

NEW ISSUE
Book-Entry-Only

Ratings: **Moody's** **A1**
Standard & Poor's **AA+**
Fitch **AA**

CITY OF NORFOLK, VIRGINIA
\$58,415,000
Water Revenue Bonds,
Series 2008

Dated: Date of Delivery

Due: November 1, as shown on the inside cover

The City of Norfolk, Virginia prepared this Official Statement to provide information pertaining to its 2008 Bonds. This cover page presents a summary of selected information for your convenience and does not provide a complete description of the 2008 Bonds. To make an informed decision regarding the 2008 Bonds, you should read this Official Statement in its entirety.

Tax Matters

In the opinion of Bond Counsel, under current law and assuming the compliance with certain covenants by and the accuracy of certain representations and certifications made by the City and other persons and entities described in "TAX MATTERS" on page 26, interest on the 2008 Bonds (a) is excludable from the gross income of the owners of the 2008 Bonds for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel observes that interest on the 2008 Bonds may be included in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations.

Bond Counsel is of the further opinion that interest on the 2008 Bonds is excludable from gross income for purposes of income taxation by the Commonwealth of Virginia (the "Commonwealth").

Bond Counsel expresses no opinion regarding any other tax consequence related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

See "TAX MATTERS" on page 26 regarding other tax considerations.

Security

The 2008 Bonds are limited obligations of the City payable solely from Net Revenues derived from the City's water system and other funds pledged for their payment under the terms of the Indenture, as herein defined, between the City and U.S. Bank, National Association as Trustee. Neither the faith and credit of the Commonwealth of Virginia nor the faith and credit of any county, city, town or other political subdivision of the Commonwealth of Virginia, including the City, is pledged to the payment of principal of, premium, if any, or interest on the 2008 Bonds.

Redemption

See inside cover of this Official Statement.

Authority for Issuance

Ordinance No. 42,956 adopted by the City on January 8, 2008, authorizes the issuance of the 2008 Bonds.

Purpose

Proceeds of the 2008 Bonds will be applied to (i) provide financing for certain capital project costs associated with the City's water system capital improvement program, (ii) to fund the debt service reserve fund requirement, and (iii) pay issuance costs of the 2008 Bonds.

Interest Payment Dates

Semi-annually on May 1 and November 1 beginning November 1, 2008.

Registration

Book-Entry Only; The Depository Trust Company. See page 2 of this Official Statement.

Closing/Delivery Date

On or about April 23, 2008.

Bond Counsel

McGuireWoods LLP, Richmond, Virginia.

Financial Advisor

Public Financial Management, Inc., Arlington, Virginia.

Registrar/Paying Agent

U.S. Bank, National Association.

Issuer Contact

Director of Finance of the City.
(757) 664-4346

Dated: April 8, 2008

\$58,415,000
Water Revenue Bonds, Series 2008
(Base CUSIP Number 656009)

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

Year Of Maturity (November 1)*	Principal Amount*	Interest Rate	Price or Yield	CUSIP Suffix	Year of Maturity (November 1)*	Principal Amount*	Interest Rate	Price or Yield	CUSIP Suffix
2009	965,000	3.00%	2.250%	FM4	2020*	1,495,000	5.00%	4.040%	FY8
2010	990,000	3.00	2.375	FN2	2021*	1,570,000	5.00	4.140	FZ5
2011	1,020,000	3.00	2.570	FP7	2022*	1,655,000	5.00	4.240	GA9
2012	1,055,000	3.00	2.870	FQ5	2023*	1,735,000	5.00	4.330	GB7
2013	1,085,000	3.00	3.030	FR3	2024*	1,825,000	5.00	4.420	GC5
2014	1,125,000	4.00	3.200	FS1	2025*	1,920,000	5.00	4.500	GD3
2015	1,170,000	4.00	3.360	FT9	2026*	2,020,000	5.00	4.560	GE1
2016	1,225,000	5.00	3.510	FU6	2027*	2,120,000	5.00	4.620	GF8
2017	1,285,000	5.00	3.660	FV4	2028	2,230,000	4.75	4.770	GG6
2018	1,355,000	5.00	3.800	FW2	2029	2,335,000	4.50	4.700	GH4
2019*	1,425,000	5.00	3.940	FX0					

\$7,700,000 4.750% Term bonds due November 1, 2032, Priced at 99.282 to yield 4.800% CUSIP Suffix: GL5.

