

DAVENPORT ANALYSIS

DAVENPORT
& COMPANY LLC*
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Public Finance Department
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February 13, 2009

Ms. June Fleming
City Manager
City of Franklin, Virginia
207 West Second Avenue
Franklin, Virginia 23851

Ms. Selena Cuffee-Glenn
City Manager
City of Suffolk, Virginia
441 Market Street
Suffolk, VA 23434

Mr. W. Douglas Caskey
County Administrator
17130 Monument Circle, Suite A
Isle of Wight, VA 23397
Isle of Wight County, Virginia

Mr. Kenneth L. Chandler
City Manager
City of Portsmouth, Virginia
801 Crawford Street
Portsmouth, VA 23704-3822

Mr. Michael W. Johnson
County Administrator
Southampton County, Virginia
26022 Administration Center Dr.
Courtland, Virginia 23837

Ladies and Gentlemen:

Given the urgency of the financial implications surrounding the Southeastern Public Service Authority ("SPSA") and the potential financial impacts to our clients, the Cities of Franklin, Portsmouth and Suffolk and the Counties of Isle of Wight and Southampton, we feel compelled to provide our recommendations to you immediately. In the spirit of the urgency to all SPSA members, we are providing our analysis also to each of the Chief Administrative Officers of the Cities of Chesapeake, Norfolk and Virginia Beach, their respective financial advisors, and representatives of SPSA.

The attached analysis provides details of SPSA's current financial position and future revenue requirements. We have analyzed multiple alternatives all with the following objectives in mind:

- 1) Provide adequate time to reform system management and to properly evaluate proposals to change SPSA facility ownership or operations as may be necessary to restore sound financial operations;
- 2) Provide cash flow relief and reasonable tipping fees to the localities in FY 2009, 2010 and 2011, given the unlikely outcome that Item 1 above can be accomplished by Fiscal Year end 2010; and
- 3) Ensure that SPSA can continue to provide service to the localities under its contracts and avoid a default on any of its debt obligations.

We have reviewed public information and financial materials provided to Davenport and the other financial advisors to date. In addition, we have communicated directly with Wachovia to determine their willingness to assist SPSA.

It is our professional opinion, as the attached analysis thoroughly demonstrates, that the Virginia Resources Authority ("VRA"), a "AAA" rated agency of the Commonwealth of Virginia, provides the best solution to meet the three primary objectives listed above, while maintaining tipping fees approximately at current levels in the near future. While we are please that Wachovia has relayed a willingness to assist SPSA and may play a role in an overall solution, Wachovia's assistance will likely provide only a few months of relief. **Each of you will be back in the same position in a few months.** We understood from the initial all-CAO's meeting that no one desires to repeat this fire drill in 3-6 months, let alone a year from now. In addition, we believe given the current extreme financial uncertainty of the banking industry, including Wachovia, VRA is the most reliable and cost effective alternative. The certainty of a "AAA" rated credit, i.e., VRA, taking the initiative of restructuring selected debt should provide the most comfort to each of you and the Commonwealth of Virginia.

We understand the difficult position in which you find your respective localities. Our role, as your advisor, is to assist you in determining the most appropriate path to take given the facts and circumstances. Our recommendation, after much analysis, is that each of you agrees to work with VRA to effectuate a transaction to meet the objectives outlined above and in our analysis. We further recommend that you ask your governing bodies, if you have not already done so, to provide assurances to VRA as requested in their resolution approved last Tuesday at their Board meeting by February 25th.

We can be available to discuss our analysis with you at your convenience.

Sincerely,

/s/ David P. Rose

David P. Rose
Senior Vice President
Public Finance Manager

/s/ James E. Sanderson, Jr.

