

*In the opinion of Bond Counsel, assuming compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, and subject to the conditions described in "TAX MATTERS" herein, interest on the Series 2008 Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes under existing law. The District's Enabling Act provides that the Series 2008 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof. See "TAX MATTERS" herein for certain provisions regarding the Code that may affect the tax treatment of interest on the Series 2008 Bonds for certain bondholders.*



**\$223,170,000**

**Hampton Roads Sanitation District, Virginia**  
**Wastewater Revenue Bonds, Series 2008**

**Dated: Date of Issue**

**Due: as shown on the inside cover**

The Series 2008 Bonds are being issued under a Trust Agreement, dated as of March 1, 2008, between the Hampton Roads Sanitation District (the "District") and The Bank of New York, West Paterson, New Jersey, as trustee (the "Trustee"), for the purpose of currently refunding the District's outstanding \$74,000,000 Wastewater Revenue Bonds, Series 2007, financing a portion of the cost of the District's 2008-2012 Capital Improvement Program and paying certain expenses incurred in connection with the issuance of the Series 2008 Bonds.

The Series 2008 Bonds are issuable as registered bonds without coupons and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), serving as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be available to purchasers in denominations of \$5,000 and any whole multiple thereof only under the book-entry system maintained by DTC through brokers and dealers that are, or that act through, DTC Participants.

Principal and interest will be paid by the Trustee as bond registrar to DTC or its nominee which will remit the payments to the DTC Participants for subsequent disbursement. See "THE SERIES 2008 BONDS—Book-Entry Only System" herein. Interest on the Series 2008 Bonds is payable on each April 1 and October 1, commencing October 1, 2008.

The Series 2008 Bonds are subject to optional and mandatory sinking fund redemption prior to their respective maturities as described herein.

THE SERIES 2008 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2008 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 2008 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SERIES 2008 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

*The Series 2008 Bonds are offered when, as and if issued, subject to the approving opinion of Sidley Austin LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the District by Kellam, Pickrell, Cox & Tayloe, A Professional Corporation, Norfolk, Virginia, and for the underwriters by McGuireWoods LLP, McLean, Virginia. BB&T Capital Markets, a division of Scott & Stringfellow, Inc., serves as Financial Advisor to the District. It is expected that the Series 2008 Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about March 31, 2008.*

**Goldman, Sachs & Co.**

**Davenport & Company LLC**

**Morgan Keegan & Company, Inc.**

**Wachovia Securities**

March 14, 2008

**\$223,170,000**  
**Hampton Roads Sanitation District, Virginia**  
**Wastewater Revenue Bonds, Series 2008**

**MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS**  
**Base CUSIP Number: 409327**

**\$100,180,000 SERIAL BONDS**

<u>April 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Suffix</u>
2009	\$2,000,000	3.000%	2.250%	BQ5
2010	2,000,000	3.000	2.400	BR3
2011	2,000,000	3.000	2.570	BS1
2012	2,000,000	3.000	2.820	BT9
2013	2,000,000	3.500	3.000	BU6
2014	2,000,000	3.125	3.180	BV4
2015	2,000,000	3.500	3.350	BW2
2016	2,000,000	3.500	3.510	BX0
2017	3,000,000	4.000	3.680	BY8
2018	5,465,000	4.000	3.840	BZ5
2019	6,040,000	5.000	4.070 <sup>1</sup>	CA9
2020	645,000	4.125	4.190	CB7
2020	5,700,000	5.000	4.190 <sup>1</sup>	CC5
2021	1,220,000	4.250	4.310	CD3
2021	5,435,000	5.000	4.310 <sup>1</sup>	CE1
2022	6,980,000	5.000	4.430 <sup>1</sup>	CF8
2023	3,465,000	4.500	4.540	CG6
2023	3,860,000	5.000	4.540 <sup>1</sup>	CH4
2024	2,000,000	4.600	4.640	CJ0
2024	5,675,000	5.000	4.640 <sup>1</sup>	CK7
2025	8,050,000	5.000	4.720 <sup>1</sup>	CL5
2026	495,000	4.750	4.790	CM3
2026	7,960,000	5.000	4.790 <sup>1</sup>	CN1
2027	2,630,000	4.800	4.840	CP6
2027	6,245,000	5.000	4.840 <sup>1</sup>	CQ4
2028	600,000	4.800	4.880	CR2
2028	8,715,000	5.000	4.880 <sup>1</sup>	CS0

\$54,030,000 5.0% Term Bonds due April 1, 2033, Priced to Yield 5.03%, CUSIP Suffix: CT8

\$68,960,000 5.0% Term Bonds due April 1, 2038, Priced to Yield 5.07%, CUSIP Suffix: CU5

<sup>1</sup> Yield calculated to the first optional redemption date (April 1, 2018).

## **HAMPTON ROADS SANITATION DISTRICT**

### **COMMISSIONERS**

R. TYLER BLAND III , *Chair*

PARRIS D. CARSON, *Vice Chair*

VISHNU K. LAKDAWALA, Ph.D.  
FREDERICK N. ELOFSON, CPA, PFS  
GERALD S. JOHNSON

B. ANNE DAVIS  
DOUGLAS E. MILLER

### **STAFF**

EDWARD G. HENIFIN, P.E.  
*General Manager*

BRUCE W. HUSSELBEE, P.E.  
*Director of Engineering*

CARROLL L. ACORS, CPA  
*Acting Director of Finance*

G. DAVID WALTRIP, P.E.  
*Director of Operations*

NORMAN E. LEBLANC  
*Director of Water Quality*

JENNIFER L. HEILMAN  
*Secretary*

### **ADVISORS**

KELLAM, PICKRELL, COX & TAYLOE, PC  
*General Counsel*

JONES, BLECHMAN, WOLTZ & KELLY, P.C.  
*Associate Counsel*

KPMG LLP  
*Independent Accountants*

BB&T CAPITAL MARKETS,  
a division of Scott & Stringfellow, Inc.  
*Financial Advisor*

SIDLEY AUSTIN LLP  
*Bond Counsel*

THE BANK OF NEW YORK  
*Trustee and Bond Registrar*

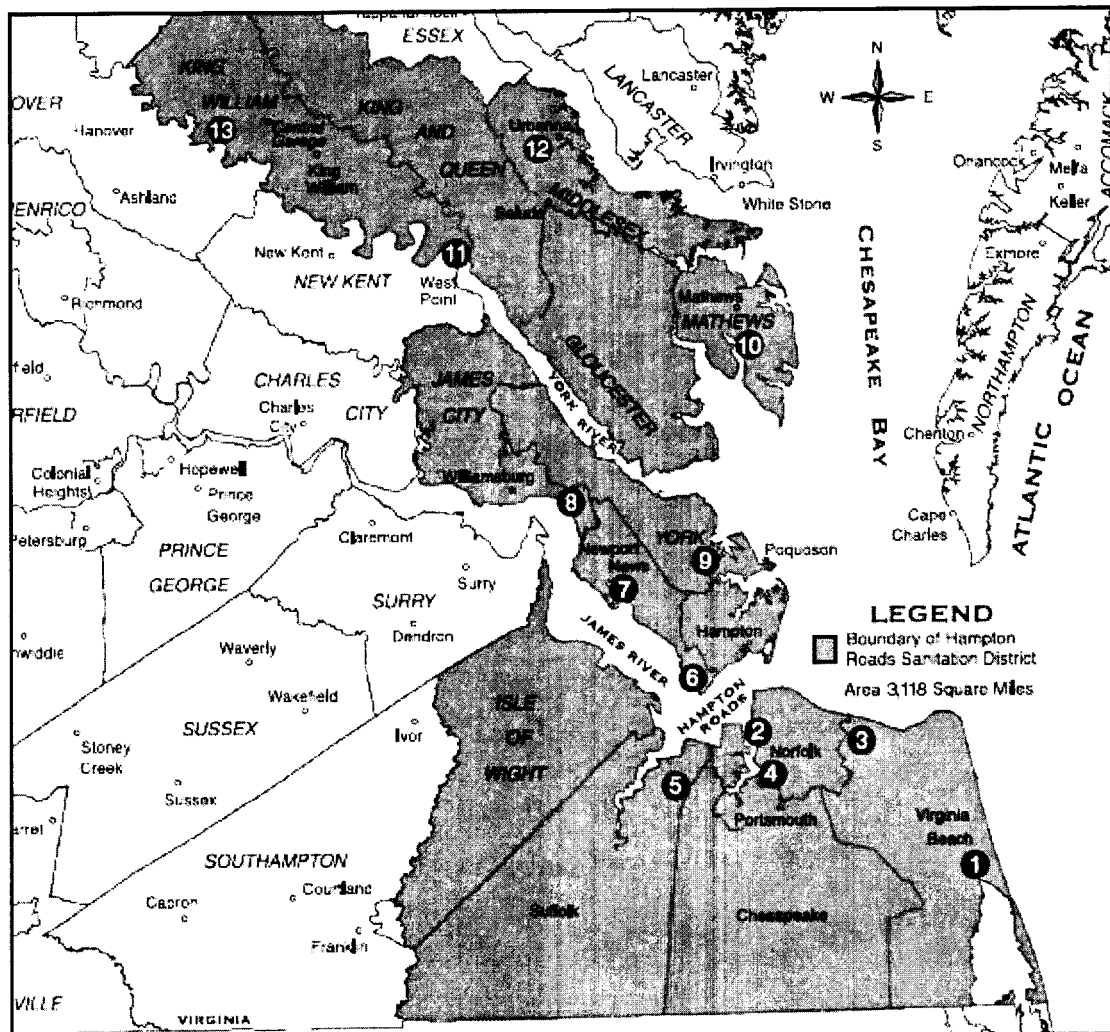
# HAMPTON ROADS SANITATION DISTRICT

A Political Subdivision of the Commonwealth of Virginia

Major facilities include the following:

1. Atlantic, Virginia Beach
2. Army Base, Norfolk
3. Chesapeake-Elizabeth, Va. Beach
4. Virginia Initiative, Norfolk
5. Nansemond, Suffolk
6. Boat Harbor, Newport News
7. James River, Newport News
8. Williamsburg, James City County
9. York River, York County
10. Mathews, Mathews County
11. West Point, King William County
12. Urbanna, Middlesex County
13. King William, King William County

Serving the Cities of  
Chesapeake, Hampton,  
Newport News, Norfolk,  
Poquoson, Portsmouth,  
Suffolk, Virginia Beach,  
Williamsburg, and the  
Counties of Gloucester,  
Isle of Wight, James City  
King and Queen,  
King William, Mathews,  
Middlesex and York



April, 2005

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2008 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Series 2008 Bonds are exempt from registration under the Securities Act of 1933, as amended. As obligations of a political subdivision of the Commonwealth of Virginia, the Series 2008 Bonds are also exempt from registration under the securities laws of Virginia.

No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than the information and representations contained herein, in connection with the offering of the Series 2008 Bonds, and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Series 2008 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

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## **Official Statement**

### **Hampton Roads Sanitation District, Virginia**

#### **Relating to its \$223,170,000 Wastewater Revenue Bonds, Series 2008**

#### **INTRODUCTION**

The purpose of this Official Statement, which includes the cover and inside cover pages hereof, and the map and the appendices hereto, is to set forth information concerning the Hampton Roads Sanitation District (the “District” or “HRSD”) and the District’s \$223,170,000 Wastewater Revenue Bonds, Series 2008 (the “Series 2008 Bonds”).

There follows in this Official Statement a brief description of the Series 2008 Bonds and the District, including its service area, governance and information regarding its operations and finances. Appendix A contains additional information regarding the District’s operations and financial condition.

#### **AUTHORIZATION**

The Series 2008 Bonds are being issued in accordance with the provisions of Chapter 66 of the Acts of Assembly of Virginia of 1960, as amended (the “Enabling Act”). On February 26, 2008, the Hampton Roads Sanitation District Commission (the “Commission”), the governing body of the District, adopted a resolution authorizing the issuance of the Series 2008 Bonds. The Commission has authorized the issuance of the Series 2008 Bonds for the purpose of providing funds, together with other available funds, to (i) refund the 2007 Prior Bonds (hereinafter defined), (ii) provide funds required to finance a portion of the costs of the District’s 2008-2012 Capital Improvement Program (as amended from time to time, the “Capital Improvement Program” or “CIP”) and (iii) pay certain expenses incurred in connection with the issuance of the Series 2008 Bonds by the District.

The Series 2008 Bonds are special obligations of the District payable solely from the Net Revenues (hereinafter defined) derived by the District for the operation of its Wastewater System (hereinafter defined) and other funds pledged to secure the Series 2008 Bonds under the Trust Agreement (hereinafter defined). See “SECURITY AND SOURCE OF PAYMENT” and “THE SYSTEM” herein. The Commission has determined to provide for the issuance of the Series 2008 Bonds under a Master Trust Indenture, dated as of December 1, 1993, as amended (the “Master Indenture”), by and between the District and The Bank of New York, West Paterson, New Jersey, as successor trustee (the “Master Trustee”), as supplemented and amended by a Trust Agreement, dated as of March 1, 2008 (the “Trust Agreement”), by and between the District and The Bank of New York, West Paterson, New Jersey, as trustee (the “Trustee”). See “PLAN OF REFUNDING AND FINANCING—Amendment of the Master Indenture”).

The Commission has determined, with the consent of all of the holders of the Series 2008 Bonds, to amend and restate the Master Indenture in the form of the Trust Agreement coincidentally with its refunding of the 2007 Prior Bonds and the issuance of the 2008 Bonds, such that immediately following the issuance of the Series 2008 Bonds, the Series 2008 Bonds and the outstanding Series 2003 Bonds (hereinafter defined) shall be secured solely by the Trust Agreement. Similarly, any future Senior Obligations (hereinafter defined) issued or incurred on a parity with the Series 2008 Bonds and the

outstanding Series 2003 Bonds will be issued and secured under the Trust Agreement. See “PLAN OF REFUNDING AND FINANCING” herein.

Appendix B hereto contains the definitions of certain terms used in this Official Statement. Capitalized terms used but not defined herein shall have the meanings given to such terms in the Master Indenture and Trust Agreement. Brief descriptions and summaries of certain provisions of the Series 2008 Bonds and the Trust Agreement are included in Appendix C.

## **PLAN OF REFUNDING AND FINANCING**

### **Refunding**

A portion of the proceeds of the Series 2008 Bonds will be used to currently refund all of the District’s Wastewater Revenue Bonds, Series 2007 (the “2007 Prior Bonds”), outstanding in the aggregate principal amount of \$74,000,000. The District issued the 2007 Prior Bonds as variable rate demand bonds in connection with a financing program established by the Virginia Municipal League and the Virginia Association of Counties to provide interim financing for up to \$74,000,000 of District’s Capital Improvement Program expenditures through March, 2008. The 2007 Prior Bonds will be prepaid at par plus accrued interest on or about the date of issuance of the Series 2008 Bonds. The District retains the ability to use such financing program to provide interim funding for the Capital Improvement Program between the issuance of long-term obligations.

### **Financing**

The balance of the proceeds of the Series 2008 Bonds, after providing for the prepayment of the 2007 Prior Bonds, will be applied to finance a portion of the Capital Improvement Program Costs of the District’s five-year capital plan and pay the costs of issuing the Series 2008 Bonds. See “THE SYSTEM—Capital Improvement Program.”

### **Amendment of the Master Indenture**

The Issuer has previously issued its Wastewater Refunding Revenue Bonds, Series 2003 (the “Series 2003 Bonds”) in the initial aggregate principal amount of \$55,890,000, and outstanding in the aggregate principal amount of \$32,465,000 as of March 1, 2008.

The Commission has determined, with the consent of all of the holders of its Series 2008 Bonds, to amend and restate the Master Indenture in the form of the Trust Agreement coincidentally with the refunding of the 2007 Prior Bonds and the issuance of the Series 2008 Bonds, so that immediately following the issuance of its Series 2008 Bonds, the Series 2008 Bonds and the outstanding Series 2003 Bonds will be secured solely by the Trust Agreement. The Underwriters will expressly agree in the bond purchase agreement with the District, and the original Beneficial Owners of the Series 2008 Bonds will be deemed by their purchase thereof to agree, to the amendment and restatement of the Master Indenture and to all the provisions of the Trust Agreement.



## SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Series 2008 Bonds are as follows:

### Sources

Series 2008 Bond Proceeds .....	\$223,170,000.00
Net Original Issue Premium/Discount.....	1,477,258.45
Total Sources of Funds .....	<u>\$224,647,258.45</u>

### Uses

Prepayment of the 2007 Prior Bonds <sup>(1)</sup> .....	\$74,000,000.00
Deposit to Construction Fund.....	149,208,629.12
Issuance Expenses <sup>(2)</sup> .....	1,438,629.33
Total Uses of Funds.....	<u>\$224,647,258.45</u>

- (1) Does not include accrued interest on the 2007 Prior Bonds, which will be paid with other District funds.  
(2) Includes underwriting discount, legal, printing and similar expenses.

## THE SERIES 2008 BONDS

### **Description**

The Series 2008 Bonds will be dated the date of their issue and will bear interest and mature as set forth on the inside cover page of this Official Statement. The Series 2008 Bonds are issuable as registered bonds without coupons in the denomination of \$5,000 or any whole multiple thereof as provided in the Trust Agreement. Interest will be payable on each April 1 and October 1, commencing October 1, 2008. The principal of and the interest on the Series 2008 Bonds will be payable as described below under “Book-Entry Only System.”

### **Book-Entry Only System**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2008 Bonds and will be deposited with DTC. Additional information respecting DTC and its book entry system is contained in Appendix F.

*The information in this section and in Appendix F concerning DTC and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.*

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the District. Under such circumstances, if a successor depository is not obtained, certificates for the Series 2008 Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the Series 2008 Bonds will be printed and delivered.

## Redemption Provisions

### *Optional Redemption*

The District may, at its option, redeem Series 2008 Bonds due after April 1, 2018 prior to their respective maturities, as a whole or in part, on any date beginning April 1, 2018, at a redemption price of par, together with interest accrued to the date fixed for redemption.

### *Mandatory Redemption*

The Series 2008 Bonds due on April 1, 2033 and April 1, 2038, are subject to mandatory sinking fund redemption on April 1 in the following years in the following principal amounts ("Sinking Fund Requirements") at a redemption price equal to par, together with interest accrued to the date of redemption.

#### Term Bonds due April 1, 2033

<u>Year</u>	<u>Sinking Fund Requirement</u>
2029	\$ 9,780,000
2030	10,265,000
2031	10,780,000
2032	11,320,000
2033 <sup>†</sup>	11,885,000

<sup>†</sup> Unamortized balance at maturity.

#### Term Bonds due April 1, 2038

<u>Year</u>	<u>Sinking Fund Requirement</u>
2034	\$12,480,000
2035	13,105,000
2036	13,760,000
2037	14,445,000
2038 <sup>†</sup>	15,170,000

<sup>†</sup> Unamortized balance at maturity.

In the event of a partial optional redemption or purchase of such term bonds, the District will credit the principal amount of such term bonds so purchased or redeemed against the Sinking Fund Requirements for the remaining term bonds outstanding in such amounts and in such years as it in its sole discretion shall determine.

### **Notice of Redemption**

At least 30, but not more than 90, days before the redemption date of any Series 2008 Bonds, whether such redemption is in whole or in part, optional or mandatory, the Trustee is to cause a notice of such redemption, in the name of the District, to be mailed, certified mail, return receipt requested to all Holders owning Series 2008 Bonds to be redeemed as a whole or in part, but any defect in such notice or the failure so to mail any such notice to any Holder owning any Series 2008 Bonds will not affect the validity of the proceedings for the redemption of any other Series 2008 Bonds. **During the period that DTC or the DTC partnership nominee is the registered owner of the Series 2008 Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the Series 2008 Bonds. See "THE SERIES 2008 BONDS—Book-Entry Only System" above and Appendix F.** Each such notice is to set forth the Series 2008 Bonds or portions thereof to be redeemed, the date fixed for redemption, the redemption price to be paid, and if less than all the Series 2008 Bonds

will be called for redemption, the maturities of the Series 2008 Bonds to be redeemed. If any Series 2008 Bond is to be redeemed in part only, the notice of redemption will state also that on or after the redemption date, upon surrender of such Series 2008 Bond, a new Series 2008 Bond of authorized denominations and in principal amount equal to the unredeemed portion of such Series 2008 Bond will be issued.

Any notice of optional redemption of the Series 2008 Bonds may state that it is conditioned upon there being on deposit with the Trustee on the redemption date sufficient money to pay the redemption price, consisting of par plus interest accrued and unpaid to the redemption date, and any conditional notice so given may be rescinded at any time before the payment of the redemption price if any such condition so specified is not satisfied. If a redemption does not occur after a conditional notice is given due to an insufficient amount of funds on deposit with the Trustee, the corresponding notice of redemption will be deemed to be cancelled, void and of no effect.

If the District gives an unconditional notice of redemption, then on the redemption date the Series 2008 Bonds called for redemption will become due and payable. If the District gives a conditional notice of redemption, money to pay the redemption price of the affected Series 2008 Bonds shall have been set aside in escrow with the Trustee for the purpose of paying such Series 2008 Bonds, then on the redemption date the Series 2008 Bonds will become due and payable. In either case, if on the redemption date the Trustee holds money to pay the Series 2008 Bonds called for redemption, thereafter no interest will accrue on those Series 2008 Bonds, and a Bondholder's right will be to receive payment of the redemption price upon surrender of those Series 2008 Bonds.

## **SECURITY AND SOURCE OF PAYMENT**

THE SERIES 2008 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2008 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 2008 BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, OR A PLEDGE OF THE FAITH AND CREDIT, OF THE COMMONWEALTH OF VIRGINIA OR OF ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SERIES 2008 BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE COMMONWEALTH OF VIRGINIA OR ANY COUNTY, CITY, TOWN OR POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR.

### **General**

Principal of and interest on the Series 2008 Bonds will be payable from "Net Revenues" of the District pledged to the payment thereof, and money held in certain funds and accounts under, the Trust Agreement.

"Net Revenues" means all revenues derived by the District from its Wastewater System except such part thereof as may be required to pay the cost of maintaining, repairing and operating such Wastewater System.

The realization of amounts to be derived upon the enforcement of the Series 2008 Bonds will depend upon the exercise of various remedies specified in the Trust Agreement. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing laws, the remedies specified in the Trust Agreement may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the Trust Agreement. The various legal opinions to be delivered concurrently with the delivery of the Series 2008 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditor's rights generally.

Under the Trust Agreement, the District is subject to covenants relating to maintenance of a specified Long-Term Debt Service Coverage Ratio and restricting, among other things, incurrence of Indebtedness, and the existence of liens on Property. See “Limitation on Creation of Liens,” “Limitations on Indebtedness,” “Long-Term Debt Service Coverage Ratio” in Appendix C hereto.

### **Rate Covenant**

In the Trust Agreement, the District covenants to set rates and charges for facilities, services and products such that the Income Available for Debt Service, calculated at the end of each Fiscal Year, will be not less than the greater of (i) 120% of the Long-Term Debt Service Requirement for all Indebtedness except Subordinated Indebtedness for such Fiscal Year and (ii) 100% of the Long-Term Debt Service Requirement for Indebtedness including Subordinated Indebtedness for such Fiscal Year. For purposes of such covenant, “Income Available for Debt Service” means generally the excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied. “Long-Term Debt Service Requirement” means generally the principal and interest due on Outstanding Long-Term Indebtedness of the District during such period. See “FINANCIAL MANAGEMENT—Rate Making Process” and “Long-Term Debt Service Coverage Ratio” in Appendix C.

### **Debt Service Reserve Fund**

While a Debt Service Reserve Fund is created under the Trust Agreement, the Debt Service Reserve Fund will not be funded when the Series 2008 Bonds are issued. If (a) the Liquidity Ratio (as defined in Appendix B) of the District, as calculated based on the financial statements of the District as of the end of each Fiscal Year or (b) the Long-Term Debt Service Coverage Ratio (as defined in Appendix B) is less than 1.35, the Trust Agreement requires that the District fund, within six months after the end of such Fiscal Year or such six-month period, as applicable, the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement (as defined in Appendix B). If the Debt Service Reserve Fund is funded as described in the preceding sentence, amounts on deposit therein may be released upon the satisfaction of certain conditions precedent. The District may, at any time, deliver to the Trustee a Qualified Reserve Fund Substitute (as defined in Appendix B). In such event, if the District also delivers to the Trustee a written statement setting forth the use which the District proposes to make of the cash and Investment Obligations then on deposit to the credit of the Debt Service Reserve Fund, accompanied by an Opinion of Bond Counsel to the District, addressed to the Trustee, to the effect that such proposed use will not cause the interest on any Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation, the Trustee will transfer to the District all amounts on deposit to the credit of the Debt Service Reserve Fund. Amounts, if any, on deposit in the Debt Service Reserve Fund are required to be transferred, and any Qualified Reserve Fund Substitute is required to be drawn upon and the proceeds are required to be transferred, to the Bond Fund to the extent necessary to pay interest or principal (whether upon maturity or acceleration) on the Series 2008 Bonds if the money on deposit in the Bond Fund is insufficient for such purpose. See “Debt Service Reserve Fund; Qualified Reserve Fund Substitute” in Appendix C.

### **Additional Senior Indebtedness**

Under the Trust Agreement, the District may issue Additional Bonds and incur other additional Senior Obligations for the District’s Capital Improvement Program or to refund outstanding Senior Obligations subject to the District’s demonstrating its compliance with the conditions for the incurrence thereof under the Trust Agreement or the new Senior Indebtedness qualifying for an exception thereto. See “Limitations on Indebtedness” in Appendix C.

### **Subordinate Obligations**

Since 1993, the District has borrowed over \$146 million from the Virginia Resources Authority Revolving Loan Fund and issued in evidence of its obligations to repay such loans 15 issues of subordinate obligations under the Master Indenture (collectively, the “Subordinate Bonds”). The terms of the Subordinate Bonds generally state that the lien thereof on the Net Revenues of the District is in all respects subordinate and inferior to the lien thereon of obligations issued under the Master Indenture. The Subordinate Bonds will be entitled to the same status under the Trust Agreement. Interest accrues on the disbursed principal of the outstanding Subordinate Bonds at interest rates ranging from 2.5% to 4.75% per annum, and principal and interest are payable in installments over the 20-year terms of the Subordinate Bonds. The Subordinate Bonds have been issued for various improvements and upgrades at several of the District’s treatment plants. See the table “DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND SUBORDINATE OBLIGATIONS” and “Limitation on Creation of Liens” in Appendix C.

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**DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND  
SUBORDINATE OBLIGATIONS<sup>1</sup>**

<b>Fiscal Year Ending June 30</b>	<b>Series 2008 Bonds</b>			<b>Series 2003 Bond Debt Service<sup>3</sup></b>	<b>Subordinate Bonds Debt Service<sup>4</sup></b>	<b>Total Debt Service<sup>5</sup></b>
	<b><u>Principal<sup>2</sup></u></b>	<b><u>Interest</u></b>	<b><u>Debt Service</u></b>			
2008				\$4,698,900	\$10,955,913	\$15,654,813
2009	\$2,000,000	\$10,768,363	\$12,768,363	4,684,575	10,574,284	28,027,222
2010	2,000,000	10,678,534	12,678,534	4,667,113	10,573,284	27,918,930
2011	2,000,000	10,618,534	12,618,534	4,736,238	10,568,284	27,923,055
2012	2,000,000	10,558,534	12,558,534	4,737,444	10,565,284	27,861,262
2013	2,000,000	10,498,534	12,498,534	4,737,150	10,562,284	27,797,968
2014	2,000,000	10,428,534	12,428,534	4,734,363	10,558,284	27,721,180
2015	2,000,000	10,366,034	12,366,034	4,735,000	10,552,538	27,653,571
2016	2,000,000	10,296,034	12,296,034	4,737,900	9,288,884	26,322,818
2017	3,000,000	10,226,034	13,226,034		7,159,139	20,385,173
2018	5,465,000	10,106,034	15,571,034		4,606,084	20,177,118
2019	6,040,000	9,887,434	15,927,434		4,600,084	20,527,518
2020	6,345,000	9,585,434	15,930,434		4,593,352	20,523,785
2021	6,655,000	9,273,828	15,928,828		4,108,391	20,037,219
2022	6,980,000	8,950,228	15,930,228		4,022,213	19,952,441
2023	7,325,000	8,601,228	15,926,228		3,786,952	19,713,179
2024	7,675,000	8,252,303	15,927,303		3,564,484	19,491,787
2025	8,050,000	7,876,553	15,926,553		3,556,484	19,483,037
2026	8,455,000	7,474,053	15,929,053		3,549,484	19,478,537
2027	8,875,000	7,052,540	15,927,540		2,199,369	18,126,909
2028	9,315,000	6,614,050	15,929,050		35,000	15,964,050
2029	9,780,000	6,149,500	15,929,500			15,929,500
2030	10,265,000	5,660,500	15,925,500			15,925,500
2031	10,780,000	5,147,250	15,927,250			15,927,250
2032	11,320,000	4,608,250	15,928,250			15,928,250
2033	11,885,000	4,042,250	15,927,250			15,927,250
2034	12,480,000	3,448,000	15,928,000			15,928,000
2035	13,105,000	2,824,000	15,929,000			15,929,000
2036	13,760,000	2,168,750	15,928,750			15,928,750
2037	14,445,000	1,480,750	15,925,750			15,925,750
2038	<u>15,170,000</u>	<u>758,500</u>	<u>15,928,500</u>			<u>15,928,500</u>
<b>TOTAL</b>	<b>\$223,170,000</b>	<b>\$224,400,564</b>	<b>\$447,570,564</b>	<b>\$42,468,681</b>	<b>\$139,980,076</b>	<b>\$630,019,322</b>

<sup>1</sup> Numbers may not add to totals due to rounding.

<sup>2</sup> Principal is due on April 1 in each of the indicated fiscal years.

<sup>3</sup> As of June 30, 2007, the unpaid principal balance of the Series 2003 Bonds was \$35,855,000.

<sup>4</sup> As of June 30, 2007, the unpaid principal balance of the Subordinate Bonds was \$107,803,000. See "SECURITY AND SOURCE OF PAYMENT—Subordinate Obligations" herein.