\$19,110,000 4.750% Term bonds due November 1, 2038, Priced at 98.571 to yield 4.840% CUSIP Suffix: GS0.

*Maturities priced to the November 1, 2018, optional redemption date.

OPTIONAL REDEMPTION

The 2008 Bonds maturing prior to November 1, 2018, are not subject to optional redemption prior to maturity. The 2008 Bonds maturing on or after November 1, 2019, are subject to optional redemption prior to their respective maturities on or after November 1, 2018, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at par plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

CITY OF NORFOLK, VIRGINIA

CITY COUNCIL

Paul D. Fraim, Mayor

Anthony Burfoot, Vice Mayor
Daun S. Hester
Paul R. Riddick
Dr. Theresa W. Whibley

Donald L. Williams
Barclay C. Winn
W. Randy Wright

MUNICIPAL OFFICIALS

Regina V.K. Williams, City Manager
Steven G. de Mik, Director of Finance
Kristen M. Lentz, Director of Utilities
Bernard A. Pishko, City Attorney

BOND COUNSEL

McGuireWoods LLP
Richmond, Virginia

FINANCIAL ADVISOR

Public Financial Management, Inc.
Arlington, Virginia

CONSULTING ENGINEER

HDR/EES
Portland, Oregon

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

McGladrey & Pullen, LLP
Greensboro, North Carolina

[THIS PAGE INTENTIONALLY LEFT BLANK]

All quotations from, and summaries and explanations of, provisions of law and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representation of fact. The information and expressions 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 implications that there has been no change in the affairs of the City or the System since the respective dates as of which information is given herein.

No dealer, broker, salesman or any other person has been authorized by the City or the successful bidder to give any information or to make any representations with respect to the City, the System or the 2008 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City or the successful bidder. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy the 2008 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

TABLE OF CONTENTS

INTRODUCTORY STATEMENT	1
AUTHORIZATION AND PURPOSE.....	2
DESCRIPTION OF THE 2008 BONDS	2
General	2
Book-Entry Only System.....	2
Redemption	4
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.....	5
Pledge Under the Indenture.....	5
Revenue Covenant	5
Additional Bonds and Parity Indebtedness	5
Debt Service Reserve Fund	6
Other Debt.....	6
Flow of Funds.....	7
Limits on Enforceability.....	8
SOURCES AND USES OF FUNDS	9
DEBT SERVICE REQUIREMENTS	10
DEPARTMENT OF UTILITIES	10
Organizational Structure	10
Management Initiatives.....	11
THE SYSTEM	13
History and Overview.....	13
Water Supply	13
Water Treatment Facilities	14
Water Distribution and Storage Facilities	14
Customer Base	14
Wholesale Contracts	15
The Service Area.....	16
CAPITAL PROGRAM	19
FINANCIAL MANAGEMENT.....	19
Overview.....	19
Rate Regulation.....	20
Water Rates.....	20
Billing, Collections and Enforcement Procedures.....	21
Budget Process	22
Results of Operations.....	24
Management Discussion of Operating Results	25
PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE.....	25
CONCLUSIONS OF THE CONSULTING ENGINEER.....	26
LEGAL MATTERS.....	26
TAX MATTERS	26
PENDING LITIGATION	28
BOND RATINGS.....	29

FINANCIAL STATEMENTS.....	29
FINANCIAL ADVISOR	29
CERTIFICATES OF CITY OFFICIALS.....	29
SALE AT COMPETITIVE BIDDING	29
CONTINUING DISCLOSURE	29
MISCELLANEOUS	30

