TWO NEW ISSUES-FULL BOOK-ENTRY ONLY

RATINGS:
Moody's: "Aa3"
Standard & Poor's: "AAA"
Fitch: "AA"

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 2009A Tax-Exempt Bonds (as defined below) will not be includable in the gross income of the owners thereof for federal income tax purposes under existing law. Interest on the Series 2009A Tax-Exempt Bonds will not be treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations, and the interest thereon will not be includable in the computation of the alternative minimum tax on corporations imposed by the Code. Interest on the Series 2009B Taxable Bonds (as defined below) will be includable in gross income of the owners thereof for federal income tax purposes. The District's Enabling Act provides that the Series 2009 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 2009 Bonds for certain bondholders.

$150,640,000
HAMPTON ROADS SANITATION DISTRICT, VIRGINIA
WASTEWATER REVENUE BONDS, SERIES 2009

consisting of

$15,915,000 SERIES 2009A (TAX-EXEMPT)
$134,725,000 SERIES 2009B (FEDERALLY TAXABLE – ISSUER SUBSIDY – BUILD AMERICA BONDS)

Dated: Date of Issue **Due: as shown on the inside cover**

The Hampton Roads Sanitation District, Wastewater Revenue Bonds, Series 2009A (Tax-Exempt) (the "Series 2009A Tax-Exempt Bonds"), and Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "Series 2009B Taxable Bonds," and, collectively with the Series 2009A Tax-Exempt Bonds, the "Series 2009 Bonds") are being issued under a Trust Agreement, dated as of March 1, 2008, as amended and supplemented (the "Trust Agreement"), between the Hampton Roads Sanitation District (the "District") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), for the purpose of financing a portion of the cost of the District's 2010-2019 Capital Improvement Program and paying certain expenses incurred in connection with the issuance of the Series 2009 Bonds.

The Series 2009 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 2009 Bonds. The Series 2009 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 2009 BONDS—Book-Entry Only System" herein. Interest on the Series 2009 Bonds is payable on each May 1 and November 1, commencing May 1, 2010.

The Series 2009 Bonds are subject to optional, and extraordinary optional and mandatory sinking fund redemption prior to their respective maturities as described herein. See "THE SERIES 2009 BONDS—Redemption Provisions" herein.

THE SERIES 2009 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2009 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 2009 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 2009 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 2009 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 Hunton & Williams LLP, Richmond, Virginia. It is expected that the Series 2009 Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about November 12, 2009.

J.P. Morgan

BB&T Capital Markets **Siebert Brandford Shank & Co., L.L.C.** **Wells Fargo Securities**

November 4, 2009

Hampton Roads Sanitation District, Virginia
Wastewater Revenue Bonds, Series 2009

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS
Base CUSIP[1] Number: 409327

$15,915,000 Series 2009A (Tax-Exempt)

SERIAL BONDS

Due November 1	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix
2010	$2,990,000	3.000%	0.350%	DC4
2011	3,080,000	3.000	0.750	DD2
2012	3,170,000	3.000	1.150	DE0
2013	1,300,000	2.375	1.600	DF7
2013	1,975,000	4.000	1.600	DH3
2014	3,400,000	4.000	2.000	DG5

$134,725,000 Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds)

$35,460,000 SERIAL BONDS

Due November 1	Principal Amount	Interest Rate	Price or Yield	CUSIP Suffix
2015	$3,505,000	3.385%	100%	DJ9
2016	3,590,000	3.980	100	DK6
2017	3,690,000	4.505	100	DL4
2018	3,800,000	4.605	100	DM2
2019	3,915,000	4.705	100	DN0
2020	4,040,000	4.805	100	DP5
2021	4,170,000	4.905	100	DQ3
2022	4,305,000	5.005	100	DT7
2023	4,445,000	5.105	100	DU4

$30,420,000 5.814% Term Bonds due November 1, 2029, Price 100%, CUSIP Suffix: DR1
$68,845,000 5.864% Term Bonds due November 1, 2039, Price 100%, CUSIP Suffix: DS9

[1] CUSIP® is a registered trademark of the American Bankers Association. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only, and the District does not make any representation with respect to such numbers or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the Series 2009 Bonds as a result of various subsequent actions including, but not limited to, a defeasance as a whole or in part of the Series 2009 Bonds.

HAMPTON ROADS SANITATION DISTRICT

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Associate Counsel

KPMG LLP
Independent Accountants

PUBLIC FINANCIAL MANAGEMENT, INC.,
Financial Advisor

SIDLEY AUSTIN LLP
Bond Counsel

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.
Trustee and Bond Registrar

CH2M HILL
Feasibility Consultant

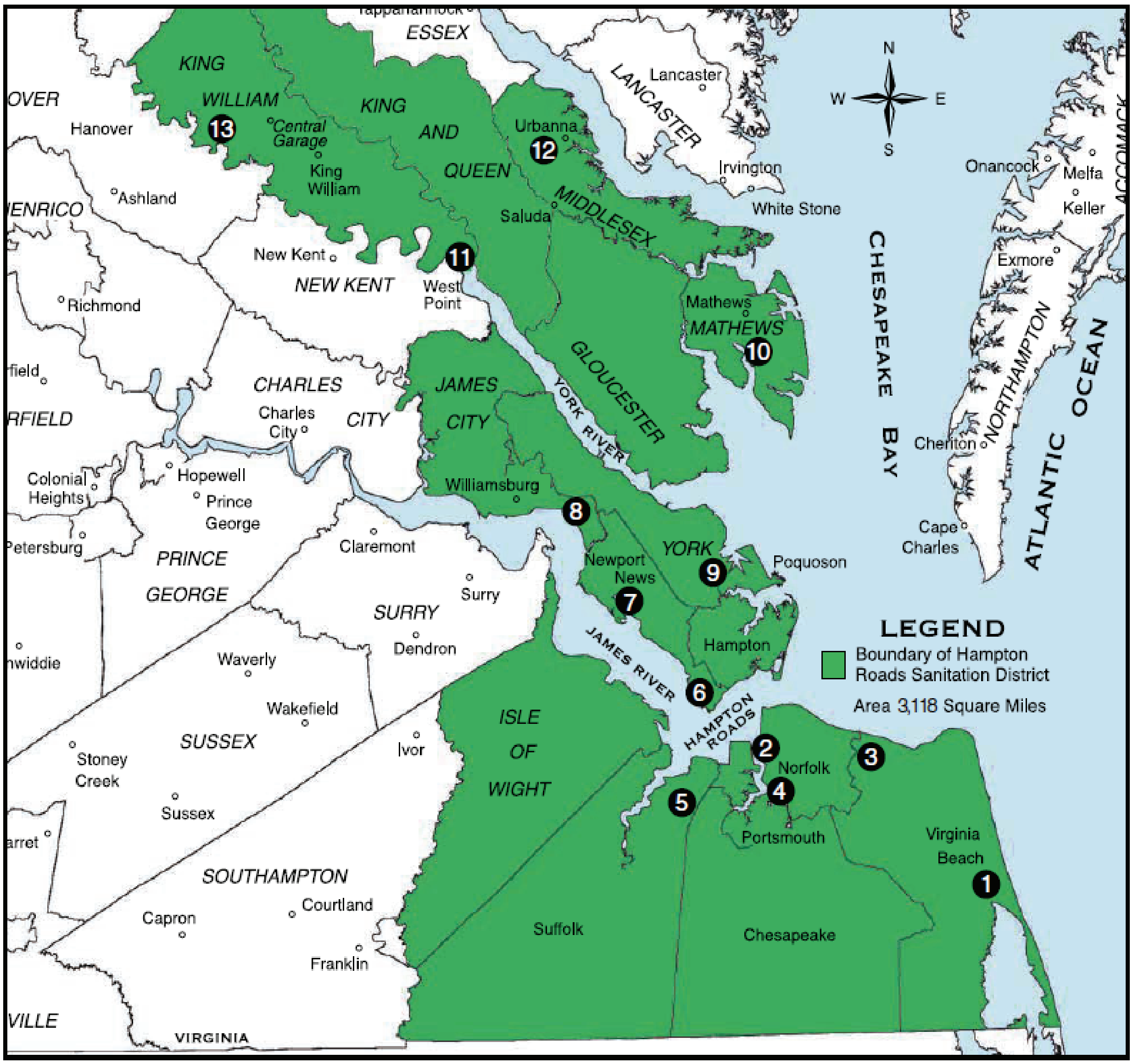
HAMPTON ROADS SANITATION DISTRICT

A Political Subdivision of the Commonwealth of Virginia

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



2009

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009 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 2009 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 2009 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 2009 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 2009 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Series 2009 Bonds.

The information set forth herein has been obtained from the District, the Depository Trust Company and other sources deemed to be reliable but is not guaranteed as to accuracy or completeness by the Underwriters. The information and any expression of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any such opinion or estimate will be realized.

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Official Statement

Hampton Roads Sanitation District, Virginia

Relating to its
$150,640,000
Wastewater Revenue Bonds, Series 2009
consisting of
$15,915,000 Series 2009A (Tax-Exempt)
$134,725,000 Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds)

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 Wastewater Revenue Bonds, Series 2009A (Tax-Exempt) (the "Series 2009A Tax-Exempt Bonds"), and Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "Series 2009B Taxable Bonds," and, collectively with the Series 2009A Tax-Exempt Bonds, the "Series 2009 Bonds").

This Official Statement contains a brief description of the Series 2009 Bonds and the District, including its service area, governance and information regarding its operations and finances. Appendix A contains the District's Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2009, and includes additional information regarding the District's operations and financial condition.

AUTHORIZATION

The Series 2009 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 September 22, 2009, the Hampton Roads Sanitation District Commission (the "Commission"), the governing body of the District, adopted a resolution authorizing the issuance of the Series 2009 Bonds. The Commission has authorized the issuance of the Series 2009 Bonds for the purpose of providing funds, together with other available funds, to (i) finance a portion of the costs of the District's 2010-2019 Capital Improvement Program (as amended from time to time, the "Capital Improvement Program" or "CIP") and (ii) pay certain expenses incurred in connection with the issuance of the Series 2009 Bonds by the District.

The Series 2009 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 2009 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 2009 Bonds under the Trust Agreement, dated as of March 1, 2008, as amended and supplemented (the "Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

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 Trust Agreement. Brief descriptions and summaries of certain provisions of the Series 2009 Bonds and the Trust Agreement are included in Appendix C.

PLAN OF FINANCING

The proceeds of the Series 2009 Bonds will be applied to finance a portion of the costs of the District's Capital Improvement Plan and the costs of issuing the Series 2009 Bonds. See "THE SYSTEM—Capital Improvement Program."

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the Series 2009 Bonds are as follows:

Sources

Principal Amount of Series 2009A Bonds	$15,915,000.00
Principal Amount of Series 2009B Bonds	134,725,000.00
Original Issue Premium on Series 2009A Bonds	922,795.80
Total Sources of Funds	$151,562,795.80

Uses

Deposit to Construction Fund	$150,000,000.00
Issuance Expenses[(1)]	1,562,795.80
Total Uses of Funds	$151,562,795.80

(1) Includes Underwriters' discount, Trustee, ratings, financial advisor, legal, printing and similar expenses.

THE SERIES 2009 BONDS

Description

The Series 2009 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 2009 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 May 1 and November 1, commencing May 1, 2010. The principal of and the interest on the Series 2009 Bonds will be payable as described below under "Book-Entry Only System."

Designation of Series 2009B Taxable Bonds as "Build America Bonds"

The District currently intends to designate the Series 2009B Taxable Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"). The District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Series 2009B Taxable Bonds (the "Federal Subsidy") on or about each interest payment date for the Series 2009B Taxable Bonds. The Federal Subsidy does not constitute a full faith and credit guarantee of the United States, but is required to be paid by the Treasury under the Recovery Act. The District is obligated to make all payments of principal and interest on the Series 2009B Taxable Bonds whether or not it receives the Federal Subsidy pursuant to the Recovery Act, but solely from the revenues, money, securities and funds pledged to the payment thereof in the Trust Agreement.

Section 54AA(f)(1) of the Code provides that interest on any Build America Bond shall be includable in gross income. Under no circumstances will the owner of a Series 2009B Taxable Bond receive a credit under Section 54AA(f)(1) of the Code against the tax imposed.

Depending upon market conditions and other factors, the District, in its sole discretion, may determine not to issue the Series 2009B Taxable Bonds and issue the Series 2009A Tax-Exempt Bonds in a correlatively increased principal amount. Conversely, the District, in its sole discretion, taking into account market conditions and other factors, may determine not to issue the Series 2009A Tax-Exempt Bonds and issue the Series 2009B Taxable Bonds in a correlatively increased principal amount.

Owners of Series 2009B Taxable Bonds (BABs) Not to Receive Tax Credit

Although the Series 2009B Taxable Bonds will be issued as "Build America Bonds," the District will elect to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the District on the Series 2009B Taxable Bonds. UNDER NO CIRCUMSTANCES WILL THE OWNERS OF THE SERIES 2009B TAXABLE BONDS RECEIVE OR BE ENTITLED TO A CREDIT AT ANY TIME AGAINST THE TAX IMPOSED BY THE CODE.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2009 Bonds. The Series 2009 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 2009 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 2009 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 2009 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 2009 Bonds will be printed and delivered.

Redemption Provisions

No Redemption – Series 2009A Tax-Exempt Bonds

The Series 2009A Tax-Exempt Bonds are not subject to redemption prior to their respective maturities.

Optional Redemption – Series 2009B Taxable Bonds

The District reserves the right to exercise either or both of the following optional redemption rights at the times and under the circumstances below.

<u>Make-Whole Optional Redemption</u>. The District may, at its option, redeem prior to their respective maturities, as a whole or in part, on any date, the Series 2009B Taxable Bonds, at a redemption price equal to the greater of:

(i) 100% of the principal amount of the Series 2009B Taxable Bonds to be redeemed; and

(ii) The sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009B Taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009B Taxable Bonds are to be redeemed, discounted to the date on which the Series 2009B Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below), plus 25 basis points.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2009B Taxable Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Extraordinary Optional Redemption. The Series 2009B Taxable Bonds are subject to redemption, at the option of the District, at any time prior to their maturity, as a whole or in part upon the occurrence of an Extraordinary Event (as defined below), at a redemption price equal to the greater of: (i) 100% of the principal amount of the Series 2009B Taxable Bonds to be redeemed, and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009B Taxable Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009B Taxable Bonds are to be redeemed, discounted to the date on which the Series 2009B Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points, plus, in each case, accrued interest on the Series 2009B Taxable Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if the District determines that a material adverse change has occurred to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to "Build America Bonds") or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the District to satisfy the requirements to qualify to receive the Federal Subsidy from the United States Treasury, pursuant to which the Federal Subsidy from the United States Treasury is reduced or eliminated.

Mandatory Redemption – Series 2009B Taxable Bonds

The Series 2009B Taxable Bonds due on November 1, 2029, and November 1, 2039, are subject to mandatory sinking fund redemption on November 1 in the following years in the following principal amounts ("Sinking Fund Requirements") at a redemption price of par, together with interest accrued to the date of redemption.

Term Bonds due November 1, 2029

Year	Sinking Fund Requirement
2024	4,605,000
2025	4,780,000
2026	4,965,000
2027	5,155,000
2028	5,355,000
2029†	5,560,000

† Unamortized balance at maturity.

Term Bonds due November 1, 2039

Year	Sinking Fund Requirement
2030	$5,770,000
2031	5,995,000
2032	6,225,000
2033	6,465,000
2034	6,715,000
2035	6,975,000
2036	7,245,000
2037	7,525,000
2038	7,815,000
2039†	8,115,000

† Unamortized balance at maturity.

In the event of a partial optional redemption of such term Bonds, the District will credit the principal amount of such term Bonds so 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.

Selection of Series 2009B Taxable Bonds To Be Redeemed

Any redemption of less than all of the Series 2009B Taxable Bonds of a maturity will be allocated among the registered owners of the Series 2009B Bonds of such maturity as nearly as practicable in proportion to the principal amounts of the Series 2009B Taxable Bonds of such maturity owned by each registered owner, subject to the authorized denominations applicable to the Series 2009B Taxable Bonds of such maturity. This will be calculated based on the formula: (principal of such maturity to be redeemed) x (principal amount of such maturity owned by such owner) / (principal amount of such maturity outstanding). The District can provide no assurance, however, that DTC, the DTC Participants or any other intermediaries will allocate redemptions among beneficial owners on such a proportional basis.

Defeasance of Series 2009B Taxable Bonds; Effect Thereof

Should the District cause the deposit of money or securities to an escrow in an amount sufficient to pay the principal and redemption price of and interest on the Series 2009B Taxable Bonds (for purposes of this subheading, a "*defeasance*"), such defeasance could have certain tax consequences for the holders thereof. See "TAX MATTERS – Series 2009B Taxable Bonds – *Legal Defeasance of Series 2009B Taxable Bonds*" herein. In the event the District determines to undertake a defeasance, it may either defease (i) all its obligations under the Trust Agreement with respect to the Series 2009B Taxable

Bonds so redeemed ("*Legal Defeasance Option*") or (ii) its obligations under certain covenants contained in the Trust Agreement ("*Covenant Defeasance Option*") with respect to the Bonds. The District may exercise the Legal Defeasance Option with respect to any Series 2009B Taxable Bonds notwithstanding its prior exercise of the Covenant Defeasance Option. Exercise of these rights is subject to the satisfaction of certain conditions precedent. In the case of the Legal Defeasance Option, one of the conditions precedent would be the District's receipt of a ruling from the Internal Revenue Service (the "Service"), or the Service's release of a ruling, to the effect that Owners of the Series 2009B Taxable Bonds will not recognize income, gain or loss for federal income tax purposes. Under current law, the District does not anticipate that it could receive such a ruling. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT – DEFEASANCE OF SERIES 2009B TAXABLE BONDS.

Notice of Redemption

At least 30, but not more than 90, days before the redemption date of any Series 2009 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 2009 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 2009 Bonds will not affect the validity of the proceedings for the redemption of any other Series 2009 Bonds. During the period that DTC or the DTC partnership nominee is the registered owner of the Series 2009 Bonds, the Bond Registrar will not be responsible for mailing notices of redemption to the beneficial owners of the Series 2009 Bonds. See "THE SERIES 2009 BONDS—Book-Entry Only System" above and Appendix F. Each such notice is to set forth the Series 2009 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 2009 Bonds will be called for redemption, the maturities of the Series 2009 Bonds to be redeemed. If any Series 2009 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 2009 Bond, a new Series 2009 Bond of authorized denominations and in principal amount equal to the unredeemed portion of such Series 2009 Bond will be issued.

Any notice of optional redemption of the Series 2009 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, premium, if any, 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 2009 Bonds called for redemption will become due and payable. If the District gives a conditional notice of redemption, and money to pay the redemption price of the affected Series 2009 Bonds has been set aside in escrow with the Trustee for the purpose of paying such Series 2009 Bonds, then on the redemption date the Series 2009 Bonds will become due and payable. In either case, if on the redemption date the Trustee holds money to pay the Series 2009 Bonds called for redemption, thereafter no interest will accrue on those Series 2009 Bonds, and a Bondholder's right will be to receive payment of the redemption price upon surrender of those Series 2009 Bonds.

SECURITY AND SOURCE OF PAYMENT

THE SERIES 2009 BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE NET REVENUES AND OTHER FUNDS PLEDGED TO SECURE THE SERIES 2009 BONDS UNDER THE TRUST AGREEMENT. THE SERIES 2009 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 2009 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 2009 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 2009 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 2009 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 2009 Bonds are issued. If (a) the Liquidity Ratio (as defined in Appendix B) of the District, as calculated based on the Audited 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 (other than Taxable Bonds, as defined herein) 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 2009 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.

Outstanding Senior Indebtedness

The District has two series of Bonds constituting Senior Obligations under the Trust Agreement, its Wastewater Refunding Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), of which $25,405,000 was outstanding on October 15, 2009, and its Wastewater Revenue Bonds, Series 2008 (the "Series 2008 Bonds"), of which $221,170,000 was outstanding on October 15, 2009.

Since May, 2009, the District has also obtained a loan from the Virginia Resources Authority Revolving Fund and issued in evidence of its obligations to repay such loan its bonds constituting Senior Obligations under the Trust Agreement (the "VRA Senior Bonds"). Such VRA Senior Bonds are secured under the Trust Agreement on a parity with all other Senior Obligations, including the Series 2003 Bonds, the Series 2008 Bonds and the Series 2009 Bonds. As of October 15, 2009, the District has drawn $5,758,661 of the $19,410,226 principal amount of such Virginia Resources Authority loan. The Commission has also authorized the District to obtain two additional loans from the Virginia Resources Authority to be evidenced by additional VRA Senior Bonds in a principal amount not to exceed $33,000,000. As of the date hereof, such additional VRA Senior Bonds have not been issued. In addition, the District anticipates that it will finance a portion of its Capital Improvement Program with future borrowings from the Virginia Resources Authority

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

In addition to the VRA Senior Bonds described under "Outstanding Senior Indebtedness" above, since 1993, the District has borrowed over $121.2 million from the Virginia Resources Authority Revolving Loan Fund and issued in evidence of its obligations to repay such loans 16 issues of subordinate obligations outstanding under the Trust Agreement (collectively, the "Subordinate Bonds"). As of October 15, 2009, the outstanding drawn amount of the Subordinate Bonds was approximately $111,112,000, with an additional undrawn authorized amount of $16,044,979. 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 outstanding under the Trust Agreement. Generally, after an initial period where no interest accrues on such Subordinate Bonds, 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.

DEBT SERVICE REQUIREMENTS FOR SERIES 2009 BONDS[1]

Fiscal Year Ending June 30	Series 2009A Bonds Principal[2]	Series 2009A Bonds Interest	Series 2009A Bonds Debt Service	Series 2009B Bonds Principal[2]	Series 2009B Bonds Interest[3]	Series 2009B Bonds Debt Service
2010		$245,555	$245,555		$3,489,702	$3,489,702
2011	$2,990,000	478,225	3,468,225		7,433,684	7,433,684
2012	3,080,000	387,175	3,467,175		7,433,684	7,433,684
2013	3,170,000	293,425	3,463,425		7,433,684	7,433,684
2014	3,275,000	190,938	3,465,938		7,433,684	7,433,684
2015	3,400,000	68,000	3,468,000		7,433,684	7,433,684
2016				$3,505,000	7,374,362	10,879,362
2017				3,590,000	7,243,599	10,833,599
2018				3,690,000	7,089,041	10,779,041
2019				3,800,000	6,918,428	10,718,428
2020				3,915,000	6,738,833	10,653,833
2021				4,040,000	6,549,672	10,589,672
2022				4,170,000	6,350,341	10,520,341
2023				4,305,000	6,140,339	10,445,339
2024				4,445,000	5,919,148	10,364,148
2025				4,605,000	5,671,822	10,276,822
2026				4,780,000	5,399,000	10,179,000
2027				4,965,000	5,115,713	10,080,713
2028				5,155,000	4,821,525	9,976,525
2029				5,355,000	4,515,999	9,870,999
2030				5,560,000	4,198,700	9,758,700
2031				5,770,000	3,867,894	9,637,894
2032				5,995,000	3,522,945	9,517,945
2033				6,225,000	3,164,654	9,389,654
2034				6,465,000	2,792,583	9,257,583
2035				6,715,000	2,406,146	9,121,146
2036				6,975,000	2,004,755	8,979,755
2037				7,245,000	1,587,825	8,832,825
2038				7,525,000	1,154,768	8,679,768
2039				7,815,000	704,999	8,519,999
2040				8,115,000	237,932	8,352,932
TOTAL	$15,915,000	$1,663,317	$17,578,317	$134,725,000	$152,149,147	$286,874,147

1 Numbers may not add to totals due to rounding.
2 Principal is due on November 1 in each of the indicated fiscal years.
3 Includes all interest on the Series 2009B Bonds and has not been adjusted to reflect the Federal Subsidy. See "THE SERIES 2009 BONDS—Designation of Series 2009B Taxable Bonds as 'Build America Bonds.'"

DEBT SERVICE REQUIREMENTS FOR SENIOR OBLIGATIONS AND SUBORDINATE OBLIGATIONS[1]

Fiscal Year Ending June 30	Debt Service on Series 2009 Bonds	Debt Service on Other Senior Indebtedness[2]	Total Debt Service on Senior Indebtedness	Subordinate Bonds Debt Service[3]	Total Debt Service
2010	$3,735,256	$17,345,646	$21,080,903	$10,695,459	$31,776,361
2011	10,901,909	17,354,771	28,256,680	10,695,458	38,952,138
2012	10,900,859	17,977,778	28,878,637	11,767,959	40,646,595
2013	10,897,109	18,599,284	29,496,393	12,840,460	42,336,853
2014	10,899,622	18,526,496	29,426,118	12,840,458	42,266,576
2015	10,901,684	18,464,634	29,366,318	12,839,710	42,206,028
2016	10,879,362	18,397,534	29,276,896	11,578,059	40,854,955
2017	10,833,599	14,589,634	25,423,233	9,453,313	34,876,546
2018	10,779,041	16,934,634	27,713,674	6,904,259	34,617,933
2019	10,718,428	17,291,034	28,009,462	6,904,259	34,913,721
2020	10,653,833	17,294,034	27,947,867	6,904,526	34,852,393
2021	10,589,672	17,292,428	27,882,099	6,422,873	34,304,972
2022	10,520,341	17,293,828	27,814,169	6,036,388	33,850,556
2023	10,445,339	17,289,828	27,735,167	5,806,126	33,541,293
2024	10,364,148	17,290,903	27,655,051	5,590,659	33,245,709
2025	10,276,822	17,290,153	27,566,975	5,590,659	33,157,633
2026	10,179,000	17,292,653	27,471,653	5,590,658	33,062,311
2027	10,080,713	17,291,140	27,371,853	5,506,544	32,878,397
2028	9,976,525	17,292,650	27,269,175	2,200,154	29,469,329
2029	9,870,999	17,293,100	27,164,099	2,145,000	29,309,099
2030	9,758,700	17,289,100	27,047,800	2,145,000	29,192,800
2031	9,637,894	17,293,356	26,931,251	2,145,029	29,076,280
2032	9,517,945	15,928,250	25,446,195		25,446,195
2033	9,389,654	15,927,250	25,316,904		25,316,904
2034	9,257,583	15,928,000	25,185,583		25,185,583
2035	9,121,146	15,929,000	25,050,146		25,050,146
2036	8,979,755	15,928,750	24,908,505		24,908,505
2037	8,832,825	15,925,750	24,758,575		24,758,575
2038	8,679,768	15,928,500	24,608,268		24,608,268
2039	8,519,999		8,519,999		8,519,999
2040	8,352,932		8,352,932		8,352,932
TOTAL	$304,452,462	$494,480,118	$798,932,580	$162,603,010	$961,535,585

1 Numbers may not add to totals due to rounding.

2 As of October 15, 2009, the unpaid principal balance of the Series 2003 Bonds was $25,405,000, the unpaid principal balance of the Series 2008 Bonds was $221,170,000, and the unpaid principal amount of the VRA Senior Bonds was $19,410,226 of which $5,758,661 had been drawn.

3 As of October 15, 2009, the unpaid principal balance of the Subordinate Bonds was $126,645,386. See "SECURITY AND SOURCE OF PAYMENT—Subordinate Obligations" herein.

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 or storm water mitigation. The cities, counties and military establishments the District serves provide those services. With the exception of the Counties of King William, King and Queen, Middlesex, Matthews and Gloucester, the 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.

Commissioners	**Residence**	**Occupation**	**Term Expires June 7,**
Vishnu K. Lakdawala, Ph.D., *Chairman*	Virginia Beach	Associate Professor, Electrical and Computer Engineering, Old Dominion University	2010
B. Anne Davis, *Vice Chairman*	Portsmouth	Former President, Diesel Tech, Inc.	2011
Arthur C. Bredemeyer	Suffolk	Attorney, Ferguson, Rawls and Raines, P.C.	2013
Frederick N. Elofson, CPA	Newport News	Retired Certified Public Accountant and Personal Financial Specialist, Goodman & Company, LLP	2010
Michael E. Glenn	Norfolk	President, Luna Development Services, LLC	2011
Gerald S. Johnson	Chesapeake	Retired, Norfolk Naval Shipyard	2012
Maurice P. Lynch, Ph.D.	Gloucester Point	Professor Emeritus, Virginia Institute of Marine Science, College of William and Mary	2013
Douglas E. Miller	Hampton	Attorney, Patten, Wornom, Hatten & Diamonstein, L.C.	2012

Vishnu K. Lakdawala, Ph.D., *Chairman.* 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 Master 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 currently serves as the president of the Hindu Temple of Hampton Roads. Dr. Lakdawala resides in the City of Virginia Beach.

B. Anne Davis, *Vice Chairman*. 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.

Arthur C. Bredemeyer, *Commissioner*. Mr. Bredemeyer, a member of the Commission since August 18, 2009, is an attorney with the law firm of Ferguson, Rawls & Raines, P.C. He specializes in estate planning, taxation and elder law. Mr. Bredemeyer joined the firm in 2003 after retiring from the United States Air Force with 20 years of service. He was last assigned to the Air Combat Command Headquarters at Langley Air Force Base, where he was chief of the International and Operations Law Division for the Air Force's largest command. Mr. Bredemeyer holds a bachelor's degree in accounting, history and political science from Illinois College, a J.D. from Washburn University, a master's in public administration from the University of Oklahoma, and a Master of Law Degree in Taxation from the College of William and Mary. Mr. Bredemeyer's current civic activities include serving as president of Suffolk Tomorrow, chair of the Suffolk Airport Commission and as a member of the board of Riddick's Folly Museum. Mr. Bredemeyer resides in the City of Suffolk.

Frederick N. Elofson, CPA, *Commissioner*. Mr. Elofson, a member of the Commission since July 1, 2006, is a Certified Public Accountant and recently retired senior partner in Goodman & Company, LLP, in Newport News. He earned a bachelor'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 remains 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.

Michael E. Glenn, *Commissioner*. Mr. Glenn, a member of the Commission since May 13, 2008, is president of Luna Development Services, LLC. The firm, which offers full-service general contracting and real estate development services, is a Certified Virginia Minority Business Enterprise. Before founding his firm in 2004, Mr. Glenn was Director of Operations, Real Estate Services and Contracts for Troutman Sanders, LLP. He also has served as a development executive for Armada Hoffler Development and as a Wachovia Bank vice president. Mr. Glenn received a bachelor's degree in psychology, with a minor in biology, from Old Dominion University. Mr. Glenn resides in the City of Norfolk.

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.

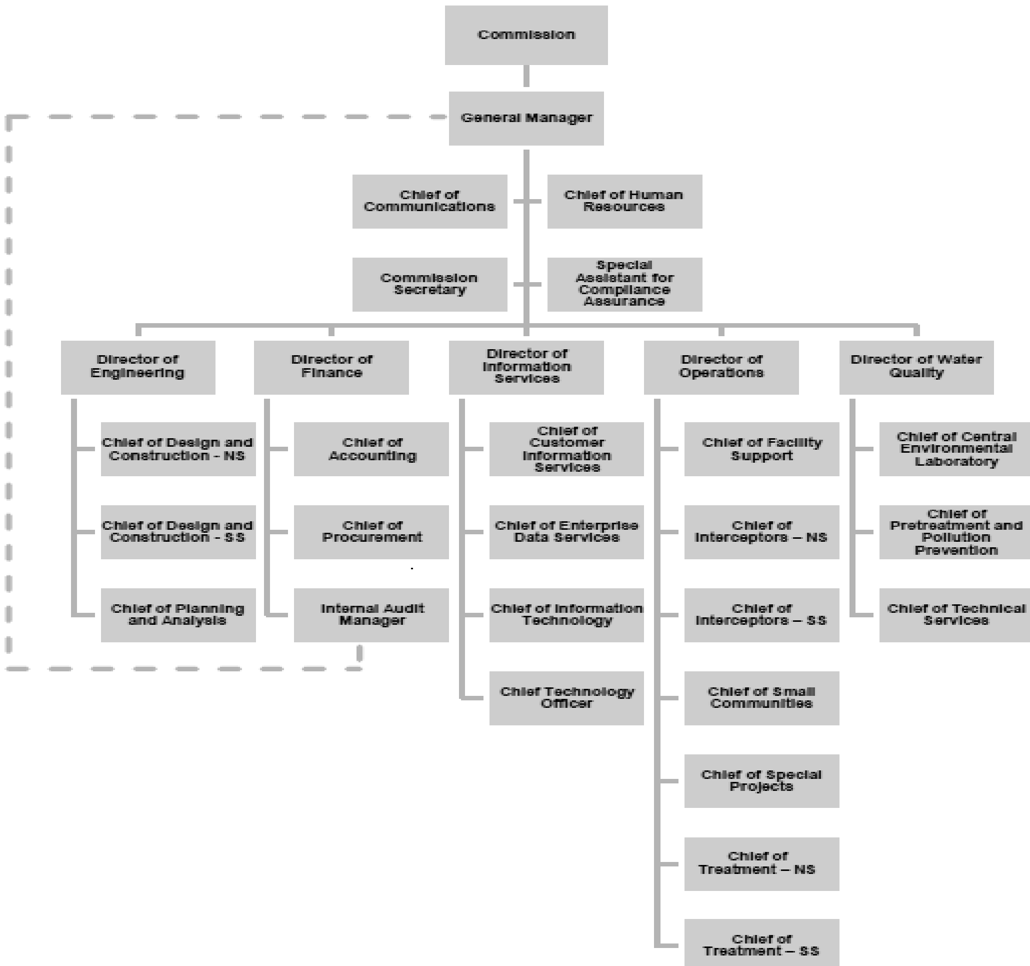
Maurice P. Lynch, Ph.D., *Commissioner*. Dr. Lynch, a member of the Commission since August 24, 2009, is professor emeritus of the College of William and Mary's Virginia Institute of Marine Science. Upon earning his bachelor's degree from Harvard, Dr. Lynch was commissioned an ensign in the U.S. Navy Reserve and remained on active duty with the Underwater Demolition Team until July 1962. After filling numerous reserve billets, he retired in 1988 with the rank of Captain USNR. Dr. Lynch earned his master's and doctoral degrees from William and Mary, where he has been a member of the faculty since 1972. He has been a liaison to numerous universities as well as state and federal agencies. He has served as the Virginia Sea Grant director, director of the Chesapeake Bay Research Consortium and director of the Chesapeake Bay National Research Estuarine Research Reserve in Virginia. He has been an officer of several professional organizations, including the Virginia Academy of Science, the Coastal Society and the National Estuarine Research Reserve Association. Dr. Lynch also has served two terms on the Chesapeake Bay Foundation (CBF) board of trustees and been a leader of CBF's York chapter. He was appointed to the Middle Peninsula Planning District Commission in 1997 and has served as its chair. Dr. Lynch resides in Gloucester Point.