<sup>5</sup> Does not include interest on the 2007 Prior Bonds, which were issued in the Fiscal Year ending June 30, 2008. The principal of the 2007 Prior Bonds is being refunded with a portion of the proceeds of the Series 2008 Bonds.

## **HAMPTON ROADS SANITATION DISTRICT**

### **Authorization and Purpose**

The District was created in 1940 by the Virginia General Assembly as a political subdivision of the Commonwealth of Virginia and was established as a governmental instrumentality to provide for the public health and welfare. Chapter 66, Acts of the Assembly of 1960, validated and confirmed prior legislation creating the District and repealed earlier acts of the Virginia General Assembly enacted with respect to the District.

The District was created for the specific purpose of abating pollution in the Hampton Roads area of Virginia through the interception of existing wastewater outfalls, the construction of wastewater treatment facilities and the installation of interceptors throughout the service area. The District does not provide water, solid waste disposal, storm water mitigation or direct customer collection services. The cities, counties and military establishments the District serves provide those services. Collection systems consisting of lateral sewers and subtrunk facilities which carry wastewater from industries, homes, apartments and businesses to the District's interceptor system are the responsibility of the various cities, counties and military establishments within the District.

The District is a separate legal entity from the various cities, counties and military establishments within the District. See "—The Commission" below.

### **History**

The District traces its origins to 1925 when the Virginia Department of Health condemned a large oyster producing area in Hampton Roads. The closure resulted in the Virginia General Assembly creating in 1927 a "Commission to Investigate and Survey the Seafood Industry of Virginia." Subsequent studies recommended a public body to construct and operate a sewage system in the area.

In 1934, the Virginia General Assembly created the Hampton Roads Sanitation Disposal Commission with instructions to plan the elimination of pollution in Hampton Roads. Recommendations were made to the General Assembly which resulted in the Sanitary Districts Law of 1938, along with "An Act to provide for and create the Hampton Roads Sanitation District." In a referendum held on November 5, 1940, a majority of the voters approved the creation of the District.

The District's first construction project, the Warwick County Trunk Sewer, began on June 26, 1946. The District commenced operations on July 1, 1946, using facilities acquired from the United States Government. The District's first treatment plant, the Army Base Plant, commenced operations on October 14, 1947. Since that time, the facilities of the District have been expanded to provide wastewater treatment service to all major population centers within its boundaries.

### **The Commission**

The District operates under the direction of its governing body, the Hampton Roads Sanitation District Commission (the "Commission"), comprised of eight members appointed by the Governor for staggered terms of four years. Members of the Commission may be reappointed without limitation and may be suspended or removed by the Governor at his pleasure. The Commission annually elects one of its members as Chairman and another as Vice Chairman. Under the Enabling Act, the eight members of the Commission must be residents of the cities and counties of the District as follows: one member from each of the cities of Chesapeake, Hampton, Newport News, Norfolk, Portsmouth and Virginia Beach; one member from the City of Suffolk or Isle of Wight County; and one member from the City of Williamsburg or Poquoson, or Gloucester, James City, King William, King and Queen, Mathews, Middlesex, or York County or the Town of Urbanna.

The Commission is empowered, among other things, to (1) construct and to improve, extend, enlarge, reconstruct, maintain, equip, repair and operate a wastewater system or systems, either within or without or partly within and partly without the corporate limits of the District, and to construct wastewater improvements within the corporate limits of the District, (2) issue the District's bonds, payable solely from revenues, to pay all or part of the cost of a wastewater system, (3) fix, revise, charge and collect rates, fees and charges for the use of and for the services of any system operated by the District, (4) enter into contracts with any unit, including counties, cities and other authorities, relating to the furnishing of services of the District, and (5) acquire real or personal property necessary in connection with wastewater systems or wastewater improvements.

The current members of the Commission and their resumes are set forth below. There is currently one vacancy on the Commission with respect to the City of Norfolk.

<u>Commissioners</u>	<u>Area Represented</u>	<u>Occupation</u>	<u>Term Expires June 30,</u>
R. Tyler Bland III, <i>Chairman</i>	Cities of Williamsburg and Poquoson, Counties of James City, King William, King and Queen, Mathews, Middlesex and York and Town of Urbanna	Owner, Tidewater Realty	2009
Parris Delano Carson, <i>Vice-Chairman</i>	City of Suffolk	Retired Assistant Superintendent, Suffolk Public Schools	2009
B. Anne Davis	City of Portsmouth	Former President, Diesel Tech, Inc.	2011
Frederick N. Elofson	City of Newport News	Certified Public Accountant and Personal Financial Specialist, Goodman & Company, LLP	2010
Gerald S. Johnson	City of Chesapeake	Retired, Norfolk Naval Shipyard	2008
Vishnu K. Lakdawala, Ph.D.	City of Virginia Beach	Associate Professor, Electrical and Computer Engineering, Old Dominion University	2010
Douglas E. Miller	City of Hampton	Attorney, Patten, Wornom, Hatten & Diamonstein, L.C.	2008



**R. Tyler Bland, III, Commission Chair.** Mr. Bland, a member of the Commission since June 8, 2001, is the owner of Tidewater Realty. He served as Mayor of the Town of West Point from 1992 to 1998 and was a member of the West Point Town Council from 1990 to 1998. He currently is a director of the Bank of Essex and Middle Peninsula Land Trust. Mr. Bland, a graduate of Virginia Military Institute, resides in the Town of West Point.

**Parris Delano Carson, Vice-Chair.** Mr. Carson, a member of the Commission since June 8, 2001, retired in 1997 as Assistant Superintendent for Pupil Personnel and Special Programs for Suffolk Public Schools. During his career Mr. Carson served as Principal of Nansemond River High School, John F. Kennedy High School and Smithfield High School. He was also an Assistant Principal and Teacher in Portsmouth's school system. Mr. Carson earned his B. S. degree in Biology from Elizabeth City State University, and a Master of Education degree from Virginia State University. He was named Outstanding Educator of Tidewater in 1991. Mr. Carson resides in the City of Suffolk.

**B. Anne Davis, Commissioner.** Ms. Davis, a member of the Commission since June 8, 2003, is the former President and CEO of Diesel Tech, Inc., a certified woman-owned firm specializing in diesel engine repair. The company had national and international experience in the public and private sectors before it closed in December 2002. Prior to founding Diesel Tech Inc., Ms. Davis held senior positions in health care. She also has extensive management experience in banking. She is a former Commissioner and past Chairman of both the Portsmouth Industrial Development Authority and the Portsmouth Port and Industrial Commission. Ms. Davis currently serves as a senior leader on numerous associations, boards and civic organizations. Ms. Davis resides in the City of Portsmouth.

**Frederick N. Elofson, CPA, PFS, Commissioner.** Mr. Elofson, a member of the Commission since July 1, 2006, is a Certified Public Accountant, Personal Financial Specialist and Senior Partner at Goodman & Company, LLP, in Newport News. He earned a B. S. degree in Accounting from West Virginia University and has more than 30 years of accounting experience. A former chairman of the board and treasurer of the Peninsula Chamber of Commerce, Mr. Elofson is active in numerous professional and civic organizations. He is a past treasurer and board member of the Schooner Virginia Project, a past president of the Peninsula Estate Planning Council, and has been honored as the Chamber's Volunteer of the Year. Mr. Elofson resides in the City of Newport News.

**Gerald S. Johnson, Commissioner.** Mr. Johnson, a member of the Commission since April 18, 2007, retired from Norfolk Naval Shipyard with more than 38 years of service. His work as a Nuclear Engineering Technician included planning and scheduling nuclear overhauls and refueling. He has extensive experience in developing project management control systems and providing program support. Mr. Johnson is a graduate of Oscar Smith High School and the Norfolk Naval Shipyard Apprenticeship Program. He has served his community through participation in the Chesapeake Council of Civic Organizations, South Norfolk Leadership Council, South Norfolk Civic League, Chesapeake Restoration Council and Chesapeake Planning Advisory Team. Mr. Johnson resides in the City of Chesapeake.

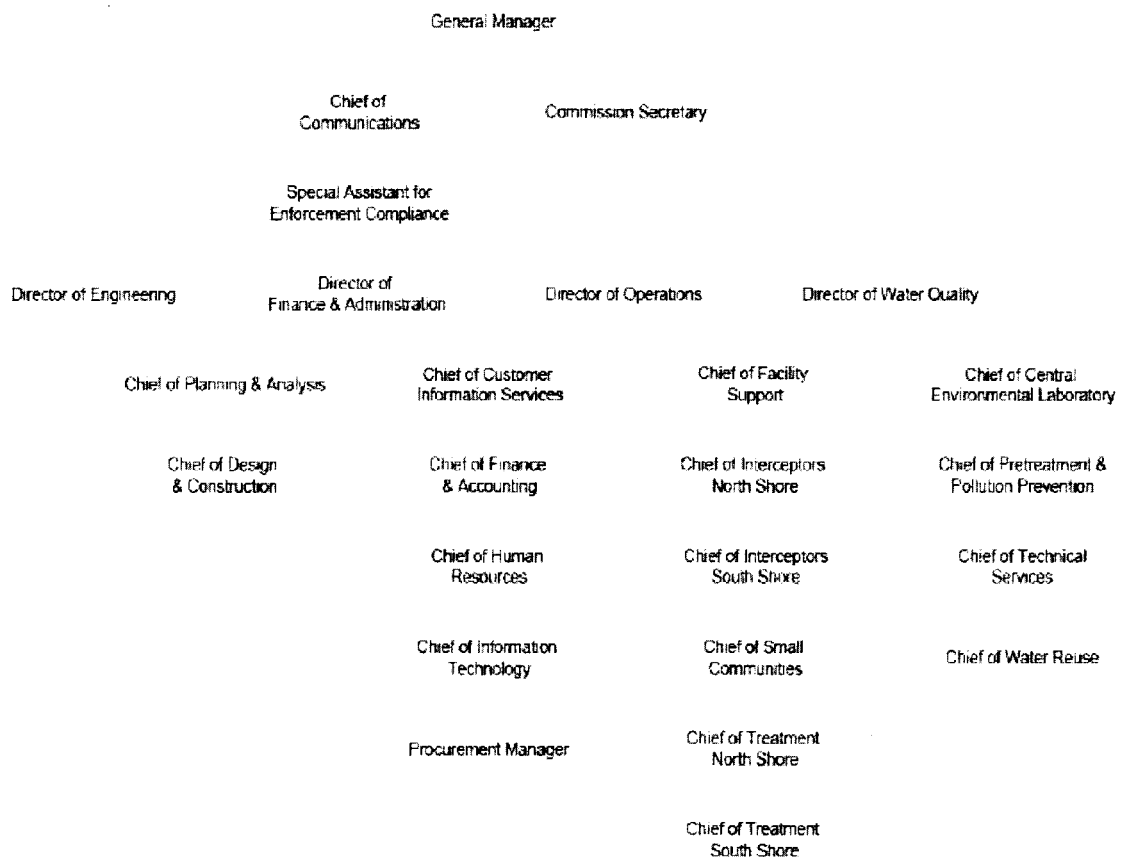
**Vishnu K. Lakdawala, Ph.D., Commissioner.** Dr. Lakdawala, a member of the Commission since June 8, 2002, obtained his undergraduate degree in Electrical Engineering from Bangalore University in India in 1972 and his Masters of Engineering Degree in High Voltage Engineering from Indian Institute of Science in 1974. He worked as Research and Development Engineer in Jyoti Limited for three years in the high voltage instrument transformers division. He received his Ph.D. in Electrical Engineering from the University of Liverpool in 1980. After serving as Senior Research Associate in the Department of Electrical Engineering and Electronics in the University of Liverpool for a year, he joined Oak Ridge National Laboratory, Oak Ridge, Tennessee where he conducted research for a year. He joined the faculty of Old Dominion University in 1983 as Assistant Professor in the Department of Electrical and Computer Engineering. He is currently the Chief Departmental Advisor and Associate Professor of Electrical and Computer Engineering. Dr. Lakdawala is currently serving as the president of the Hindu Temple of Hampton Roads. Dr. Lakdawala resides in the City of Virginia Beach.

**Douglas E. Miller, Commissioner.** Mr. Miller, a member of the Commission since December 3, 2003, has been an attorney with Patten, Wornom, Hatten & Diamonstein, L.C., since 1998. Prior to beginning practice, Mr. Miller served as a law clerk to the Honorable Rebecca Beach Smith, United States District Judge for the Eastern District of Virginia. Mr. Miller earned his J. D. from the Marshall-Wythe School of Law at the College of William and Mary. He earned his undergraduate degree, magna cum laude, from James Madison University in 1984, and a Masters of Professional Studies from Syracuse University in 1989. Mr. Miller has served as chair of the City of Hampton Arts Commission; president of the Federal Bar Association, Tidewater Chapter; and on the board of the Newport News Bar Association. He also is of member of the board of the Virginia Board for Branch Pilots. He is an active member of the Hampton Yacht Club and the Olde Wythe Neighborhood Association. Mr. Miller resides in the City of Hampton.

## Management and Staff

The District is managed through four departments which are organized into functional divisions with their principal responsibilities summarized after the District's organizational chart set out below.

### Organizational Chart



## Engineering

- Design & Construction: Manages projects to ensure that contracted work is performed according to HRSD's quality standards, fiscal policies and environmental commitment
- Planning & Analysis: Evaluates the service area's needs and determines the new facilities necessary to expand services. Projects future demand flows, service area expansion, and potential HRSD opportunities. Responsible for the Geographical Information System (GIS)

## Finance & Administration

- Customer Information Services: Responsible for billings, collections, maintenance of customer accounts and liaison with HRSD customers
- Finance & Accounting: Performs accounting operations and treasury function
- Human Resources: Administers human resources programs
- Information Technology: Provides data processing services, system support and management
- Procurement: Acquires goods and services

## Operations

- Facility Support: Coordinates preventive and major corrective maintenance programs including Automotive Maintenance, Carpenter, Electrical and Machine Shop operations and Physical Plant Maintenance
- Interceptor Operations North Shore: Operates and maintains the interceptor system in the Cities of Hampton, Newport News, Poquoson and Williamsburg, and the Counties of Gloucester, James City and York
- Interceptor Operations South Shore: Operates and maintains the interceptor system in the Cities of Chesapeake, Norfolk, Portsmouth, Suffolk and Virginia Beach, and the County of Isle of Wight
- Safety: Coordinates the safety program for HRSD
- Small Communities: Operates and maintains the collections systems and treatment plants that serve the Middle Peninsula
- Treatment – North Shore: Operates and maintains the Boat Harbor, James River, Nansemond, Williamsburg and York River treatment plants
- Treatment – South Shore: Operates and maintains the Army Base, Atlantic, Chesapeake-Elizabeth and VIP treatment plants

## Water Quality

- |  |  |
|--|--|
| • Central Environmental Laboratory:    | Performs all HRSD analytical testing   |
| • Pretreatment & Pollution Prevention: | Controls all non-domestic waste discharged into the HRSD system                                      |
| • Technical Services:                  | Provides scientific/technical support of all HRSD departments and administration of all HRSD permits |
| • Water Reuse:                         | Works with local industries, government facilities and jurisdictions to provide reclaimed water      |

The District's administration is overseen by a General Manager, supported by four directors and their staffs. The District had 706 employees as of June 30, 2007. Current staffing is sufficient to operate all existing facilities. None of its employees is currently represented by a union.

The following individuals are responsible for the daily management and affairs of the District:

**Edward G. Henifin, P.E., General Manager.** Mr. Henifin joined HRSD November 1, 2006, as General Manager. He previously served for nine years as Director of Public Works for the City of Hampton. During his tenure with Hampton, Mr. Henifin managed a multi-disciplinary department responsible for the city's sanitary sewer system, engineering services and maintenance of city facilities. His duties also included oversight of solid waste collection, street maintenance and operation of a waste to energy plant. Mr. Henifin began his career in 1982 as a civil engineer in the facilities planning division of the Navy Public Works Center in Norfolk. He has served as a senior engineer with the Norfolk Redevelopment and Housing Authority and deputy site manager of the Navy Public Works Center at Little Creek. Mr. Henifin holds a bachelor's of science degree in civil engineering from the University of Virginia. He is a registered professional engineer and has served on the board of directors of the Virginia, District of Columbia, and Maryland Chapter of the American Public Works Association. He is president of the George Wythe Recreation Association and a member of the boards of the Downtown Hampton Child Development Center and the American Red Cross, Hampton Roads Chapter.

**Bruce W. Husselbee, P.E., Director of Engineering.** Mr. Husselbee, who joined HRSD in 1994, has been the Director of Engineering since 2005. His responsibilities include management of the Planning & Analysis and Design & Construction Divisions. Implementation of HRSD's nearly \$1 billion Capital Improvement Program is one of his department's key functions. Before joining HRSD, Mr. Husselbee worked in the consulting engineering field for 12 years. He has been active with many of the professional organizations in the area including the American Society of Civil Engineers and ECHR. Mr. Husselbee holds a B.S. in Civil Engineering and a M.S. in Environmental Engineering from George Washington University. He is currently pursuing a Ph.D. at Old Dominion University in the field of Coastal Engineering.

**Carroll L. Acors, CPA, Acting Director of Finance.** Mr. Acors joined HRSD in 2007 as Chief of Accounting & Finance. He previously served for three years as Enterprise Controller for the Water and Sewer Funds for the City of Norfolk, Virginia, and for three years as Director of Finance for the City of Suffolk, Virginia. Mr. Acors began his career with Price Waterhouse in 1981, and has also held the positions of Manager of Accounting Research and Manager of Financial Reporting for Norfolk Southern Corporation and Vice President of Internal Audit for First Hospital Corporation. He earned a B.S. with a double major in Psychology and Anthropology from the College of William and Mary, and completed post-baccalaureate studies in accounting at the College, which qualified him to sit for the CPA exam. He holds a Virginia CPA license and other professional certifications, including Certified Management Accountant, Certified Fraud Examiner, and Certified Internal Auditor. Mr. Acors is a member of the

American Institute of Certified Public Accountants, the Virginia Society of CPAs, the Institute of Management Accountants, and the Institute of Internal Auditors, where he currently serves as Vice-President for the Tidewater Chapter.

**G. David Waltrip, P.E., *Director of Operations***. Mr. Waltrip, who was named Director of Operations in 2007, had served as Director of Treatment since 1987. Formerly, he was the Assistant Director of Treatment for seven years, Williamsburg Plant Manager for three years, and a project engineer for two years. Mr. Waltrip has a B.S. in mechanical engineering and M.S. in environmental engineering from Virginia Tech. He is a past president of the Virginia Water Environment Association and has served in various appointed capacities with the Water Environment Federation. He also has served on the EPA Chesapeake Bay Nutrient Removal Technology Task Force. Mr. Waltrip has authored or co-authored numerous articles in the *Water Pollution Control Federation Journal* on odor control and biological nutrient removal. He has received the Arthur Sidney Bedell Award from the Water Environment Federation and the Enslow-Hedgepeth Award from the Virginia Water Environment Association. Mr. Waltrip is a registered Professional Engineer and is a licensed Class I wastewater treatment plant operator.

**Norman E. LeBlanc, *Director of Water Quality***. Mr. LeBlanc was promoted to Director of Water Quality in March 2006. Previously, he was the Chief of Technical Services for 29 years. In that capacity, he managed the environmental monitoring and permitting program. Mr. LeBlanc serves on the Board of Directors of the National Association of Clean Water Agencies (NACWA) and is the former chair of its Water Quality Committee. He received the Presidents Award for Distinguished Service to NACWA in 1996. He is also a member of the Virginia Association of Wastewater Agencies Board of Directors. He has served on the Research Council for the Water Environment Research Foundation and the EPA Science Advisory Board Panel for the EPA Report on the Environment. He also represents HRSD on the Board of Directors of the Back Bay Restoration Foundation. Mr. LeBlanc has a B.S. in physical oceanography from New York University and did graduate studies in physical oceanography at Old Dominion University.

**Phillip L. Hubbard, *Special Assistant for Enforcement Compliance***. Prior to joining HRSD in 2007, Mr. Hubbard was the Sanitary Sewer Overflow Reduction Manager for the City of Virginia Beach. In that capacity he ensured full compliance with regulatory orders, represented the city with DEQ and EPA, served as Team Leader for the Regional Capacity Team, and managed contracts with consulting engineers. Mr. Hubbard's extensive experience also includes more than 20 years as an operations manager in the city's public utilities department. A registered professional engineer, he holds a B.S. in civil engineering from the Virginia Military Institute. Mr. Hubbard is a member of the American Society of Professional Engineers and the Water Environment Federation and twice received the Virginia Beach City Manager's Creativity, Innovation, and Public Service Award.

***Recent Development.*** On March 11, 2008, the District relieved the Director of Finance & Administration of his duties. This action was the result of senior management's loss of confidence related to oversight of reimbursement of an outside consultant's travel expenses, in 2006, related to one specific contract. Any such excess reimbursement is reflected in the District's financial statements and is not material to the District's financial position. Carroll L. Acors, CPA, previously the District's Chief of Accounting & Finance, has been named acting Director of Finance. The District also relieved the project manager for the contract of her duties, has named a new project manager who will report directly to the General Manager and retained an outside project manager to perform an independent assessment of the project and assist in bringing the project to completion.

## **Awards**

Historically, the District has received a number of awards for excellence in plant operations and maintenance, permit compliance, environmental engineering and design and financial reporting. In 2006,

the District's nine major treatment plants won five platinum and four gold awards, while three of its four smaller treatment plants won silver awards, from the Association of Metropolitan Sewerage Agencies.

## THE SERVICE AREA

The District provides service to 733 square miles of the 3,118 square miles within the boundaries of its corporate limits. The geographical limits are shown on the map behind the inside front cover and include the following localities:

City of Chesapeake	Gloucester County
City of Hampton	Isle of Wight County
City of Newport News	James City County
City of Norfolk	King and Queen County
City of Poquoson	King William County
City of Portsmouth	Mathews County
City of Suffolk	Middlesex County
City of Virginia Beach	York County
City of Williamsburg	

The District and the Commission are independent of the localities served by the District. See "HAMPTON ROADS SANITATION DISTRICT—Authorization and Purpose" and "—The Commission."

## Population Growth

The area within the District has experienced substantial urban and suburban development and consequent population growth, resulting in increased quantities of wastewater being treated at the District's treatment plants. The historical population and projections of future population within the District are presented below. Presently, the District contains approximately 22% of the population of the Commonwealth of Virginia.

<u>Year</u>	<u>Source</u>	<u>Population</u>	<u>Population Increase (%)</u> <sup>2</sup>
1960	U.S. Census	660,338	--
1970	U. S. Census	973,247	47
1980	U.S. Census	1,085,332	12
1990	U.S. Census	1,431,000	32
2000	U.S. Census	1,551,000	8
2010	Estimate <sup>1</sup>	1,651,000	6

(1) Source: Hampton Roads Economic Development Alliance

(2) Increase in population includes both increase in population within the District's original service area, as well as the expansion of the District's service area.

## Wastewater Flow

As the following chart indicates, during the last ten years, the District has experienced irregular growth in average daily wastewater flow. During the ten-year period, there has been population growth in the service area and growth in the number of service connections. The number of service connections has increased from approximately 402,000 as of June 30, 1998, to approximately 461,000 as of June 30, 2007. However, billed water consumption has remained fairly constant during such period because of conservation efforts on the part of utility customers fostered by increasing water rates, improved construction materials and the installation of low flow plumbing fixtures. In addition, the variations in

average daily flow in 2000-2003 reflect relatively wet weather in 2000 and 2003 and relatively dry weather in 2001 and 2002.

**Wastewater Flows Treated and Billed By The District  
(Million Gallons Per Day)**

<b><u>Fiscal Year Ended June 30,</u></b>	<b><u>Average Daily Wastewater Flow</u></b>	<b><u>Total Billed Wastewater Flow<sup>(1)</sup></u></b>
1998	168	128
1999	153	128
2000	172	133
2001	157	131
2002	147	127
2003	172	126
2004	173	130
2005	173	126
2006	158	129
2007	163	126

(1) Water meters are read for billing purposes by the participating jurisdictions.

**Expansion of Service Area**

In most instances, the routine expansion of the service area results from the extension of the interceptor system which is performed at the request of a local government. When the interceptor system is expanded, the District requires the local government to enter into an Interest Participation Agreement with the District. An Interest Participation Agreement requires the local government to guarantee the payment of interest expense of the proposed extension. The interest payment is calculated by multiplying the total cost of construction by the current rate of interest on twenty year AA rated tax-exempt revenue bonds. The local government agrees to pay the District at the end of each quarterly period one-fourth of the annual interest payment as of the date of the completion of the interceptor. When the District begins the treatment of flows, the District agrees to credit against the local government's quarterly interest payment 70% of the revenue received from treatment service charges associated with the extension. When the revenue credit exceeds the interest payment for four consecutive quarters, the Interest Participation Agreement is terminated.

**THE SYSTEM**

The Wastewater System consists of nine major treatment plants (above 15 million gallons per day (MGD) capacity), four smaller plants and its interceptor system consisting of 81 major pumping stations and approximately 512 miles of interceptors ranging in diameter from 12 to 60 inches. The interceptors, which are gravity and force mains, convey wastewater from the point of delivery by municipalities, industry and other users of the Wastewater System to the District's treatment plants.

The following table identifies the location of the District's major treatment plants, their design capacities and, for the fiscal year ended June 30, 2007, their average daily flows.

**Hampton Roads Sanitation District  
Treatment System Capacity & Flows  
(Million Gallons Per Day)**

<b><u>Major Treatment Facilities</u></b>	<b><u>Average Design Capacity</u></b>	<b><u>FY 2007 Annual Average Daily Flow</u></b>
Atlantic Virginia Beach	36.0	29.4
Army Base Norfolk	18.0	11.3
Boat Harbor Newport News	25.0	14.6
Chesapeake-Elizabeth Virginia Beach	24.0	15.6
James River Newport News	20.0	15.1
Nansemond Suffolk	30.0	18.7
Virginia Initiative Norfolk	40.0	31.2
Williamsburg James City County	22.5	15.1
York River York County	<u>15.0</u>	<u>12.3</u>
TOTALS	230.5	163.3

In addition to the major facilities described above, the District operates four additional small wastewater treatment plants: one each in Mathews (Mathews County), 0.1 MGD capacity with FY2007 flows of .065 MGD; in Urbanna (Middlesex County), 0.1 MGD capacity with FY2007 flows of 0.051 MGD; in West Point (King William County), 0.6 MGD capacity with FY2007 flows of 0.469 MGD; and in King William (King William County), 0.100 MGD capacity with FY2007 flows of 0.015 MGD.

**System Improvements and Innovations**

Significant improvements have been completed at HRSD's treatment plants, pump stations, interceptor sewers and administration facilities in recent years. The Colonial Williamsburg Pump Station has recently been replaced and a new pump station at Virginia State Route 337 in Suffolk has been installed. The Chesapeake-Elizabeth Treatment Plant has recently been improved to update and rehabilitate many of the unit treatment processes including headworks, secondary clarification and odor control facilities. As a result of recent concerns with the reliability of power at HRSD facilities, stand-by emergency generators have been installed and upgraded at numerous pump stations, plants and



administrative facilities. Improvements to increase reliability and performance are planned at existing treatment plant incinerators at the Army Base, Boat Harbor and Virginia Initiative Treatment Plants.

Improved automation has also been a focus of HRSD in recent years. Recent upgrades to the distributed control system at the Virginia Initiative Treatment Plant and upcoming improvements to the distributed control systems at both the Nansemond and Williamsburg Treatment Plants are planned for the near future. HRSD also plans to provide additional automation as part of the many upcoming treatment plant improvement projects. This automation will allow HRSD to operate these facilities more effectively while controlling chemical and energy costs. In 2002, the Commonwealth's first municipal water reclamation facility was constructed and placed in service to furnish 500,000 gallons per day of treated effluent from the York River Treatment Plant to a refinery owned and operated by Giant Industries. HRSD and Giant Industries are currently evaluating other uses of the treated effluent, which would require expansion of the facility. HRSD continues to look for other opportunities to reuse treated effluent beneficially rather than discharging it to the environment.

HRSD continues to be a leader in the area of nutrient removal in the Commonwealth. HRSD has already provided nutrient removal capabilities at the Virginia Initiative and Nansemond Treatment Plants. To meet the Commonwealth's goals for nutrient reduction in the Chesapeake Bay, HRSD is working to install nutrient reduction technology at the Army Base, Nansemond, James River and York River Treatment Plants. The improvements at the York River Treatment Plant will include state of the art nutrient reduction technologies that will allow this facility to achieve exceptionally low levels of nitrogen and phosphorus discharge concentrations.

### **Capital Improvement Program**

The District's Capital Improvement Program is designed to meet regulatory requirements to reduce both nutrient and sanitary sewer overflows, hydraulic expansion, aging infrastructure renewals and replacements, and increased treatment capacity. The District's five year plan is updated each year and the program is modified as circumstances dictate. The Commission approves the first year of the plan and appropriates funds on an individual project basis.

The 2008-2012 CIP includes approximately \$757.3 million in interceptor system, treatment plant and other facility construction projects over the next five fiscal years ending June 30, 2012. Over \$500 million is identified for the rehabilitation, upgrade and expansion of wastewater treatment plants. This includes the 18 MGD expansion of the Atlantic Treatment Plant and the 15 MGD expansion of the York River Treatment plant to meet regional growth related capacity needs. It also includes adding additional nutrient removal capability at the Army Base, James River, Nansemond and York River treatment plants to meet new regulatory requirements. A number of interceptor sewer projects, totaling approximately \$118 million are currently under construction or in the process of design. The planned interceptor sewer projects are proposed to address aging infrastructure issues, service to new areas and diversion capabilities within the extensive HRSD interceptor sewer piping system.

HRSD will play a critical role in assisting the localities it serves to address the region's sanitary sewer overflow program. As part of this effort, the District plans to prepare and implement a significant regional interceptor sewer metering program, hydraulic sanitary sewer computer model and a sanitary sewer evaluation study. The District will share the data from these efforts with the regional satellite sewer system owners and regulators to address infiltration and inflow concerns in the localities' sewer collection systems. In 2007, the District placed in service a new Accounts Receivable/Billing and Cashiering System costing \$13.7 million. The District bills over 461,000 customers directly, with most on a bimonthly basis.

