ANNUAL SURVEY AND REPORT

REGIONAL
SOLID WASTE DISPOSAL SYSTEM

SOUTHEASTERN PUBLIC SERVICE AUTHORITY
OF VIRGINIA
CHESAPEAKE, VIRGINIA

MARCH 2013

SAIC[®]

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

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Letter of Transmittal

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Section 1 INTRODUCTION AND SUMMARY

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 8, 2013, 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 8, 2013, except as specifically indicated in the report.

Facility visits were conducted during the period March 7 and 8, 2013 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 of 2009, the Authority undertook a restructuring of its debt. 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, for certain operating and maintenance (“O&M”) costs incurred by the City for the operation of the Virginia Beach landfill and certain excess tipping fees paid to the Authority. In June 2009, the Authority issued its \$71,985,000 Guaranteed Subordinated Revenue Bonds, Refunding Series 2009 (Taxable) to the Virginia Resources Authority (the “VRA”). 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. In April 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. It used the proceeds to retire approximately \$122,100,000 of its long-term debt. Additional detail on the 2009 restructuring of the Authority's debt and the 2010 sale of the WTE Facilities is provided in Section 7 of this Report. Descriptions of the bonds that were issued in the 2009 restructuring are provided in Section 3 of this Report.

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. Notwithstanding the sale of the WTE Facility, the Authority maintains 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, 2012 (“FY2012”), the Disposal System received and handled approximately 977,000 tons of waste, a 1.7 percent decrease from the approximately 994,000 tons of waste received the previous fiscal year. Approximately 412,000 tons were delivered by Member Communities, an increase of less than 1 percent from the prior year. Deliveries of commercial waste, construction demolition debris waste, and out-of-area waste quantities were all lower than previous years. 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. 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 five and one-half 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.

Sale of the RDF Plant and Power Plant

On April 29, 2010, the Authority sold its WTE Facilities to Wheelabrator. 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 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.

Significant Events During the Last Twenty-Four Months

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.

In March 2012, the Authority used excess cash on hand to call for early redemption of the remaining balance of its Senior Subordinated Tax-Exempt bond Series 11, held by the VRA in the amount of \$6,820,000. The early redemption required payment of a 1 percent premium of \$62,800.

In June 2012, the Authority used excess cash on hand to call for early redemption of the remaining balance of its Senior Revenue Bonds, Series 2007A in the amount of \$9,480,000. The Authority no longer has any Senior Bonds outstanding.

In August 2012, SPSA and the Hampton Roads Planning District Commission (“HRPDC”) were advised by the Virginia Department of Environmental Quality (“DEQ”) that the DEQ had designated the HRPDC as the Regional Solid Waste Planning Agency for SPSA’s Service Area.

In February 2013, the Authority entered into an Accord, Satisfaction, and Release Agreement with the City of Virginia Beach. Pursuant to the agreement, the Authority paid the City of Virginia Beach \$9,500,000 to release the Authority from any future obligation to pay for closure/post closure costs for 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 FY2012, the Authority continued to see a decline in tonnage being delivered. 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⁽¹⁾ (000)	Percent Change from Previous Year (Percent)
2008	1,513	(4.1)
2009	1,139	(24.7)
2010	1,011	(11.2)
2011	994	(1.7)
2012	977	(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.
2. The Authority is continuing to operate 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 Wheelabrator 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 FY 2013 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, 2011 through June 30, 2012, 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, 2012.
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, 2012 through December 31, 2012, 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, 2012.
6. In the Proposed Operating and Capital Budgets for FY2014 (the “Draft Budget”), the tipping fee paid by the Member Communities (“Municipal Tipping Fee”) remains at \$125 per ton. Authority staff projects 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 FY2014 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

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
Mr. Marley A. Woodall, Jr.	Mr. Eric J. Martin, P.E.	Chesapeake
Mr. Everett C. Williams, Jr.	Mr. H. Taylor Williams, IV	Franklin
Mr. Theodore M. Hardison	Mr. W. Douglas Caskey	Isle of Wight County
The Honorable Joseph A. Leafe	Mr. Ronald H. Williams, Jr.	Norfolk
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 February 21, 2013

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

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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 FY 2013 is 148 full-time equivalent positions (FTE) which is a reduction of 4.5 positions from the 152.5 FTE budgeted in FY2012. The currently anticipated staffing level for FY2014 is 149 FTE. A detail description of personnel count by function is shown in Table 2-3.

Table 2-3
Approved Staffing Levels

	FY2013	Planned FY2014
<u>Administration</u>		
Accounting	3	3
Executive Offices	2	2
Human Resources	2	1
Purchasing	2	2
Information Technology	<u>3</u>	<u>3</u>
Subtotal	12	11
<u>Environmental Management</u>		
Environmental Management	6	6
<u>Operations</u>		
Safety	2	2
Regional Landfill	11.5	11.5
Tire Processing	3	3
Fleet Maintenance	17	17
Transportation	40	40
Chesapeake Transfer Station	5	5.25
Franklin Transfer Station	3	3.25
Isle of Wight Transfer Station	4	4.3
Landstown Transfer Station	10	10.3
Norfolk Transfer Station	11	11.3
Oceana Transfer Station	5	5.3
Suffolk Transfer Station	5	5.3
Scale House Operations	<u>13.5</u>	<u>13.5</u>
Subtotal	<u>130</u>	<u>132</u>
TOTAL	148	149

Source: The Authority.

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, (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 Counsel to the Authority and is retained by the Authority to render legal opinions, counsel, and advice.

In a letter, dated March 11, 2013, 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. A jury trial for this matter has now been scheduled for July 25-26, 2013 in Chesapeake Circuit Court.

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

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

With Respect to the Cook/Atlas matter, this claim was reduced to judgment in the amount of \$7983.35 with interest at 18% from December 1, 2009 plus attorney’s fees of \$2,678.50 and costs of \$64.00. Counsel for SPSA has subsequently attempted garnishments on Mr. Cook’s last known bank account and also issued a Summons to Answer Interrogatories to have Mr. Cook appear in court to determine what assets, if any, he has to satisfy the judgment, which is currently scheduled for April 5, 2013.

