

**MINUTES OF THE BOARD OF DIRECTORS
REGULAR MEETING
SOUTHEASTERN PUBLIC SERVICE AUTHORITY OF VIRGINIA**

October 28, 2009

At the Regular Meeting of the Southeastern Public Service Authority of Virginia (SPSA) held at 9:30 a.m., in the Regional Board Room at the Regional Building, 723 Woodlake Drive, Chesapeake, Virginia, there were:

ROLL CALL

Members:

Don Williams, Chair	<i>absent</i>	(NO)
Bryan L. Collins	*	(CH)
Barry W. Cheatham		(FR)
Stan D. Clark, Vice Chair		(IW)
Jeffrey A. Gardy		(SU)
G. Timothy Oksman	<i>absent</i>	(PO)
Dallas O. Jones	<i>absent</i>	(SH)
Michael J. Barrett		(VB)

Alternates:

William E. Harrell	*	(CH)
June Fleming		(FR)
Thomas J. Wright, III		(IW)
Stanley A. Stein		(NO)
Stephen E. Heretick	<i>absent</i>	(PO)
Mike Johnson		(SH)
Selena Cuffee-Glenn		(SU)
John Barnes		(VB)

Others present at the meeting included SPSA staff Mr. Rowland (Bucky) Taylor, Executive Director, Ms. Liesl R. DeVary, Treasurer to the Board, Mrs. Lou Ann Ivory, Executive Assistant and Secretary to the Board and Anthony M. Thiel, SPSA General Counsel. Numerous legal and financial individuals from each of the member localities and several staff members from the Hampton Roads Planning District Commission were also in attendance.

(CH) Chesapeake; (FR) Franklin; (IW) Isle of Wight; (NO) Norfolk; (PO) Portsmouth;
(SH) Southampton County; (SU) Suffolk; (VB) Virginia Beach

* Indicates Late Arrival (after beginning of Closed Session)

** Indicates Early Departure

Vice Chairman Clark began by informing the Board that Portsmouth would not be represented today as both Mr. Oksman and Mr. Heretick were out of town, and further stated that Mr. Luke McCoy was here are there request. Vice Chair Clark stated that Mr. McCoy is not a

member of the Board but Portsmouth had requested he be able to sit at the Board table and participate. Vice Chairman Clark said he did not have a problem with that and he asked if any Board member had a problem with Mr. McCoy sitting there. There being no objections and with an informal head nod Mr. McCoy was asked to join the Board at the table. It was clarified that Mr. McCoy does not have voting privileges.

The meeting then began with the invocation by Mr. Johnson (SH), the Pledge of Allegiance and was followed by Roll Call. A quorum was present.

PUBLIC COMMENT PERIOD

There were no speakers for the Public Comment period at this meeting.

ACTION AGENDA:

ITEM NO. 1: AMENDMENTS TO BYLAWS AND ARTICLES OF INCORPORATION

Vice Chairman Clark called on General Counsel, Tony Thiel, to discuss this item. Prior to the discussion on the Bylaws and Amendments Mr. Thiel reminded the Board members, CAO's and other city/county officials present that they needed to submit their nominees to the Governor by the end of this week. Mr. Thiel stated each locality needs to submit the names of three nominees (using the forms SPSA provided) to the Governor - they are due by November 1st as he will be making the selection in accordance with the requirements of the new law sometime in December. Additionally, Mr. Thiel encouraged locality leaders to select their governing body's ex officio member, a voting member of the Board, and to do so sometime between now and the end of the year. He also said if they are so inclined they may select an alternate who is not a member of the Board but who would have the ability to serve in your ex-officio Board member's capacity if that ex-officio member cannot serve. Mr. Thiel added that he had been in communication with the city and county attorneys and the other issues today and will entertain any questions on those and work with them very closely as we move through this process but we do need to have those things happen.

Moving on to the amendments to the Bylaws and Articles, Mr. Thiel said he would talk about the Articles first because they do not require any action on the part of this organization today. Under the provisions of the Water and Waste Authorities Act, Articles of Incorporation can only be amended in accordance with the same procedures required to create a Water and Waste Authorities Act organization. That requires adoption of a resolution. So we need to amend the Articles so that they comply with the requirements of what we call House Bill #1872 because they are somewhat inconsistent with those requirements. Mr. Thiel has drafted a set of Amended and Restated Articles of Incorporation incorporating necessary changes into the amendment. Mr. Thiel has distributed them previously and is working with each city and county attorneys to institute the process for adopting those amendments. That requires each governing body to set a public hearing, and then 30 days following the public hearing adopt a resolution adopting the amendment. It's a somewhat convoluted process but it is

there since the Articles affect the general governance, the legislation requires all of the eight members creating the entities take the action required to amend the Articles. So that information is available. Mr. Thiel has already heard from several of the City and County attorneys on this, but there is a time frame. SPSA and the communities need to have these Amended and Restated Articles adopted by the end of the year.