APPENDIX A: WATER UTILITY REVENUE BOND FEASIBILITY STUDY	
APPENDIX B: WATER UTILITY FUND FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006	
APPENDIX C: DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	
APPENDIX D: CERTAIN INFORMATION CONCERNING THE CITY	
APPENDIX E: SUMMARY OF NORFOLK – VIRGINIA BEACH WATER SERVICES CONTRACT	
APPENDIX F: PROPOSED FORM OF OPINION OF BOND COUNSEL	
APPENDIX G: FORM OF CONTINUING DISCLOSURE AGREEMENT	

OFFICIAL STATEMENT
Relating to the Issuance of
\$58,415,000
City of Norfolk, Virginia
Water Revenue Bonds,
Series 2008

INTRODUCTORY STATEMENT

The purpose of this Official Statement, including the information contained in the Appendices, is to furnish information relating to the City of Norfolk, Virginia (the "City"), its water system (the "System" or "Water System") and its Water Revenue Bonds, Series 2008 (the "2008 Bonds") to be issued in the aggregate principal amount of \$58,415,000. This Official Statement has been authorized by the City for use in connection with the sale of the 2008 Bonds.

The 2008 Bonds will be issued pursuant to the Public Finance Act of 1991, Chapter 26 of Title 15.2 of the Code of Virginia of 1950, as amended (the "Act"). The 2008 Bonds are being issued under the provisions of a Master Indenture of Trust, dated as of November 1, 1993, as previously supplemented and amended (the "Master Indenture"), between the City and U.S. Bank, National Association, Richmond, Virginia, as successor Trustee (together with any successor, the "Trustee"), and a Seventh Supplemental Indenture of Trust dated as of April 1, 2008 (the "Seventh Supplemental Indenture"), between the City and the Trustee. The Master Indenture and the Seventh Supplemental Indenture are referred to collectively herein as the "Indenture." The City has previously issued under the Master Indenture its Water Revenue Bonds, Series 1993 (the "1993 Bonds"), of which \$50,530,000 in principal amount is currently outstanding; its Water Revenue Bonds, Series 1995 (the "1995 Bonds"), of which \$93,265,000 in principal amount is currently outstanding; its Water Revenue and Refunding Bonds, Series 1998 (the "1998 Bonds"), of which \$72,000,000 in principal amount is currently outstanding; its Water Revenue and Refunding Bonds, Series 2001 (the "2001 Bonds"), of which \$31,865,000 in principal amount is currently outstanding and its Water Revenue and Refunding Bonds, Series 2005 (the "2005 Bonds"), of which \$22,415,000 in principal amount is currently outstanding. The 2008 Bonds are the sixth series of Bonds issued under the Master Indenture.

The 2008 Bonds will be limited obligations of the City payable solely from Net Revenues derived from the System and other funds pledged for the payment under the terms of the Indenture. Neither the faith and credit of the Commonwealth of Virginia nor the faith and credit of any county, city, town or other subdivision of the Commonwealth of Virginia, including the City, is pledged to the payment of the principal of, premium, if any, or interest on the 2008 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The 2008 Bonds will be issued in authorized denominations of \$5,000, or whole multiples thereof, and held in book-entry only form by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the 2008 Bonds. See "DESCRIPTION OF THE 2008 BONDS - Book-Entry Only System." The 2008 Bonds are subject to optional and mandatory redemption prior to their stated maturities. See "DESCRIPTION OF THE 2008 BONDS - Redemption."

Certain capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture. See "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" included as Appendix C to this Official Statement.

All financial and other information presented in this Official Statement has been provided by the City and other sources that are believed to be reliable. The presentation of information is intended to show recent historic information and is not intended, unless specifically stated, to indicate future continuing trends in the financial position or other affairs of the System. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered less important than any other by reason of its location in the text. Reference should be made to the laws, reports or other documents referred to in this Official Statement, including the Indenture and the Feasibility Study, hereinafter defined, for more complete information regarding their contents.