With respect to the Hill/Hill Will Clean-Up Service matter, a trial was conducted in Chesapeake General District Court on February 29, 2012. Mr. Hill appeared and did not contest the debt, instead asserting that he did not have sufficient funds to satisfy his payment obligations. Counsel for SPSA subsequently appeared in Chesapeake General District Court on for [sic] a hearing on a Garnishment and Summons to Answer Interrogatories. Mr. Hill did not appear in court to answer the interrogatory questions, so the Court continued the case and issued a Capias (arrest warrant), which to our knowledge remains outstanding.

On March 22, 2013, Wilcox Savage issued a supplement to its March 11, 2013 letter indicating the following:

“. . . we hereby provide you with updated information regarding certain litigation involving SPSA, styled as John J. Scalzi v. Sitiesha N. Caffee and Southeastern Public Service Authority of Virginia, Circuit Court for the City of Norfolk, Virginia (case number pending), that has come to our attention.

“Specifically, on March 27, 2012, at approximately 8:45 p.m., SPSA truck driver Sitiesha Coffee was involved in an accident involving a motor vehicle driven by John Scalzi (the “Scalzi Accident”). Ms. Caffee was issued a summons at the accident scene for an unsafe lane change. By letter dated August 29, 2012, an attorney for Mr. Scalzi provide SPSA with a “Notice of Claim” with respect to the Scalzi Accident, and SPSA referred this matter to its primary insurance carrier for handling.

“On September 26, 2012, in my capacity as registered agent for SPSA, I received a Warrant in Debt pursuant to which Mr. Scalzi, through his subrogee GEICO, filed suit against SPSA claiming property damages in the aggregate amount of \$8,145.75, plus interest at 6% from the date of the accident, based on Ms. Caffee’s alleged negligence in causing the Scalzi Accident. By letter dated October 3, 2012, plaintiff’s counsel requested that this suit for property damages be dismissed, though we never received a copy of any Dismissal Order.

“Today we received a copy of a letter from counsel for Mr. Scalzi, dated March 20, 2013, pursuant to which said counsel has filed a Complaint against SPSA and Ms. Caffee seeking damages in the amount of \$1,500,000 for losses resulting from bodily injuries and mental anguish that allegedly arose out of the Scalzi Accident; SPSA has not as of yet been served with respect to this law suit. Again, given that SPSA previously referred this matter to its primary insurance carrier for handling, we expect the carrier will retain counsel to defend SPSA and that SPSA will defend this claim vigorously. However, SPSA has not at this time concluded that an unfavorable outcome is either probable or remote or the amount or range of any potential loss with respect to this claim.”

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 FY 2012 was submitted to the Authority on November 9, 2012.

Summaries of information included in the Condensed Summary of Net Assets and Summary of Revenues, Expenses, and Changes in Net Assets for the FY 2012 and FY2011 are presented as Tables 2-4 and 2-5, respectively.

**Table 2-4
Condensed Summary of Net Assets June 30, 2012 and 2011**

Assets	2012	2011
ASSETS		
Current and Other Assets	\$37,323,054	\$52,091,648
Capital Assets, Net	<u>40,468,065</u>	<u>43,746,827</u>
Total Assets	<u>77,791,119</u>	<u>95,838,475</u>
LIABILITIES		
Current Liabilities	8,558,373	10,587,397
Long-term Liabilities	<u>52,579,228</u>	<u>76,044,175</u>
Total Liabilities	<u>61,137,601</u>	<u>86,631,572</u>
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	12,758,805	(8,227,177)
Restricted	9,849,632	7,928,497
Unrestricted	<u>(5,954,919)</u>	<u>9,505,583</u>
Total Net Assets (Deficit)	<u>16,653,518</u>	<u>9,206,903</u>
Total Liabilities And Net Assets (Deficit)	<u>\$77,791,119</u>	<u>\$95,838,475</u>

Source: Audit Report prepared by Dixon Hughes Goodman LLP, dated November 9, 2012.

Table 2-5
Summary of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Municipal Tipping Fees	\$52,839,473	\$54,045,775
Other Tipping Fees	2,289,717	2,618,621
Other Operating Revenue	<u>1,187,068</u>	<u>1,321,973</u>
Total Operating Revenue	<u>56,316,258</u>	<u>57,986,369</u>
OPERATING EXPENSE		
Personnel	9,712,283	9,781,555
Depreciation and Amortization	4,666,412	5,392,885
Routine Maintenance Operations	2,564,372	2,482,920
Ash and Residue Agreement	13,541,206	15,338,526
Wheelabrator Service Contract	12,550,758	15,141,186
Other Operating Expenses	<u>3,160,515</u>	<u>7,711,735</u>
Total Operating Expenses	<u>46,195,546</u>	<u>55,848,807</u>
Operating Income	<u>10,120,712</u>	<u>2,137,562</u>
NON-OPERATING REVENUE (EXPENSE)		
Gain (Loss) on Sale of Assets	(5,071)	(773,331)
Investment Income	62,061	110,360
Interest Expense	(3,105,451)	(3,835,617)
Other Income (Expense), Net	<u>364,222</u>	<u>865,863</u>
Total Non-operation Revenue (Expense)	<u>(2,674,097)</u>	<u>(3,632,725)</u>
Net Change In Assets (Deficit)	7,446,615	(1,495,163)
TOTAL NET ASSETS (DEFICIT)		
Beginning of Year, as restated	<u>9,206,903</u>	<u>10,702,066</u>
End of Year	<u>\$16,653,518</u>	<u>\$9,206,903</u>

Source: Audit Report prepared by Dixon Hughes Goodman LLP dated November 9, 2012.

