



Virginia Waste Industries Association

A Chapter of the National Solid Wastes Management Association

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For More Information, Contact:
Mike Dobson, (757) 686-5960
David Brandt, (757) 456-5212

SPSA Business Model Raises More Questions for Board Members and Southside Communities

(December 13, 2007) The consulting firm that the Southeastern Public Service Authority or SPSA employs for practically all of its operations analysis now estimates the "savings" member communities will realize from the imposition of Flow Control would be 42% or \$80-million less than previously projected.

At a special call meeting of the SPSA board today in Chesapeake to review a new Business Model, Jeff Clunie of R.W. Beck said capital costs SPSA will incur between now and 2018 were not properly factored in previously, meaning Flow Control would reduce costs to its eight member localities over that period by \$111.4-million, not \$191.1-million. The result is that the tip fee SPSA projected each of its communities as well as private businesses would pay under Flow Control starting in 2009 would be \$60/ton, not \$54/ton and rise from there.

"SPSA's numbers keep changing so it's hard to know what to believe," says Rob Clendenin of Waste Management in Chesapeake, who attended the meeting along with representatives of many of the cities. "It's no wonder so many of us are skeptical and question why anyone would give SPSA the power to control all waste in the region and the leverage to charge what it wishes for those services."

Clunie said his firm's Business Model is based on several assumptions provided by SPSA, including:

- That SPSA will continue to own, run and maintain its aging waste to energy plant in Portsmouth, rather than selling the facility.
- That there are no changes in sources and quantities of waste or the level of capital expenditures.

The Business Model was developed to provide SPSA with a road map to retire its \$240-million debt by 2018, even though Beck projects SPSA borrowing more for trucks, transfer stations, a seventh landfill cell in Suffolk and other equipment that will simply exacerbate the shortfall. In addition, according to Virginia Waste Industries Association members in attendance:

- Beck's figures suggest that the Navy, which is paying \$28-share a share would pay the same as all other parties, except Suffolk and Virginia Beach, under Flow Control when it actually has four years left on a five year contract at that rate.
- RW Beck projects that SPSA will still be buying new equipment and making other capital investments, even in its last years of operations.
- At \$60/ton, the additional costs the cities and schools would pay for private trash collection would be 11% higher than previously advertised, which would significantly reduce "savings" to the localities.
- R.W. Beck does not factor in the value of SPSA's physical assets, including transfer stations, waste to energy plant and trucks, all of which could be sold in 2018 to retire debt.
- By dramatically raising the cost of disposal to apartment owners and other businesses, SPSA may incentivize more recycling, a good result for the environment but not for SPSA's financial picture because it would reduce the amount of chargeable waste sent to the WTE plant or landfill.

SPSA's problems, according to the Virginia Waste Industries Association and others who have monitored the agency over its more than two decades of existence, deal mostly with credibility. "I can understand why some of the cities are reluctant to give them flow control when they have little confidence that SPSA is a fiscally responsible organization," says Rodney Rosebrough, local General Manager for Waste Industries, who attended the meeting

Although Virginia Beach representative Mike Barrett praised his fellow board members for implementing cost controls earlier this year, he criticized the Beck report for including a scenario where no more private waste would come from Suffolk and Virginia Beach if those cities do not impose Flow Control. "SPSA gets all that waste now and would presumably still receive most or all of it under a negotiated contract, even if there is Flow Control in the other cities," said Barrett. "I wonder if someone had an agenda by requesting that information." Barrett also requested that the words "savings" be stricken from the Beck report, since Flow Control isn't a savings; rather it's a shifting of costs from municipalities to the private sector.

The board and public saw the business model for the first time today. Chairman Leroy Bennett of Suffolk told the audience, none of whom were permitted to speak before or during the presentation, that they could forward questions to SPSA for analysis by R.W. Beck. "It is going to take some time even for our experts in the waste industry to fully understand the assumptions behind the numbers and be able to respond in a complete manner," says Emmett Moore of Bay Disposal in Norfolk, who also was present at the meeting. "In our view, no more cities should approve Flow Control with these many issues still outstanding."

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