Water reuse for irrigation and non-potable industrial uses is a high priority of the District. The District's success with the reuse projects at the York River Treatment Plant with Giant Industries and at the Atlantic Treatment Plant with the US Navy demonstrates that reuse can pay for itself. The District

continues to investigate and research the feasibility of additional projects. A feasibility study for a full scale reclaimed water irrigation system in new development for James City County is underway.

The following table sets forth the District's anticipated sources and uses of funds for its Capital Improvement Plan in Fiscal Years 2008 through 2012.

**Capital Improvement Plan  
Fiscal Years 2008 - 2012**

<b><u>Major Project Area</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>Total</u></b>
Administration	\$3,682,700	\$1,155,900	\$6,158,700	\$5,463,100	\$486,400	\$16,946,800
Army Base	3,444,800	2,554,200	22,602,600	67,696,000	17,000,000	113,297,600
Atlantic	49,768,800	88,421,900	36,941,900	11,092,300	0	186,224,900
Boat Harbor	6,849,900	7,341,200	2,218,000	25,200	618,900	17,053,200
Chesapeake-Elizabeth	711,600	4,826,500	987,100	241,600	0	6,766,800
James River	3,491,300	17,421,600	21,267,100	8,916,800	0	51,096,800
Middle Peninsula	3,395,700	7,605,500	5,500,000	17,500,000	12,500,000	46,501,200
Nansemond	2,156,100	5,476,900	9,964,500	4,240,200	0	21,837,700
VIP	15,584,400	14,130,400	4,734,100	2,708,300	5,075,200	42,232,400
Williamsburg	4,763,000	4,439,100	2,104,400	0	0	11,306,500
York River	12,055,100	41,028,700	31,283,300	47,933,900	18,638,500	150,939,500
General	12,232,200	16,997,800	17,368,600	9,413,000	3,070,900	59,082,500
Future	0	0	0	0	34,000,000	34,000,000
<b>Total</b>	<b>\$118,135,600</b>	<b>\$211,399,700</b>	<b>\$161,130,300</b>	<b>\$175,230,400</b>	<b>\$91,389,900</b>	<b>\$757,285,900</b>
Cash Funding (15%)	\$17,720,340	\$31,709,955	\$24,169,545	\$26,284,560	\$13,708,485	\$113,592,885
Bond Funding	100,415,260	179,689,745	136,960,755	148,945,840	77,681,415	643,693,015
<b>Total</b>	<b>\$118,135,600</b>	<b>\$211,399,700</b>	<b>\$161,130,300</b>	<b>\$175,230,400</b>	<b>\$91,389,900</b>	<b>\$757,285,900</b>

The District plans to fund the Capital Improvement Program through a combination of cash and debt financing as shown in the above table. Although the District also plans to pursue federal and Commonwealth grants and subsidy funds to the extent available, the above table does not assume the availability of any such grants or funds.

**Regulation and Permits**

The Virginia State Water Control Law (Chapter 3.1, Title 62.1, Code of Virginia, 1950, as amended) provides that the plans and specifications for wastewater facilities to be constructed be approved by the Virginia Department of Health and the Virginia Department of Environmental Quality. The District operates all of its plants and interceptor systems under permits issued by the Virginia Department of Environmental Quality.

Except as described under "Consent Agreement and EPA Order" below, the District is not aware of any pending federal or state regulatory requirements that would require significant expenditures for additional capital improvements; however, the District cannot predict the scope or effect of future federal or Commonwealth regulatory actions that could require significant expenditures for capital improvements.

## **Consent Agreement and EPA Order**

In September 2007, the Commonwealth of Virginia entered into a regional consent agreement (the "Consent Agreement") with the District and 13 of the localities that it serves. The Consent Agreement requires agreed upon short and long-term operational and infrastructure improvements to the sewer systems of the District and such localities. The long-term improvements are to be based upon a regional wet weather management plan that must be developed and submitted to the Commonwealth in 2013. The substance of the Consent Agreement was developed, in large part, by the District and such localities. No penalty was imposed upon either the District or such localities for past sewer overflows.

As of the date hereof, the District is in full compliance with its obligations under the Consent Agreement. The District continues to work with such localities to comply with the District's obligations under the Consent Agreement and to support such localities with their obligations under the Consent Agreement.

In August 2007, the United States Environmental Protection Agency ("EPA") issued a unilateral administrative order (the "EPA Order") to the District addressing matters similar to those covered in the Consent Agreement. No penalty was imposed under the EPA Order. As of the date hereof, the District is in compliance with the EPA Order. The EPA Order gives EPA direct enforcement rights with respect to matters contained in the EPA Order.

EPA and the Commonwealth of Virginia have proposed to embody the District's obligations under the Consent Agreement and the EPA Order in a federal consent decree. The Commission has agreed to enter into negotiations with the EPA and the Commonwealth to integrate the Consent Agreement and the EPA Order into a federal consent decree. In addition to the injunctive relief called for in the Consent Agreement and the EPA Order, such a decree could impose a penalty on the District for past sewer overflows. As of the date hereof, the consent decree negotiations are ongoing. No assurance can be given as to the outcome of such discussions or the scope of any penalties or other remedies in any such federal consent decree.

## **Consulting Engineering Services**

The District has a knowledgeable and experienced staff of professional engineers and architects in its the Engineering Department. Due to the current workload generated as a result of the large CIP, the District Engineering Department staff manages the overall program with the assistance of numerous consulting engineers. For large CIP projects, individual consultants are selected to assist with these efforts. For smaller projects or specialized studies, the District uses a number of consultants through annual services contracts to assist with these efforts. Both CH2M Hill and HDR Engineering Inc. assist the District with many of the highly technical issues, studies and specialized projects through the General Engineering Services contract. In addition, CEGG provides specialized architectural, mechanical and electrical support while URS Corporation provides assistance with the relocation of existing interceptor sewers affected by state and local roadway projects.

In March, 2007, CH2M Hill prepared a report on the wastewater system, finding it to be in good repair, working order and condition and operated and maintained in accordance with standard industry practices. CH2M Hill was also of the opinion that the wastewater system is sufficient to provide service for all current service area demands and is adequately staffed for such purposes and that the District has the ability to undertake the necessary expansions of the wastewater system to meet future service area demands as the need arises. CH2M Hill also noted that the District has a program to assure that necessary permits are obtained from the proper authorities and that the District is in material compliance with the permits that it holds.

## FINANCIAL MANAGEMENT

### General

Through its annual budget process, management ensures that operating revenues are sufficient to meet operating expenditures and sufficient reserves are available in the event actual billings do not meet budget estimates. The construction of new plants and extension of the interceptor system are financed by a combination of operating revenues, grant funds and debt financing. The following table sets out the District's operating results and debt service coverage for the Fiscal Years ended June 30, 2003, through June 30, 2007.

### Operating Results and Debt Service Coverage

	Years Ended June 30, (in thousands of dollars)				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues					
Wastewater Treatment Charges	\$118,423	\$106,208	\$98,308	\$96,894	\$93,841
Miscellaneous	<u>3,558</u>	<u>3,419</u>	<u>3,354</u>	<u>4,453</u>	<u>3,483</u>
Total Operating Revenues	\$121,981	\$109,627	\$101,662	\$101,347	\$97,324
Non-operating Revenues					
Wastewater Facility Charges	9,645	10,526	10,579	10,554	8,677
Investment Earnings	3,363	2,896	2,349	2,151	3,488
Sale of Land	0	0	0	0	4,517
Change in Fair Value of Investments	<u>994</u>	<u>(868)</u>	<u>343</u>	<u>(1,622)</u>	<u>(155)</u>
Total NonOperating Revenues	\$14,002	\$12,554	\$13,271	\$11,083	\$16,527
Total Revenues	135,983	122,181	114,933	112,430	113,851
Operating Expenses, Excluding Depreciation	<u>95,000</u>	<u>89,316</u>	<u>79,550</u>	<u>74,628</u>	<u>73,566</u>
Net Revenues	\$40,983	\$32,865	\$35,383	\$37,802	\$40,285
Total Senior Revenue Bond Debt Service	\$5,735	\$8,720	\$8,545	\$8,744	\$11,577
Coverage on Senior Revenue Bond Debt Service	7.15	3.77	4.14	4.32	3.48
Total Senior and Subordinate Bond Debt Service	\$13,776	\$16,220	\$15,794	\$15,994	\$18,907
Coverage on Total Debt Service	2.97	2.03	2.24	2.36	2.13

### Annual Debt Service Requirements

	Years Ended June 30, (in thousands of dollars)				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Senior Bonds <sup>(1)</sup>					
Wastewater Revenue Bonds	\$5,735	\$8,720	\$8,545	\$8,744	\$11,577
Subordinate Bonds					
Virginia Resources Authority (CWRLF)	\$8,041	\$7,500	\$7,249	\$7,250	\$7,330

(1) Does not include 2007 Prior Bonds, which were issued in October, 2007, after FY2007 end, and therefore no interest or principal was due in FY2007. The 2007 Prior Bonds will be fully prepaid with a portion of the proceeds of the Series 2008 Bonds and with other amounts provided by the District.

Operating revenues increased 11.3% in 2007 compared to 2006, the net effect of a 13.2% rate increase. Total non-operating revenues increased by 11.5% following an increase in investment income and change in fair value of investments and a decline in facility charge revenue. The investment income change was due to a flat yield curve and its positive effect on the District's portfolio, which contains more high-yielding short-term investments.

The increase in expenses of 6.4% from 2006 to 2007 was primarily due to an increase in salaries and wages and retirement plan expense. Actual operating expenses, excluding debt service, were 7.1% below budget for the fiscal year ended June 30, 2007.

Based on the District's unaudited results for the six months ended December 31, 2007, total operating revenues were approximately \$1.6 million, or 3%, below total operating revenues for the same six-month period ended December 31, 2006, and approximately \$7.4 million below budget for the period ended December 31, 2007. The variances were primarily due to issues associated with the implementation of a new billing system, which resulted in delays in some billings. The District's policy is to ensure the accuracy of invoices before they are mailed to customers, and edit checks in the billing system isolated these issues as part of the billing process. The District has dedicated resources to resolve remaining timing differences prior to the end of FY2008.

Such results also show operating expenses for the six months ended December 31, 2007, are approximately \$2.1 million, or 5%, above operating expenses for the same six-month period ended December 31, 2006, with the variance due primarily to growth in salaries and benefits. Actual operating expenses were approximately \$6.8 million below budget for the period ended December 31, 2007. Lower expenses were due primarily to salaries and benefits costs being lower than originally anticipated by approximately \$2.5 million, because of fewer new hires and lower than expected benefit expenses. In addition, utility and chemical costs were approximately \$900,000 below budget, and maintenance, repair and replacement costs were approximately \$2 million below budget.

The following table shows the District's projection of revenues, expenses and debt service coverage on the Bonds (including the Series 2003 Bonds, the Series 2008 Bonds and Additional Bonds the District anticipates issuing in connection with its Capital Improvement Projection) for the Fiscal Years 2008 through 2012. Actual results may vary materially from the amounts shown in the table as a result of various risks and uncertainties, including, but not limited to, unanticipated declines in levels of wastewater treatment due to declines in water consumption, increases in the District's borrowing or operating costs, additional regulatory requirements and adverse charges in general economic conditions.

## Projection of Revenues, Expenses and Debt Service Coverage

	Years Ending June 30, (in thousands of dollars)				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Operating Revenues (1)	\$138,618	\$158,879	\$182,179	\$202,364	\$210,715
Nonoperating Revenues (2)	15,873	16,410	14,396	15,412	15,920
<b>Total Revenues</b>	<b>\$154,491</b>	<b>\$175,289</b>	<b>\$196,575</b>	<b>\$217,776</b>	<b>\$226,635</b>
Operating Expenses Exclusive of Depreciation	108,489	114,775	121,429	128,473	135,930
Net Revenues Available for Debt Service	\$46,002	\$60,514	\$75,146	\$89,303	\$90,705
Total Senior Bond Debt Service	\$5,723	\$17,453	\$27,335	\$37,333	\$37,274
Coverage on Senior Bond Debt Service	8.04	3.47	2.75	2.39	2.43
Total Senior and Subordinate Bond Debt Service	\$16,679	\$28,027	\$37,908	\$47,901	\$47,839
Coverage on Total Debt Service	2.76	2.16	1.98	1.86	1.90
Transfer to Capital Program	\$17,730	\$80,364	\$24,165	\$56,854	\$13,710

	Years Ending June 30, (in thousands of dollars)				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Annual Debt Service Requirements</b>					
Senior Bond Issues and Debt Service					
Series 2003 Bonds	\$4,699	\$4,685	\$4,667	\$4,736	\$4,737
2007 Prior Bonds (3)	1,024	0	0	0	0
Series 2008 Bonds	0	12,768	12,679	12,619	12,559
Additional Bonds (4)	0	0	9,989	19,978	19,978
<b>Total Senior Debt Service</b>	<b>\$5,723</b>	<b>\$17,453</b>	<b>\$27,335</b>	<b>\$37,333</b>	<b>\$37,274</b>
Subordinate Bonds					
Virginia Resources Authority (CWRLF)	\$10,956	\$10,574	\$10,573	\$10,568	\$10,565

(1) Includes Commission Approved 15% rate increase for FY2008 only. Assumes estimated annual rate increases of 15% from FY2009-FY2010, 11.3% in FY2011, and 4.2% in FY2012. Commission considers prospective rate increase with annual budget adoption.

(2) Consists primarily of wastewater facility charges.

(3) The 2007 Prior Bonds were issued beginning in August, 2007 (FY2008). Amount reflects interest payments only.

The principal amount of \$74,000,000 is being fully refunded by the Series 2008 bonds.

(4) Debt service on the Additional Bonds are estimated at 6% for 30-year level debt service. No assurance can be given as to the actual amount of Additional Bonds to be issued or the interest rates thereon.

*Pension Fund.* The District participates in the Virginia Retirement System (“VRS”) a defined benefit plan offered by the Commonwealth of Virginia. On behalf of its employees, the District contributes monthly to the VRS. In fiscal year 2007, the District’s funding requirement was 7.85% of annual covered payroll, plus 5%, representing the employee member contribution assumed by the District, or \$4.4 million. This funding requirement represented actuarially determined current liabilities of the District.

*Post-Retirement Benefits.* The Commission adopted a post-retirement health benefit for qualifying employees beginning after July 1, 2002. The program will furnish lifetime health benefits for all employees with at least 15 years of service at the District and who qualify for an unreduced retirement benefit. Funding of the prior service costs was accomplished during fiscal year 2007 with a contribution of approximately \$1.755 million. The District’s unfunded actuarial accrued liability was \$13,758,239 at July 1, 2007.

*Debt Administration; Debt Policy.* As of March 1, 2008, the District had the Series 2003 Bonds, the 2007 Prior Bonds (to be refunded by the Series 2008 Bonds) and the Subordinate Bonds outstanding. The total amount of outstanding debt as of June 30, 2007, was \$143.7 million, which was a reduction of \$792,000 from fiscal year 2006.

The Commission adopted a debt management policy (“Debt Policy”) on January 22, 2008, establishing the District’s debt management policies and requirements and setting guidelines for the issuance of District debt. The Debt Policy establishes the guiding principles for the lowest cost financing, funding of a portion of the District’s capital budget on a cash basis, duration of debt, and rate-setting goals in order to meet certain targeted debt service coverages. The Commission has the right to change the Debt Policy from time to time.

*Cash Management; Investment Policy.* The District’s idle cash is invested primarily in obligations of United States agencies and also in commercial paper, corporate bonds and municipal securities. For fiscal year 2007, the District’s overall yield on investments was approximately 4.3%. The Commission adopted on February 28, 1995, revised on March 27, 2007, and maintains an investment policy that gives priority to safety of principal, then liquidity and then yield.

## **Budgeting and Accounting**

*Budgetary Controls.* The District adopts an annual budget based on its Debt Policy and projected cash needs and debt service coverage requirements on its revenue bonds. The budget is approved on or before June 15 of each year. The District maintains budgetary controls on a departmental basis. Unused revenue fund appropriations lapse at year end. Financial plans are adopted for capital projects for the life of the project.

*Financial Statements.* In accordance with generally accepted accounting principles, the District’s audited general purpose financial statements have been prepared on a full accrual basis incorporating the principles of enterprise fund accounting. This approach presents the District’s financial statements on a profit and loss basis, including an annual provision for depreciation, which is comparable to private industry. The District’s audited basic financial statements and the report thereon by KPMG LLP, from the fiscal year ended June 30, 2007, are included in Appendix A. The District’s independent auditor, KPMG LLP, has not been engaged to perform and has not performed, since the date of its report included in Appendix A, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for excellence in Financial Reporting to the District for its comprehensive annual financial reports for each of the fiscal years ended June 30, 1981 to 2006. The District will submit its report for the fiscal year ended June 30, 2007, and expects to receive another Certificate of Excellence.

In order to be awarded a Certificate of Excellence, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

## **Rates**

The District periodically reviews its rate structure and revises its charges as necessary to generate the revenues required to meet its current financial obligations. The most recent general increase in rates became effective July 1, 2007. A summary of the District's rate schedule, consisting of Wastewater Treatment Charges, Surcharges, Wastewater Treatment Facilities Charges and Equalization Charges, is included in Appendix A.

The District's average domestic customer pays approximately \$16 per month for sewage interception and treatment services provided by the District. The District's sewage interception and treatment charge generally is the smallest public service utility bill its customers receive. The District bills and collects directly from its customers on a monthly, bimonthly, or quarterly basis depending upon the community. The jurisdictions provide the first point of customer contact and period appropriate meter readings, which are the basis of the District's billing operation.

The District provides billing and cashing services to several of the jurisdictions it serves, including Chesapeake, James City County, Norfolk, Smithfield, Suffolk, and Urbanna. The combined bill includes jurisdictional charges for water, solid waste disposal, sewage collection, storm water mitigation and District charges for sewage interception and treatment. To date these services have been provided at minimum cost to assist the jurisdictions and customers the District serves to minimize the number of bills the customers receive and number of payments they need to make. The combined billing provides efficient and cost effective public service.

## **Rate Making Process**

The Enabling Act provides that the Commission shall fix and revise rates, fees and charges to provide funds, which with other funds available for such purposes, will be sufficient at all times (a) to pay the cost of maintaining, repairing and operating the Wastewater System and all improvements thereto, including reserves for such purpose and for renewals and replacements and necessary extensions and additions to the Wastewater System, (b) to pay the principal of and the interest on such revenue bonds as the same shall become due and to provide reserves therefor and (c) to provide a margin of safety for making such payments.

The Enabling Act provides that before any revision of rates, fees and charges shall become effective the Commission shall publish a copy thereof for four consecutive weeks in a newspaper of general circulation within the District. If, on or before the last publication, the governing body of any city or county constituting a part of the District or five hundred or more qualified voters residing within the District file a petition with the Virginia State Corporation Commission complaining of the proposed revision, the State Corporation Commission may by order suspend the placing in effect of such revision for a period not exceeding sixty days from the filing of any such petition during which time it shall investigate whether such revision is just and equitable and in accordance with the provisions of the Enabling Act. If the State Corporation Commission does not enter an order suspending, approving or disapproving such revision within sixty days from the filing of any such petition, such revision will be deemed to be in effect. The District or the party or parties filing a petition may appeal to the Virginia Supreme Court from any such order as may be entered by the State Corporation Commission.



### **Collection of Unpaid Wastewater Treatment Charges**

The Enabling Act provides that if any bill for wastewater treatment charges is not paid in full when the same becomes due, the owner, tenant or occupant of such lot or parcel of land shall, until wastewater treatment charges are paid, cease to dispose of wastewater or industrial wastes originating from or on such property by discharge thereof directly or indirectly into the Wastewater System, and if such owner, tenant or occupant does not cease such discharge within two months thereafter, it shall be the duty of each public or private agency supplying water to such property, within five days after receipt of notice of such facts from the District, to cease supplying water to such property. If the water supply is not stopped, the District has the power to enter into any public or private property to shut off the property's water supply.

If any wastewater treatment charges are not paid within 30 days after the same become due, the District may at the expiration of such 30 day period proceed to recover the amount of any such delinquent sewage treatment charges by any action, suit or proceeding permitted by law or in equity.

The District participates in the Virginia Set-Off Debt Collection Program administered by the Virginia Department of Taxation. This program provides a means for government units and courts to collect delinquent debts by attaching individual income tax refunds and certain state lottery winnings. Jurisdictions participating in the Hampton Roads Utility Billing Service (which is managed by the District) may have the District submit their balances along with the District's. This benefits the jurisdictions since, under the Debt Set-Off Collection Program, the District has a higher payoff priority than counties and cities. Over the past five years, the District has recovered an average of nearly \$200,000 annually through participation in this program.

The following table shows the District's treatment charge collection rate for the last ten fiscal years.

**Hampton Roads Sanitation District  
Collection Rate**

<b><u>Fiscal Year Ended June 30,</u></b>	<b><u>Percentage of Wastewater Treatment Charges Collected</u></b>
1998	99.2 %
1999	99.3
2000	99.5
2001	99.0
2002	99.3
2003	99.5
2004	99.4
2005	99.4
2006	99.4
2007	99.4

### Ten Largest Customers

The following table shows the District's ten largest customers on the basis of wastewater treatment fees and charges paid as of June 30, 2007.

<u>Customer</u>	<u>Type</u>	<u>Amount (000s)</u>	<u>Percentage of Total Fees and Charges</u>
Anheuser-Busch, Inc. <sup>(1)</sup>	Brewery	\$ 6,102	5.2%
Smithfield Foods	Meat Processor	2,226	1.9
U.S. Navy-Norfolk Naval Base	Military Facility	1,275	1.1
City of Norfolk	Municipality	1,100	0.9
U.S. Navy-Little Creek Amphibious Base	Military Facility	882	0.7
U.S. Air Force-Langley Air Force Base	Military Facility	822	0.7
Norfolk Redevelopment and Housing Authority	Housing Authority	641	0.5
Northrop Grumman Newport News	Shipbuilding	615	0.5
Marva Maid Dairy	Dairy	404	0.3
Oceana Naval Air Station	Military Facility	<u>387</u>	<u>0.3</u>
TOTAL		\$14,454	12.1%

- (1) The District entered into an agreement with Anheuser-Busch, Inc., which requires a minimum payment in each of 30 years ending in July 2008. The payment is based on a minimum daily waste loading. The District is currently negotiating a new contract with Anheuser-Busch, Inc., and anticipates that a new contract will be executed prior to the expiration of the current contract. No assurance can be given, however, as to the result of such negotiations, the timing of their completion or the terms of any such agreement. Absent a new agreement, Anheuser-Busch, Inc., would pay standard rates, which would not have a significant impact on the District's aggregate fees and charges.

## **LITIGATION**

There is no litigation pending in any court (either state or federal) or, to the knowledge of the District, threatened against the District that in any way questions or affects the validity of or the security for the Series 2008 Bonds, or, except as described under “THE SYSTEM—Consent Agreement and EPA Order” herein, that would have a material adverse effect on the District’s condition, financial or otherwise.

## **APPROVAL OF LEGAL PROCEEDINGS**

The Series 2008 Bonds are offered subject to the approving opinion of Sidley Austin LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the District by its General Counsel, Kellam, Pickrell, Cox & Tayloe, A Professional Corporation, Norfolk, Virginia, and for the underwriters by McGuireWoods LLP, McLean, Virginia.

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Sidley Austin LLP, Bond Counsel, assuming compliance by the District with its covenant to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and except as provided in the following sentence, interest on the Series 2008 Bonds will not be includable in the gross income of the owners of the Series 2008 Bonds for purposes of federal income taxation under existing law. Interest on the Series 2008 Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2008 Bonds in the event of a failure by the District to comply with applicable requirements of the Code and its covenants regarding use, expenditure and investment of the proceeds of the Series 2008 Bonds and timely payment of certain investment earnings to the United States Treasury. Bond Counsel renders no opinion as to the exclusion from gross income of the interest on the Series 2008 Bonds for federal income tax purposes on or after the date on which any action taken affecting such covenants upon the approval of counsel other than Bond Counsel.

Interest on the Series 2008 Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions (some of which are noted below) that could result in tax consequences, as to which no opinion will be rendered by Bond Counsel, as a result of (i) ownership of the Series 2008 Bonds or (ii) the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income. Interest on the Series 2008 Bonds owned by a corporation will be included in the calculation of the corporation’s federal alternative minimum tax liability.

### **Original Issue Discount**

The excess, if any, of the amount payable at maturity of any maturity of the Series 2008 Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. The amount of original issue discount that has accrued pursuant to the constant yield method described above, and is properly allocable to an owner of any maturity of the Series 2008 Bonds with original issue discount (the “Discount Bonds”), will be excluded from gross income to the same extent as interest on the Series 2008 Bonds for federal income tax purposes. In general, the issue price of a maturity of the Series 2008 Bonds is the first price at which a substantial amount of that maturity was sold (excluding sales to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers). A purchaser’s adjusted basis in a Discount Bond will be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond for federal income tax purposes.

A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of Discount Bonds of that maturity is sold to the public may be determined according to rules that differ from those described above. Owners of Discount Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds and with respect to state and local tax consequences of owning and disposing of such Discount Bonds.

### **Original Issue Premium**

The excess, if any, of the tax basis of the Series 2008 Bonds to a purchaser (other than a purchaser who holds such Series 2008 Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchased such Series 2008 Bonds as part of the initial public offering and at the initial offering price set forth on the cover page over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Series 2008 Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Series 2008 Bonds are required to decrease their adjusted basis in such Series 2008 Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2008 Bonds are held. The amortizable bond premium on such Series 2008 Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Series 2008 Bonds. Owners of such Series 2008 Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon sale or other disposition of such Series 2008 Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2008 Bonds.

### **Backup Withholding**

Interest paid on the Series 2008 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series 2008 Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the Internal Revenue Service.

## **Collateral Tax Consequences**

Prospective purchasers of the Series 2008 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Series 2008 Bonds should consult their tax advisors as to the applicability and impact of these consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 2008 Bonds will not have an adverse effect on the tax-exempt status of the Series 2008 Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Series 2008 Bonds.

## **Future Developments**

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2008 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to Commonwealth of Virginia or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax-exempt status of such interest. On November 5, 2007, the United States Supreme Court heard oral argument in connection with its review of the decision of the Court of Appeals of Kentucky in the matter of *Kentucky v. Davis*, which held that it was a violation of the Commerce Clause of the United States Constitution for the Commonwealth of Kentucky to grant a state income tax exemption to the interest on bonds issued by or on behalf of the Commonwealth of Kentucky and its political subdivisions while subjecting interest on bonds issued by or on behalf of other states and their political subdivisions to Kentucky state income tax. It is not possible to know at this time how the Supreme Court will decide *Kentucky v. Davis*. If the Kentucky decision is affirmed by the United States Supreme Court, states such as the Commonwealth of Virginia may be required to eliminate the disparity between the income tax treatment of out-of-state bonds and the income tax treatment of in-state bonds, such as the Series 2008 Bonds. The impact of this decision may also affect the market price for, or the marketability of, the Series 2008 Bonds.

Prospective purchasers of the Series 2008 Bonds should consult their tax advisors regarding pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

## **Virginia Taxes**

The Enabling Act provides that the Series 2008 Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be free and exempt from taxation by the Commonwealth of Virginia and by any political subdivision thereof.

## **UNDERWRITING**

Pursuant and subject to the terms and conditions set forth in a Bond Purchase Agreement (the "Purchase Agreement") dated March 14, 2008, between the Underwriters, for whom Goldman Sachs & Co. is acting as representative, and the District, the Underwriters will agree to purchase from the District, and the District will agree to sell to the Underwriters, all, but not less than all, of the Bonds at a purchase price that results in an Underwriters' discount of \$929,629.33 from the initial reoffering prices derived from the yields shown on the inside cover page. The Underwriters have supplied the information as to the yields shown on the inside cover page. One of the Underwriters is Wachovia Securities; Wachovia

Securities is the trade name under which Wachovia Corporation conducts its investment banking, capital markets and institutional securities business through Wachovia Capital Markets, LLC, member NYSE, NASD, SIPC and through other bank, non-bank and broker-dealer subsidiaries of Wachovia Corporation, including Wachovia Bank, National Association.

### **FINANCIAL ADVISOR**

BB&T Capital Markets, a division of Scott & Stringfellow, Inc., Richmond, Virginia, is serving as Financial Advisor to the District with respect to the sale of the Series 2008 Bonds. The Financial Advisor assisted the District in the preparation of this Official Statement and provided other advice. The Financial Advisor is an investment banking firm which provides a full range of investment banking, financial advisory and consulting services. BB&T Capital Markets is a division of Scott & Stringfellow, Inc., a wholly-owned subsidiary of BB&T Corporation, a North Carolina financial holding company.

### **RATINGS**

The Series 2008 Bonds have been assigned ratings of “Aa3,” “AA+” and “AA” by Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc., and Fitch Ratings, respectively. Such ratings reflect only the view of such organizations and a fuller explanation of the significance of such ratings may be obtained from the rating agencies. A rating is not a recommendation to buy, sell or hold the Bonds. The District furnished to such rating agencies certain information regarding its policies, practices and finances, including information that is not included in this Official Statement. There is no assurance that such policies, practices and finances or such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by such rating agencies. Any such downward revision or withdrawal could have an adverse effect on the market price of the Series 2008 Bonds.

### **FUTURE FINANCIAL INFORMATION**

The Securities and Exchange Commission has adopted Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the “Rule”). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities, such as the Series 2008 Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be material “obligated persons” have committed to provide (i) on an annual basis, certain financial information and operating data (“Annual Reports”), and, if available, audited financial statements, to each Nationally Recognized Municipal Securities Information Repository (a “NRMSIR”) and the relevant state information depository (if any) and (ii) notice of various events described in the Amendments, if material (“Event Notices”), to each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”) and to any such state information depository.

The District will covenant in the Continuing Disclosure Agreement (the form of which appears in Appendix E) for the benefit of the holders of the Series 2008 Bonds to provide to each NRMSIR and to any Virginia information depository that has been formed, annually, not later than December 31 of each year, commencing December 31, 2008, Annual Reports with respect to itself, as issuer. Similarly, the District will provide Event Notices with respect to the Series 2008 Bonds to each such NRMSIR, the MSRB and to any Virginia information depository. As of the date of this Official Statement, the District has complied with its other undertakings regarding the Rule. Alternatively to filing the Annual Reports, Event Notices and other notices required under the Rule with the NRMSIRs and any Virginia information depository, the District may make such filings with DisclosureUSA or such additional Internet-based filing system as may be approved for such purpose from time to time by the Securities and Exchange Commission.