Mr. Thiel noted that he has sent form resolutions out and he is working with them so by the end of the year all eight member localities will have adopted Amended and Restated Articles to make our current Articles consistent with the requirements of House Bill #1872.

With no questions regarding the information relating to the Articles, Mr. Thiel moved on to the Bylaws. The Bylaws also are in some respects inconsistent with the requirements of House Bill #1872 so Mr. Thiel undertook to, with some help from some of the attorneys in his firm, to amend the Bylaws so that they are consistent with that bill. Mr. Thiel stated we provided to you previously and in your agenda package is a copy of the black-line copy showing the proposed changes in the Bylaws, and he had limited those proposed changes to things that are necessary to comply with House Bill #1872 and he thinks one or two housekeeping matters. One of the changes you will note that at some point there is reference to Board members other than Alternates. Mr. Thiel stated that he has stricken that language because Alternates are not Board members under any set of circumstances. The one major technical area that had to be amended had to do with the ability of the Executive Director to execute contracts. That's a minor change in phraseology which makes it clear that that ability is subject to the requirements of existing law which now include House Bill #1872. Mr. Thiel noted that what he is asking today under our amendment, the Bylaws are amended by action of the Board but it cannot be undertaken at a single meeting so he is presenting to you today for consideration a set of amended bylaws and if there are any questions, comments or any desire to further amend those Bylaws we need to act on that today. Then he is asking the Board to make a motion to consider the Bylaws as we reviewed them today at a second meeting and consider adoption at that second meeting at a later date.

There being no questions, Mr. Thiel requested a motion to accept the Bylaws as submitted subject to further consideration at later meeting of the Board; it will either be at the next Regular Meeting or part of the Special Meeting on November 17th. Mr. Barrett (VB) made such a motion and it was seconded by Mr. Cheatham (FR). All present voting yes; opposed none; motion carried by unanimous and recorded vote.

ITEM NO. 2: MEETING DATES – REMAINDER OF 2009 AND 2010 SCHEDULE

Mr. Taylor stated that in your packet we provided calendars for both November and December. In November we are anticipating a Special Meeting will need to be held on November 17th. Our regularly scheduled meeting is actually the morning of the 25th and that is a Holiday beginning at noon and we figured with the traffic that if you didn't have to come down you probably would appreciate changing that particular meeting. So if we could we would like to set that meeting for November 17th. Also, we have the December meeting. We need to see which you feel would be the better dates. On the calendar in your agenda packet, we have gone through and set out the dates that this room is available, and we don't

have any particular recommendation. It is basically what you feel like is the best time for actually holding a meeting in the month of December.

Mr. Collins made a motion that November 17th be the Regular Meeting date. Mr. Cheatham (FR) seconded the motion. All present voting yes; opposed none; motion carried by unanimous and recorded vote.

Mr. Taylor stated that the December meeting date was open for discussion. Mr. Cheatham (FR) made a motion for the meeting to be held on December 14th. Mr. Clark (IW) seconded the motion. Mr. Collins (CH) said his question was at this stage of the game where do you think we will be in the review process of the ongoing. Mr. Taylor stated that we are hoping most of that will be completed by the 17th of November; that's the schedule. Mr. Collins asked if he expected it [the Board] will take full action on November 17th. Mr. Taylor said that is what we are projecting but that's up to the Board but we hopefully will have that as the recommendation at that time. Mr. Taylor stated that it would depend on how things materialized as to whether any additional meeting would need to be held in December but the thinking is if you scheduled the date around the middle of the month, that would be a good time frame.

All present voting yes; opposed none; motion carried by unanimous and recorded vote.

Mr. Taylor stated that the third item was the meeting dates for 2010. We need to go ahead and set those. They are the same time, fourth Wednesday of the month except for the month of December because of the Thanksgiving holiday we usually try to have that around the first part of the month. Mr. Collins (CH) made a motion to adopt the 2010 meeting date schedule and the motion was seconded by Mr. Gardy (SU). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

ITEM NO. 3: REQUEST FOR CLOSED SESSION

Mr. Tony Thiel, General Counsel, said we have two motions, a motion for inclusion of non-members in the closed meeting. In addition to those mentioned in that motion, Item #3, paragraph I of the Request for Closed Session, Mr. Thiel added Mr. Luke McCoy's name to the list to be invited to be present during the closed session. He stated that Mr. McCoy was sitting by invitation and would have no vote, but was simply sitting in light of the fact that Portsmouth is unrepresented today. Mr. Thiel requested a motion to approve the amended request (adding Mr. McCoy) as otherwise stated in Roman Number I. Such a motion was made by Vice Chairman Clark (IW) and seconded by Mr. Barrett (VB). All present voting yes; opposed none; motion carried by a unanimous and recorded vote. Secondly, Mr. Cheatham (FR) made a motion to approve the closed session request pursuant to Item #3, paragraph II. All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

