

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

January 23, 2008

At the regular meeting of the Southeastern Public Service Authority of Virginia beginning at 9:30 a.m., in the Regional Board Room, Chesapeake, Virginia, there were:

ROLL CALL

Members:

Leroy Bennett, Chair	(SU)
Bryan L. Collins	(CH)
Charles A. Wrenn (Vice Chair)	(FR)
James B. Brown, Jr.	(IW)
Donald L. Williams <i>absent</i>	(NO)
Ray A. Smith, Sr.	(PO)
Dallas O. Jones	(SH)
Michael J. Barrett	(VB)

Alternates:

William E. Harrell	(CH)
Rowland L. Taylor	(FR)
W. Douglas Caskey	(IW)
Stanley A. Stein	(NO)
Kenneth L. Chandler	(PO)
Mike Johnson	(SH)
Eric T. Nielsen, Jr.	(SU)
Bill DeSteph <i>absent</i>	(VB)

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

* Indicates Late Arrival

** Indicates Early Departure

The meeting began with the invocation by Chairman Mr. Leroy Bennett (SU), the Pledge of Allegiance by all attendees, and was followed by Roll Call. A quorum was present.

CHAIR STATEMENT

Mr. Bennett welcomed Mr. Kenneth Chandler as the new Alternate Board Member representing Portsmouth and offered him the opportunity to speak. Mr. Chandler thanked the Chairman and noted that it had been a number of years since he had had the opportunity to work with SPSA

and stated it was good to be back here. Mr. Bennett also welcomed the Board back for the year 2008, noting that it has been a good start and that a number of good things had gone on last year. In speaking on behalf of the Board, he said we are very proud of the progress that was made by SPSA staff and Mr. Hadfield regarding the objectives that were given to them last year in pulling this together to move forward toward the 2018 closure and having the funds in place for when we get to 2017. He noted that SPSA will be debt-free and able to move on and do whatever this Board and the cities and counties decide they want to do. He also thanked everyone for attending this morning and showing their interest, and indicated he was sure that we were all looking forward to working together to try to improve the quality of lives for our citizens.

PUBLIC COMMENT PERIOD

Mr. Bennett stated that there were no speakers registered to speak today.

EXECUTIVE DIRECTOR'S STATEMENT

“Thank you, Mr. Chairman. Mr. Hadfield stated that as he entered today’s meeting he noted the very unique nature of the meeting date today; we stand right in between two very significant dates in SPSA’s past and in SPSA’s future. Yesterday was the 22nd anniversary of when SPSA took the very first ton of garbage into the landfill, January 22, 1985. It has been a very interesting and in some cases challenging 22 years. He said he thought we had made a lot of progress together, we have served the community very well and he looks forward to that continuing into the future. Tomorrow marks the beginning of the last ten years of the contracts between SPSA and the communities; January 24, 2018 those contracts end. There is a lot to do between now and then. There are studies going on of what the communities ought to be doing with their waste after those contracts expire. Part of that may include SPSA’s future. As those studies unfold, he thinks it is incumbent on us all to be very aware of what they may be saying about the future of SPSA and the region and take the necessary steps quickly to make sure that SPSA continues to be a viable organization serving the region and that we can fulfill the goals of the communities into the future. Thank you.”

SPECIAL PRESENTATIONS

ITEM NO. 1: PRESENTATION OF RETIREMENT CERTIFICATES

The Board of Directors of the Southeastern Public Authority, along with the Executive Staff, wishes to recognize long-term employees of SPSA with a *Certificate of Appreciation* upon their retirement. Present at this meeting was one of the five individuals who retired effective December 31, 2007, Mr. James DellaBadia, who personally received his retirement plaque. All retiring individuals are listed below:

Adrian J. Bodie, hired 10/05/92
James DellaBadia, hired 11/05/99 (present today)
Eduardo A. Ordonio, Sr., hired 3/08/00
Linda S. Taylor, hired 6/04/90
Johnny L. Pennington, Sr., hired 3/13/96

These employees have faithfully served SPSA for a number of years and our hearty congratulations, sincere appreciation, and best wishes go out to each one of them.

Prior to moving into the Action Agenda, Mr. Bennett called for a motion to amend the agenda as shown by moving Item #4 to after the Closed Session. This motion was made by Mr. Collins (CH) and seconded by Mr. Smith (PO); all present voting yes; opposes none; motion carried.

ITEM NO. 2: PRESENTATION OF SPSA'S FY2007 AUDIT

Mr. Hadfield called for Mr. Walt Hunter to introduce the audit and the agency representatives here today. Mr. Hunter stated that as everyone probably remembers, KPMG is the audit firm that SPSA uses, has been the audit firm that SPSA has used for the past several years. We are fortunate today to have David Craner here who is the audit partner responsible for this engagement as well as Susan Reed who is a senior manager with KPMG and he turned it over to Mr. Craner for his review of the audit.

Mr. Craner thanked the Board for having them here today and noted that Susan Reed had been with this engagement for several years now and stated that both would be happy to answer any questions at the end of his presentation.