## MISCELLANEOUS

All of the foregoing summaries or descriptions of the provisions of the Enabling Act, the Series 2008 Bonds and the Trust Agreement are made subject to all of the detailed provisions thereof to which reference is made for further information. The foregoing summaries do not purport to be complete statements of any or all of the provisions thereof. Copies of the Trust Agreement are available upon request to the District at the following address: 1436 Air Rail Avenue, Virginia Beach, Virginia 23455: Phone (757) 460-2261.

Any statement in this Official Statement involving matters of opinion whether or not expressly so stated is intended as such and not as a representations of fact. The execution and delivery of this Official Statement have been duly authorized by the District.

/s/ R. Tyler Bland III

Chairman

Hampton Roads Sanitation District Commission

/s/ Edward G. Henifin

General Manager

Hampton Roads Sanitation District



## **APPENDIX A**

### **Basic Financial Statements and Related Auditor's Report for the fiscal year ended June 30, 2007, as rendered by KPMG LLP with Unaudited Statistical and Supplemental Sections<sup>1</sup>**

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<sup>1</sup> This Appendix comprises pages 13 through 59, inclusive, of the District's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2007. In order to preserve cross-references within such pages, this Appendix has not been repaginated and, accordingly, retains the original pagination.

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KPMG LLP  
2100 Dominion Tower  
999 Waterside Drive  
Norfolk, VA 23510

## Independent Auditors' Report

The Commissioners  
Hampton Roads Sanitation District:

We have audited the accompanying balance sheets of Hampton Roads Sanitation District (HRSD) as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of HRSD's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HRSD's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HRSD as of June 30, 2007 and 2006, and the results of its operations, changes in fund equity, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying Management's Discussion and Analysis on pages 15 through 19 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, statistical and other supplemental sections, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The information included in the introductory, statistical and other supplemental sections has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

**KPMG LLP**

September 19, 2007

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Hampton Roads Sanitation District's financial performance provides an overview of HRSD's financial activities for the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the transmittal letter and the financial statements included in this report.

### HIGHLIGHTS

#### Financial highlights

- HRSD's fund equity increased by \$11.4 million, or 3.1%, as a result of this year's operations.
- Total revenues increased 11.3% to \$136 million, while operating expenses increased 5.4% to \$120 million from 2006 to 2007.
- Long Term Investments decreased by \$9.1 million, a direct result of spending down available balances on construction projects and major repairs. Investments that matured during the year were reinvested in shorter-term instruments to provide funds for capital expenditures.
- Facility charge revenue decreased approximately \$900,000 due to a projected decrease in construction activity in the service area.
- HRSD's investment in capital assets, net of related debt, increased 11.5% to \$314.7 million at the end of FY-07.

#### Operating highlights

- In November 2005 the Department of Environmental Quality for the Commonwealth of Virginia adopted tributary strategies for the James, York, and Rappahannock Rivers reducing and capping the Nitrogen and Phosphorus discharges to these bodies of water. The effective permit compliance schedule is set at January 1, 2011.
- Construction of the Chesapeake-Elizabeth Treatment Plant Improvements project continued with expenditures of \$4.4 million during the year.
- The expansion and upgrade of the Atlantic Treatment Plant continued with the expenditure of \$18.2 million this year.
- Progress on the Customer Accounts Receivable, Billing and Cashiering project neared completion with \$4.1 million of consulting work performed during the year.
- HRSD increased overall rates an average of 13.2% and raised facility charge rates by 5.1% effective July 1, 2006.

### USING THIS ANNUAL REPORT

The Financial Section of the Annual Report consists of four parts: Management's Discussion and Analysis (MD&A), Financial Statements, the Statistical Section and unaudited Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

MD&A serves as an introduction to the basic Financial Statements and supplementary information along with management's examination and analysis of the financial condition and performance. Summary financial statement data, key financial and operational indicators contained in HRSD's budgets, Commission resolutions and other management tools were used for this analysis.

The Financial Statements of HRSD report information about HRSD using accounting methods similar to those used by private sector companies. These statements offer both short and long range financial information about its activities. The Balance Sheets include the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The Balance

Sheets also provide the basis for computing the rate of return, evaluation of the capital structure, and assessing the liquidity and financial flexibility of HRSD. The Statements of Revenues, Expenses and Changes in Fund Equity contains all of the current year's revenue and expenses. This statement measures the success of HRSD operations, profitability, and credit worthiness over the past year and can be used to determine whether HRSD has successfully recovered all of its costs through its user fees and other charges. The final required financial statement is the Statements of Cash Flows. The primary purpose of this statement is to provide information about the cash receipts and cash payments made by HRSD during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets. The Notes to the Financial Statements provide required disclosures and other information that is essential to a full understanding of material data provided in the statements. The notes present information about HRSD's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

## FINANCIAL ANALYSIS

One of the most important questions asked about HRSD's finances should be "is HRSD better off or worse off as a result of this year's activities?" The Balance Sheets and the Statements of Revenues, Expenses and Changes in Fund Equity report information about HRSD's activities in a way that will help answer this question. These two statements report the fund equity of HRSD and changes to it. The difference between assets, liabilities, and fund equity is one way to measure financial health or financial position. Over time, increases or decreases in HRSD fund equity are one indicator of whether its financial health is improving or deteriorating. However, one also needs to consider other non-financial factors such as changes in economic conditions, population and service area growth, and new or changed legislation.

HRSD's total fund equity increased from last year by \$11.4 million or 3.1%. Our analysis below focuses on the change in fund equity and the resulting changes in assets and liabilities. The 26.9% decrease in unrestricted equity and the 4.6% reduction in current assets and investments were utilized for the purchase of capital assets and major repairs.

(In thousands)	2007	2006	2005	2007 vs. 2006	
				Dollars	Change
Capital assets	\$ 458,366	\$ 426,627	\$ 410,416	\$ 31,739	7.4%
Current assets and investments	98,973	103,741	110,681	(4,768)	-4.6%
<b>Total assets</b>	<b>\$ 557,339</b>	<b>\$ 530,368</b>	<b>\$ 521,097</b>	<b>\$ 26,971</b>	<b>5.1%</b>
Long-term liabilities	\$ 137,636	\$ 136,247	\$ 130,742	\$ 1,389	1.0%
Current liabilities	45,537	31,350	31,422	14,187	45.3%
<b>Total liabilities</b>	<b>\$ 183,173</b>	<b>\$ 167,597</b>	<b>\$ 162,164</b>	<b>\$ 15,576</b>	<b>9.3%</b>
Fund equity:					
Investment in capital assets,					
net of debt	\$ 314,708	\$ 282,177	\$ 271,907	\$ 32,531	11.5%
Restricted	6,247	7,817	6,871	(1,570)	-20.1%
Unrestricted	53,211	72,777	80,155	(19,566)	-26.9%
<b>Total fund equity</b>	<b>\$ 374,166</b>	<b>\$ 362,771</b>	<b>\$ 358,933</b>	<b>\$ 11,395</b>	<b>3.1%</b>

The changes in HRSD's fund equity can be determined by reviewing the following condensed Statements of Revenues, Expenses and Changes in Fund Equity for the year.

				<b>2007 vs. 2006</b>	
				<b>Dollars</b>	<b>Change</b>
(In thousands)	<b>2007</b>	<b>2006</b>	<b>2005</b>		
Net operating revenues	\$ 121,981	\$ 109,627	\$ 101,662	\$ 12,354	11.3%
Facility charge revenue	9,645	10,526	10,579	(881)	-8.4%
Investment income, net	4,357	2,028	2,692	2,329	114.8%
Total revenues	<u>135,983</u>	<u>122,181</u>	<u>114,933</u>	<u>13,802</u>	11.3%
Operating expenses					
Wastewater treatment	68,930	67,496	59,041	1,434	2.1%
General and administrative	26,070	21,820	20,509	4,250	19.5%
Depreciation	24,958	24,509	24,912	449	1.8%
Interest expense	4,630	4,518	4,682	112	2.5%
Total expenses	<u>124,588</u>	<u>118,343</u>	<u>109,144</u>	<u>6,245</u>	5.3%
Changes in fund equity	11,395	3,838	5,789	7,557	196.9%
Beginning fund equity	362,771	358,933	353,144	3,838	1.1%
<b>Ending fund equity</b>	<b><u>\$ 374,166</u></b>	<b><u>\$ 362,771</u></b>	<b><u>\$ 358,933</u></b>	<b><u>\$ 11,395</u></b>	3.1%

Operating revenues increased 11.3% in 2007 compared to 2006, the net effect of a 13.2% rate increase. Total revenues increased by 11.3% resulting from an increase in investment income and a decline in facility charge revenue. The investment income change was due to a flat yield curve and its positive effect on our portfolio, which contains more high-yielding short-term investments.

The increase in expenses of 5.3% from 2006 to 2007 was primarily due to an increase in salaries and wages and retirement plan expense. Actual operating expenses, excluding debt service were 7.1% below budget for the fiscal year ended June 30, 2007.

## **HRSD'S FUNDS**

HRSD has operated as a single enterprise fund since the new trust indenture became effective in December 1993. In 1993, all HRSD outstanding bonds were refinanced and the 1962 trust indenture was retired.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2007, HRSD had \$458.4 million invested in a broad range of capital assets, including wastewater treatment plants, interceptor mains and pump stations, automotive, administrative and maintenance buildings, and office and computer equipment. This amount represents a net increase (including additions and deductions) of \$31.7 million or 7.4% over last year.

The following table summarizes HRSD's capital assets, net of accumulated depreciation, as of June 30.

(In thousands)	<u>2007</u>	<u>2006</u>
Land	\$ 4,967	\$ 4,748
Treatment plants	203,056	174,484
Interceptor systems	170,377	159,107
Small community facilities	2,099	2,477
Buildings	9,526	9,822
Office equipment	12,745	2,968
Automotive	2,258	2,611
Other equipment	1,371	1,396
	<u>406,399</u>	<u>357,613</u>
Construction in progress	51,967	69,014
<b>Net property, plant and equipment</b>	<b><u>\$ 458,366</u></b>	<b><u>\$ 426,627</u></b>

The following table summarizes the changes in capital assets. These changes are presented in a more detailed schedule in Note 5.

(In thousands)	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 426,627	\$ 410,416
Additions	73,744	32,619
Retirements	(12)	(369)
Depreciation	(24,958)	(24,509)
Accumulated depreciation retired	12	369
Increase (decrease) in construction in progress	(17,047)	8,101
<b>Balance at end of year</b>	<b><u>\$ 458,366</u></b>	<b><u>\$ 426,627</u></b>

This year's major additions to plant, property, and equipment included:

Chesapeake-Elizabeth Treatment Plant Improvements	\$ 41.8 million
Customer Accounts Receivable System	\$ 9.7 million
South Shore Diversion Improvements	\$ 5.4 million
Army Base Interceptor Force Main Replacement	\$ 3.0 million
VIP Interceptor Force Main Replacements	\$ 2.1 million
Williamsburg Interceptor Force Main Repair	\$ 2.0 million

This year's major increases in construction in progress included:

Atlantic Treatment Plant Expansion	\$ 18.2 million
King William Plant Expansion	\$ 2.9 million
York River Treatment Plant Expansion	\$ 2.4 million
VIP Odor Control Improvements	\$ 2.1 million



HRSD's FY-08 to FY-12 five-year capital program identifies \$1.1 billion in capital projects, including these major projects:

York River Treatment Plant Expansion	\$ 232.9 million
Atlantic Treatment Plant Expansion	\$ 150.6 million
Army Base Treatment Plant Improvements	\$ 111.0 million
James River Treatment Plant Improvements	\$ 70.0 million
King William Treatment Plant Expansion	\$ 30.1 million

These projects will be funded from cash reserves, non-operating revenue, and additional debt.

### Debt

At year-end, HRSD had a total of \$143.7 million in bonds outstanding versus \$144.5 million last year, a decrease of .55%.

(In thousands)	<b>2007</b>	<b>2006</b>
Senior sewer revenue bonds	\$ 35,855	\$ 43,015
Subordinated VRA bonds	107,803	101,435
<b>Total outstanding debt</b>	<b>\$ 143,658</b>	<b>\$ 144,450</b>

HRSD's primary sewer revenue bond rating is Aa3 from Moody's and AA from Standard & Poors rating services. This high rating allows HRSD to borrow at very favorable interest rates. Since 1993, HRSD has elected to participate in the Virginia Resources Authority program that allows us to borrow with subordinated bonds at 1% below the projected market rate for double A bonds.

Under the VRA program, bond-closing results after the award of the construction contract when projected costs of the project are better known. During construction, periodic draws are made against the bond. More detailed information about HRSD's debt is presented in Note 8 and Note 11 to the Financial Statements.

### ECONOMIC FACTORS AND RATES

Billed consumption's 5-year moving average has decreased over the last three fiscal years from 129 million gallons per day to approximately 125 million gallons per day even though the number of accounts served continues to grow. This phenomenon is primarily the result of water conservation throughout the region. The increased solid loadings that have resulted from conservation have been absorbed by the system through rate adjustments. HRSD reviews rates annually to implement small adjustments as necessary and to avoid large adjustments as much as possible. Wastewater treatment charges were raised by 6.3% effective July 1, 2005 and 13.2% effective July 1, 2006.

In addition, HRSD has established a facility charge rate based on meter size to provide funding for increased capacity that results from new growth. The facility charge rates are reviewed annually based on system costs and construction indices. These rates were raised by 8.1% effective July 1, 2005 and 5.1% effective July 1, 2006.

### CONTACTING HRSD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of HRSD's finances and to demonstrate HRSD's accountability for the money it receives. If you have questions about this report or need additional financial information regarding HRSD, contact either the Chief of Accounting and Finance or the Director of Finance and Administration at 1440 Air Rail Avenue, Virginia Beach, Virginia 23455.

**HAMPTON ROADS SANITATION DISTRICT**  
**BALANCE SHEETS**  
As of JUNE 30, 2007 and 2006

**ASSETS**

(In thousands)

	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 19,241	\$ 7,435
Cash and cash equivalents - Restricted	6,247	7,817
Investments	19,914	29,655
Accounts receivable, net	20,576	16,843
Accrued interest	481	492
Other current assets	2,321	2,189
<b>TOTAL CURRENT ASSETS</b>	<u>68,780</u>	<u>64,431</u>
<b>NONCURRENT ASSETS</b>		
INVESTMENTS	<u>30,193</u>	<u>39,310</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Land	4,967	4,748
Treatment plants	619,954	574,880
Interceptor systems	257,969	241,956
Buildings	19,855	19,504
Small community facilities	4,880	4,880
Office equipment	24,337	13,098
Automotive	11,061	10,566
Other equipment	8,685	8,344
	<u>951,708</u>	<u>877,976</u>
Less: Accumulated depreciation	<u>545,309</u>	<u>520,363</u>
	406,399	357,613
Construction in progress	<u>51,967</u>	<u>69,014</u>
<b>NET PROPERTY, PLANT, AND EQUIPMENT</b>	<u>458,366</u>	<u>426,627</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>488,559</u>	<u>465,937</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 557,339</u></u>	<u><u>\$ 530,368</u></u>

**LIABILITIES & FUND EQUITY**

(In thousands)

	<u>2007</u>	<u>2006</u>
<b>CURRENT LIABILITIES</b>		
Trade and contracts payable	\$ 22,993	\$ 10,087
Contract retention	2,647	1,666
Accrued salaries and wages	894	801
Current portion long-term debt	9,922	11,943
Current portion compensated absences	3,360	2,990
Debt interest payable	3,136	1,911
Other liabilities	2,585	1,952
<b>TOTAL CURRENT LIABILITIES</b>	<u>45,537</u>	<u>31,350</u>
 <b>LONG-TERM LIABILITIES</b>		
Compensated absences	2,900	2,740
Other liabilities	1,000	1,000
Bonds payable	133,736	132,507
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>137,636</u>	<u>136,247</u>
 <b>TOTAL LIABILITIES</b>	<u>183,173</u>	<u>167,597</u>
 <b>FUND EQUITY</b>		
Investment in capital assets, net of related debt	314,708	282,177
Fund equity restricted for debt service	6,247	7,817
Fund equity unrestricted	53,211	72,777
<b>TOTAL FUND EQUITY</b>	<u>374,166</u>	<u>362,771</u>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 557,339</u>	<u>\$ 530,368</u>

See Accompanying Notes to Financial Statements

**HAMPTON ROADS SANITATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and 2006**

(In thousands)		
	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Wastewater treatment charges	\$ 118,423	\$ 106,208
Miscellaneous	3,558	3,419
TOTAL OPERATING REVENUES	<u>121,981</u>	<u>109,627</u>
OPERATING EXPENSES		
Wastewater treatment	68,930	67,496
General and administrative	26,070	21,820
Depreciation	24,958	24,509
TOTAL OPERATING EXPENSES	<u>119,958</u>	<u>113,825</u>
OPERATING INCOME (LOSS)	<u>2,023</u>	<u>(4,198)</u>
NONOPERATING REVENUES (EXPENSES)		
Wastewater facility charges	9,645	10,526
Investment income	3,363	2,896
Change in fair value of investments	994	(868)
Interest expense	(4,630)	(4,518)
NET NONOPERATING REVENUES	<u>9,372</u>	<u>8,036</u>
CHANGE IN FUND EQUITY	<u>11,395</u>	<u>3,838</u>
TOTAL FUND EQUITY - Beginning	<u>362,771</u>	<u>358,933</u>
TOTAL FUND EQUITY - Ending	<u>\$ 374,166</u>	<u>\$ 362,771</u>

See Accompanying Notes to Financial Statements

**HAMPTON ROADS SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 and 2006**

**Increase (Decrease) in Cash and Cash Equivalents**

(In thousands)

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 115,163	\$ 104,750
Other operating revenues	3,558	3,419
Cash payments to suppliers for goods and services	(57,953)	(56,028)
Cash payments to employees for services	(35,605)	(32,362)
Net cash provided by operating activities	<u>25,163</u>	<u>19,779</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Wastewater facility charges	9,645	10,526
Acquisition and construction of property, plant, and equipment	(43,601)	(41,741)
Bond proceeds	11,150	17,465
Principal paid on debt	(11,943)	(11,524)
Interest paid on bonds	(3,405)	(3,749)
Net cash used for capital and related financing activities	<u>(38,154)</u>	<u>(29,023)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(20,047)	(34,951)
Sales and maturities of investments	39,900	31,000
Interest and dividends on investments	3,374	2,718
Net cash provided by (used in) investing activities	<u>23,227</u>	<u>(1,233)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	10,236	(10,477)
<b>CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR</b>	15,252	25,729
<b>CASH AND CASH EQUIVALENTS, AT END OF YEAR</b>	<u>\$ 25,488</u>	<u>\$ 15,252</u>

**Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities**

Operating income (loss)	\$ 2,023	\$ (4,198)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	24,958	24,509
(Increase) decrease in operating assets		
Accounts receivable	(3,733)	(808)
Net change in other current assets	(132)	532
Increase (decrease) in operating liabilities		
Trade and contracts payable	791	(758)
Accrued salaries and wages	93	(347)
Compensated absences	530	30
Net change in other liabilities	633	819
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 25,163</u>	<u>\$ 19,779</u>

See Accompanying Notes to Financial Statements

**HAMPTON ROADS SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 and 2006**

**NOTE 1 - GENERAL INFORMATION**

**Organization and Administration**

The Hampton Roads Sanitation District (HRSD) was created by the Virginia General Assembly in 1940, as a political subdivision of the Commonwealth of Virginia (the Commonwealth), to construct, maintain, and operate a wastewater treatment system in the Hampton Roads area. The Hampton Roads Sanitation District Commission (the Commission) is constituted as HRSD's governing body and consists of eight members, appointed by the Governor. The Commission's functions were updated by Chapter 66 of the Acts of the Assembly of Virginia of 1960, as amended. The administration of HRSD is under the control of a general manager, supported by five departmental directors.

**Regulatory Oversight**

HRSD's operations are subject to regulations established by the United States Environmental Protection Agency and the Virginia Department of Environmental Quality. HRSD currently meets all of its permit requirements. Changes in these regulations could require HRSD to modify its treatment processes and require additional capital expenditures.

**Purpose of HRSD**

HRSD was created for the specific purpose of abating pollution in the Hampton Roads area through the interception of existing wastewater outfalls, installation of interception service into new areas as necessary, and providing treatment facilities. HRSD provides points of interception throughout the area. The responsibility of providing lateral sewers and subtrunk facilities to carry sewage from industries, residences, and businesses is primarily the responsibility of the local municipal governments.

**Corporate Limits of HRSD**

The geographical limits of HRSD include:

City of Chesapeake	City of Suffolk	King and Queen County
City of Hampton	City of Virginia Beach	King William County
City of Newport News	City of Williamsburg	Mathews County
City of Norfolk	Gloucester County	Middlesex County
City of Poquoson	Isle of Wight County	York County
City of Portsmouth	James City County	

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

HRSD is a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing board of HRSD, was granted corporate powers by the General Assembly. The Governor appoints the Commission members, who serve at his pleasure, thereby making HRSD a reportable component unit of the Commonwealth. The Commonwealth is not obligated by the debt of the Commission. HRSD derives its revenue primarily from charges for wastewater treatment services. HRSD has no property assessment authority. The Commission has no influence in the selection of the governing authority or management personnel of the jurisdictions it serves, nor does it have any influence in their operations or financial matters. Accordingly, the accompanying financial statements present only the accounts of HRSD.

## **Basis of Accounting**

The accompanying financial statements report the financial position and results of operations of HRSD in accordance with accounting principles generally accepted in the United States of America. Because HRSD is a political subdivision of the Commonwealth, the preparation of HRSD's financial statements are governed by the pronouncements of the Governmental Accounting Standards Board (GASB). These statements are prepared on an enterprise fund basis and present HRSD's operating revenues and expenses in a manner similar to a private business, where the costs, including depreciation, of providing services to the general public on a continuing basis are financed or recovered primarily through user charges.

An enterprise fund, a proprietary fund type, is accounted for on an economic resources measurement focus. All assets and liabilities, whether current or noncurrent, associated with its activities are included on its balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in fund equity. The financial statements are presented using the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

## **Budget**

HRSD operates in accordance with an annual budget, prepared on a modified accrual basis, which is adopted by the Commission for each fiscal year. Budgetary control is at the departmental level. Any amendments to the budget require Commission approval. All operating budget appropriations lapse at the end of the fiscal year.

## **Cash Equivalents**

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date of no longer than three months.

## **Investments**

Investments, which consist primarily of U.S. government obligations including agencies, are stated at fair value when the original maturity is greater than a year. Investments with an original maturity of one year or less are stated at cost, net of any unamortized premium or discount. HRSD has a formal investment policy.

## **Allowance for Uncollectible Accounts**

HRSD provides an allowance for estimated uncollectible accounts receivable based on bad debt experience. The balance in the allowance for uncollectible accounts is considered by management to be sufficient to cover anticipated losses on reported receivable balances.

## **Property, Plant, and Equipment**

Property, plant, and equipment purchased or constructed are stated at cost, including interest cost on funds borrowed to finance the construction of major capital additions. The capitalization threshold is \$5,000. Donated assets are stated at market value at the date of donation. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Treatment plants and buildings	30 years
Interceptor systems	50 years
Office furniture and equipment	5-10 years
Automotive	5 years
Other equipment	5 years

Depreciation recognized on property, plant, and equipment is charged as an expense against operations.

### **Revenue Recognition**

Wastewater treatment charges are computed based on water consumption. These charges are recognized as revenue when billed. Unbilled revenues through June 30 of each fiscal year are accrued at year-end.

Wastewater facility charges are computed based on the water meter size and are received and recognized as revenue in advance of a building permit being issued.

### **Operating and Non-operating Revenues and Expenses Recognition**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with HRSD's principal service of providing wastewater treatment. The majority of operating revenues are from wastewater treatment, but other associated miscellaneous income from services and charges are also included. Revenues and expenses not meeting the operating definition are reported as nonoperating. These consist mainly of wastewater facility charges, investment income and interest expense.

### **Employee Benefits**

All permanent employees earn annual leave upon starting a full-time position. The amount of leave earned is based upon the employee's years of service and is expensed as employees earn the right to these benefits. The maximum annual leave an employee may accumulate at year-end varies by the years of service, with the maximum being 54 days. An employee has a vested right to the full amount of annual leave earned.

All permanent employees earn eight hours per month of sick leave regardless of the years of service. The amount of sick leave that may be accumulated is unlimited. An employee has vested rights to 35% of accumulated sick leave to a maximum of \$10,000 after five years of service with HRSD.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management's estimates.

### **Proprietary Activity Accounting and Financial Reporting**

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, HRSD applies all applicable GASB pronouncements, and has elected to apply only those FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, that do not conflict with or contradict GASB Pronouncements.

### **Disclosure Requirements**

HRSD has implemented the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended, which establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information for general-purpose governments should consist of management's discussion and analysis, basic financial statements, and required supplementary information.



## NOTE 3 - DEPOSITS AND INVESTMENTS

### Deposits

**Custodial Credit Risk.** This risk is associated with the inability of a governmental entity to recover deposits from a financial institution in the event of a failure. At June 30, 2007 and 2006, the carrying values of HRSD's deposits were \$1,342,000 and \$1,211,000, and the bank balances were \$3,684,000 and \$2,586,000. Of the bank balance, \$3,684,000 and \$2,539,000 respectively, were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under state law, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member financial institution, whose public deposits are collateralized in accordance with the requirements of the Act, fails, the entire market value of the collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. In addition, HRSD has petty cash of \$25,450 at June 30, 2007.

**Credit Risk.** HRSD invests overnight in money market accounts that are invested in government securities and the Commonwealth of Virginia Local Government Investment Pool (LGIP). As of June 30, 2007 and 2006, HRSD had deposits in Merrill Lynch's Government Fund that were rated AAA by Standard & Poor's. The Treasury Board of Virginia provides LGIP oversight.

**Concentration of Credit Risk.** As of June 30, 2007 and 2006 the \$23,000,000 and \$11,000,000 invested in the LGIP and the \$1,120,000 and \$2,029,000 invested in Merrill Lynch's Government Fund (SEC registered) are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form. Both funds share price valuations use a constant \$1.00 net asset value. HRSD's investment Policy allows up to 25% in deposits in money market funds and up to 40% in deposits in LGIP.

### Investments

As of June 30, HRSD had the following investments and maturities:

(In thousands)		<u>Investment Maturities (in years)</u>	
<b>Investment Type</b>	<b><u>Fair Value</u></b>	<b><u>Less Than 1</u></b>	<b><u>1-3</u></b>
<b>2007</b>			
U.S. Agencies	\$ 46,151	\$ 15,958	\$ 30,193
Commercial Paper	3,956	3,956	-
<b>Total</b>	<b><u>\$ 50,107</u></b>	<b><u>\$ 19,914</u></b>	<b><u>\$ 30,193</u></b>
<b>2006</b>			
U.S. Agencies	\$ 64,014	\$ 24,704	\$ 39,310
Commercial Paper	3,951	3,951	-
Certificates of Deposit	1,000	1,000	-
<b>Total</b>	<b><u>\$ 68,965</u></b>	<b><u>\$ 29,655</u></b>	<b><u>\$ 39,310</u></b>

**Interest Rate Risk.** HRSD's Investment Policy does not limit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Almost all of the U.S. Agencies have a call provision on a monthly or quarterly schedule, and HRSD does not expect these calls to be exercised before maturity.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure

of the counterparty, HRSD will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. HRSD's policy is to utilize its Trustee, The Bank of New York Trust Department, as recipient of all investment transactions on a delivery versus pay basis. The Trustee may not otherwise be a counterparty to the investment transaction. All certificates of deposit were collateralized in accordance with the Virginia Security for Public Deposits Act. At June 30, 2007 and 2006, the Trust Department of the Bank of New York held \$50,107,000 and \$68,965,000 in investments in the Trustee's name for HRSD.

Credit Risk. HRSD's Trust Agreement requires HRSD to invest and reinvest in investment obligations that are authorized by the Commonwealth of Virginia. HRSD's investment in Federal Home Loan Banks securities were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk. HRSD's Investment Policy includes a 5% maximum for each issuer of Banker's Acceptances, Certificates of Deposit, Municipal Securities, Commercial Paper, and Corporate Notes. HRSD's Investment Policy requires a minimum of 30% in government paper.

The change in fair value is calculated as follows:

(In thousands)	2007	2006
Fair value of investments, end of year	\$ 50,107	\$ 68,965
Add: Proceeds of investments during the year	39,900	31,000
Less: Cost of investments purchased during the year	20,048	34,951
Less: Fair value of investments, beginning of year	68,965	65,882
<b>Change in fair value of investments</b>	<b>\$ 994</b>	<b>\$ (868)</b>

#### NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

An analysis of the allowance for uncollectible accounts at June 30 is as follows: HRSD's collection ratio for the years ended June 30, 2007 and 2006 was 99.4% and 99.4% respectively.