III. Motion to Approve Certification after Closed Meeting.

The Board of the Southeastern Public Service Authority of Virginia hereby certifies that, to the best of each member's knowledge: (a) only public business matters lawfully exempted from open meeting requirements by Virginia law under the Virginia Freedom of Information Act were discussed in the closed meeting to which this certification applies; and (b) only such public business matters as were identified in the motion convening the closed meeting were heard, discussed or considered in the closed meeting just concluded.

Upon conclusion of the Closed Session, Vice Chairman Clark (IW) made a motion to approve paragraph III as noted herein and in Item #3 of the agenda note, Request for Closed Meeting. The motion was seconded by Mr. Barrett (VB).

ITEM NO. 4: ACTIONS ARISING FROM CLOSED SESSION

Vice Chairman Clark said consistent with the Board's discussion [during closed session], could he hear a motion to authorize retention of a financial advisor and tendering agent for the sale of the waste to energy plant. Mr. Barrett (VB) made such a motion and it was seconded by Mr. Stein (NO).

Mr. Collins (CH) asked that on these financial advisors that we will be picking up, this is specific to this item and this is on the best recommendation that we have from staff. Ms. DeVary responded that it is task specific and is also contingent upon signing the agreement. Mr. Collins asked if this is something that we have that is expected or normal to have outside and not something that will be done normally in-house. Mr. Taylor responded that it was and Mr. Thiel, General Counsel, asked that we please make sure we name the financial consultant chosen pursuant to the RFP process that was conducted by SPSA. Ms. DeVary responded that the consultant was Mesirow Financial. Mr. Barrett amended his motion to include the name of the consultant, Mesirow Financial. All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

ITEM NO. 5: FINANCIAL REPORTS AND PRESENTATION

Vice Chairman Clark called on Ms. Liesl DeVary to give the financial reports and presentation. Ms. DeVary said as of September 30, 2009 total revenues exceeded expenditures by nearly \$13 million. Our total tonnages are down considerably as compared to this time last year; however, they are in line with what we budgeted. Another decline in revenue that we are seeing is the reduction in electrical sales revenue. As compared to the budget, the electrical sales are down about 6% and down about 52% as compared to this same time frame last year. The reduction is due to a couple of things. One; the reduction in the resale price for electricity and second, the down time that we have been experiencing of the boilers and that's largely in part to the carbon monoxide. Our total expenditures are under budget by approximately 4%. The total estimated deferral to Virginia Beach is approximately \$17.1 million as of September 30th of which \$5.5 million of that is from the current fiscal year; \$11.6 million is from prior fiscal year.

Our cash balances remain healthy as of September 30th. The balance as of September 30th was a little over \$16 million and as of last Friday the balance was \$24 million. The cash balances are net of all of the required transfers for the debt service as well as putting aside money monthly to obtain a 3-month operating reserve. The balance of the line of credit remains at zero dollars, with \$17.2 million available but we do not anticipate at this time for the need to draw on those funds.

There being no questions, Mr. Collins (CH) made a motion to accept the financial reports. The motion was seconded by Mr. Gardy (SU). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

Ms. DeVary next gave the capital project report. She said total expenses of capital projects to date are \$954,000 however; we do encumbrances of approximately \$2.5 million. I have added a column on the report to reflect transfers and adjustments. This hopefully will help us keep track of what changes that we make as we move through this fiscal year. As projects are completed, or deferred, or come under budget hopefully, we will take the balance of those funds and move them to a line item within the capital budget referred to as "undesignated". This will enable us to have the total funds we have budgeted for capital to remain within capital unless the Board decides otherwise the Board must approve all changes. We do have several changes for your review today. One is we had a carryover project from last year for the leachate lagoon pump station improvements and that project is now complete and there is \$5,886 remaining. We would request that you would transfer that to our "undesignated" line. The next item, we had budgeted to replace the Cat excavator at the Norfolk transfer station in the amount of \$252,000. That item is no longer needed because we transferred one of the excavators that was used out at the yard waste facility. We also budgeted to purchase an automated curb side collection vehicle for recycling as a replacement but since we are terminating recycling services there isn't a need for that capital project as well. And then there are several changes in capital for the steam power plant. The number one issue is the carbon monoxide issue and the plan that has been put together requires an additional \$320,000. We would recommend providing that money by taking it from these other projects that were deferred, completed, etc. There is a new capital item to replace the super heater tubes in boiler #1 and that project is estimated at \$840,000. The recommendation to provide that project would be to defer a refurbishment of the truckload out in the conveyor and gallery of \$450,000 and to defer the replacement of the west ash conveyor in the amount of \$675,000. All of these changes combined provide for an "undesignated" line item in your capital budget of \$516,000.