Mr. Craner said a complete report was made to the Audit Committee at the end of November and he pointed out a couple of highlights. First, he said that the purpose of the audit was to look at management's preparation of the financial statements and for KPMG to "opine" on those numbers, that they were "fairly presented", that they "fairly present" the financial position of SPSA. We concluded that those numbers in the financial statements, which I believe everyone has in their packets today, were presented fairly and we issued an "unqualified" opinion, which is a clean opinion on those financial statements. He noted that a financial statement audit is an audit of a historic period of time so we don't focus on the future other than the fact that we look at whether an organization is going to be in existence 12-18 months in the future, but everything that is reported in those financials is historic in nature. He noted that on pages 3-8 of the financial statements is a section called "*Management's Discussion and Analysis*". He said that it was a pretty long report and if you were going to read anything in this report, the most important part would probably be "*Management's Discussion and Analysis*". That is written by the management of SPSA and really just talks about any financial trends that occurred during 2007.

Moving on to the numbers themselves, our first focus, really on page 12 was the Cash Flow Statement and in the Cash Flow Statement, this just really documents where the cash comes from and where the cash goes. Line 4 of the Cash Flow Statement is "*Net Cash Provided by Operating Activities*" that is an important line because that indicates that \$25.2 million funds that came in which is revenue from sources and really just payments to employees and payments to run the plant. The question would be what happens to the \$25.2 million after that. At that point in time if you go down throughout the Cash Flow Statements and the financing activities, it really goes to pay for fixed assets; this year there was \$8.8 million of fixed assets purchased. Secondly, the next largest piece would be the interest paid on the debt of about \$12.5 million. You also see in the investing activities that there were purchases of investments of about \$11.5

million and when you add up all those changes, those being the largest changes, cash in the current year has decreased about \$1.3 million. When you move back in the financial statements to the balance sheet on page 9, you see that the top line is the cash and you will see that it has decreased \$1.3 million from the previous year. In going through the balance sheet, when you look at the large changes you'll see that investments have increased from the prior year from about \$11.5 million which is what I just mentioned on the Cash Flow Statements; that's a good trend that the investments are now increasing. I think in the past couple years those investments had decreased, so you were using more cash than you had coming in.

On page 10, this goes through the company's liabilities, focusing on the largest change which was the landfill closure and post-closure care liability. With that, if you recall from previous years, this is the liability that is relatively volatile; two years ago SPSA was using a model to estimate this liability based on the Virginia Department of Environmental Quality (DEQ) and what the historic estimates were at the time the landfill was opened. The company did a detailed review of that liability last year and we suggested that they use a third-party going forward. This year, SPSA used HDR, which is an engineering firm, to true-up that liability, stating that he thought it was a very beneficial process. He noted that the liability has gone down slightly; he feels there is a good estimate this year and there are some cash payments that have gone out which are attributed to some of that decrease as well. That's what is causing the \$5.7 million decrease but he thinks there is a really good estimate at this point.

On page 11, this is the Income Statement, and you will see on the top line the charges for services have decreased about \$3.2 million but when you look down to Operating Expenses you see a large decrease of about \$20 million. If you break that down and eliminate non-cash items such as depreciation and depletion and the landfill closure costs, you will see that operating expenses have also decreased about \$3.3 million. Below that operating income which is income this year, you will note that the only new item below non-operating revenue is write down of long-lived assets and this relates to the yard waste facility that was sold in the current fiscal year but due to the care and costs being higher than what it was sold for, the write-down occurred during the June 30, 2007 fiscal year.

The remainder of the financial statements is really just footnotes which are required by the profession, and they just give more detailed explanation to debt, cash, landfill closure costs, etc. The last thing within the financial statements that he pointed out was on page 35, which is their report on internal controls over the financial reporting process which is required by government auditing standards. He noted that with respect to internal controls, we rely on internal controls but we don't form an opinion on the company's internal controls so we don't "opine" on those but we consider internal controls in our reliance during our planning and performance of the audit. That report is required and was in there last year and what is behind that on page 37 is a schedule of findings and responses to our review of internal controls. Before going through all those deficiencies, Mr. Craner gave some background to put these in context, noting that they had done this for the Audit Committee as well because last year he did not know that there were any findings with this report whereas you can see several on the current year. The reason for that and we talked with the Audit Committee about this, is that new literature has come out that has really "raised the bar" for companies across the board not just SPSA but everyone. What it has done is conformed wording that public companies are required to consider by the PCAOB and it

has defined what a “deficiency” is, what a “significant deficiency” is and what a “material weakness” is. This has “raised the bar” for companies that it has impacted and it has impacted more of the government entities, non-profit entities, and some of the middle market clients that don’t have the resources to deal with some of the technical literature that is out there now in the accounting world. He stated that they see that in some of their clients in those markets and the governments and in a lot of cases, companies are making some sort of cost-benefit analysis to determine whether the deficiencies are serious enough to warrant changing and it is solely up to the Board and those companies. Going back to page 37 though, under the significant deficiencies that we did notice, those really related to, there are three: 1) *internal control over preventing and detecting misstatements in the financial statements*, and these are back to the technical literature that is out there; these are audit adjustments that KPMG found that we believed needed to be made and were made to the financial statements and don’t believe they would have been found any other way. And the third item, *internal controls over preparation of the external financial statements* really relate to the fact that if the auditor prepares the financial statements, the company really needs to have the technical ability to be able to review the financial statements and catch any errors and make sure they fully understand what they are looking at. In this case, we prepare the financial statements and Item #2, *Internal controls over the selecting and applying accounting principles that are in conformity with GAAP*, again there are a lot of technical literature coming out; we’ll go over the management letter in a second and it has about three new pronouncements that will affect SPSA going forward and they just need to be considered in light of these new guidelines.