(In thousands)	2007	2006
Balance, beginning of year	\$ 700	\$ 700
Add: Current provision for uncollectible accounts	680	650
Less: Charge-off of uncollectible accounts	680	650
<b>Balance, end of year</b>	<b>\$ 700</b>	<b>\$ 700</b>

## NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment activity for the years ended June 30 was as follows:

(In thousands)	Balance 6/30/05	Additions	Retirements	Balance 6/30/06	Additions	Retirements	Balance 6/30/07
<u>Non-Depreciable Capital Assets</u>							
Land	\$ 4,474	\$ 274	\$ -	\$ 4,748	\$ 219	\$ -	\$ 4,967
Construction in Progress	60,913	35,389	(27,288)	69,014	36,946	(53,993)	51,967
<u>Depreciable Capital Assets</u>							
Treatment plants	571,841	3,039	-	574,880	45,074	-	619,954
Interceptor systems	217,090	24,866	-	241,956	16,013	-	257,969
Small community facilities	4,880	-	-	4,880	-	-	4,880
Buildings	19,389	115	-	19,504	351	-	19,855
Office Equipment	10,566	2,532	-	13,098	11,239	-	24,337
Automotive	9,528	1,407	(369)	10,566	507	(12)	11,061
Other Equipment	7,958	386	-	8,344	341	-	8,685
Total	<u>\$ 906,639</u>	<u>\$ 68,008</u>	<u>\$ (27,657)</u>	<u>\$ 946,990</u>	<u>\$ 110,690</u>	<u>\$ (54,005)</u>	<u>\$ 1,003,675</u>
Less accumulated depreciation:							
Treatment plants	(383,027)	(17,369)	-	(400,396)	(16,501)	-	(416,897)
Interceptor systems	(78,513)	(4,336)	-	(82,849)	(4,744)	-	(87,593)
Small community facilities	(2,024)	(379)	-	(2,403)	(379)	-	(2,782)
Buildings	(9,017)	(665)	-	(9,682)	(647)	-	(10,329)
Office Equipment	(9,547)	(583)	-	(10,130)	(1,462)	-	(11,592)
Automotive	(7,540)	(784)	369	(7,955)	(860)	12	(8,803)
Other Equipment	(6,555)	(393)	-	(6,948)	(365)	-	(7,313)
Total accumulated depreciation	<u>(496,223)</u>	<u>(24,509)</u>	<u>369</u>	<u>(520,363)</u>	<u>(24,958)</u>	<u>12</u>	<u>(545,309)</u>
<b>Net property, plant and equipment</b>	<b><u>\$ 410,416</u></b>	<b><u>\$ 43,499</u></b>	<b><u>\$ (27,288)</u></b>	<b><u>\$ 426,627</u></b>	<b><u>\$ 85,732</u></b>	<b><u>\$ (53,993)</u></b>	<b><u>\$ 458,366</u></b>

## NOTE 6 - COMPENSATED ABSENCES

The liability for vested annual, sick, and compensatory leave at June 30 is as follows:

(In thousands)	2007	2006
Annual Leave	\$ 3,290	\$ 2,958
Sick Leave	2,900	2,740
Compensatory leave	70	32
<b>Total</b>	<b><u>\$ 6,260</u></b>	<b><u>\$ 5,730</u></b>

## NOTE 7 - EMPLOYEE BENEFITS

### Post-Retirement Health Benefit Plan

HRSD's Commission adopted a post-retirement health benefit plan for qualifying employees beginning after July 1, 2002. The program furnishes health and dental benefits for life for all employees with at least 15 years of service at HRSD and who also qualify for an unreduced retirement benefit through the Virginia Retirement System. The program allows the retirees at their expense to cover their spouse and dependents under HRSD's health care provider. HRSD began funding prior service cost in a separate trust established for this purpose from the sale of land and additional designated revenue. For the years ended June 30, 2007 and 2006 the annual contributions were approximately \$1,245,000 and \$750,000, and were funded through operations and the sale of land. The fair market value of the Trust as of June 30, 2007 was \$11,156,000. The estimated unfunded actuarial accrued liability at June 30, 2006, the date of the most recent evaluation, was \$12,431,000.

## Defined Benefit Pension Plan

### Plan Description:

HRSD contributes to the Virginia Retirement System (VRS), a mixed agent and cost-sharing multiple-employer defined benefit pension plan, which acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. All full-time permanent employees of HRSD are covered by VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 55 with 30 years of service. Employees who retire with an unreduced benefit are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. AFS is defined as the highest consecutive 36 months of salary. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. The cost of living adjustment is limited to 5% per year. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplemental information for VRS. A copy of that report may be obtained by writing to VRS at P.O. Box 2500, Richmond, Virginia, 23218-2500.

At June 30, 2006, the date of the most recent valuation, the plan contained 654 active, 231 inactive and 225 retired employees from HRSD. The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry Age Normal
Amortization cost method	Level percent, Open
Payroll growth rate	2.5%
Remaining amortization period	20 Years
Asset valuation method	Modified Market
Actuarial assumptions:	
Investment rate of return <sup>1</sup>	7.5%
Projected salary increases <sup>1</sup>	3.75% to 5.60%
Cost-of-living adjustments	2.5%

<sup>1</sup> includes inflation at 2.5 %

The actuarial valuation at June 30, 2006 uses the assumptions and methods that were adopted as a result of the 2004 Experience Study prepared for VRS. In particular, it uses an assumed investment return of 7.5% vs. 8.0%; an assumed annual cost of living adjustment of 2.5% vs. 3.0%; salary increases that range between 3.75% to 5.60% vs. 4.25% to 6.10% depending on the member's service and classification; and retirement, mortality, disability and termination rates that were also based on the 2004 Experience Study. Liabilities were determined under the Entry Age Normal actuarial cost method.

### Funding Policy:

Employees are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by HRSD. In addition, HRSD is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The

HRSD contribution rate for the fiscal year ended June 30, 2007 was 7.85% of annual covered payroll. The payroll for employees covered by VRS for the years ended June 30, 2007 and 2006 was \$33,062,000 and \$29,820,000 which was 91.3% and 93.1% of total payrolls of \$36,228,000 and \$32,045,000, respectively. Actual contributions by HRSD totaled \$4,429,000, \$1,926,000, and \$1,854,000, which were 100% of the Annual Required Contribution (ARC) for 2007, 2006, and 2005, respectively. HRSD has no Net Pension Obligation at June 30, 2007 or 2006.

#### Trend Information:

Historical trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Summarized information provided by the VRS for actuarial valuations of HRSD employees are presented in the section entitled "Required Supplementary Information."

#### NOTE 8 - BONDS PAYABLE

In November 2003, HRSD issued \$55,890,000 of series 2003 senior revenue bonds with a true interest cost of 3.11% to currently refund the series 1993 bonds outstanding. The net proceeds of \$57,796,000 including a premium of \$1,907,000 along with \$1,510,000 of HRSD funds were utilized to retire \$57,205,000 (after a payment of \$342,000 for underwriter fees and other issuance costs and a call premium of \$1,759,000) of existing senior debt. The refinancing resulted in \$14,200,000 saving over the life of the issue with present value savings of \$6,200,000. All bonds are secured by the revenues of HRSD and are payable serially over the duration of that issue. A summary of activity for the years ended June 30 is as follows:

(In thousands)	Balance at 6/30/05	Additions	Deductions	Balance at 6/30/06	Additions	Deductions	Balance at 6/30/07
Series-2003	\$ 49,965	\$ -	\$ 6,950	\$ 43,015	\$ -	\$ 7,160	\$ 35,855
Virginia Resources Authority	88,544	17,465	4,574	101,435	11,150	4,782	107,803
<b>Total Bonds Outstanding</b>	<b>\$ 138,509</b>	<b>\$ 17,465</b>	<b>\$ 11,524</b>	<b>\$ 144,450</b>	<b>\$ 11,150</b>	<b>\$ 11,942</b>	<b>\$ 143,658</b>

A summary of the senior bonds outstanding at June 30, 2007 is as follows:

SENIOR	------(In thousands)-----				True	Duration	Final
	Total	Principal	Interest		Interest	of Issue	Maturity
	Amount	Outstanding	to		Cost		October 1
		Current	Long-Term	Maturity			
Series-2003	\$35,855	\$3,390	\$32,465	\$6,614	3.11%	12 years	2015

Maturities of senior bond principal and interest are as follows:

(In thousands)	June 30,	Principal	Interest
	2008	\$ 3,390	\$ 1,309
	2009	3,470	1,215
	2010	3,590	1,077
	2011	3,845	891
	2012	4,010	727
2013-2016		17,550	1,395
		<b>\$ 35,855</b>	<b>\$ 6,614</b>

HRSD is indebted to the Virginia Water Facilities Revolving Fund from the issuance of several subordinate bonds with interest rates ranging from 2.5% to 4.75%. Two loans are still in the draw down stage as indicated in the table below. The final amounts of principal borrowed cannot be determined until the projects are completed, and the interest to maturity was determined assuming the full amounts of the loans are drawn. A summary of the subordinate bonds outstanding at June 30, 2007 is as follows:

SUBORDINATE	(In thousands)			Interest to Maturity	True Interest Cost	Duration of Issue	Final Maturity				
	Maximum Draw Down Available	Principal Outstanding									
		Total	Current					Long-term			
Smithfield	\$	8,570	\$	929	\$	7,641	\$	1,529	4.00%	20 years	June 1, 2015
Nansemond I		23,923		2,116		21,807		5,068	4.00%	20 years	December 1, 2016
Nansemond II		9,330		825		8,505		1,977	4.00%	20 years	December 1, 2016
CE/AB		3,404		273		3,131		911	4.75%	20 years	June 1, 2017
Disinfection		4,792		297		4,495		1,214	3.50%	20 years	March 1, 2020
Middle Peninsula		325		18		307		119	4.75%	20 years	December 1, 2020
Gen & Odor Control		3,046		165		2,881		987	4.10%	20 years	June 1, 2021
BH Odor		1,888		102		1,786		535	3.50%	20 years	September 1, 2021
York River Reuse		2,060		110		1,950		437	2.50%	20 years	September 1, 2022
AB Aeration		1,494		73		1,421		492	3.75%	20 years	October 1, 2022
Ches-Eliz Off Gas		884		41		843		299	3.75%	20 years	March 1, 2023
AB Generator		1,211		48		1,163		387	3.00%	20 years	April 1, 2026
Ches-Eliz Rehab	\$	40,330	38,253	1,397		36,856	14,974	3.00%	20 years	June 1, 2027	
Williamsburg PS		1,605	1,283	-		1,283	551	3.10%	20 years	July 1, 2027	
Atlantic Expansion		7,340		138		7,202	2,697	3.10%	20 years	February 1, 2027	
<b>Total</b>	<b>\$</b>	<b>41,935</b>	<b>\$</b>	<b>107,803</b>	<b>\$</b>	<b>6,532</b>	<b>\$</b>	<b>101,271</b>	<b>\$</b>	<b>32,177</b>	

Maturities of subordinate bond principal and interest are as follows:

(In thousands)

June 30,	Principal	Interest
2008	\$ 6,532	\$ 4,422
2009	6,969	3,605
2010	7,231	3,341
2011	7,504	3,064
2012	7,788	2,778
2013-2017	38,846	9,281
2018-2022	17,790	4,140
2023-2027	15,108	1,546
2028-2032	35	-
	<b>\$ 107,803</b>	<b>\$ 32,177</b>

## **NOTE 9 - FUND EQUITY**

### **Restricted for Debt Service**

In addition to a general pledge of its revenues as security for its bondholders, HRSD's Master Trust Indenture requires HRSD to designate sinking funds on a monthly basis. HRSD was in compliance with these requirements during the fiscal years ended June 30, 2007 and 2006.

### **Reserved for Improvement**

HRSD's Master Trust Indenture requires a reserve for improvements. There is no specific funding mechanism established by the Trust agreement; the balance in the account at June 30, 2007 and 2006 was \$8,511,000 and \$13,925,000, respectively, and was contained in the Fund Equity Unrestricted. HRSD was in compliance with all funding requirements of this reserve during the fiscal years ended June 30, 2007 and 2006.

### **Reserved for Construction**

A reserve for the construction program is based on funds designated by HRSD's Commission for such purposes. At June 30, 2007 and 2006, \$19,928,000 and \$24,082,000, respectively, was contained in the Fund Equity Unrestricted.

## **NOTE 10 - RISK MANAGEMENT**

HRSD is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; employee dishonesty; injuries to employees; and natural disasters. HRSD purchases commercial insurance for specific types of coverage including property, liability, auto, health, crime, public officials, and worker's compensation. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

## **NOTE 11 - SUBSEQUENT EVENTS**

### **Debt Financing**

HRSD elected to participate in the Virginia Municipal League/Virginia Association of Counties Commercial Paper Financing Program. On August 15, 2007, HRSD closed on a \$75 million debt instrument that provides funding for the District's capital program. The initial draw of \$25 million was at an interest rate of 4.13% including all fees. The terms of the commercial paper include a 30-day reset period.

### **EPA Administrative Order**

On August 3, 2007, U.S. Environmental Protection Agency (EPA) issued an Administrative Order to HRSD addressing HRSD's sewage collection system. The Order requires that HRSD conduct a comprehensive evaluation of its regional collection system and develop a regional wet weather management plan. The EPA Order is similar in scope to an administrative consent order that will soon be finalized by the Commonwealth of Virginia addressing the same issues. The EPA Order does not mandate any capital improvements by HRSD.

HRSD is currently in full compliance with the EPA Order. No penalties are assessed against HRSD as part of U.S. EPA's Administrative Order.

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**REQUIRED SUPPLEMENTARY  
INFORMATION (UNAUDITED)**

**HAMPTON ROADS SANITATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION (unaudited)**

The table below provides detail on the funding progress for the Virginia Retirement System for the District

**Schedule of Funding Progress for Hampton Roads Sanitation District  
(In thousands)**

		2006	2005	2004	2003	2002	2001	2000
Valuation Date June, 30								
Actuarial Value of Assets (AVA)	(1)	\$97,664	\$92,257	\$89,773	\$87,450	\$85,897	\$82,998	\$75,301
Actuarial Accrued Liability (AAL)	(2)	\$110,484	\$108,521	\$83,998	\$76,760	\$70,586	\$63,006	\$56,985
Unfunded Actual Accrued Liability (UAAL) (2)-(1)	(3)	\$12,820	\$16,264	(\$5,775)	(\$10,690)	(\$15,311)	(\$19,992)	(\$18,316)
Funded Ratio (2)/(3)	(4)	88%	85%	106%	114%	122%	132%	132%
Annual Covered Payroll	(5)	\$29,820	\$28,734	\$27,974	\$27,037	\$26,634	\$25,459	\$23,947
UAAL as a % of Payroll (3)/(5)		43.0%	56.6%	-20.6%	-39.5%	-57.5%	-78.5%	-76.5%

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Celebrating America's 400th Anniversary

2007

Spring Fest

King William County  
1702

JOIN US!

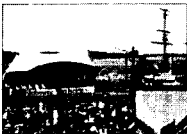



# The 225<sup>th</sup> Anniversary of the Victory at Yorktown

**America's 400th Anniversary Signature Event**







**October 19-22, 2006**  
 Yorktown National Battlefield  
 • Yorktown Victory Center • Riverwalk Landing  
 Yorktown, Virginia







*Celebrate America's momentous 1781 Revolutionary War victory at Yorktown with "A Salute to the Military."*

- Yorktown Day Parade
- Patriotic Ceremonies
- Historical Exhibits
- Live Performances
- Janned Art Show
- Children's Activities
- Tall Ship Displays
- Revolutionary War Encampments
- Military Re-enactments & Tactical Demonstrations
- Military Interpreter Programs
- Fireworks

**For information and schedule of events:**  
 (757) 898-2110 [www.yorktown225.com](http://www.yorktown225.com) (757) 253-4838

The 225th Anniversary of the Victory at Yorktown is a national historic event. It is a celebration of the American Revolution and the founding of the United States. The event is a testament to the courage and sacrifice of the men and women who fought for our freedom. It is a time to reflect on the values and principles that have shaped our nation and to reaffirm our commitment to the ideals of liberty, justice, and the rule of law.

## STATISTICAL SECTION NARRATIVE

*This part of Hampton Roads Sanitation District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about HRSD's overall financial health.*

<b>Contents</b>	<b>Page(s)</b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how HRSD's financial performance and well-being have changed over time.	40-42
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting HRSD's ability to generate revenue from rate payers.	44-45 48-49
<b>Debt Capacity</b> This schedule presents information to help the reader assess the affordability of HRSD's current levels of outstanding debt and HRSD's ability to issue additional debt in the future.	43
<b>Demographic and Economic Information</b> This schedule offers demographic and economic indicators to help the reader understand the environment within which HRSD's financial activities take place and to help make comparisons over time and with other governments.	39
<b>Operating Information</b> These schedules contain information about HRSD's operations and resources to help the reader understand how HRSD's financial information relates to the services it provides and the activities it performs.	46-47 50

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports and accounting records for the relevant year.

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**HAMPTON ROADS SANITATION DISTRICT  
DEMOGRAPHIC AND OTHER MISCELLANEOUS STATISTICS  
JUNE 30, 2007**

	<u>2007</u> 1940	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Date of Incorporation										
Area in Square Miles	3,118	3,118	3,118	3,118	3,118	3,118	3,118	2,614	2,614	2,614
Present Service Area in Square Miles	672	672	672	672	733	733	842	842	842	842
Treatment Plants (major)	9	9	9	9	9	9	9	9	9	9
Plant Capacity (millions of gallons per day)										
Army Base Plant, Norfolk	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Atlantic Plant, Virginia Beach	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Boat Harbor Plant, Newport News	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Chesapeake-Elizabeth Plant, Virginia Beach	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0
James River Plant, Newport News	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Nansemond Plant, Suffolk	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Virginia Initiative Plant, Norfolk	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Williamsburg Plant, James City County	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
York River Plant, York County	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Total Treatment Plants (major) Capacity	230.5	230.5	230.5	230.5	230.5	230.5	230.5	230.5	230.5	230.5
Small Communities Treatment Plants	3	3	3	3	3	3	2	2	-	-
Mathews Plant, Mathews County	0.1	0.1	0.1	0.1	0.1	0.1	-	-	-	-
Urbanna Plant, Middlesex County	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	-
West Point Plant, King William County	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	-	-
Total Small Communities Treatment Plants Capacity	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7	-	-
Miles of Interceptor Systems	512	512	512	512	478	475	471	466	450	450
Interceptor Pump Stations	81	79	78	78	79	79	80	80	79	79
Small Communities Pump Stations	20	20	20	20	20	20	18	17	-	-
Maintenance Facilities	2	2	2	2	2	2	2	2	2	2
Number of Service Connections (in thousands)	461	457	451	448	440	427	427	420	410	402
Daily Average Treatment in Millions of Gallons	163	158	173	173	172	147	157	172	153	168
Bond Ratings										
Moody's Investors Service	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
Standard & Poor's	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA

**HAMPTON ROADS SANITATION DISTRICT  
SCHEDULE OF OPERATING EXPENSES,  
FUND EQUITY BY COMPONENT, AND  
DEBT SERVICE EXPENDITURES  
LAST TEN FISCAL YEARS**

(In thousands)	2007	2006	2005	2004
<b>OPERATING REVENUES</b>				
Wastewater treatment charges	\$ 118,423	\$ 106,208	\$ 98,308	\$ 96,894
Miscellaneous	3,558	3,419	3,354	4,453
<b>TOTAL OPERATING REVENUES</b>	<u>121,981</u>	<u>109,627</u>	<u>101,662</u>	<u>101,347</u>
<b>OPERATING EXPENSES</b>				
Wastewater treatment	68,930	67,496	59,041	55,106
General and administrative	26,070	21,820	20,509	19,522
Depreciation	24,958	24,509	24,912	26,230
<b>TOTAL OPERATING EXPENSES</b>	<u>119,958</u>	<u>113,825</u>	<u>104,462</u>	<u>100,858</u>
<b>OPERATING INCOME (LOSS)</b>	2,023	(4,198)	(2,800)	489
<b>NONOPERATING REVENUES (EXPENSE)</b>				
Wastewater facility charges	9,645	10,526	10,579	10,554
Investment income	3,363	2,896	2,349	2,151
Sale of land	-	-	-	-
Change in fair value of investments	994	(868)	343	(1,622)
Interest expense	(4,630)	(4,518)	(4,682)	(5,497)
<b>NET NONOPERATING REVENUES</b>	<u>9,372</u>	<u>8,036</u>	<u>8,589</u>	<u>5,586</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEM</b>	11,395	3,838	5,789	6,075
<b>CAPITAL CONTRIBUTIONS</b>				
Contributions from other governments	-	-	-	-
<b>SPECIAL ITEM</b>				
Prior service cost for post retirement health program	-	-	-	-
<b>CHANGE IN FUND EQUITY</b>	<u>\$ 11,395</u>	<u>\$ 3,838</u>	<u>\$ 5,789</u>	<u>\$ 6,075</u>
<b>FUND EQUITY</b>				
Investment in capital assets, net of related debt	\$ 314,708	\$ 282,177	\$ 271,907	\$ 260,808
Restricted for debt service	6,247	7,817	6,871	5,772
Unrestricted	53,211	72,777	80,155	86,564
<b>TOTAL FUND EQUITY</b>	<u>\$ 374,166</u>	<u>\$ 362,771</u>	<u>\$ 358,933</u>	<u>\$ 353,144</u>
<b>DEBT SERVICE EXPENDITURES</b>				
Senior debt	\$ 5,735	\$ 8,720	\$ 8,545	\$ 8,744
Subordinate debt	\$ 8,041	\$ 7,500	\$ 7,249	\$ 7,250
Senior Debt Coverage	7.15	3.77	4.14	4.32
Total Debt Coverage	2.97	2.03	2.24	2.36



2003	2002	2001	2000	1999	1998
\$ 93,841	\$ 93,819	\$ 88,449	\$ 83,331	\$ 82,642	\$ 81,179
3,483	3,949	3,977	3,570	3,823	3,201
<u>97,324</u>	<u>97,768</u>	<u>92,426</u>	<u>86,901</u>	<u>86,465</u>	<u>84,380</u>
55,448	52,324	51,991	49,478	46,381	46,608
18,118	17,659	15,789	15,604	15,456	14,163
27,475	26,926	26,312	26,455	27,402	26,193
<u>101,041</u>	<u>96,909</u>	<u>94,092</u>	<u>91,537</u>	<u>-89,239</u>	<u>86,964</u>
(3,717)	859	(1,666)	(4,636)	(2,774)	(2,584)
8,677	7,727	5,580	5,379	5,742	6,152
3,488	4,572	5,185	4,890	5,352	5,342
4,517	-	-	-	-	-
(155)	(79)	1,956	(672)	(1,257)	(858)
<u>(6,755)</u>	<u>(7,360)</u>	<u>(7,751)</u>	<u>(8,100)</u>	<u>(8,614)</u>	<u>(8,991)</u>
9,772	4,860	4,970	1,497	1,223	1,645
6,055	5,719	3,304	(3,139)	(1,551)	(939)
-	2,114	-	2,165	-	(41)
(6,944)	-	-	-	-	-
<u>\$ (889)</u>	<u>\$ 7,833</u>	<u>\$ 3,304</u>	<u>\$ (974)</u>	<u>\$ (1,551)</u>	<u>\$ (980)</u>
\$ 250,043	\$ 242,427	\$ 242,522			
7,062	10,243	9,920			
89,964	95,288	87,683			
<u>\$ 347,069</u>	<u>\$ 347,958</u>	<u>\$ 340,125</u>			
\$ 11,577	\$ 15,092	\$ 15,110	\$ 15,126	\$ 15,130	\$ 15,151
\$ 7,330	\$ 7,005	\$ 6,621	\$ 6,190	\$ 6,146	\$ 6,067
3.48	2.65	2.47	2.08	2.28	2.26
2.13	1.81	1.72	1.47	1.62	1.61

**HAMPTON ROADS SANITATION DISTRICT  
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES  
FOR OPERATIONS - LAST TEN FISCAL YEARS**

(In thousands)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Personal Services	\$ 36,228	\$ 32,045	\$ 30,908	\$ 30,664	\$ 29,535	\$ 29,375	\$ 27,128	\$ 26,739	\$ 25,459	\$ 25,712
Fringe benefits	11,106	8,430	7,790	7,228	6,515	5,945	5,765	6,273	6,297	6,431
Repairs and Maintenance	11,101	13,036	9,523	6,912	8,761	6,951	8,616	5,652	6,488	5,626
Materials and Supplies	5,224	5,153	5,236	4,893	5,198	5,096	5,264	5,594	4,649	4,241
Transportation	802	855	716	652	647	609	644	546	483	488
Utilities	10,457	10,782	9,185	8,531	8,423	7,461	7,537	7,162	6,449	7,016
Chemicals	7,077	6,721	4,715	4,659	4,190	4,469	3,791	3,695	3,941	3,801
Contractual Services	7,828	7,108	6,733	6,617	6,321	6,136	6,168	6,304	5,159	4,856
Miscellaneous	720	642	736	655	607	589	593	581	495	435
General (1)	4,457	4,544	4,008	3,817	3,369	3,352	2,274	2,536	2,417	2,165
Subtotal, Expense before Depreciation	95,000	89,316	79,550	74,628	73,566	69,983	67,780	65,082	61,837	60,771
Depreciation	24,958	24,509	24,912	26,230	27,475	26,926	26,312	26,455	27,402	26,193
Total Operating Expenses	\$ 119,958	\$ 113,825	\$ 104,462	\$ 100,858	\$ 101,041	\$ 96,909	\$ 94,092	\$ 91,537	\$ 89,239	\$ 86,964

(1) Includes bad debt expense

**HAMPTON ROADS SANITATION DISTRICT  
RATIOS OF OUTSTANDING DEBT BY TYPE  
JUNE 30, 2007**

As of June 30,	No. Of Service Connections	(In thousands)			Debt Per Service Connection
		Senior Revenue Bonds	Virginia Resource Authority	Total Outstanding Debt	
2007	461,000	\$ 35,855	\$ 107,803	\$ 143,658	\$ 312
2006	457,000	43,015	101,435	144,450	316
2005	451,000	49,965	88,544	138,509	307
2004	448,000	55,890	77,677	133,567	298
2003	440,000	64,445	77,601	142,046	323
2002	427,000	75,850	77,128	152,978	358
2001	427,000	86,790	74,680	161,470	378
2000	420,000	97,300	69,560	166,860	397
1999	410,000	107,380	72,372	179,752	438
1998	402,000	117,085	73,927	191,012	475

**HAMPTON ROADS SANITATION DISTRICT  
RATE SCHEDULE  
WASTEWATER TREATMENT CHARGES  
LAST TEN FISCAL YEARS**

	2007	2006	2005	2004	2002 - 2003	2001	2000	1999	1998
<u>Residential-metered</u>									
First 30 CCF* per 30 day period	\$1.72	\$1.52	\$1.43	\$1.39	\$1.36	\$1.32	\$1.26	\$1.22	\$1.20
In excess of 30 CCF* per 30 day period	1.55	1.37	1.29	1.24	1.22	1.17	1.11	1.09	1.08
Minimum charges									
2 CCF* or less per 30 day period	4.91	4.34	4.08	3.96					
Less than 200 cubic feet, billed monthly					3.86	3.75	3.60	3.50	3.45
Less than 500 cubic feet, billed bimonthly					7.72	7.50	7.20	7.00	6.90
Less than 800 cubic feet, billed quarterly					11.58	11.25	10.80	10.50	10.35
<u>Residential-unmetered</u>									
					<u>Per 30 Day Period</u>				
First toilet	7.74	6.84	6.45	6.27					
Billed Bimonthly					12.24	11.88	11.34	10.98	10.80
Billed Quarterly					18.36	17.82	17.01	16.47	16.20
Second toilet	5.16	4.56	4.30	4.18					
Billed Bimonthly					8.16	7.92	7.56	7.32	7.20
Billed Quarterly					12.24	11.88	11.34	10.98	10.80
Additional, each	2.58	2.28	2.15	2.09					
Billed Bimonthly					4.08	3.96	3.78	3.66	3.60
Billed Quarterly					6.12	5.94	5.67	5.49	5.40
<u>Non residential-Special Category</u>									
					<u>Per Hundred Pounds</u>				
Biochemical Oxygen Demand (BOD)									
Excess over 250 mg/liter	24.05	22.50	22.23	22.22	22.67	22.43	22.88	23.00	23.50
Suspended solids									
Excess over 250 mg/liter	22.51	20.30	19.96	19.13	18.88	18.16	17.50	18.25	19.95
Phosphorus									
Excess over 6 mg/liter	239.83	210.59	188.76	167.00	147.11	139.00	129.00	120.00	107.60
Total Kjeldahl Nitrogen									
Excess over 35 mg/liter	28.54	24.37	23.99	22.90	22.50	20.90	20.36	20.13	42.50
Unusual wastes not covered									
<u>Septic Tank Waste</u>									
Per each 500 gallons or part thereof	28.05	25.45	24.82	24.14	23.64	23.00	22.50	23.20	23.15

\*CCF = 100 Cubic Feet (Approx. 748 gallons)

**Note: Rates can be adjusted by Commission**

**HAMPTON ROADS SANITATION DISTRICT  
RATE SCHEDULE  
WASTEWATER FACILITY CHARGES  
LAST TEN FISCAL YEARS**

	2007	2006	2005	2004	2003	2002	1999-2001	1998
Residential	\$1,540	\$1,465	\$1,355	\$1,300	\$ 1,240	\$ 1,205	\$ 720	\$ 720
Commercial/Industrial								
5/8" Meter	1,540	1,465	1,355	1,300	1,240	1,205	720	720
3/4" Meter	2,340	2,230	2,060	1,975	1,880	1,860	1,110	1,440
1" Meter	4,350	4,150	3,835	3,680	3,500	3,415	2,040	3,600
1 1/2" Meter	10,565	10,065	9,310	8,935	8,495	8,285	4,950	10,800
2" Meter	19,785	18,855	17,435	16,735	15,915	15,515	9,270	20,880
3" Meter	47,920	45,670	42,225	40,525	38,545	37,575	22,450	52,560
4" Meter	89,830	85,605	79,155	75,970	72,255	70,410	42,070	108,000
6" Meter	217,710	207,470	191,840	184,120	175,110	170,640	101,960	241,920
8" Meter	407,870	388,685	359,405	344,940	328,065	319,810	191,090	403,200
10" Meter	663,890	632,665	585,000	561,460	533,990	520,360	310,920	590,400

**Note: One charge per connection**

**HAMPTON ROADS SANITATION DISTRICT  
TREATMENT PLANT OPERATING SUMMARY  
LAST TEN FISCAL YEARS  
(Average Quantity per Day)**