Mr. Barrett (VB) made a motion to approve the capital project transfers as set out by Ms. DeVary. The motion was seconded by Mr. Collins (CH). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

Ms. DeVary continued, saying, the next item I wanted to discuss with you was a plan for the use of budgetary savings that we projected in the current fiscal year. As mentioned to you earlier we believe we will achieve a \$10 million savings in our debt service budget as a result of the 2009 debt restructure and \$10 million in capital projects as we had previously borrowed those funds. We have a total of \$20 million budgetary savings projected. And previously, I

believe a member of the Board suggested we would take any excess funds and move them to a separate account and then require that three-fourths of the Board would have to approve to use those funds. We do not feel that that action is necessary because by law, we cannot exceed any expenditures in our budget. So, we would have to come back to the Board if we were to spend anything that exceeded the budgeted amount. So our recommendation would be to use some of those excess funds right now and go ahead and fully fund the three-month operating reserve. Virginia Resource Authority had required that SPSA fund a three-month operating reserve over a 24-month period. In the current fiscal year we budgeted \$7.5 million to satisfy half the reserve requirement and then there would be a like amount done in fiscal year '11 in order to meet that objective. If we do go forward with selling the waste to energy system then our budget is going to be reduced this next fiscal year whereby reducing the level that would be required for the three-month reserve. So if we do go through with that then we would project the required amount to be \$10 million and we budgeted \$7.5 million in the current year so it would merely require an additional contribution of \$2.5 million. If we do not sell the waste to energy system then we are looking at an additional contribution of \$6 to \$7.5 million. Also in connection with that, we have been looking at the possibility of terminating the deferral of payments to Virginia Beach, and I want to stress this is not a matter of starting to repay back the amount that has been deferred but merely to discontinue deferring these payments which on a monthly basis are in the neighborhood of \$1.8 million dollars which is a combination of operating and maintenance expenditures of \$167,000 a month, plus the excess tipping fees that Virginia Beach does pay that are in excess of the cap. Through September, we have deferred roughly \$17 million so you are going to hit the max of \$26.6 million before the end of the fiscal year. The question is "why do you continue to borrow money if it is not needed." The deferral was budgeted primarily to be used for capital projects and since we know we have a \$10 million budgetary savings in capital projects because of previously borrowed funds we are able to stop the deferral.

We have had a couple of developments in the last couple of days that I believe we are going to address later to you. Originally I think I had said recommending that we stop the deferral beginning with the October payment but we might want to go ahead and wait until November because of some potential additional expenditures. Ms. DeVary then asked if there were any questions or comments.

Mr. Gardy (SU) clarified by saying, "In layman's terms we have got \$20 million dollars that we saved?" Ms. DeVary responded, "Budgetary savings; yes." Mr. Gardy continued, "And you want to put \$7.5 million of that in the three-month surplus that is required VRA and you want to stop borrowing from Virginia Beach and start paying the monthly payment as scheduled. Is that in a nutshell?" Ms. DeVary responded, "Well, at this point I only recommend contributing \$2.5 million to the reserve. The \$7.5 million is already in our budget so it would be just doing another \$2.5 million." Mr. Gardy clarified, "So you are adding \$2.5 million because it is \$7.5 of the \$20?" Ms. DeVary responded, "Yes. And then any other excess certainly we would recommend that we would use it to pay down debt service, whether it be in connection with a debt restructuring or put into something similar to a 'sinking fund' in order to reduce the tipping fee going forward."

Mr. Gardy, "So \$2.5 to reserve, and then we are going to start paying down Virginia Beach like we did in the past before it was deferred. And then you are going to use the balance of it for debt service, how, to meet whatever cushion you need the most; is that correct?" Ms. DeVary, "Yes."

Mr. Barrett (VB) said, "And the three-month operating reserve that's been recommended by VRA and actually I think we wanted to establish that kind of fund many times in the past, that will pretty much ensure that we would not have to use the line of credit that is outstanding, I mean there is no amount, we don't owe anything on that but we still have the line, this would be basically insurance that we would never have to use that line?" Ms. DeVary, "Correct. And the renewal for that line of credit is in May of this next year, but if we establish this reserve I am not sure why we would need to have a line of credit available. We are paying an availability fee right now. So you have to pay to have the money available and if we have a reserve already established I wouldn't think we would need that."

