

PFM WORKING MEMO



The PFM Group
 Public Financial Management, Inc.
 PFM Asset Management LLC
 PFM Advisors

4350 North Fairfax Drive
 Suite 580
 Arlington, VA
 22203-1636

703 741-0175
 703 516-0283 fax
 www.pfm.com

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DRAFT City Manager Working Paper

Memorandum

To: Regina Williams, City Manager
 Marcus Jones, Assistant City Manager
 City of Norfolk, Virginia

From: JoAnne Carter, Managing Director

cc: Darrell Hill, Senior Vice President, BB&T Capital Markets

Re: SPSA Cash flow Analysis

The purpose of this memorandum is to address the questions posed to Darrell Hill and me on our conference call Friday, February 13, 2008 regarding SPSA's cash flows. My understanding is that your immediate concerns are twofold: first, forecast SPSA's cash flow position through the end of the fiscal year, and second, forecast SPSA's cash flow through December 31, 2009 (i.e., potential end date to SPSA's current governance structure based on legislation pending in the General Assembly.) The table below summarizes these cash flow forecasts with detailed explanation that follows.

	Accumulated Deficit (With Deferral of Va Beach Payments)	Accumulated Deficit (Without Deferral of Va Beach Payments)
As of June 30, 2009	\$14.6 million	\$22.2 million
As of December 31, 2009	\$51.0 million	\$62.8 million

Question 1: What is SPSA's cash flow through June 30, 2009 (assuming no debt restructuring)?

The attached schedule forecasts an accumulated deficit of \$14.6 million by June 30th, assuming that the Wachovia lines are fully drawn, payments to Virginia Beach are deferred and the current tip fee of \$104 remains constant. If the Virginia Beach payments cannot be deferred, the deficit is estimated to be \$22.2 million. This cash flow assumes that \$5.8 million of principal due on July 1, 2009 on the Series 2007A and Series 2007B variable rate bonds is available by the end of June for the payment on July 1st. Further, this forecast makes no reductions to budgeted operating expenses in the current fiscal year.

Using the same assumptions describe above, if the tip fee were set to \$245/ton in April and effective in [May – need confirmation], the cash flow deficit by June 30th is forecast to be \$8.8 million,



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assuming that the Wachovia lines are fully drawn and payments to Virginia Beach are deferred. If the payments to Virginia Beach cannot be deferred, the cash flow deficit by June 30th is forecast to be \$16.4 million

As you know, the revenue forecast depends entirely on forecasts of tonnage. To the extent that tonnages continue to drop as a result of economic conditions, these cash flow shortfalls will increase.

Question 2: What is SPSA's cash flow through December 31, 2009, assuming no debt restructuring, the tip fee remains at \$104 a ton and FY2009 budget assumptions are constant in FY2010?

The attached schedule forecasts an accumulated deficit of \$51.0 million by December 31, 2009, assuming that the Wachovia lines are fully drawn and repaid when due, that payments to Virginia Beach are deferred and that the current tip fee of \$104 remains constant. If the Virginia Beach payments cannot be deferred, the deficit is estimated to be \$62.8 million. Further, this forecast makes no reductions for budgeted operating expenses in FY2009.

If the tip fee were adopted at \$245/ton in April and effective in [May] through December, the cash flow deficit by December 31st is forecast to be \$27.8 million, assuming that the Wachovia lines are fully drawn and repaid and that payments to Virginia Beach are deferred. This amount reaches \$39.6 million if Virginia Beach payments are not deferred.

As we have discussed, this analysis assumes budget assumptions in FY2010 consistent with the those used in 2009. Two factors in FY2010 should be noted in making this assumption. First, SPSA's insurance premiums are typically paid in October, creating a spike in outflows of approximately \$2.2 million. Second, Chesapeake is pursuing single stream recycling in FY2010. This initiative would reduce tonnage, potentially by 20,000 tons in FY2010, thus impacting the monthly revenue available. Even at a tip fee of \$245/ton, SPSA's monthly cash flow position is forecast to be negative, which will require access to some form of external liquidity and/or cash flow borrowing in FY2010.

Please contact me with any questions or if I can provide additional information.