James E. Sanderson, Jr
Vice President

cc: Regina V. K. Williams, City Manager, City of Norfolk
William E. Harrell, City Manager, City of Chesapeake
James K. Spore, City Manager, City of Virginia Beach
Nancy Leavitt, Financial Analyst, City of Virginia Beach
JoAnne Carter, Managing Director, PFM
Darrell V. Hill, Senior Vice President, BB&T
Roland "Bucky" Taylor, Executive Director, SPSA

Discussion Material
Southeastern Public Service Authority

February 13, 2009

Davenport & Company LLC
Member NYSE – SIPC

Original vs. Revised Budget

Original Budget:

Debt Service	\$ 39,679,252
PLUS: Operations & Maintenance	\$ 25,368,874
<u>EQUALS: Total Revenue Requirement</u>	<u>\$ 65,048,126</u>
LESS: Commercial Tipping Fees	\$ 30,488,166
<u>EQUALS: Municipal Tipping Fees</u>	<u>\$ 34,559,960</u>

Revised Budget (\$245/ton Basis):

Debt Service	\$ 39,679,252
PLUS: Operations & Maintenance ⁽¹⁾	\$ 26,990,478
<u>EQUALS: Total Revenue Requirement</u>	<u>\$ 66,669,730</u>
LESS: Commercial Tipping Fees	\$ 15,214,813
<u>EQUALS: Municipal Tipping Fees</u>	<u>\$ 51,454,917</u>

(1) Includes Adjustments for Budgeted Buffer

Cost per Locality

Locality	FY 2009	
	Tonnage	Cost
Virginia Beach	147,000	\$ 7,920,360
Chesapeake	111,000	\$ 10,434,000
Norfolk	85,000	\$ 7,990,000
Suffolk	65,000	\$ -
Portsmouth	53,000	\$ 4,982,000
Isle of Wight	20,000	\$ 1,880,000
Southampton	9,500	\$ 893,000
Franklin	4,900	\$ 460,600
Total	495,400	\$ 34,559,960

Locality	FY 2009	
	Tonnage	Cost
Virginia Beach	138,027	7,436,895
Chesapeake	111,000	17,992,938
Norfolk	80,352	13,024,942
Suffolk	65,000	-
Portsmouth	46,351	7,513,430
Isle of Wight	19,651	3,185,399
Southampton	9,210	1,492,928
Franklin	4,987	808,385
Total	474,578	51,454,917

- The Revenue Requirement and Tonnage have Changed in the Revised Budget

Upcoming Debt Payments

- All Scheduled Deposits Have Been Made to Date.
- No Deposits Are Scheduled to be Made on the Wachovia Lines of Credit.

Payment Date	Credit Support	Principal Due	Interest Due ⁽¹⁾	Total Due	Funded To Date	Percent Funded
04/01/09	VRA	6,695,000	3,120,576	9,815,576	8,737,564	89.02%
07/01/09	MBIA/AMBAC/Wachovia	17,970,000	1,487,146	19,457,146	12,475,715	64.12%
09/09/09	Wachovia Line of Credit	13,200,000 ⁽²⁾	-	13,200,000	-	0.00%
09/29/09	Wachovia Line of Credit	4,000,000	-	4,000,000	-	0.00%
10/01/09	VRA	3,935,000	2,975,428	6,910,428	1,639,583	23.73%
01/01/10	MBIA/AMBAC/Wachovia	-	1,173,769	1,173,769	-	0.00%
04/01/10	VRA	6,960,000	2,909,981	9,869,981	-	0.00%
07/01/10	MBIA/AMBAC/Wachovia	15,780,000	1,173,769	16,953,769	-	0.00%

(1) Does not Include:

(a) Monthly Interest of \$39,830 Due on Wachovia Series 2008 Bonds;

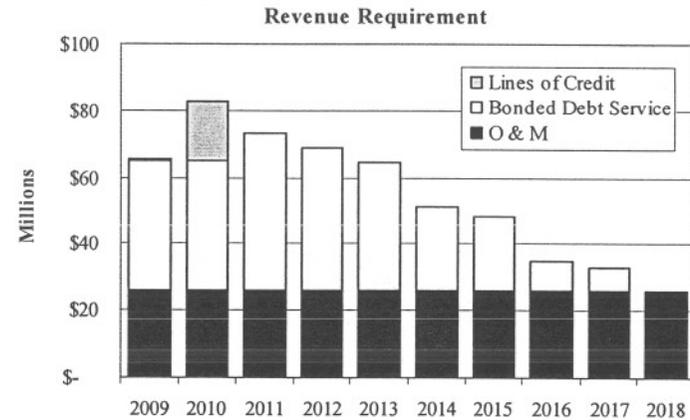
(b) Monthly Variable Interest on Combined \$29,485,000 Series 2007A&B Wachovia Bonds that are based upon SIFMA;