Included among the comments in the audit were the following:

- The net assets of the Authority at the close of fiscal year 2012 were \$16,653,518 representing an increase of \$7,446,615 from fiscal year 2011.
- Effective June 1, 2012, the Authority reduced the Municipal Tipping Fee to \$125 per ton from \$145 per ton.
- The Authority experienced an increase in municipal waste tonnages of less than 1 percent.
- The Authority used excess cash on hand to provide for the early retirement of debt in the principal amount of \$16.3 million.
- As of June 30, 2012, the principal debt outstanding was approximately \$32.7 million compared to the \$58.74 million outstanding the previous fiscal 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, continuing a trend noted in reports since 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 2012, the Authority obtained property and general liability insurance through VML Insurance Programs, a municipal pooled insurance program. In an e-mail dated March 26, 2013, 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.

“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 2013 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 / Public Officials Liability ⁽¹⁾	\$1,000,000	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Public Officials Liability ⁽¹⁾	Included in GL	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Excess Liability ⁽¹⁾	\$10,000,000	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Automobile Liability ⁽¹⁾	\$1,000,000	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Crime ⁽¹⁾	\$500,000	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Property ⁽¹⁾	\$31,489,935	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Miscellaneous (Equipment) ⁽¹⁾	\$13,716,272	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Workers Compensation ⁽¹⁾	Per Virginia Statue	VML Insurance Program	P-2012-2013-VML-0707-1	7/1/12 - 7/1/13
Pollution ⁽²⁾	\$5,000,000	Chartis	12962459	10/1/11 - 10/1/14
UST/AST - Storage Tanks ⁽²⁾	\$2,000,000/\$1,000,000	Great American Alliance	BTA 5236961-08	7/1/12 - 6/30/13

(1) Source: From VML Insurance Programs Certificate of Insurance, dated March 11,2013

(2) Source: Provided by SPSA February 21, 2013

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 Thereto

Section 711 of the Resolutions states that the Authority covenants that, except as Section 711 and Section 710 of the Resolutions otherwise permit, the Authority will not sell, exchange, or dispose of or encumber the Disposal System or any part thereof.

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

Budgets and Covenants as to Operating Expenses

Section 712 of the Resolutions states that, “The Authority covenants that on or before the 15th day of May 1990 and of each fiscal year thereafter, it will prepare, with respect to the Disposal System, a preliminary budget of gross revenues and operating

expenses and a preliminary budget of capital expenditures for the ensuing fiscal year and file copies of each such preliminary budget with the Trustee.”

The Authority has completed the preparation of a draft, dated March 27, 2013 of the proposed operating and capital budgets for the FY2014.

Subordinate Obligations

Section 714 of the Resolutions addresses the requirements the Authority must meet with regard to issuing subordinate obligations. As of June 30, 2012, the Authority’s outstanding subordinate obligations include the Senior Subordinated Revenue Bonds Series 9, 14, 16, and 17, and Guaranteed Subordinated Refinancing Bonds, Taxable Series 2009.

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.

On August 6, 2012, SPSA and the HRPDC were advised by the DEQ that the DEQ had designated the HRPDC as the Regional Solid Waste Planning Agency for the SPSA Service Area.

Post 2018 Planning Efforts

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. 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 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 2012, representatives of the Member Communities began meeting to chart a path forward concerning regional waste management in the SPSA Service Area after 2018. At this time, no formal agreements or commitments have resulted from the meetings. The parties are continuing their meetings with intent toward reaching some decision concerning the future of waste disposal the region.

Section 3

ADEQUACY OF REVENUES AND OTHER FINANCIAL DATA

Introduction

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

“The Authority further covenants that it will at all times fix, charge and collect reasonable rates and charges for the use of, and for the services and facilities furnished by, the Disposal System and that from time to time, and as often as it shall appear necessary, it will adjust such rates and charges so that the Net Revenues will be sufficient to provide an amount in each Bond Year at least equal to each of (A) one hundred twenty per centum (120%) of the Debt Service Requirements for such Bond Year on account of all the Bonds and Parity Indebtedness then outstanding, and (B) one hundred per centum (100%) of the sum of the Debt Service Requirements for such Bond Year on account of all Bonds and Parity Indebtedness then outstanding and the amount required to make all other deposits required by this Resolution and to pay all other obligations of the Authority related to the Disposal System, including Subordinate Obligations, and the Phase I Bonds, as the same become due.

“The Authority further covenants that if the moneys available for the payment of the sum of the amounts set forth in the preceding paragraph shall not equal or exceed the amount required above for any Bond Year, it will revise the rates and charges for the services and facilities furnished by the Disposal System and, if necessary, it will revise its plan of operation in relation to the collection of bills for such services and facilities, so that such deficiency will be made up before the end of the Bond Year following that Bond Year in which such deficiency occurred. Should any deficiency not be made up in such following Bond Year, the requirement therefore shall be cumulative and the Authority shall continue to revise such rates until such deficiency shall have been completely made up.”

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

“The Authority further covenants that it will at all times fix, charge and collect reasonable rates and charges for the use of, and for the services and facilities furnished by, the Disposal System and that from time to time, and as often as it shall appear necessary, it will adjust such rates and charges so that the Net Revenues in each Fiscal Year be sufficient to provide, together with any other funds available therefore, during such Fiscal Year an amount at least equal to the

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

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

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

Revenue Bonds Issued by the Authority

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

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

Phase I and Phase II of the solid waste management system are referred to herein collectively as the “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

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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 issued in the original amount of \$39,950,000 its Senior Subordinated Tax-Exempt Bonds Series 11, the proceeds of which were used to refinance a portion of the outstanding 1993 Senior Bonds. The Authority called for early redemption of these bonds in March 2012, and they are no longer outstanding.

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

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Series 14 and improvements to the Power Plant in the case of Series 15. The Series 15 bonds are no longer outstanding.

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 June 2012, the Authority used excess cash on hand to call for early redemption of the remaining balance of its Senior Revenue Bonds, Series 2007A, and these bonds are no longer outstanding.