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 a 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 five 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

- Finance & Accounting: Performs accounting operations, treasury functions, and debt and risk management functions.
- Procurement: Acquires goods and services.

Information Services

- Customer Information Services: Responsible for billings, collections, maintenance of customer accounts and liaison with HRSD customers.

●	Information Technology:	Provides data processing services, system support and management.

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 five directors and their staffs. The District had 730 employees as of June 30, 2009. 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 1996, has been the Director of Engineering since 2005. His responsibilities include management of the Planning & Analysis and Design & Construction Divisions. Implementation of HRSD's Capital Improvement Program is his department's key function. 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, Engineer's Club of Hampton Roads and the Virginia Water Environment Association. 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.

Steven G. de Mik, C.P.A., *Director of Finance*. Mr. de Mik joined HRSD in 2008. Prior to joining HRSD, Mr. de Mik served for seven years as the Director of Finance and Business Services for the City of Norfolk. Mr. de Mik has 21 years of public and private sector finance experience including positions with Knox County, Tennessee, Knoxville, Tennessee; Chipman and McMurray, Certified Public Accountants, of Hendersonville, Tennessee; and the Comptroller of the Treasury, Division of State Audit, Nashville, Tennessee. He received a B. S. degree in accounting and business administration from Southwest Baptist University in Bolivar, Missouri. He is currently pursuing an M.B.A. at the College of William and Mary.

Donald C. Corrado, *Director of Information Services*. Mr. Corrado was appointed Director of Information Services in 2008. Prior to his appointment he served as HRSD's Chief of Information Technology for nine years. In that capacity he was responsible for the implementation of a scalable, fully-licensed, standards-based wide area network capable of supporting the various enterprise-class applications required to meet HRSD's business needs. Mr. Corrado's 20-year career includes public and private sector experience as an IT manager, enterprise solutions architect, information systems security officer, project leader and contract specialist. He earned a B. S. degree from Old Dominion University and is a Master Certified NetWare Engineer, Microsoft Certified Systems Engineer and Nortel Certified Enterprise Solutions Provider. Mr. Corrado is also a U.S. DoD Certified Acquisition Professional and Checkpoint Firewall One Certified. He is a member of the Gartner Executive Panel, American Water Works Association and Water Environment Federation.

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. Previously, 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 President's Award for Distinguished Service to NACWA in 1996. He has also served as 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 Compliance Assurance*. 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.

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 2008, the District's nine major treatment plants won eight platinum and one gold awards, while two of its four smaller treatment plants won two gold awards and two silver awards, from the Association of Metropolitan Sewerage Agencies. The District's plants have earned 213 awards for outstanding permit compliance since 1986. One plant this year was recognized for 22 consecutive years of perfect permit compliance, an award record unmatched in the nation.

THE SERVICE AREA

The District provides service to 672 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.

Year	Source	Population	Population Increase (%)[2]
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 [1]	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 420,000 as of June 30, 2000, to approximately 452,000 as of June 30, 2009. 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)

Fiscal Year Ended June 30,	Average Daily Wastewater Flow	Total Billed Wastewater Flow[(1)]
2000	172	133
2001	157	131
2002	147	127
2003	172	126
2004	173	127
2005	173	125
2006	158	126
2007	163	124
2008	146	120
2009	151	128

(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 quarter 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 230.5 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, 2009, their average daily flows.

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

Major Treatment Facilities	Average Design Capacity	FY 2009 Annual Average Daily Flow
Atlantic Virginia Beach	36.0	26.6
Army Base Norfolk	18.0	10.4
Boat Harbor Newport News	25.0	13.0
Chesapeake-Elizabeth Virginia Beach	24.0	19.5
James River Newport News	20.0	12.3
Nansemond Suffolk	30.0	17.1
Virginia Initiative Norfolk	40.0	29.9
Williamsburg James City County	22.5	12.0
York River York County	15.0	10.7
TOTALS	230.5	151.5

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 FY2009 flows of 0.068 MGD; in Urbanna (Middlesex County), 0.1 MGD capacity with FY2009 flows of 0.048 MGD; in West Point (King William County), 0.6 MGD capacity with FY2009 flows of 0.035 MGD; and in King William (King William County), 0.100 MGD capacity with FY2009 flows of 0.02 MGD.

System Improvements and Innovations

HRSD has completed significant improvements to its treatment plants, pump stations, interceptor sewers and administration facilities in recent years. HRSD has improved the Chesapeake-Elizabeth Treatment Plant to update and rehabilitate many of the unit treatment processes including the headworks, secondary clarification and odor control facilities. To address concerns over the reliability of power supply, HRSD has installed or upgraded stand-by emergency generators at a number of pump stations, plants and administrative facilities. Upgrades to sewer pump stations have been completed in the last few years including improvements to the Fords Colony, Kingsmill and Pine Chapel Pump Stations. The final section of HRSD's Southern Loop was completed in 2009. This portion of the HRSD interceptor sewer system will allow for sewage to be delivered to the Atlantic Treatment Plant from developing portions of southern Chesapeake and Virginia Beach through this 18 mile pipe segment.

Improved automation has also been a focus of HRSD in recent years. HRSD has completed upgrades to the distributed control system at the Virginia Initiative Treatment Plant, Nansemond Treatment Plant, Williamsburg Treatment Plant and the Atlantic Treatment Plant. This automation will allow HRSD to operate these facilities more effectively while controlling chemical and energy costs. HRSD is also studying additional automation to its interceptor sewer system.

In 2002, HRSD constructed and placed in service the Commonwealth's first municipal water reclamation facility, furnishing 500,000 gallons per day of treated effluent from the York River Treatment Plant to a refinery owned and operated by Western Refining. HRSD and Western Refining are currently evaluating other uses of the treated effluent, which would require expansion of the facility. Since 2007, HRSD and the U.S. Navy have provided treated effluent from the Atlantic Treatment Plant for its heating and cooling system at the Dam Neck Annex Facility in Virginia Beach. HRSD furnishes up to 14 million gallons per day to the U.S. Navy for use in its heat exchanger system to reduce its potable water demand and to save approximately $1.3 million annually in power costs. 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 has active construction efforts underway to install nutrient reduction technology at the Nansemond, James River and York River Treatment Plants. Nutrient reduction improvements are also under design at HRSD's Army Base Treatment Plant. HRSD will advertise this project for construction later in 2009 with an anticipated completion date in 2014.

To improve operations on the Middle Peninsula, HRSD purchased and retrofitted a new facility to house the operations and maintenance staff of the Small Communities Division in 2009. This new facility is more centrally located and provides additional space for supplies and materials needed to properly operate and maintain the treatment plants, pump stations and sewers on the Middle Peninsula.

Capital Improvement Program

HRSD's Capital Improvement Program ("CIP") is designed to meet regulatory requirements, including both nutrient reduction and sanitary sewer overflow reduction, sewer service to new communities, aging infrastructure renewals and replacements and increased treatment capacity. In Fiscal Year 2010, HRSD increased the planning horizon for the CIP from five to ten years. This change allows

HRSD to better plan for long-range projects and to anticipate future capital financing needs. The CIP is updated each year and modified as circumstances dictate. The Commission approves the overall program and the first year of the plan and appropriates funds on an individual project basis. In 2008, HRSD implemented a new CIP project prioritization program using a decision analysis based process. This process allows for each proposed project to be considered objectively against the merits of other proposed projects. Individual projects are scored using performance measures based on ten criteria and ranked. A CIP review team considers each project score for consistency, and the CIP leadership team makes final decisions on project acceptability and readiness to proceed.

The 2010-2019 CIP includes approximately $1.5 billion in interceptor system, treatment plant and other facility improvements over the ten fiscal years ending June 30, 2019. Almost $800 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 $468 million are in the planning, design or construction phase. These planned projects are proposed to address aging infrastructure issues, service to new areas or to provide diversion capabilities within the extensive HRSD interceptor sewer piping system. Upgrades to aging sewer pump stations and new pump stations to serve Hampton Roads are an important part of the CIP with over $100 million planned in the coming ten years.

HRSD will play a critical role in assisting the localities it serves to address the region's sanitary sewer overflow reduction program. As part of this effort, HRSD plans to prepare and implement a significant regional interceptor sewer metering program, a hydraulic sanitary sewer computer model and a sanitary sewer evaluation study to develop a Regional Wet Weather Plan. The CIP includes over $40 million to be spent in the next five years to develop the Regional Wet Weather Plan, which will outline the improvements required to the system.

The reuse of treated effluent from HRSD's numerous treatment plants continues to be a high priority for HRSD. HRSD's success with the reuse projects at the York River Treatment Plant and at the Atlantic Treatment Plant demonstrates that reuse can pay for itself. HRSD is also investigating other projects to reduce energy usage and limit the discharge of contaminants to the environment.

The following table sets forth the District's anticipated sources and uses of funds for its Capital Improvement Plan in Fiscal Years 2010 through 2014.

Capital Improvement Plan
Fiscal Years 2010 - 2014[1]
(000's omitted)

Major Project Area	2010	2011	2012	2013	2014	Total
Administration	$4,649	$19,209	$8,478	$449	$0	$32,785
Army Base	3,312	38,351	55,726	40,085	15,409	152,883
Atlantic	30,573	14,914	3,666	4,810	3,348	57,311
Boat Harbor	7,618	12,364	3,063	635	4,209	27,889
Chesapeake-Elizabeth	1,910	565	105	1,160	2,690	6,430
James River	21,246	25,777	2,321	430	10,931	60,705
Middle Peninsula	10,375	4,476	13	78	3,734	18,676
Nansemond	29,548	8,894	7,480	5,188	2,632	53,742
Virginia Initiative Plant	14,271	23,325	9,800	9,660	6,124	63,180
Williamsburg	10,265	7,052	160	1,839	6,118	25,434
York River	34,593	16,576	6,761	9,010	41,964	108,904
General	25,341	15,430	16,149	4,878	1,981	63,779
Future Improvements	0	0	0	0	0	0
Total	**$193,701**	**$186,933**	**$113,722**	**$78,222**	**$99,140**	**$671,718**
Cash Funding	$35,710	$29,039	$16,890	$11,763	$22,722	$116,124
Bond Funding	152,991	132,892	96,832	66,459	76,420	525,594
Grants	5,000	25,000	0	0	0	30,000
Total	**$193,701**	**$186,931**	**$113,722**	**$78,222**	**$99,142**	**$671,718**

[1] Numbers may not add to totals due to rounding.

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 assumes, however, that only a small portion of these awards will be received.

The CIP also includes $543 million in funding in Fiscal Years 2015 through 2019, of which $342 million is planned to be funded with bond proceeds and $201 million with operating cash.

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.

Separately, EPA and the Commonwealth of Virginia have negotiated to embody the District's obligations under the Consent Agreement in a federally enforceable consent decree (the "Consent Decree"). The Consent Decree was lodged with the federal district court for the Eastern District of Virginia (the "District Court") on September 30, 2009, and the District anticipates that the District Court will enter the Consent Decree by the end of November, 2009. The federal decree has three major aspects. First, it would incorporate the requirement of the Consent Agreement to develop a regional wet weather management plan to control sewer overflows. Second, it would include a requirement for the District to implement a portion of its current ten year Capital Improvement Plan. Specifically, the District must implement $140 million worth of projects identified out of a larger group of projects included in the current CIP. These projects would be implemented over a manageable eight-year period. Finally, the Consent Decree would impose a $900,000 penalty for all sewer overflows which have occurred in the District system during the past seven years. The penalty would be payable thirty days after entry of the federal consent decree by the District Court. The Consent Decree generally adopts the approach taken in the Consent Agreement with the addition of the civil penalty and a provision that certain CIP projects are to be implemented in the next eight years.

Consulting Engineering Services

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

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, 2005, through June 30, 2009.

Operating Results and Debt Service Coverage

	Years Ended June 30, (in thousands of dollars)				
	2005	2006	2007	2008	2009
Operating Revenues					
Wastewater Treatment Charges	$ 98,308	$ 106,208	$ 118,423	$ 129,583	$ 156,789
Miscellaneous	3,354	3,419	3,558	2,623	2,941
Total Operating Revenues	$ 101,662	$ 109,627	$ 121,981	$ 132,206	$ 159,730
Non-Operating Revenues					
Wastewater Facility Charges	10,579	10,526	9,645	8,339	5,086
Investment Earnings	2,349	2,896	3,363	3,999	3,642
Sale of Land	-	-	-	-	-
Change of Fair Value of Investments	343	(868)	994	656	518
Total Non-Operating Revenues	$ 13,271	$ 12,554	$ 14,002	$ 12,994	$ 9,246
Total Revenues	$ 114,933	$ 122,181	$ 135,983	$ 145,200	$ 168,976
Operating Expenses, Excluding Depreciation	79,550	89,316	95,000	103,790	115,703
Net Revenues[1]	$ 35,383	$ 32,865	$ 40,983	$ 41,410	$ 53,273
Total Senior Revenue Bond Debt Service	$ 8,545	$ 8,720	$ 5,735	$ 7,935	$ 17,489
Coverage on Senior Revenue Bond Debt Service	4.14	3.77	7.15	5.22	3.05
Total Senior and Subordinate Revenue Bond Debt Service	$ 15,794	$ 16,220	$ 13,776	$ 18,739	$ 27,967
Coverage on Total Debt Service	2.24	2.03	2.97	2.21	1.90

Annual Debt Service Requirements

	Years Ended June 30, (in thousands of dollars)				
	2005	2006	2007	2008	2009
Senior Bonds					
Wastewater Revenue Senior Bonds	$ 8,545	$ 8,720	$ 5,735	$ 7,935	$ 17,489
VRA Senior Revenue Bonds	$ -	$ -	$ -	$ -	$ -
Subordinate Bonds					
VRA Subordinate Revenue Bonds	$ 7,249	$ 7,500	$ 8,041	$ 10,804	$ 10,478

[1]Excludes approximately $16.7 million in capital grant proceeds received in 2009

Pension Fund and Other Post-Retirement Benefits. For a description of the District's participation in the Virginia Retirement System, a defined benefit plan offered by the Commonwealth of Virginia, and of the post-retirement health benefits for qualifying employees of the District see the District's Comprehensive Annual Financial Report attached as Appendix A hereto.

Debt Management. In May 2009, the Commission adopted a comprehensive financial policy designed to promote sound financial management. The policy addresses, but is not limited to the following areas: reserves, budgetary principles, debt affordability, debt management, risk management, derivatives and investments. The Commission has the right to change the financial policy from time to time.

The policy requires minimum debt service coverage requirements in excess of its obligations under the Trust Agreement. It also requires cash contributions to its capital program of not less than 15% of each year's capital improvement program. Additionally, the policy establishes parameters for the investment of idle cash.

Budgeting and Accounting

Budgetary Controls. The District adopts an annual operating budget and a 10-year Capital Improvement Plan. The budget is approved on or before June 15 of each year. The District maintains budgetary controls on a departmental basis. With the exception of capital projects, unused fund appropriations lapse at year end. As part of the budget process, the District adopts a long-range financial forecast.

Financial Statements. In accordance with accounting principles generally accepted in the United States, the District's audited general purpose financial statements are prepared on an accrual basis of accounting. The District's audited basic financial statements and the report thereon by KPMG LLP, from the fiscal year ended June 30, 2009, 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 26 consecutive fiscal years. The District submitted its report for the fiscal year ended June 30, 2009, 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, 2009. A summary of the District's rate schedule is included in the District's Comprehensive Annual Financial Report attached as Appendix A hereto.

The District's typical residential customer pays less than $25 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. Generally, 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 appropriate meter readings, which are the basis of the District's billing operation.

The District provides billing and cashiering services to several of the jurisdictions it serves, including Chesapeake, James City County, Norfolk, Smithfield and Suffolk. The combined bill can include 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 is to 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 $155,000 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

Fiscal Year Ended June 30,	Percentage of Wastewater Treatment Charges Collected
2000	99.5%
2001	99.0
2002	99.3
2003	99.5
2004	99.4
2005	99.4
2006	99.4
2007	99.4
2008	99.3
2009	98.8

FEASIBILITY STUDY

CH2M Hill has prepared a feasibility study with respect to the District's Capital Improvement Plan (the "Feasibility Study"). The Feasibility Study is attached as Appendix G hereto. The Feasibility Study has been included in this Official Statement in reliance on the reputation of CH2M Hill as an expert in wastewater project engineering. The Feasibility Study contains information not set forth elsewhere in this Official Statement and should be read in its entirety.

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 2009 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 2009 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 Hunton & Williams LLP, Richmond, Virginia.

TAX MATTERS

Series 2009A Tax-Exempt Bonds

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 2009A Tax-Exempt Bonds will not be includable in the gross income of the owners of the Series 2009A Tax-Exempt Bonds for purposes of federal income taxation under existing law. Interest on the Series 2009A Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2009A Tax-Exempt 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 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 2009A Tax-Exempt 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 2009A Tax-Exempt Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax and is not included as an adjustment in calculating federal alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability. 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 2009A Tax-Exempt Bonds or (ii) the inclusion in certain computations of interest that is excluded from gross income.

Collateral Tax Consequences. Prospective purchasers of the Series 2009A Tax-Exempt 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 2009A Tax-Exempt Bonds should consult their tax advisors as to the applicability and impact of these consequences.

Original Issue Premium. The excess, if any, of the tax basis of the Series 2009A Tax-Exempt Bonds to a purchaser (other than a purchaser who holds such Series 2009A Tax-Exempt Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) who purchased such Series 2009A Tax-Exempt 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 2009A Tax-Exempt 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 2009A Tax-Exempt Bonds are required to decrease their adjusted basis in such Series 2009A Tax-Exempt Bonds by the amount of amortizable bond premium attributable to each taxable year such Series 2009A Tax-Exempt Bonds are held. The amortizable bond premium on such Series 2009A Tax-Exempt 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 2009A Tax-Exempt Bonds. Owners of such Series 2009A Tax-Exempt 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 2009A Tax-Exempt Bonds and with respect to the state and local tax consequences of owning and disposing of such Series 2009A Tax-Exempt Bonds.

Backup Withholding. Interest paid on the Series 2009A Tax-Exempt 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 2009A Tax-Exempt 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.

Future Developments. Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Series 2009A Tax-Exempt 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. Prospective purchasers of the Series 2009A Tax-Exempt 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.

Series 2009B Taxable Bonds

Circular 230 Notice. Any discussion of U.S. federal tax issues set forth in this Official Statement relating to the Series 2009B Taxable Bonds was written in connection with the promotion and marketing of the transactions described in this Official Statement. Such discussion is not intended or written to be legal or tax advice with respect to the Series 2009B Taxable Bonds to any person, and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

General. The following is a summary of the principal U.S. federal income tax consequences of the purchase, ownership and disposition of the Series 2009B Taxable Bonds. This discussion does not purport to be a complete analysis of all the potential tax consequences of such purchase, ownership and disposition and is based upon the Code, Treasury regulations (whether final, temporary or proposed), and rulings and judicial decisions in effect as of the date hereof. Those laws are subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances or to certain types of investors subject to special treatment under the U.S. federal income tax laws (including persons whose functional currency is not the U.S. dollar, entities classified as partnerships for U.S. federal income tax purposes, life insurance companies, regulated investment companies, real estate investment trusts, dealers in securities or currencies, banks, tax-exempt organizations or persons holding Series 2009B Taxable Bonds in a tax-deferred or tax-advantaged account, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, persons who hold Series 2009B Taxable Bonds as part of a hedging, straddle, integrated, conversion or constructive sale transaction, persons who have ceased to be U.S. citizens or to be taxed as resident aliens or persons liable for the alternative minimum tax) and does not discuss any aspect of state, local or foreign tax laws. This discussion applies only to U.S. Holders and non-U.S. Holders (each defined below) of Series 2009B Taxable Bonds who purchase their Series 2009B Taxable Bonds in the original offering at the original offering price, and who hold their Series 2009B Taxable Bonds as capital assets. This discussion does not address any tax consequences applicable to a holder of an equity interest in a holder of Series 2009B Taxable Bonds. In particular, this discussion does not address any tax consequences applicable to a partner in a partnership holding Series 2009B Taxable Bonds. If a partnership holds Series 2009B Taxable Bonds, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Thus, a person who is a partner in a partnership holding Series 2009B Taxable Bonds should consult his or her own tax advisor.

This summary only addresses Series 2009B Taxable Bonds with the features described herein.

Prospective purchasers are urged to consult their own tax advisors with respect to the U.S. federal and other tax consequences of the purchase, ownership and disposition of the Series 2009B Taxable Bonds before determining whether to purchase Series 2009B Taxable Bonds.

In this discussion, the term "U.S. Holder" means a beneficial owner of Series 2009B Taxable Bonds that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996, and properly elected to continue to be treated as a United States person. As used herein, the term "non-U.S. Holder" means a beneficial owner Series 2009B Taxable Bonds that is not a U.S. Holder.

U.S. Holders

Interest on Series 2009B Taxable Bonds.

Payments of interest on the Series 2009B Taxable Bonds will be included in gross income for U.S. federal income tax purposes by a U.S. Holder as ordinary income at the time the interest is paid or accrued in accordance with the U.S. Holder's regular method of accounting for tax purposes.

Market Discount.

If a U.S. Holder purchases a Series 2009B Taxable Bond for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) such U.S. Holder will be treated as having purchased such Series 2009B Taxable Bond at a "market discount," unless the amount of such market discount is less than a specified de minimis amount. For this purpose, the "revised issue price" of a Series 2009B Taxable Bond generally equals its issue price decreased by the amount of any payments previously made on such Series 2009B Taxable Bond that were not qualified stated interest payments.

Under the market discount rules, a U.S. Holder is required to treat any partial principal payment on, or any gain realized on the sale, exchange, retirement or other disposition of, a Series 2009B Taxable Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain and (ii) the amount of market discount that has not previously been included in gross income and is treated as having accrued on such Series 2009B Taxable Bond at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of such Series 2009B Taxable Bond, unless the U.S. Holder elects to accrue market discount on the basis of semiannual compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Series 2009B Taxable Bond with market discount until the maturity of such Series 2009B Taxable Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or semiannual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of such Series 2009B Taxable Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary interest for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies, and may be revoked only with the consent of the IRS.

Premium.

If a U.S. Holder purchases a Series 2009B Taxable Bond for an amount that is greater than the sum of all amounts payable on such Series 2009B Taxable Bond after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased such Series 2009B Taxable Bond with “amortizable bond premium” equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of such Series 2009B Taxable Bond and may offset interest otherwise required to be included in respect of such Series 2009B Taxable Bond during any taxable year by the amortized amount of such premium for the taxable year. However, if a Series 2009B Taxable Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules will apply that could result in a deferral of the amortization of a portion of the bond premium until later in the term of such Series 2009B Taxable Bond (as discussed in more detail below). Any election to amortize bond premium applies to all taxable debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

The following rules apply to any Series 2009B Taxable Bond that may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity. The amount of amortizable bond premium attributable to such Series 2009B Taxable Bond is equal to the lesser of (1) the difference between (A) such U.S. Holder’s tax basis in the Series 2009B Taxable Bond and (B) the sum of all amounts payable on such Series 2009B Taxable Bond after the purchase date, other than payments of qualified stated interest and (2) the difference between (X) such U.S. Holder’s tax basis in such Series 2009B Taxable Bond and (Y) the sum of all amounts payable on such Series 2009B Taxable Bond after the purchase date due on or before the early call date, other than payments of qualified stated interest. If a Series 2009B Taxable Bond may be redeemed on more than one date prior to maturity, the early call date and amount payable on the early call date that produces the lowest amount of amortizable bond premium, is the early call date and amount payable that is initially used for purposes of calculating the amount pursuant to clause (2) of the previous sentence. If an early call date is not taken into account in computing premium amortization and the early call is in fact exercised, a U.S. Holder will be allowed a deduction for the excess of the U.S. Holder’s tax basis in the Series 2009B Taxable Bond over the amount realized pursuant to the redemption. If an early call date is taken into account in computing premium amortization and the early call is not exercised, the Series 2009B Taxable Bond will be treated as “reissued” on such early call date for the call price. Following the deemed reissuance, the amount of amortizable bond premium is recalculated pursuant to the rules of this section “Premium.” The rules relating to a Series 2009B Taxable Bonds that may be optionally redeemed are complex and, accordingly, prospective purchasers are urged to consult their own tax advisors regarding the application of the amortizable bond premium rules to their particular situation.

Disposition of Series 2009B Taxable Bonds.

Except as discussed above, upon the sale, exchange, redemption or retirement of a Series 2009B Taxable Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (other than amounts representing accrued and unpaid interest) of such 2009B Taxable Bond and such U.S. Holder’s adjusted tax basis in such Series 2009B Taxable Bond. A U.S. Holder’s adjusted tax basis in a Series 2009B Taxable Bond generally will equal such U.S. Holder’s initial investment in the Series 2009B Taxable Bond increased by accrued market discount and acquisition premium, if any, if the U.S. Holder has included such market discount in income and decreased by the amount of any payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Series 2009B Taxable Bond. Such gain or loss generally will be long term capital gain or loss if the Series 2009B Taxable Bond has been held by the U.S. Holder at the time of disposition for more than one year. If the U.S. Holder is an individual, long term capital gain will be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

Non-U.S. Holders

A non-U.S. Holder who is an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Series 2009B Taxable Bonds on its own behalf will not be subject to U.S. federal income tax on payments of principal of, or premium (if any), or interest (including original issue discount, if any) on Series 2009B Taxable Bonds, unless the non-U.S. Holder is a direct or indirect 10% or greater shareholder of the District, a controlled foreign corporation related to the District or a bank receiving interest described in section 881(c)(3)(A) of the Code. To qualify for the exemption from taxation, the Withholding Agent, as defined below, must have received a statement from the individual or corporation that:

- is signed under penalties of perjury by the beneficial owner of the Series 2009B Taxable Bonds,
- certifies that the owner is not a U.S. Holder, and
- provides the beneficial owner's name and permanent residence address.

A "Withholding Agent" is the last U.S. payor (or non-U.S. payor who is a qualified intermediary, U.S. branch of a foreign person or withholding foreign partnership) in the chain of payment prior to payment to a non-U.S. Holder (that itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN, which is effective for the remainder of the year of signature and three full calendar years thereafter, unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a Form W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of any change and furnish a new Form W-8BEN. A non-U.S. Holder of Series 2009B Taxable Bonds that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding Series 2009B Taxable Bonds on its own behalf may have substantially increased reporting requirements. In particular, in the case of Series 2009B Taxable Bonds held by a foreign partnership or foreign trust, the partners or beneficiaries rather than the partnership or trust will be required to provide the certification discussed above, and the partnership or trust will be required to provide certain additional information.

A non-U.S. Holder of Series 2009B Taxable Bonds whose income from such Series 2009B Taxable Bonds is effectively connected with the conduct of a U.S. trade or business generally will be taxed as if the holder were a U.S. holder (and, if the non-U.S. Holder of Series 2009B Taxable Bonds is a corporation, possibly subject to a branch profits tax at a 30% rate or lower rate as may be prescribed by an applicable tax treaty), provided the holder furnishes to the Withholding Agent an IRS Form W-8ECI.

Certain securities clearing organizations, and other entities that are not beneficial owners may be able to provide a signed statement to the Withholding Agent. In that case, however, the signed statement may require a copy of the beneficial owner's Form W-8BEN.

Generally, a non-U.S. Holder will not be subject to U.S. federal income tax on any capital gain recognized on retirement or disposition of Series 2009B Taxable Bonds, unless the non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the retirement or disposition of such Series 2009B Taxable Bonds, and that gain is derived from sources within the United States. Certain other exceptions may apply, and a non-U.S. Holder in these circumstances should consult his tax advisor.

Series 2009B Taxable Bonds will not be includible in the estate of a non-U.S. Holder unless the decedent was a direct or indirect 10% or greater shareholder of the District or, at the time of the decedent's death, income from such Series 2009B Taxable Bonds was effectively connected with the conduct by the decedent of a trade or business in the United States.

Information Reporting and Backup Withholding

Information reporting requirements, on IRS Form 1099, generally apply to (i) payments of principal of and interest on Series 2009B Taxable Bonds to a noncorporate U.S. Holder within the United States or by a U.S. paying agent or other U.S. intermediary, including payments made by wire transfer from outside the United States to an account maintained in the United States, and (ii) payments to a noncorporate U.S. Holder of the proceeds from the sale of Series 2009B Taxable Bonds effected by a U.S. broker or agent or at a U.S. office of a broker.

Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the backup withholding rules. Compliance with the identification procedures described in the preceding section will establish an exemption from backup withholding for those non-U.S. Holders who are not exempt recipients.

Owners of Series 2009B Taxable Bonds (BABs) Not to Receive Tax Credit

Although the Series 2009B Taxable Bonds will be issued as "Build America Bonds," the District will elect to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the District on the Series 2009B Taxable Bonds. UNDER NO CIRCUMSTANCES WILL THE OWNERS OF THE SERIES 2009B TAXABLE BONDS RECEIVE OR BE ENTITLED TO A CREDIT AT ANY TIME AGAINST THE TAX IMPOSED BY THE CODE.

Virginia Taxes

The Enabling Act provides that the Series 2009 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 November 4, 2009, between the Underwriters, for whom J.P. Morgan Securities, Inc., 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 $1,023,865.09 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. Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wachovia Bank, National Association.

J.P. Morgan Securities Inc. one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Bonds, at the original issue prices. Pursuant to the

Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

FINANCIAL ADVISOR

The District has retained Public Financial Management, Inc., Arlington, Virginia, as financial advisor (the "Financial Advisor") in connection with the issuance of the Series 2009 Bonds. Although the Financial Advisor assisted in the review of this Official Statement, the Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement. The Financial Advisor is a financial advisory, investment management and consulting organization and is not engaged in the business of underwriting municipal securities.

RATINGS

The Series 2009 Bonds have been assigned ratings of "Aa3," "AAA" 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 2009 Bonds.

CONTINUING DISCLOSURE

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 2009 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 The Electronic Municipal Market Access ("EMMA") system administered by the Municipal Securities Rulemaking Board and (ii) notice of various events described in the Rule, if material ("Event Notices"), to EMMA.

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 2009 Bonds to provide to EMMA annually, not later than December 31 of each year, commencing December 31, 2010, Annual Reports with respect to itself, as issuer. Similarly, the District will provide Event Notices with respect to the Series 2009 Bonds to EMMA. As of the date of this Official Statement, the District has complied with its other undertakings regarding the Rule.

MISCELLANEOUS

All of the foregoing summaries or descriptions of the provisions of the Enabling Act, the Series 2009 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 Commission.

/s/ Vishnu K. Lakdawala
Chairman
Hampton Roads Sanitation District Commission

/s/ Edward G. Henifin
General Manager
Hampton Roads Sanitation District

/s/ Steven G. de Mik
Director of Finance
Hampton Roads Sanitation District

APPENDIX A

Comprehensive Annual Financial Report
for the Fiscal Year Ended
June 30, 2009[1]

[1] This Appendix comprises the District's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009. 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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HAMPTON ROADS SANITATION DISTRICT

(A Component Unit of the Commonwealth of Virginia)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2009

Prepared by:
Finance Department

HAMPTON ROADS SANITATION DISTRICT

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INTRODUCTORY SECTION

HRSD

P.O. BOX 5911, VIRGINIA BEACH, VIRGINIA 23471-0911 · (757) 460-7056 · FAX (757) 460-2372
www.hrsd.com

October 23, 2009

HRSD Commission
Virginia Beach, Virginia

Dear Commissioners:

Political subdivisions of the Commonwealth of Virginia are required to publish a complete set of audited financial statements. This report fulfills that requirement for the fiscal year ended June 30, 2009.