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>District Total</b>										
Flow (MGD)	163.3	157.5	172.7	173.0	172.0	146.6	157.6	171.9	153.2	168.1
Influent										
BOD (1,000 lbs.)	346.3	357.3	358.6	385.0	357.8	358.8	344.9	315.1	298.5	304.3
TSS (1,000 lbs.)	224.0	225.0	230.4	281.4	217.9	206.1	210.5	218.4	208.4	213.0
TP (1,000 lbs.)	7.2	6.7	8.3	7.1	6.7	6.7	6.7	6.7	6.7	6.4
Effluent										
BOD (1,000 lbs.)	10.9	9.6	12.7	14.0	14.9	10.8	10.5	10.3	7.7	11.7
TSS (1,000 lbs.)	11.5	11.0	14.7	15.5	13.4	10.3	10.2	12.3	9.0	13.2
TP (1,000 lbs.)	1.1	1.2	1.3	1.5	1.4	1.4	1.3	1.4	1.2	1.2
<hr/>										
<b>Army Base Plant</b>										
Flow (MGD)	11.3	11.3	12.5	13.1	13.1	10.9	12.3	13.1	11.4	12.6
Influent										
BOD (1,000 lbs.)	19.5	21.7	21.0	21.5	20.8	22.1	20.0	17.8	16.3	15.4
TSS (1,000 lbs.)	13.8	14.4	14.5	14.5	14.3	15.7	15.1	14.7	12.1	11.8
TP (1,000 lbs.)	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.8	0.4
Effluent										
BOD (1,000 lbs.)	0.9	0.8	0.8	1.1	0.9	0.7	0.4	0.4	0.3	0.5
TSS (1,000 lbs.)	0.9	0.9	1.0	1.3	1.0	0.6	0.7	0.8	0.5	0.9
TP (1,000 lbs.)	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
<hr/>										
<b>Atlantic Plant</b>										
Flow (MGD)	29.4	30.2	31.1	30.0	30.0	27.0	27.9	28.9	26.7	29.7
Influent										
BOD (1,000 lbs.)	58.2	61.6	63.6	77.2	63.3	63.4	60.3	55.3	52.0	55.8
TSS (1,000 lbs.)	46.3	47.1	47.4	92.6	40.6	38.5	38.7	39.5	36.6	39.3
Effluent										
BOD (1,000 lbs.)	2.0	2.2	3.2	3.9	3.9	2.4	2.3	1.3	1.2	1.8
TSS (1,000 lbs.)	2.1	2.7	4.2	3.8	3.0	1.7	2.1	1.7	1.1	2.6
<hr/>										
<b>Boat Harbor Plant</b>										
Flow (MGD)	14.6	13.7	15.3	16.4	15.6	11.3	12.8	15.5	13.0	15.3
Influent										
BOD (1,000 lbs.)	21.4	23.6	22.7	25.2	22.0	22.0	21.6	20.7	18.5	19.6
TSS (1,000 lbs.)	17.3	17.4	17.2	20.2	17.4	15.2	17.0	18.0	15.6	19.6
TP (1,000 lbs.)	0.6	0.6	2.0	0.7	0.5	0.5	0.5	0.6	0.6	0.7
Effluent										
BOD (1,000 lbs.)	1.5	1.3	1.3	1.8	2.2	1.4	1.8	1.6	1.0	1.0
TSS (1,000 lbs.)	1.2	0.8	1.3	1.5	1.8	1.0	1.3	1.3	1.0	0.9
TP (1,000 lbs.)	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.1
<hr/>										
<b>Chesapeake-Elizabeth Plant</b>										
Flow (MGD)	15.6	16.8	21.0	21.1	18.2	18.5	18.2	20.4	18.9	21.2
Influent										
BOD (1,000 lbs.)	30.8	35.0	41.8	42.8	35.4	42.3	37.3	36.7	36.1	37.6
TSS (1,000 lbs.)	21.5	23.4	28.2	27.3	21.6	25.8	23.7	26.6	26.5	28.1
TP (1,000 lbs.)	0.7	0.9	1.1	1.1	0.9	1.0	0.9	0.9	0.9	1.0
Effluent										
BOD (1,000 lbs.)	1.9	1.7	2.1	2.5	1.9	2.4	2.0	2.1	1.6	1.9
TSS (1,000 lbs.)	1.7	2.1	2.8	3.4	2.0	2.7	2.3	3.1	2.3	3.2
TP (1,000 lbs.)	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.3	0.3	0.3

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>James River Plant</b>										
Flow (MGD)	15.1	12.5	15.3	15.2	14.7	12.8	13.4	15.0	13.8	15.4
Influent										
BOD (1,000 lbs.)	30.8	28.7	30.1	29.6	30.0	31.0	29.5	27.0	27.7	25.9
TSS (1,000 lbs.)	21.1	19.0	21.2	21.5	20.2	18.5	18.2	20.1	20.2	19.0
TP (1,000 lbs.)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Effluent										
BOD (1,000 lbs.)	1.2	0.7	1.4	0.9	1.0	1.2	0.6	1.2	1.0	1.7
TSS (1,000 lbs.)	1.4	0.9	1.3	1.1	1.1	1.1	0.7	1.7	1.2	1.3
TP (1,000 lbs.)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2
<b>Nansemond Plant</b>										
Flow (MGD)	18.7	17.9	20.8	20.5	19.6	16.6	18.0	19.7	18.2	15.2
Influent										
BOD (1,000 lbs.)	36.7	38.0	41.3	40.3	38.2	35.4	34.2	33.0	31.2	22.4
TSS (1,000 lbs.)	27.1	25.5	28.6	26.7	26.9	23.2	24.8	25.9	26.0	20.1
TP (1,000 lbs.)	1.7	1.3	1.5	1.6	1.5	1.4	1.4	1.4	1.3	1.0
Effluent										
BOD (1,000 lbs.)	0.8	0.7	1.3	1.0	1.1	0.8	0.8	0.9	0.7	0.6
TSS (1,000 lbs.)	1.5	1.2	1.6	1.7	1.3	1.2	0.8	1.2	1.1	1.0
TP (1,000 lbs.)	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Virginia Initiative Plant</b>										
Flow (MGD)	31.2	29.2	29.0	29.7	33.4	26.4	29.5	33.3	29.5	35.3
Influent										
BOD (1,000 lbs.)	50.3	48.5	43.5	45.8	50.4	49.9	47.3	41.6	44.7	49.5
TSS (1,000 lbs.)	31.6	32.0	29.6	32.1	33.7	31.1	33.4	32.5	33.4	36.5
TP (1,000 lbs.)	1.5	1.3	1.1	1.1	1.3	1.3	1.4	1.2	1.3	1.4
Effluent										
BOD (1,000 lbs.)	1.8	1.2	1.1	1.2	2.4	1.1	1.2	1.2	0.7	2.6
TSS (1,000 lbs.)	1.7	1.1	0.9	1.0	1.5	1.1	0.9	0.9	0.5	1.9
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
<b>Williamsburg Plant</b>										
Flow (MGD)	15.1	14.5	15.0	14.6	15.3	13.6	14.9	14.7	11.8	12.3
Influent										
BOD (1,000 lbs.)	80.8	80.1	75.5	82.2	77.3	75.1	78.0	68.0	57.6	64.0
TSS (1,000 lbs.)	28.8	28.3	27.3	29.0	26.7	24.4	24.3	26.2	24.2	23.2
TP (1,000 lbs.)	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.7	0.7
Effluent										
BOD (1,000 lbs.)	0.4	0.3	0.6	0.6	0.8	0.3	0.6	0.6	0.4	0.6
TSS (1,000 lbs.)	0.5	0.6	0.7	0.8	1.0	0.3	0.8	0.9	0.7	0.7
TP (1,000 lbs.)	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
<b>York River Plant</b>										
Flow (MGD)	12.3	11.4	12.7	12.4	12.1	9.5	10.6	11.3	9.9	11.0
Influent										
BOD (1,000 lbs.)	17.8	20.1	19.1	20.4	20.4	17.6	16.7	15.0	14.4	14.1
TSS (1,000 lbs.)	16.5	17.9	16.4	17.5	16.5	13.7	15.3	14.9	13.8	15.4
TP (1,000 lbs.)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5
Effluent										
BOD (1,000 lbs.)	0.4	0.7	0.9	1.0	0.7	0.5	0.8	1.0	0.8	1.0
TSS (1,000 lbs.)	0.5	0.7	0.9	0.9	0.7	0.6	0.6	0.7	0.6	0.7
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

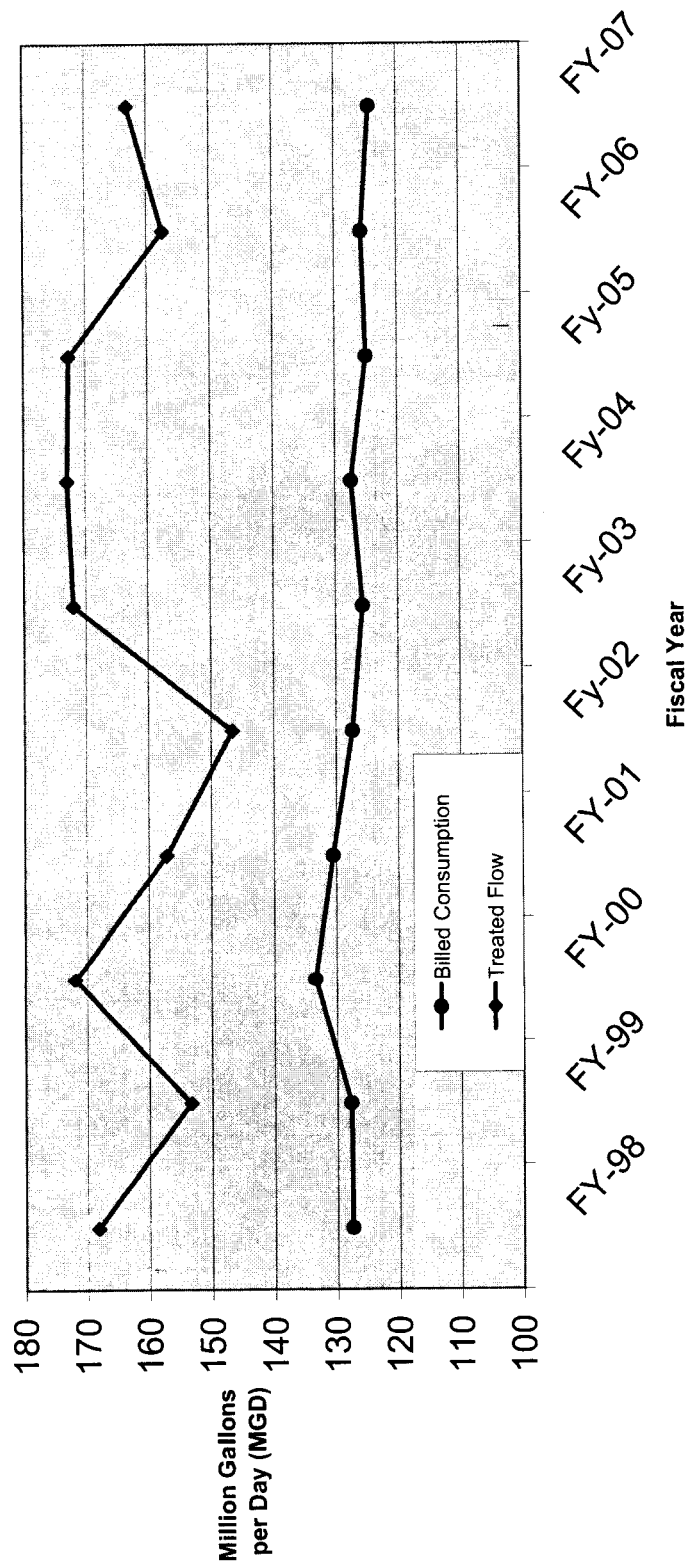
**HAMPTON ROADS SANITATION DISTRICT  
WASTE WATER TREATMENT CHARGES  
TEN LARGEST CUSTOMERS  
CURRENT YEAR AND NINE YEARS AGO  
(In thousands)**

<u>Customer</u>	<u>Type</u>	<u>2007</u>		<u>1998</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Anheuser - Busch, Inc.	Brewery	\$ 6,102	5.2%	\$ 5,943	7.3%
Smithfield Foods	Meat Processor	2,226	1.9%	1,612	2.0%
U. S. Navy - Norfolk Naval Base	Military Facility	1,275	1.1%	2,055	2.5%
City of Norfolk	Municipality	1,100	0.9%	913	1.1%
U.S. Navy - Little Creek Amphibious Base	Military Facility	882	0.7%	543	0.7%
U.S. Air Force - Langley Air Force Base	Military Facility	822	0.7%	742	0.9%
Norfolk Redevelopment & Housing Authority	Housing Authority	641	0.5%	644	0.8%
Northrop Grumman Newport News	Shipbuilding	615	0.5%	427	0.5%
Marva Maid Dairy	Dairy	404	0.3%		
Oceana Naval Air Station	Military Facility	387	0.3%		
Norfolk Naval Shipyard	Military Ship Repair			548	0.7%
College of William and Mary	Educational Facility			383	0.5%
Total		<u>\$ 14,454</u>	<u>12.1%</u>	<u>\$ 13,810</u>	<u>17.0%</u>

Note: HRSD has entered into an agreement with Anheuser-Busch which requires a minimum payment by the company to HRSD for each of 30 years ending in July 2008. The payment is based on a minimum daily waste loading.



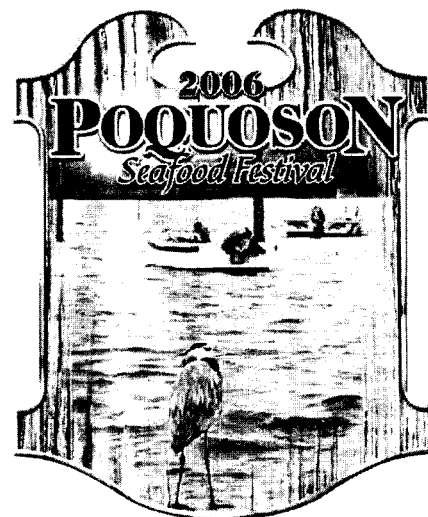
**HAMPTON ROADS SANITATION DISTRICT  
COMPARISON OF TREATED FLOW TO BILLED FLOW  
FISCAL YEAR 2007**



**HAMPTON ROADS SANITATION DISTRICT  
NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY  
LAST TEN FISCAL YEARS**

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<u>General Management</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>2</u>	<u>2</u>	<u>2</u>
<u>Financial &amp; Administration</u>										
Accounting & Finance	10	10	10	10	10	10	11	11	11	11
Customer Information Service	58	59	59	59	60	59	59	62	68	59
Human Resources	7	6	6	6	5	5	5	5	5	5
Procurement	7	7	7	7	7	7	7	6	6	6
Information Technology	24	18	17	17	18	18	18	13	-	13
Support Staff	3	3	2	2	2	2	1	1	2	2
Total Financial & Admin.	<u>109</u>	<u>103</u>	<u>101</u>	<u>101</u>	<u>102</u>	<u>101</u>	<u>101</u>	<u>98</u>	<u>92</u>	<u>96</u>
<u>Interceptor Systems</u>										
Interceptor System Maintenance	89	89	89	89	89	92	92	92	92	92
Support Staff	21	19	18	14	15	15	15	15	16	16
Total Interceptor Systems	<u>110</u>	<u>108</u>	<u>107</u>	<u>103</u>	<u>104</u>	<u>107</u>	<u>107</u>	<u>107</u>	<u>108</u>	<u>108</u>
<u>Treatment Department</u>										
Army Base Treatment Plant	32	33	33	32	32	32	35	37	38	38
Atlantic Base Treatment Plant	33	33	33	33	33	35	36	37	40	40
Boat Harbor Treatment Plant	34	34	34	34	34	34	34	34	37	38
Ches.-Eliz. Treatment Plant	32	32	32	32	32	32	35	35	38	38
James River Treatment Plant	21	21	21	21	21	21	21	23	25	25
Nansemond Treatment Plant	30	30	30	29	29	29	30	32	32	33
Virginia Initiative Plant	31	31	31	31	31	33	36	37	38	38
Williamsburg Treatment Plant	34	34	34	34	34	39	43	45	45	45
York River Treatment Plant	23	23	23	23	23	23	23	25	25	25
Middle Peninsula Division	13	12	12	13	13	13	10	8	2	2
Support staff	9	18	18	19	19	16	14	13	14	14
Total - Treatment Plant	<u>292</u>	<u>301</u>	<u>301</u>	<u>301</u>	<u>301</u>	<u>307</u>	<u>317</u>	<u>326</u>	<u>334</u>	<u>336</u>
<u>Engineering</u>										
Maintenance Shops	78	76	74	70	66	66	65	63	60	59
Design and Construction	14	14	14	14	14	14	11	11	11	12
Support staff	13	3	4	4	4	4	7	7	7	6
Total - Engineering	<u>105</u>	<u>93</u>	<u>92</u>	<u>88</u>	<u>84</u>	<u>84</u>	<u>83</u>	<u>81</u>	<u>78</u>	<u>77</u>
<u>Water Quality</u>										
Industrial Waste	24	24	25	25	25	25	25	25	25	24
Technical Services	20	20	18	18	17	18	21	18	19	18
Laboratory	38	37	38	38	37	40	40	40	40	41
Support staff	3	3	3	2	2	1	1	2	4	4
Total - Water Quality	<u>85</u>	<u>84</u>	<u>84</u>	<u>83</u>	<u>81</u>	<u>84</u>	<u>87</u>	<u>85</u>	<u>88</u>	<u>87</u>
<u>Total Employees</u>	<u>706</u>	<u>694</u>	<u>690</u>	<u>681</u>	<u>678</u>	<u>689</u>	<u>701</u>	<u>699</u>	<u>702</u>	<u>706</u>

## OTHER SUPPLEMENTAL SECTION (UNAUDITED)



Hampton Bay Days



**HAMPTON ROADS SANITATION DISTRICT  
SUMMARY OF PRIMARY BONDED DEBT SERVICE  
JUNE 30, 2007**

(In thousands)

As of June 30,	Senior Bonds Series 2003 @TIC 3.114446			Subordinate Bonds	Total Debt
	Principal	Interest	Debt Service	Debt Service	Service
2008	3,390	1,309	4,699	10,954	15,653
2009	3,470	1,215	4,685	10,574	15,259
2010	3,590	1,077	4,667	10,572	15,239
2011	3,845	891	4,736	10,568	15,304
2012	4,010	727	4,737	10,566	15,303
2013	4,150	587	4,737	10,561	15,298
2014	4,295	439	4,734	10,562	15,296
2015	4,460	276	4,736	10,554	15,290
2016	4,645	93	4,738	9,291	14,029
2017	-	-	-	7,159	7,159
2018	-	-	-	4,608	4,608
2019	-	-	-	4,599	4,599
2020	-	-	-	4,595	4,595
2021	-	-	-	4,107	4,107
2022	-	-	-	4,021	4,021
2023	-	-	-	3,785	3,785
2024	-	-	-	3,565	3,565
2025	-	-	-	3,557	3,557
2026	-	-	-	3,549	3,549
2027	-	-	-	2,198	2,198
2028	-	-	-	35	35
Totals	<u>\$ 35,855</u>	<u>\$ 6,614</u>	<u>\$ 42,469</u>	<u>\$ 139,980</u>	<u>\$ 182,449</u>

**HAMPTON ROADS SANITATION DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2007**

(In thousands)	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with final Budget (over) under</u>	<u>Percent Variance</u>
	<u>Original</u>	<u>Final</u>			
OPERATING BUDGET EXPENSES					
General Management	\$ 601	\$ 601	\$ 401	\$ 200	33.3%
Finance & Administration	12,594	12,595	11,535	1,060	8.4%
Interceptor Systems	9,830	9,830	8,787	1,043	10.6%
Treatment	44,790	44,790	41,952	2,838	6.3%
Engineering	9,681	9,681	8,993	688	7.1%
Water Quality	8,112	8,134	7,774	360	4.4%
General	4,611	4,661	4,457	204	4.4%
Debt Service	17,816	17,816	13,776	4,040	22.7%
TOTAL	<u>108,035</u>	<u>108,108</u>	<u>97,675</u>	<u>10,433</u>	9.7%
IMPROVEMENT BUDGET EXPENSES					
Major Repairs and Replacements	7,487	7,910	4,542	3,368	42.6%
Improvements	1,517	3,157	2,197	960	30.4%
	<u>9,004</u>	<u>11,067</u>	<u>6,739</u>	<u>4,328</u>	39.1%
TOTAL	<u>\$ 117,039</u>	<u>\$ 119,175</u>	<u>\$ 104,414</u>	<u>\$ 14,761</u>	12.4%
Add:					
Prior Year Major Repairs and Replacements carried over to current year			1,875		
Prior Year Improvements carried over to current year			1,026		
Unbudgeted Depreciation			24,958		
Unbudgeted Bad Debt Expense			680		
Capital Improvement Program items expensed			3,224		
Less:					
Capitalized items Major Repairs and Replacements			870		
Capitalized items Improvements			1,573		
Debt Service			13,776		
TOTAL OPERATING EXPENSES			<u>\$ 119,958</u>		

See Accompanying Notes to Budgetary Comparison Schedule.

**HAMPTON ROADS SANITATION DISTRICT  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2007**

**BUDGETARY HIGHLIGHTS**

HRSD's Commission adopts an Annual Budget consisting of an Operating Budget and an Improvement Budget. The Operating Budget as adopted for FY-07 was \$108,035,441 and contains all day to day operating expenses including personnel costs, fringe benefits, material and supplies, electricity, chemicals, insurance, contractual services, and other miscellaneous expenses. The Operating Budget was modified four times during the year increasing \$72,600, resulting in a final budget of \$108,108,041. The largest adjustment of \$50,000 was for recruitment costs associated with the search for a new General Manager. The next largest was an increase of \$15,000 for the Army Base Treatment Plant Nitrification Study. The Improvement Budget as adopted for FY-07 was \$9,003,550 and contains all major purchases of new equipment, replacement vehicles, and major repairs and replacements in our treatment plants. The Improvement Budget was modified eleven times during the year totaling \$2,063,086, resulting in a final budget of \$11,066,636. The largest adjustment of \$923,000 was for the storage, backup and recovery platform for the Information Technology Department. The second largest adjustment was \$231,520 for an Ag-Nutrient composting facility in Chesapeake. The next largest adjustment was \$220,000 for repairs to the Discharge Header Piping Repairs at the Williamsburg Treatment Plant.

All the adjustments to the Annual Budget were approved from surplus fund balances. None of the adjustments will have any lasting impact on the liquidity or financial condition of HRSD.

**NOTE 1 - BUDGETARY ACCOUNTING AND CONTROL**

**Budget preparation**

HRSD prepares its Annual Budget under the provisions of its enabling legislation used to establish rates, fees and other charges and Section 3.11 of the Master Trust Indenture dated December 1, 1993. In accordance with those provisions, the following process is used to adopt the Annual Budget:

The process begins in late December with the issuance of the Annual Budget Instructions by the General Manager.

Each department completes their Operating and Improvement Budgets by March 1. All budgets are forwarded to the Quality Steering Team (QST) for review.

HRSD Commission appoints a Budget Review Committee consisting of two Commissioners. The two Commissioners and the QST meet in early April to review the budgets. The Budget is presented by staff at the April Commission meeting. HRSD's Commission tentatively approves these budgets at that meeting.

The final Annual Budget, which incorporates the Operating, Improvement, and Capital Budgets, is presented at the May Commission meeting for adoption. The Commission simultaneously adopts the budget and any resulting wastewater rate schedule. All rate adjustments must be advertised four consecutive weeks before they can take effect.

The HRSD Commission approves any budget amendments during the ensuing year.

The 1993 Master Trust Indenture requires Primary Debt Coverage of 1.20, and 1.00 for any secondary debt. The HRSD Commission has a policy of striving to provide at least 1.75 coverage through the budgeting process.

Revenues are forecasted using a five-year projection. Adjustments are made on an annual basis when required. The HRSD Commission does not adopt a formal revenue budget.

### **Budget Accounting**

The Annual Budget is prepared on a basis of accounting consistent with generally accepted accounting principles. No provision is provided for non-cash items such as depreciation and bad debt expense. The Annual Budget consists of three parts, an operating budget that covers day-to-day operations, an improvement budget that is project oriented for major repairs and includes all replacement of equipment above \$5,000, and capital budget which identifies all major capital projects requirements over the next 5 years. All operating budgeting amounts lapse at year-end. Specific improvement budget items may be carried over to subsequent years with the approval of the General Manager. The Capital Budget is a plan, the Commission adopts only the first year. HRSD's Commission separately approves all contracts that are awarded under the Capital Budget.

**HAMPTON ROADS SANITATION DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
DEBT SERVICE FOR OPERATIONS - ACTUAL TO BUDGET  
FOR THE YEAR ENDED JUNE 30, 2007**

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)	Budget Variance Percentage
<b>OPERATING REVENUE</b>				
Wastewater treatment charges	\$ 118,423	\$ 116,956	\$ 1,467	1%
Miscellaneous	3,558	2,472	1,086	44%
<b>TOTAL REVENUES</b>	<u>121,981</u>	<u>119,428</u>	<u>2,553</u>	2%
<b>CURRENT EXPENDITURES</b>				
General Management	401	601	200	33%
Finance & Administration	11,535	12,595	1,060	8%
Interceptor Systems	8,787	9,830	1,043	11%
Treatment	41,952	44,790	2,838	6%
Engineering	8,993	9,681	688	7%
Water Quality	7,774	8,134	360	4%
Major repairs & replacements	6,305	7,611	1,306	17%
General	4,457	4,661	204	4%
<b>TOTAL CURRENT EXPENDITURES</b>	<u>90,204</u>	<u>97,903</u>	<u>7,699</u>	8%
<b>EXCESS OF OPERATING REVENUES OVER EXPENDITURES</b>	<u>31,777</u>	<u>21,525</u>	<u>10,252</u>	48%
<b>NONOPERATING REVENUE</b>				
Wastewater facility charges	9,645	10,774	(1,129)	(10%)
Investment income	4,357	3,615	742	21%
<b>TOTAL NONOPERATING REVENUE</b>	<u>14,002</u>	<u>14,389</u>	<u>(387)</u>	(3%)
<b>AMOUNT AVAILABLE FOR DEBT</b>	45,779	35,914	9,865	27%
<b>DEBT EXPENDITURES</b>				
Principal & interest	13,776	17,816	4,040	23%
<b>TOTAL DEBT EXPENDITURES</b>	<u>13,776</u>	<u>17,816</u>	<u>4,040</u>	23%
<b>AMOUNT AVAILABLE TO REINVEST</b>	<u>\$ 32,003</u>	<u>\$ 18,098</u>	<u>\$ 13,905</u>	77%



**HAMPTON ROADS SANITATION DISTRICT  
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES  
FOR OPERATIONS - ACTUAL TO BUDGET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

(In thousands)	General Management	Finance & Administration	Interceptor Systems	Treatment
Personal Services	\$ 290	\$ 5,489	\$ 4,681	\$ 14,598
Fringe benefits	72	1,656	1,495	4,555
Materials and Supplies	3	1,751	832	1,700
Transportation	14	56	217	285
Utilities	-	799	1,094	8,500
Chemicals	-	-	64	7,013
Contractual Services	21	1,577	384	5,122
Miscellaneous	1	207	20	179
General	-	-	-	-
	<u>\$ 401</u>	<u>\$ 11,535</u>	<u>\$ 8,787</u>	<u>\$ 41,952</u>

Debt Expenditures

Total Departmental and Debt Expenditures

Engineering	Water Quality	General	Totals	Percent of Total	FY-2007 Budget	Variance Favorable/ (Unfavorable)
\$ 6,227	\$ 4,943	\$ -	\$ 36,228	37	\$ 37,022	\$ 794
1,845	1,483	-	11,106	11	13,866	2,760
236	702	-	5,224	5	5,516	292
117	113	-	802	1	1,000	198
48	16	-	10,457	11	11,812	1,355
-	-	-	7,077	7	7,484	407
394	330	-	7,828	8	7,990	162
126	187	-	720	1	941	221
-	-	4,457	4,457	5	4,661	204
<u>\$ 8,993</u>	<u>\$ 7,774</u>	<u>\$ 4,457</u>	<u>83,899</u>	<u>86</u>	<u>90,292</u>	<u>6,393</u>
			13,776	14	17,816	4,040
			<u>\$ 97,675</u>	<u>100</u>	<u>\$ 108,108</u>	<u>\$ 10,433</u>

**HAMPTON ROADS SANITATION DISTRICT  
DEPARTMENTAL SUMMARY OF EXPENDITURES  
ACTUAL TO BUDGET  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)
<b>GENERAL MANAGEMENT</b>			
Personal Services	\$ 290	396	\$ 106
Fringe Benefits	72	122	50
Materials and Supplies	3	8	5
Transportation	14	20	6
Utilities	-	1	1
Contractual Services	21	50	29
Miscellaneous	1	4	3
	<u>401</u>	<u>601</u>	<u>200</u>
<b>FINANCE &amp; ADMINISTRATION</b>			
Personal Services	5,489	5,511	22
Fringe Benefits	1,656	2,078	422
Materials and Supplies	1,751	1,827	76
Transportation	56	79	23
Utilities	799	923	124
Contractual Services	1,577	1,850	273
Miscellaneous	207	327	120
	<u>11,535</u>	<u>12,595</u>	<u>1,060</u>
<b>INTERCEPTOR SYSTEMS</b>			
Personal Services	4,681	5,067	386
Fringe Benefits	1,495	2,027	532
Materials and Supplies	832	893	61
Transportation	217	287	70
Utilities	1,094	1,052	(42)
Chemicals	64	100	36
Contractual Services	384	355	(29)
Miscellaneous	20	49	29
	<u>8,787</u>	<u>9,830</u>	<u>1,043</u>
<b>TREATMENT</b>			
Personal Services	14,598	14,762	164
Fringe Benefits	4,555	5,616	1,061
Materials and Supplies	1,700	1,793	93
Transportation	285	305	20
Utilities	8,500	9,758	1,258
Chemicals	7,013	7,384	371
Contractual Services	5,122	4,996	(126)
Miscellaneous	179	176	(3)
	<u>41,952</u>	<u>44,790</u>	<u>2,838</u>

	Actual	Budget	Variance Favorable/ (Unfavorable)
ENGINEERING			
Personal Services	6,227	6,370	143
Fringe Benefits	1,845	2,277	432
Materials and Supplies	236	243	7
Transportation	117	150	33
Utilities	48	60	12
Contractual Services	394	406	12
Miscellaneous	126	175	49
	<u>8,993</u>	<u>9,681</u>	<u>688</u>
WATER QUALITY			
Personal Services	4,943	4,916	(27)
Fringe Benefits	1,483	1,746	263
Materials and Supplies	702	752	50
Transportation	113	159	46
Utilities	16	18	2
Contractual Services	330	333	3
Miscellaneous	187	210	23
	<u>7,774</u>	<u>8,134</u>	<u>360</u>
GENERAL			
Personal Services	225	350	125
Fringe Benefits	1,494	1,301	(193)
Contractual Services	576	538	(38)
Apprentice Program	96	130	34
Insurance	1,670	1,874	204
District Memberships	149	156	7
Miscellaneous	247	312	65
	<u>4,457</u>	<u>4,661</u>	<u>204</u>
TOTAL DEPARTMENTAL EXPENDITURES	<u>\$ 83,899</u>	<u>\$ 90,292</u>	<u>\$ 6,393</u>

## APPENDIX B

### CERTAIN DEFINITIONS

*The following is a brief summary of certain definitions used in the Trust Agreement and this Official Statement. This summary does not purport to be complete or definitive and qualified in its entirety by reference to the Trust Agreement, a copy of which is available for examination at the offices of the Trustee.*

#### Definitions

The following is a summary of the definitions of certain terms contained in the Trust Agreement and used in this Official Statement:

**“Additional Bonds”** means Bonds, if any, issued by the District, subsequent to the issuance of the Series 2008 Bonds, pursuant to the Trust Agreement, including Additional Bonds issued in exchange for other such Additional Bonds or in replacement for mutilated, destroyed, stolen or lost Additional Bonds.