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 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 ⁽¹⁾ (000)	Percent Change from Previous Year
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)
2012	977	(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. In FY 2012, the amount of solid waste delivered by Member Communities increased by 0.7 percent. This slight increase reverses a trend of decreasing municipal solid waste deliveries that had been observed for the previous five years. From FY2008 to FY2012 deliveries by the Member Communities decreased 23.7 percent. The decrease in solid waste deliveries by Member Communities over the past five years reflects a national trend in reduced quantities of municipal solid waste (“MSW”) being disposed, the Authority’s elimination of its yard waste processing program, and implementation of recycling programs by Member Communities.

With the implementation of the Service Agreement in April 2010, the Authority does not receive tipping fee revenue for all tons reported. For commercial waste received at the transfer stations and hauled to the RDF plant on behalf of Wheelabrator the Authority receives a credit on its monthly invoice from Wheelabrator representative of a hauling fee, but it does not receive tipping fees for this waste. 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⁽¹⁾ (000 Tons)	Percent Change from Previous Year
2008	540	(1)
2009	518	(4.1)
2010	482	(6.9)
2011	409	(15.1)
2012	412	0.7

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 FY2012, 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 2012

Disposal System Revenues ⁽¹⁾	\$ 56,742,541
Less: Disposal System Operating Expenses ⁽²⁾	<u>(30,337,209)</u>
Net Disposal System Revenues	26,405,332
<u>Senior Debt Coverage</u>	
Net Disposal System Revenues will = or > 1.20 x Senior Debt	
Senior Debt	\$ 3,709,141
x 1.20	4,450,969
Coverage Test Net Revenue	<u>26,405,332</u>
Coverage Requirement is Exceeded by	\$ 21,954,363
<u>Senior Subordinated Debt Coverage</u>	
Net Disposal System Revenues will = or > Senior Debt+ 1.10 x Sr. Subordinated Debt ⁽³⁾	
Senior Debt	\$ 3,709,141
Senior Subordinated Debt	4,187,846
X1.10	4,606,631
Senior Debt plus +1.10 x Senior Sub Debt	8,315,772
Coverage Test Net Revenue	<u>26,405,332</u>
Coverage Requirement is Exceeded by	\$ 18,089,560
<u>Guaranteed Subordinated Debt Coverage (Debt Coverage on All Indebtedness)</u>	
Net Revenues must = or > 1.0 x Total Debt	
Senior Debt	\$ 3,709,141
Senior Subordinated Debt	4,187,846
Guaranteed Subordinated Debt Coverage	1,383,558
Total Debt	9,280,545
x 1.00	9,280,545
Coverage Test Net Revenue	<u>26,405,332</u>
Coverage Requirement is Exceeded by	\$ 17,124,787
(1) As developed by the Authority, the Disposal System Revenue number includes the following components:	
1. Disposal System revenue from Trial Balance -----	\$56,742,541
2. Less insurance recoveries -----	0
Disposal System Revenue (reflects gross tipping fees paid by Virginia Beach) -----	\$56,742,541
(2) As developed by the Authority, the Disposal System Operating Expenses adjusted for coverage:	
1. Total Disposal System Expenses -----	\$27,023,460
3. Plus Pay as You Go Equipment Replacement -----	484,610
4. Plus Ash & Process Residue Agreement Payment -----	2,813,689
5. Plus DEQ Letter of Credit Fees -----	15,450
Disposal System Operating Expenses Adjusted for Coverage -----	\$30,337,209
(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 FY2013 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, 2012 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, 2012

	Budget Six Months Ended December 31, 2012	Actual Six Months Ended December 31, 2012 ⁽¹⁾
<u>Disposal System</u>		
Total Operating Revenue ⁽²⁾	\$ 21,574,433	\$ 20,841,196
Operating Expenses (Excluding Depreciation Expense)	<u>17,283,912</u>	<u>16,296,311</u>
Operating Income	\$ 4,290,521	\$ 4,544,885
Funds Available for Debt Service Payment		
Less:		
Accrued Debt Service - Senior Bonds Requirement	\$ -	\$ -
Accrued Debt Service - Other Indebtedness	<u>1,169,671</u>	<u>1,460,841</u>
Total Debt Service	1,169,671	\$ 1,460,841
Balance Available after Debt Service Payment	\$ 3,120,851	\$ 3,084,044
Other Uses		
Letter of Credit Fees	7,000	-
Virginia Beach Environmental Trust Fund	5,000	-
Suffolk Environmental Trust Fund	2,500	-
Deposit to Closure Fund	<u>1,662,876</u>	<u>-</u>
Total Other Uses	1,677,876	-
Disposal System Operating Surplus (Loss)	\$ 1,442,975	\$ 3,084,044

(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	2008	2009	2010	2011	2012
Solid Waste Received (000 tons) ⁽¹⁾	1,513	1,139	1,011	994	977
System Revenues (000) ⁽²⁾	\$91,638	\$92,421	\$96,521	\$58,852	\$56,743
Interest Income (000) ⁽³⁾	\$2,111	\$1,615	\$140	\$110	\$62
Gross Revenues (000) ⁽⁴⁾	\$93,749	\$94,036	\$96,661	\$58,962	\$56,805
Operating Expenses (000) ⁽⁵⁾	\$43,031	\$38,590	\$33,741	\$34,144	\$30,337
Net Revenues (000) ⁽⁴⁾	\$50,718	\$55,446	\$62,920	\$24,818	\$26,468
Debt Service Senior Bonds (000) ⁽⁶⁾	\$18,986	\$23,727	\$5,496	\$3,836	\$3,709
Debt Service Coverage Senior Bonds ⁽⁷⁾	2.67	2.34	11.45	6.47	7.14
Debt Service All Indebtedness (000)	\$34,132	\$38,563	\$19,785	\$8,499	\$9,281
Debt Service Coverage All Indebtedness ⁽⁸⁾	1.49	1.44	3.18	2.92	2.85

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.