(c) Monthly Interest on Lines of Credit that are based upon LIBOR

(2) Assumed Balance Outstanding After Line is Fully Drawn

SPSA Revenue Requirement

- Assumes No Change in Operations and Maintenance Expense.
- Assumes No Change in Commercial Tipping Fee Revenues from Revised Levels.
- Assumes No Change in Municipal Tonnage From the Revised 2009 Budget.
- The Table Below Shows an Estimation of What Each SPSA Participant's Tipping Fee Would Be Without Any Change to the Current Debt Structure.
- The Original Budget Assumed a Reduction in the Tipping Fee From \$104/ton to \$80/ton in February 2009.



Estimate of Future Tipping Fees

Locality	Orig. '09 Budget	Revised '09 Budget	2010	2011	2012	2013	2014	2015	2016	2017	2018
Virginia Beach	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	52.58	46.15	28.75
Chesapeake	94.00	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Norfolk	94.00	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Suffolk	-	-	-	-	-	-	-	-	-	-	-
Portsmouth	94.00	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Isle of Wight	94.00	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Southampton	94.00	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Franklin	94.00	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75

- The Revised 2009 Tipping Fee of \$162.10 is an Average Based On 12 Months.
- The 2010 Tipping Fee Will Need to be \$225.58/ton if you Provide for a Takeout of the Lines of Credit.

Review of Alternatives

Purpose – We Believe the Following Objectives Must be Met in Selection of an Alternative:

1. Provide Adequate Time to Reform System Management and to Properly Evaluate Proposals to Change SPSA Facility Ownership or Operations as May be Necessary to Restore Sound Financial Operations.
 - A Significant Change in SPSA Ownership (i.e. a Sale of Major Assets) Will Likely Require All or Some of the Following:
 - a) Valuation of Assets
 - b) Analysis of Alternative Proposals
 - c) Negotiation of Public/Private Contracts
 - d) Resolution of Flow Control Issues
 - e) Analysis of Necessary Capital Improvements Through Through 2018 Including Cell 7 and Waste-to-Energy Plant Requirements
 - f) Renegotiation of Energy Contracts
 - g) Approval by the Navy
 - h) Approval by DEQ and FERC
 - i) Analysis, Restructuring and Retirement of SPSA Debt
 - j) Approval of New Agreements with the Localities
2. Provide Cash Flow Relief And Reasonable Tipping Fees to the Localities in FY 2009, 2010 and 2011. It is Highly Improbably That the Previous Items Can Be Completed by FY 2010.
3. Ensure that SPSA can Continue to Provide Service to the Localities Under its Contracts and Avoid a Default on Its Bonds.

VRA Alternative

Description:

- This Approach Involves VRA Restructuring a Portion of SPSA's Outstanding Debt to Provide Cash Flow Relief to the Localities.

Conditions:

- VRA has Indicated by Board Resolution to Provide Assistance to the Communities Subject to the Following Conditions:
 1. Each SPSA Community Must Guaranty the SPSA
 2. Each SPSA Community Must Provide Written Assurance of Its Commitment to VRA's Restructuring and Guarantying SPSA's Debt by February 25, 2009
 3. VRA Has the Right to Approve Future Debt
 4. VRA Has the Right to Approve Sale of Assets
 5. VRA Has the Right to Review/Require Changes to SPSA's Business Model

Conditions (Cont'd):

6. Each SPSA Community Shall Designate a Point Person to Interact with VRA through this Process
7. Any Additional Conditions Deemed Necessary

Guarantee – It Should be Realized that any Guarantee Will Last Only Until SPSA Crafts a Permanent Solution to Its Problems. If the Waste to Energy Plant or the Entire System is Sold and All or a Portion of the Debt is Retired, All or a Portion of the Guarantee Goes Away. Moreover, the Localities will not Pay any Amounts other than Their Tipping Fees Assuming that SPSA Resolves Its Challenges Through a Sale of Assets or Other Changes to Its Business Model.

Not a New Liability – The Localities are Already Obligated Through the Tipping Fee to Pay Their Share of SPSA's Debt. The G.O. Guarantee Requested by VRA is Not Adding to the Obligations of the Localities, But It Does Re-characterize SPSA Obligations as a Debt Rather Than a Contractual Obligation.