Hampton Roads Sanitation District's (HRSD) management assumes full responsibility for the completeness and reliability of information contained in this report, based on a comprehensive framework of internal control it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather the absolute, assurance that the financial statements are free of any material misstatements.

KPMG LLP, Certified Public Accountants, has issued an unqualified ("clean") opinion on HRSD's financial statements for the year ended June 30, 2009. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A, which complements this letter of transmittal, should be read in conjunction with it.

PROFILE OF HRSD

HRSD is an independent political subdivision of the Commonwealth of Virginia (the Commonwealth) created by referendum on November 5, 1940. HRSD was established to abate water pollution in Hampton Roads by providing a system of interceptor mains and wastewater treatment plants.

More than 1.6 million individuals, nearly one-fourth of Virginia's population, reside in HRSD's service area, which is located in the southeastern corner of the Commonwealth. HRSD's territory of approximately 3,100 square miles encompasses nine cities, eight counties and several large military facilities. A brief history of HRSD is provided on page 8. HRSD is required by its enabling act to meet its obligations by charging user fees for its wastewater treatment services; no taxing authority is authorized by the enabling act. Currently, HRSD provides service and bills to approximately 452,000 service connections.

A board of eight commissioners (the Commission), appointed by the Governor of Virginia, governs HRSD. Commission members, who serve four-year staggered terms, can be reappointed without limitation and may be suspended or removed by the Governor at his pleasure. The Commission appoints a General Manager, who appoints the senior staff.

HRSD owns and operates 13 treatment plants. The nine major plants in Hampton Roads have design capacities ranging in size from 15 to 40 million gallons per day (MGD). Five of the major plants are located south of the James River and four are north of the James River (see map on page 7). The combined capacity of these nine plants is approximately 230 MGD. HRSD's four small rural treatment plants, which are located on the Middle Peninsula, have a combined capacity of almost one MGD.

HRSD maintains 483 miles of pipelines ranging in size from six inches to 66 inches. Interceptor pipelines, along with 82 pump stations in Hampton Roads, interconnect into two independent systems, one south of the James River and one north of the James River. The system allows flow diversions to provide for maintenance or emergency work.

LOCAL ECONOMY

HRSD's service area includes nearly all of the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area (MSA). It is the largest MSA between Washington, D.C. and Atlanta, the fifth largest in the southeastern United States and the thirty-fourth largest in the nation. Unlike many metropolitan areas, Hampton Roads' population nucleus is not confined to one central city. Instead, the approximately 1.6 million residents are spread among several cities and counties, including Virginia Beach, the largest in population, and Suffolk, the largest in land area in Virginia. Unemployment rates remain below national averages in the region, which has a civilian labor force of more than 830,000.

The regional economy is supported by one of the highest military concentrations in the nation, diverse manufacturing and service sectors, shipbuilding and repair work, international port activities and tourism. This region has fared better in the current recession than most others due to the strong, stable military presence. Several state and private colleges and a large healthcare infrastructure also lend stability to the region.

A diverse customer base allows HRSD to maintain stable revenues. The ten largest customers account for only 10.2 percent of wastewater revenues for fiscal year 2009. In addition, HRSD's 2009 revenues contained only limited reliance (3.0 percent) on new customer connections.

LONG-TERM FINANCIAL PLANNING

HRSD's Financial Policy helps it maintain its solid fiscal health. Budgetary principles include using ongoing revenues to pay for ongoing expenses, and establishing annual cash contribution goals of at least 15 percent of budgeted capital costs. Under the Financial Policy, senior revenue and total revenue bonded debt service coverage ratios should not be less than 1.5 and 1.25 times annual debt service, respectively. Operating and ten-year capital improvement budgets are adopted annually. Included in the operating budget is a long-range financial forecast, which is guided by projections of operating and capital needs and the aforementioned Financial Policy requirements.

MAJOR INITIATIVES

HRSD continues its ambitious $1.2 billion, ten-year Capital Improvement Program. Regulatory requirements to reduce nutrient discharges, initiatives to ensure appropriate wet weather capacity exists within the regional sanitary sewer system, major plant upgrades and replacements of interceptor pipelines drive the capital program. Five major projects at the Army Base, Atlantic, James River, Nansemond and York River treatment plants are currently under design or construction.

In 2009, HRSD plans to issue up to $180 million in wastewater revenue bonds to partially fund construction activities. In addition, HRSD continues to actively pursue grant opportunities when available. Over the past two years HRSD was awarded approximately $126 million in grants for improvements to several of its treatment plants. Although management believes it unlikely that HRSD will receive all the money from these awards, because the funding from the Virginia Water Quality Improvement Fund is constrained, HRSD continues efforts to minimize the impacts of its capital investment to its ratepayers.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to HRSD for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the twenty-sixth consecutive year that HRSD has received this prestigious award. In order to be awarded a Certificate of Achievement, HRSD must publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR was made possible by the dedicated service of the entire Department of Finance staff. All members of the department have our sincere appreciation for their contributions to the preparation of this report. Credit must also be given to the Commission for their support for maintaining the highest standard of professionalism in the management of HRSD's finances.

Respectfully submitted,

Edward Henifin, PE
General Manager

Steven G. de Mik, CPA
Director of Finance

Carroll L. Acors, CPA
Chief of Accounting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Hampton Roads Sanitation District, Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

HAMPTON ROADS SANITATION DISTRICT
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JULY 1, 2009

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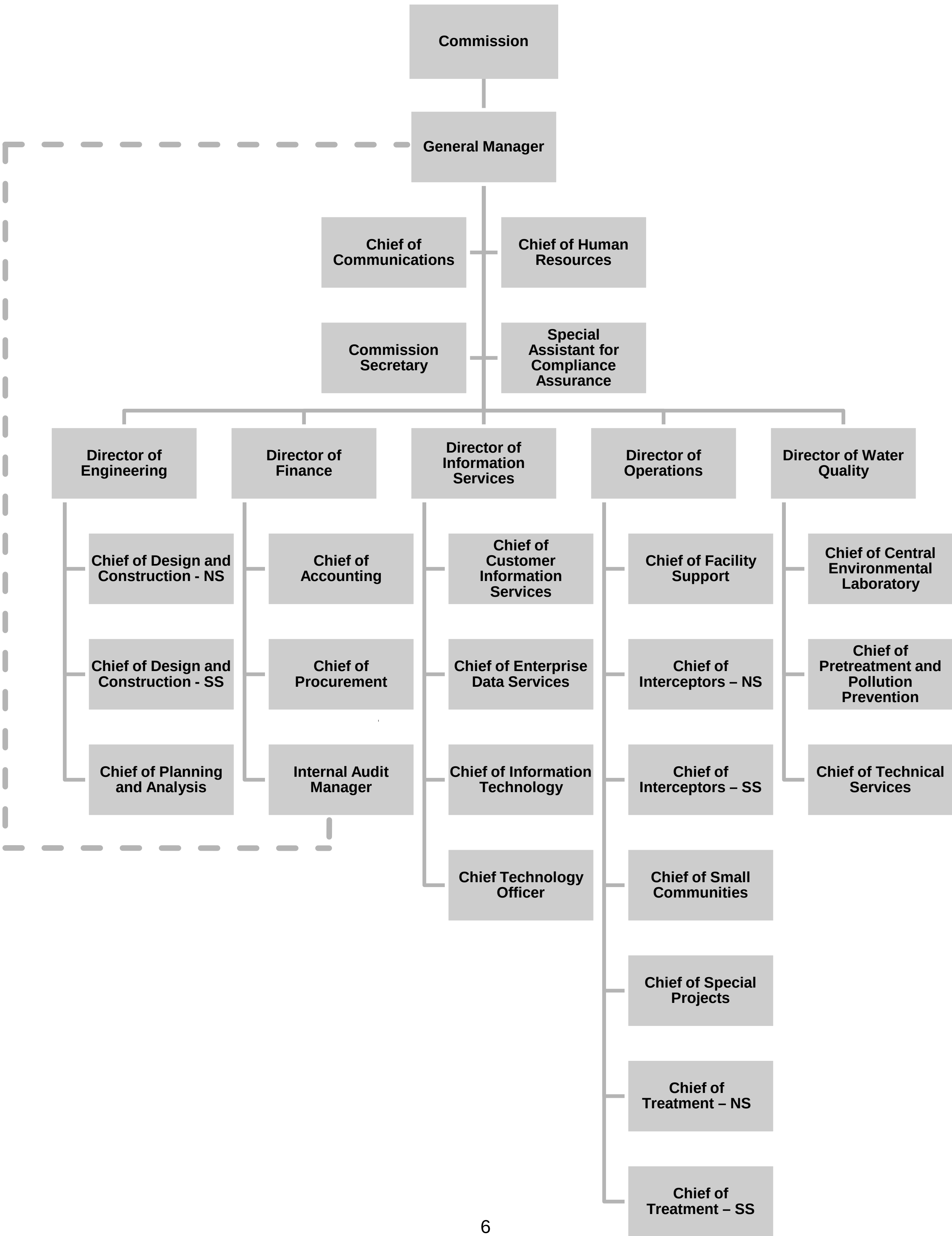
HRSD ORGANIZATION CHART

July 1, 2009



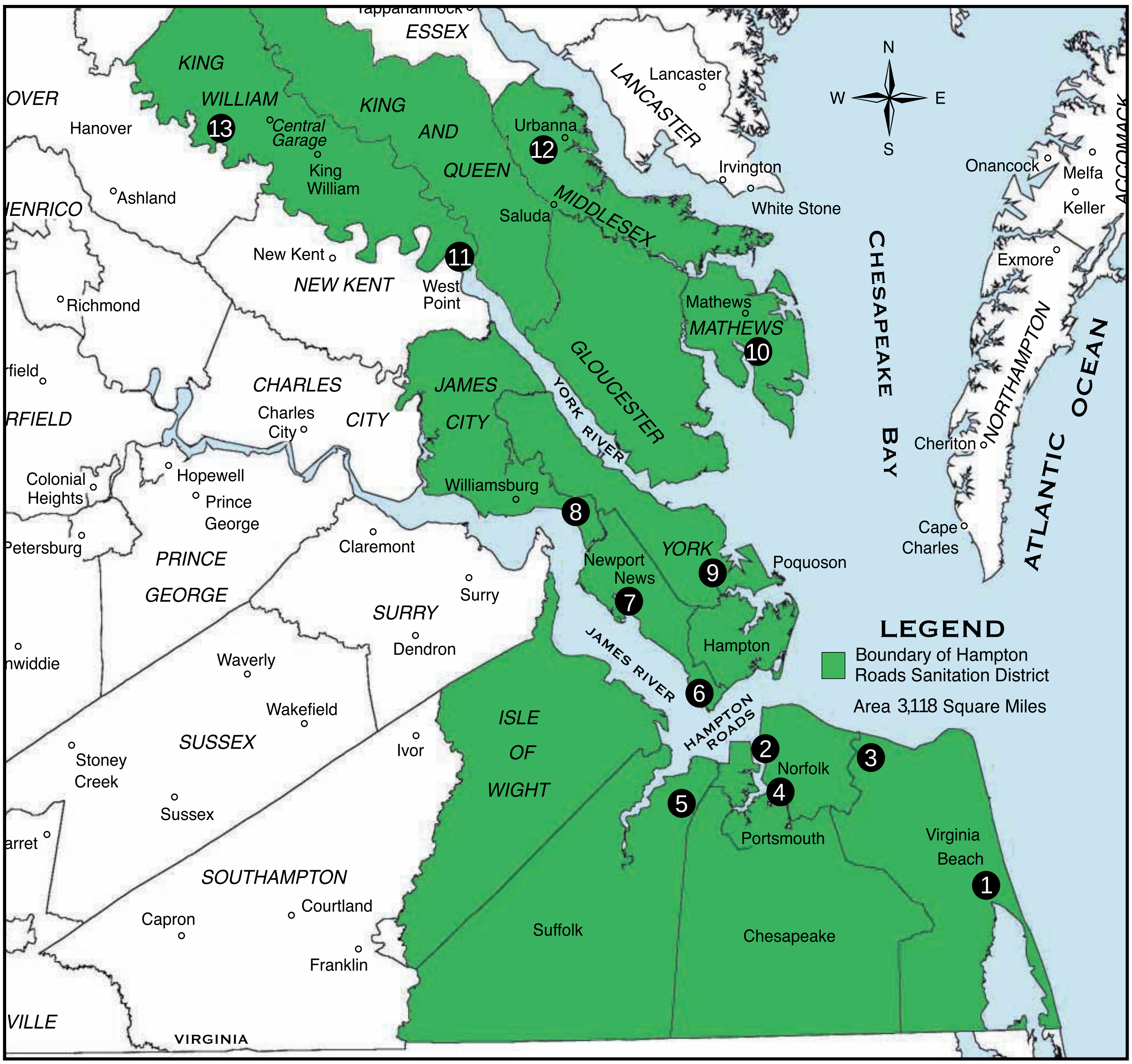
HAMPTON ROADS SANITATION DISTRICT

A Political Subdivision of the Commonwealth of Virginia

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



2009

HISTORY OF HAMPTON ROADS SANITATION DISTRICT

The Hampton Roads Sanitation District can trace its beginnings 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." Other studies recommended a public body to construct and operate a sewage system in the area. HRSD was named after Hampton Roads, a ship anchorage used for four centuries located near the convergence of the James, Elizabeth, and Nansemond Rivers, before they flow into the Chesapeake Bay in southeastern Virginia.

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." This Act required the qualified voters within HRSD to decide in a general election on November 8, 1938, if they favored creation of such a District. This referendum failed to gain a majority by about 500 votes out of nearly 20,000 votes cast. This led to a revision of the Act and another referendum was held on November 5, 1940, which resulted in a majority vote for the creation of the Hampton Roads Sanitation District.

The Enabling Act provides for HRSD to operate as a political subdivision of the Commonwealth of Virginia for the specific purpose of water pollution abatement in Hampton Roads by providing a system of interceptor mains and wastewater treatment plants. Its affairs are controlled by a Commission of eight members appointed by the Governor for four-year terms. Administration is under the direction of a General Manager, supported by five directors and their staffs.

HRSD began operations on July 1, 1946, using facilities acquired from the United States Government. The Warwick County Trunk Sewer, HRSD's first construction project, began on June 26, 1946, and was funded by HRSD's $6.5 million Primary Pledge Sewer Revenue Bonds, dated March 1, 1946. The first treatment plant, the Army Base Plant, began operation on October 14, 1947. Since that time, the facilities of HRSD have grown to provide sanitary sewer service to all major population centers in southeastern Virginia. The population served has increased from nearly 288,000 in 1940 to more than 1.6 million in 2009.

Throughout its rich history HRSD has earned many of its industry’s most prestigious awards. This tradition continued in 2009. The National Association of Clean Water Agencies (NACWA) presented Peak Performance Awards to all HRSD treatment plants for outstanding compliance with their National Pollutant Discharge Elimination System (NPDES) permits during calendar year 2008. The Army Base Treatment Plant was honored for 22 consecutive years of perfect permit compliance, an achievement unsurpassed in the nation. The major treatment plants received the following awards in recognition of their perfect permit compliance status: Army Base—Platinum (22 consecutive years), Atlantic Plant—Platinum (5 consecutive years), Boat Harbor—Platinum (7 consecutive years), Chesapeake-Elizabeth—Platinum (5 consecutive years); James River—Platinum (6 consecutive years), Nansemond—Platinum (6 consecutive years), Virginia Initiative Plant—Platinum (13 consecutive years), Williamsburg—Platinum (14 consecutive years) and York River—Gold. Treatment plants in the Small Communities Division also were honored. Mathews and King William received Silver Awards. Urbanna and West Point earned Gold Awards.

HRSD’s 2009 awards for environmental excellence, innovation and engineering included the Engineers Club of Hampton Roads Engineering Excellence Award for the Dam Neck Annex Energy Saving Performance Contract (A U.S. Navy-Trane-HRSD Partnership). The City of Norfolk presented its 2009 Environmental Stewardship Award, Green Building Pioneer Category, to HRSD. NACWA also honored HRSD with a National Environmental Achievement Award in recognition of the educational efforts of the Virginia Biosolids Council.

FINANCIAL SECTION

KPMG LLP
Suite 2100
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, 2009 and 2008, 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, 2009 and 2008, 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 11 through 15 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

October 23, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the financial activities of the Hampton Roads Sanitation District for the fiscal year ended June 30, 2009 is provided by HRSD's management. Readers of the accompanying financial statements are encouraged to consider this information in conjunction with that furnished in the letter of transmittal, which can be found on pages 1 through 3 of this report.

FINANCIAL HIGHLIGHTS

- Fund equity increased $26.3 million, or 6.9 percent, as a result of this year's operations.
- Total revenues increased $23.8 million, or 16.4 percent, in 2009. This increase is primarily attributable to wastewater revenue rate increases. Operating expenses increased $13.0 million or 10.0 percent.
- HRSD received $16.7 million in capital grants from the state of Virginia to help finance its capital improvement program.
- Current assets and investments decreased $76.1 million, or 31.5 percent, due to expenditures of bond proceeds for capital construction throughout the year.
- Investments in capital assets increased $113.7 million, or 21.0 percent.

OVERVIEW OF FINANCIAL STATEMENTS

HRSD's Basic Financial Statements are comprised of the financial statements and the notes to the financial statements. This report also contains other supplementary information in addition to the Basic Financial Statements.

The Basic Financial Statements, found on pages 16 through 19 of this report, are designed to provide readers with a broad overview of HRSD's finances in a manner similar to a private sector business.

The Balance Sheets, found on pages 16 through 17 of this report, present information on all of HRSD's assets and liabilities; the difference between the two are reported as fund equity. Over time, changes in fund equity may serve as a useful indicator of whether the financial position of HRSD is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Fund Equity, found on page 18 of this report, present all of HRSD's revenues and expenses, showing how HRSD's fund equity changed during the year. All changes in equity are reported as soon as the underlying event takes place, thus giving rise to the changes, regardless of the timing of the cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

The Notes to Financial Statements, found on pages 20 through 31 of this report, provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements and the notes, this report also presents certain required supplementary information concerning HRSD's progress in funding its obligations to provide pension and other post employment benefits to its employees.

Required Supplementary Information can be found on page 33 of this report.

FINANCIAL ANALYSIS

As noted earlier, fund equity may serve over time as a useful indicator of HRSD's financial position. Assets exceeded liabilities by $408.7 million at June 30, 2009 and by $382.4 million at June 30, 2008.

By far, the largest portion of HRSD's fund equity (78.2 percent and 78.9 percent at June 30, 2009 and 2008, respectively) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding, net of unspent bond proceeds. HRSD uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although HRSD's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate these liabilities.

HRSD's Fund Equity

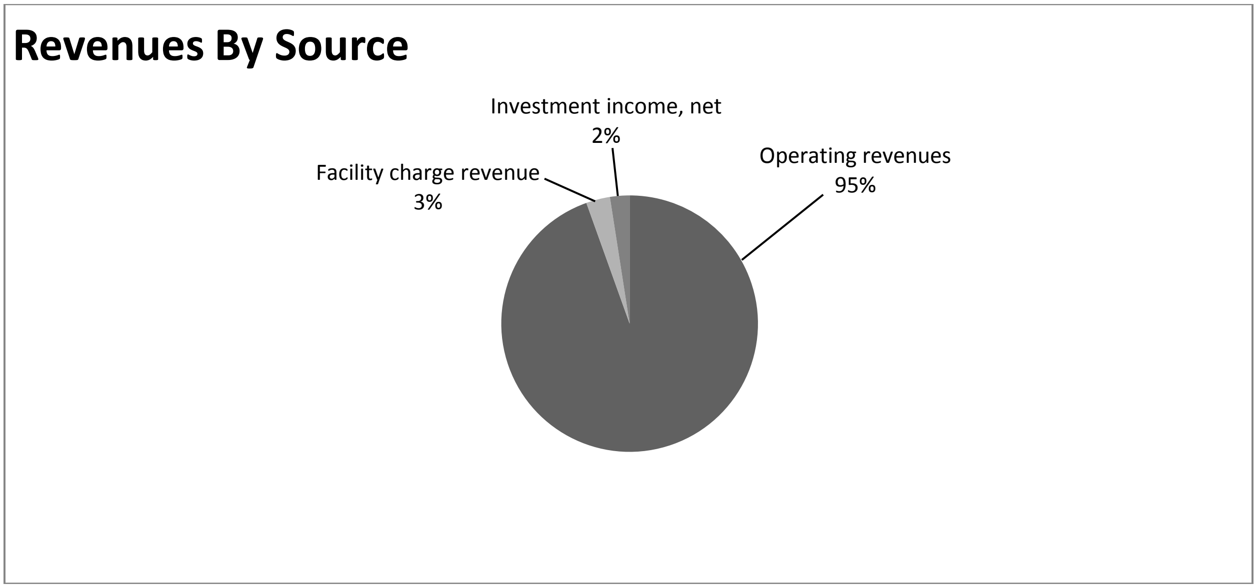
(in thousands)	2009	2008	2007	2009 vs. 2008 Dollars	2009 vs. 2008 Percent
Capital assets	$ 654,828	$ 541,102	$ 458,366	$ 113,726	21.0%
Current assets, cash and investments	165,247	241,315	98,973	(76,068)	-31.5%
Total assets	**$ 820,075**	**$ 782,417**	**$ 557,339**	**$ 37,658**	**4.8%**
Long-term liabilities	$ 349,929	$ 351,123	$ 137,636	$ (1,194)	-0.3%
Current liabilities	61,445	48,867	45,537	12,578	25.7%
Total liabilities	**$ 411,374**	**$ 399,990**	**$ 183,173**	**$ 11,384**	**2.8%**
Investment in capital assets net of related debt	$ 319,594	$ 301,760	$ 314,708	$ 17,834	5.9%
Restricted	7,542	7,377	6,247	165	2.2%
Unrestricted	81,565	73,290	53,211	8,275	11.3%
Total fund equity	**$ 408,701**	**$ 382,427**	**$ 374,166**	**$ 26,274**	**6.9%**

At June 30, 2009 and 2008, HRSD retained $24.9 million and $121.8 million of unspent bond proceeds, respectively. The increase in capital assets and the corresponding changes in current assets and investments from 2007 through 2009 are the result of issuing bonds in 2008 and using these funds during the fiscal year to fund capital improvements. The balance of the increase in unrestricted current assets in 2009 is primarily related to various wastewater rate increases.

The changes in HRSD's fund equity can be determined by reviewing the following condensed Statements of Operations and Changes in Fund Equity.

HRSD's Changes in Fund Equity

(in thousands)	2009	2008	2007	2009 vs. 2008 Dollars	2009 vs. 2008 Percent
Operating revenues	$ 159,730	$ 132,206	$ 121,981	$ 27,524	20.8%
Facility charge revenue	5,086	8,339	9,645	(3,253)	-39.0%
Investment income, net	4,160	4,655	4,357	(495)	-10.6%
Total revenues	**168,976**	**145,200**	**135,983**	**23,776**	**16.4%**
Operating expenses:					
Wastewater treatment	86,850	72,034	68,930	14,816	20.6%
General and administrative	28,853	31,756	26,070	(2,903)	-9.1%
Depreciation	28,414	27,282	24,958	1,132	4.1%
Total operating expenses	144,117	131,072	119,958	13,045	10.0%
Interest expense	15,263	5,867	4,630	9,396	160.1%
Total expenses	159,380	136,939	124,588	22,441	16.4%
Income before capital contributions	9,596	8,261	11,395	1,335	16.2%
Capital contributions					
State capital grants	16,678	-	-	16,678	100.0%
Changes in fund equity	26,274	8,261	11,395	18,013	218.0%
Beginning fund equity	382,427	374,166	362,771	8,261	2.2%
Ending fund equity	**$ 408,701**	**$ 382,427**	**$ 374,166**	**$ 26,274**	**6.9%**



Operating revenues increased 20.8 percent in 2009 and 8.4 percent in 2008. The majority of these increases are attributable to various rate increases in metered public wastewater services. Facility charge revenues decreased 39.0 percent in 2009 and 13.5 percent in 2008 due to declines in construction activities in the service area.

Operating expenses increased 10.0 percent in 2009 and 9.3 percent in 2008. Increases in 2009 were primarily due to a $3.3 million increase in personnel services and fringe benefits, for additional positions and merit increases; a $1.6 million increase in utilities, primarily electricity; and a $1.0 million increase in funding requirements for post-retirement benefits. Also included in 2009 operating expenses is a $0.9 million federal penalty for all sanitary sewer overflows which occurred in HRSD's system during the past seven years. The penalty is part of a negotiated Federal Consent Decree (Decree) that was lodged with the Federal District Court on September 30, 2009. More detailed information regarding the Decree is presented in Note 12. Increases in 2008 were primarily due to a $2.6 million increase in personnel services and fringe benefits; a $1.1 million increase in utilities, primarily electricity and natural gas; and a $1.2 million increase in contractual services. Depreciation expenses increased $1.1 million in 2009 and $2.3 million in 2008.

In 2009, HRSD received $16.7 million in capital grants to help finance its capital improvement program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009 and 2008, HRSD had $654.8 million and $541.1 million, respectively, invested in a broad range of capital assets, including wastewater treatment plants, interceptor mains, pump stations, automotive, administrative and maintenance buildings, and office and computer equipment. This amount represents a net increase of $113.7 million, or 21.0 percent, in 2009 and $82.7 million, or 18.1 percent, in 2008.

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

HRSD's Capital Assets

(in thousands)	2009	2008	2007
Land	$ 4,967	$ 4,967	$ 4,967
Treatment plants	177,336	193,298	203,056
Interceptor systems	184,397	181,043	170,377
Small community facilities	4,201	4,617	2,099
Buildings	9,626	9,291	9,526
Office equipment	14,633	16,171	12,745
Automotive	2,353	2,510	2,258
Other equipment	4,220	4,233	1,371
	401,733	416,130	406,399
Construction in progress	253,095	124,972	51,967
Net property, plant and equipment	**$ 654,828**	**$ 541,102**	**$ 458,366**

The following summarizes the changes in capital assets.

(in thousands)	2009	2008	2007
Balance at beginning of year	$ 541,102	$ 458,366	$ 426,627
Additions	14,017	37,013	73,744
Retirements	(430)	(179)	(12)
Depreciation	(28,414)	(27,282)	(24,958)
Accumulated depreciation retired	430	179	12
Increase (decrease) in construction in progress	128,123	73,005	(17,047)
Balance at end of year	**$ 654,828**	**$ 541,102**	**$ 458,366**

By far, the largest increase in capital assets is in construction in progress. During 2009 and 2008, HRSD invested significant funds in improvements to the Army Base, Atlantic, James River, Nansemond and York River treatment plants. In addition, numerous wastewater interceptor pipeline improvements were made.

Long-Term Debt

At year-end, HRSD had a total of $360.1 million in revenue bonds outstanding versus $359.9 million in 2008, an increase of less than 0.1 percent. This increase is related to new revenue bond debt payable to the Virginia Resources Authority in the amount of $12.8 million, reduced by payments of $12.6 million in 2009 on existing senior and subordinate debt.

HRSD's Debt Outstanding

(in thousands)	2009	2008	2007
Senior revenue bonds	$ 252,879	$ 255,635	$ 35,855
Subordinate revenue bonds	107,257	104,269	107,803
Total outstanding debt	**$ 360,136**	**$ 359,904**	**$ 143,658**

HRSD’s financial strengths are reflected in its high credit ratings:

Moody’s Investors Service	Aa3
Standard & Poor’s	AAA
Fitch Ratings	AA

The development of HRSD's Capital Improvement Program and its related debt programs are governed by revenue bond indentures, which require senior and subordinate debt service coverage ratios of 1.2 and 1.0 times annual debt service, respectively. HRSD's indentures require a debt service reserve fund (DSRF); but funding the DSRF is not required if senior coverage is at least 1.35 times annual debt service and a liquidity ratio of 1.35 is also met. To date, HRSD has not been required to fund its DSRF. HRSD's Financial Policy and operating and capital improvement plans were developed with the intent to maintain coverage ratios in excess of these requirements.

More detailed information regarding HRSD's capital assets and long-term debt are presented in Notes 5 and 8, respectively.

ECONOMIC FACTORS AND RATES

Billed consumption's five-year moving average has decreased over the last three fiscal years from approximately 126 million gallons per day (MGD) to approximately 125 MGD. HRSD's experience, primarily resulting from water conservation efforts throughout the region, is consistent with national trends.

In 2009, wastewater revenues increased as a result of planned rate increases needed to fund the capital improvement program. Facility charge revenues, which are generally dependent on new growth and economic expansion, were impacted during the recession and declined $3.3 million, or 39 percent, in 2009 and $1.4 million, or 14 percent, in 2008. In 2009, these revenues comprised only 3 percent of HRSD's total revenues.

Wastewater treatment rates for the 2010 fiscal year were increased by approximately 10.5 percent for the vast majority of its customers. The increases are necessary to meet growing capital improvement needs and the increased cost of treatment operations. Facility charges which provide funding for increased capacity resulting from new growth were also increased.

It is anticipated that the average residential customer bill will rise by only $1.92 per month in fiscal year 2010.

CONTACTING HRSD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of HRSD's finances for all those with an interest. Questions concerning the information provided in this report or any requests for additional information should be addressed to the Director of Finance, 5701 Thurston Avenue, Suite 100, Virginia Beach, Virginia 23455.

HAMPTON ROADS SANITATION DISTRICT
BALANCE SHEETS
AS OF JUNE 30, 2009 AND 2008

ASSETS

(in thousands)

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	$ 79,003	$ 34,506
Cash and cash equivalents - Restricted	7,542	7,377
Investments	4,100	8,039
Accounts receivable, net	31,377	28,301
Accrued interest	290	714
Other current assets	1,720	2,409
TOTAL CURRENT ASSETS	124,032	81,346
NONCURRENT ASSETS		
Cash and cash equivalents - Restricted	24,902	121,850
Investments	16,313	38,119
	41,215	159,969
NET PROPERTY, PLANT AND EQUIPMENT		
Land	4,967	4,967
Treatment plants	628,643	627,317
Interceptor systems	282,357	273,698
Buildings	21,273	20,276
Small community facilities	7,826	7,826
Office equipment	31,815	30,338
Automotive	12,474	12,066
Other equipment	12,774	12,054
	1,002,129	988,542
Less: Accumulated depreciation	600,396	572,412
	401,733	416,130
Construction in progress	253,095	124,972
NET PROPERTY, PLANT AND EQUIPMENT	654,828	541,102
TOTAL NONCURRENT ASSETS	696,043	701,071
TOTAL ASSETS	**$ 820,075**	**$ 782,417**

See Accompanying Notes to Financial Statements

LIABILITIES & FUND EQUITY

(in thousands)

	2009	2008
CURRENT LIABILITIES		
Trade and contracts payable	$ 26,971	$ 20,781
Contract retention	8,465	3,898
Accrued salaries and wages	1,431	1,114
Current portion long-term debt	12,967	12,551
Current portion compensated absences	4,320	3,880
Debt interest payable	3,524	3,479
Other liabilities	3,767	3,164
TOTAL CURRENT LIABILITIES	61,445	48,867
LONG-TERM LIABILITIES		
Compensated absences	2,760	2,770
Other liabilities	-	1,000
Bonds payable	347,169	347,353
TOTAL LONG-TERM LIABILITIES	349,929	351,123
TOTAL LIABILITIES	411,374	399,990
FUND EQUITY		
Investment in capital assets, net of related debt	319,594	301,760
Fund equity restricted for debt service	7,542	7,377
Fund equity - unrestricted	81,565	73,290
TOTAL FUND EQUITY	408,701	382,427
TOTAL LIABILITIES AND FUND EQUITY	**$ 820,075**	**$ 782,417**

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, 2009 and 2008

(in thousands)	2009	2008
OPERATING REVENUES		
Wastewater treatment charges	$ 156,642	$ 129,583
Miscellaneous	3,088	2,623
TOTAL OPERATING REVENUES	159,730	132,206
OPERATING EXPENSES		
Wastewater treatment	86,850	72,034
General and administrative	28,853	31,756
Depreciation	28,414	27,282
TOTAL OPERATING EXPENSES	144,117	131,072
OPERATING INCOME	15,613	1,134
NONOPERATING REVENUES (EXPENSES)		
Wastewater facility charges	5,086	8,339
Investment income	3,998	3,999
Change in fair value of investments	162	656
Interest expense	(15,263)	(5,867)
NET NONOPERATING REVENUES (EXPENSES)	(6,017)	7,127
INCOME BEFORE CAPITAL CONTRIBUTIONS	9,596	8,261
CAPITAL CONTRIBUTIONS		
State capital grants	16,678	-
CHANGE IN FUND EQUITY	26,274	8,261
TOTAL FUND EQUITY - Beginning	382,427	374,166
TOTAL FUND EQUITY - Ending	**$ 408,701**	**$ 382,427**

See Accompanying Notes to Financial Statements

HAMPTON ROADS SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 and 2008

Increase (Decrease) in Cash and Cash Equivalents

(in thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 151,298	$ 120,735
Other operating revenues	3,088	2,623
Cash payments to suppliers for goods and services	(70,976)	(63,427)
Cash payments to employees for services	(40,093)	(36,724)
Net cash provided by operating activities	43,317	23,207
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Wastewater facility charges	5,086	8,339
Acquisition and construction of property, plant and equipment	(132,710)	(112,394)
Proceeds from capital debt	12,816	299,570
Principal paid on capital debt	(12,584)	(83,324)
Contributions of capital from State government	16,678	-
Interest paid on capital debt	(15,218)	(5,524)
Net cash provided by (used in) capital and related financing activities	(125,932)	106,667
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(12,105)	(46,395)
Sales and maturities of investments	38,012	51,000
Interest and dividends on investments	4,422	3,766
Net cash provided by investing activities	30,329	8,371
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(52,286)	138,245
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	163,733	25,488
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 111,447	$ 163,733

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	2009	2008
Operating income	$ 15,613	$ 1,134
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	28,414	27,282
(Increase) decrease in operating assets		
Accounts receivable	(3,076)	(7,725)
Net change in other current assets	689	(88)
Increase (decrease) in operating liabilities		
Trade and contracts payable	1,327	1,415
Accrued salaries and wages	317	220
Compensated absences	430	390
Net change in other liabilities	(397)	579
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 43,317	$ 23,207

See Accompanying Notes to Financial Statements

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 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 investment.