The last two reports that we issued other than the financial statements are a required communications letter that should be in your packet and really this just indicates how the audit was conducted and whether we encountered any problems or had any disagreements with management, that sort of thing. There are attachments to that letter; there is nothing unusual to the letter; it is very standard in nature. The other letter is the management letter and that letter indicates the same three findings that we included in page 37 of the financial statements. It includes the pronouncement that will affect SPSA going forward and there are two or three other items that we recommend that would be beneficial for consideration by management and one of those is the post-closure liability which management did take our advice last year and went to the engineering firm and we think that was very beneficial and documented this in that letter. At this time he indicated that he and Susan would be happy to answer any questions. Mr. Bennett thanked Mr. Craner for his presentation and asked Mr. Barrett (VB) as Chair of the Audit Committee if he had any questions. Mr. Barrett commented that he thought the process went well and that the result is a very accurate statement of the financial condition of SPSA. He noted that he appreciated the suggestion for changes in internal controls but he said that he felt as a Board they really needed to assess whether they were willing to spend the money to get to a level of competence that means they (the auditors) would never find anything, and frankly, we have “them” (the auditors). He felt this was an issue we needed to address as to whether we feel that the deficiencies that they found, we are willing to hire additional staff and perhaps even hire an even higher level of education of that staff to prevent what they found which was immaterial. He indicated he appreciate their comments; he felt they did an excellent job and the report indicates that our staff is doing an outstanding job as well and thanked the auditors and the staff for their participation in this process.

Mr. Collins (CH) said he will not state it quite as Mike (Barrett) did, but the fact that the report came back that basically things are following in an order and what they found was based upon some additional new standards, is that correct? Mr. Craner responded, "Yes". Mr. Collins continued that in order to get to the point of no errors, we probably need to way in what the actual cost would be to bring in this new criteria and also keep in mind that we need to be fiscally responsible for all that we are doing and the audit is showing where the dollars are coming from and where the dollars are going and there were no irregularities showing that money was spent inappropriately so he appreciated the detailed analysis and the follow-up in the audit report. Mr. Bennett noted that Mr. Barrett and Mr. Collins had served on the Audit Committee and thanked them for taking the time and serving.

Mr. Bennett called for a motion to receive the audit; this motion was made by Mr. Barrett and seconded by Mr. Collins; all present voting yes; opposes none; motion carried.

ITEM NO. 3: APPROVAL OF ALLONGE TO REIMBURSEMENT AGREEMENT WITH WACHOVIA BANK

Mr. Hadfield asked Mr. Walt Hunter to speak to this item also and noted that it was related to our financial assurance requirement that DEQ imposes on us and others that run solid waste facilities. Mr. Hunter stated that in February 2000, the Authority entered into a reimbursement agreement with Wachovia and authorized a senior subordinated bond to evidence the Authority's obligation to repay any draws on a Wachovia "standby" letter of credit payable to the DEQ to provide the financial assurance required with respect to the closure of the existing cells at the regional landfill and other SPSA facilities as required by DEQ. This is an issue that we have been going through for a number of years now and this is a routine update of that "standby" letter of credit. Remember the concept here is that DEQ says that if SPSA should vanish tomorrow, there needs to be enough money set aside to close all of the facilities in accordance with their regulations. SPSA has never actually set cash aside to do that; it has always been a choice to get a letter of credit. In this case, rather than put up approximately \$20 million of cash, we get a letter of credit, it has a 50-basis point charge to it and that letter of credit is only drawn upon in the event that SPSA would no longer be able to fulfill the obligations of closing those facilities according to the regulations. So what this allonge does today is simply extends, the legal definition is "to extend", that arrangement of the letter of credit as well as the reimbursement agreement that stands behind that. The letter of credit is issued by Wachovia that provides the financial assurance to DEQ, SPSA then has a reimbursement agreement on that letter of credit that if that letter of credit is ever drawn upon, SPSA would have to reimburse the bank for the amount that is used under the letter of credit. So the Series 22 resolution authorizes a senior subordinated bond in the same principle amount as the letter of credit, \$24,009,665. If the letter of credit is drawn upon, the bond will bear interest at a floating rate; keep in mind this is only in the event that the letter of credit is drawn upon. This does not represent additional borrowing in any way, shape or form; it is only providing the assurance to DEQ under a letter of credit arrangement. The cost is 50-basis points so it will cost approximately \$120,000 a year for SPSA to be in this arrangement which is consistent with costs we have experienced in the past on this same issue. For the Executive Committee, he pointed out that the total amount was slightly different than what they saw a week ago; a week ago we were talking about just a little over \$25 million; you will see it is just a little over \$24 million now. The reason for that is that we got

word from DEQ late last week that they were in fact satisfied with the closure of the Virginia Beach yard waste facility and because of that it reduced the liability that was out there by about \$1 million; that is why for several of you that had seen a different number it is reduced by just over a million.