AUTHORIZATION AND PURPOSE

The 2008 Bonds have been authorized by Ordinance No. 42,956 enacted by the City Council on January 8, 2008. The City is issuing the 2008 Bonds to (i) provide financing for the costs of acquiring, constructing and equipping various improvements and environmental upgrades to the City's water treatment, distribution and storage facilities, including the design costs associated with such improvements, (ii) fund the debt service reserve fund, and (iii) pay issuance costs of the 2008 Bonds. For the findings of engineering and financial studies relating to the capital projects and the issuance of the 2008 Bonds, see Appendix A which includes the Water Utility Revenue Bond Feasibility Study prepared by HDR/EES, the City's Consulting Engineer, dated April 11, 2008 (the "Feasibility Study").

DESCRIPTION OF THE 2008 BONDS

General

The 2008 Bonds will be dated the date of delivery, and will mature on November 1 in the years and amounts and bear interest at the rates set forth on the inside cover page of this Official Statement. Interest on the 2008 Bonds will be payable semi-annually on May 1 and November 1, commencing November 1, 2008. The Trustee will act as paying agent for the 2008 Bonds under the Indenture. The 2008 Bonds will be subject to optional and mandatory redemption prior to their stated maturities as described herein.

Book-Entry Only System

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the 2008 Bonds, payments of principal of and interest on the bonds to The Depository Trust Company, New York, New York ("DTC"), its nominee, Direct Participants (as defined below) or Beneficial Owners (as defined below), confirmation and transfer of beneficial ownership interests in the bonds and other bond-related transactions by and between DTC, the Direct Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the 2008 Bonds. The 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the bonds and will be deposited with DTC.

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 provisions 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 (the "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 (the "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 the 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Bonds on DTC's records. The ownership interest of the actual purchasers of the 2008 Bonds (the "Beneficial Owners") is in turn recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchases. 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 Owners entered into the transaction. Transfers of ownership interests in the 2008 Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2008 Bonds, except in the event that use of the book-entry system for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, the 2008 Bonds deposited by Direct Participants with DTC is 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 the 2008 Bonds with DTC and registration in the name of Cede & Co. or such other nominee does not effect any change in beneficial ownership. DTC has no knowledge of the identities of the actual Beneficial Owners of the 2008 Bonds; DTC's records reflect only the identities the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct or 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. Beneficial Owners of the 2008 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2008 Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the 2008 Bonds may wish to ascertain that the nominee holding the 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission 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 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the 2008 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the bond registrar or paying agent 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 Direct or Indirect Participant and not of DTC (or its nominee), the City or the bond registrar and paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the bond registrar and paying agent, 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.

DTC may discontinue providing its services as securities depository with respect to the 2008 Bonds at any time by giving reasonable notice to the City and the bond registrar and paying agent. Under such circumstances, in the event that a successor securities depository is not obtained, the 2008 Bonds certificates will be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository).

Neither the City nor the bond registrar and paying agent has any responsibility or obligation to the Direct or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the 2008 Bonds; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted to be given to Holders; or (d) any other action taken by DTC, or its nominee, Cede & Co., as Holder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the 2008 Bonds, as nominee of DTC, references in this Official Statement to the Holders of the 2008 Bonds mean Cede & Co. and not the Beneficial Owners, and Cede & Co. will be treated as the only holders of the 2008 Bonds.

The City may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the 2008 Bonds without the consent of Beneficial Owners or Holders.

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

Redemption

Optional. The 2008 Bonds maturing prior to November 1, 2018, are not subject to optional redemption prior to maturity. The 2008 Bonds maturing on or after November 1, 2019, are subject to optional redemption prior to their respective maturities on or after November 1, 2018, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at par plus the interest accrued on the principal amount to be redeemed to the date fixed for redemption.