**“Audited Financial Statements”** means the annual financial statements of the District as audited and reported on by a firm of independent public accountants, such financial statements to include at a minimum balance sheets, statements of revenues, expenses and changes in fund equity and statement of cash flows for the Fiscal Year then ended and the prior Fiscal Year.

**“Average Annual Debt Service”** means, at any given time of determination, average annual Principal and Interest Requirements for the Senior Obligations until their final maturity.

**“Balloon Long-Term Indebtedness”** means Long-Term Indebtedness 25% or more of the principal payments of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

**“Bond Registrar”** means the Bond Registrar at the time serving as such under the Trust Agreement whether the original or a successor bond registrar.

**“Bonds”** means the Series 2003 Bonds, the Series 2008 Bonds and any Additional Bonds under the Trust Agreement, including such Bonds issued in exchange for other such Bonds and Bonds issued in replacement for and upon the cancellation of mutilated Bonds or in lieu of and in substitution for destroyed, stolen or lost Bonds.

**“Business Day”** means any day on which banks in the city in which the principal corporate trust office of the Trustee is located and in New York, New York are open for commercial banking purposes.

**“Capital Appreciation Bonds”** means Bonds the interest on which is compounded at the rates and on the dates set forth in the Series Agreement authorizing the issuance of such Bonds and is payable upon redemption or on the maturity date of such Bonds. Nothing in the Trust Agreement prohibits the District from designating in such Series Agreement any such Bonds by a name other than Capital Appreciation Bonds.

**“Commission”** means the Hampton Roads Sanitation District Commission, which is the Commission of the District.

**“Contracted Services”** means services rendered or facilities provided to the District for the performance for or on behalf of the District of functions similar to those performed by the District from a specific project, projects or systems, pursuant to a contract, whether a financing lease, a service agreement or another arrangement.

**“Corporate Trust Office”** means the office of the Trustee at which its principal corporate trust business is conducted, which at the date hereof is located in 385 Rifle Camp Road, 3rd Floor, West Paterson, New Jersey 07424, Attention: Corporate Trust Department.

**“Credit Facility”** means a line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established to provide credit or liquidity support for Indebtedness.

**“Cross-over Date”** means, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

**“Cross-over Refunded Indebtedness”** means Indebtedness refunded by Cross-over Refunding Indebtedness.

**“Cross-over Refunding Indebtedness”** means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit (i) are required to be applied to pay interest on such Refunding Indebtedness until the Cross-over Date and (ii) are not to be used directly or indirectly to pay interest on the Refunded Indebtedness.

**“Current Interest Bonds”** means Bonds the interest on which is payable on the Interest Payment Dates provided therefor in the Series Agreement authorizing the issuance of such Bonds.

**“Debt Service Component of Contracted Services”** means that part of the payment for Contracted Services for which the District is obligated to pay that the chief financial officer of the District will have determined in writing in an Officer’s Certificate at the time the District commits to receive such Contracted Services to be for the purpose of paying a fixed charge or the principal of and interest on obligations, directly or indirectly associated with rendering the Contracted Services, of the person providing the Contracted Services.

**“Debt Service Reserve Fund Requirement”** means (i) on the date of issuance of the 2008 Bonds zero (0) and (ii) during any Reserve Funding Period or at such other time as the District may elect to fund the Debt Service Reserve Fund, the least of (A) 100% of Maximum Annual Debt Service on the Senior Obligations, (B) 125% of Average Annual Debt Service and (C) 10% of the stated principal amount of the Senior Obligations; provided, however, that if the Senior Obligations have original issue discount or premium that exceeds 2% of the stated redemption price at maturity, the initial offering prices to the public will be used in lieu of the stated principal amount for purposes of the ten percent (10%) limitation.

**“Defaulted Interest”** means any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

**“Defeasance Obligations”** means noncallable (i) Government Obligations, (ii) Obligations issued or guaranteed by any of the following: (1) Federal Home Loan Bank System, (2) Export-Import Bank of the United States, (3) Federal Financing Bank, (4) Government National Mortgage Association, (5)

Federal Home Loan Mortgage Company, (6) Federal Housing Administration, (7) Private Export Funding Corp, (8) Federal National Mortgage Association, (9) Federal Farm Credit Bank, (10) Resolution Funding Corporation, and (11) Rural Economic Community Development Administration (formerly, Farmers Home Administration), (iii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iv) obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended by Section 511(a) of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, and commonly known as “interest strips” of the Resolution Funding Corporation, (v) Defeased Municipal Obligations, and (vi) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian.

**“Defeased Municipal Obligations”** means obligations of state or local government municipal bond issuers which are rated the highest rating by at least two of the three Rating Agencies, meeting the following conditions:

(i) (A) such obligations are not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their call for redemption, and (B) the issuer of such obligations has covenanted not to redeem such obligations other than as set forth in such instructions;

(ii) such obligations are secured by Government Obligations that may be applied only to interest, principal, and premium payments on such obligations;

(iii) the principal of and interest on such Government Obligations (plus any cash in the escrow fund with respect to such pre-refunded obligations) are sufficient to meet the liabilities of the obligations;

(iv) the Government Obligations serving as security for the obligations are held by an escrow agent or trustee; and

(v) such Government Obligations or Government Certificates are not available to satisfy any other claims, including those against the trustee or escrow agent.

**“Derivative Agreement”** means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, rate or other financial risk; and (v) any other type of contract or arrangement that the District determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another or to protect against any type of financial risk or uncertainty.

**“Derivative Agreement Counterparty”** means, with respect to a Derivative Agreement, the person that is identified in such agreement as the counterparty to, or contracting party with, the District.

**“Derivative Indebtedness”** means all or any portion of Indebtedness of the District, which bears interest at

(a) a variable rate for any future period of time meeting the following requirements: (i) the District has issued or entered into a Derivative Agreement in respect of all or such portion of such

Indebtedness, and (ii) such Derivative Agreement provides that, during the entire period that such Indebtedness bears interest at a variable rate, the District will pay a fixed rate and the provider of the Derivative Agreement will pay (Y) the variable rate borne by such Indebtedness or (Z) a rate determined with reference to an index such as "LIBOR" or "SIFMA" and an Independent Consultant is to provide a letter addressed to the District and the Trustee to the effect that, in the judgment of the Independent Consultant, the rate determined with reference to such an index is an appropriate proxy for the variable rate of interest borne by such Indebtedness, then in either case such Indebtedness, taken together with the Derivative Agreement, is to be deemed to result in a net fixed rate payable by the District for such period of time (the "Hedged Fixed Rate"), for so long as the District and the party with whom the District has entered into such Derivative Agreement makes all payments required to be made by the terms of the Derivative Agreement, or

(b) a fixed rate for any future period of time meeting the following requirements: (i) the District has issued or entered into a Derivative Agreement in respect of all or such portion of such Indebtedness, and (ii) such Derivative Agreement provides that during the entire period that such Indebtedness bears interest at a fixed rate the District will pay a variable rate and the provider of the Derivative Agreement will pay the fixed rate borne by such Indebtedness, then such Indebtedness, taken together with the Derivative Agreement, is to be deemed to result in a net variable rate payable by the District for such period of time (the "Hedged Variable Rate"), assuming the District and the party with whom the District has entered into the Derivative Agreement make all payments required to be made by the terms of the Derivative Agreement.

**"District"** means the Hampton Roads Sanitation District, a political subdivision of the Commonwealth of Virginia.

**"District Representative"** means each of the persons at the time designated to act on behalf of the District in a written certificate furnished to the Trustee, which certificate is to contain the specimen signature(s) of such person(s) and is to signed on behalf of the Commission by its Chairman or Vice Chairman or the General Manager of the District.

**"Fiscal Year"** means the twelve month period beginning on July 1 of one calendar year and ending on June 30 of the following calendar year or such other twelve month period designated by the Commission.

**"Government Obligations"** means direct obligations of, or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

**"Hedged Fixed Rate"** means Hedged Fixed Rate as defined in the definition of Derivative Indebtedness.

**"Hedged Variable Rate"** means Hedged Variable Rate as defined in the definition of Derivative Indebtedness.

**"Holder"** means an owner of any Obligation issued in other than bearer form.

**"Income Available for Debt Service"** means to any period of 12 consecutive calendar months, the excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) no determination thereof will take into account any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (2) revenues will include all wastewater



facility charges, and (3) revenues will not include income from the investment of Qualified Escrow Funds to the extent that such income is applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement.

**“Indebtedness”** means (i) all indebtedness of the District for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by the District, and (iii) the Debt Service Component of Contracted Services.

**“Independent Consultant”** means a firm or firms which are not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of the District, and which is a professional management or engineering consultant of national repute for having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears.

**“Independent Insurance Consultant”** means a firm or person selected by the District, who is not an officer, director, trustee or employee of the District, and which or who is qualified to survey risks and to recommend insurance coverage for wastewater treatment systems and organizations engaged in such operations and is selected by the District.

**“Interest Payment Date”** means each date described as such in a Series Agreement.

**“Interest Requirements”** for any Fiscal Year means the amount that is required to pay interest on all Outstanding Senior Obligations.

**“Investment Obligations”** means any and all investment obligations authorized by (A) the Investment of Public Funds Act, being Section 2.2-4500 et seq., Code of Virginia, 1950, as amended, (B) the Government Non-Arbitrage Investment Act, being Section 2.2-4700 et seq., Code of Virginia, 1950, as amended, and (C) successor statutes to those described in (A) and (B) above, as the same may be from time to time amended.

**“Issuance Costs”** means all issuance costs incurred in connection with the Bonds. Examples of such issuance costs include, but are not limited to, the following, if any: (a) counsel fees; (b) financial advisor fees incurred in connection with the issuance of the Bonds; (c) Rating Agency fees; (d) depository fees incurred in connection with the issuance of the Bonds; (e) trustee, paying agent and certifying and authenticating agent fees related to the issuance of the Bonds; (f) accountant fees related to the issuance of the Bonds; (g) printing costs; (h) costs incurred in connection with the required public approval process; and (i) costs of engineering and feasibility studies necessary to the issuance of the Bonds.

**“Lien”** means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of the District which secures any Indebtedness or any other obligation of the District.

**“Liquidity Ratio”** means the ratio determined by dividing (i) the sum of all cash, cash equivalents and marketable securities that do not constitute Restricted Funds held by the District for its various purposes, but not including cash, cash equivalents or securities which constitute proceeds of Indebtedness issued to finance capital improvements or funds held in the Bond Fund (or any similar sinking fund held by a trustee for the payment of Indebtedness) or the Debt Service Reserve Fund by (ii) Maximum Annual Debt Service. For the purposes of the preceding sentence, “Restricted Funds” means funds or other assets of the District the use of which is restricted or limited in such a way that such funds or other assets are not available for general purposes of the District, but does not include funds or assets designated, restricted or limited by the Commission for specific purposes where such designation, restriction or limitation may be changed at the discretion of the Commission.

**“Long-Term Debt Service Coverage Ratio”** means, for any period of time, the ratio determined by dividing the Income Available for Debt Service by Maximum Annual Debt Service.

**“Long-Term Debt Service Requirement”** means, for any period of 12 consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness during such period, also taking into account:

(i) with respect to Balloon Long-Term Indebtedness that is not amortized by the terms thereof (a) the amount of principal that would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of the lesser of 30 years and the remaining weighted average useful life of the assets financed or refinanced by such Indebtedness over such period on a level debt service basis at an interest rate equal to the current market rate for a fixed rate obligation set forth in an opinion of a banking institution or an investment banking institution knowledgeable in wastewater treatment system finance delivered to the Trustee as the interest rate at which the District could reasonably expect to borrow the same by issuing a Bond with the same term as the period assumed above; provided, however, that if the date of calculation is within 12 calendar months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity is to be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank having a combined capital and surplus of at least \$75,000,000, or insured by an insurance policy issued by any insurance company rated at least “A” by A. M. Best Company or its successors in Best’s Insurance Reports or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the District, be treated as if such principal payments or deposits were due as specified in any credit agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year is to be assumed to be payable pursuant to the terms of such credit agreement or repayment provisions;

(ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness is to be calculated at 120% of the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness the interest rate for such Indebtedness for the initial interest rate period is 120% of the average of the SIFMA Swap Index for last 12 whole months for which such Index is available and thereafter will be calculated as set forth above;

(iii) with respect to any Credit Facility, (a) to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility will not be included in the Long-Term Debt Service Requirement and (b) to the extent such Credit Facility has been drawn upon, the payment provisions of such Credit Facility with respect to repayment of principal and interest thereon will be included in the Long-Term Debt Service Requirement;

(iv) with respect to Derivative Indebtedness, (i) for any historical computation, the interest on such Indebtedness is to be calculated by adding (A) the amount of interest payable by the District on such Derivative Indebtedness pursuant to its terms and (B) the amount of regularly scheduled payments made by the District pursuant to the Derivative Agreement and subtracting (C) the amount of regularly scheduled payments made by the Derivative Agreement Counterparty pursuant to the Derivative Agreement; (ii) for any historical pro forma or forecasted computation, if the Derivative Agreement Counterparty has a long-term credit rating of at least “A” (without regard to any rating refinement or

gradation by numerical modifier or otherwise) assigned to it by at least one Rating Agency then rating the Indebtedness and does not have a long-term rating of less than "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) from any Rating Agency then rating the Indebtedness and has not defaulted on its payment obligations thereunder as of the date of computation, the interest on such Derivative Indebtedness is to be calculated at the Hedged Fixed Rate or the Hedged Variable Rate, as the case may be; and (iii) in all other instances, the amount of interest payable by the District on such Derivative Indebtedness is to be calculated as if such Derivative Agreement had not been executed; and

(v) in the case of Indebtedness having the benefit of a Credit Facility that provides for a term loan facility that requires the payment of the principal in one year or more, the Indebtedness is to be considered Balloon Long-Term Indebtedness and is to be assumed to have the maturity schedule described in paragraph (i)(a) of this definition;

provided, however, that interest is to be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness and provided further, however, notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal and interest on Outstanding Long-Term Indebtedness will not include principal and interest payable from Qualified Escrow Funds.

**"Long-Term Indebtedness"** means all obligations having a maturity of a term longer than one year for borrowed money incurred or assumed by the District, including (a) Short-Term Indebtedness if a commitment by an institutional lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and (b) the current portion of Long-Term Indebtedness, for any of the following:

(1) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(2) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;

(3) installment sale or conditional sale contracts having an original term in excess of one year; and

(4) the Debt Service Component of Contracted Services in connection with Contracted Services rendered or provided pursuant to a contract having an original term of more than one year.

**"Maximum Annual Debt Service"** means, at any given time of determination, the greatest Long-Term Debt Service Requirement for the then current or any succeeding Fiscal Year.

**"Maximum Annual Debt Service on the Bonds"** means, at any given time of determination, the maximum Principal and Interest Requirements for the Bonds for the then current or any succeeding Fiscal Year.

**"Net Book Value"** when used in connection with Property, Plant and Equipment or other Property, means the value of such property, net of accumulated depreciation, as it is carried on the books of the District in conformity with generally accepted accounting principles.

**“Net Revenues”** means all revenues derived by the District from its Wastewater System except such part thereof as may be required to pay the cost of maintaining, repairing and operating such Wastewater System.

**“Officer’s Certificate”** means a certificate signed by a District Representative. Each Officer’s Certificate presented pursuant to the Trust Agreement is to state that it is being delivered pursuant to (and is to identify the section or subsection of), and incorporates by reference and use in all appropriate instances all terms defined in, the Trust Agreement. Each Officer’s Certificate is to state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer’s Certificate is delivered or to state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

**“Opinion of Bond Counsel”** means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

**“Opinion of Counsel”** means an opinion in writing signed by an attorney or firm of attorneys who may be counsel for the District or other counsel selected by the District.

**“Outstanding”** when used with reference to Bonds, means, as of a particular date, all Bonds theretofore issued under the Trust Agreement, except:

(1) Bonds theretofore cancelled by the Bond Registrar or delivered to the Bond Registrar for cancellation;

(2) Bonds for the payment of which money, Defeasance Obligations, or a combination of both, sufficient to pay, on the date when such Bonds are to be paid, the principal amount of, and the interest accruing to such date on, the Bonds to be paid, has been deposited with the Trustee or the Bond Registrar in trust for the Holders of such Bonds; Defeasance Obligations will be deemed to be sufficient to pay Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due, will be sufficient to pay on such date the principal of, and the interest accruing on, such Bonds to such date;

(3) Bonds in exchange for or in lieu of which other Bonds have been issued; and

(4) Bonds deemed to have been paid in accordance with the provisions for defeasance Bonds (See “Defeasance” in Appendix C);

provided, however, that Bonds owned or held by or for the account of the District or any affiliate or any subsidiary or controlled affiliate of the District will not be deemed Outstanding Bonds for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in the Trust Agreement relating to defaults and remedies, supplemental trust agreements and defeasance, and neither the District nor any affiliate, subsidiary or controlled affiliate of the District as registered owners of such Bonds will be entitled to consent or take any other action provided for in the provisions of the Trust Agreement.

**“Principal and Interest Requirements”** for any Fiscal Year means the sum of the Principal Requirements and Interest Requirements for such Fiscal Year.

**“Principal Payment Date”** means each date described as such in a Series Agreement.

**“Principal Requirements”** for any Fiscal Year means the amount required to pay the principal of all Outstanding Bonds coming due in such Fiscal Year.

**“Property”** means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

**“Property, Plant and Equipment”** means all Property of the District which is property, plant and equipment under generally accepted accounting principles.

**“Qualified Escrow Funds”** means amounts deposited in a segregated escrow fund, or other similar fund or account, in connection with the issuance of Long-Term Indebtedness which fund is required by the documents establishing such fund to be applied toward the District’s payment obligations with respect to principal or interest on (a) the Long-Term Indebtedness secured thereby which is issued under the documents establishing such fund or (b) Long-Term Indebtedness secured thereby which was issued prior to the establishment of such fund.

**“Qualified Reserve Fund Substitute”** means (i) an irrevocable letter of credit, naming the Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof, whose long-term debt obligations are rated in one of the two highest rating categories by at least two of the Rating Agencies that will rate such obligations, or (ii) a policy of reserve fund insurance naming the Trustee as beneficiary, issued by an insurance company or financial institution whose claims paying ability is rated in one of the two highest rating categories by at least two of the Rating Agencies that rate such obligations, in either case (A) in an amount not less than the Debt Service Reserve Fund Requirement, (B) the terms of which allow the Trustee to make the draws required to fund the Debt Service Reserve Fund if and as required. (See “Establishment of Funds” in Appendix C) and (C) provides that the issuer of which has not been given a lien on any portion of the property of the District unless such lien also secures the Bonds on a parity basis.

**“Rating Agency”** or **“Rating Agencies”** means one or more of Fitch, Moody’s or Standard & Poor’s for so long as it is a nationally recognized statistical rating organization.

**“Reserve Funding Period”** as the period beginning at such time, if any, when the District is required to fund the Debt Service Reserve Fund due to its Liquidity Ratio or its Long-Term Debt Service Coverage Ratio falling below 135% and ending at such time, if any, when the Liquidity Ratio for each of the past two Fiscal Years, as computed based on the Financial Statements as of the end of each Fiscal Year, is equal to or greater than 1.35 and the Long-Term Debt Service Coverage Ratio for each of the past two Fiscal Years is equal to or greater than 1.35.

**“Senior Indebtedness”** means any Senior Obligation incurred or assumed by the District and not evidenced by Bonds which (a) is designated as Senior Indebtedness in the Series Agreement pursuant to which it was incurred, (b) is incurred within the applicable limitations on Indebtedness (See “Limitation on Indebtedness” in Appendix C) or is a reimbursement obligation for a Credit Facility supporting Senior Obligations incurred in compliance with such limitations on Indebtedness, and (c) may be accelerated only upon the happening and continuance of any Event of Default in compliance with the procedures set forth in the Trust Agreement for acceleration of maturities (See “Remedies for Default” in Appendix C).

**“Senior Obligations”** means, collectively, Bonds and Senior Indebtedness.

**“Series 2003 Bonds”** means the District’s Wastewater Refunding Revenue Bonds, Series 2003, issued in the initial aggregate principal amount of \$55,890,000, and secured on a parity with the Bonds under the Trust Agreement.

**“Series 2008 Bonds”** or **“2008 Bonds”** means the series of revenue bonds of the District designated “Hampton Roads Sanitation District (Virginia) Wastewater Revenue Bonds, Series 2008” issued for the purpose of (i) refunding the principal amount of \$74,000,000 aggregate principal amount of its Wastewater Revenue Bonds Series 2007, (ii) paying a portion of the Capital Improvement Program Costs and (iii) paying the Issuance Costs of the Bonds.

**“Series Agreement”** means the supplemental trust agreement entered into or the resolution adopted by the Commission providing for the issuance of Bonds prior to the issuance of such Bonds. A Series Agreement will include any Officer’s Certificate delivered by a District Representative or Representatives to whom authority has been delegated by the terms of the Series Agreement to provide the details of such Bonds.

**“Short-Term Indebtedness”** means all obligations for borrowed money, other than the current portion of Long-Term Indebtedness, incurred or assumed by the District for any of the following:

- (1) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;
- (2) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and
- (3) installment purchase or conditional sale contracts having an original term of one year or less.

**“Subordinated Indebtedness”** means Indebtedness of the District the terms of which will provide that it will be subordinate and junior in right of payment to the prior payment in full of the Senior Obligations to the extent and in the manner set forth below:

In the event (a) of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the District or to its Property, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the District whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its expressed maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness is issued; and such declaration has not been rescinded and annulled, or (c) any Event of Default under the Trust Agreement occurs and is continuing with respect to Senior Obligations and (1) written notice of such default has been given to the District and (2) judicial proceedings commenced in respect of such Event of Default within 180 days in the case of a default in payment of principal or interest on Senior Obligations and within 90 days in the case of any other default after the giving of such notice, then the Holders of Senior Obligations will be entitled to receive payment in full of all principal, premium and interest on all Senior Obligations before the Holders of the Subordinated Indebtedness are entitled to receive any payment on account of principal or interest upon the Subordinated Indebtedness, and to that end the Holders of Senior Obligations will be entitled to receive for application in payment thereof any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect of such Senior Obligations.

**“Supplement”** means an agreement, including a Series Agreement, supplemental to, and authorized and executed pursuant to the terms of, the Trust Agreement.

**“Tax-exempt”** with reference to Bonds or other Senior Obligations means any Senior Obligations so designated in the related Series Agreement.

**“Tax Certificate”** means a certificate or comparable instrument of the District that contains undertakings of the District with reference to Tax-exempt Senior Obligations.

**“Total Operating Revenues”** means, with respect to the District, as to any period of time, as total operating revenues as determined in accordance with generally accepted accounting principles consistently applied.

**“Trust Agreement”** means the trust agreement entered into by and between Hampton Roads Sanitation District and The Bank of New York, as Trustee, dated as of March 1, 2008, including any Series Agreement and any supplement.

**“Variable Rate Indebtedness”** means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate until maturity.

**“Wastewater System”** means the wastewater treatment system of the District as it may exist at any time and includes all improvements and expansions thereof and additions thereto except as may otherwise be provided by resolution of the Commission.

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**SUMMARY OF THE TRUST AGREEMENT**

*The following is a brief summary of certain provisions of the Trust Agreement. This summary does not purport to be complete or definitive and qualified in its entirety by reference to the Trust Agreement, a copy of which is available for examination at the offices of the Trustee.*

**Establishment of Funds**

The Trust Agreement provides for an Issuance Fund, a Construction Fund, a Bond Fund, and a Debt Service Reserve Fund. It requires that the money and securities in each Fund be held in trust by the Trustee and applied as provided in the Trust Agreement, and pending such application be subject to a lien and charge in favor of the Holders and for the further security of the Holders until paid or transferred pursuant to the Trust Agreement.

**Issuance Fund and Construction Fund**

The Trust Agreement also requires that money in the Issuance Fund be applied to the payment of all Issuance Costs incurred in connection with the issuance of the Bonds, to be financed from Bonds proceeds. Money in the Construction Fund will be applied to Capital Improvement Costs. Unexpended fund balances in the Issuance Fund and the Construction Fund will be applied as provided in the applicable Series Agreement. The Series Agreement for the Series 2008 Bonds provides any such unexpended fund balances are to be applied as directed by the District.

**Bond Fund**

The District will make payments directly to the Trustee for deposit in the Bond Fund in amounts sufficient to pay in full, when due, all Bonds issued under the Trust Agreement, together with the interest thereon. In the event the balance in the Bond Fund is insufficient for such purposes, upon notification by the Trustee, the District is to deliver to the Trustee an amount sufficient to cure the same. If such amount is insufficient, the Trustee is required to transfer to the Bond Fund the amount necessary to remedy the deficiency from the Debt Service Reserve Fund.

**Debt Service Reserve Fund; Qualified Reserve Fund Substitute**

The District is required to fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement within six months after the end of the relevant Fiscal Year if (1) the Liquidity Ratio, as calculated based on the Audited Financial Statements of the District as of the end of any Fiscal Year, is less than 135% or (2) the Long-Term Debt Service Coverage Ratio is less than 135%. Nonetheless, the District may, in its sole discretion, at any time elect to fund the Debt Service Reserve Fund.

The Trustee will use amounts in the Debt Service Reserve Fund to make transfers to the Bond Fund to the extent necessary to pay interest on and principal of the Bonds, whenever and to the extent that the money on deposit in the Bond Fund is insufficient for such purposes and the District has failed to cure such deficiency.

The District may, at any time, deliver to the Trustee a Qualified Reserve Fund Substitute. In such event, if the District also delivers to the Trustee a statement setting forth the use of the cash and Investment Obligations then on deposit to the credit of the Debt Service Reserve Fund, accompanied by

an Opinion of Bond Counsel to the District, addressed to the Trustee, to the effect that such proposed use will not cause the interest on the Bonds to be includable in the gross income of the owners thereof for purposes of federal income taxation, the Trustee is to transfer to the District all amounts on deposit to the credit of the Debt Service Reserve Fund. If any Qualified Reserve Fund Substitute is in effect, the Trustee is to give such notices and execute such documents as required to assure that funds (i) are available in such amounts and at such times to assure timely payment of principal of and interest on the Bonds and (ii) are drawn to fund the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement at least six months prior to the expiration date of the Qualified Reserve Fund Substitute unless (a) the Trustee has received a substitute Qualified Reserve Fund Substitute to replace such expiring Qualified Reserve Fund Substitute or (b) the expiration date of the expiring Qualified Reserve Fund Substitute is no earlier than the final stated maturity date of the Bonds.

### **Payment of Principal and Interest**

The District will cause to be paid, when due, the principal of (whether at maturity, by acceleration or otherwise) and interest on the Bonds at the places, on the dates and in the manner provided in the Trust Agreement and in said Bonds; provided that it is understood that the Bonds are not general obligations of the District but are special obligations and are payable solely from Net Revenues derived by the District from its Wastewater System and the money attributable to proceeds of Bonds and the income from the investment thereof and not from any other fund or source. To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Senior Obligations and the performance by the District of its other obligations hereunder, the District grants to the Trustee a security interest in its Net Revenues.

### **Investment of Money**

Money held for the credit of all funds and accounts created under the Trust Agreement is to be continuously invested and reinvested by the Trustee in Investment Obligations, subject to the yield restrictions set forth in the Tax Certificate. The Trust Agreement requires that any Investment Obligations mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended; provided, however, that Investment Obligations deposited in the Debt Service Reserve Fund mature no later than the final maturity date of the Bonds secured by the Debt Service Reserve Fund.

Unless a Qualified Reserve Fund Substitute is required to be in effect, the District is to reimburse the Debt Service Reserve Fund for any loss resulting from a decline in the value of Investment Obligations in which money held for the credit of the Debt Service Reserve Fund is invested if on any date of valuation the amount on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement.

Investment Obligations acquired with money and credited to any fund or account established under the Trust Agreement are required to be held by or under the control of the Trustee and will be deemed at all times to be part of such fund or account in which such money was originally held. Interest accruing in such Investment Obligation fund or account and any profit or loss realized upon the disposition or maturity of such investment will be credited to or charged against such fund or account. The Trustee is required to sell at the best price attainable or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to provide money to make any payment or transfer of money from any such fund or account. The Trustee will not be liable or responsible for any loss resulting from any such investment.

## **Valuation**

For the purpose of determining the amount on deposit in any fund or account, Investment Obligations in which money in such fund or account is invested will be valued (a) at face value if such Investment Obligations mature within six months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at his option if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the market value of such Investment Obligations.

The Trustee will value the Investment Obligations in the funds and accounts five Business Days prior to each Interest Payment Date. In addition, subject to prior notice, the Investment Obligations will be valued by the Trustee at any time requested by the District Representative, but not more than once in any calendar month other than as provided in the Trust Agreement.