Mr. Collins (CH) asked if he understood that it was going to cost \$120,000 to be able to leverage \$24 million and this \$24 million is a line of credit that as long as we continue to do what we are supposed to do, we will never use it. Mr. Hunter stated that it is not actually a "line of credit"; it is not something that we can borrow from. What it is, is a "letter of credit" that if DEQ says, "SPSA, you are not fulfilling your obligation, we are going to step in and we'll get the money out of this letter of credit", meaning that DEQ gets the money and they take over the closure effectively. So that money isn't money that is even available for SPSA to borrow; it is only money available to assure DEQ that there are funds available for them to tap into should there ever be an issue that would have to be dealt with. Mr. Collins continued that that is where he was going; that this authorizes DEQ to take a draw on this should something not go well with SPSA into the future, but based upon the way things are going and the way things are laid out, we will be paying for and funding our closure costs and DEQ would never have to tap into this and Mr. Hunter indicated that this would certainly be the expectation. Mr. Hunter stated that the recommended action would be to adopt the Series 22 Resolution and approve the terms of the allonge to the reimbursement agreement with Wachovia as John (Hadfield) presented. Mr. Barrett (VB) made such a motion and it was seconded by Mr. Collins (CH); all present voting yes; opposes none; motion carried.

ITEM NO. 4: REQUEST FOR AUTHORITY TO TERMINATE COMMERCIAL DISPOSAL CONTRACTS

(amended to later in the agenda)

ITEM NO. 5: DISCUSSION OF SUFFOLK TRANSFER STATIONS

Mr. Hadfield stated that at their November meeting, there was some discussion about Cell VII and the transfer stations. He said the Board had adopted a resolution at that time relating to both Cell VII and the transfer stations. He said he wanted to come back to the Board today and provide an update on how we got to where we are and some information from HDR. The new Suffolk Host Agreement was adopted by you on August 14, 2007, just last summer after some extended discussion. And that new Host Agreement provides for the construction of two transfer stations in Suffolk in lieu of the proposed flyover. The new Host Agreement was the basis of SPSA's receiving a Use Permit the following day from the City Council of Suffolk to go ahead and build Cell VII. As I also said, last November you adopted a resolution that called for the staff to continue the permitting process for Cell VII and begin the process of siting the two transfer stations. We talked a little bit about the Host Permit and the Use Permit, now on Cell VII. Clearly it continues the free disposal that had been in place since the original Host Agreement back in 1983 or 1984. It adds the construction of the new transfer stations and it also provides in this Host Agreement that Suffolk will pay the full municipal tipping fee if for some reason the regional landfill is closed before Cell VII comes on line for instance. Cell VII would benefit SPSA by allowing the region to dispose of 7.7 million tons of waste in that facility and

have landfill through 2018 and from the perspective of the members, you may recall several months ago hearing the discussion about looking at Cell VII as compared to the private landfill option and the analysis showed that building Cell VII including the two new transfer stations and their operations at nearly \$150 million less expensive than the closest private landfill. As we look at the next steps, Suffolk, as we have traditionally done with other communities when we site transfer stations, needs to identify some possible transfer station sites. Staff would then review those sites and present the Board with a proposed Purchase Agreement. The Purchase Agreement clearly would be contingent on SPSA getting the Use Permits before actually putting money down to acquire the sites. One of the concerns or issues, added information - maybe I should say it that way - that we would like to present is from HDR who has looked at the possible locations of the transfer stations sites and the other issues related to those two. Mr. Hadfield introduced Doug Decesare with HDR and noted that he has been one of our principal engineers on Cell VII and would be on the transfer stations project as well.

Mr. Decesare stated his name and that he was Project Manager with HDR Engineering, adding that they had been assisting SPSA with the permitting of Cell VII and said he was here today to present an overview of the general locations of the two new proposed transfer stations for the SPSA system. He referred to his PowerPoint slide presentation (a copy of which was at each Member's place and is attached herein as Appendix A), noting that they had put together a map of the SPSA service area outlining and showing the locations of nine existing transfer stations in the SPSA system including the RDF plant because it kind of acts like a transfer stations as well. You can see that there are two highlighted areas that are for the proposed northern transfer station and a proposed southern transfer station and here (second slide) we took that map and blew it up and focused in on the Suffolk city limits. What you can see here is that the darker dots represent population growth in 2026 and you can barely see the lighter dots but they represent population recorded in 2000, so we were trying to show in the background a little bit of what the population growth and density would be in the future within the SPSA service area. One of the things that we show here are two transfer stations and the two transfer stations satisfy one issue and each individual transfer stations satisfies other issues. Such as, the two together satisfy the requirements of the Conditional Use Permit issued by the City of Suffolk for Cell VII expansion and John (Hadfield) already touched on that with the background. The northern transfer station is consistent with the Solid Waste Management Plan (SWMP) prepared by SPSA two or three years ago that has been approved by Virginia Department of Environmental Quality (DEQ). I will touch base on that in a second. And the southern transfer station improved traffic safety on Highway 58 which I will go through as well. This is a map that came from the SWMP and what it does it discusses the potential for new transfer stations in the system to make it more efficient with the population growth and you can see the three circles on the map represent those general vicinities of where transfer stations need to be. The first one there, circled in red is consistent with what the CUP required in the northern part of the City of Suffolk. Now, the southern transfer station will address the issue about traffic safety concerns. When we were doing the permitting for Cell VII for DEQ and for the Conditional Use Permit Application for Suffolk, we had to do a traffic study. That traffic study found that the westbound traffic had a Level of Service of F which is basically "unsafe" which is not a good thing. To give you an idea of what that Level of Service means, the study estimated that in 2012 it came up an estimated 6,600 vehicles per hour in the "p.m. peak time" would be traveling westbound. What that means is that traveling going eastbound on Highway 58 that needs to take a left to go to the landfill has to