Mandatory Redemption. The 2008 Bonds stated to mature November 1, 2032 (the "2008 Term Bonds") are subject to mandatory redemption, in part, in the years and at the principal amounts set forth below at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption:

2008 Term Bond
maturing November 1, 2032

Year	
(November 1)	Amount
2030	\$2,445,000
2031	2,565,000
2032*	2,690,000

The 2008 Bonds stated to mature November 1, 2038 (the "2008 Term Bonds") are subject to mandatory redemption, in part, on November 1, 2033, in the years and at the principal amounts set forth below at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption:

2008 Term Bond
maturing November 1, 2038

Year	
(November 1)	Amount
2033	\$2,820,000
2034	2,955,000
2035	3,100,000
2036	3,250,000
2037	3,410,000
2038*	3,575,000

^{*}Final maturity

Notice. Any redemption of the 2008 Bonds is required by the Indenture to be made upon notice of redemption given by certified mail to DTC or, if the book-entry only system is discontinued as described above, by first class mail, postage prepaid, not less than 30 nor more than 60 days before the date fixed for redemption, to the registered owners of the 2008 Bonds to be redeemed and to certain national information services whose names and addresses are included in the most recent list furnished to the Trustee by the City, as set forth in the Indenture.

Each notice of redemption will contain, among other things, the CUSIP identification number and the number of the 2008 Bonds (or portions thereof) being called for redemption, the redemption date and price and the address at which the 2008 Bonds are to be surrendered for payment of the redemption price. Any defect in such notice or the failure to mail any such notice to the registered owner of any 2008 Bond called for redemption will not affect

the validity of the proceedings for the redemption of any other 2008 Bond. Any defect in such notice or the failure to mail any such notice to any such national information service will not affect the validity of the proceedings for the redemption of the 2008 Bonds. As long as the book-entry only system is used for determining ownership of the 2008 Bonds, the City shall send notice to DTC or its nominee, or its successor. Any failure of DTC or its nominee or of a Direct Participant or Indirect Participant to notify a Direct Participant, Indirect Participant or Beneficial Owner of any 2008 Bond called for redemption will not affect the validity of the proceedings for the redemption of such 2008 Bond.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge Under the Indenture

The 1993 Bonds, the 1995 Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Bonds, the 2008 Bonds and any Additional Bonds issued under the Indenture (collectively, the "Bonds") are limited obligations of the City payable from Net Revenues and reserves held for such purpose. The term "Net Revenues" is defined in the Indenture as Revenues less Operating Expenses. As defined in the Indenture, "Revenues" include all revenues, receipts and other income derived by the City from the ownership or operation of the System including, without limitation, investment earnings and transfers, if any, from the Rate Stabilization Fund, but excluding (i) any gift, grant or contribution to the extent restricted by the donor or grantor to a particular purpose inconsistent with its use for the payment of debt service on Bonds, Parity Indebtedness or Subordinate Debt, (ii) proceeds derived from insurance or condemnation and (iii) any transfers from the Revenue Fund to the Rate Stabilization Fund. "Operating Expenses," as defined in the Indenture, include all current expenses directly or indirectly attributable to the ownership or operation of the System, but do not include (i) any allowance for amortization or depreciation, (ii) deposits or transfers to the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund, the Repair and Replacement Reserve Fund or the Rate Stabilization Fund, (iii) payments for Existing Debt Service on City Obligations and (iv) expenditures which the City makes an election to capitalize.

The City may incur "Parity Indebtedness" equally and ratably secured by Net Revenues with the Bonds on terms and conditions similar to those required for the issuance of Additional Bonds. Parity Debt Service is not secured by the Debt Service Reserve Fund. The City also may issue "Subordinate Debt" secured by a pledge of Net Revenues that is expressly made subordinate to the pledge of Net Revenues securing Bonds or Parity Indebtedness or which is unsecured.

The City has entered into wholesale contracts with the U.S. Navy and the Cities of Virginia Beach, Chesapeake, and Portsmouth. Payments received by the City under these contracts constitute Revenues. See the section entitled "THE SYSTEM - Wholesale Contracts" and Appendix E, "SUMMARY OF NORFOLK-VIRGINIA BEACH WATER SERVICES CONTRACT," for a more detailed discussion of these contracts.