VRA Alternative

- **Restructuring Proposal** - VRA has Indicated that a Proposed Restructuring Would:
 - Attempt to Minimize the Amount of Debt Issued
 - Provide 2 – 3 Years of Cash Flow Relief
 - Level Out Debt Payments After the Initial Period of Cash Flow Relief

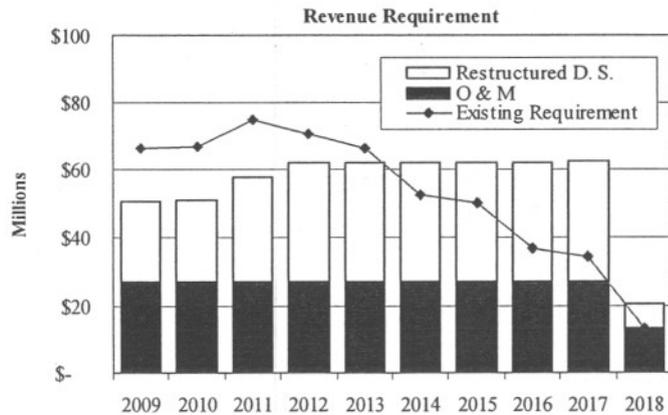
- Based on These Criteria and Information Available on SPSA's Debt, We Have Provided Two Possible Restructuring Scenarios:
 - **Option 1:** Wachovia Agrees to a Renewal of the Lines of Credit or a Similar Arrangement to Avoid Having to Pay Them Off
 - **Option 2:** The Wachovia Lines of Credit are Included in the Restructuring to Avoid a Potential Crisis When They are Due in September

- These are Davenport's Interpretation of VRA's Criteria and Have Not Been Reviewed or Approved by VRA.

VRA Alternative – Option 1

- **Option 1** – This Restructuring Assumes Wachovia Agrees to the Renewal of the Lines of Credit or a Similar Arrangement that Avoids the Need to Adjust the Revenue Requirement.

- **Outcome** – The Resulting Estimated Change in the Revenue Requirement from the Option 1 Restructuring Can Be Seen Below:



Option 1 Impact

FY	Existing Revenue Requirement	Restructured Revenue Requirement	Difference
2009	66,387,063	50,706,457	(15,680,606)
2010	66,559,503	50,744,594	(15,814,909)
2011	74,627,822	57,742,103	(16,885,719)
2012	70,292,458	61,922,840	(8,369,618)
2013	66,144,094	62,009,287	(4,134,808)
2014	62,009,287	62,032,129	9,486,443
2015	62,032,129	62,022,200	12,193,543
2016	62,022,200	62,068,511	25,634,733
2017	62,068,511	62,143,193	28,027,411
2018	20,317,753	20,317,753	6,822,514

Note: \$15.2 Million of the Revenue Requirement is Paid from Commercial Tipping Fees

Impact of VRA Alternative on the Tipping Fees

- The Tables Below Show the Impact of VRA Option 1 on the Tipping Fees of Each SPSA Participant:

Tipping Fees With No Restructuring

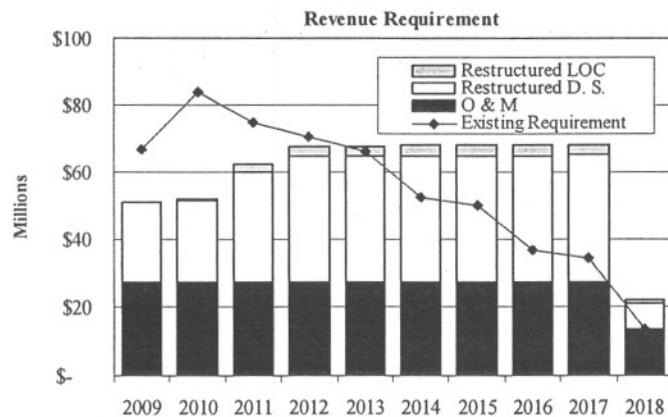
Locality	Orig. '09 Budget	Revised '09 Budget	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Virginia Beach	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	52.58	46.15	28.75
Chesapeake	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Norfolk	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Suffolk	-	-	-	-	-	-	-	-	-	-	-	-
Portsmouth	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Isle of Wight	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Southampton	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Franklin	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75