cross all of those vehicles so it becomes a safety concern. Well the study looked at signalization of its intersections, well, when looking at the manual of Uniform Traffic Control devices, it does not meet those requirements so it would not improve the safety situation. Then comes the grade separation, I'm sure the "flyover" option which John (Hadfield) touched on and that is a pretty expensive option for something that is only going to be used for the life of the facility, and then from that developed the two transfer stations. The southern one would address the safety issue on this. Mr. Decesare offered to answer any questions anyone had.

Mr. Hadfield added that there is no action requested today, this is just information as we go through the process of looking at the sites for the transfer stations. Mr. Bennett thanked Mr. Decesare.

Mr. Collins (CH) asked what the red circle was on the side of the map with the three circles. Mr. Decesare responded that the red circle is where in the SWMP SPSA staff is looking at projections of need in the future as where one of the first transfer stations would go. Mr. Collins also asked him to explain the black and aqua-looking circles and Mr. Decesare responded that he was not involved in the preparation of the SWMP so he could not explain or justify as to why those two areas are circled other than to think that traffic routes and population growth in those areas are becoming greater than what your existing transfer stations can handle and asked if Mr. Hadfield wanted to shed some additional light on this, however, Mr. Bennett asked Mr. Eric Nielsen (SU), Director of Public Works for the City of Suffolk to respond. Mr. Nielsen stated that the black circled area looked like it was all in Chesapeake and that the southern transfer station that was not shown on there is the issue where traffic coming from the western part of Suffolk, you can't get to the landfill when you are heading east, you can't take that left into there. Mr. Decesare restated that the southern proposed Suffolk transfer station is not shown on this map here and is to address the safety concerns. He did note that it would probably be a smaller transfer station that is shown here; these are based on population density whereas the southern transfer station addresses the safety issue. Mr. Collins responded that he was trying to get an explanation, if we are looking at new transfer stations, and the ones we were targeting were the ones for the Suffolk area and he sees two that pretty much lie in Chesapeake, maybe touching the Virginia Beach area and wondered why the heading (on the PowerPoint slide) says "*New Transfer Stations*" and asked if we were proposing to relocate or built a new transfer station in Chesapeake/Virginia Beach?

Mr. Bennett stated that this was the first time he was seeing this as well and Mr. Hadfield asked Mr. Cheliras to respond. Mr. Cheliras stated that he had not looked at this map for a couple of years and stated that he would get this information and get it back to Mr. Collins and would be happy to bring it back to the Board also, which is what Mr. Bennett asked him to do. Mr. Bennett stated that the transfer station they were talking about in Suffolk, two, one in the northern part and one in the southern part; the one in the northern part is going to be in Suffolk, we just said the northern part of Suffolk but it can be in Chesapeake or it can be in Portsmouth because it is going to serve that whole area in the northern part of both of our cities; Chesapeake, Portsmouth and Suffolk butt together up there in the northern end, so the transfer station does not need to be in Suffolk. We can find a place in Chesapeake and that would be fine with us or over there in Portsmouth, no problem. We are just looking at geographically where it should be to serve the needs of the people with the population growth in the northern part. The southern part

is that as he (Mr. Decesare) stated in his comments, about 6,000 and some traffic cars and trucks an hour and trying to get across that road, Highway 58, going into that landfill, this would eliminate that by going to the transfer station and asked Mr. Hadfield to correct him if he was wrong, we are looking at most of the waste that goes from the transfer station be taken to the power plant so it would not have to make that left turn to go into the landfill. Mr. Hadfield stated that we were looking at the routing now and that was one of the options we (SPSA) were clearly looking at. Mr. Bennett added that this map and rendering was new to all of them. Mr. Collins thanked Mr. Bennett and said he looked forward to the detailed report that all the board would receive as this is the first time he had a chance to see these new proposals or what appeared to be new proposals and asked that we be sure he gets the electronic copies of the presentations. Mr. Hadfield stated that this was just information; no action required. He (staff) expected to come back to the Board at a future meeting, maybe February maybe not until much later, with a proposal on actual siting of the two transfer stations required by the Host Agreement with Suffolk for further action at that time.

ITEM NO. 6: TREASURER'S REPORT

Mr. Walt Hunter presented the Treasurer's Reports for November and December 2007. He focused his comments primarily on December; being half way through the year he pointed out Line 29, *Total System Revenues* which indicates that we are running a little bit behind for revenue year-to-date. The other line he asked the Board to focus on was Line 33, *Operating Expenses*" where we are just about right on budget through the first six months of the year. On balance there is not a great deal of variation from the expectation other than the fact that we are running a little short in several revenue categories. There were no questions on the Treasurer's Reports. Mr. Collins (CH) made a motion to approve the Treasurer's Report which was seconded by Mr. Smith (PO). All present voting yes; opposes none; motion carried.