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 is granted corporate powers by the General Assembly. The Governor appoints the Commission members, who serve at his pleasure. HRSD is a reportable component unit of the Commonwealth. The Commonwealth is not obligated to repay HRSD’s debt. HRSD derives its revenue primarily from charges for wastewater treatment services. HRSD has no property assessment or taxing authority.

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.

Budgets

HRSD operates in accordance with annual operating and capital budgets prepared on a modified accrual basis of accounting. The operating budget is adopted by department. Budgetary controls are exercised administratively at the department level. The General Manager is authorized to transfer funds among departments without further approval by the Commission. Appropriations lapse at the end of the fiscal year.

The capital budget is adopted on a project basis. Transfers among projects require approval by the Commission. Appropriations for these budgets continue until the purpose of the appropriation has been fulfilled.

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. Noncurrent restricted cash and cash equivalents are revenue bond proceeds held for the construction of noncurrent assets (see Note 3).

Investments

Investments, which consist primarily of U.S. government obligations including agencies, are reported 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 its bad debt experience. The balance in the allowance for uncollectible accounts is considered to be sufficient to cover anticipated losses on reported receivable balances.

Property, Plant and Equipment

Property, plant and equipment purchased or constructed are reported 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 reported 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 operating expense.

Revenue Recognition

Wastewater treatment charges are computed based on a user's 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 a new connection's water meter size and are recognized as revenue prior to the issuance of a building permit.

Operating and Nonoperating 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, capital grants and interest expense.

Compensated Absences

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 annual leave when 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. After five years of service with HRSD, an employee has vested rights to 35 percent of accumulated sick leave to a maximum of $10,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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, 2009 and 2008, the carrying values of HRSD's deposits were $5,522,000 and $4,975,000, respectively, and the bank balances were $11,624,000 and $7,068,000, respectively. All of the bank balances at June 30, 2009 and 2008 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 percent 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 had petty cash of $6,000 at June 30, 2009.

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, 2009 and 2008, HRSD had deposits in Merrill Lynch's FFI Government Fund that were rated AAA by Standard & Poor's. The Treasury Board of Virginia provides LGIP oversight. HRSD's investment in the Commonwealth of Virginia Local Government Investment Pool (LGIP) was rated AAAm by Standard & Poor's.

Concentration of Credit Risk. As of June 30, 2009 and 2008, HRSD invested $72,218,000 and $33,500,000, respectively, in the LGIP and $8,799,000 and $3,382,000, respectively, in Merrill Lynch's Government Fund. As of June 30, 2009 and 2008, HRSD invested $24,902,000 and $121,850,000 in the State Non-Arbitrage Program (SNAP). Merrill Lynch's FFI Government Fund (SEC registered), LGIP and SNAP are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form. The LGIP and SNAP maintain a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Both funds share price valuations use a constant $1.00 net asset value. HRSD's investment policy allows up to 100 percent in deposits in money market funds and up to 100 percent in deposits in LGIP.

Investments

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

(in thousands)			Investment Maturities (in years)		
Investment Type		Fair Value	Less Than 1	1-3	4-6
2009					
U.S. Agencies		$ 20,413	$ 4,100	$ 9,084	$ 7,229
	Total	$ 20,413	$ 4,100	$ 9,084	$ 7,229
Investment Type		Fair Value	Less Than 1	1-3	4-6
2008					
U.S. Agencies		$ 46,158	$ 8,039	$ 14,936	$ 23,183
	Total	$ 46,158	$ 8,039	$ 14,936	$ 23,183

Interest Rate Risk. In accordance with its investment policy, HRSD manages its exposure to declines in fair values by limiting the weighted average maturity of various portfolios in a manner that meets HRSD's liquidity needs.

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 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, 2009 and 2008, the Trust Department of the Bank of New York held $20,413,000 and $46,158,000 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 U.S. Agency securities were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of Credit Risk. Generally, HRSD's investment policy includes a 5 percent maximum for each issuer for its investments. U.S. Treasury obligations are not subject to issuer limits. Federal agency obligations and repurchase agreements are limited to 35 percent per issuer. Corporate notes and negotiable certificates of deposit are limited to 3 percent per issuer. Money market funds and local government investment pools are each limited to 50 percent per issuer. Collateralized bank deposits are limited to 25 percent per issuer.

The change in fair value is calculated as follows:

(in thousands)	2009	2008
Fair value of investments, end of year	$ 20,413	$ 46,158
Add: Proceeds of investments sold or maturing during the year	38,012	51,000
Less: Cost of investments purchased during the year	(12,105)	(46,395)
Less: Fair value of investments, beginning of year	(46,158)	(50,107)
Change in fair value of investments	$ 162	$ 656

The components of restricted cash and cash equivalents are as follows:

(in thousands)	2009	2008
Revenue bond construction funds	$ 24,902	$ 121,850
Debt service	7,542	7,377
Cash and cash equivalents - Restricted	$ 32,444	$ 129,227

NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

An analysis of the allowance for uncollectible accounts at June 30 is as follows:

(in thousands)	2009	2008
Balance, beginning of year	$ 975	$ 700
Add: Current provision for uncollectible accounts	2,268	1,124
Less: Charge-off of uncollectible accounts	(1,493)	(849)
Balance, end of year	$ 1,750	$ 975

HRSD's collection ratio for the years ended June 30, 2009 and 2008 was 98.8 percent and 99.3 percent, respectively.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

(in thousands)	Balance 6/30/07	Additions	Retirements	Balance 6/30/08	Additions	Retirements	Balance 6/30/09
Non-Depreciable Capital Assets							
Land	$ 4,967	$ -	$ -	$ 4,967	$ -	$ -	$ 4,967
Construction in progress	51,967	90,046	(17,041)	124,972	136,030	(7,907)	253,095
Depreciable Capital Assets							
Treatment plants	619,954	7,363	-	627,317	1,326	-	628,643
Interceptor systems	257,969	15,729	-	273,698	8,659	-	282,357
Small community facilities	4,880	2,946	-	7,826	-	-	7,826
Buildings	19,855	421	-	20,276	997	-	21,273
Office equipment	24,337	6,001	-	30,338	1,477	-	31,815
Automotive	11,061	1,184	(179)	12,066	838	(430)	12,474
Other equipment	8,685	3,369	-	12,054	720	-	12,774
Total	$ 1,003,675	$ 127,059	$ (17,220)	$ 1,113,514	$ 150,047	$ (8,337)	$ 1,255,224
Less accumulated depreciation:							
Treatment plants	(416,897)	(17,122)	-	(434,019)	(17,287)	-	(451,306)
Interceptor systems	(87,593)	(5,062)	-	(92,655)	(5,305)	-	(97,960)
Small community facilities	(2,782)	(427)	-	(3,209)	(416)	-	(3,625)
Buildings	(10,329)	(656)	-	(10,985)	(662)	-	(11,647)
Office equipment	(11,592)	(2,575)	-	(14,167)	(3,015)	-	(17,182)
Automotive	(8,803)	(932)	179	(9,556)	(995)	430	(10,121)
Other equipment	(7,313)	(508)	-	(7,821)	(734)	-	(8,555)
Total accumulated depreciation	(545,309)	(27,282)	179	(572,412)	(28,414)	430	(600,396)
Net property, plant and equipment	$ 458,366	$ 99,777	$ (17,041)	$ 541,102	$ 121,633	$ (7,907)	$ 654,828

NOTE 6 - COMPENSATED ABSENCES

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

(in thousands)	2009	2008
Annual leave	$ 4,130	$ 3,700
Sick leave	2,760	2,770
Compensatory leave	190	180
Total	$ 7,080	$ 6,650

NOTE 7 - DEFINED BENEFITS PLANS

Post-Retirement Health Benefit Plan

HRSD provides other post employment benefits (OPEB) for its employees through a single employer defined benefit plan. The plan was established and may be amended by the Commission.

Plan Description. HRSD's plan provides a choice of three different health and dental benefit plans that eligible retired employees and their beneficiaries (members) may choose from. Plan benefits vest after 15 years of service and when a member qualifies for unreduced retirement benefits from the Virginia Retirement System. Participating beneficiaries may continue coverage under the plan after the death of the retiree.

Funding Policy. Contribution requirements are actuarially determined. Funding is subject to approval by the Commission. Members contribute $45 per month for retiree-only coverage for all benefit plans and depending on the benefit plan choice, $45 to $1,117 per month for retiree and minor to retiree and family coverage. HRSD contributes at a rate that is based on an actuarial valuation. The current rate is 7.6 percent of annual covered payroll.

Annual OPEB Cost. HRSD's annual OPEB cost under the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of the Governmental Accounting Standards Board Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ARC represents a level of funding that, if paid on an onging basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Information related to the HRSD's annual OPEB cost, ARC, actual contributions, and changes to the net OPEB obligation is as follows:

Fiscal Year Ended	ARC	Actuarial Adjustment	Annual OPEB Cost	Percentage of Annual ARC Contributed	Net OPEB Obligation
2009	$ 1,861,933	$ 991,067	$ 2,853,000	100%	$ 991,067
2008	$ 1,755,801	$ -	$ 1,755,801	100%	$ -

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2009 was as follows:

Actuarial accrued liability (AAL)	$ 36,550,000
Value of plan assets	14,922,000
Unfunded actuarial accrued liability (UAAL)	$ 21,628,000
Funded ratio (actuarial value of plan assets/AAL)	40.8%
Annual covered payroll (active plan members)	$ 37,431,000
UAAL as a percentage of covered payroll	57.8%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the possibility of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by HRSD and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. The actuarial value of plan assets is equal to market value.

Additional information at June 30, 2009, the date of the most recent valuation, follows:

Actuarial valuation method	Projected unit credit method
Amortization cost method	Level Percent of Pay, Closed
Remaining amortization period	28 Years
Asset valuation method	Five-Year Smoothed Market Value
Actuarial assumptions:	
Discount rate	6.0%
Annual healthcare cost trend	8.5% initially reducing to 5.7% after 5 years
Assumed rate of inflation	3.2%

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 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 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 percent of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5 percent per year. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia 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 is available on their website at http://www.varetire.org/Pdf/Publications/2008annurept.pdf or may be obtained by writing to VRS at P.O. Box 2500, Richmond, Virginia, 23218-2500.

At June 30, 2008, the date of the most recent valuation, the plan contained 664 active, 283 inactive and 244 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 of Pay, Open
Payroll growth rate	3.0%
Remaining amortization period	20 Years
Asset valuation method	Five-Year Smoothed Market Value
Actuarial assumptions:	
Investment rate of return[1]	7.5%
Projected salary increases[1]	3.75% to 5.60%
Cost-of-living adjustments	2.5%

[1] includes inflation at 2.5 %

Funding Policy. Employees are required by Title 51.1 of the Code of Virginia to contribute 5 percent of their annual salary to the VRS. This 5 percent 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 (including the 5 percent member contribution assumed by HRSD) for the fiscal year ended June 30, 2009 was 10.08 percent of annual covered payroll. Actual contributions by HRSD totaled $3,699,000, $4,363,000 and $4,429,000, which were 100 percent of the Annual Required Contribution (ARC) for 2009, 2008 and 2007 respectively. HRSD has no Net Pension Obligation at June 30, 2009, 2008 or 2007.

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2008 was as follows:

(in thousands)	
Actuarial accrued liability (AAL)	$ 134,460
Actuarial value of plan assets	125,771
Unfunded actuarial accrued liability (UAAL)	$ 8,689
Funded ratio (actuarial value of plan assets/AAL)	93.54%
Annual covered payroll (active plan members)	$ 34,050
UAAL as a percentage of covered payroll	25.52%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 8 - Long-term Debt

HRSD issues revenue bonds for various capital improvements including but not limited to wastewater treatment plants and interceptor system improvements. In addition, to HRDS's publically issued revenue bonds, HRSD is indebted for bond issues payable to the Virginia Resources Authority (VRA) as administrator of the Virginia Water Facilities Fund. 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 6/30/07	Additions	Deductions	Balance at 6/30/08	Additions	Deductions	Balance at 6/30/09
Series-2008	$ -	$ 223,170	$ -	$ 223,170	$ -	$ 2,000	$ 221,170
Series-2003	35,855	-	3,390	32,465	-	3,470	28,995
Commercial paper	-	74,000	74,000	-	-	-	-
Virginia Resources Authority							
Senior bonds	-	-	-	-	2,714	-	2,714
Subordinate bonds	107,803	2,400	5,934	104,269	10,102	7,114	107,257
Total Bonds Outstanding	$ 143,658	$ 299,570	$ 83,324	$ 359,904	$ 12,816	$ 12,584	$ 360,136

A summary of the senior bonds outstanding at June 30, 2009 is as follows:

(in thousands)	Total Amount	Principal Outstanding Current	Principal Outstanding Long-Term	Interest to Maturity	Interest Rates	Duration of Issue	Final Maturity
Series - 2003	$ 28,995	$ 3,590	$ 25,405	$ 4,090	3.34 - 5.00%	12 years	October 1, 2015
Series - 2008	221,170	2,000	219,170	213,632	3.00 - 5.00%	30 years	July 1, 2038
VRA	2,714	-	2,714	7,182	3.35%	20 years	September, 2031
Total	$ 252,879	$ 5,590	$ 247,289	$ 224,904			

The total amount available on the VRA loan is $19,140,000, of which $2,714,000 was outstanding at June 30, 2009.

Maturities of senior bond principal and interest was as follows:

(in thousands)

June 30	Principal	Interest
2010	$ 5,590	$ 11,755
2011	5,845	11,509
2012	6,010	11,285
2013	6,250	11,729
2014	6,399	11,487
2015-2019	28,169	53,482
2020-2024	35,631	46,784
2025-2029	45,245	36,439
2030-2034	57,256	23,200
2035-2038	56,484	7,234
	$ 252,879	$ 224,904

A summary of subordinate revenue bonds outstanding at June 30, 2009 was as follows:

(in thousands)	Principal Outstanding Total	Current	Long-term	Interest to Maturity	True Interest Cost	Duration of Issue	Final Maturity
Smithfield	$ 6,674	$ 1,005	$ 5,669	$ 899	4.00%	20 years	June 1, 2015
Nansemond I	19,606	2,290	17,316	3,282	4.00%	20 years	December 1, 2016
Nansemond II	7,647	893	6,754	1,280	4.00%	20 years	December 1, 2016
CE/AB	2,845	300	2,545	608	4.75%	20 years	June 1, 2017
Disinfection	4,188	318	3,870	894	3.50%	20 years	March 1, 2020
Middle Peninsula	288	20	268	90	4.75%	20 years	December 1, 2020
Gen & Odor Control	2,709	179	2,530	748	4.10%	20 years	June 1, 2021
BH Odor	1,680	109	1,571	409	3.50%	20 years	September 1, 2021
York River Reuse	1,837	116	1,721	338	2.50%	20 years	September 1, 2022
AB Aeration	1,346	78	1,268	382	3.75%	20 years	October 1, 2022
Ches-Eliz Off Gas	799	44	755	235	3.75%	20 years	March 1, 2023
AB Generator	1,113	51	1,062	316	3.00%	20 years	April 1, 2026
Atlantic Expansion	6,918	292	6,626	2,161	3.10%	20 years	February 1, 2027
Ches-Eliz Expansion	37,992	1,619	36,373	11,454	3.00%	20 years	June 1, 2027
Williamsburg PS	1,513	63	1,450	496	3.10%	20 years	July 1, 2027
York River Expansion	10,102	-	10,102	11,827	3.55%	20 years	September 1, 1931
Total	$ 107,257	$ 7,377	$ 99,880	$ 35,419			

Maturities of subordinate bond principal and interest was as follows:
(in thousands)

June 30,	Principal	Interest
2010	$ 7,377	$ 3,316
2011	7,654	3,040
2012	7,942	2,753
2013	8,614	3,510
2014	8,938	3,165
2015-2019	32,620	10,947
2020-2024	19,758	6,089
2025-2029	12,821	2,324
2030-2032	1,533	275
	$ 107,257	$ 35,419

The total amount available on the VRA York River Expansion Loan is $30,000,000 of which $10,102,000 was outstanding at June 30, 2009.

NOTE 9 - FUND EQUITY

Restricted Equity

Restricted equity represents funds set aside in accordance with HRSD's Trust Agreement for its revenue bond debt service.

Unrestricted Equity

Reserved for Improvement. HRSD's Master Trust Agreement requires a reserve for improvements. There is no specific funding mechanism established by the Trust Agreement. At June 30, 2009 and 2008, $12,471,000 and $10,534,000, respectively, 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, 2009 and 2008.

Reserved for Construction. A reserve for the construction program is based on funds designated by HRSD's Commission for such purposes. At June 30, 2009 and 2008, $24,758,000 and $24,319,000, 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, 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 – COMMITMENTS AND CONTINGENCIES

In September 2007, the Commonwealth of Virginia entered into a regional consent agreement (the "State Consent Agreement") with HRSD and 13 of the localities that it serves. The State Consent Agreement requires agreed upon short and long-term operational and infrastructure improvements to the sewer systems of the HRSD 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 State Consent Agreement was developed, in large part, by HRSD and such localities.

As of the date hereof, HRSD is in full compliance with its obligations under the State Consent Agreement. HRSD continues to work with the localities to comply with its obligations under the State Consent Agreement and to support the localities with their obligations under the State Consent Agreement.

NOTE 12 - SUBSEQUENT EVENTS

On September 22, 2009 the Commission authorized HRSD to issue up to $180 million in Senior Wastewater Revenue Bonds payable over a period not to exceed 30 years. HRSD anticipates selling these bonds in November 2009.

During the fiscal year, HRSD was advised that $10.0 million and $24.2 million in loans were authorized by the Virginia Water Facilities Revolving Fund to partially fund improvements at the James River Treatment Plant and the development of an interceptor metering project, respectively. These 20-year loans are from the Virginia Resources Authority's recent Clean Water Revolving Fund Revenue Bond and each have an interest rate of 3.35 percent. HRSD has not yet closed on these loans.

The Environmental Protection Agency (EPA) and the Commonwealth have negotiated to embody HRSD's obligations under the State Consent Agreement (described above in Note 11) in a federally enforceable consent decree (the “Federal Consent Decree”). The Federal Consent Decree was lodged with the U.S. District Court for the Eastern District of Virginia (the “District Court”) on September 30, 2009. It is anticipated that the District Court will enter the Federal Consent Decree in mid to late November, 2009. The Federal Consent Decree has three major aspects. First, it incorporates the requirement of the State Consent Agreement to develop a regional wet weather management plan to control sewer overflows. Second, it includes a requirement for HRSD to implement $140 million worth of projects identified out of a larger group of projects included in the current Capital Improvement Program over an eight-year period. Finally, the Federal Consent Decree imposes a $900,000 penalty for all sewer overflows which have occurred in HRSD’s system during the past seven years. The penalty will be payable 30 days after entry of the Federal Consent Decree by the District Court and has been accrued as an expense in these financial statements.

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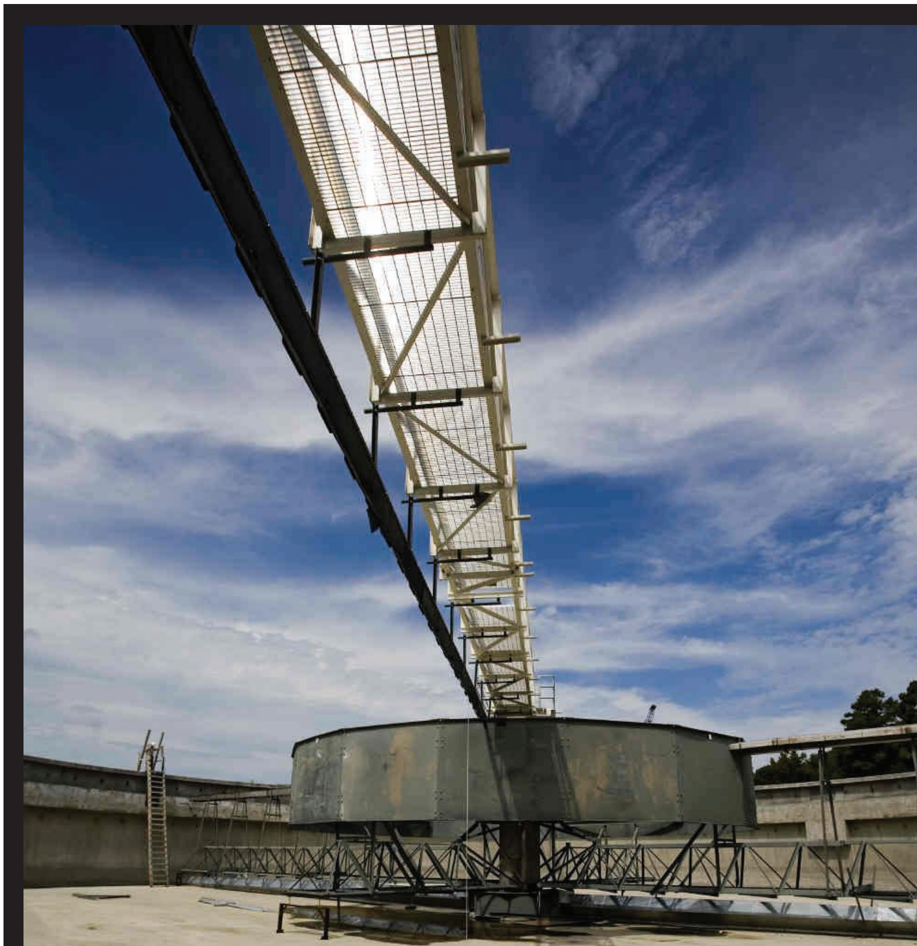

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

HAMPTON ROADS SANITATION DISTRICT
SCHEDULE OF FUNDING PROGRESS

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

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio Assets as % of AAL (1) / (2)	Annual Covered Payroll	UAAL as a % of Covered Payroll (3) / (5)
(in thousands)	(1)	(2)	(3)	(4)	(5)	(6)
6/30/2008	$125,771	$134,460	$8,689	94%	$34,050	25.5%
6/30/2007	$113,053	$123,574	$10,521	91%	$33,308	31.6%
6/30/2006	$97,664	$110,484	$12,820	88%	$29,820	43.0%
6/30/2005	$92,257	$108,521	$16,264	85%	$28,734	56.6%
6/30/2004	$89,773	$83,998	($5,775)	107%	$27,974	-20.6%

The table below provides detail on the funding progress for the Other Post Employment Benefits Plan

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (2) - (1)	Funded Ratio Assets as % of AAL (1) / (2)	Annual Covered Payroll	UAAL as a % of Covered Payroll (3) / (5)
(in thousands)	(1)	(2)	(3)	(4)	(5)	(6)
6/30/2009	$14,922	$36,550	$21,628	41%	$37,431	57.8%
6/30/2008	$13,002	$27,865	$14,863	47%	$34,458	43.1%

Unaudited – See accompanying independent auditors' report

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STATISTICAL SECTION
(UNAUDITED)

Statistical Section

This section 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.

Contents **Page(s)**

Unaudited – See accompanying independent auditors' report

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, 2009

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Date of Incorporation - 1940										
Area in Square Miles	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118	3,118	2,614
Present Service Area in Square Miles	672	672	672	672	672	672	733	733	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	4	4	3	3	3	3	3	3	2	2
King William Plant, King William County	0.1	0.1	-	-	-	-	-	-	-	-
Mathews Plant, Mathews County	0.1	0.1	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	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	0.6	0.6
Total Small Communities Treatment Plants Capacity	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.7
Miles of Interceptor Systems (note 1)	483	514	512	512	512	512	478	475	471	466
Interceptor Pump Stations	82	82	81	79	78	78	79	79	80	80
Small Communities Pump Stations	20	20	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; note 2)	452	442	461	457	451	448	440	427	427	420
Daily Average Treatment in Millions of Gallons	151	146	163	158	173	173	172	147	157	172
Bond Ratings										
Moody's Investors Service	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
Standard & Poor's (note 3)	AAA	AA+	AA	AA	AA	AA	AA	AA	AA	AA
Fitch	AA	AA	-	-	-	-	-	-	-	-

Note 1. During the year ended June 30, 2009, HRSD conducted an evaluation of the system and revised the miles of pipes.
Note 2. During the year ended June 30, 2008, HRSD installed a new customer billing system. As part of the implementation, certain accounts were combined to more closely align billing locations and service delivery, resulting in fewer total accounts.
Note 3. Standard & Poor's adjusted HRSD's bond rating to AAA in October, 2009.

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

(in thousands)	2009	2008	2007	2006
OPERATING REVENUES				
Wastewater treatment charges	$ 156,642	$ 129,583	$ 118,423	$ 106,208
Miscellaneous	3,088	2,623	3,558	3,419
TOTAL OPERATING REVENUES	159,730	132,206	121,981	109,627
OPERATING EXPENSES				
Wastewater treatment	86,850	72,034	68,930	67,496
General and administrative	28,853	31,756	26,070	21,820
Depreciation	28,414	27,282	24,958	24,509
TOTAL OPERATING EXPENSES	144,117	131,072	119,958	113,825
OPERATING INCOME (LOSS)	15,613	1,134	2,023	(4,198)
NONOPERATING REVENUES (EXPENSES)				
Wastewater facility charges	5,086	8,339	9,645	10,526
Investment income	3,998	3,999	3,363	2,896
Sale of land	-	-	-	-
Change in fair value of investments	162	656	994	(868)
Interest expense	(15,263)	(5,867)	(4,630)	(4,518)
NET NONOPERATING REVENUES (EXPENSES)	(6,017)	7,127	9,372	8,036
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEM	9,596	8,261	11,395	3,838
CAPITAL CONTRIBUTIONS				
Contributions from other governments	16,678	-	-	-
SPECIAL ITEM				
Prior service cost for post retirement health program	-	-	-	-
CHANGE IN FUND EQUITY	$ 26,274	$ 8,261	$ 11,395	$ 3,838
FUND EQUITY				
Investment in capital assets, net of related debt	$ 319,594	$ 301,760	$ 314,708	$ 282,177
Restricted for debt service	7,542	7,377	6,247	7,817
Unrestricted	81,565	73,290	53,211	72,777
TOTAL FUND EQUITY	$ 408,701	$ 382,427	$ 374,166	$ 362,771
DEBT SERVICE EXPENDITURES				
Senior debt	$ 17,489	$ 7,935	$ 5,735	$ 8,720
Subordinate debt	$ 10,478	$ 10,804	$ 8,041	$ 7,500
Senior Debt Coverage	3.05	5.22	7.15	3.77
Total Debt Coverage	1.90	2.21	2.97	2.03

2005	2004	2003	2002	2001	2000
$ 98,308	$ 96,894	$ 93,841	$ 93,819	$ 88,449	$ 83,331
3,354	4,453	3,483	3,949	3,977	3,570
101,662	101,347	97,324	97,768	92,426	86,901
59,041	55,106	55,448	52,324	51,991	49,478
20,509	19,522	18,118	17,659	15,789	15,604
24,912	26,230	27,475	26,926	26,312	26,455
104,462	100,858	101,041	96,909	94,092	91,537
(2,800)	489	(3,717)	859	(1,666)	(4,636)
10,579	10,554	8,677	7,727	5,580	5,379
2,349	2,151	3,488	4,572	5,185	4,890
-	-	4,517	-	-	-
343	(1,622)	(155)	(79)	1,956	(672)
(4,682)	(5,497)	(6,755)	(7,360)	(7,751)	(8,100)
8,589	5,586	9,772	4,860	4,970	1,497
5,789	6,075	6,055	5,719	3,304	(3,139)
-	-	-	2,114	-	2,165
-	-	(6,944)	-	-	-
$ 5,789	$ 6,075	$ (889)	$ 7,833	$ 3,304	$ (974)
$ 271,907	$ 260,808	$ 250,043	$ 242,427	$ 242,522	$ 250,121
6,871	5,772	7,062	10,243	9,920	10,205
80,155	86,564	89,964	95,288	87,683	76,495
$ 358,933	$ 353,144	$ 347,069	$ 347,958	$ 340,125	$ 336,821
$ 8,545	$ 8,744	$ 11,577	$ 15,092	$ 15,110	$ 15,126
$ 7,249	$ 7,250	$ 7,330	$ 7,005	$ 6,621	$ 6,190
4.14	4.32	3.48	2.65	2.47	2.08
2.24	2.36	2.13	1.81	1.72	1.47

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

(in thousands)	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Personal Services	$ 40,840	$ 37,333	$ 36,228	$ 32,045	$ 30,908	$ 30,664	$ 29,535	$ 29,375	$ 27,128	$ 26,739
Fringe Benefits	12,410	12,573	11,106	8,430	7,790	7,228	6,515	5,945	5,765	6,273
Repairs and Maintenance	14,176	10,704	11,101	13,036	9,523	6,912	8,761	6,951	8,616	5,652
Materials and Supplies	5,715	5,965	5,224	5,153	5,236	4,893	5,198	5,096	5,264	5,594
Transportation	972	965	802	855	716	652	647	609	644	546
Utilities	13,218	11,601	10,457	10,782	9,185	8,531	8,423	7,461	7,537	7,162
Chemicals	8,342	8,032	7,077	6,721	4,715	4,659	4,190	4,469	3,791	3,695
Contractual Services	8,642	9,064	7,828	7,108	6,733	6,617	6,321	6,136	6,168	6,304
Miscellaneous	1,028	897	720	642	736	655	607	589	593	581
General (1)	10,360	6,656	4,457	4,544	4,008	3,817	3,369	3,352	2,274	2,536
Subtotal, Expense before Depreciation	115,703	103,790	95,000	89,316	79,550	74,628	73,566	69,983	67,780	65,082
Depreciation	28,414	27,282	24,958	24,509	24,912	26,230	27,475	26,926	26,312	26,455
Total Operating Expenses	$ 144,117	$ 131,072	$ 119,958	$ 113,825	$ 104,462	$ 100,858	$ 101,041	$ 96,909	$ 94,092	$ 91,537

(1) Includes bad debt expense

HAMPTON ROADS SANITATION DISTRICT
RATIOS OF OUTSTANDING DEBT BY TYPE
JUNE 30, 2009

			(in thousands)			
As of June 30,	No. Of Service Conections		Senior Revenue Bonds	Virginia Resource Authority	Total Outstanding Debt	Debt Per Service Connection
2009	452,000		$ 250,165	$ 109,971	$ 360,136	$ 797
2008	442,000	*	255,635	104,269	359,904	814
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

* Note: During the year ended June 30, 2008, Hampton Roads Sanitation District installed a new customer billing system. As part of the implementation certain accounts were combined to more closely align billing locations and service delivery, resulting in fewer total accounts.