Mr. Cheatham (FR) said, "Where's the other \$17.5 million that we are talking about?" Ms. DeVary, "Well you are going to be using some of that, probably \$15 to \$16 million of that starting to pay back Virginia Beach. Because remember, we still would owe them \$17 million but in accordance with the forbearance agreement that repayment of the deferred amount doesn't start until fiscal year '11 and we have 36 months to pay that back. However, if we would terminate starting in October, you have got about \$1.8 million a month that would be going to them."

Vice Chairman Clark asked if we were asking for two separate motions; one for approval of the plan for budgetary savings and another...? Ms. DeVary said she thought it would be including the deferral of Virginia Beach and probably would recommend we go ahead and address it again at next month's meeting to make it effective November 1st.

Mr. Collins (CH) said "Before we move forward on that motion I have a question. What amount are you looking to apply to pay down the debt? What is that amount again? Ms. DeVary responded, "Of the \$20 million, it would be anywhere from probably \$2 to \$4 million would be excess. Mr. Collins, "And you also asked about ceasing the deferral but for a date to be determined rather than starting now, you want to get a chance to look at that and possibly make it effective November 1st at our next meeting which is the 17th; right?" Ms. DeVary said that was correct. Mr. Collins said, "All right. Especially when I hear about these transfers and using existing equipment and not having to buy new equipment I've seen some days when we probably would have bought new. I am little dismayed we are having to spend so much in the power plant again, we will have to keep that up until it is no longer ours."

Mr. Cheatham (FR) said, "Looking at your month of September, okay, going back to the Virginia Beach deferral we had \$2.3 million on the bottom line. After you picked up \$1.5, almost \$1.6 million of the deferral from Virginia Beach. How is the \$19 million still going to play into this hand as far as that goes? How is it going to play into it; if we took that deferral out now you would still be showing \$1.5 million on the bottom line?" Ms. DeVary said, "No,

because actually you have another revenue source of the bond proceeds that you are actually using for the capital projects versus the Virginia Beach deferral of the \$17.8.”

Mr. Cheatham said, “I am just looking at the month right here. You show a \$1.6million in the Virginia Beach deferral as income and you are showing \$3.3 bottom line, yet you are still about \$1.6 million. So if that came off, I don't see where that is going to come into the \$20 million right off. Except if you keep the same \$3.3 bottom line.” Ms. DeVary, “You wouldn't. You are depleting that because that \$3.3 would certainly be cut in half by adding another expenditure of \$1.6 in there.” Mr. Cheatham said, “I know it would be cut in half. I'm still trying to relate that to the \$20 million dollars still. If that's still here, and you are showing that as income, how does that relate to the \$20 million still?” Ms. DeVary, “If you look at the debt service, we have \$32 million budgeted and as you can see we are only making about \$450,000 for the month. The transfers to the debt service is going to increase I believe it is either November or December up to \$1.5 million per month however it is still well below what we had budgeted to do monthly. So you are going to be realizing that budgetary savings in debt service each month which then totals \$10 million. The other \$10 million is coming under the capital expenditures even though we budgeted \$18 million for expenditures, you have \$10 million that is coming from previously borrowed funds that was not captured in your budget.”

Mr. Gardy made a motion to approve the capital projects transfers and to approve the plan for the use of the budgetary savings as set forth. Mr. Collins (CH) seconded the motion. Mr. Barrett (VB) said he thought for our audience we just needed to explain that this Board for the last 15 years has never dealt with surpluses or positive budgetary news and that's why he thinks we are a little slow to pick up on something. It has always been the other way around.

Ms. DeVary said another point is that the \$20 million is projected for the fiscal year. So you are achieving this every month, but it is really projected for the entire year. So come June 30th, we would have an additional \$20 million budgeted. Does that help any? So of that you will be taking part of that \$20 million per monthly.

Mr. Clark stated that what would help him within the next 60 days on motions like this where it is fairly technical if we could write out the motions, saying that “would help me out a lot so I have more comfort zone with what I am voting on. Since Mr. Gardy and Collins are good with it and I have a long history with you and I know you have got it together, is there any other discussion?”

Mr. Thiel, General Counsel said his understanding is the motion relates to the recommendations as set forth in the handout that's before you; is that correct, Mr. Barrett? Ms. DeVary said she thought the report she sent recommended terminating the deferral period October first and I would move that to November first.