Neither the faith and credit of the Commonwealth of Virginia nor the faith and credit of any county, city, town or other political subdivision of the Commonwealth of Virginia, including the City, is pledged to the payment of the principal of, premium, if any, or interest on the 2008 Bonds.

Revenue Covenant

The City has covenanted in the Indenture that it will establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the System, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each fiscal year, Net Revenues are not less than the greater of (i) the sum of 1.1 times debt service on Bonds and Parity Indebtedness and 1.0 times debt service on Subordinated Debt for the fiscal year and (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund and the Repair and Replacement Reserve Fund (the "Revenue Covenant").

Additional Bonds and Parity Indebtedness

The City may issue Additional Bonds or Parity Indebtedness upon receipt of a written certificate of the Director of Finance or, at the City's option, the Consulting Engineer which states that the amount of the Net Revenues as received during any twelve consecutive months of the twenty-four months immediately preceding the issuance of the Bonds or Parity Indebtedness (the "Test Period"), as adjusted as set forth below, will satisfy the Revenue Covenant for the Test Period taking into account the maximum annual debt service due on (i) the Bonds and Parity Indebtedness then outstanding and (ii) the Bonds or Parity Indebtedness to be issued. The Net Revenues which are permitted to be certified by the Director of Utilities or the Consulting Engineer to the Director of Finance may be adjusted as follows:

(a) If the City has increased the rates, fees or other charges for the services or use of the System, the Net Revenues for the Test Period will be adjusted to include the Net Revenues which would have been derived from the System during the Test Period as if such increased rates, fees or other charges for the services or use of the System had been in effect during the Test Period.

(b) If the City has acquired or has contracted to acquire any privately or publicly-owned existing water system, sewer system, sewage disposal system, solid waste collection or disposal system, stormwater collection or disposal system, or any other utility system that the City will consolidate with the System, the cost of which will be paid from all or part of the proceeds of the issuance of the proposed Bonds or Parity Indebtedness, then the Net Revenues derived from the System during the Test Period will be increased by adding to the Net Revenues for the Test Period the projected Net Revenues which would have been derived from the System if such utility system had been operated by the City as part of the System during the Test Period.

(c) If the City has entered into a contract on or before the date of the issuance of the proposed Bonds or Parity Indebtedness with any public body whereby the City has agreed to furnish services consistent with the services performed by the System, which contract (i) is for a duration of not less than the final maturity of the Bonds or Parity Indebtedness proposed to be issued, or (ii) if less than the final maturity of such Bonds or Parity Indebtedness, contains provisions obligating the party contracting with the City to pay in full its allocated share of capital improvements to the System needed to carry out the terms of the contract, then the Net Revenues of the System during the Test Period will be increased by the least amount which the entity receiving such services will be required to pay by the terms of the contract in any one year during which the City is to furnish such services and such Bonds or Parity Indebtedness are anticipated to be outstanding, after deducting from such payment the estimated amount of operating expenses and repair, renewal and replacement costs attributable in such year to such services.

(d) If there is an estimated increase in Revenues to be received by the City, as a result of additions, extensions or improvements to the System within three years after delivery of the proposed Bonds or Parity Indebtedness and the governing body of the City has taken official action authorizing the additions, extensions or improvements (and if the project involves another jurisdiction, the governing body of that jurisdiction has given appropriate approval), then the Net Revenues derived from the System during the Test Period will be increased by the average annual additional Net Revenues estimated for the first two full Fiscal Years after such additions, extensions or improvements are placed in service.