ITEM NO. 7: STAFF REPORT ON BUDGET VARIANCES

The budget variance report was in the agenda packet and there were no questions on this item.

CLOSED MEETING

ITEM NO. 8: REQUEST FOR CLOSED MEETING

For the record, Mr. Hadfield noted that there was a revised Closed Session agenda note at each Board member's place. A request was made pursuant to that note as follows:

A request is made for a closed meeting of the Board for the following purposes:

(1) In connection with matters related to the Ash & Residue Contract with the city of Virginia Beach pursuant to Virginia Code Sections 2.2-3711(A)(7) and 2.2-3711(A)(29) for the purpose of consulting with legal counsel regarding specific legal matters requiring the provision of legal advice by such counsel and possible negotiation of revisions to the terms of an existing contract and discussion of the

terms and scope of such contract where competition and bargaining are involved and where discussion in open session would adversely affect the bargaining position and negotiating strategy of the Authority.

(2) *In connection with an incident at the landfill pursuant to Virginia Code Section 2.2-3711(A)(7) for the purpose of consultation with legal counsel pertaining to probable litigation where such consultation or briefing in an open meeting would adversely affect the negotiating or litigating posture of the Authority and regarding specific legal matters requiring the provision of legal advice by such counsel.*

(3) *In connection with SPSA member localities' consideration of ordinances adopting flow control and various contracts impacted by such action, and the defense of litigation related to adoption of such ordinances, pursuant to: (a) Virginia Code Section 2.2-3711(A)(7) for the purpose of consultation with legal counsel regarding specific legal matters requiring the provision of legal advice by such counsel and pertaining to probable litigation where such consultation or briefing in an open meeting would adversely affect the negotiating or litigating posture of the Authority; and (b) Virginia Code Section 2.2-3711(A)(29) for the purpose of reviewing possible revisions to the terms of existing contracts and/or negotiation and award of new contracts where competition and bargaining are involved and where discussion in open session would adversely affect the bargaining position and negotiating strategy of the Authority.*

(4) *In connection with personnel matters pursuant to Virginia Code Section 2.2-3711(A)(1) for the purpose of the assignment, appointment, promotion, performance, demotion, salaries, disciplining, and/or resignation of specific public officers and/or employees.*

A motion to approve this request for a closed meeting as set forth in the revised agenda note that was handed out (and is printed above) was made by Mr. Collins (CH) and seconded by Mr. Smith (PO). All present voting yes; opposes none; motion carried.

Upon completion of the closed meeting, the following certification was read:

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.

A motion to approve the certification of the closed meeting as written in the agenda note and resume the open meeting was made by Mr. Collins (CH) and seconded by Mr. Jones (IW). All present voting yes; opposes none; motion carried.

*** As Amended, Item #4 was presented here.**

ITEM NO. 4: REQUEST FOR AUTHORITY TO TERMINATE COMMERCIAL DISPOSAL CONTRACTS

Mr. Hadfield stated that Item #4 was a request for authority to terminate the Commercial Disposal Contracts. As you recall, back in November you authorized me to terminate the contracts if all eight members adopted flow control. We also realize that at this point only six members have adopted flow control. You heard a presentation back in November from Jeff Clunie (R.W. Beck) who is here again today about their analysis of tipping fees if only six members adopted flow control and it was imposed. We have also asked Jeff to look at what happens if seven of the eight adopt flow control in terms of the tipping fees and he has done that. Mr. Hadfield called on Mr. Clunie to make his presentation.

Mr. Clunie stated that the purpose of this presentation (a copy of which was at each Member's place and is attached herein as Appendix B) was to compare estimated municipal tipping fees under different assumptions regarding the enactment of flow control by the member communities. For the purpose of this presentation, we have prepared five different scenarios. Case One was identified as the Base Case; that assumes flow control is not adopted and that there is a continuation of the \$100/per ton municipal tipping fee going up at 3% per year. We developed as an alternative to that Case Two which assumes all members adopt flow control and that assumes that all of the waste in the member communities goes to the SPSA system. We identified a Case Three that assumes that six members adopt flow control but Suffolk and Virginia Beach do not. A Case Four assumes that seven of the members adopt flow control all but Suffolk and a Case Five, again seven members adopt flow control except for Virginia Beach. Mr. Clunie briefly reviewed the basic assumptions that underlie all of these analyses: we (R. W. Beck) have assumed that SPSA will achieve the financial policies that this Board adopted one year ago and that is to establish an R & C Fund equal to 15% of the annual operating expenses, provide current funding for final closure and post-closure monitoring of the landfill and to cash-fund a portion of the capital expenditures. We've assumed that SPSA will continue to operate the waste-to-energy system; we've assumed that O & M expenses will go up at 3% per year; we've assumed that all of the waste types will increase by 1 1/2 % per year and we have assumed that SPSA will continue to operate the solid waste management system at its current level through 2018. For example, there would be no increase in the level of maintenance or care of the system as you approach the termination of the existing agreements. We have assumed that Cell VII would be available for commercial operation in November 2011; we have assumed capital expenditures of \$18 million a year in fiscal year 2009; that they would escalate at 3% per year. We've assumed that SPSA would issue subordinated debt to pay for a portion of the future capital costs; we have assumed that SPSA would make balloon payments of its debt in 2016 through 2018 and we have assumed that the Virginia Beach tipping fee cap would end in 2015. Those are common assumptions for all of those cases.