Mr. Collins said he wanted to share that we discussed a number of different revenue source and a part of that goes back to the different slides we saw earlier in the year that we had a lot of discussion on why some of those numbers didn't add up. Fortunately, now we are having some positive numbers, it makes it look better actually it is better, and we are not talking

about just numbers today but as you said, to the end of the year. But as of my Virginia Beach person who has been here serving much more time than I, this is two months row that I have had a very positive financial report. So I have two more months left, keep up the good work. Ms. DeVary said she has also been doing monthly cash flow projections, this is a requirement under the guarantee agreement with Chesapeake and Norfolk, so those are being done and sent out monthly.

Mr. Harrell (CH) said he really didn't want to miss this moment in time and he appreciates Ms. DeVary's history but you know the fact that we won't have to accrue further Virginia Beach deferral past November 1st that's positive. The fact we likely won't have to renew the line of credit, that's positive and hopefully we can move forward to dealing with assets. I think we are well on the road to improving the picture.

Per Mr. Gardy's motion to approve the capital projects transfer and approve the plan for use of budgetary savings as discussed with Mr. Barrett and provided in the hands outs, called for a vote. All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

Ms. DeVary then continued with her final item. She began, "I would like to review with you a business and financial plan. What we thought we would do is create a document that would be a starting point for information that we need to provide to various lenders including VRA and Wachovia in order to request approval for the sale of assets, not only the waste to energy system but also the recycling assets. We put together this plan that gives you a little bit of background, where we are, and a little bit of how we got here. It goes over how we plan our operations post-sale, one thing there that is very significant with the post-sale is that our staffing levels certainly are going to drop dramatically. We have 409 positions budgeted in the current year and we are projecting that we could go down to 175 positions. This is just a way to get some introductory information and a brief outline of events; it is a starting point. We also received a request from VRA and they wanted to have some information from us by October 23rd, which was last Friday, so we sent the plan to them knowing that we would be presenting it to you today and any recommendations or changes we would follow-up with VRA as an addendum.

The other purpose of this plan is to provide a debt retirement plan. Of course the ultimate goal is to retire as much debt as we can, the most cost-effective and equitable manner. The F.A's (financial advisors) of the member jurisdictions had already done some preliminary work on this in connection with the review that SCS Engineers was doing on behalf of the CAO's. There are three scenarios: retire \$150 dollars in debt so that the remaining debt would be in the same percentage levels as they are, based on the lenders as they are today. Another scenario that was looked at is if you would retire debt just driven by the tax basis in order to eliminate any potential tax penalty. And then the third scenario that they provided was after retiring \$150 million in debt, you would back load your remaining debt service meaning that your debt service payments are going to be much higher towards 2018, versus making it a level payment. So since the F.A's had already prepared this I talked with them and requested that we use that same information as a starting point. And then, as we discussed earlier we are contracting with an independent financial advisor who will take this

information and put together a more specific plan for us. We feel like the best way of using our proceeds is going to be in combination of executing a tender of the bonds, an open market purchase and then also to a cash defeasance. So we know that our financial plan here is contingent on many, many variables and of course I guess the number one issue is getting approval to sell the assets. With your blessing, we would also take this document and send it out to the other lenders as well as the member jurisdictions to request the approval for sale, contingent on a closing date and whether or not you sign the agreement with Wheelabrator. We will be working on getting IRS approval, whether or not we receive volume cap from the state, and then of course a tender program is going to be contingent on market conditions. So there are many moving pieces here, and to come up with a final plan at this point in time is really not possible but we will inform the Board as the details become available. We also plan on working closely with the F.A.'s of the communities and the CAO's to keep them informed along the way throughout the process.

Another part of this plan is to provide the projected tipping fees, post-sale and more of the details of the projected tipping fee are provided in Appendix C of the plan. As you can see we are projecting a tipping fee anywhere from \$198 down to \$103. This is inclusive of the projected service fees that we would be paying to Wheelabrator. We believe these estimates are very conservative and by that I mean high. We will do everything we can to bring this tipping fee down. If we do go ahead and fully fund the three-month operating reserve that \$198 tipping fee should come down by \$8 to \$10 per ton for next year. If you look at Appendix C, we have taken the tipping fee and broken it out into various components to let you know how much of it is for operating, how much is for capital and how much is for debt service, et cetera. Ms. DeVary then asked if there were any questions.

Mr. Harrell (CH) said, "Our moments of joy are always short lived. But looking at the tipping fee and the various environments I certainly hope you know that we can take a look at and hopefully minimizing any increases given the fiscal state the communities are in and I've shared that I think there are some ideas in terms of taking a hard look at the capital projects and talking about maybe trying to smooth the Virginia Beach payments. But I just want us to look at strategies to the extent possible and lessen the impact. Not step away from our financial commitments, we need to fund appropriate reserves and continue to improve the fiscal position of SPSA but we have to be thinking about the citizens that are paying the bill. Thank you."