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

	2009	2008	2007	2006	2005	2004	2002 - 2003	2001	2000
Residential - Metered									
First 30 CCF* per 30-day period	$2.28	$1.98	$1.72	$1.52	$1.43	$1.39	$1.36	$1.32	$1.26
In excess of 30 CCF* per 30-day period	$2.06	$1.79	$1.55	$1.37	$1.29	$1.24	$1.22	$1.17	$1.11
Minimum Charges									
2 CCF* or less per 30-day period	6.50	5.65	4.91	4.34	4.08	3.96	-	-	-
Less than 200 cubic feet, billed monthly	-	-	-	-	-	-	3.86	3.75	3.60
Less than 500 cubic feet, billed bimonthly	-	-	-	-	-	-	7.72	7.50	7.20
Less than 800 cubic feet , billed quarterly	-	-	-	-	-	-	11.58	11.25	10.80
Residential - Unmetered	Per 30-Day Period								
First toilet	10.25	8.91	7.74	6.84	6.45	6.27	-	-	-
Billed Bimonthly	-	-	-	-	-	-	12.24	11.88	11.34
Billed Quarterly	-	-	-	-	-	-	18.36	17.82	17.01
Second toilet	6.83	5.94	5.16	4.56	4.30	4.18	-	-	-
Billed Bimonthly	-	-	-	-	-	-	8.16	7.92	7.56
Billed Quarterly	-	-	-	-	-	-	12.24	11.88	11.34
Additional, each	3.42	2.97	2.58	2.28	2.15	2.09	-	-	-
Billed Bimonthly	-	-	-	-	-	-	4.08	3.96	3.78
Billed Quarterly	-	-	-	-	-	-	6.12	5.94	5.67
Non-Residential - Special Category	Per Hundred Pounds								
Biochemical Oxygen Demand (BOD) Excess over 250 mg/liter	31.95	27.71	24.05	22.50	22.23	22.22	22.67	22.43	22.88
Suspended solids Excess over 250 mg/liter	28.54	24.82	22.51	20.30	19.96	19.13	18.88	18.16	17.50
Phosphorus Excess over 6 mg/liter	283.10	252.52	239.83	210.59	188.76	167.00	147.11	139.00	129.00
Total Kjeldahl Nitrogen Excess over 35 mg/liter	59.73	53.96	28.54	24.37	23.99	22.90	22.50	20.90	20.36
Unusual wastes not covered	may be assigned a special rate								
Septic Tank Waste									
Per each 500 gallons or part thereof	35.84	31.21	28.05	25.45	24.82	24.14	23.64	23.00	22.50

*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

		2009	2008	2007	2006	2005	2004	2003	2002	2001-2000
Residential		$ 1,655	$ 1,607	$ 1,540	$ 1,465	$ 1,355	$ 1,300	$ 1,240	$ 1,205	$ 720
Commercial/Industrial										
5/8"	Meter	$ 1,655	$ 1,607	$ 1,540	$ 1,465	$ 1,355	$ 1,300	$ 1,240	$ 1,205	$ 720
3/4"	Meter	2,515	2,443	2,340	2,230	2,060	1,975	1,880	1,860	1,110
1"	Meter	4,685	4,548	4,350	4,150	3,835	3,680	3,500	3,415	2,040
1 1/2"	Meter	11,365	11,040	10,565	10,065	9,310	8,935	8,495	8,285	4,950
2"	Meter	21,290	20,681	19,785	18,855	17,435	16,735	15,915	15,515	9,270
3"	Meter	51,565	50,088	47,920	45,670	42,225	40,525	38,545	37,575	22,450
4"	Meter	96,660	93,892	89,830	85,605	79,155	75,970	72,255	70,410	42,070
6"	Meter	234,260	227,556	217,710	207,470	191,840	184,120	175,110	170,640	101,960
8"	Meter	428,875	426,315	407,870	388,685	359,405	344,940	328,065	319,810	191,090
10"	Meter	714,355	693,915	663,890	632,665	585,000	561,460	533,990	520,360	310,920

Note: One charge per connection.

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
District Total										
Flow (MGD)	151.4	146.3	163.3	157.5	172.7	173.0	172.0	146.6	157.6	171.9
Influent										
BOD (1,000 lbs.)	300.9	332.1	346.3	357.3	358.6	385.0	357.8	358.8	344.9	315.1
TSS (1,000 lbs.)	203.6	211.3	224.0	225.0	230.4	281.4	217.9	206.1	210.5	218.4
TP (1,000 lbs.)	7.8	6.7	7.2	6.7	8.3	7.1	6.7	6.7	6.7	6.7
TKN (1,000 lbs.)	49.0	51.4	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	8.7	9.2	10.9	9.6	12.7	14.0	14.9	10.8	10.5	10.3
TSS (1,000 lbs.)	10.5	10.8	11.5	11.0	14.7	15.5	13.4	10.3	10.2	12.3
TP (1,000 lbs.)	1.0	1.1	1.1	1.2	1.3	1.5	1.4	1.4	1.3	1.4
TKN (1,000 lbs.)	13.3	11.2	-	-	-	-	-	-	-	-
Army Base Plant										
Flow (MGD)	10.4	9.7	11.3	11.3	12.5	13.1	13.1	10.9	12.3	13.1
Influent										
BOD (1,000 lbs.)	18.1	18.9	19.5	21.7	21.0	21.5	20.8	22.1	20.0	17.8
TSS (1,000 lbs.)	12.9	13.0	13.8	14.4	14.5	14.5	14.3	15.7	15.1	14.7
TP (1,000 lbs.)	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5
TKN (1,000 lbs.)	3.1	3.4	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.8	1.0	0.9	0.8	0.8	1.1	0.9	0.7	0.4	0.4
TSS (1,000 lbs.)	0.8	1.1	0.9	0.9	1.0	1.3	1.0	0.6	0.7	0.8
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
TKN (1,000 lbs.)	2.3	2.4	-	-	-	-	-	-	-	-
Atlantic Plant										
Flow (MGD)	26.6	26.3	29.4	30.2	31.1	30.0	30.0	27.0	27.9	28.9
Influent										
BOD (1,000 lbs.)	52.0	55.7	58.2	61.6	63.6	77.2	63.3	63.4	60.3	55.3
TSS (1,000 lbs.)	40.2	41.7	46.3	47.1	47.4	92.6	40.6	38.5	38.7	39.5
TP (1,000 lbs.)	1.9	-	-	-	-	-	-	-	-	-
TKN (1,000 lbs.)	10.5	10.7	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	1.8	1.9	2.0	2.2	3.2	3.9	3.9	2.4	2.3	1.3
TSS (1,000 lbs.)	2.2	2.0	2.1	2.7	4.2	3.8	3.0	1.7	2.1	1.7
Boat Harbor Plant										
Flow (MGD)	13.0	11.6	14.6	13.7	15.3	16.4	15.6	11.3	12.8	15.5
Influent										
BOD (1,000 lbs.)	19.9	19.6	21.4	23.6	22.7	25.2	22.0	22.0	21.6	20.7
TSS (1,000 lbs.)	15.2	14.6	17.3	17.4	17.2	20.2	17.4	15.2	17.0	18.0
TP (1,000 lbs.)	0.5	0.5	0.6	0.6	2.0	0.7	0.5	0.5	0.5	0.6
TKN (1,000 lbs.)	3.6	3.6	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.6	0.9	1.5	1.3	1.3	1.8	2.2	1.4	1.8	1.6
TSS (1,000 lbs.)	0.7	0.7	1.2	0.8	1.3	1.5	1.8	1.0	1.3	1.3
TP (1,000 lbs.)	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2
TKN (1,000 lbs.)	2.6	2.3	-	-	-	-	-	-	-	-
Chesapeake-Elizabeth Plant										
Flow (MGD)	19.5	18.7	15.6	16.8	21.0	21.1	18.2	18.5	18.2	20.4
Influent										
BOD (1,000 lbs.)	36.0	38.3	30.8	35.0	41.8	42.8	35.4	42.3	37.3	36.7
TSS (1,000 lbs.)	27.1	27.5	21.5	23.4	28.2	27.3	21.6	25.8	23.7	26.6
TP (1,000 lbs.)	0.9	1.0	0.7	0.9	1.1	1.1	0.9	1.0	0.9	0.9
TKN (1,000 lbs.)	6.9	7.2	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	2.1	2.0	1.9	1.7	2.1	2.5	1.9	2.4	2.0	2.1
TSS (1,000 lbs.)	2.2	2.1	1.7	2.1	2.8	3.4	2.0	2.7	2.3	3.1
TP (1,000 lbs.)	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.3
TKN (1,000 lbs.)	4.2	3.8	-	-	-	-	-	-	-	-

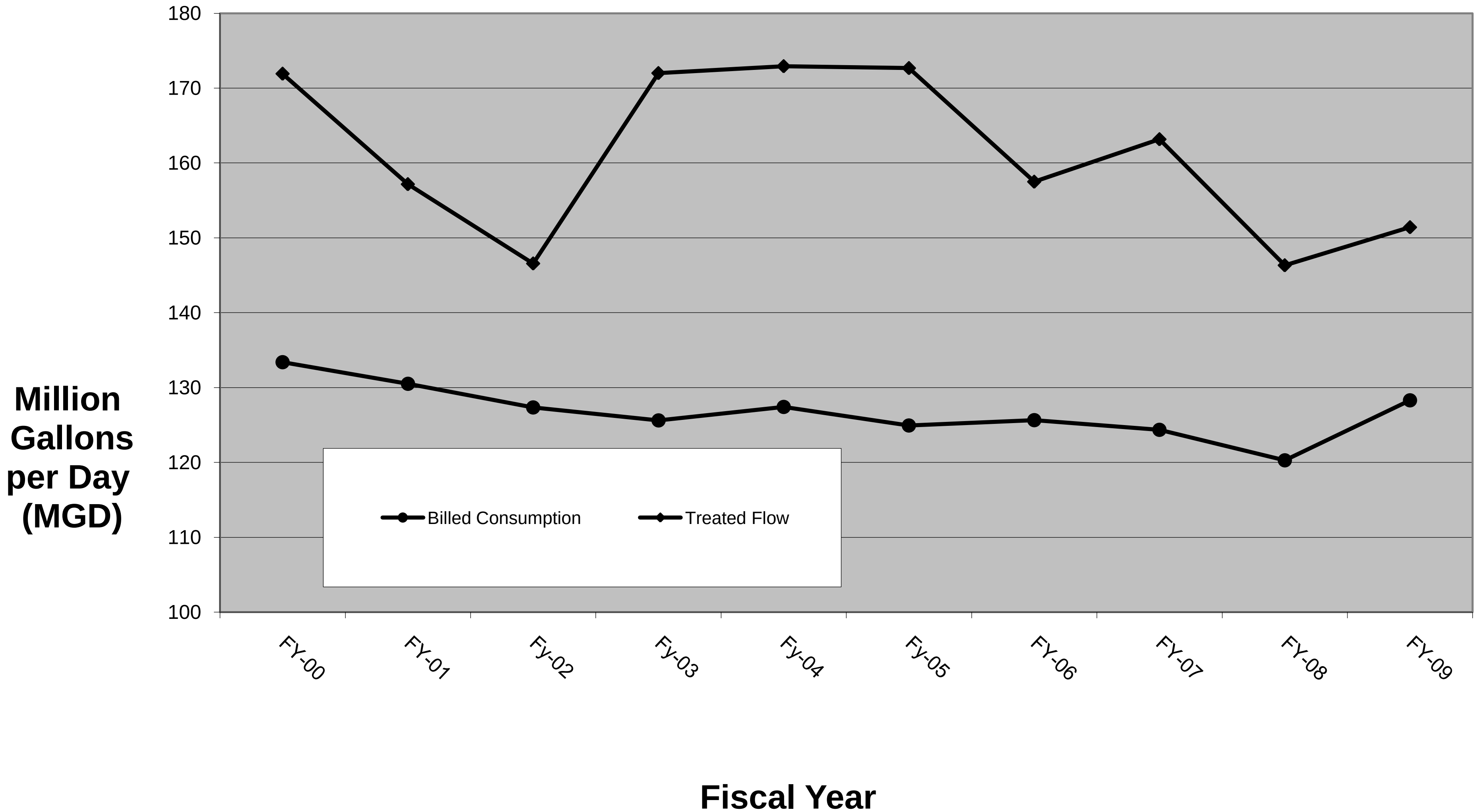
	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
James River Plant										
Flow (MGD)	12.3	12.7	15.1	12.5	15.3	15.2	14.7	12.8	13.4	15.0
Influent										
BOD (1,000 lbs.)	23.0	25.4	30.8	28.7	30.1	29.6	30.0	31.0	29.5	27.0
TSS (1,000 lbs.)	17.6	19.6	21.1	19.0	21.2	21.5	20.2	18.5	18.2	20.1
TP (1,000 lbs.)	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
TKN (1,000 lbs.)	4.2	4.2	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.8	1.1	1.2	0.7	1.4	0.9	1.0	1.2	0.6	1.2
TSS (1,000 lbs.)	1.4	1.5	1.4	0.9	1.3	1.1	1.1	1.1	0.7	1.7
TP (1,000 lbs.)	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
TKN (1,000 lbs.)	1.2	1.0	-	-	-	-	-	-	-	-
Nansemond Plant										
Flow (MGD)	17.1	17.2	18.7	17.9	20.8	20.5	19.6	16.6	18.0	19.7
Influent										
BOD (1,000 lbs.)	31.6	32.3	36.7	38.0	41.3	40.3	38.2	35.4	34.2	33.0
TSS (1,000 lbs.)	23.1	24.5	27.1	25.5	28.6	26.7	26.9	23.2	24.8	25.9
TP (1,000 lbs.)	1.1	1.3	1.7	1.3	1.5	1.6	1.5	1.4	1.4	1.4
TKN (1,000 lbs.)	6.2	6.4	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.7	0.6	0.8	0.7	1.3	1.0	1.1	0.8	0.8	0.9
TSS (1,000 lbs.)	1.0	1.4	1.5	1.2	1.6	1.7	1.3	1.2	0.8	1.2
TP (1,000 lbs.)	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
TKN (1,000 lbs.)	1.3	0.3	-	-	-	-	-	-	-	-
Virginia Initiative Plant										
Flow (MGD)	29.9	25.4	31.2	29.2	29.0	29.7	33.4	26.4	29.5	33.3
Influent										
BOD (1,000 lbs.)	46.9	47.2	50.3	48.5	43.5	45.8	50.4	49.9	47.3	41.6
TSS (1,000 lbs.)	31.1	27.3	31.6	32.0	29.6	32.1	33.7	31.1	33.4	32.5
TP (1,000 lbs.)	1.3	1.4	1.5	1.3	1.1	1.1	1.3	1.3	1.4	1.2
TKN (1,000 lbs.)	7.5	7.1	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	1.3	1.2	1.8	1.2	1.1	1.2	2.4	1.1	1.2	1.2
TSS (1,000 lbs.)	1.5	1.2	1.7	1.1	0.9	1.0	1.5	1.1	0.9	0.9
TP (1,000 lbs.)	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.1
TKN (1,000 lbs.)	1.5	1.1	-	-	-	-	-	-	-	-
Williamsburg Plant										
Flow (MGD)	12.0	14.4	15.1	14.5	15.0	14.6	15.3	13.6	14.9	14.7
Influent										
BOD (1,000 lbs.)	59.9	79.0	80.8	80.1	75.5	82.2	77.3	75.1	78.0	68.0
TSS (1,000 lbs.)	23.4	30.6	28.8	28.3	27.3	29.0	26.7	24.4	24.3	26.2
TP (1,000 lbs.)	0.8	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.9
TKN (1,000 lbs.)	4.3	5.2	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.3	0.4	0.4	0.3	0.6	0.6	0.8	0.3	0.6	0.6
TSS (1,000 lbs.)	0.3	0.5	0.5	0.6	0.7	0.8	1.0	0.3	0.8	0.9
TP (1,000 lbs.)	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
TKN (1,000 lbs.)	0.3	0.2	-	-	-	-	-	-	-	-
York River Plant										
Flow (MGD)	10.7	10.2	12.3	11.4	12.7	12.4	12.1	9.5	10.6	11.3
Influent										
BOD (1,000 lbs.)	15.5	15.8	17.8	20.1	19.1	20.4	20.4	17.6	16.7	15.0
TSS (1,000 lbs.)	12.6	12.4	16.5	17.9	16.4	17.5	16.5	13.7	15.3	14.9
TP (1,000 lbs.)	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
TKN (1,000 lbs.)	3.3	3.7	-	-	-	-	-	-	-	-
Effluent										
BOD (1,000 lbs.)	0.4	0.3	0.4	0.7	0.9	1.0	0.7	0.5	0.8	1.0
TSS (1,000 lbs.)	0.5	0.4	0.5	0.7	0.9	0.9	0.7	0.6	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
TKN (1,000 lbs.)	0.3	0.1	-	-	-	-	-	-	-	-

Note - HRSD implemented a surcharge for Total Kjeldahl Nitrogen (TKN) on July 1, 2007.

HAMPTON ROADS SANITATION DISTRICT
WASTEWATER TREATMENT CHARGES
TEN LARGEST CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO
(in thousands)

		2009		2000	
Customer	Type	Amount	Percent	Amount	Percent
Anheuser - Busch, Inc.	Brewery	$ 5,530	3.5%	$ 5,259	6.4%
U.S. Navy - Norfolk Naval Base	Military Facility	2,519	1.6%	1,562	1.9%
Smithfield Foods	Meat Processor	2,349	1.5%	1,930	2.3%
City of Norfolk	Municipality	1,448	0.9%	993	1.2%
Northrop Grumman Newport News	Shipbuilding	1,069	0.7%	364	0.4%
Norfolk Redevelopment & Housing Authority	Housing Authority	966	0.6%	613	0.7%
Fort Eustis	Military Facility	790	0.5%	-	-
U.S. Air Force - Langley Air Force Base	Military Facility	777	0.5%	668	0.8%
U.S. Navy - Little Creek Amphibious Base	Military Facility	617	0.4%	471	0.6%
City of Virginia Beach	Municipality	580	-	317	0.4%
Norfolk Naval Shipyard	Military Ship Repair	-	-	545	0.7%
Total		$ 16,645	10.2%	$ 12,722	15.4%

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
General Management										
General Manager	5	5	5	5	5	5	6	6	6	2
Human Resources	10	7	7	6	6	6	5	5	5	5
	15	12	12	11	11	11	11	11	11	7
Finance & Administration										
Accounting & Finance	10	10	10	10	10	10	10	10	11	11
Procurement	8	7	7	7	7	7	7	7	7	6
Support Staff	3	2	3	3	2	2	2	2	1	1
Total Finance & Administration	21	19	20	20	19	19	19	19	19	18
Information Services										
Customer Information Service	63	63	58	59	59	59	60	59	59	62
Information Technology	21	21	21	16	15	15	16	16	16	11
Support Staff	3	3	3	2	2	2	2	2	2	2
Total Information Services	87	87	82	77	76	76	78	77	77	75
Operations										
Army Base Treatment Plant	32	32	32	33	33	32	32	32	35	37
Atlantic Base Treatment Plant	33	33	33	33	33	33	33	35	36	37
Boat Harbor Treatment Plant	34	34	34	34	34	34	34	34	34	34
Ches.-Eliz. Treatment Plant	32	32	32	32	32	32	32	32	35	35
Interceptor System Maintenance	97	93	89	89	89	89	89	92	92	92
James River Treatment Plant	21	21	21	21	21	21	21	21	21	23
Maintenance Shops	80	78	78	76	74	70	66	66	65	63
Nansemond Treatment Plant	30	30	30	30	30	29	29	29	30	32
Virginia Initiative Plant	31	31	31	31	31	31	31	33	36	37
Williamsburg Treatment Plant	34	34	34	34	34	34	34	39	43	45
York River Treatment Plant	23	23	23	23	23	23	23	23	23	25
Middle Peninsula Division	16	15	13	12	12	13	13	13	10	8
Support Staff	30	30	30	37	36	33	34	31	29	28
Total - Operations	493	486	480	485	482	474	471	480	489	496
Engineering										
Design and Construction	15	14	14	14	14	14	14	14	11	11
Support Staff	14	13	13	3	4	4	4	4	7	7
Total - Engineering	29	27	27	17	18	18	18	18	18	18
Water Quality										
Industrial Waste	24	24	24	24	25	25	25	25	25	25
Technical Services	20	20	20	20	18	18	17	18	21	18
Laboratory	38	38	38	37	38	38	37	40	40	40
Support Staff	3	3	3	3	3	2	2	1	1	2
Total - Water Quality	85	85	85	84	84	83	81	84	87	85
Total Employees	730	716	706	694	690	681	678	689	701	699

OTHER SUPPLEMENTAL SECTION

(UNAUDITED)

HAMPTON ROADS SANITATION DISTRICT
SUMMARY OF PRIMARY BONDED DEBT SERVICE
JUNE 30, 2009

(in thousands)

As of June 30,	Senior Bonds Principal	Senior Bonds Interest	Senior Bonds Debt Service	Subordinate Bonds Debt Service	Total Debt Service
2010	5,590	11,755	17,345	10,693	28,038
2011	5,845	11,509	17,354	10,694	28,048
2012	6,010	11,285	17,295	10,695	27,990
2013	6,250	11,729	17,979	12,124	30,103
2014	6,399	11,487	17,886	12,103	29,989
2015	6,567	11,236	17,803	12,076	29,879
2016	6,755	10,959	17,714	10,786	28,500
2017	3,110	10,237	13,347	8,630	21,977
2018	5,579	10,648	16,227	6,055	22,282
2019	6,158	10,402	16,560	6,020	22,580
2020	6,467	10,070	16,537	5,992	22,529
2021	6,781	9,730	16,511	5,475	21,986
2022	7,110	9,375	16,485	5,053	21,538
2023	7,459	8,996	16,455	4,789	21,244
2024	7,814	8,613	16,427	4,538	20,965
2025	8,194	8,203	16,397	4,501	20,898
2026	8,604	7,766	16,370	4,462	20,832
2027	9,029	7,308	16,337	4,337	20,674
2028	9,474	6,832	16,306	955	17,261
2029	9,945	6,330	16,275	889	17,164
2030	10,436	5,800	16,236	843	17,079
2031	10,956	5,246	16,202	799	17,001
2032	11,502	4,664	16,166	167	16,333
2033	11,885	4,042	15,927	-	15,927
2034	12,480	3,448	15,928	-	15,928
2035	13,105	2,824	15,929	-	15,929
2036	13,760	2,168	15,928	-	15,928
2037	14,445	1,480	15,925	-	15,925
2038	15,170	762	15,932	-	15,932
Totals	$ 252,879	$ 224,904	$ 477,783	$ 142,676	$ 620,459

HAMPTON ROADS SANITATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009

(in thousands)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final Budget (over) under	Percent Variance
OPERATING BUDGET EXPENSES					
General Management	$ 1,932	$ 1,932	$ 1,656	$ 276	14.3%
Finance & Administration	2,061	2,061	1,876	185	9.0%
Information Services	12,161	12,362	12,262	100	0.8%
Operations	67,635	66,285	64,471	1,814	2.7%
Engineering	3,170	3,170	2,700	470	14.8%
Water Quality	8,829	8,829	8,202	627	7.1%
General	6,862	8,211	8,092	119	1.4%
Debt Service	28,149	28,149	27,596	553	2.0%
TOTAL	130,799	130,999	126,855	4,144	3.2%
IMPROVEMENT BUDGET EXPENSES					
Major Repairs and Replacements	7,086	7,086	4,700	2,386	33.7%
Improvements	2,426	2,511	1,043	1,468	58.5%
	9,512	9,597	5,743	3,854	40.2%
TOTAL	$ 140,311	$ 140,596	132,598	$ 7,998	5.7%
Add:					
Prior Year Major Repairs and Replacements carried over to current year			2,476		
Prior Year Improvements carried over to current year			931		
Unbudgeted Depreciation			28,414		
Unbudgeted Bad Debt Expense			2,268		
Capital Improvement Program items expensed			7,145		
Less:					
Capitalized items Major Repairs and Replacements			1,059		
Capitalized items Improvements			1,060		
Debt Service			27,596		
TOTAL OPERATING EXPENSES			$ 144,117		

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-09 was $130,798,794 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. There were several modifications to the Operating Budget during the year to reflect changes in spending patterns. The Improvement Budget as adopted for FY-09 was $9,512,400 and contains all major purchases of new equipment, replacement vehicles and major repairs and replacements. The Improvement Budget was modified one time during the year, totaling $85,000, resulting in a final budget of $9,597,400. All adjustments to the Annual Budget were approved from surplus fund balances or from transfers within or among departments. 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 3.12 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 its Operating and Improvement Budgets by March 1. All budgets are forwarded to the Quality Steering Team (QST) for review.

The HRSD Commission appoints a Finance Committee consisting of two Commissioners. The two Commissioners and the QST meet in early April to review the Budgets, which are presented by staff at the April Commission meeting. HRSD's Commission reviews 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 2008 Trust Agreement 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 accounting principles generally accepted in the United States of America. 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 a capital budget that identifies all major capital project requirements over the next five years. All operating budget amounts lapse at year-end. Specific improvement budget items may be carried over to subsequent years with the approval of the General Manager. The Commission annually adopts only the first year of the capital budget. 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, 2009

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)	Budget Variance Percentage
OPERATING REVENUE				
Wastewater treatment charges	$ 156,642	$ 154,500	$ 2,142	1%
Miscellaneous	3,088	1,568	1,520	97%
TOTAL REVENUES	159,730	156,068	3,662	2%
CURRENT EXPENDITURES				
General Management	1,656	1,932	276	14%
Finance & Administration	1,876	2,061	185	9%
Information Services	12,262	12,362	100	1%
Operations	64,471	66,285	1,814	3%
Engineering	2,700	3,170	470	15%
Water Quality	8,202	8,829	627	7%
Major Repairs & Replacements	7,032	7,085	53	1%
General	8,092	8,211	119	1%
TOTAL CURRENT EXPENDITURES	106,291	109,935	3,644	3%
EXCESS OF OPERATING REVENUES OVER EXPENDITURES	53,439	46,133	7,306	16%
NONOPERATING REVENUE				
Wastewater facility charges	5,086	9,000	(3,914)	(43%)
Investment income	4,160	3,052	1,108	36%
TOTAL NONOPERATING REVENUE	9,246	12,052	(2,806)	(23%)
INCOME BEFORE CAPITAL CONTRIBUTIONS	62,685	58,185	4,500	8%
CAPITAL CONTRIBUTIONS				
State capital grants	16,678	-	16,678	100%
AMOUNT AVAILABLE FOR DEBT	79,363	58,185	21,178	36%
DEBT EXPENDITURES				
Principal & Interest	27,596	28,149	553	2%
TOTAL DEBT EXPENDITURES	27,596	28,149	553	2%
AMOUNT AVAILABLE TO REINVEST	$ 51,767	$ 30,036	$ 21,731	72%

HAMPTON ROADS SANITATION DISTRICT
OBJECTIVE CLASSIFICATION OF DEPARTMENTAL EXPENDITURES
FOR OPERATIONS - ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(in thousands)	General Management	Finance & Administration	Information Services	Operations
Personal Services	$ 1,039	$ 1,242	$ 5,190	$ 26,167
Fringe Benefits	286	348	1,449	8,255
Materials and Supplies	19	47	1,888	2,988
Transportation	35	3	87	680
Utilities	1	-	1,000	12,205
Chemicals	-	-	-	8,342
Contractual Services	36	176	2,540	5,453
Miscellaneous	240	60	108	381
General	-	-	-	-
	$ 1,656	$ 1,876	$ 12,262	$ 64,471

Debt Expenditures

Total Departmental and Debt Expenditures

Engineering	Water Quality	General	Totals	Percent of Total	FY-2009 Budget	Variance Favorable/ (Unfavorable)
$ 1,940	$ 5,262	$ -	$ 40,840	32	$ 41,799	$ 959
520	1,552	-	12,410	10	13,443	1,033
15	758	-	5,715	5	5,840	125
31	136	-	972	1	1,143	171
4	8	-	13,218	10	13,297	79
-	-	-	8,342	7	8,566	224
143	294	-	8,642	7	9,287	645
47	192	-	1,028	1	1,264	236
-	-	8,092	8,092	6	8,211	119
$ 2,700	$ 8,202	$ 8,092	99,259	79	102,850	3,591
			27,596	21	28,149	553
			$ 126,855	100	$ 130,999	$ 4,144

HAMPTON ROADS SANITATION DISTRICT
DEPARTMENTAL SUMMARY OF EXPENDITURES
ACTUAL TO BUDGET
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

(In thousands)	Actual	Budget	Variance Favorable/ (Unfavorable)
GENERAL MANAGEMENT			
Personal Services	$ 1,039	1,128	$ 89
Fringe Benefits	286	352	66
Materials and Supplies	19	28	9
Transportation	35	38	3
Utilities	1	6	5
Contractual Services	36	87	51
Miscellaneous	240	293	53
	1,656	1,932	276
FINANCE & ADMINISTRATION			
Personal Services	1,242	1,281	39
Fringe Benefits	348	455	107
Materials and Supplies	47	53	6
Transportation	3	4	1
Contractual Services	176	203	27
Miscellaneous	60	65	5
	1,876	2,061	185
INFORMATION SERVICES			
Personal Services	5,190	5,218	28
Fringe Benefits	1,449	1,468	19
Materials and Supplies	1,888	1,902	14
Transportation	87	100	13
Utilities	1,000	1,008	8
Contractual Services	2,540	2,546	6
Miscellaneous	108	120	12
	12,262	12,362	100
OPERATIONS			
Personal Services	26,167	26,801	634
Fringe Benefits	8,255	8,717	462
Materials and Supplies	2,988	3,008	20
Transportation	680	792	112
Utilities	12,205	12,238	33
Chemicals	8,342	8,566	224
Contractual Services	5,453	5,707	254
Miscellaneous	381	456	75
	64,471	66,285	1,814

	Actual	Budget	Variance Favorable/ (Unfavorable)
ENGINEERING			
Personal Services	1,940	2,108	168
Fringe Benefits	520	675	155
Materials and Supplies	15	19	4
Transportation	31	35	4
Utilities	4	21	17
Contractual Services	143	239	96
Miscellaneous	47	73	26
	2,700	3,170	470
WATER QUALITY			
Personal Services	5,262	5,263	1
Fringe Benefits	1,552	1,776	224
Materials and Supplies	758	830	72
Transportation	136	174	38
Utilities	8	24	16
Contractual Services	294	505	211
Miscellaneous	192	257	65
	8,202	8,829	627
GENERAL			
Personal Services	175	189	14
Fringe Benefits	2,896	2,938	42
Materials and Supplies	124	128	4
Utilities	441	465	24
Contractual Services	810	820	10
Apprentice Program	128	134	6
Insurance	2,124	2,125	1
District Memberships	240	249	9
Miscellaneous	1,154	1,163	9
	8,092	8,211	119
TOTAL DEPARTMENTAL EXPENDITURES	$ 99,259	$ 102,850	$ 3,591

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HRSD has undertaken the largest Capital Improvement Program in its history to achieve our 2020 Vision: Future generations will inherit clean waterways and be able to keep them clean. The photos featured in this report depict a few of the many projects underway to reduce nutrients discharged to the Chesapeake Bay and to upgrade HRSD's infrastructure.

We thank the following for permission to use these images: HDR, Inc.—Expansion of Atlantic Treatment Plant in Virginia Beach (Cover); Ann Copeland, P.E., HRSD Project Manager—Installation of a temporary by-pass as part of a force main replacement in Hampton (Introductory Section); Hazen and Sawyer—New aeration tank at Nansemond Treatment Plant in Suffolk (Financial Section); HDR, Inc.—New bar screens at Atlantic Treatment Plant (Required Supplementary Information); Mark Rhodes—New denitrification filter building at York River Treatment Plant in Seaford (Statistical Section); HDR, Inc.—New secondary clarifier at Atlantic Treatment Plant (Other Supplemental Section); and Ann Copeland, P.E., HRSD Project Manager— Valve assembly awaiting installation at the Big Bethel pressure reducing station (Back Cover).

HAMPTON ROADS SANITATION DISTRICT
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APPENDIX B

CERTAIN DEFINITIONS

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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. The Series 2009 Bonds constitute Additional Bonds for purpose of the Trust Agreement.

"**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, the Series 2009 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 at 919 East Main Street, Suite 1602, Richmond, Virginia 23219, 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 Series 2009 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 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 the 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.

"**Financial Statements**" means the unaudited financial statements of the District for the Fiscal Year or other period indicated, pro forma or otherwise, and containing the same financial information as the Audited Financial Statements.

"**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) depositary 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 (but not Hedged Fixed 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**" means 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 bellow 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 Audited 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 and other Senior Obligations under the Trust Agreement.

"**Series 2008 Bonds**" or "**2008 Bonds**" means the District's Wastewater Revenue Bonds, Series 2008 issued in the initial aggregate principal amount of $74,000,000 and secured on a parity with the Bonds, the Series 2009 Bonds, and other Senior Obligations under the Trust Agreement.

"**Series Agreement**" means the supplemental trust agreement entered into or the resolution adopted by the Commission providing for the issuance of 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 Mellon Trust Company, N.A., 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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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS 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 2009 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, as derived from the most recent Financial Statements for the most recent Fiscal Year 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 written 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 Tax-Exempt 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 under the Trust Agreement, 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, to the extent practicable in accordance with the instructions of a District Representative, 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 Audited 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. Any Independent Consultant so retained will be required to submit such recommendations within 45 days after being retained. 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; provided that such Indebtedness may only be incurred in the manner and pursuant to the terms described below:

(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 workers' compensation, unemployment insurance, pension or profit sharing plans or other 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 that was 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;

(ix) 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 described in this paragraph (a) 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 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 (i) in the case of an Event of Default specified in (a) or (b) in the immediately proceeding paragraph, to collect the payments of interest installments or principal then due under the Trust Agreement or the Bonds, or (ii) in the case of an Event of Default specified in (c) in the immediately preceding paragraph, 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, by notice in writing to the District, 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 (Bonds then due and payable only because of a declaration of acceleration are not deemed to be 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 written 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 a reasonable 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 within 30 days after the Trustee has notice thereof, provided, however, except upon the occurrence 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 (either by their terms or by acceleration of maturities under the provisions of the Trust Agreement), 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 Trust Agreement and 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) above.