Debt Service Reserve Fund

The Bonds will be additionally secured by a Debt Service Reserve Fund established and maintained pursuant to the Indenture and held by the Trustee. The Indenture requires that the City must maintain on deposit in the Debt Service Reserve Fund an amount equal to the lesser of (i) the maximum principal and interest due on the Bonds then Outstanding in the current or any future fiscal year and (ii) 125 percent of the average annual principal and interest due on the Bonds then Outstanding in the then current and each future fiscal year (the "Debt Service Reserve Requirement"); provided, however, for any series of Bonds, the amount required to be deposited to and maintained in the Debt Service Reserve Fund with respect to such series of Bonds shall not exceed the amount which is permitted by the Internal Revenue Code to be applied from the proceeds of such series of Bonds and still maintain the exclusion of interest on such series of Bonds from gross income for purposes of federal income taxation. **Amounts in the Debt Service Reserve Fund equally and ratably secure the Bonds but do not secure Parity Indebtedness.** The deposit to the Debt Service Reserve Fund required as a result of the issuance of the 2008 Bonds will be funded with bond proceeds in the amount of \$3,662,100.

Other Debt

The City has issued general obligation bonds from time to time to pay for improvements to the System. The City anticipates that transfers described in the following section will be made from the General Reserve Fund to the City's debt service fund to pay the debt service on such general obligation bonds. The City expects that future capital costs for the System which are financed with debt will be paid from proceeds of Bonds issued pursuant to the Indenture. Since Fiscal Year 1980, the year in which the Water Utility Fund was first operated as a self-supporting enterprise fund, all debt service on general obligation bonds attributable to the System has been paid from revenues of the System. As of June 30, 2007, \$17,210,346 of general obligation bonds attributable to the System were outstanding of which \$3,912,746 of principal is scheduled to be paid during Fiscal Year 2008. The final payment on such general obligation bonds is due in Fiscal Year 2015.

Flow of Funds

The Indenture provides that the City will collect and deposit in the Revenue Fund as received all Revenues derived from the ownership or operation of the System, except as otherwise provided for in the Indenture for investment income on certain funds and accounts created by the Indenture. Not later than the fifth business day before the end of each month, the City will make transfers from the Revenue Fund in the following order of priority:

Operating Fund. An amount such that the balance on deposit in the Operating Fund will be equal to not less than one-sixth of the Operating Expenses to be paid from the Operating Fund in the then current fiscal year as set forth in the annual budget for the System.

Bond Fund. The amount necessary to make the following deposits:

(a) *Interest Account.* An approximately equal amount each month such that (after taking into consideration with respect to each series of Bonds the amount then on deposit in the Interest Account, any amount to be transferred from the Capitalized Interest Account to the Interest Account pursuant to the terms of any Supplemental Indenture and any amounts to be drawn or paid under any Credit Facility or Hedge Agreement for deposit to the Account), on the fifth business day immediately preceding the next interest payment date for each series of Bonds, there will be on deposit in the Interest Account an amount equal to the interest on the Outstanding Bonds of each Series to become due on such Interest Payment Date.

(b) *Principal Account.* An approximately equal amount each month such that (after taking into consideration with respect to each series of Bonds the amount then on deposit in the Principal Account and any amounts to be drawn or paid under any Credit Facility or Hedge Agreement for deposit to the Account), on the fifth business day immediately preceding the next principal payment date for each series of Bonds, there will be on deposit in the Principal Account an amount equal to the principal and accreted value of the Outstanding Bonds of each Series maturing or required to be redeemed on such Principal Payment Date.

Parity Debt Service Fund. An amount with respect to any Parity Indebtedness such that (after taking into consideration the amount then on deposit in the Fund and any amounts to be drawn or paid under any Credit Facility or Hedge Agreement for deposit to the Fund) if the same amount is transferred to the Fund each month preceding the next ensuing Interest Payment Date or Principal Payment Date for the Parity Indebtedness, there will be on deposit in the Fund an amount equal to the payment due on the Parity Indebtedness on such payment date.

Debt Service Reserve Fund. If the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the amount of money remaining in the Revenue Fund necessary to increase the amount on deposit in the Debt Service Reserve Fund to the Debt Service Reserve Requirement, or all of the money remaining if less than the amount necessary.