Tipping Fees Under VRA Option 1

Locality	Orig. '09 Budget	Revised '09 Budget	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Virginia Beach	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	91.83	114.58	62.07
Chesapeake	94.00	162.10	103.31	103.45	129.22	144.62	144.94	145.02	144.98	129.77	114.58	62.07
Norfolk	94.00	162.10	103.31	103.45	129.22	144.62	144.94	145.02	144.98	129.77	114.58	62.07
Suffolk	-	-	-	-	-	-	-	-	-	-	-	-
Portsmouth	94.00	162.10	103.31	103.45	129.22	144.62	144.94	145.02	144.98	129.77	114.58	62.07
Isle of Wight	94.00	162.10	103.31	103.45	129.22	144.62	144.94	145.02	144.98	129.77	114.58	62.07
Southampton	94.00	162.10	103.31	103.45	129.22	144.62	144.94	145.02	144.98	129.77	114.58	62.07
Franklin	94.00	162.10	103.31	103.45	129.22	144.62	144.94	145.02	144.98	129.77	114.58	62.07

VRA Alternative – Option 2

- Option 2** – In This Option, the Revenue Requirement in 2010 is Increased to Account for the Need to Take Out the Wachovia Credit Lines.
- Outcome** – The Resulting Estimated Change in the Revenue Requirement from the Option 2 Restructuring Can Be Seen Below:



Option 2 Impact

FY	Existing Revenue Requirement	Restructured Revenue Requirement	Difference
2009	66,669,730	50,867,896	(15,801,834)
2010	83,909,503	51,431,196	(32,478,306)
2011	74,627,822	60,107,320	(14,520,501)
2012	70,292,458	64,845,195	(5,447,263)
2013	66,144,094	64,932,110	(1,211,984)
2014	52,545,687	64,955,575	12,409,888
2015	49,828,657	64,943,180	15,114,523
2016	36,433,778	64,989,491	28,555,713
2017	34,115,782	65,064,361	30,948,579
2018	13,495,239	21,048,035	7,552,796

Note: \$15.2 Million of the Revenue Requirement is Paid from Commercial Tipping Fees

Impact of VRA Alternative on the Tipping Fees

- The Tables Below Show the Impact of VRA Option 2 on the Tipping Fees of Each SPSA Participant:

Tipping Fees With No Restructuring												
Locality	Orig. '09 Budget	Revised '09 Budget	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Virginia Beach	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	52.58	46.15	28.75
Chesapeake	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Norfolk	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Suffolk	-	-	-	-	-	-	-	-	-	-	-	-
Portsmouth	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Isle of Wight	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Southampton	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75
Franklin	94.00	162.10	162.10	225.58	191.40	175.44	160.16	110.09	100.08	51.28	46.15	28.75

Tipping Fees Under VRA Option 2												
Locality	Orig. '09 Budget	Revised '09 Budget	Revised 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Virginia Beach	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	53.88	96.30	121.71	65.63
Chesapeake	94.00	162.10	103.91	105.98	137.93	155.38	155.70	155.79	155.74	138.72	121.71	65.63
Norfolk	94.00	162.10	103.91	105.98	137.93	155.38	155.70	155.79	155.74	138.72	121.71	65.63
Suffolk	-	-	-	-	-	-	-	-	-	-	-	-
Portsmouth	94.00	162.10	103.91	105.98	137.93	155.38	155.70	155.79	155.74	138.72	121.71	65.63
Isle of Wight	94.00	162.10	103.91	105.98	137.93	155.38	155.70	155.79	155.74	138.72	121.71	65.63
Southampton	94.00	162.10	103.91	105.98	137.93	155.38	155.70	155.79	155.74	138.72	121.71	65.63
Franklin	94.00	162.10	103.91	105.98	137.93	155.38	155.70	155.79	155.74	138.72	121.71	65.63

Impact On Local Debt Based On Population

- Impact** – The Charts to the Right Outline the Impact on Each Localities’ Tax Supported Debt Assuming \$129.4 Million of VRA Debt Was Guaranteed and Allocated Based Upon Population.