Draft of Budget

On March 27, 2013, the Authority staff submitted to the Board of Directors a Draft Budget for FY 2014. The Draft Budget included the following important assumptions and considerations:

1. A total budget of \$42,273,966 was presented in a balanced format;
2. An overall budget decrease of 5 percent;
3. The Municipal Tipping Fee remains at \$125 per ton;
4. Member Community solid waste tonnages Communities are projected to decrease by 3.6 percent from actual amounts received in FY 2012. This

decrease reflects a reduction in waste deliveries by the City of Portsmouth, which is planning to implement a curbside recycling program;

5. The projected revenue for environmental services (including tire disposal, household hazardous waste disposal, and white goods recycling) has declined 35 percent compared to the FY 2013 budget due to termination of the Commonwealth of Virginia's End User Reimbursement Program, which funded the use of shredded tires as alternate daily landfill cover, and a reduction in household hazardous waste caused by the County of Isle of Wight implementing its own program;
6. Landfill gas royalties are budgeted at \$550,000, consistent with last year;
7. The Navy waste disposal contract expires August 31, 2013, and the budget anticipates this contract being renewed and that it will generate \$1 million in revenue;
8. Construction and demolition tonnage projections have been reduced by 3,000 tons or \$120,000 due to continued weak deliveries;
9. Personnel costs are budgeted with a 2 percent increase reflective of the 2 percent increase in social security tax employees absorbed effective January 1, 2013;
10. The vehicle and equipment fuel budget has been decreased by 12 percent due to decreased tonnage, and fuel is budgeted at \$3.50 per gallon, the same as last year;
11. The service fee paid to Wheelabrator is projected to increase \$300,000 based on an annual delivery guarantee of 497,500 tons, which was reduced from 500,000 tons as a result of Addendum Number 5 to the Wheelabrator Agreement; and,
12. Capital improvement and replacements will be funded with cash, and no capital replacement is planned after 2016.

The Board of Directors plans to review the Draft Budget and approve a final budget for FY2014 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, 2012, the Authority implemented the tipping fees and charges as shown in Table 3-6.

ADEQUACY OF REVENUES AND OTHER FINANCIAL DATA

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

	Rates for Services Effective June 1, 2012
Solid Waste Acceptable at All Disposal Points	
Municipal Solid Waste (delivered by any SPSA Member Jurisdiction)	\$ 125.00/ton
Contract Municipal Waste (delivered on behalf of a SPSA Member Jurisdiction)	\$ 125.00/ton
U.S. Navy Waste	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
Waste Disposal – Landfill Only	
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%
Tires – Whole Tires Accepted at Landfill Only	
Automobile and Light Truck	\$ 77.50/ton
Truck and Light Industrial up to 24.5"	\$ 140.00/ton
Heavy Equipment and Off-the-Road Tires	\$ 155.00/ton
Tires with Rims	Additional \$ 2.00/tire
Household Hazardous Waste	
Household Hazardous Waste User Fee (Rates Per Customer Visit, Charged to Customer's Member Community)	\$ 35.00/visit
<i>Waste Accepted at SPSA's Regional Landfill from Businesses</i>	
Batteries (lead and rechargeable)	\$ 60.00/ton
Cell Phone Batteries	\$ 60.00/ton
Alkaline Batteries	\$ 0.75/pound
Miscellaneous	
Appliances with CFC Disposed at SPSA's Regional Landfill	
Member Communities or Residents (Billed to Customer's Local Government)	\$12.00/each
Businesses	\$12.00/each
White Goods Containers Based upon Distance from the Suffolk Regional Landfill)	\$75.00 - \$125 per pull
Gray Soils Used as Alternative Daily Cover	
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, 2012

	Tons	Revenue from Disposal Charges (\$) ⁽¹⁾
July	43,693	4,105,622
August	47,977	4,534,883
September	39,674	3,782,564
October	39,181	3,822,577
November	41,978	4,197,829
December	<u>35,244</u>	<u>3,452,602</u>
TOTAL	247,747	23,896,077

Source: Provided by the Authority.

(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) ⁽¹⁾
2008	1,513 ⁽²⁾	69,269
2009	1,139 ⁽²⁾	70,558
2010	1,011 ⁽²⁾	88,734
2011	994 ⁽²⁾	56,664 ⁽³⁾
2012	977 ⁽²⁾	55,129 ⁽³⁾

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, 2012.

Table 3-9
Summary of Outstanding Debt of the Authority

Series – As of June 30, 2012	Date of Obligation	Amount Issued	Amount Outstanding on June 30, 2012
Senior Subordinated Tax Exempt Bonds Series 9	December 1, 2002	\$ 16,155,000	\$ 410,000
Senior Subordinated Tax Exempt Refunding Bonds Series 14 (held by VRA)	November 1, 2004	13,060,000	400,000
Senior Subordinated Tax Exempt Bonds Series 16	June 8, 2006	14,245,000	1,415,000
Senior Subordinated Taxable Bonds, Series 17	June 8, 2006	3,495,000	290,000
Guaranteed Subordinated Refunding Bonds, Taxable Series 2009A	June 17, 2009	71,985,000	<u>30,185,000</u>
Total Bonds Payable			\$ 32,700,000

Source: The Authority's audited financial reports.

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, 2012 is shown in Table 3-10.

Table 3-10
Status of Bonds Funds and Accounts
as of December 31, 2012

Bond Accounts	December 31, 2012 ⁽¹⁾
1998 Series 1 Bond Fund	\$ 24
2002 Series 9 Tax-Exempt (VRA)	312,215
2006 Series 17 Tax Exempt (VRA)	39,636
2009 Series Tax Exempt (VRA)	<u>345,900</u>
Total Bond Account Balance	\$ 697,775

Source: The Authority.

(1) Market value as of 12/31/12.

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 ⁽¹⁾
2013	\$ 3,825,172
2014	1,537,825
2015	7,444,063
2016	4,408,083
2017	11,522,850
2018	<u>10,142,052</u>
Total	\$ 38,880,045

Source: The Authority's audited financial reports.

(1) As of June 30, 2012.