## **Long-Term Debt Service Coverage Ratio**

(a) The District covenants to set rates and charges for its facilities, services and products such that the Income Available for Debt Service, calculated at the end of each Fiscal Year, will not be less than the greater of (i) 120% of the Long-Term Debt Service Requirement for all Indebtedness except Subordinated Indebtedness for such Fiscal Year and (ii) 100% of the Long-Term Debt Service Requirement for all Indebtedness including Subordinated Indebtedness for such Fiscal Year; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements to the extent the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio described in clause (a) above, as derived from the most recent Financial Statements for the most recent Fiscal Year, is not met, the District covenants to retain an Independent Consultant within 30 days to make recommendations to increase the Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest level attainable. The District agrees that it will, to the extent permitted by law, follow the recommendations of the Independent Consultant. So long as an Independent Consultant is retained and the District is required to follow such Independent Consultant's recommendations to the extent permitted by law, such covenant will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the revenues of the District are not less than the amount required to pay when due the total operating expenses of the District and to pay when due the debt service on all Indebtedness of the District for such Fiscal Year and further provided, however, that the District will not be required to retain an Independent Consultant to make recommendations described in this paragraph (b) more frequently than biennially.

## **Limitations on Indebtedness**

The District may incur Indebtedness by issuing Bonds or incurring Senior Indebtedness pursuant to the Trust Agreement or by creating Subordinated Indebtedness under any other document.

(a) The District may incur Long-Term Indebtedness if prior to the incurrence of Long-Term Indebtedness there is delivered to the Trustee:

(i) an Officer's Certificate of a District Representative certifying that the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months preceding the date of delivery of the certificate of the District Representative for which there are Financial Statements available adjusted for revenues and expenses resulting from anticipated new customers and any planned program of rate increases that has been approved by the Commission, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 120%; or

(ii) an Officer's Certificate of a District Representative certifying (A) that for the aforementioned 12 month period, the Long-Term Debt Service Coverage Ratio was at least 120%; and (B) that the projected Long-Term Debt Service Coverage Ratio is not less than 130% for (x) in the case of Long-Term Indebtedness to finance capital improvements, each of the first two full Fiscal Years succeeding the earlier of (1) the date on which all such capital improvements are expected to be in operation and (2) the last day of the last Fiscal Year in which the entire Long-Term Debt Service Requirement with respect thereto has been funded from proceeds of such Long-Term Indebtedness or (y) in the case of Long-Term Indebtedness not financing capital improvements, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma Financial Statements for the District for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma Financial Statements for the District are based including but not limited to adjustments to revenues and expenses resulting from anticipated new customers and any planned program of rate increases that has been approved by the Commission.

(b) The District may also incur Long-Term Indebtedness to refund any Outstanding Long-Term Indebtedness if, prior to the incurrence of such Long-Term Indebtedness, (i) either (A) the Trustee receives an Officer's Certificate stating that, taking into account the Long-Term Indebtedness proposed to be incurred, the existing Long-Term Indebtedness to remain Outstanding after the refunding and the refunding of the existing Long-Term Indebtedness to be refunded, Maximum Annual Debt Service will not be increased by more than 5%, or (B) the conditions to incur Long-Term Indebtedness are met with respect to such proposed Long-Term Indebtedness, taking into account the existing Long-Term Indebtedness to remain Outstanding after the refunding and the refunding of the existing Long-Term Indebtedness to be refunded and (ii) the Trustee receives an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and application of the proceeds thereof (on the Cross-over Date, in the case of Cross-over Refunding Indebtedness), the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding.

(c) The District may also incur Short-Term Indebtedness as a Senior Obligation subject to the same tests that apply to the incurrence of Long-Term Indebtedness. Notwithstanding such limitation, the District may incur as a Senior Obligation from time to time and have outstanding at any one time Short-Term Indebtedness in an amount up to 10% of its Total Operating Revenues as reflected in the Financial Statements of the District for the most recent period of 12 consecutive months for which Financial Statements are available. Short-Term Indebtedness may be incurred as Subordinated Indebtedness without compliance with the tests that apply to the incurrence of Senior Indebtedness.

(d) The District may incur Subordinated Indebtedness, without limitation.

(e) For purposes of demonstrating compliance with the incurrence test described in paragraphs (a) or (b) herein, the District may (but is not required to) elect in the applicable Series Agreement to treat all or any Senior Obligations authorized in a Credit Facility, but not immediately issued or incurred under

such Credit Facility, as subject to such incurrence test as of a single date, notwithstanding that none, or less than all, of the authorized principal amount of such Senior Obligations have been issued or incurred as of such date.

(f) Notwithstanding the foregoing provisions regarding limitation on Indebtedness described herein, nothing described herein will preclude the District from incurring any obligation under a Credit Facility.

### **Limitation on Creation of Liens**

The District agrees that it will not create or permit the existence of any Lien on its Property or upon its Net Revenues other than Permitted Liens.

“Permitted Liens” consist of the following:

(i) Liens arising by reason of good faith deposits with the District in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by the District to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the District to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with any social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against the District so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) to the extent that it affects title to any Property, the Trust Agreement; and (E) landlord's liens;

(v) Any Lien which is existing on the date of authentication and delivery of the Series 2008 Bonds issued under the Trust Agreement; provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of the District not subject to such Lien on such date or to secure Indebtedness not Outstanding on the date of issuance of the Series 2008 Bonds, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Trust Agreement;

(vi) Any lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof;

(vii) Any lien securing all Senior Obligations on a parity basis;

(viii) Any liens on Property received by the District through gifts, grants or bequests, such liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(viii) Any lien on moveable equipment securing Indebtedness incurred to purchase such moveable equipment, provided that the total of such Indebtedness does not exceed 15% of the Net Book Value of the Property, Plant and Equipment of the District; and

(x) Any lien on Net Revenues securing Subordinated Indebtedness; provided that such lien is expressly subordinate and junior to the Lien on Net Revenues granted to the Trustee for the payment of principal of, redemption premium, if any, and the interest on the Senior Obligations and to secure the prompt payment of the and the performance by the District of its other obligations under the trust agreement.

### **Designation of Funds**

No later than the last Business Day of each month, the District will specifically earmark cash, cash equivalents or marketable securities or any combination thereof in an amount equal to the interest on and the principal of Bonds that will accrue in the next month, taking into account any scheduled maturities of interest or principal scheduled to become due and payable in such month and the funds theretofore earmarked for such purpose. The District may assume that both interest and principal accrue daily from the prior payment date or date of issuance but not more than 12 months prior to a payment date.

### **Covenants as of Maintenance of Properties**

The District covenants in the Trust Agreement:

(a) to cause its Property to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in such covenant will be construed to (i) prevent it from ceasing to operate any portion of its Property, if in its judgment (supported, in the case of such a cessation other than in the ordinary course of business by an opinion or certificate of an Independent Consultant) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Commission, useful in the conduct of its business;

(b) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the Commonwealth of Virginia and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing contained in the Trust Agreement requires it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it is contested in good faith;

(c) To pay promptly all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it will have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof;

(d) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Indebtedness created and Outstanding under the Trust Agreement) whose validity, amount or collectibility is being contested in good faith;

(e) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness; and

(f) To procure and maintain all necessary licenses and permits for the operation of its Wastewater System;

provided, however, that it need not comply with the covenants described in this section if and to the extent that its Commission determines in good faith, evidenced by a resolution of the Commission, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

### **Insurance**

(a) The District agrees that it will maintain, or cause to be maintained, the following types of insurance, subject to the provisions described in subsections (b) and (c) herein, in such amounts as, in its judgment, are adequate to protect it and its Property and operations from material financial loss: (i) comprehensive general liability insurance, (ii) commercial automobile insurance including owned and hired automobiles, (iii) property coverage on an All Risk basis, and (iv) workers' compensation insurance.

(b) The District will engage an Independent Insurance Consultant to review the insurance requirements of the District (not less frequently than every five years) with the appropriate District personnel and provide a report of its findings to a District Representative. If the Independent Insurance Consultant makes recommendations for the increase, decrease or elimination of any coverage, the District will consider adjusting such coverage in accordance with such recommendations, subject to a good faith determination of the Commission that such recommendations are in the best interests of the District. Notwithstanding anything described in this section to the contrary, the District will have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Independent Insurance Consultant, if the District furnishes to the Trustee a report of the Independent Insurance Consultant to the effect that the insurance so provided affords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Independent Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or (ii) to adopt alternative risk management programs which the Independent Insurance Consultant determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions (but subject to the provisions described in subsection (c) of this section), to participate in programs of captive insurance companies, to participate with other wastewater treatment systems in mutual or other cooperative insurance programs or to participate in state or federal insurance programs, all as may be approved by the Independent Insurance Consultant as reasonable and appropriate risk management by the District.

(c) If the District is required to be self-insured (excluding deductibles) for any coverage, the report of the Independent Insurance Consultant mentioned above will state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to obtain such result, and any such self-insurance coverage will be reviewed by the Independent Insurance Consultant not less frequently than annually. If the Independent Insurance Consultant determines in any such report that the anticipated funding of any self-insurance fund is not actuarially sound, the District covenants that

it will undertake to fund such self-insurance fund in the manner recommended by the Independent Insurance Consultant.

#### **Insurance and Condemnation Proceeds**

(a) Amounts that do not exceed 20% of the Net Book Value of the Property, Plant and Equipment of the District received by the District as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the District may determine, including, without limitation, applying such money to the partial payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Amounts that exceed 20% of the Net Book Value of the Property, Plant and Equipment received by the District as insurance proceeds with respect to any casualty loss or as condemnation awards will be applied in such manner as the District may determine; provided, however, that the District is to notify the Trustee and within 12 months after the casualty loss or taking, deliver to the Trustee a report of an Independent Consultant stating the Independent Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the two periods of 12 full consecutive calendar months following the date on which such proceeds or awards are expected to have been fully applied to be not less than 120%, or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, at the highest practicable level.

#### **Annual Budget**

The District covenants that on or before the first day of the last month preceding the beginning of each Fiscal Year the Commission will adopt a budget of operating and non-operating revenues and expenses for the ensuing Fiscal Year.

#### **Events of Default**

Events of Default under the Trust Agreement are as follows: (a) payment of any installment of interest on any Bond is not made by the District when the same becomes due and payable; or (b) payment of the principal of any Bond is not made by the District when the same becomes due and payable, whether at maturity or by acceleration or otherwise; or (c) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Trust Agreement or any Supplement to the Trust Agreement, including any covenant, condition, agreement or provision in the Trust Agreement applicable to the District and incorporated by reference in the Trust Agreement, and such default continues for 30 days after receipt by the District of a written notice from the Trustee specifying such default and requiring the same to be remedied; provided, however, if prior to the expiration of such 30 day period the District institutes action reasonably designed to cure such default, no Event of Default is to be deemed to have occurred upon the expiration of such 30 day period for so long as the District pursues such curative action with reasonable diligence and provided that such curative action can be completed within a reasonable time.

#### **Remedies for Default**

Upon the happening and continuance of an Event of Default, the Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments of interest installments or principal then due under the Trust Agreement or the Bonds, or to enforce performance, observance or compliance by the District with any covenant, condition, agreement or provision under the Trust Agreement.



Upon the happening and continuance of an Event of Default, the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding is required to, declare the principal of all Bonds then Outstanding (if not then due and payable) to be due and payable immediately.

However, if at any time after the principal of Bonds have been declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Trust Agreement, (i) money has accumulated in or has been paid into the Bond Fund sufficient to pay the principal of all matured Bonds and all arrears of interest, if any, upon all Bonds then Outstanding (except the principal of any Bond not then due and payable by its terms and the interest accrued on such Bond since the last Interest Payment Date), and (ii) all amounts then payable by the District under the Trust Agreement have been paid or a sum sufficient to pay the same has been deposited with the Trustee, and (iii) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Trust Agreement (other than a default in the payment of the principal of such Bonds then due only because of a declaration of acceleration of maturities) has been remedied to the satisfaction of the Trustee, then the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Bonds not then due and payable by their terms and then Outstanding is required to, by written notice to the District, rescind and annul such declaration and its consequences, but no such rescission or annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Upon the happening and continuance of an Event of Default, the Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding, and upon satisfactory indemnification, is required to, proceed either at equity or at law, or by proceedings in the office of any board or officer having jurisdiction to protect and enforce its rights and the rights of the Holders under the laws of the Commonwealth of Virginia or under the Trust Agreement as the Trustee, being advised by counsel chosen by the Trustee, deems most effectual to protect and enforce such rights. The Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding, upon indemnification satisfactory to the Trustee, have the right to direct the method and place of all remedial proceedings to be taken by the Trustee, provided that such direction is in accordance with law and the provisions of the Trust Agreement.

#### **Restrictions upon Actions by Individual Holders**

Except for the right of any Holder to enforce the payment of the principal of and interest on such Holder's Bond, no Holder will have any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust under the Trust Agreement or for any other remedy under the Trust Agreement unless (a) such Holder previously has given to the Trustee notice of the particular Event of Default, (b) also the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding have made a request of the Trustee after the right to exercise such powers or right of action, has accrued, and such Holder has afforded the Trustee an opportunity either to proceed to exercise the powers granted in the Trust Agreement or to institute such action, suit or proceedings in its or their name, and (c) there has been offered to the Trustee reasonable security and indemnity, and the Trustee has refused or neglected to comply with such request within a reasonable time. Notwithstanding the foregoing provisions and without complying therewith, the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefits of all Holders of the Bonds.

### **Notice of Default to Holders**

The Trustee is required to give written notice to all Holders of the occurrence of any Event of Default. Except upon the happening of an Event of Default due to failure by the District to make payments of any installment of interest on or principal of any Bond when the same become due and payable within 30 days after the Trustee received notice of the same, the Trustee may withhold such notice to the Holders if in its opinion such withholding is in the interest of the Holders.

### **Pro-Rata Application of Funds**

Notwithstanding anything in the Trust Agreement to the contrary, if at any time the money in the Bond Fund is not sufficient to pay the interest on or the principal of Bonds as the same become due and payable, such money, together with any money then available or thereafter becoming available for such purpose, is to be applied, subject to the compensation and indemnification to the Trustee and Bond Registrar, as follows:

(a) if the principal of all Bonds has not become or has not been declared due and payable, all such money in the Bond Fund is to be applied:

*first:* to the payment to the persons entitled thereto of all installments of interest on Bonds then due and payable in the order in which such installments became due and payable and, if the amount available is not sufficient to pay in full any particular installment, then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;

*second:* to the payment to the persons entitled thereto of the unpaid principal of any Bonds that have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement), in the order of their due dates, and, if the amount available is not sufficient to pay in full the principal of Bonds due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

*third:* to the payment of the interest on and the principal of Bonds, to the purchase and retirement of bonds due to the redemption of Bonds in accordance with the applicable Series Agreement.

(b) If the principal of all Bonds has become or has been declared due and payable, all such money is to be applied to the payment of principal and interest then due upon the Bonds without preference to the persons entitled thereto, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest or any Bond over any other Bond ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference.

(c) If the principal of all Bonds has been declared due and payable and if such declaration is required thereafter to be rescinded and annulled due to the remediation of an Event of Default, then, subject to the provisions described in paragraph (b) of this section, in the event that the principal of all Bonds later becomes due and payable or is declared due and payable, the money then remaining in and thereafter accruing to the Bond Fund is to be applied in accordance with the provisions described in paragraph (a) of this section.

### **Supplemental Trust Agreements without Consent of Holders**

The District and the Trustee may without the consent of or notice to any of the Holders, enter into agreements supplemental to the Trust Agreement as are substantially consistent with the terms and provisions of the Trust Agreement:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision of the Trust Agreement that may be inconsistent with any other provision of the Trust Agreement, to make any other provisions with respect to matters or questions arising under the Trust Agreement, or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in the Trust Agreement, or

(b) to grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Trustee, or

(c) to add to the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed, or

(d) to add to the covenants and agreements of the District in the Trust Agreement other covenants and agreements thereafter to be observed by the District or to surrender any right or power reserved in the Trust Agreement to or conferred upon the District, or

(e) to permit the qualification of the Trust Agreement under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, if the District so determines, to add to the Trust Agreement or any supplemental trust agreement such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law, or

(f) to provide for the issuance of Bonds in bearer form, or

(g) to provide for the issuance of Bonds under a book-entry system, or

(h) to make any other change in the Trust Agreement that, in the judgment of the District, expressed in a resolution of the Commission, and the Trustee, each of which may rely upon a written Opinion of Counsel, will not materially and adversely affect the Holders of the Bonds of each series that will be affected by such supplement.

### **Modification of Trust Agreement with Consent of Holders**

The Holders of not less than a majority of the aggregate principal amount of Bonds then Outstanding will have the right to consent to and approve the execution and delivery by the District and the acceptance by the Trustee of such trust agreement or trust agreements supplemental to the Trust Agreement as deemed necessary or desirable by the District for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, the Trust Agreement; provided, however, that nothing contained in the Trust Agreement will permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bonds issued under the Trust Agreement without the consent of the Holders of such Bonds, or (b) a reduction in the principal amount of any Bonds or the rate of interest thereon without the consent of the Holders of such Bonds, or (c) the creation of a pledge of receipts and revenues superior to the pledge created by the Trust Agreement without the consent of the Holders of all Bonds Outstanding, or (d) a preference or priority of any Bond over any other Bond without the consent of the Holders of all Bonds Outstanding, or (e) a reduction in the aggregate principal

amount of Bonds required for consent to such supplemental trust agreement without the consent of the Holders of all Bonds Outstanding.

If the District requests the Trustee to enter into any supplemental trust agreement pursuant to this section, the Trustee will cause notice of the proposed supplemental trust agreement to be mailed to all Holders. If the Holders of not less than a majority in aggregate principal amount of Bonds Outstanding at the time of the execution of such supplemental trust agreement have consented to and approved the execution, no Holder will have any right to object to the adoption of such supplemental trust agreement.

### **Defeasance**

(a) When the Bonds become due and payable and the whole amount of the principal and the interest so due and payable upon all Bonds is required to be paid, and (b) if the Bonds have not become due and payable, the Trustee or the Bond Registrar is required to hold, sufficient money or Defeasance Obligations, or a combination of money and Defeasance Obligations, the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest on, all Bonds then Outstanding to the maturity date or dates of such Bonds and (c) sufficient funds also have been provided or provision has been made for paying all other obligations payable under the Trust Agreement by the District, then and in that case the right, title and interest of the Trustee in the funds and accounts mentioned in the Trust Agreement will thereupon cease, determine and become void and, on demand of the District and upon being furnished with an opinion, satisfactory to the Trustee, of counsel approved by the Trustee, to the effect that all conditions precedent to the release of the Trust Agreement have been satisfied, the Trustee will release the Trust Agreement and will execute such documents to evidence such release as may reasonably be required by the District and will turn over to the District any surplus in, and all balances remaining in, all funds and accounts.

Otherwise, the Trust Agreement will continue to be and remain in full force and effect; provided, that, in the event Defeasance Obligations are deposited with and held by the Trustee or the Bond Registrar as provided for above, (i) the Trustee will nevertheless retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient in respect of the Bonds for the payment of the principal and interest for which such Defeasance Obligations have been deposited, and (ii) the Bond Registrar will retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient for the registration, transfer and exchange of Bonds.

### **Removal of Trustee**

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, (i) executed by the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding and filed with the District, or (ii) so long as no Event of Default has occurred and is continuing, an instrument executed by the District, not less than 60 days before such removal is to take effect as stated in said instrument or instruments. The Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Trust Agreement with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the District or the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding.

## APPENDIX D

### PROPOSED OPINION OF BOND COUNSEL



SIDLEY AUSTIN LLP  
787 SEVENTH AVENUE  
NEW YORK, NY 10019  
(212) 839 5300  
(212) 839 5599 FAX

BEIJING  
BRUSSELS  
CHICAGO  
DALLAS  
FRANKFURT  
GENEVA  
HONG KONG  
LONDON

LOS ANGELES  
NEW YORK  
SAN FRANCISCO  
SHANGHAI  
SINGAPORE  
SYDNEY  
TOKYO  
WASHINGTON, D.C.

FOUNDED 1866

March \_\_, 2008

Hampton Roads Sanitation District Commission  
Virginia Beach, Virginia

We have examined Chapter 66 of the Acts of Assembly of Virginia of 1960, as amended (the "Act"), and certified copies of the proceedings of the Hampton Roads Sanitation District Commission (the "Commission"), the governing body of Hampton Roads Sanitation District (a political subdivision of the Commonwealth of Virginia and herein sometimes called the "District"), authorizing the execution and delivery of a Trust Agreement, dated as of March 1, 2008 (the "Trust Agreement"), by and between the District and The Bank of New York, as trustee (the "Trustee"), and the issuance of

**\$223,170,000**  
**HAMPTON ROADS SANITATION DISTRICT**  
**Wastewater Revenue Bonds**  
**Series 2008**

Dated, maturing, subject to redemption, and bearing interest,  
all as provided in the Trust Agreement.

Pursuant to the Trust Agreement, as security for the payment of the amounts due on the above-captioned bonds (the "Bonds"), the District has pledged its Net Revenues to the Trustee. Net Revenues of the District consist of all revenues derived by the District from the Wastewater System (as defined in the Trust Agreement) except such part thereof as may be required to pay the cost of maintaining, repairing and operating such Wastewater System.

The Trust Agreement is the restatement of the Master Trust Indenture dated as of December 1, 1993, as heretofore supplemented and amended, including amendments effected with the consent of the purchasers of the Bonds. The Trust Agreement includes the Trust Agreement, dated as of December 1, 2003 that authorized and secures the District's outstanding Wastewater Refunding Revenue Bonds, Series 2003.

For purposes of the opinions in paragraphs 1, 2 and 3 below, we have relied upon the opinion of Kellam, Pickrell, Cox & Tayloe, A Professional Corporation, to the effect that the resolutions of the Commission authorizing the Bonds and approving the Trust Agreement were duly adopted.

Based upon such examination, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued for the purpose of providing funds, together with other available funds, to (i) refund all of the District's outstanding Wastewater Revenue Bonds, Series 2007, (ii) finance a portion of the District's 2008-2012 Capital Improvement Plan (as defined in the Trust Agreement) and (iii) pay certain expenses incurred in connection with the issuance of the Bonds.

2. The Trust Agreement has been duly authorized and executed by the District and, assuming due authorization and execution by the Trustee, is a valid, binding and enforceable obligation of the District in accordance with its terms.

3. The Bonds are valid and binding special obligations of the District payable solely from the Net Revenues and other funds pledged as security therefor under the Trust Agreement.

4. The Bonds do not constitute a debt of the Commonwealth of Virginia or of any county, city, town or political subdivision thereof, or a pledge of the faith and credit of the Commonwealth of Virginia or of any county, city, town or political subdivision thereof. The issuance of the Bonds does not directly or indirectly or contingently obligate the Commonwealth of Virginia or any county, city, town or political subdivision thereof to levy or to pledge any form of taxation whatever therefor.

5. Assuming compliance by the District with its covenant to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code") and except as provided in the following sentence, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation under existing law. Interest on the Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Bonds in the event of a failure by the District to comply with applicable requirements of the Code, and covenants regarding use, expenditure, and investment of Bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes on or after the date on which any action is taken affecting such covenants upon the approval of counsel other than ourselves. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. The Code contains other provisions that could result in tax consequences, as to which we render no opinion, as a result of ownership of Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

6. As provided by the Act, the Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall be free and exempt from taxation by the Commonwealth of Virginia and any political subdivision thereof.

The enforceability of the Trust Agreement and the obligations of the District with respect to such documents described above are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization and other laws affecting creditors' rights generally. To the extent that the remedies under the Trust Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

Respectfully submitted,

**FORM OF  
CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of March 1, 2008, is executed and delivered by Hampton Roads Sanitation District (the “District”) in connection with the issuance by the District of \$223,170,000 aggregate principal amount of its Wastewater Revenue Bonds, Series 2008 (the “Bonds” or “Series 2008 Bonds”), pursuant to the provisions of a Trust Agreement, dated as of March 1, 2008 (the “Trust Agreement”), by and between the District and The Bank of New York, as trustee. The proceeds of the Series 2008 Bonds are being used by the District to refund certain bonds previously issued by the District and to provide funds for its Capital Improvement Program. The District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the holders of the Series 2008 Bonds and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The District acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Dissemination Agent” shall mean the District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Filing Date” shall have the meaning given to such term in Section 3(a) hereof.

“Fiscal Year” shall mean the twelve-month period at the end of which financial position and results of operations are determined. Currently, the District’s Fiscal Year begins July 1 and continues through June 30 of the next calendar year.

“Holder” or “holder” shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Series 2008 Bond.

“Listed Events” shall mean any of the events listed in subsection (b)(5)(i)(C) of the Rule, which are as follows:

- 1) principal and interest payment delinquencies;
- 2) non-payment related defaults;
- 3) unscheduled draws on debt service reserves reflecting financial difficulties;
- 4) unscheduled draws on credit enhancements reflecting financial difficulties;

- 5) substitution of credit or liquidity providers, or their failure to perform;
  - 6) adverse tax opinions or events affecting the tax-exempt status of the Series 2008 Bonds;
  - 7) modifications to rights of holders;
  - 8) bond calls;
  - 9) defeasances;
  - 10) release, substitution, or sale of property securing repayment of the Series 2008 Bonds;
- and
- 11) rating changes.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2008 Bonds required to comply with the Rule in connection with the offering of such Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private depository or entity designated by the Commonwealth of Virginia as a state depository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

### SECTION 3. Provision of Annual Reports.

A. The District shall, or shall cause the Dissemination Agent to, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Such Annual Report shall be filed on a date (the “Filing Date”) that is not later than December 31 after the end of any Fiscal Year (commencing with its Fiscal Year ending June 30, 2008). Not later than ten (10) days prior to the Filing Date, the District shall provide the Annual Report to the Dissemination Agent (if applicable). In such case, the Annual Report (i) may be submitted as a single document or as separate documents comprising a package, (ii) may cross-reference other information as provided in Section 4 of this Disclosure Agreement and (iii) shall include the District’s audited financial statements or, if audited financial statements are not available, such unaudited financial statements as may be required by the Rule. In any event, audited financial statements of the District must be submitted, if and when available, together with or separately from the Annual Report.

B. The annual financial statements of the District shall be prepared on the basis of generally accepted accounting principles and will be audited. Copies of the audited annual financial statements, which may be filed separately from the Annual Report, will be filed with the Repositories when they become publicly available.

C. If the District fails to provide an Annual Report to the Repositories by the date required in subsection (a) hereto or to file its audited annual financial statements with the Repositories when they



become publicly available, the District shall send a notice to the Municipal Securities Rulemaking Board and any State Repository in substantially the form attached hereto as Exhibit B.

SECTION 4. Content of Annual Reports. Except as otherwise agreed, any Annual Report required to be filed hereunder shall contain or incorporate by reference, at a minimum, annual financial information relating to the District, including operating data, updating such information relating to the District as described in Exhibit A, all with a view toward assisting the Participating Underwriters in complying with the Rule.

Any or all of such information may be incorporated by reference from other documents, including official statements of securities issues with respect to which the District is an “obligated person” (within the meaning of the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Listed Events. The District will provide in a timely manner to the Municipal Securities Rulemaking Board and to each State Repository, if any, notice of any of the Listed Events, if material.

SECTION 6. Termination of Reporting Obligation. The District’s obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of all the Series 2008 Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws, to the effect that such amendment is permitted or required by the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. Any person referred to in Section 11 (other than the District) may take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to file its Annual Report or to give notice of a Listed Event. The holders of not less than a majority in aggregate principal amount of Series 2008 Bonds Outstanding may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the District hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement or the Series 2008 Bonds,

and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Participating Underwriters and the holders from time to time of the Series 2008 Bonds, and shall create no rights in any other person or entity.

SECTION 12. Alternative Filing. The District may, in lieu of filing with the Repositories and each State Repository the Annual Reports and other notices referred to in Sections 3(a) and (c) and Section 5 make such filings with DisclosureUSA, the central post office of the Municipal Advisory Council of Texas. Should the Securities and Exchange Commission approve any additional Internet-based electronic filing system for satisfying the continuing disclosure filing requirements of the Rule, filing with any such system shall satisfy the filing requirements under this Disclosure Agreement.

HAMPTON ROADS SANITATION DISTRICT

By: \_\_\_\_\_  
Director of Finance and Administration

**CONTENT OF ANNUAL REPORT  
HAMPTON ROADS SANITATION DISTRICT**

(a) **Financial Information.** Updated information including summary financial results, treatment charge collection rate, revenue collections from the District's largest customers, and a five-year comparison of revenues, expenses, debt service and debt service coverage ratios.

(b) **Debt Information.** Updated information including the debt service requirements of long-term indebtedness.

(c) **Operating Data.** Updated operating data including wastewater flows to the Wastewater System and its major treatment plants, the treatment capacities of its major treatment plants, total billed wastewater flows, and changes in rates and charges.

In general, the foregoing will include information as of the end of the most recent fiscal year or as of the most recent practicable date. Where information for the fiscal year just ended is provided, it may be preliminary and unaudited. Where information has historically been provided for more than a single period, comparable information will in general be provided for the same number of periods where valid and available. Where comparative demographic or economic information for the District and the United States as a whole is contemporaneously available and, in the judgment of the District, informative, such information may be included. Where, in the judgment of the District, an accompanying narrative is required to make data presented not misleading, such narrative will be provided.

**EXHIBIT B**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT  
[AUDITED ANNUAL FINANCIAL STATEMENTS]**

**Re: HAMPTON ROADS SANITATION DISTRICT  
WASTEWATER REVENUE BONDS,  
SERIES 2008**

**CUSIP NOS.: \_\_\_\_\_ - \_\_\_\_\_**

Dated:

NOTICE IS HEREBY GIVEN that Hampton Roads Sanitation District has not provided an Annual Report [Audited Annual Financial Statements] as required by Section 3 of the Continuing Disclosure Agreement, which was entered into in connection with the above-named bonds, the proceeds of which were used to refund certain outstanding bonds of the District. [The District anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

HAMPTON ROADS SANITATION DISTRICT

By \_\_\_\_\_

## THE DEPOSITORY TRUST COMPANY

The Depository Trust Company (DTC), the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2008 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.