Mr. Collins (CH) asked, "You are not asking for any recommendation on the various scenarios, this is for our information for now." Ms. DeVary responded that it is a preliminary and conceptional plan. Mr. Collins continued, "You are coming back at a future time, a future date to pick which one of these scenarios, I believe you said there is additional information which would make these numbers change?" Mr. Taylor responded, "Yes".

There being no further questions, Vice Chairman Clark called for a motion to submit this plan to VRA. Mr. Collins (CH) made this motion and it was seconded by Mr. Gardy (SU). All present voting yes; opposed none; motion carried by a unanimous and recorded vote.

CONSENT AGENDA

Vice Chairman Clark asked if there were any additions or deletions to the consent agenda? Mr. Taylor said we had one boiler feed pump item that is a contract above \$30,000 so we do need approval to be able to authorize that and indicated that the Board had the information on it before them. This was an additional item to those previously included in the agenda. Vice Chairman Clark then asked with adding this item did he hear a motion to approve the Consent Agenda. Mr. Stein (NO) made this motion and it was seconded by Mr. Gardy (SU). All present voting yes; opposed none; motion carried by a unanimous and recorded vote. The Consent Agenda included the below-listed items:

ITEM NO. 6: RESOLUTION RATIFYING FOIA EXCLUSION DETERMINATIONS – ReENERGY HOLDINGS

ITEM NO. 7: PRESENTATION OF THE MINUTES OF THE PUBLIC HEARING AND BOARD MEETINGS

ITEM NO. 8: CONTRACTS

- Replacement of Overhead Doors – Operations
- Butterfly Valves (re: CO emission at Steam Power Plant)
- Air Cannons (re: CO emission at Steam Power Plant)
- Renewal of Employee Medical Insurance
- Boiler Feed Pump

INFORMATION ITEMS:

The below-listed items were presented as Informational Items. There were no questions on any of these items.

ITEM NO. 9: PERFORMANCE INDICATORS

ITEM NO. 10: MINUTES OF THE BUSINESS ADVISORY COUNCIL

ITEM NO. 11: PUBLIC INFORMATION ACTIVITIES

ITEM NO. 12: MISCELLANEOUS ITEM(S)

Mr. Thiel, General Counsel, mentioned the Isle of Wight withdrawal from SPSA letter. He stated that we received a letter, there was a newspaper article about it last week, from Isle of Wight regarding a process for withdrawing from SPSA and specifically requesting that SPSA provide a means of doing that. A letter was drafted by Bucky and sent yesterday, copies provided to you. I think that provides the response. Similar questions were raised by Chesapeake in 2005 and 2006. Numerous approvals would be required for withdrawal and the entity to withdraw would have to live up to the terms of its Use and Support Agreement anyway and that's the response. At this point Mr. Taylor drafted that letter and I don't think

any further action is required in responding to that request at this point. He then asked if there were any questions or concerns about that item.

Vice Chairman Clark stated that Chairman Williams was not here today because his wife is ill and he is with her in the hospital, so our hopes and prayers are with him and her.

OLD/NEW BUSINESS

Mr Taylor stated there was one item and asked Mr. Dick Childress to come forward. Mr. Taylor stated that we have a considerable generator issue at the Power Plant and he wanted Mr. Cheliras to give the Board an update, noting that we were not asking for anything at this particular time but that will change in the very near future.

Mr. Cheliras, “Mr. Chairman, members of the Board, as Mr. Taylor indicated we have just recently experienced a significant casualty over major pieces of equipment at the power plant. It is the number one steam generator and it is in the generator and at this point in time we don't know the full extent of the casualty. We have done enough troubleshooting in-house to know that we have a major ground in what we think is the stator portion of that generator that is the fixed field windings portion of the generator. We don't know if there is damage to the rotor end as well. We don't have details on the extent as I said or the extent of the repair effort that is going to be required associated with this. We have contacted a number of firms that have expertise in effecting this kind of repair as I speak. One of them is on site looking at the equipment. There is another scheduled in tomorrow. The folks that are coming tomorrow are the manufacturers of the equipment, General Electric, and then we have two others identified to come in but as yet unscheduled. Once I know what that is I will bring more information back to you. The impact that that has on the plant is that is one of the three steam turbine generators that I have in the facility. That in itself though will not preclude us from the ability to meet any or fulfill any of the contracts that we have in existence. It will impact our generation capability but all of our contractual commitments with various people will continue to be met through the use of the boilers in the remaining two generators. And the other step we have taken to contact our insurance carrier in this situation and initiate a claim with those folks relative to this failure. They will have their own investigators come in and work this as well. That is to include business disruption insurance and whatever loss we will assume as a result of that. That in a nutshell is it. It is not detailed but I don't have details at this point in time. It was about 36 hours ago we discovered just what we had. Mr. Cheliras then offered to answer any questions.