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 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:

- Wheelabrator will accept and process the Authority’s solid waste at the WTE Facilities until January 24, 2018.
- 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.
- On November 28, 2012, The Authority and Wheelabrator executed Addendum Number 5 to the Service Agreement, which modified the Authority’s Annual Waste Delivery Guarantee (“Annual Delivery Guarantee”) and the annual fee that the Authority is required to pay to Wheelabrator for Wheelabrator’s disposal of the Authority’s solid waste (“Annual Fee”). The Annual Delivery Guarantee is shown in Table 4-1 and the Annual Fee is shown in Table 4-2. The annual fee is payable in 12 equal monthly installments.

**Table 4-1
Annual Delivery Guarantee**

Billing Year	Tons of SPSA Acceptable Waste
July 1, 2013 through June 30, 2014	497,500
July 1, 2014 through June 30, 2015	497,500
July 1, 2015 through June 30, 2016	496,250
July 1, 2016 through June 30, 2017	490,000
Any Billing Year beginning or after July 1, 2017	500,000 ⁽¹⁾

Source: Addendum No. 5 to Service Agreement.

(1) Pro rata for a billing year less than 12 full months.

**Table 4-2
Annual Fee**

Billing Year	Annual Fee
July 1, 2013 through June 30, 2014	\$21,890,000
July 1, 2014 through June 30, 2015	\$22,885,000
July 1, 2015 through June 30, 2016	\$23,820,000
July 1, 2016 through June 30, 2017	\$24,500,000
July 1, 2017 through June 30, 2018	\$26,000,000

Source: Addendum No. 5 to Service Agreement.

- 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 Annual Delivery Guarantee). Regardless of volume, the Authority is required to deliver to Wheelabrator all acceptable solid waste of the Authority’s Member Communities.
- The Authority is required to pay an additional fee for each ton of the Authority’s waste delivered to the RDF Plant in excess of the Annual Delivery Guarantee. 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 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 waste to the RDF Plant.
- 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).
- 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.
- 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.

In February 2013, the Authority entered into an Accord, Satisfaction, and Release Agreement with the City of Virginia Beach. Pursuant to the agreement, the Authority paid the City of Virginia Beach \$9,500,000 to release the Authority from any future obligation to pay for closure/post closure costs for 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 August 31, 2013. The Authority anticipates that another one-year contract renewal is likely. Under the current agreement, the Navy pays a tipping fee of \$38.49 per ton for processible waste and \$60 per ton for non-processible waste.

Section 5

SUMMARY OF CAPITAL PROJECTS

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 effectiveness. Equipment replacement is undertaken on a modified replacement schedule where equipment replacement is not projected beyond 2016. Currently, SPSA's capital plan reflects its intent to maintain operations to the expiration of its Solid Waste Disposal Agreements and the term of its outstanding bonds. SPSA plans to review and update this plan annually.

Capital Improvements and Equipment Replacement

The FY2013 amended budget contains \$3,350,839 in capital improvements and equipment replacement for the Disposal System. The Authority projects that \$2,141,283 will be expended during FY2013. On March 27, 2013, 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 2016.

Section 5

**Table 5-2
Capital Improvement Plan
FY2012 to FY2017**

Description	FY2013 Projected	FY2014	FY2015	FY2016	FY 2017	FY 2018
<u>Regional Landfill</u>						
Cell V Slope Improvements	\$236,534					
Brush Cutter/Mower			\$12,000			
Asphalt Parking Lot Overlay			\$300,000			
Pick Up Truck, 1/2T, 4WD	\$21,683					
Pick Up Truck, 3/4T, 4WD, Extended Cab	\$21,683					
<u>Operations Center</u>						
Truck Wash Replacement		\$59,000				
<u>Fleet Maintenance</u>						
Power Sweeper (LDF Shop)			\$33,000			
Pick Up Truck (OPC Shop)		\$28,700				
<u>Transportation</u>						
Road Tractors (Refurbish)			\$220,000	\$360,000		
MSW Trailers (Refurbish)		\$225,000	\$240,000	\$255,000		
Water Tanker Trailer		\$95,000				
<u>Boykins Convenience Center</u>						
Compactor Box (Qty 2)				\$21,600		
Compactor				\$40,300		
<u>Chesapeake Transfer Station</u>						
Site Improvements	\$610,000					
Yard Dog	\$29,800		\$45,000			
Re-Skin Main Bldg and Scalehouse			\$85,000			
<u>Franklin Transfer Station</u>						
Office Building (Prefab.)	\$12,500					
Asphalt Replacement.		\$50,000				
<u>Household Hazardous Waste</u>						
Pick Up Truck, 1/2T, 4WD, Extended Cab	\$24,674					
Pick Up Truck 1/2T			\$28,000	\$24,500		
<u>Isle of Wight Transfer Station</u>						
Yard Dog (Refurbish.)	\$30,000					
Tunnel Structure Repairs	\$15,325					
New Well	\$14,500					
Pick Up Truck, 1/2T			\$26,000			
<u>Landstown Transfer Station</u>						
Wheeled Excavator 39,000 lb.	\$255,100					

SUMMARY OF CAPITAL PROJECTS

Description	FY2013 Projected	FY2014	FY2015	FY2016	FY 2017	FY 2018
Hopper Repair Holes 1,2,3	\$31,500					
Capping of Crane Walls	\$10,200					
Pressure Washing/Painting Exterior			\$100,000			
Power Sweeper		\$30,000				
Wheeled Excavator				\$300,000		
Wheeled Loader 55,000 lb.			\$450,000			
Tunnel Sidewalk Metal Curbing			\$10,000			
<u>Norfolk Transfer Station</u>						
Replace steel on top of tipping floor walls	\$111,724					
Pressure Washing / Painting Exterior			\$100,000			
Pressure Washing / Painting Interior			\$75,000			
Install Curb and Gutter				\$16,000		
Tunnel Reinforcement/Concrete Pad	\$34,500					
Wheeled Loader 55,000 lb.	\$413,000					
Power Sweeper	\$28,461					
Asphalt Resurfacing All Roadways	\$149,500					
Replace Flooring in Office Building	\$18,394					
<u>Oceana Transfer Station</u>						
Yard Dog	\$30,000			\$45,000		
Sidewalk Replacement	\$5,190					
Outbound Ramp Off Tipping Floor	\$23,965					
Outbuilding for Equipment	\$5,650					
Concrete Repairs by Fuel Pump	\$7,400					
Concrete Landing Gear Pad Replacement			\$23,150			
Concrete Loader Pad			\$5,450			
<u>Tire Shredder Operations</u>						
Tire Cutter			\$45,000			
<u>Systemwide</u>						
Upgrade KRONOS Time Keeping Software		\$70,000				
TOTAL	<u>\$2,141,283</u>	<u>\$557,700</u>	<u>\$1,797,600</u>	<u>\$1,062,400</u>	<u>\$0</u>	<u>\$0</u>

