Region 2000 Services Authority
Fiscal Policy Guidelines

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FISCAL POLICY GUIDELINES - OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practice of the Authority. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the foundation of sound financial management. Effective fiscal policy:

- Contributes significantly to the Authority's ability to prepare for and insulate itself from fiscal crisis by being able to better manage stressful financial internal and external events,

- Enhances the ability to obtain short-term and long-term credit financing by helping to achieve the highest credit and bond ratings possible,

- Promotes long-term financial stability by establishing clear and consistent guidelines,

- Directs attention to the total financial picture of the Authority rather than single issue areas, and

- Promotes the view of linking long-run financial planning with day-to-day operations.

To these ends, the following fiscal policy statements are presented.

Reserve and Fund Policies

Closure and Post-Closure Reserve Fund: This fund provides for the cost of capping completed areas of the landfill and at the end of the landfill's useful life to completely close any remaining area, install all monitoring and collection systems and perform all post-closure care activities per regulatory requirements. Contributions will be made to this Reserve on an annual basis as an operating expense.

Equipment Replacement Reserve: This fund provides for the future purchases, and regularly scheduled replacement of major operating equipment in an orderly fashion as to minimize annual operating costs, maximize any trade-in or surplus value, and to provide for the best overall purchasing value. Contributions will be made to this Reserve on an annual basis as an operating expense. Salvage value of retired equipment will also flow through this reserve.

The purpose is to stabilize the impact of equipment purchases on the operating fund. Contributions out of the operating fund are leveled out even though the cost of required equipment replacements could vary significantly from year to year.

Operating and Maintenance Reserve: The authority will provide an Operating and Maintenance Reserve fund (O &M) in an amount equal to not less than 90 days of its projected expenses (excluding debt service), net of reimbursable expenses and interest income, as prescribed in the current fiscal year's budget. The O & M Reserve will be established as separate account and will be used to the extent the Board does not desire to use other available funds to cover periods of revenue shortfall when the Authority's revenues are not sufficient to cover its net expenses. The reserve contribution will not be included in the calculation of the cost of service rate since the contribution originate from revenues generated from member jurisdiction in excess of the cost of service rate.

Debt Service Reserve: Funds in this account will be used to pay debt service owed by the Authority. This account will be funded by the Member Jurisdictions contributions as determined by the Member Use Agreement and the schedule of payments set forth by the Bondholders. An amount sufficient to satisfy the debt service payment will be budget each fiscal year until the debt service is satisfied and no further payment is required as set forth in the bond documents. Contributions will be made to this Reserve on an annual basis as an operating expense.

Debt Management Policy

• The Authority will not use long-term debt to fund current operations.
• The Authority will not use short-term borrowing to fund current operations.

Whenever the Authority finds it necessary to issue revenue-supported bonds, the following guidelines will be adhered to:

1. The term of any revenue-supported bond issue will not exceed the useful life of the capital project/facility or equipment for which borrowing is intended.
2. Revenue-supported bonds will be structured to allow equal or declining annual debt service payments over a term not to exceed the life of the project being financed.

Operating Budget Policies/Guidelines

On or before each March 1, the Authority shall (a) adopt its Annual Budget for the ensuing Fiscal Year, which shall include, without limitation, projected Operating Costs and Operating Revenues, taking into account Tipping Fees established by the Board.

The Authority shall establish its Member Tipping Fees for any given Fiscal Year in an amount (based upon the Authority's projection of total tonnage for the upcoming Fiscal Year) that will provide Operating Revenues at a minimum sufficient to pay (1) all Operating Costs (excluding Debt Service Payments) less existing surplus funds above a reasonable operating reserve established by the Authority that are available to pay such Operating Costs, plus (2) 1.15 times any Debt Service Payments due in the upcoming Fiscal Year or any higher coverage level required in connection with any of the Authority's outstanding Bonds plus (3) 1.0 times any Debt Service Payments due in the upcoming Fiscal Year with respect to Subordinate Bonds. Once so established, the Tipping Fees may be adjusted from time to time during a Fiscal Year to correct an error in calculation or projections of tonnage or to prevent a default in the payment of the principal of, or the premium, if any, or interest on, any Bonds of the Authority, but a minimum of sixty (60) days' notice of any proposed increase in the Tipping Fees must be provided to the Member Jurisdictions and their Designated Haulers. In addition, notwithstanding any contrary provision of this Agreement, the Authority shall revise its charges as often as may be necessary so as to produce revenues sufficient at all times to pay the Operating Costs and Debt Service Payments, unless other funds are available for such purposes.