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.

Defeasance of Series 2009B Taxable Bonds

Under the terms of the related Supplement, the District at any time may terminate (i) all its obligations under the applicable Supplement ("Legal Defeasance Option") or (ii) its obligations in respect of certain covenants made therein and in the Trust Agreement, and the operation of the event of default described above in (c) under the heading "Events of Default" ("Covenant Defeasance Option") with respect to affected Series 2009B Taxable Bonds. The District may exercise the Legal Defeasance Option notwithstanding its prior exercise of the Covenant Defeasance Option.

If the District exercises the Legal Defeasance Option, the maturity of the Series 2009B Taxable Bonds may not be accelerated because of an Event of Default. If the District exercises the Covenant Defeasance Option, the maturity of the Series 2009B Taxable Bonds may not be accelerated because of an Event of Default specified in the event of default described above in (c) under the heading "Events of Default."

Notwithstanding the exercise of either the Legal Defeasance Option or Covenant Defeasance Option or both, (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, destroyed, lost or stolen Series 2009B Taxable Bonds, (iii) rights of Holders to receive payments of principal, premium, if any, and interest, (iv) rights relating to the application of Trust funds, (v) the rights, obligations and immunities of the Trustee under the Trust Agreement and (vi) the rights of Holders as beneficiaries of the Trust Agreement with respect to the property deposited with the Trustee payable to all or any of them, will survive until the Series 2009B Taxable Bonds as to which the related Supplement or certain obligations thereunder have been satisfied and discharged have been paid in full.

The District may exercise the Legal Defeasance Option or the Covenant Defeasance Option only if:

(a) The District has irrevocably deposited or caused to be irrevocably deposited in trust with the Trustee (i) cash and/or (ii) Defeasance Obligations which through the scheduled payments of principal and interest in respect thereof in accordance with their terms are in an amount sufficient to pay principal, interest and premium, if any, on such Series 2009B Taxable Bonds not theretofore delivered to the Trustee for cancellation and all other sums payable under the Trust Agreement by the District with respect to such Series 2009B Taxable Bonds when scheduled to be paid pursuant to mandatory sinking fund requirements and to discharge the entire indebtedness on such Series 2009B Taxable Bonds when due;

(b) The District delivers to the Trustee a certificate from a nationally recognized firm of independent public accountants or other financial consultants not unacceptable to the Trustee expressing its opinion that the payments of principal and interest when due and without reinvestment of the deposited Defeasance Obligations plus any deposited cash without investment will provide cash at such times and in such amounts (but, in the case of the Legal Defeasance Option only, not more than such amounts) as will be sufficient to pay in respect of the Series 2009B Taxable Bonds so affected (i) principal in accordance with the mandatory sinking fund requirements for such Series 2009B Taxable Bonds, (ii) interest when due and (iii) all other sums payable under the Trust Agreement by the District with respect to such Series 2009B Taxable Bonds;

(c) in the case of the Legal Defeasance Option, 95 days pass after the deposit is made and during the 95-day period no Event of Default triggered by certain events relating to bankruptcy, insolvency, reorganization or other related proceedings occurs which is continuing at the end of the period;

(d) no event that constitutes, or event that with the passage of time and/or giving of notice would constitute, an Event of Default has occurred and is continuing on the day of such deposit and after giving effect thereto;

(e) in the case of an exercise of the Legal Defeasance Option, the District shall have delivered to the Trustee an Opinion of Counsel experienced in federal income tax matters stating that (i) the District has received from, or there has been published by, the Internal Revenue Service a ruling, or (ii) since the date of execution of the related Supplement, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Series 2009B Taxable Bonds will not recognize income, gain or loss for federal tax purposes as a result of such legal defeasance and will be subject to federal tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred;

(f) in the case of an exercise of the Covenant Defeasance Option, the District shall have delivered to the Trustee an Opinion of Counsel experienced in federal income tax matters to the effect that the Holders of the Series 2009B Taxable Bonds will not recognize income, gain or loss for federal tax purposes as a result of such covenant defeasance and will be subject to federal tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;

(g) The District delivers to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent to the satisfaction and discharge of the affected Series 2009B Taxable Bonds to the extent contemplated by related Supplement have been complied with;

(h) The District delivers to the Trustee an Opinion of Counsel experienced in federal bankruptcy matters to the effect that in a case under the Bankruptcy Code in which the District is the debtor, the court would hold that the deposited money or Defeasance Obligations would not be in the bankruptcy estate of the District (or any affiliate that deposited the money or Defeasance Obligations); and

(i) any condition established for such defeasance by any Rating Agency shall have been satisfied with respect to the exercise of any Legal Defeasance Option or Covenant Defeasance Option.

APPENDIX D

PROPOSED OPINION OF BOND COUNSEL

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PROPOSED OPINION OF BOND COUNSEL

SIDLEY AUSTIN LLP
SIDLEY

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787 SEVENTH AVENUE
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HONG KONG
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LOS ANGELES
NEW YORK
SAN FRANCISCO
SHANGHAI
SINGAPORE
SYDNEY
TOKYO
WASHINGTON, D.C.

FOUNDED 1866

November __, 2009

Hampton Roads Sanitation District Commission
Virginia Beach, Virginia

As bond counsel to the District, hereinafter mentioned, 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"),and other proofs, authorizing the execution and delivery of a Trust Agreement, dated as of March 1, 2008, as supplemented and amended by the First Supplemental Trust Agreement, dated as of March 1, 2008, the Second Supplemental Trust Agreement, dated as of November 1, 2009, and the Third Supplemental Trust Agreement, dated as of November 1, 2009, each by and between The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") and the District (as so supplemented and amended, the "Trust Agreement"), and the issuance of

HAMPTON ROADS SANITATION DISTRICT

Wastewater Revenue Bonds
consisting of
$15,915,000 SERIES 2009A (TAX-EXEMPT)
$134,725,000 SERIES 2009B (FEDERALLY TAXABLE – ISSUER SUBSIDY – BUILD AMERICA BONDS)

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.

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.

We have also examined one of the Bonds, as executed and authenticated.

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) finance a portion of the District's capital improvement plan and (ii) 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 Series 2009A Tax-Exempt 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 Series 2009A Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2009A Tax-Exempt 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 Series 2009A Tax-Exempt 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 Series 2009A Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included as an adjustment in calculating federal alternative minimum taxable income for purposes of determining a corporation's alternative minimum tax liability. The Code contains other provisions that could result in tax consequences, as to which we render no opinion, as a result of ownership of Series 2009A Tax-Exempt Bonds or the inclusion in certain computations 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,

APPENDIX E

FORM OF
CONTINUING DISCLOSURE AGREEMENT

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FORM OF
CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of November 1, 2009, is executed and delivered by Hampton Roads Sanitation District (the "District") in connection with the issuance by the District of its Wastewater Revenue Bonds, Series 2009A (Tax-Exempt) and Series 2009B (Federally Taxable – Issuer Subsidy – Build America Bonds) (collectively, the "Bonds" or "Series 2009 Bonds"), pursuant to the provisions of a Trust Agreement, dated as of March 1, 2008, as amended and supplemented (the "Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee. The proceeds of the Series 2009 Bonds are being used by the District 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 2009 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 2009 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 2009A Tax-Exempt Bonds;

7) modifications to rights of holders;

8) bond calls;

9) defeasances;

10) release, substitution, or sale of property securing repayment of the Series 2009 Bonds; and

11) rating changes.

"Participating Underwriter" shall mean any of the original underwriters of the Series 2009 Bonds required to comply with the Rule in connection with the offering of such Bonds.

"Repository" shall mean The Electronic Municipal Market Access ("EMMA") system administered by the Municipal Securities Rulemaking Board. EMMA is recognized as the sole Repository for purposes of the Rule.

"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.

SECTION 3. Provision of Annual Reports.

A. The District shall, or shall cause the Dissemination Agent to, provide to the 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, 2010). 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 Repository when they become publicly available.

C. If the District fails to provide an Annual Report to the Repository by the date required in subsection (A) hereto or to file its audited annual financial statements with the Repository when they become publicly available, the District shall send a notice to the 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 Underwriter 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 the Repository or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Repository. 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 Repository, 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 and final retirement of all the Series 2009 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 Dissemination 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 2009 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 2009 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 2009 Bonds, and shall create no rights in any other person or entity.

HAMPTON ROADS SANITATION DISTRICT

By: ____
Director of Finance

EXHIBIT A

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 2009

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 finance a portion of the District's capital improvement program. [The District anticipates that the Annual Report [Audited Annual Financial Statements] will be filed by ___________.]

Dated: _______________

HAMPTON ROADS SANITATION DISTRICT

By ____________________________________

APPENDIX F

THE DEPOSITORY TRUST COMPANY

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APPENDIX F

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** and **www.dtc.org**.

Purchases of Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2009 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 2009 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 2009 Bonds, except in the event that use of the book-entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 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 2009 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 2009 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 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 2009 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 2009 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 2009 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 2009 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.

APPENDIX G

FEASIBILITY STUDY

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Final Report

Consulting Engineer's Bond Feasibility Report

Prepared for

Hampton Roads Sanitation District

1436 Air Rail Avenue
Virginia Beach, VA 23455

September 2009

CH2MHILL

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September 28, 2009

393681.BF.01

Mr. Edward G. Henifin, P.E.
General Manager
Hampton Roads Sanitation District
1436 Air Rail Avenue
Virginia Beach, VA 23455

Subject: Consulting Engineer's Bond Feasibility Report

Dear Mr. Henifin:

CH2M HILL is pleased to provide this report for consideration by prospective purchasers of the Hampton Roads Sanitation District (the District's) Series 2009 wastewater revenue bonds. CH2M HILL has served as a consulting engineer to the District since 1984. We are familiar with the District's facilities and financial condition through a variety of assignments during this period, which included:

- A 15-year period from 1992-2007 during which CH2M HILL served as trust consultant to the District, which included annual facilities inspections and reports to the District of any urgent needs for corrective actions or capital/replacement needs;
- Assistance during the past two years in implementing enhanced prioritization approaches and tools for the District's capital improvement program and in developing enhanced rate/financial forecasting tools.

The findings presented in this report, as summarized in this letter, are based on our prior consulting services provided to the District during the past 25 years, as augmented by facilities site inspections, data-gathering, financial modeling, and other related investigations conducted specifically to support the development of this report. The findings are based on the best information currently available regarding the District's facilities, its capital program needs, and economic and financial market conditions.

Primary findings of our study include the following:

1. The District's base forecast of sales and revenues is reasonable in light of known information regarding the District's customer base, demographic forecasts by regional planning agencies, historical usage patterns, and the District's track record in securing approval for requested rate increases and internal planning related to future system usage.

2. The District's projected operating cost forecast is reasonable, given recent cost trends and planned initiatives to manage costs.

3. The District has implemented an enhanced capital improvement program prioritization process that is enabling the District to focus capital spending on the highest-priority renewal, replacement, expansion, and upgrade projects. This prioritization process is being actively used by the District to limit capital spending within rate increases and bonding levels deemed achievable by the District's General Manager and financial management team.

4. In light of items 1-3, above, we have incorporated the District's sales, cost, and rate increase forecasting assumptions into the baseline financial forecast presented in this report. For the baseline financial forecast, all debt service coverage and liquidity metrics required by the District's trust agreement will be satisfied with the addition of debt service levels forecast for the Series 2009 revenue bonds plus the additional debt projected through 2029 to implement the District's identified capital improvement plan, given current financial planning policies and reasonable financing assumptions for future debt.

5. Sensitivity analyses conducted by CH2M HILL for this report indicate that the trust agreement's financial covenants would still be met with reduction of sales revenues by 5 percent and reductions of wastewater facilities charges of 10 percent from the baseline forecast levels. Further, financial covenants would also be met with reductions of 10 percent for both sales and wastewater facilities charges from the baseline forecast.

6. During the period that CH2M HILL served as Trust Consulting Engineer (July, 1992 to June, 2007), we performed site visits to HRSD facilities, reviewed planned projects and permit compliance reports. Each year during that period, CH2M HILL was able to report to the Commission that in our opinion, the HRSD facilities were properly operated and adequate provisions were made for future needs.

7. CH2M HILL recently participated in site visits to a sampling of HRSD treatment plants and pump stations. These visits confirmed our previous opinions that HRSD properly operates and provides a level of maintenance such that its facilities comply with all permit conditions.

8. In order to confirm that HRSD has adequate capacity to handle future flows, we reviewed flow projections and future projects to accommodate future flows. We were able to determine that HRSD has both a planning process and adequate plans to meet future needs.

9. HRSD is party to a "Special Order by Consent" issued by the Virginia Water Control Board and a Federal "Unilateral Administrative Order" related to the District's gravity interceptors, the interceptor force mains and HRSD pump stations and pressure reducing stations. The stated goal of the orders is to minimize or eliminate sanitary sewer overflows (SSOs) both from the HRSD system and the contributing localities'

systems. This will be accomplished by assessing the existing systems and development of a regional “Wet Weather Management Plan” in the first phase and implementing the recommended improvements in subsequent phases. 13 of HRSD’s 17 member jurisdictions are parties to the “Special Order by Consent”. Currently identified projects related to compliance with these orders are included in the CIP. Completion of condition assessment of the force mains, pump stations and gravity segments of the District’s delivery system along with the required “Wet Weather Management” may identify additional capital projects.

More detailed supporting analyses, findings, and descriptions of the studies conducted to support these conclusions are presented in the body of this report.

Sincerely,

CH2M HILL

Glenn W. Rehberger, P.E.
Vice President

HRO/HRSD_CErpt_FINAL.doc

Final Report

Consulting Engineer’s Bond Feasibility Report

Submitted to

Hampton Roads Sanitation District

September 2009

Contents

Exhibits

SECTION 1

Financial Review

1.1 Overview

1.1.1 Consulting Engineer's Familiarity with Financial Context

Since 2007, CH2M HILL has been engaged by the Hampton Roads Sanitation District (the District or HRSD) to provide assistance with several matters related to the District's financial management efforts. The District engaged CH2M HILL to provide assistance in developing and implementing an enhanced framework for prioritizing candidate projects for its capital improvement program. The enhanced framework, tested with 20 sample projects in 2008 and fully implemented during the development in March 2009 of the capital budget for FY 2010, includes an objective scoring of the contribution of each candidate capital project to ten primary goals for the District's capital program, and reflects the relative importance of the ten goals.

Based on evaluations by the District's General Manager and financial management team, the implementation of this prioritization program reflects the District's commitment to implementing the most important capital projects while working to limit rate increases and bond issues to levels that can be afforded by the District's customer base. The prioritization process enables the District to focus capital spending on the highest priority renewal, replacement, expansion, and upgrade projects. In the development of the most recent budget and CIP update during March of 2009, the District used this process to identify $150 million in lower-priority projects that could be moved out of the near-term financial plan. In our observation, this effort reflects sound fiscal responsibility in the current difficult global financial times. Those capital projects deemed urgent to satisfy key goals, such as regulatory compliance and achieving an acceptable level of risk for aging assets, continue to move forward at an accelerated pace; less urgent projects that can be deferred to later in the ten-year capital planning program have been moved back in order to stay within reasonable rate and bond issuance limits.

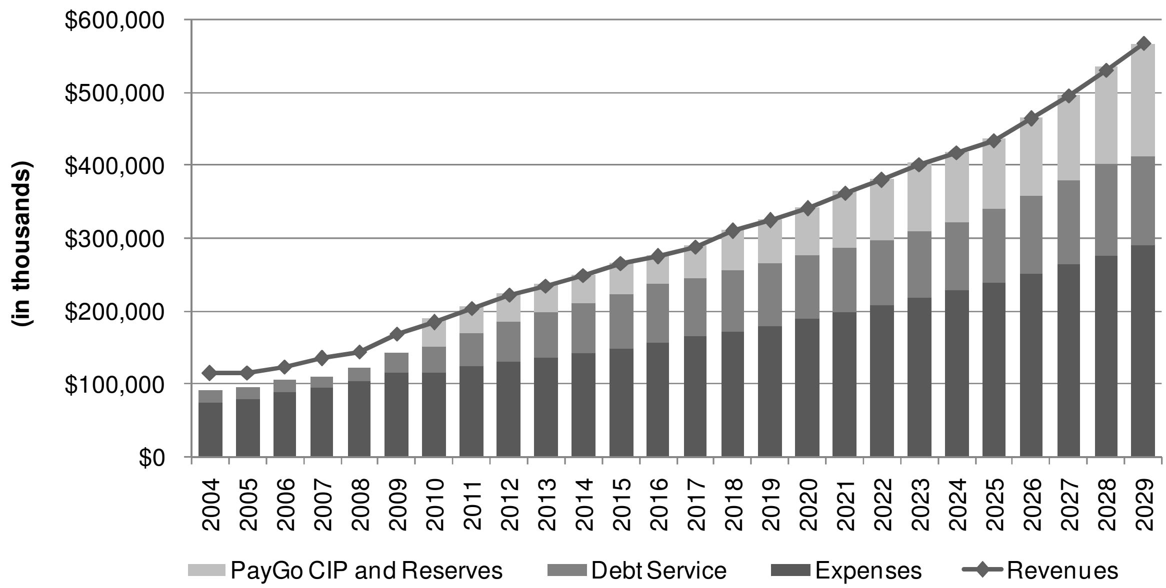
The District also engaged CH2M HILL to develop an enhanced rate/financial forecasting model, which built upon previous financial modeling efforts by the District, to provide the capability for efficient consideration of additional financial and rate planning scenarios. In conducting this work for the District, CH2M HILL's financial consulting staff became familiar with the District's financial history, bond covenant requirements, and financial planning parameters.

During the development of this report, CH2M HILL also conducted independent data gathering and financial modeling as described in the remainder of this section, to augment our existing knowledge of the District's financial condition.

1.1.2 High-level Review of HRSD's Financial Context

Exhibit 1-1 summarizes the historical and projected revenues, expenses, debt service, and contributions to CIP/Reserves. To meet the projected needs, HRSD has successfully secured management-requested rate increases during each of the past six years, including increases for FY 2010. As HRSD addresses state and federal regulatory changes and a growing CIP, rate adjustments will help generate revenues to fund increasing costs. The following sections summarize the historical and projected financial performance.

EXHIBIT 1-1
Summary of Revenues, Expenses, Debt Service, CIP/Reserve Contributions (Fiscal Years 2004 to 2029)



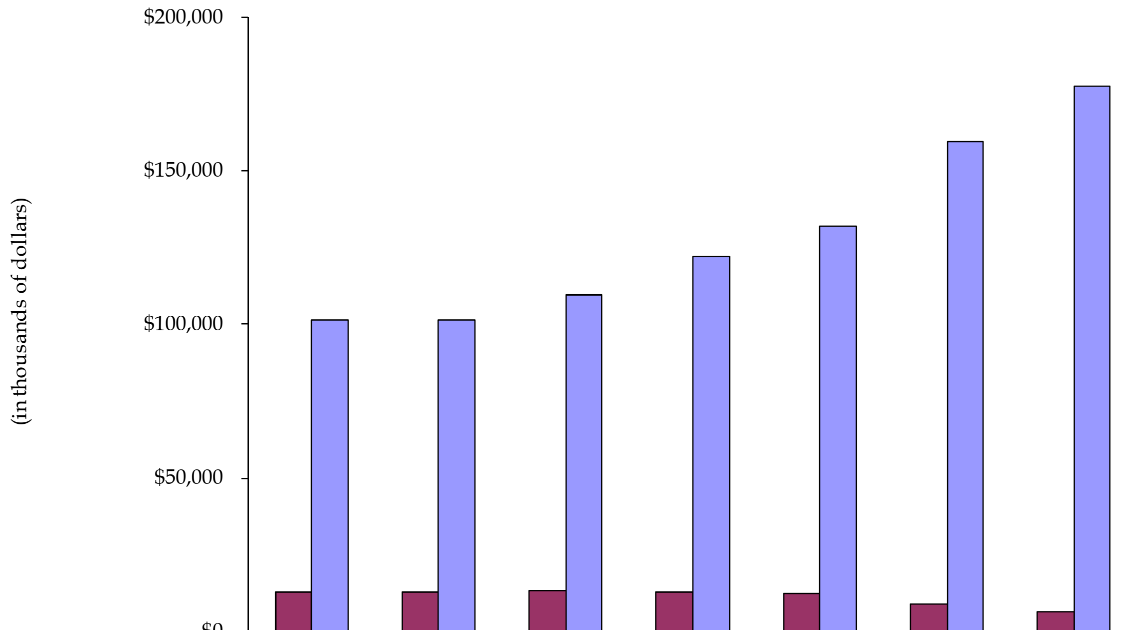
1.2 Recent Financial History

HRSD's recent financial history is summarized in the following sections.

1.2.1 Revenues

Revenues are categorized as operating and non-operating. Operating revenues include wastewater treatment charges, surcharges, and other fees. Non-operating revenues include wastewater facility charges, investment earnings, and other revenues not related to facility operations. For the period Fiscal Years 2004 to 2010, the annual rate of change in operating revenues has been approximately 9 percent, while non-operating revenues have been flat. Exhibit 1-2 summarizes the historical operating and non-operating revenues.

EXHIBIT 1-2
Summary of Revenues (Fiscal Years 2004 to 2010)

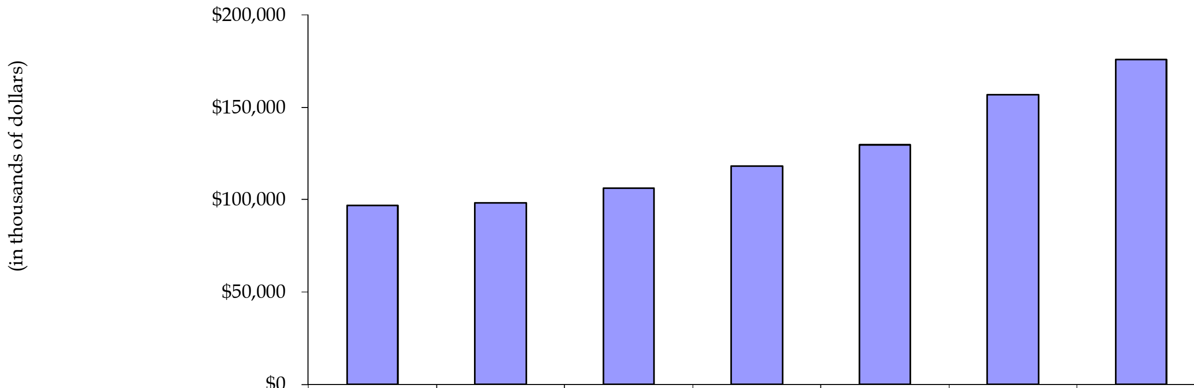


	2004	2005	2006	2007	2008	2009	2010 (Budget)
Non-Operating Revenues	$12,705	$12,925	$13,422	$13,008	$12,338	$9,246	$6,465
Operating Revenues	$101,347	$101,662	$109,627	$121,981	$132,206	$159,730	$177,665

Wastewater Treatment Charges

Revenues from wastewater treatment charges (i.e., volume-based sales) represent a significant part of the total operating revenues. For the period Fiscal Years 2004 to 2010, the annual rate of change in revenues from wastewater treatment charges has been approximately 10 percent (Exhibit 1-3). Overall growth in revenues from sales is attributed to the Commission's timely adoption over the past five years of management's recommended rate increases (Exhibit 1-4).

EXHIBIT 1-3
Summary of Wastewater Treatment Charge Revenues (Fiscal Years 2004 to 2010)



	2004	2005	2006	2007	2008	2009	2010 (Budget)
Wastewater Treatment Revenues	$96,894	$98,308	$106,208	$118,423	$129,583	$156,789	$176,050
Percent Change		1.5%	8.0%	11.5%	9.4%	21.0%	12.3%

EXHIBIT 1-4
Wastewater Treatment Charge Rate Schedule (Fiscal Years 2004 to 2009)

	2004	2005	2006	2007	2008	2009	2010[c]
First 30 CCF[a] per 30-day period ($/CCF)	$1.39	$1.43	$1.52	$1.72	$1.98	$2.28	$2.52
In excess of 30 CCF per 30-day period ($/CCF)	$1.24	$1.29	$1.37	$1.55	$1.79	$2.06	$2.52
Minimum Charges[b] ($)	$3.96	$4.08	$4.34	$4.91	$5.65	$6.50	$0.25[d]

[a] CCF = 100 cubic feet
[b] 2 CCF or less per 30-day period
[c] HRSD implemented a new rate structure that eliminated the discount for high volume users.
[d] $/day

Wastewater Facility Charges

Wastewater facility charges are collected for new connections and are based on meter size in order to provide funding for projects needed to increase capacity associated with new growth. The facility charges are reviewed annually and adjusted based on system costs and construction cost indexes.

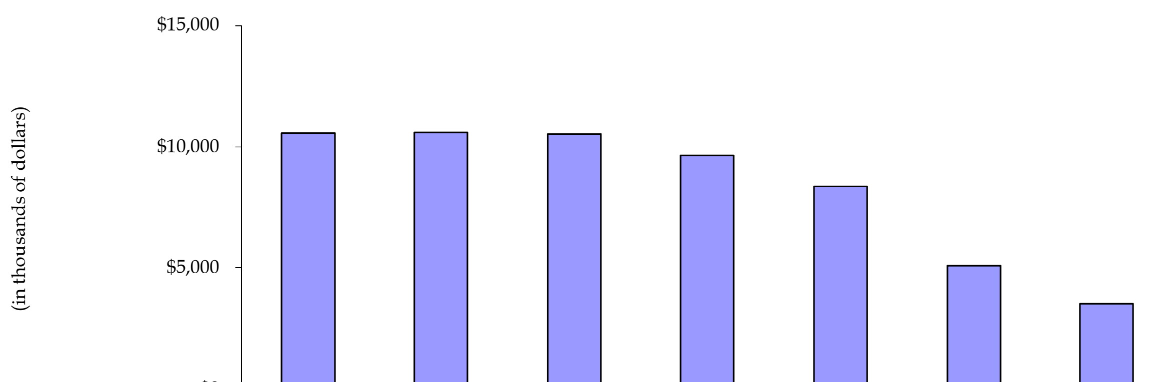
The wastewater facility charge rate schedule is summarized in Exhibit 1-5. For the period 2004 to 2010, the rate for facilities charges per new connection increased at approximately 5 percent per year. Reflecting a slowing of population growth in the District's service area, the number of new connections has grown at a rate of approximately 1 percent per year.

For the period Fiscal Years 2004 to 2010, the annual rate of change in revenues from wastewater facility charges has been approximately -17 percent (Exhibit 1-6). The decrease is attributed by HRSD and CH2M HILL to the economic crisis and recent decline in construction activity in the service area, particularly in residential development.

EXHIBIT 1-5
Wastewater facility charge rate schedule (Fiscal Years 2004 to 2010)

Meter Size	2004	2005	2006	2007	2008	2009	2010
5/8"	$1,300	$1,355	$1,465	$1,540	$1,607	$1,655	$1,715
3/4"	$1,975	$2,060	$2,230	$2,340	$2,443	$2,515	$2,605
1"	$3,680	$3,835	$4,150	$4,350	$4,548	$4,685	$4,850
1 1/2"	$8,935	$9,310	$10,065	$10,565	$11,040	$11,365	$11,780
2"	$16,735	$17,435	$18,855	$19,785	$20,681	$21,290	$22,065
3"	$40,525	$42,225	$45,670	$47,920	$50,088	$51,565	$53,440
4"	$75,970	$79,155	$85,605	$89,830	$93,892	$96,660	$100,175
6"	$184,120	$191,840	$207,470	$217,710	$227,556	$234,260	$242,780
8"	$344,940	$359,405	$388,685	$407,870	$426,315	$438,875	$454,835
10"	$561,460	$585,000	$632,665	$663,890	$693,915	$714,355	$740,340

EXHIBIT 1-6
Summary of Wastewater Facility Charges (Fiscal Years 2004 to 2010)



	2004	2005	2006	2007	2008	2009	2010 (Budget)
Wastewater Facility Revenues	$10,554	$10,579	$10,526	$9,645	$8,339	$5,086	$3,500
Percent Change		0.2%	-0.5%	-8.4%	-13.5%	-39.0%	-31.2%

Surcharges

For wastewater discharges that have high or unusual strength, HRSD may require customers to pay a surcharge. Based on sampling results, HRSD determines if a surcharge is applicable. These surcharges help off-set the cost of providing treatment for wastewater discharges that exceed normal wastewater characteristics. In some cases, HRSD may require customers to provide pretreatment in order to protect the HRSD's wastewater treatment facilities and processes. The surcharge rate schedule is summarized in Exhibit 1-7.

Exhibit 1-8 summarizes the surcharge loadings for Fiscal Years 2004 to 2009, which shows general decline due to water conservation efforts in the service area.

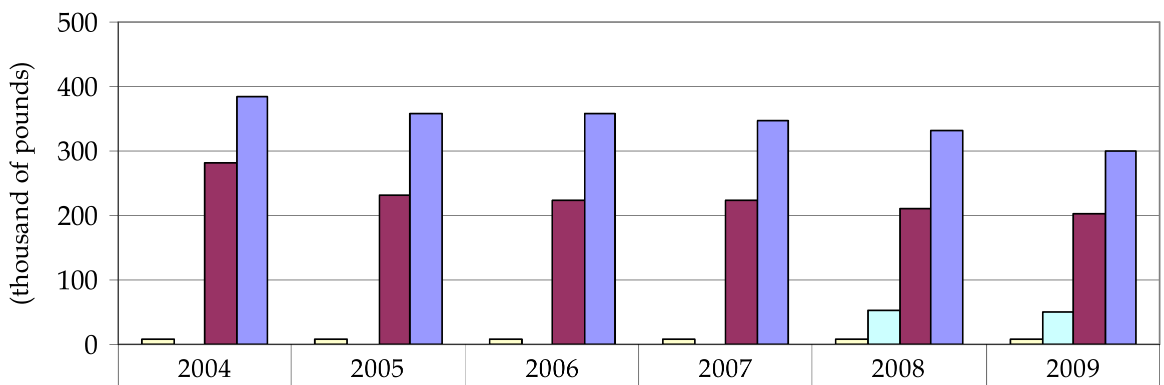
For the FY 2010 budget, the annual revenue from surcharges is approximately $10,900,000.

EXHIBIT 1-7
Surcharge Rate Schedule (Fiscal Years 2004 to 2010) ($ per hundred pounds)

Surcharge Parameter	2004	2005	2006	2007	2008	2009	2010
Biochemical Oxygen Demand (BOD)[a]	$22.22	$22.23	$22.50	$24.05	$27.71	$31.95	$35.39
Suspended Solids (TSS)[b]	$19.13	$19.96	$20.30	$22.51	$24.82	$28.54	$30.25
Phosphorus (TP)[c]	$167.00	$188.76	$210.59	$239.83	$252.52	$283.10	$293.41
Total Kjeldhal Nitrogen (TKN)[d]	$22.90	$23.99	$24.37	$28.54	$53.96	$59.73	$61.88

[a] Excess over 250 mg/L
[b] Excess over 250 mg/L
[c] Excess over 6 mg/L
[d] Excess over 35 mg/L

EXHIBIT 1-8
Summary of Average Daily Surcharge Loadings (Fiscal Years 2004 to 2009)



	2004	2005	2006	2007	2008	2009
TP	7.1	8.3	6.7	7.2	6.7	7.8
TKN	-	-	-	-	51.4	49.0
TSS	281.4	230.4	225.0	224.0	211.3	203.6
BOD	385.0	358.6	357.3	346.3	332.1	300.9

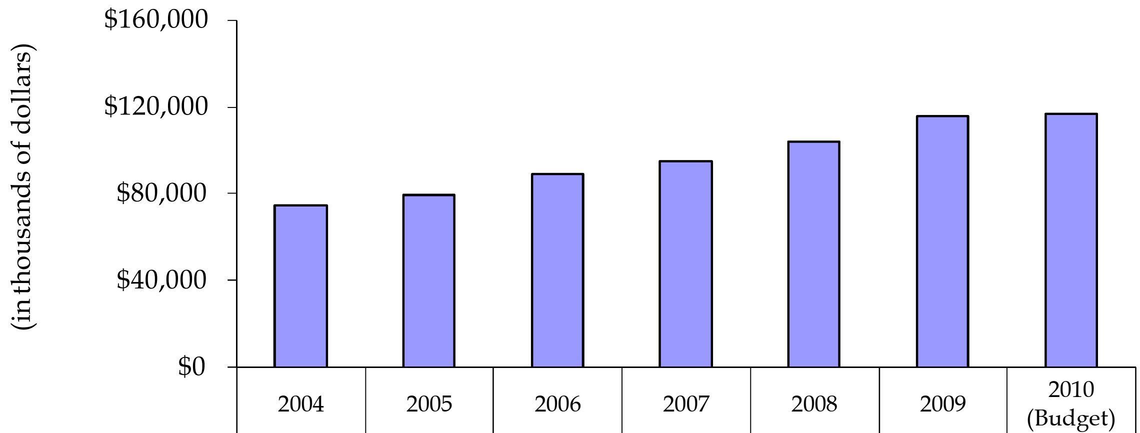
1.2.2 Expenditures

HRSD's expenditures consist of operating costs, contributions to CIP and reserves, and debt service payments for outstanding bonds and loans. The following sections summarize each of these cost centers.