Source: The Authority

Section 6

MAINTENANCE AND OPERATION OF THE FACILITIES

Introduction

As part of the preparation of this Report, a representative of SAIC conducted a site visit of the SPSA's facilities in March 2013 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, all nine of the transfer stations were in operation. Overall, the amount of solid waste delivered to the transfer stations in FY2012 was 772,414 tons, up approximately 1.5 percent from the 761,856 tons delivered in FY2011. 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 two year's visits, 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 satisfactory 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 consists of an elevated area where customers can deposit waste into a stationary compactor or two open-top roll-off containers. It is 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 FY2012, the daily average tonnage was approximately 4 TPD, overall a 113 percent increase 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.

Since the prior site visit in 2012, the hopper and compactor have been repainted. 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 508 TPD in FY2012, a decrease of less than 1 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 31, 2016.

At the time of the site visit, the transfer station was operating and accepting waste deliveries. Construction activities were being conducted related to improvements at the facility. The construction effort includes drainage improvements, pavement improvements at the facility's trailer parking area, and resurfacing of the transfer station's drive through tunnel concrete floor. The work will require the facility to be closed for deliveries from March 16, 2013 through April 1, 2013. The transfer station building shows some corrosion and 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 76 TPD in FY2012 and waste deliveries increased 9.6 percent from the previous year. Loaded trailers from the Franklin Transfer Station are hauled to a Company Landfill by Wheelabrator's 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 trench drain in front of the waste tipping area has been improved and increased in size. At the time of the site visit, facility staff was working to improve the appearance of the facility's property fronting General Thomas Highway (including landscape improvements).

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 FY2012, the transfer station averaged deliveries of 81 TPD a reduction of approximately 8 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.

In the past year, a new potable water well was installed at the facility, new hose reels had been installed, a new back-flow preventer had been installed, the corrosion that was observed on the vertical members of the steel building's back wall during the last site visit had been repaired, and the metal plating on the back wall had been extended to increase protection of the wall.

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 FY2012 was about 4 TPD; approximately 117 percent more 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 roof over the top of the compactor to deflect rainwater away from the garbage and reduce the amount of leachate generated and subsequently collected in the site's holding tank.

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. It is an enclosed, top-load facility with compaction accomplished by use of a mobile excavator. The station averaged 652 TPD in FY2012, a 5.8 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, new rails were installed to protect the facility walls from the hydraulic excavator used to pack trailers and new steel caps had been installed to protect the tops of the concrete hopper walls.

During the site visit, the building's exterior appeared to have more surface grime and peeling paint than had been observed during prior visits.

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. The facility is similar in design and operation to the Landstown Transfer Station. The facility averaged 782 TPD in FY2012 approximately a 4 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 repairs to the steel diverters above the push walls, rails had been installed to protect the walls from the hydraulic excavator used to compact the open-top trailers, and a number of wall panels had been replaced on the main tipping building. Also, a new heater/air conditioning unit had been installed.

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 concrete in the tunnel is showing some signs of wear. Corrosion was observed at the bases of a number of columns, and repainting of these columns is recommended. Damaged wall panels were observed at the exit door from the transfer station and the section of siding noted as separated from the concrete 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. 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).

Overall, the facility appears in satisfactory condition.

Oceana Transfer Station

The Oceana Transfer Station averaged approximately 356 TPD in FY2012, an increase of more than 18 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, and the facility repairs appear to be holding up well. Since last year's site visit, new awnings and gutters had been installed over the prefabricated office building entrances, and new concrete pavement had been installed at the exit ramp. At the drop and hook lot, drainage and landscaping improvements had been constructed.

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 241 TPD in FY2012, a decrease of approximately 1 percent from the previous year. Six 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.

No significant improvements or repairs have been made to the facility since the last inspection.

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, a transportation superintendent, 36 full-time drivers, and 4 part-time drivers. 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)	2008		2009		2010		2011		2012	
		Total Annual (Tons)	Daily Average ⁽¹⁾ (TPD)	Total Annual (Tons)	Daily Average ⁽¹⁾ (TPD)	Total Annual (Tons)	Daily Average ⁽¹⁾ (TPD)	Total Annual (Tons)	Daily Average ⁽¹⁾ (TPD)	Total Annual (Tons)	Daily Average ⁽¹⁾ (TPD)
Boykins	50	691	4	698	4	526	3	302	2	644	4
Chesapeake	500	158,209	553	148,159	518	127,883	447	146,621	513	145,405	508
Franklin	150	24,643	86	23,910	84	20,867	73	21,000	73	21,722	76
Isle of Wight	150	31,831	111	27,464	96	6,626	93	25,254	88	23,240	81
Ivor	50	719	5	653	4	536	3	300	2	653	4
Landstown	1,500	237,378	830	223,688	782	213,975	748	198,042	692	186,613	652
Norfolk	1,300	274,543	960	232,640	813	209,769	733	214,934	752	223,509	782
Oceana	500	106,401	372	96,622	338	85,954	301	85,579	299	101,781	356
Suffolk	1,300	<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>	<u>68,848</u>	<u>241</u>
Total		903,195	3,161	824,219	2,885	753,593	2,637	761,856	2,665	772,414	2,705

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 the following operating records. 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 (a contracted operation on site);
- 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 1,799 pounds per cubic yard since Cell V operations began¹. The figures in Table 6-2 include provision for the residue ash deposited in the Regional Landfill. The Authority estimates that during calendar year 2012, the Regional Landfill accepted a total of 250,849 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 May 2010 is principally the result of the Service Agreement implementation. During FY 2012, all non-processible waste was directed to Company Landfills for disposal. With the reduced 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 is open to the public ten hours per day, four days per week with 11 full-time and one part-time personnel. The landfill has limited staffing during other days of the week to accept

¹ HDR Engineering Inc., Regional Landfill, Cells V and VI, Suffolk Virginia, Airspace Management, Prepared for Southeastern Public Service Authority, Draft, February 2013.