Locality	2007 Population	% Share	Guarantee
Virginia Beach	434,743	38.32%	\$ 49,592,380
Chesapeake	219,154	19.32%	24,999,525
Norfolk	235,747	20.78%	26,892,336
Suffolk	81,332	7.17%	9,277,774
Portsmouth	101,967	8.99%	11,631,668
Isle of Wight Co.	35,035	3.09%	3,996,543
Southampton Co.	17,654	1.56%	2,013,842
Franklin	8,906	0.78%	1,015,933
Total	1,134,538	100.00%	\$ 129,420,000

Source: US Census Bureau

Existing Debt Ratio			
Locality	Direct Debt Outstanding	Total Full Value	Direct Net Debt as % of AV
Virginia Beach	\$ 608,238,142	\$ 59,946,762,727	1.0%
Chesapeake	363,994,964	26,534,913,567	1.4%
Norfolk	571,138,000	21,227,708,000	2.7%
Suffolk	212,417,016	10,117,525,520	2.1%
Portsmouth	237,508,000	8,747,238,000	2.7%
Isle of Wight Co.	56,225,120	5,253,816,298	1.1%
Southampton Co.	42,619,024	1,566,096,000	2.7%
Franklin	15,512,072	637,055,809	2.4%
Total	\$ 2,107,652,338		

Source: Local CAFRs

Revised Debt Ratio			
Locality	Direct Debt Outstanding	Total Full Value	Direct Net Debt as % of AV
Virginia Beach	\$ 657,830,522	\$ 59,946,762,727	1.1%
Chesapeake	388,994,489	26,534,913,567	1.5%
Norfolk	598,030,336	21,227,708,000	2.8%
Suffolk	221,694,790	10,117,525,520	2.2%
Portsmouth	249,139,668	8,747,238,000	2.8%
Isle of Wight Co.	60,221,663	5,253,816,298	1.1%
Southampton Co.	44,632,866	1,566,096,000	2.8%
Franklin	16,528,005	637,055,809	2.6%
Total	\$ 2,237,072,338		

Source: Local CAFRs

Impact On Local Debt Based On Waste

- Impact** – The Charts to the Right Outline the Impact on Each Localities' Tax Supported Debt Assuming \$129.4 Million of VRA Debt Was Allocated Based Upon Waste.

Locality	Waste	% Share	Guarantee
Virginia Beach	138,027	29.08%	\$ 37,640,713
Chesapeake	111,000	23.39%	30,270,303
Norfolk	80,352	16.93%	21,912,427
Suffolk	65,000	13.70%	17,725,853
Portsmouth	46,351	9.77%	12,640,170
Isle of Wight Co.	19,651	4.14%	5,358,935
Southampton Co.	9,210	1.94%	2,511,617
Franklin	4,987	1.05%	1,359,982
Total	474,578	100.00%	\$ 129,420,000

Existing Debt Ratio			
Locality	Direct Debt Outstanding	Total Full Value	Direct Net Debt as % of AV
Virginia Beach	\$ 608,238,142	\$ 59,946,762,727	1.0%
Chesapeake	363,994,964	26,534,913,567	1.4%
Norfolk	571,138,000	21,227,708,000	2.7%
Suffolk	212,417,016	10,117,525,520	2.1%
Portsmouth	237,508,000	8,747,238,000	2.7%
Isle of Wight Co.	56,225,120	5,253,816,298	1.1%
Southampton Co.	42,619,024	1,566,096,000	2.7%
Franklin	15,512,072	637,055,809	2.4%
Total	\$ 2,107,652,338		

Source: Local CAFRs

Revised Debt Ratio			
Locality	Direct Debt Outstanding	Total Full Value	Direct Net Debt as % of AV
Virginia Beach	\$ 645,878,855	\$ 59,946,762,727	1.1%
Chesapeake	394,265,267	26,534,913,567	1.5%
Norfolk	593,050,427	21,227,708,000	2.8%
Suffolk	230,142,869	10,117,525,520	2.3%
Portsmouth	250,148,170	8,747,238,000	2.9%
Isle of Wight Co.	61,584,055	5,253,816,298	1.2%
Southampton Co.	45,130,641	1,566,096,000	2.9%
Franklin	16,872,054	637,055,809	2.6%
Total	\$ 2,237,072,338		

Source: Local CAFRs

MBIA – AMBAC Alternative

Description:

- This Approach Has Been Suggested As a Potential Solution by SPSA's Advisors and Other Advisors to the Localities. It Involves Approaching MBIA or AMBAC as an Existing Guarantor to Restructure their Obligations or to Provide Credit Support for a SPSA Debt Restructuring that Would Produce Cash Flow Relief for the Localities.