Operating Expenses

Operating expenses include personnel costs, materials and supplies, utilities, and chemicals. The annual rate of change for Fiscal Years 2004 to 2010 for operating expenses is approximately 8 percent. This rate of increase is reasonable in light of inflation and other trends that occurred during this period. Exhibit 1-9 summarizes the historical operating expenses. Exhibit 1-10 summarizes historical operating expenses by cost center.

EXHIBIT 1-9
Summary of Operating Expenses (Fiscal Years 2004 to 2010)



	2004	2005	2006	2007	2008	2009	2010 (Budget)
Operating Expenses	$74,628	$79,550	$89,316	$95,000	$103,790	$115,703	$116,852
Percent Change		6.6%	12.3%	6.4%	9.3%	11.5%	1.0%

Note: Operating Expenses excludes depreciation.

EXHIBIT 1-10
Summary of Operating Expenses by Cost Center (Fiscal Years 2004 to 2010)

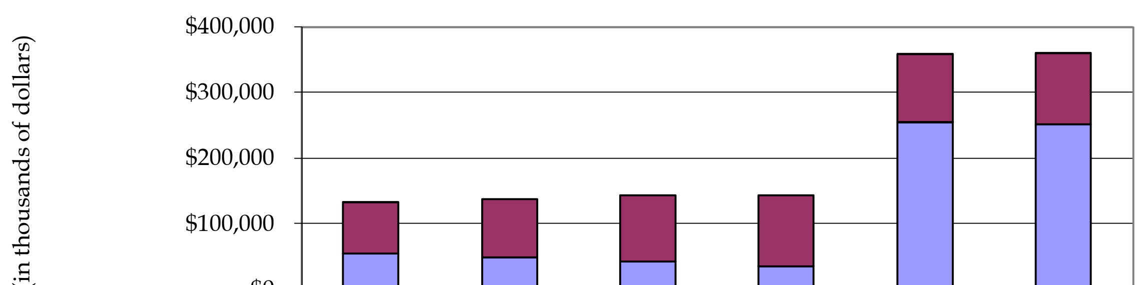
(In Thousands)	2004	2005	2006	2007	2008	2009	2010 (Budget)	Average Annual Rate of Change
Personal Services	$30,664	$30,908	$32,045	$36,228	$37,333	$40,879	$43,991	6%
Fringe Benefits	$7,228	$7,790	$8,430	$11,106	$12,573	$12,517	$15,248	13%
Repairs and Maintenance	$6,912	$9,523	$13,036	$11,101	$10,704	$13,992	$8,258	3%
Materials & Supplies	$4,893	$5,236	$5,153	$5,224	$5,965	$5,721	$5,679	3%
Transportation	$652	$716	$855	$802	$965	$973	$1,138	10%
Utilities	$8,531	$9,185	$10,782	$10,457	$11,601	$13,218	$14,005	9%
Chemical Purchases	$4,659	$4,715	$6,721	$7,077	$8,032	$8,342	$9,685	13%
Contractual Services	$6,617	$6,733	$7,108	$7,828	$9,064	$8,669	$10,116	7%
Miscellaneous Expenses	$655	$736	$642	$720	$897	$1,033	$1,245	11%
General Expenses[1]	$3,817	$4,008	$4,544	$4,457	$6,656	$10,359	$7,487	12%
Operating Expenses (before Depreciation)	**$74,628**	**$79,550**	**$89,316**	**$95,000**	**$103,790**	**$115,703**	**$116,852**	**8%**

[1] Includes bad debt expenses

Debt Service

HRSD funds its CIP using bonds and available fund equity. By policy, HRSD targets at least 15 percent of the CIP to be equity funded, with the remainder funded through bonds. For Fiscal Years 2004 to 2009, Exhibit 1-11 summarizes HRSD's outstanding debt, while Exhibit 1-12 summarizes the annual debt service.

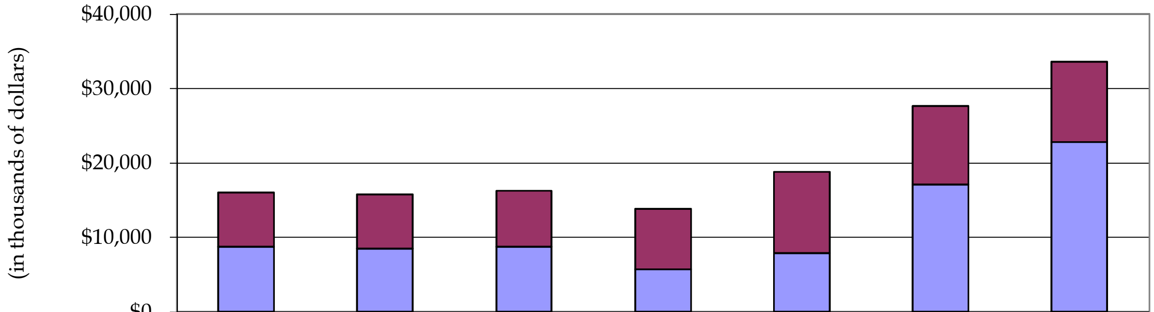
EXHIBIT 1-11
Summary of Outstanding Debt (Fiscal Years 2004 to 2009)



	2004	2005	2006	2007	2008	2009
Subordinate Revenue Bonds	$77,677	$88,544	$101,435	$107,803	$104,269	$107,257
Senior Revenue Bonds	$55,890	$49,965	$43,015	$35,855	$255,635	$252,879
Total	$133,567	$138,509	$144,450	$143,658	$359,904	$360,136

Included in Senior Revenue Bonds is $2,714,000 in bonds payable to the Virginia Resources Authority (VRA). The total amount available on this loan is $19,140,000. Included in Subordinate Revenue Bonds is $10,102,000 in bonds payable to the VRA. The total amount available on this loan is $30,000,000.

EXHIBIT 1-12
Summary of Debt Service (Fiscal Years 2004 to 2010)



	2004	2005	2006	2007	2008	2009	2010 (Budget)
Subordinate Debt	$7,250	$7,249	$7,500	$8,041	$10,804	$10,478	$10,696
Senior Debt	$8,744	$8,545	$8,720	$5,735	$7,935	$17,118	$22,846
Total	$15,994	$15,794	$16,220	$13,776	$18,739	$27,596	$33,542

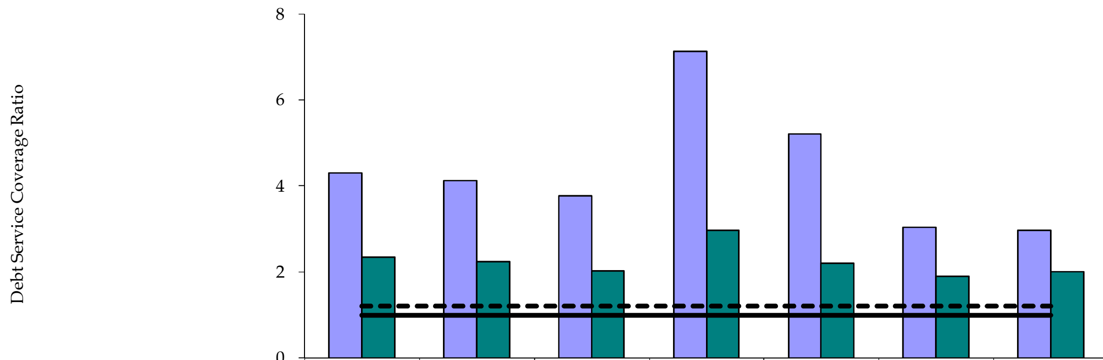
1.2.3 Historical Financial Performance and Results

Based on the historical financial performance, HRSD has met debt service coverage requirements and other metrics, including liquidity. The following sections summarize the key metrics that HRSD uses to track financial performance.

Debt Service Coverage Ratio

Debt service coverage ratio measures the available net income by long-term debt service requirement. Exhibit 1-13 summarizes the debt service coverage ratio for Fiscal Years 2004 to 2009. As shown, HRSD's historical debt coverage has been well above the trust agreement requirement for both senior and total debt.

EXHIBIT 1-13
Summary of Debt Service Coverage (Fiscal Years 2004 to 2010)



	2004	2005	2006	2007	2008	2009	2010 (Budget)
Senior Debt Coverage	4.32	4.14	3.77	7.15	5.22	3.05	2.98
Total Debt Coverage	2.36	2.24	2.03	2.97	2.21	1.90	2.01
Required Coverage--Senior Debt	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Required Coverage--All Debt	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Liquidity Ratio

Liquidity ratio is defined as the unrestricted cash divided by the maximum annual debt service. Unrestricted cash includes "… 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 and marketable 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 payment of Indebtedness) or the Debt Service Reserve Fund." The bond covenants require a liquidity ratio of 1.35. Exhibit 1-14 shows the liquidity ratio for Fiscal Years 2004 to 2009.

EXHIBIT 1-14
Historical Liquidity (in thousands of dollars)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Current Assets						
Cash and Cash Equivalents	$6,476	$18,858	$7,435	$19,241	$34,506	$79,003
Cash and Cash Equivalents - Restricted	5,772	6,871	7,817	6,247	129,227	32,444
Investments	16,952	21,000	29,655	19,914	8,039	4,100
Non-Current Assets						
Investments	63,571	44,882	39,310	30,193	38,119	16,313
Total	92,771	91,611	84,217	75,595	209,891	131,860
Less: Cash and Cash Equivalents - Restricted	5,772	6,871	7,817	6,247	129,227	32,444
Cash and Cash Equivalents – Unrestricted	**86,999**	**84,740**	**76,400**	**69,348**	**80,664**	**99,416**
Maximum Annual Debt Service (senior)[1]	8,720	8,720	8,720	8,720	20,865	20,865
Liquidity Ratio	9.98	9.72	8.76	7.95	3.87	4.76
Required Liquidity Ratio	1.35	1.35	1.35	1.35	1.35	1.35

[1]Maximum debt service figures based on information provided by HRSD. Figures for FY 2004 through FY 2007 represent the maximum future debt service following the 2003 bond refunding. Figures for FY 2008 and FY 2009 represent the maximum future annual debt service following the issuance of the Series 2008 bonds. Does not include projected debt service for the Series 2009 bonds.

1.2.4 Market Economy and Trends

As previously noted, revenue from wastewater facility charges has declined due to a decrease in construction activity attributable to the economic crisis. Nationwide, utilities are experiencing a similar decline in revenue from facility charges. For HRSD, facility charges are a small percentage of the total revenue. Therefore the decline experienced in the past several years does not significantly impact operations and financial outlook. HRSD is projecting that revenue from facility charges will increase over the next several years as the economy improves. Section 1.4 provides a sensitivity analysis of assumptions regarding financial performance and revenues from facility charges.

In addition, utilities have experienced significant cost increases for construction, power, and chemicals. These increases are primarily due to post- Hurricane Katrina market conditions. The annual rate of change in HRSD’s operating expenses for Fiscal Years 2004 through 2010 has been approximately 8 percent. Some items, such as utilities and chemicals increased 8 and 13 percent, respectively. These increases are similar to what other utilities have experienced nationwide.

Overall economic conditions also influence the amount of wastewater received at the treatment plants. That is, as businesses respond to market conditions and change processes and/or shut down operations, the revenues from wastewater treatment charges could decrease. This is particularly important for large customers. A sensitivity analysis of decreased flows to the treatment plants is also provided in Section 1.4.

1.3 Financial Projections

Overall, the Hampton Roads Planning District Commission (HRPDC), the regional planning agency that encompasses most of HRSD's service area, projects modest population growth within HRSD' service area during the next 20 years. HRSD's baseline financial forecast, which is based on flat sales levels, is therefore conservative because it does not depend on the projected growth in service area population.

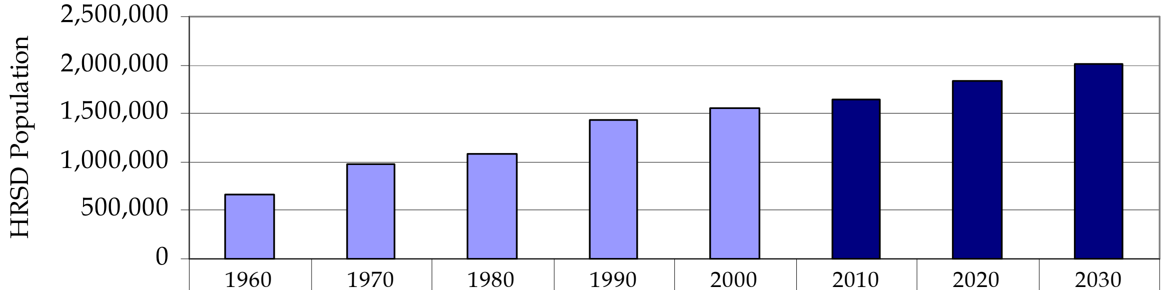
1.3.1 Demographic and Economic Trends

HRSD's service area consists of the following 17 localities:

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

Based on population forecasts for the HRSD service area by the HRPDC, it is estimated by HRPDC that the population will grow to at least 2 million over the next 20 years. Exhibit 1-15 summarizes the historical and projected population growth for the HRSD service area.

EXHIBIT 1-15
Summary of Population Growth for HRSD's Service Area

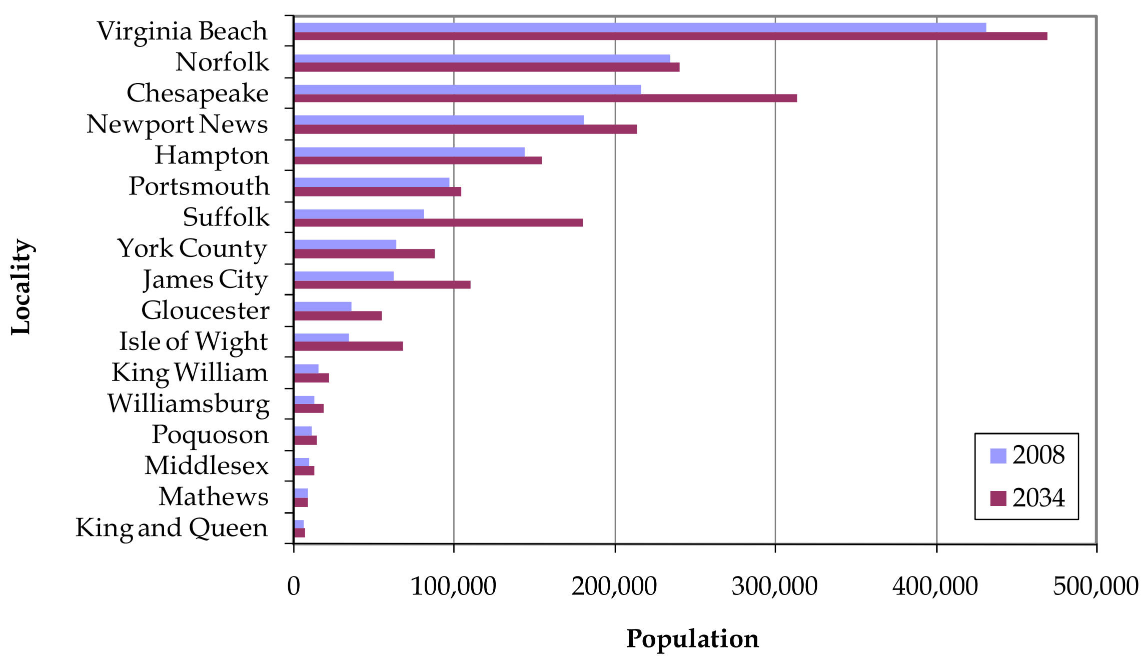


	1960	1970	1980	1990	2000	2010	2020	2030
Historical	660,338	973,247	1,085,332	1,431,000	1,551,000			
Projected						1,651,000	1,831,000	2,011,000
Percent Increase		47%	12%	32%	8%	6%	10%	10%

Source: U.S. Census and HRPDC Population Estimates.

Population is expected to increase modestly in the HRSD service area. Some localities, such as the cities of Suffolk and Chesapeake, are projected to increase more than others. The projected population growth over the next 25 years by locality is summarized in Exhibit 1-16.

EXHIBIT 1-16
Summary of Population Growth by Locality (2008 to 2034)

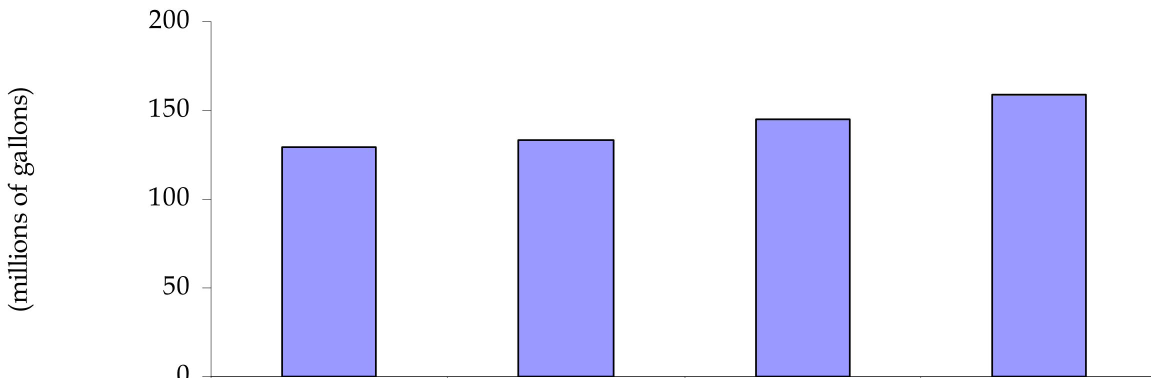


Source: HRPDC Population Estimates.

Consistent with modest population growth forecast by regional planning agencies for HRSD's service area, HRSD's flow modeling indicates steady to modest growth in system usage, in order to provide service to the stable and modestly growing customer base. Exhibit 1-17 summarizes the projected wastewater flows for the HRSD service area.

The top 10 largest customers in as of June 30, 2009, represented approximately 10 percent of the wastewater treatment charge revenues. This is down approximately 5 percent compared to the top 10 largest customers in 2000. Exhibit 1-18 summarizes the wastewater treatment charges for the ten largest customers. HRSD is not aware of any major planned reductions in usage by the top 10 customers, based on information currently available from these customers.

EXHIBIT 1-17
Projected Wastewater Flows (mgd)



	2006	2010	2020	2030
Watewater Flows	129.1	133.3	145.1	159.1
Percent Change		3.3%	8.8%	9.6%

Source: HRSD. “Treatment Plant Avg. Annual Rate of Growth Summary.” Updated July 14, 2009.

EXHIBIT 1-18
Summary of Wastewater Treatment Charges for the Ten Largest Customers ($,000)

		2009		2000	
Customer	**Type**	**Amount**	**Percent**	**Amount**	**Percent**
Anheuser - Busch, Inc.	Brewery	$5,530	3.5	$5,259	6.4
U.S. Navy - Norfolk Naval Base	Military Facility	2,519	1.6	1,562	1.9
Smithfield Foods	Meat Processor	2,349	1.5	1,930	2.3
City of Norfolk	Municipality	1,448	0.9	993	1.2
Northrop Grumman Newport News	Shipbuilding	1,069	0.7	364	0.4
Norfolk Redevelopment & Housing Authority	Housing Authority	966	0.6	613	0.7
Fort Eustis	Military Facility	790	0.5	—	—
U.S. Air Force - Langley Air Force Base	Military Facility	777	0.5	668	0.8
U.S. Navy - Little Creek Amphibious Base	Military Facility	617	0.4	471	0.6
City of Virginia Beach	Municipality	580	—	317	0.4
Norfolk Naval Shipyard	Military Ship Repair	—	—	545	0.7
Total		**$ 16,645**	**10.2%**	**$ 12,772**	**15.4%**

1.3.2 Long-term Budget and CIP Planning

To aid in the development of its financial plan, HRSD projects its capital and operating revenue requirements using a long-term forecasting model. This long-term view helps HRSD to plan for and develop a debt service structure compatible with its customer base available to repay debt over time and to sequence its capital program within reasonable rate and financial planning parameters. CH2M HILL's review of HRSD's financial planning and projection assumptions found them to be reasonable. As a result, the baseline forecast presented in this report incorporates the sales, cost, and rate increase assumptions from HRSD's forecast. As detailed later in this report, sensitivity analyses were conducted by CH2M HILL to test the sensitivity of financial results for several key variables.

Budget

One of the parameters considered as part of the long-term budget planning is projected expenses (i.e., operations, debt service, major improvements, and contributions to CIP and reserves). In order to fund these projected expenses, rate adjustments are identified in order to generate enough revenue to meet operations and required bond convents.

Exhibit 1-19 summarizes the 20-year projections for expenses, including operating costs, debt service, improvements, and contributions to CIP and reserves. Exhibit 1-20 summarizes the projected rate adjustments and revenues to fund the projected expenses.

EXHIBIT 1-19

Projected Expenses (Fiscal Years 2010 to 2029)

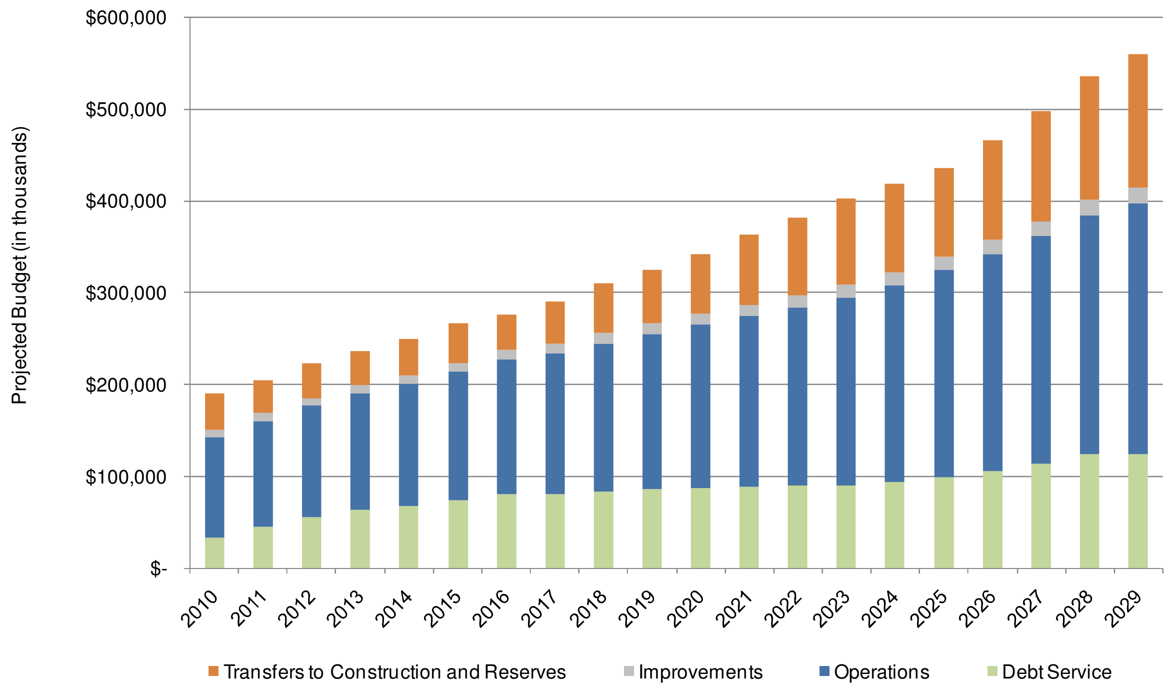


EXHIBIT 1-20

Projected Revenues and Rate Increases (Fiscal Years 2010 to 2029)

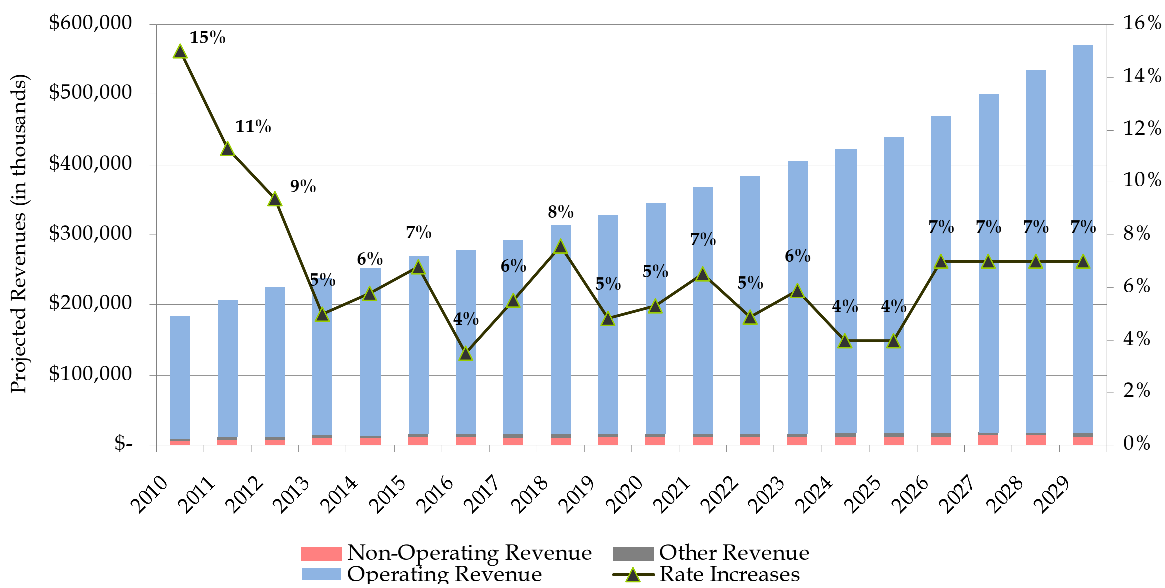
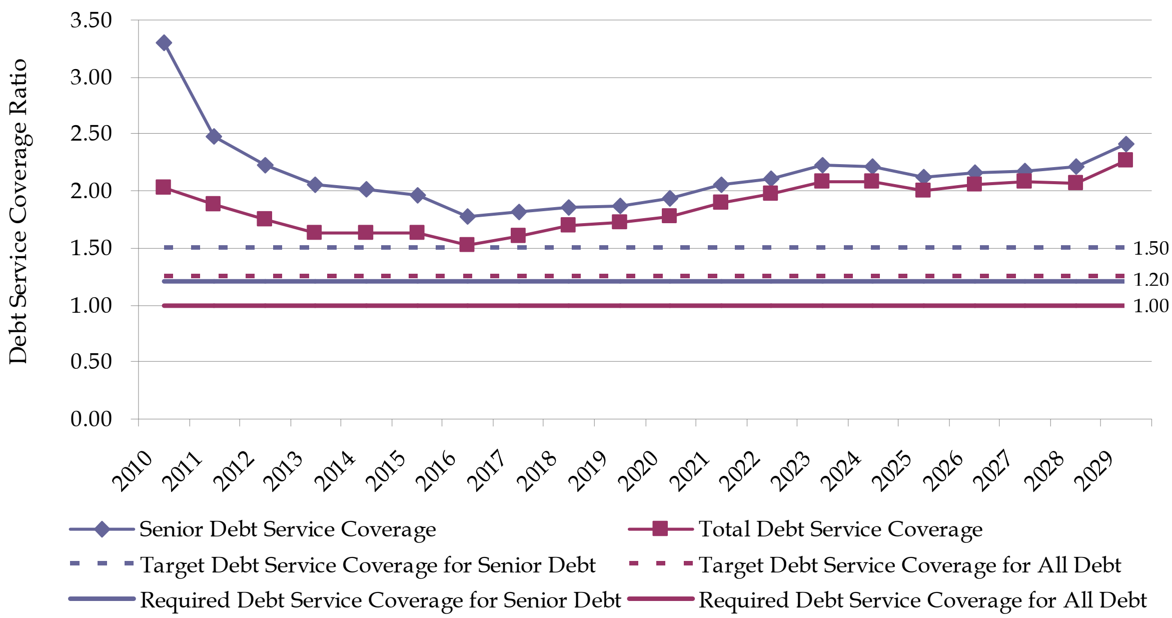


Exhibit 1-21 summarizes the projected debt service coverage ratio, based on the projected expenses and revenues. As shown, coverage is projected to be sufficient, which is attributed to continued rate adjustments, prudent cost and expense management, and federal subsidies associated with the Build America Bonds that are planned as part of the Series 2009 bond issue.

EXHIBIT 1-21
Projected Debt Service Coverage Ratio (Fiscal Years 2010 to 2029)



Capital Expenditures

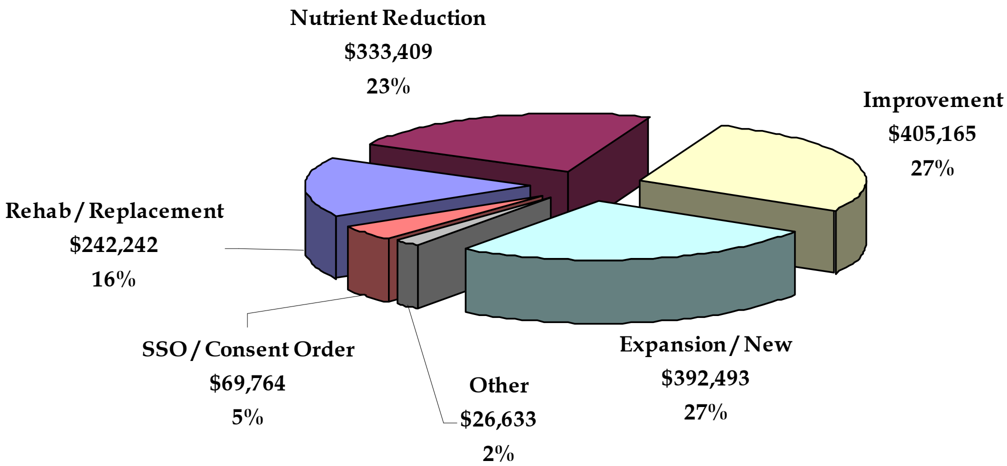
HRSD updates its CIP annually, which includes projects currently underway as well as projects planned for the next ten fiscal years. Growth in CIP is related to compliance requirements, population increases, and the need to renew/replace aging assets. As detailed in Section 1.1.1 above, HRSD has implemented an enhanced CIP prioritization program to focus capital spending on the highest-priority capital projects and to manage rate increases and bonding programs within fiscally responsible levels.

In order to meet the 2011 Chesapeake Bay Nutrient Compliance limits, HRSD is making investments to several treatment plants (i.e., York River, James River, Army Base, and Nansemond).

Further, as required by the Virginia's Special Order by Consent and the pending EPA consent decree, HRSD is working with localities in the HRSD service area to develop a Regional Wet Weather Plan in order to address sanitary sewer overflows.

Exhibit 1-22 shows the breakdown of the Capital Improvement Program (Fiscal Years 2010 to 2019) by project type. Exhibit 1-23 summarizes the CIP by treatment plant.

EXHIBIT 1-22
Total CIP Expenditures by Project Type for Fiscal Years 2010 – 2019 (in thousands)*



* Total CIP cost includes projects currently funded and underway.

EXHIBIT 1-23

Summary of Capital Improvement Program (Fiscal Years 2010 to 2019)*

Description/System (In Thousands)	**CIP Cost (FY10-FY19)**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Administration	**$32,785**	$4,649	$19,209	$8,478	$449	$0	$0	$0	$0	$0	$0
Army Base	**152,883**	3,312	38,351	55,726	40,085	15,409	0	0	0	0	0
Atlantic	**67,068**	30,573	14,914	3,666	4,810	3,348	1,323	1,351	6,538	545	0
Boat Harbor	**29,693**	7,618	12,364	3,063	635	4,209	1,803	0	0	0	0
Chesapeake-Elizabeth	**20,116**	1,910	565	105	1,160	2,690	10,229	2,371	1,086	0	0
James River	**63,866**	21,246	25,777	2,321	430	10,931	3,161	0	0	0	0
Middle Peninsula	**18,677**	10,375	4,476	13	78	3,734	0	0	0	0	0
Nansemond	**55,845**	29,548	8,894	7,480	5,188	2,632	2,104	0	0	0	0
Virginia Initiative Plant	**75,287**	14,271	23,325	9,800	9,660	6,124	3,924	7,806	376	0	0
Williamsburg	**42,358**	10,265	7,052	160	1,839	6,118	10,803	6,121	0	0	0
York River	**324,520**	34,593	16,576	6,761	9,010	41,964	109,779	41,173	49,429	14,625	610
General	**69,778**	25,341	15,430	16,149	4,878	1,981	170	3,897	1,933	0	0
Future Improvements	**261,964**	0	0	0	0	0	0	85,027	33,717	66,830	76,390
Total	**$1,214,840**	**$193,701**	**$186,931**	**$113,722**	**$78,222**	**$99,142**	**$143,297**	**$147,745**	**$93,080**	**$82,000**	**$77,000**

* Does not include costs for ongoing projects that started prior to FY10.