WTE ash deliveries. Currently, the largest 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 ⁽¹⁾ (Tons)
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
January – December 2012	250,849	1,206

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. 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;
- Since the last site visit, the leachate collection clean-outs had been connected to the landfill gas system to increase the amount of landfill gas collected;
- 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 appeared to be in place; and,

- The facility appears well maintained.

Tires

The Authority accepts tires in bulk at the Regional Landfill and 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, construction and demolition debris ("CDD"), and MSW diverted from the RFF Plant.

The Draft February 2013 Surveyor's report² shows that 250,849 tons of waste were received at the landfill in calendar year 2012. The average monthly disposal rate for MSW, CDD, and ash for the prior 12 months is reported as 21,122 tons per month. As of February 2013, the in-place density of waste is reported as 1,799 pounds per cubic yard. The amount of available airspace was estimated at 5,336,169 cubic yards. Based on the current intake rate of 21,122 tons per month and the average in-place density over the past ten years of 1,670 pounds per cubic yard, the Surveyors estimate that the landfill will reach capacity in September 2030, 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

² HDR Engineering Inc., Regional Landfill, Cells V and VI, Suffolk Virginia, Airspace Management, Prepared for Southeastern Public Service Authority, Draft, February 2013.

the rate of waste intake over time and the ability of the landfill operators to maintaining the outside side slopes at the design elevations as the landfill settles.

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 FY2012 included 55 tractors, 97 MSW trailers, 2 roll-off trucks, 28 pieces of equipment at the Regional Landfill, and 38 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
Equipment Operation and Maintenance Costs for Landfill and Transfer Stations**

Facility	Equipment Count	Hours	Maintenance Cost	Tire Cost	Gallons of Fuel Used	Fuel Cost
Regional Landfill	28	8,541	\$121,503	\$23,527	48,704	\$160,443
Chesapeake Transfer Station	7	5,634	\$ 25,680	\$52,172	13,364	\$43,177
Franklin Transfer Station	5	1,769	\$ 15,624	\$12,036	2,618	\$9,411
Isle of Wight Transfer Station	4	1,655	\$ 7,464	\$ 15,206	2,691	\$9,308
Landstown Transfer Station	6	5,350	\$ 66,211	\$147,987	21,216	\$67,051
Norfolk Transfer Station	6	6,653	\$ 97,381	\$181,032	26,444	\$85,071
Oceana Transfer Station	6	3,885	\$ 33,822	\$50,792	10,254	\$33,604
Suffolk Transfer Station	4	3,463	\$ 19,507	\$ 35,835	7,506	\$21,318

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

Transportation	Equipment Count	Miles	Maintenance Cost	Tire Cost	Gallons of Fuel	Fuel Cost
Tractors	55	970,273	\$ 192,415	\$ 67,914	221,979	\$682,106
Trailers-MSW	97	970,273	\$ 119,024	\$ 75,514	-	-
Roll-Off Trucks	2	29,021	\$ 2,764	\$ 1,471	4,293	\$13,410

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, 2012**

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	\$0.198/mile	\$0.703/mile	\$0.070/mile	970,273 miles
MSW Trailers ⁽¹⁾	\$0.123/mile	Not Applicable	\$0.078/mile	970,273 miles
Landfill	\$14.226/hour	\$18.785/hour	\$2.755/hour	8,541 hours
Transfer Stations ⁽²⁾	\$9.352/hour	\$9.467/hour	\$17.426/hour	28,409 hours
Roll-Off Trucks	\$0.095/mile	\$0.462/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.

**Table 6-6
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 ⁽¹⁾	\$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 ⁽²⁾	\$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.

**Table 6-7
Cost Summary
Fiscal Year Ended June 30, 2010**

Rolling Stock/Equipment	Maintenance	Fuel	Tires	Miles or Hours
Tractors	\$0.291/mile	\$0.509/mile	\$0.081/mile	1,215,012 miles
MSW Trailers ⁽¹⁾	\$0.10/mile	Not Applicable	\$0.09/mile	1,093,511 miles
Recycle Trucks	\$2.24/hour	\$5.53/hour	\$0.94/hour	23,298 hours
Landfill	\$3.55/hour	\$3.70/hour	\$0.47/hour	42,651 hours
Transfer Stations ⁽²⁾	\$10.64/hour	\$6.14/hour	\$15.68/hour	29,815 hours
RDF Plant ⁽³⁾	\$13.40/hour	\$9.42/hour	\$26.81/hour	15,060 hours
Ash Trailers ^{(1) (3)}	\$0.075/mile	Not Applicable	\$0.16/mile	121,501 miles
Roll-Off Trucks	\$0.10/mile	\$0.34/mile	\$0.11/mile	133,197 miles
Steam/Power Plant ⁽³⁾	\$3.53/hour	\$2.29/hour	\$0.10/hour	22,479 hours

(1) MSW and ash trailer mileage is estimated.

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

(3) Partial year operations

**Table 6-8
Cost Summary
Fiscal Year Ended June 30, 2009**

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

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

(2) MSW and ash trailer mileage is estimated.

(3) Yard Waste and Compost Program was eliminated.

Summary

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 affected 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 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

2009 Restructuring of the Authority's Debt and 2010 Sale of the WTE Facilities

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.