The Authority shall set the Tipping Fees for Private Haulers on a cost – plus methodology, which will allow the Authority to recover the cost of service as well as to allow the Authority to create a capital or other reserve fund or to reimburse the Member Jurisdictions for their capital and other costs. The Authority may set varying fees for Private Haulers based on factors such as annual tonnage disposed, character of the waste and multi-year contracts.

The Authority shall determine what charges, if any, shall apply to Businesses and Residents using the Facilities.

1. The Authority will budget for all current operating expenditures to be paid for with current operating revenues.

2. The management and operations staff should, not only during the preparation of the budget but in the budget execution, use due care and promote cost savings and operating efficiencies at all times especially during periods of revenue shortfalls.

3. In preparing its annual budget, the Authority will base its revenue and expenditure projections on historic performance while also taking into consideration current trends, events and developments in regulatory and environmental activities.

4. One-time or other special revenues will not be used to finance continuing Authority operations, but instead will be used for funding specific one-time projects.

5. The Authority will prepare quarterly financial statements showing the progress of budget estimates compared to actual results. These quarterly reports and the Authority's budgets are prepared on a cash flow or modified cash flow basis and differ from the final audited year end reports.

"Excess Revenue" means the sum of the incremental difference between the revenue contribution of the existing Lynchburg and Campbell contracts and market rate customers (all private haulers) beyond the cost-of-service disposal fee. Excess Revenue will be distributed to Lynchburg and Campbell, respectively, based on the amount of Facility air space contributed, respectively to the Authority. The amount of excess revenue will depend upon the cost of service rate each year and therefore will vary based on both the incoming tonnage and disposal rates.

"Operating Costs" means all actual costs of the Authority properly allocable to acquiring, constructing, equipping, maintaining and operating the Facilities as set forth in the Annual Budget, including, but not limited to, Salaries and fringe benefits of employees:

(1) Utilities, fuel, equipment (including but not limited to trucks and heavy equipment) tools and supplies;

(2) All costs incurred for engineering services, and other services, which may include design, permitting, operation, testing, monitoring, closure, post-closure and corrective action;

(3) All costs for compliance with all permit conditions and compliance with Applicable Law, including costs for treatment and disposal of leachate or materials inappropriately disposed or delivered to the Facilities;

(4) Debt Service Payments;

(5) All costs incurred for legal services, which may include zoning, permitting, financing, issues related to the operation of the Facilities, and defense of

claims brought against the Authority;

(6) Insurance costs and the costs of bonds, letters of credit, escrows or other Financial Assurance or allowance for environmental monitoring and assurance, closure, post-closure or property value guarantees, or for compliance with Applicable Law;

(7) Capital Expenditures necessary for compliance with Applicable Law, Capital Expenditures necessary for normal maintenance and reasonable periodic expansion of improvements to the Facilities, and Capital Expenditures incurred in connection with Uncontrollable Circumstances;

(8) Purchase and maintenance costs of equipment and maintenance of the Facilities;

(9) All accounting and bookkeeping fees and charges;

(10) All costs associated with uncollectible accounts;

(11) All amounts required to be paid by the Authority to create funds required by an Indenture, or to replenish deficits in any such funds;

(12) Any fees fines or costs which may be imposed by the DEQ or any other federal, state or local agency or department having jurisdiction, whether intermittently or on an annual basis.

(13) Any payments made to the Central Virginia Planning District Commission or other governmental entity for services provided to the Authority.

(14) Amounts paid to reserve accounts created by the Authority to maintain such accounts at required levels.

“Operating Revenues” means all income and revenues derived by the Authority from the ownership or operation of the Facilities, but excluding any payments of a Member Jurisdiction’s Pro Rata Share.