1.3.3 Key Assumptions

Key assumptions related to the financial projections presented in the proceeding sections are described below.

Operating Expense

Exhibit 1-24 summarizes the assumed escalation rates for operating expenses compared to the annual compound rate of change for the last ten fiscal years (2000 to 2009). HRSD's financial model assumes escalation factors that are most likely to be representative for various operating expense categories, based on HRSD's financial tracking and planning of expenses within these detailed categories. We believe that the forecast rates of increase used by HRSD in its financial forecast represent prudent and reasonable planning expectations, even though they are lower in most categories than the ten-year historical average. Historical rates in the recent ten-year period are skewed by events such as Hurricane Katrina, in which costs escalated sharply. Due to the recent economic crisis, overall reduction of cost escalation rates in some cost categories may be expected, and HRSD management has indicated plans for proactive tracking and management of operating costs.

EXHIBIT 1-24

Historical Operating Expense Escalation Compared to Escalation Assumptions

Operating Expense	10-year Historical Annual Rate of Change (percent)	Escalation Assumption (percent)
Personal Services	5	4.5
Fringe Benefits	10	6
Repairs and Maintenance	6	4
Materials & Supplies	0.1	5
Transportation	9	5
Utilities	6	5
Chemical Purchases	10	5
Contractual Services	5	5
Miscellaneous Expenses	9	4
General Expenses	12	4

Contributions to CIP

In addition, the financial model shows cash contributions to the CIP in excess of the policy goal of 15% for a number of the forecast years. If necessary, these contributions could be lessened to meet current budgetary needs if costs increase above the forecast levels.

Debt Service

The projected debt service assumes an interest rate of 5.5 percent and a 30 year term. Historically, HRSD has issued bonds with interest rates between 3 and 5 percent and a 30 year term. The interest rate and bond term assumptions used for the projected debt service are consistent with HRSD's historical debt issues, market conditions, and HRSD's credit ratings.

Growth in System Usage

As detailed earlier in this section, modest growth is anticipated in HRSD's population base by regional planning agencies, and HRSD's flow modeling forecasts. In developing its financial forecast, HRSD has assumed flat sales to customers, a conservative assumption designed to provide a layer of safety in the forecast in light of the modest growth anticipated. The baseline forecast presented in this report also incorporates that layer of safety in forecasting, and therefore also assumes flat sales to customers.

Rate Adjustments

Given the need to plan for renewal and replacement projects, response to changing state and federal regulations, and recent economic conditions, HRSD is projecting rate increases over the next several years. The projected rate increases are summarized in Exhibit 1-21.

1.4 Financial Results and Sensitivity Analyses

1.4.1 Pro forma and Debt Service Coverage

As documented in Section 1.3, revenues and debt service coverage are projected to meet the long-term budget and CIP plans. The financial projections show that the debt service coverage ratios are above the required minimum amounts set forth in the trust agreement. In addition, HRSD will meet or exceed its equity funding policy target in each year, by funding at least 15% of the CIP from equity sources. Exhibit 1-25 summarizes the projected metrics for debt service coverage and liquidity. Based on the key assumptions regarding operating expenses and debt service (see Section 1.3.3), the financial results show that HRSD meets debt service and liquidity coverage requirements. Exhibit 1-26 shows the pro forma for the baseline forecast presented in this report, which summarizes key assumptions about projected rate increases, reserves, equity funded CIP, and future bond issues.

EXHIBIT 1-25

Liquidity and Debt Service Coverage (Fiscal Years 2010 to 2029)

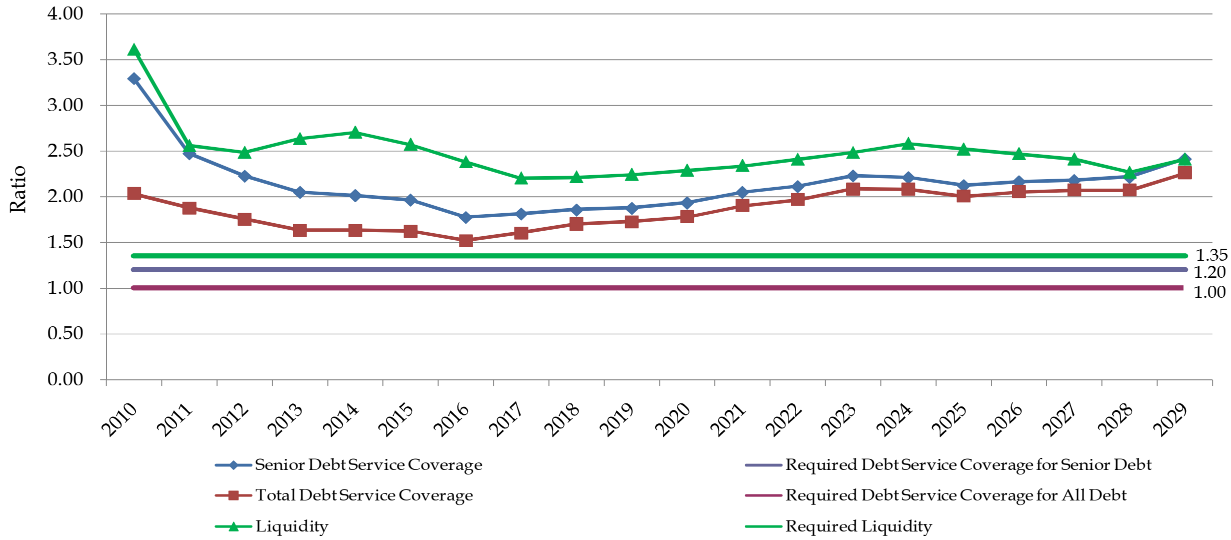


EXHIBIT 1-26

HRSD Financial Planning Model Pro forma (thousands of dollars)

	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
Operating Budget Forecast										
Rate and Fee Increase - %	*15%*	*11%*	*9%*	*5%*	*6%*	*7%*	*4%*	*6%*	*8%*	*5%*
Operating Revenue	$175,925	$195,804	$214,210	$224,920	$237,966	$254,147	$263,042	$277,510	$298,601	$312,933
Non-Operating Revenue	6,465	7,454	8,223	9,245	10,657	11,044	11,238	10,809	10,750	10,808
Other Revenue	2,663	4,063	4,099	4,134	4,171	4,208	4,246	4,285	4,324	4,365
Total Revenues	**185,053**	**203,258**	**222,433**	**234,166**	**248,622**	**265,192**	**274,281**	**288,319**	**309,351**	**323,741**
Transfers from Reserves										
General Reserve	0	1,450	1,046	1,724	543	556	797	1,474	1,173	1,115
Risk Management Reserve	0	0	0	0	0	0	0	0	0	0
Repair and Replacement Reserve	5,079	0	0	0	0	0	0	0	0	0
Rate Stabilization Reserve	0	0	0	0	0	0	0	0	0	0
Total Revenues + Reserves	**190,132**	**204,708**	**223,479**	**235,889**	**249,165**	**265,747**	**275,078**	**289,793**	**310,524**	**324,856**
Operating Appropriations	108,594	115,241	120,858	126,752	132,937	139,429	146,241	153,391	160,895	168,771
Improvement Appropriations	8,258	8,588	8,932	9,289	9,661	10,047	10,449	10,867	11,302	11,754
Total Operating Appropriations	**116,852**	**123,829**	**129,789**	**136,041**	**142,598**	**149,476**	**156,690**	**164,258**	**172,196**	**180,524**
Debt Service	33,542	44,443	55,198	62,709	67,555	73,826	80,230	80,229	83,136	85,610
Transfer to Capital Improvement Plan (PAYGO)	35,710	29,039	17,058	11,763	22,722	35,457	30,828	37,616	47,123	50,256
Transfer to General Reserve	3,997	7,274	21,314	25,268	16,141	6,878	7,214	7,568	7,939	8,328
Transfer to Risk Management Reserve	30	122	122	119	160	122	128	134	141	148
Transfer to Rate Stabilization Reserve										
Total Appropriations	**190,131**	**204,707**	**223,482**	**235,900**	**249,176**	**265,759**	**275,090**	**289,805**	**310,535**	**324,867**
Capital Improvement Budget Forecast										
Sources of Funds										
Bonds	152,991	132,892	96,832	66,459	76,420	107,840	116,917	55,464	34,877	26,744
HRSD - Cash	35,710	29,039	16,890	11,763	22,722	35,457	30,828	37,616	47,123	50,256
Water Quality Improvement Grants	5,000	25,000	0	0	0	0	0	0	0	0
Transfer from Reserves (Repair & Replacement)	0	0	0	0	0	0	0	0	0	0
Total Sources of Funds	**193,701**	**186,931**	**113,722**	**78,222**	**99,142**	**143,297**	**147,745**	**93,080**	**82,000**	**77,000**
Reserve Balances Forecast										
General Reserve	72,601	78,425	98,693	122,237	137,836	144,158	150,575	156,669	163,434	170,648
Risk Management Reserve Goal	1,917	2,039	2,161	2,280	2,440	2,562	2,690	2,824	2,965	3,114
Repair and Replacement Reserve Goal	921	921	921	921	921	921	921	921	921	921
Rate Stabilization Reserve Goal	0	0	0	0	0	0	0	0	0	0
Total Reserve Balances	**$75,439**	**$81,385**	**$101,775**	**$125,438**	**$141,196**	**$147,641**	**$154,185**	**$160,414**	**$167,321**	**$174,683**
Financial Ratios Forecast										
Senior Debt Service Coverage	3.30	2.47	2.23	2.05	2.01	1.97	1.77	1.81	1.86	1.88
All Debt Service Coverage	2.03	1.88	1.75	1.63	1.63	1.62	1.52	1.60	1.70	1.72
Liquidity	3.62	2.56	2.49	2.64	2.71	2.57	2.38	2.21	2.22	2.25
CIP % Cash Funded	18%	16%	15%	15%	23%	25%	21%	40%	57%	65%
Debt Service as % of Total Revenues	18%	22%	25%	27%	27%	28%	29%	28%	27%	26%

Note: Figures for FY2010 do not match HRSD's budget book exactly, because the model developed for this report includes some modifications and more detailed subcategories analyzed by CH2M HILL. The "Other Revenue" line includes the federal subsidy for the Build America Bonds.

1.4.2 Sensitivity Analyses

In order to evaluate the sensitivity of the financial performance to changes in system usage the following describes scenarios related to the reduction in wastewater flows and revenues from wastewater facility charges. Each of these sensitivity scenarios evaluates Senior Debt Service Coverage because it is the most critical metric. Senior Debt Service Coverage is evaluated for sensitivity to the following parameters:

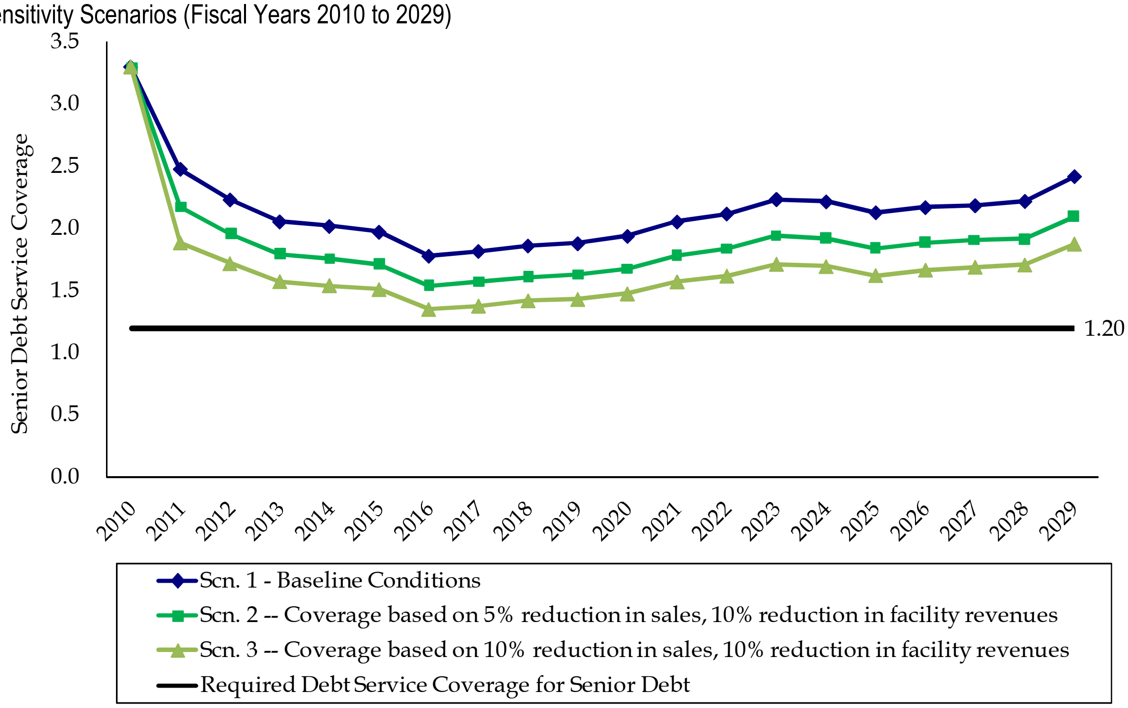
- Reduced wastewater treatment sales (i.e., flow)
- Reduced wastewater Facility Charges (i.e., new connections)

Exhibit 1-27 shows a matrix for three scenarios based on the sensitivity parameters previously listed. Exhibit 1-28 summarizes the results for each sensitivity scenario. Scenario 3 represents a "worst case" scenario and based on the sensitivity analysis, the financial results show HRSD meeting coverage for all fiscal years even for that scenario.

EXHIBIT 1-27
Sensitivity Scenario Matrix

	Sensitivity Scenario		
	Scenario 1 — Baseline Conditions	**Scenario 2**	**Scenario 3**
Reduced wastewater treatment sales	100% of wastewater treatment (sales)	5% reduction of sales	10% reduction of sales
Reduced wastewater Facility Charges	100% of wastewater facility revenues	10% reduction of facility revenues	10% reduction of facility revenues

EXHIBIT 1-28
Sensitivity Scenarios (Fiscal Years 2010 to 2029)



1.4.3 Key Findings of Financial Studies

Primary findings of our study related to financial forecast results include the following:

1. The District's base forecast of sales and revenues is reasonable in light of known information regarding the District's customer base, demographic forecasts by regional planning agencies, historical usage patterns, and the District's track record in securing approval for requested rate increases and internal planning related to future system usage.
2. The District's projected operating cost forecast is reasonable, given recent cost trends and planned initiatives to manage costs.
3. The District has implemented an enhanced capital improvement program prioritization process that is enabling the District to focus capital spending on the highest-priority renewal, replacement, expansion, and upgrade projects. This prioritization process is being actively used by the District to limit capital spending within rate increases and bonding levels deemed achievable by the District's General Manager and financial management team.
4. In light of items 1-3, above, we have incorporated the District's sales, cost, and rate increase forecasting assumptions into the baseline financial forecast presented in this report. For the baseline financial forecast, all debt service coverage and liquidity metrics required by the District's trust agreement will be satisfied with the addition of debt service levels forecast for the Series 2009 revenue bonds plus the additional debt projected through 2029 to implement the District's identified capital improvement plan, given current financial planning policies and reasonable financing assumptions for future debt.
5. Sensitivity analyses conducted by CH2M HILL for this report indicate that the trust agreement's financial covenants would still be met with reduction of sales revenues by 5 percent and reductions of wastewater facilities charges of 10 percent from the baseline forecast levels. Further, financial covenants would also be met with reductions of 10 percent for both sales and wastewater facilities charges from the baseline forecast.

SECTION 2

Engineering and Condition Review

2.1 Consulting Engineer Experience

2.1.1 Overview

CH2M HILL has provided a broad range of engineering and related services to HRSD since late 1984. During the period 1984 to 1992, CH2M HILL designed major plant improvements for the Virginia Initiative Plant (Norfolk) and the James River Treatment Plant (Newport News).

For the period July 1, 1992 to June 30, 2007, CH2M HILL was the Trust Consulting Engineer for HRSD, providing a variety of study and evaluations services including feasibility evaluations for treatment plant expansions, assessment of the impact and alternatives available to comply with effluent nutrient reduction, strategies for handling solids produced at each of the treatment facilities and updating the Development Plan, a ten year planning document. CH2M HILL also performed annual inspections of HRSD facilities and provided the HRSD Commission with an "Annual Report of the Trust Consulting Engineer." Following acceptance by the Commission, the report was provided to the Bond Trustee by HRSD.

Since July 1, 2007 CH2M HILL has been one of two General Engineering consultants providing general engineering advice and counsel to HRSD. This work includes assistance with the development of a prioritization methodology for CIP projects, design of process improvements at HRSD's Williamsburg Treatment Plant and program management of District-wide programs such as the SCADA implementation project. In addition, CH2M HILL has a separate engineering contract agreement with HRSD to design upgrades for nutrient reduction to HRSD's James River Treatment Plant.

2.1.2 Annual Facility Evaluation and Inspection

From 1992 to 2007, in our role as Trust Consulting Engineer, CH2M HILL was required to perform an annual assessment of the HRSD facilities and make a report to the HRSD Commission as well as the staff. Initially, these assessments consisted of walk-through assessments of each of the treatment plants and a review of each plant's operating records. This approach had been in place for many years. After one cycle of this approach and with the change in the bond trust agreement, HRSD and CH2M HILL agreed to a revised approach that resulted in assessing a "representative sample" of the treatment plants and pump stations each year. This approach resulted in each of the treatment plants and pump stations being visited on a five year recurring cycle. The Small Communities facilities as well as the Operations Centers were added to the list of facilities included in the assessment over the course of the 15 year duration of this assignment. The representative sample approach allowed for a much more in-depth assessment of the condition of each facility visited. Generally, two treatment plants and 15 – 17 pump stations were assessed each year by

CH2M HILL. These assessments focused on the physical condition of the facilities with emphasis on buildings.

The results of the assessments were presented by CH2M HILL in three ways:

1. A memorandum identifying any items noted that required immediate action because of safety or structural concerns. There were very few items that fell into this category and the number and severity declined markedly over time.
2. A comprehensive report, illustrated with photographs, identifying areas of concern or needing attention. This report was provided by CH2M HILL to the HRSD staff and was made available to the HRSD Commissioners by HRSD staff for their review. The primary purpose of this report was to identify facility needs that would require inclusion in either the replacement budget or the CIP. As with the "immediate action" items, the number of facility related improvement needs identified declined over the 15 year period.
3. Inclusion of a summary of the assessment findings in the "Annual Report of the Trust Consulting Engineer" provided directly to the Commission by CH2M HILL.

2.1.3 Annual Report of the Trust Consulting Engineer

The "Annual Report of the Trust Consulting Engineer" was prepared by CH2M HILL in March of each year and summarized the results of the assessment visits, reviewed the VPDES compliance record for the treatment plants for the preceding calendar year and reviewed major capital projects underway and planned. Each report concluded that HRSD properly operated and maintained its facilities and made adequate provisions for future needs both from a regulatory and capacity perspective.

2.1.4 Regulatory Requirements

Two regulatory initiatives, coupled with the need to replace aging infrastructure, define much of HRSD's capital needs. The regulatory initiatives are:

1. Nutrient wasteload allocations on the Rappahannock, York and James Rivers imposed by the Virginia Department of Environmental Quality. The wasteload allocations are driving the nutrient portions of the work underway at the York River Treatment Plant and current upgrade projects at the James River and Nansemond Treatment Plants along with planned upgrades at the Army Base and Williamsburg Treatment Plants. These proposed upgrades will enable HRSD to comply with the current nutrient wasteload allocations for the York and James Rivers. Any reduction in the wasteload allocations or the elimination of the ability of HRSD to treat all the plants discharging into the lower James River as a group would require additional upgrades at the other plants that discharge effluent into the lower James River (Boat Harbor, Chesapeake-Elizabeth and Virginia Initiative). Compliance with the Rappahannock River nutrient wasteload allocation by the Urbanna Treatment Plant will be achieved through the purchase of nutrient credits at a nominal cost.
2. HRSD is party to a "Special Order by Consent" issued by the Virginia Water Control Board and a Federal "Unilateral Administrative Order" related to the District's gravity interceptors, the interceptor force mains and HRSD pump stations and pressure

reducing stations. The stated goal of the orders is to minimize or eliminate sanitary sewer overflows (SSOs) both from the HRSD system and the contributing localities' systems. This will be accomplished by assessing the existing systems and development of a regional "Wet Weather Management Plan" in the first phase and implementing the recommended improvements in subsequent phases. 13 of HRSD's 17 member jurisdictions are parties to the "Special Order by Consent". Currently identified projects related to compliance with these orders are included in the CIP. Completion of condition assessment of the force mains, pump stations and gravity segments of the District's delivery system along with the required "Wet Weather Management" may identify additional capital projects.

2.2 Overview of Current and Planned Projects

2.2.1 Treatment Plants

Projects to Provide Additional Treatment Capacity

- Atlantic Treatment Plant Expansion & Upgrade — the Atlantic Treatment Plant is currently being expanded from the current capacity of 36 million gallons per day to 54 million gallons per day. This expansion also involves process improvements and rehabilitation and replacement of some existing process equipment and structures. The construction work is expected by HRSD to be completed in the 3rd quarter of 2010.
- York River Treatment Plant Expansion — the York River Treatment Plant is currently being upgraded to provide nutrient removal for the current plant capacity of 15 million gallons per day. Upon completion of the nutrient upgrade, the plant capacity will be expanded by an additional 15 million gallons per day with an expected completion in 2015.

Projects to Improve Treatment within Existing Capacity

- Chesapeake-Elizabeth — HRSD recently completed upgrades to the Chesapeake-Elizabeth Treatment Plant that provided improved treatment process tankage (bioreactors and secondary clarifiers) and improved odor control. Additional odor control and repair and replacement of the plant outfall pipe are planned by HRSD in the future.
- Virginia Initiative Plant — the Virginia Initiative Plant was largely constructed from the ground up with completion in 1992. However, some elements of the plant date from the mid-1940s. Currently, HRSD is repairing deteriorated concrete in the influent areas of the original 1940s treatment plant. Future capital funded work includes rehabilitation of the biosolids incinerator air pollution control equipment.
- Boat Harbor Treatment Plant — process equipment upgrades and replacement of aeration equipment are currently under design and will be bid for construction before the end of 2009.

Projects to Meet Nutrient Limits within Existing Capacity

- Army Base Treatment Plant – the Army Base Treatment Plant will be upgraded to provide nutrient removal with process improvements. This project is required to assure long term compliance with the nutrient wasteload allocation for the lower James River. The project will be advertised for bids before the end of 2009 and is expected by HRSD to be completed in 2014.

- James River Treatment - construction is currently underway on process improvements to provide nutrient reduction. The nutrient removal processes are scheduled to be completed in phases from late 2010 into 2011.
- York River Treatment Plant – a construction project is currently underway at the York River Treatment Plant to provide nutrient reduction facilities. Construction is scheduled for completion in the 1st quarter of 2011. This project is to enable HRSD to meet its nutrient wasteload allocation for the York River.
- Nansemond Treatment Plant - as a part of the compliance effort to meet the nutrient wasteload allocation for the lower James River, improvements and upgrades are being made to the Nansemond Treatment Plant. The plant capacity will remain unchanged but the capability to effectively remove nutrients will be added.
- Williamsburg Treatment Plant – a major wastewater contributor to the Williamsburg Treatment Plant is the Anheuser-Busch brewery. The brewery has indicated plans to change its brewing and wastewater operations. These changes will result in a significant increase in the amount of nitrogen discharged from the Williamsburg Treatment Plant. To avoid potential nutrient wasteload allocation compliance concerns, a project is under design to modify the Williamsburg Treatment Plant processes to enable the plant to handle the increased nitrogen loads from the brewery.

2.2.2 Delivery System (Interceptors and Force Mains)

Master Metering

As required by the Virginia “Special Order by Consent” and the Federal “Unilateral Administrative Order,” HRSD is installing wastewater master meters to measure wastewater flow, pressure and rainfall in the HRSD system. This work involves multiple contracts with some of the meters currently under construction and other currently in design for future construction.

SCADA (Supervisory Control and Data Acquisition) and EDMS (Environmental Data Management System)

Also related to the Virginia “Special Order by Consent” and the Federal “Unilateral Administrative Order”, HRSD is upgrading its existing SCADA system at the pump stations, pressure reducing stations, and pressure control valves. Information from the upgraded SCADA system will provide operations staff with key data used to operate the system and plan for future improvements. The SCADA improvements are currently under design.

An integrated EDMS will replace separate existing data management systems for laboratory data and plant operating and compliance data. This effort is currently under design.

2.2.3 Facility Projects

Facility related projects tend to be much smaller in scale than treatment plant or interceptor projects. HRSD plans for upgrade and replacement of operations and administrative facilities on an as needed basis. These projects are intended to provide adequate work space for District personnel as well as maintenance and repair operations.

2.3 Identify and Prioritize Projects for Site Visits

For the purposes of this report and to confirm CH2M HILL's previous inspections of HRSD's treatment plants, pump stations and facilities, CH2M HILL selected three treatment plants and eight pump stations for site visits between August 14, 2009 and August 28, 2009. The number of treatment plants represented 20% of the main service area and 25% of the Small Communities service areas.

The plants and pump stations were chosen by CH2M HILL to reflect a wide range of conditions and to confirm that the operation and maintenance of HRSD facilities is consistent across various types and locations of facilities. During the visit to each facility, the general condition of the facility was noted by CH2M HILL along with housekeeping and other indicators of the level of care taken in operating and maintaining a facility. The selected facilities and the basis for selection were based on the following:

Treatment Plants

- **West Point Treatment Plant** (Small Communities Division, West Point) – the West Point Treatment Plant was acquired by HRSD with the creation of the Small Communities Division in 1999. This plant is older and is not anticipated to be upgraded or expanded in the next 5 to 10 years. The West Point Treatment Plant was selected by to confirm that HRSD is maintaining and improving, where necessary, an older existing facility and meeting permit requirements. The West Point Treatment Plant is the largest of the Small Communities treatment plants.
- **York River Treatment** (York County) – this plant is currently being upgraded to meet nutrient standards. The existing 25 year old facilities will continue to be a part of the upgraded plant. The plant will be expanded in capacity in the future and was selected by to confirm that the portions of the plant that will remain in service after the current upgrade and future expansion are being adequately maintained.
- **Virginia Initiative Plant** (Norfolk) – most of the Virginia Initiative Plant has been in service approximately 20 years with some elements dating back between 35 and 60 years. There are no current plans for expansion or upgrade. There is currently some rehabilitation work underway on older elements of the plant. This plant was selected to confirm HRSD's commitment to properly maintain a facility with elements of varying age.

Pump Stations

- Richmond Crescent (Norfolk) – this is one of the submersible pump stations scheduled for replacement and was selected to confirm that facilities that are slated for replacement are adequately maintained until they are actually replaced.

- Rodman Avenue (Portsmouth) – this is an older pump station acquired from the City of Portsmouth when Portsmouth joined HRSD in about 1990. This pump station is slated for electrical upgrades and was selected to determine condition of an older, acquired pump station.
- Suffolk Pump Station (Suffolk) – this is an older pump station that is not scheduled for major work. This pump station is located in a fairly remote and distant part of the District and was selected to confirm the adequacy of maintenance of an older, rather distant facility.
- Pughsville Pressure Reducing Station (PRS) (Suffolk) – pressure reducing pump stations are rather unique to HRSD's force main system. This station was selected to observe any differences in maintenance between conventional pump stations and PRSs. This facility is also distant from HRSD's operations center.
- Claremont Avenue (Hampton) – this pump station is currently being upgraded with replacement pumps and stabilization of the pump station site and was selected to observe the extent of a rehabilitation project.
- Center Avenue (Newport News) – this is an older pump station that will be replaced at a different location. The capacity will be increased. It was selected to confirm that facilities that are slated for replacement are adequately maintained until they are actually replaced.
- Lucas Creek (Newport News) – this pump station will be reconfigured and the capacity increased to improve the ability to transfer flow between the York River and James River Treatment Plants. It was selected to observe the condition of a pump station which will undergo major modifications. This pump station is relatively close to an HRSD operations center and offered the opportunity to compare maintenance and housekeeping between remote and proximate facilities.
- Colonial Williamsburg (Williamsburg) – this is a new pump station replacing another pump station on the same site. It was selected to assess the quality of new facilities being constructed for HRSD.

2.3.2 Condition Assessment of Interceptors and Force Mains

In order to comply with the Virginia "Special Order by Consent" and the Federal "Unilateral Administrative Order", HRSD will undertake condition assessments of the gravity interceptors, interceptor force mains and pump stations. The results of the condition assessments will be used along with other information gathered under the orders to develop and prioritize required upgrades and capacity improvements.

The extent and schedule for the condition assessments are a part of HRSD's "Wet Weather Management Plan" and are summarized as follows:

- Gravity Interceptors – all gravity interceptors will be internally inspected using a variety of technologies including television visualization, laser and sonar profiling. Work on this assessment will begin in late 2009 and take approximately 3 years to complete.
- Force mains – approximately 10% of the total force main length in the HRSD system will be evaluated and their condition assessed using a combination of internal wall thickness

measurements and visual inspections and wall thickness measurements. The effort will involve approximately 240,000 lineal feet of force main. The segments to be assessed are 3000 feet on the discharge side of each of HRSD's pump stations that have ductile or cast iron force mains. Work on this assessment will begin in late 2009 and take approximately 3 years to complete.

- Pump Stations – preliminary condition assessments were completed approximately 15 months ago for HRSD's existing pump stations. There will be a follow-up round of assessments over the next 12 – 18 months. The condition assessments extended beyond the building systems to include the structural condition of the wetwells and the electrical and mechanical components.

2.3.3 Facility Inspections

HRSD has selected an engineering firm to do regular facility assessments. These assessments will focus on the building systems and structures and will involve visits to HRSD facilities on a rotating basis. The information gathered as a result of these visits will be used to identify renewal and replacement needs for assets such as administration and operations buildings, the Central Environmental Laboratory, treatment plant buildings and pump station buildings.

2.4 Engineer's Opinion on Condition

2.4.1 Current Condition of the System

Based on CH2M HILL's observations over the 15 year duration of our role as HRSD's Trust Consulting Engineer, our frequent visits to facilities where CH2M HILL is currently providing engineering services and our visits to a sample of treatment plants and pump stations, we have concluded that HRSD properly operates its existing facilities.

2.4.2 Ability to Meet Permit Requirements

Tabulated below is the number of permit violations by plant for the last 10 years. Permit compliance is measured by extensive sampling and compared to permit limits set in each treatment plant's VPDES permit. Some of the HRSD's plants also have air pollution permits issued under the Clean Air Act for the biosolids incinerators located those plants. The level of compliance achieved by HRSD demonstrates that HRSD properly operates its treatment plants to meet regulatory requirements.

As noted in the discussion of regulatory requirements and current and planned projects, HRSD has numerous design and construction projects underway to meet the nutrient wasteload allocation for the lower James River and the York River.

In order to meet the requirements of the orders related to sanitary sewer overflows (SSOs), HRSD is doing extensive system modeling and condition assessments to determine the entire extent of replacements, additions and upgrades required in interceptors, force mains and pump stations. The extent of HRSD's work related to SSO compliance will also be affected by the results of SSO reduction programs in the contributing localities which being driven by the same "Special Order by Consent" as HRSD.

EXHIBIT 2-1
Number of Permit Violations

Treatment Plant	Consecutive Years of Perfect Permit Compliance	2 Years (2007-2008)	5 Years (2004 - 2008)	10 Years (1999-2008)	Notes
Army Base	22	0	0	0	
Atlantic	5	0	0	3	
Boat Harbor	7	0	0	2	
Ches-Eliz	5	0	0	7	
James River	6	0	0	11	8 in July 1999
Nansemond	7	0	0	1	
VIP	13	0	0	0	
Williamsburg	14	0	0	0	
York River	1	1	3	5	
King William	1*	1	*	*	
Mathews	0	1	4	45	28 in 1999
Urbanna	2	0	5	31	19 in 1999
West Point	2	0	5	16	

*King William began discharging May 2007

2.4.3 Ability to Treat Anticipated Flows

As described previously, HRSD has one project (Atlantic Treatment Plant expansion) under construction and one project (York River Treatment Plant expansion) slated for completion in 2015 that will provide an additional 18 million gallons per day capacity on the south side of Hampton Roads and 15 million gallons per day of additional capacity on the north shore of Hampton Roads.

HRSD's flow projections indicate that for a 20 year planning horizon (2029), the existing and expanded facilities will have adequate capacity to treat anticipated wastewater flows within the District.

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