Key Considerations:

- MBIA and AMBAC Have No Incentive to Restructure their Debt. They are Senior Creditors of SPSA and at or Near the Front of the Line to Receive Payment.
- MBIA and AMBAC are Highly Unlikely to Provide Credit Support for a Refinancing by a Credit in SPSA's Financial Condition.
- A Premium for an Issue of SPSA Bonds would be Prohibitively High Without Guarantees from the Localities.
- The Cost of Debt Secured by MBIA or AMBAC Would be Very High as MBIA is currently rated Baa1/AA by Moody's and S&P, While AMBAC is currently rated Baa1/AA.

Wachovia Alternative

Description:

- This Approach Has Been Suggested As a Potential Solution by SPSA's Advisors and Other Advisors to the Localities. This Approach Involves Approaching Wachovia or an Alternative Bank to Provide Credit Support for a SPSA Debt Restructuring that Would Produce Cash Flow Relief for the Localities.

Key Considerations:

- Wachovia has Experienced Severe Financial Problems and was Taken Over By Wells Fargo. Although Wachovia's Credit Ratings Were Raised to Aa1/AA+ After the Merger, Its Financial Health Remains Suspect.
- Wachovia is SPSA's Depository Bank and an Existing Creditor and thus is Likely to be the Only Institution with an Incentive to Assist SPSA.

Key Considerations (Cont'd):

- The Current Cost of Credit Facilities is At Historically High Levels and Generally Only Available to High Quality Borrowers Which SPSA is Not.
- It is Highly Improbable that Wachovia will Extend Additional Credit to SPSA Without a Guarantee of the Localities or on More Favorable Terms Than VRA. Moreover, VRA's Senior Obligations are Rated Aaa/AAA.
- A Variable Rate Issue Supported By a Wachovia Letter of Credit would be Subject to Risks of a Further Wachovia Downgrade, Non-Renewal of the Letter of Credit, Interest Rate Risk and Other Factors that Could Jeopardize a Permanent Solution or Create Another Crisis at Any Time.
- While Wachovia May Be of Help in Crafting an Overall Solution, We Believe they Cannot Cost Effectively Solve the Problem that Exists Within Acceptable Risk Parameters.

Surety Alternative

Description:

- This Approach Has Been Suggested As A Potential Solution by SPSA's Advisors and Other Advisors to the Localities. This Approach Involves Finding a Guarantor or Bank Willing to Allow SPSA to Withdraw Approximately \$17.6 Million from the Senior Lien Debt Service Reserve Fund in Exchange for a Guarantee to Fund SPSA's Debt Service Obligations in Such Amount in the Event of Severe Financial Difficulties.

Key Considerations:

- Davenport Has Confirmed that Wachovia May be Willing to Provide a Letter of Credit for This Purpose if Guaranteed by the Localities, Though the Cost is Unknown.
- However this Provides Only a Temporary Solution to the 2009 Problem.
- It Will Not Provide Any 2010 Rate Relief, nor Does it Address the \$17.2 Million in Liabilities Coming Due in September 2009 Under the Credit Lines.
- This Would Leave a Potential Gap of \$32 Million in Fiscal Year 2010.
- Finally, It Adds a Potential \$17.6 Million Liability to the Books When the Letter of Credit Expires and Increases SPSA's Exposure to the Bank.

Reserve Fund Alternative

Description:

- In Reviewing the Reserve Fund Requirement, Davenport Has Determined that the Requirement Changes and Is Significantly Reduced if All MBIA Obligations are Refinanced.

Key Considerations:

- More Than \$10 Million Would be Released Immediately Upon the Refunding of All MBIA Bonds.
- This Would Require No Local Guarantee as in the Surety Option, Nor Would It Increase SPSA's Future Liabilities .
- This May Be One Component of an Overall Solution when Combined with Other Options, but Cannot Work Without a Restructuring

Davenport Recommendation:

- Davenport Recommends That This Alternative is Presented to VRA in Combination with the Restructuring as a Potential Solution