Case One assumes that SPSA will continue to accept out-of-state waste and in this particular instance, the program identifies whether or not that \$100 a ton tipping fee would allow SPSA to meet its financial obligations. And as discussed at a previous Board meeting, based on the assumption we utilized, there would be sufficient revenue for SPSA to meet those financial obligations. For Case Two, this assumes flow control by all member communities; we've assumed that there is no out-of-state waste accepted at the system; that is equal to about 65,000 tons per year or about 4% of the waste deliveries. We assume that all member communities deliver all of their waste and in this case, the model calculates the required tipping fee for SPSA

to meet its financial obligations and this is a summary of the estimated tipping fee for Case Two. At the end of the presentation all of these numbers will appear on a single exhibit so you can see them side by side, but you can see that the tipping fee is projected to decrease significantly below the current level of \$100/per ton. For Case Three, we have assumed that six of the member communities will adopt flow control; Suffolk and Virginia Beach would not. Under this scenario, we have assumed that no commercial waste from Suffolk or Virginia Beach is delivered to the system; that would be equivalent to approximately 180,000/tons a year and we have assumed that there is no out-of-state waste, again that same 65,000 tons of out-of-state waste. Again, the program will calculate what the required revenue is for that particular scenario.

For Case Four, we have assumed that seven of the member communities adopt flow control; Suffolk does not. There will be no commercial waste that is delivered by Suffolk and there would be no out-of-state waste. For Case Five, we have assumed that seven members adopt flow control; Virginia Beach does not. Under this option, there would be no commercial waste from Virginia Beach and there would be no out-of-state waste delivered to the system. This presents a summary comparison of those analyses on an annual basis. What you will note is that the analysis that results in the lowest estimated municipal tipping fee is Case Two, which assumes that all of the solid waste is delivered to the system. The next option would be Case Four which assumes that about 22,000 tons of commercial waste from Suffolk is not delivered, and then Case Three which assumes no waste from Virginia Beach and then finally Case Three which assumes no commercial waste from either Suffolk or Virginia Beach. That information is provided on this graph; the green line at the top of the page is the Base Case and that is the \$100/per ton tipping fee escalated by 3% per year. The lowest cost option shown on the bottom, the flow control no-Suffolk waste and the flow control all-members; those were very, very close as you would expect since the assumption is that you only lost 23,000 tons a year commercial waste from Suffolk, and then in the middle are the two cases represented by the square and the triangle that assumes no commercial waste from Suffolk or Virginia Beach and the alternative is no-waste from Virginia Beach; again very close in terms of the estimated municipal tipping fee that is required. The conclusions that we have reached; the more waste that is delivered to the system, the lower the municipal tipping fee that is paid by the member communities and conversely, the less waste that is delivered to the system, the higher the municipal tipping fee that would have to be paid by the member communities. Mr. Clunie offered to answer any questions that the Board might have.

Mr. Clunie noted that the reason the line stayed straight is that we have assumed that the balloon debt service payments would be made between 2016 and 2018 which is when in theory you would have greater revenues as a result of Virginia Beach paying the municipal tipping fee and so a great deal of the debt service payments are scheduled for those last three years. Mr. Barrett (VB) stated that he had asked this question last time about the balloon payments because that is a relatively new technique that he didn't believe SPSA has ever used a balloon payment before; when you say balloon payments do you mean simply of new debt that is incurred between now and then? Mr. Clunie stated "yes sir", and stated that they had separated the existing debt and there is a debt service payment schedule for that that is already in place and that just assumes that that debt is paid off in accordance to the existing schedule. In order to finance the capital improvement program, we identified that not all of it could be cash-funded, some of it would

have to be funded with additional debt. In order to repay the new debt, we have assumed that there would be balloon payments in the last three years so there would be not quite interest-only through 2015, but there would be the most significant portion of the new debt would be repaid in the last three years. Mr. Barrett asked why would we depart from our normal straight-line payments and go to balloon payments and Mr. Clunie responded because the modeling is that you would have a greater level of operating revenue in those last three years if Virginia Beach is paying the municipal tipping fee so there is a greater amount of revenue in those final three years to pay off that debt. Mr. Barrett stated that there have been many circumstances during the life of SPSA where we have had more revenue or less revenue depending on a lot of circumstances so that alone doesn't explain why you would change the method of paying debt off on a straight-line basis. Mr. Clunie stated that the model was set up to determine whether or not there would be sufficient revenues in the study period out through 2018 for SPSA to pay off all of the bonds that we assumed would be required both existing and new as well as meet the financial policies and O & M, etc. and if you look, and he offered to provide this information, there is a fairly significant up-tick in operating revenues in those last three years when the cap comes off for Virginia Beach so it is a matter of shaping the debt service payments to match when revenues are available. We checked with bond counsel and bond counsel advised that SPSA is authorized to issue balloon payments. Mr. Barrett asked Mr. Clunie, "but you do acknowledge that it is a different strategy than we have ever used at SPSA before?" Mr. Clunie responded, "Yes sir".