Mr. Collins (CH), “I have a question or two. A few years it was shared with the Board that the generators had undergone a major overhaul. And to me the purpose of a major overhaul is to prevent these types of casualties. What was the generator a part of that major overhaul that we discussed?” Mr. Cheliras said, “It was. That is something that is done in target time frame that is every seven years. You lift the turbine casing and inspect the turbine end and open up the generator end and inspect the generator and there are some other maintenance actions associated with those evolutions and there is a fairly extensive report that is written. That report indicated at the time it was satisfactory. That is not to say that something cannot occur and as I indicated I have not prepared to detail what the cause was at this point in time

because I don't fully know. We have initiated an investigation and yet to determine that and I have some thoughts about what it might have been but all they are right now are my thoughts and I would like to wait until the experts have come in and looked at the generator before I give you a more detailed report as to what the analysis of the cause of that casualty was. Mr. Taylor asked wasn't this about year five of the seven year inspection and Mr. Cheliras responded that yes, it was. He also said the last for that generator was not year five, it was in the spring of '06 was when that was conducted so we are coming up on being about midway through that cycle on that. Mr. Collins said in '06 when he came on the Board, one question was asked, the overall conditions of the generators and the boilers and we pretty much replaced a lot of the major equipment then and now I am hearing that we may even need to look at our insurance carrier which says this is a very expensive piece of equipment, a major component of the Power Plant and a major part of that asset that we are looking to sell. Mr. Cheliras agreed with Mr. Collins and said what he had stated was accurate. He said when he says we have experienced a generator failure; there are a number of items that could cause that. And the appearances are it was a piece of auxiliary equipment that failed, that there was a cascading chain of events that resulted in the generator itself experiencing the failure. Putting it into this cascading chain of events would have put it into abnormal operation function; safeguards that are in place did function properly, likely reducing the extent of damage. But, again, this is my initial assessment based upon what I have been able to observe and what we have found in the last 36 hours. And I'm sure we will get a much more detailed report on that when the insurance investigators come in and once I have had the repair people on board to actually look and see what we've got. I do know we had some auxiliary system failures and that is about all I can tell you right now other than to say it is not as if we had this piece of equipment that was operating normally and then all of a sudden exploded. That's not exactly what happened. There were some peripheral events that occurred that I think triggered the larger failure. Mr. Collins thanked Mr. Cheliras for that explanation. He said to the Executive Director and Vice Chairman that he was not looking to put more work on the staff but noted we have a responsibility, some of us terming out, for the new Board to have a good idea of the condition of the things that we are turning over. Mr. Collins that said it would probably be good if we could get one [report] certainly when this investigation is complete, some type of report out to us detailing that as well as some type of brief summary of the other main systems and main equipment, not looking to find out the problem or the details on the fuel oil pump, but you know, we are replacing a \$30,000 pump and now we have and I won't even begin to guess how much a generator is. Mr. Taylor stated that it was a whole lot; six figures anyway.

Vice Chairman Clark asked if Mr. Collins wanted to make motion to have a report back at the November 17th meeting. Mr. Collins said if we need a motion for that, but he thought in the past the Executive Director had done real good with that. Mr. Taylor clarified that a motion was not needed and he would get a report out to the Board once the investigation is completed.

Vice Chairman Clark then asked if there were any other matters for today. Mr. Gardy (SU) said he would like to further note on the November 17th meeting a report either in closed session or open session on the landfill gas progress on that proposal. Mr. Taylor said he will do that.

Mr. McCoy thanked the Vice Chairman and the Board for allowing him to sit at the table today.

Mr. Collins (CH) said he wanted to address one more thing and stated that Mr. Warren [Nowlin] did share with us about the meeting that was held at that Chesapeake City Council meeting and said there were a number of questions that were asked and a number that were answered. He said there were a few questions that required some additional review, and input and he was looking forward to getting the response to those additional questions, probably about half a dozen. Mr. Collins said if Mr. Taylor needed those questions not answered again, they could get them to him and Mr. Taylor said he would appreciate that. Mr. Collins said he would like to get that response as soon as possible.

Vice Chairman Clark thanked Delegate Cosgrove for coming and observing, adding that it was always good to have members of the General Assembly watching and observing how we do business.

ADJOURNMENT (Meeting adjourned at 11:05 a.m.)

There being no further business to come before this Board of Directors, Vice Chairman Clark adjourned the meeting.

Rowland L. Taylor
Executive Director

Submitted by: Lou Ann Ivory
Secretary, SPSA Board of Director