12. SPSA AND VRA MATTERS

As you are aware, because of procedural deficiencies with the legal notice, SPSA was unable to conduct its public hearing on the proposed tipping fee schedule on January 28. The public hearing has now been readvertised and scheduled for April 9.

In the meantime, the financial crisis at SPSA continues. The PFM Group, financial advisors to the City of Norfolk, forecasts an accumulated deficit of $14.6 million by June 30, assuming that all available lines of credit are fully drawn, payments to the City of Virginia Beach under the Ash and Residue Agreement are deferred, and the current tipping fee of $104 remains constant. Using these same assumptions, if the tipping fee is increased to $245/ton on April 9, PFM still projects a June 30 deficit of $8.8 million.

As you also know, SPSA has estimated debts of $240 million, more than $129 million of which is financed through the Virginia Resources Authority (VRA). The Chief Administrative Officers of the 8 member communities have been meeting regularly with VRA to discuss potential debt restructuring in an effort to provide immediate cash flow relief, mitigate precipitous increases in the tipping fee, and provide adequate time to evaluate comprehensive system reform.

VRA's Board of Directors has expressed a willingness to assist, subject to certain conditions, including written assurance from each member community that it will guarantee (in our case, a moral obligation), a pro-rata share of the restructured debt. VRA has asked for a written response from each member community by February 25, 2009. In our case, the guarantee would equate to somewhere between $2 and $3 million, depending on the final principal sum restructured and the method of cost allocation (population or waste generation rate).

Davenport & Company, financial advisors to 5 of the 8 SPSA-member communities (Southampton, Suffolk, Franklin, Isle of Wight, and Portsmouth), has analyzed several alternatives and determined that a VRA debt restructuring provides the best immediate solution for SPSA's woes and the best option for digging ourselves out of this mess. They believe that the debt restructuring can potentially "free-up" enough cash by the end of the fiscal year to reimburse premiums paid by member communities in FY 2009 (the difference in $245 and $104 per ton for the months of April, May and June) and hold the tipping fee beneath $150/ton in the upcoming fiscal years.

While there has been substantial public discourse with regard to simply allowing SPSA to "go bankrupt," please recognize that is not an option. First, there is no statutory provision for municipal bankruptcy in Virginia – while it may have insufficient funds to continue paying the bills, SPSA would have no legal protection from its creditors. In addition, Governor Kaine has corresponded with the Chief Elected Official in each member community advising that he intends to honor the Commonwealth's moral obligation on SPSA debt issued through VRA, but will instruct the Secretary of Finance to recoup such sums by intercepting funds the Commonwealth routinely makes to member communities in support of various programs, should SPSA default.

I'm attaching a host of documents for your review, including:

1. A copy of the resolution approved by the VRA Board of Directors;
2. A copy of Governor Kaine's letter to Chairman Jones;
3. A copy of the working paper provided from the PFM Group to the City of Norfolk; and
4. A copy of the Davenport & Company analysis.

In accordance with the VRA request, I have prepared a draft letter for your consideration.

MOTION REQUIRED: **If the Board is so inclined, a motion is required authorizing Chairman Jones to send the attached letter to VRA, agreeing to guarantee a portion of SPSA's restructured debt, allocated on the basis of population.**