Mr. Hadfield stated that each member should have found at their place a copy of Jeff's presentation and noted that there is also a copy of a letter that he has sent that accompanies that presentation dated January 21, 2008, Monday that basically follows his presentation as a description. He also said that the Board will recall that he had asked for authority to terminate the existing commercial contracts even now and without regard to what decision is made with flow control at some future date.

Mr. Bennett called for a motion to authorize the Executive Director to terminate the Commercial Disposal Contracts effective 2/01/09; such a motion was made by Mr. Wrenn (FR) and seconded by Mr. Jones (SH). All present voting yes; opposes none; motion carried.

ITEM NO. 9: ACTIONS ARISING FROM CLOSED MEETING

There were no items from the Closed Session meeting.

CONSENT AGENDA

ITEM NO. 10: MINUTES FROM REGULAR MEETING OF NOVEMBER 28, 2007 AND THE SPECIAL BOARD MEETING OF DECEMBER 13, 2007

The minutes of the Regular Board Meeting of November 28, 2007 and the Special Board Meeting of December 13, 2007 were presented for approval. A motion to approve the minutes as presented was made by Mr. Smith (PO) and seconded by Mr. Collins (CH). All present voting yes; opposes none; motion carried.

INFORMATIONAL ITEMS

ITEM NO. 11: MINUTES FROM THE EXECUTIVE COMMITTEE MEETING OF NOVEMBER 20, 2007 AND DECEMBER 11, 2007

The minutes of the Executive Committee meeting of November 20, 2007 and December 11, 2007 were presented as an informational item. No action was needed.

ITEM NO. 12: PERFORMANCE INDICATORS

There were no questions on this item.

ITEM NO. 13: PUBLIC INFORMATION ACTIVITIES

An overview of public information activities was placed at each member's seat.

OLD/NEW BUSINESS

Mr. Brown (IW) presented two questions that have been raised by his Board of Supervisors: What are we doing with reference to recycling of glass? He stated that members of his Board were recently in Pasquotank County and noticed that there were different bins for different items being recycled (glass, plastic) and wanted to know if we were doing anything like that. Mr. Hadfield stated that we are collecting glass in our recycling program and it is going to Tidewater Fibre for recycling and stated that he could research specifically what they are doing with it but as far as we are concerned, it is part of our recycling collection program that is going to Tidewater Fibre.

And second, Mr. Brown asked what are we doing to minimize plastic bags? We have a lot of them in our fields and streets, especially coming off the trucks. Mr. Hadfield stated that litter control is one of the areas that we have struggled with for 22 years on our trucks and continue to; it is a matter of keeping the tops tight on our trucks. Much of the liter is not coming from us; not to discount what we do, but we are continually looking for ways to improve our litter control but also need to look at others that are in the community creating this.

Mr. Bennett said he wanted to advise the listening audience that he was advised this morning that Mr. Hadfield has offered his retirement effective August 1, 2008 and we would like to have a motion to accept this retirement. Mr. Collins (CH) made a motion for acceptance of the retirement which was seconded by Mr. Brown (IW). All present voting yes; opposes none; motion carried.

Mr. Bennett offered Mr. Hadfield the opportunity to speak, noting that the Board would give out a press release following his comments. Mr. Hadfield said he appreciated the opportunity to have served the Board and served the community of South Hampton Roads. He also stated that he knew together we have created an internationally recognized integrated waste management system that all of us are proud of and continue to be proud of. The diverse, committed employees that SPSA has have really been the backbone of this agency and have helped the agency get where it is and will continue into the future bringing credit to the agency as well as the region.

Mr. Bennett said on behalf of the Board that it has been a pleasure to work with Mr. Hadfield the years that he has served on the Board; that he had truly been a champion in trying to work with the Board with the different issues; there have been a lot of challenges before us and he has stood up to the plate and took on those challenges and made some changes. Last year we gave him the great challenge of reducing the budget by 20%. Mr. Bennett stated that he felt Mr. Hadfield had done a great job with that and had come in within 17% and had done a marvelous job with that, saying that he felt Mr. Hadfield had wanted to stay on and see some changes made and made a difference and that now with that he is ready to move on with his life and enjoy his wife, his grandchildren, do some traveling and whatever he enjoys doing. He told Mr. Hadfield that he has done an outstanding job for the 30 years of service with SPSA and that it will not go unrecognized and appreciated, the job that you have done and thanked him again for the years of service he has given to this organization.

Mr. Wrenn (FR) asked for approval by the Board for the Executive Committee to begin a search (for a replacement for Mr. Hadfield). Mr. Collins (CH) made a motion for the Executive Committee to begin a national search for a new Executive Director; the motion was seconded by Mr. Jones (SH). All present voting yes; opposes none; motion carried.

Mr. Jones stated that since he was the oldest member here, being here when John (Hadfield) was promoted, and being on that Committee then he felt we did not make a bad choice, stating that Mr. Hadfield had been a great man to work with and for and said he has enjoyed all of the years he has worked with him and wished Mr. Hadfield well.

ADJOURNMENT

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

John S. Hadfield, P.E., BCEE
Executive Director

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