Subordinate Debt Service Fund. Such amount with respect to any Subordinate Debt as may be determined by the City to be necessary to provide for the payment when due of the principal of and interest on the Subordinate Debt.

Repair and Replacement Reserve Fund. The amounts necessary to bring the balance in the Repair and Replacement Reserve Fund to the Replacement Reserve Requirement in not more than (i) thirty-six approximately equal monthly installments for the initial Requirement and (ii) sixty approximately equal monthly installments in the case the Requirement is increased or moneys are withdrawn from the Fund. The "Replacement Reserve Requirement" was initially established at \$1,000,000. The City will review the adequacy of the amount of the Requirement and may increase or reduce (but not below the initial Requirement) such amount. Balances in the Repair and Replacement Reserve Fund may be used to pay for major repairs, additions and other capital improvements to the System and to make deposits to the Revenue Fund, Operating Fund, Bond Fund, Parity Debt Service Fund and Debt Service Reserve Fund.

Rate Stabilization Fund. The amounts necessary to bring the balance in the Rate Stabilization Fund to the Rate Stabilization Requirement in not more than twenty-four equal monthly installments. The City will review the adequacy of the amount of the Requirement and may adjust the Requirement at any time as it deems appropriate. Balances in the Rate Stabilization Fund may be transferred to the Operating Fund and will constitute Revenues. The City is not required to maintain any balance in the Rate Stabilization Fund.

General Reserve Fund. Any balance remaining in the Revenue Fund, after making the above deposits, will be deposited in the General Reserve Fund. Balances in the General Reserve Fund are not pledged to secure Bonds or Parity Indebtedness and may be used by the City for any lawful purpose. The City agrees to use amounts in the General Reserve Fund to cure any deficiency in the Operating Fund, the Bond Fund, the Parity Debt Service Fund and the Debt Service Reserve Fund. The City anticipates transferring from the General Reserve Fund to the City's general fund an amount equal to the sum of (i) debt service on general obligation bonds of the City issued to pay

costs of the System, (ii) a payment in lieu of taxes and (iii) a return to the City for its investment in the System. These transfers to the City's general fund are not required by the Indenture.

In the event there are insufficient funds in the Revenue Fund to make the transfers required by the Bond Fund and the Parity Debt Service Fund, the City will allocate the available funds between the Bond Fund and the Parity Debt Service Fund in the proportion that the amount required to be deposited to each Fund bears to the total amount required to be deposited to both Funds.

See "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE," included as Appendix C to this Official Statement for a further description of the flow of funds.

Limits on Enforceability

The enforceability of the Indenture and the 2008 Bonds is subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights and to the extent that certain remedies under such agreements or instruments require, or may require, enforcement by a court, such principles of equity as the court having jurisdiction may impose. See "DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Events of Default; and Remedies; Rights of Bondholders" included in Appendix C to this Official Statement.

Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") permits a municipality such as the City, if insolvent or otherwise unable to pay its debts as they become due, to file a voluntary petition for the adjustment of debts provided that such municipality is "specifically authorized, in its capacity as a municipality or by name, to be a debtor..." Bankruptcy Code, §109(c)(2). Current Virginia statutes do not expressly authorize the City or municipalities generally to file under Chapter 9. Chapter 9 does not authorize the filing of involuntary petitions against municipalities such as the City.

Bankruptcy proceedings by the City could have adverse effects on holders of the 2008 Bonds, including (i) delay in the enforcement of their remedies, (ii) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (iii) imposition without their consent of a plan of reorganization reducing or delaying payment of the 2008 Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any plan of reorganization not accepted by at least a majority of any class of creditors such as the holders of the 2008 Bonds, such class of creditors will have the benefit of their original claim or its "indubitable equivalent," although such "equivalent" may not provide for payment of the 2008 Bonds in full. The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation. Exclusion Under Uniform Commercial Code Article 9.

Legislation adopted in the 2000 Session of the Virginia General Assembly (the "General Assembly") changed Virginia's Uniform Commercial Code, Title 8.9 of the Code of Virginia of 1950, as amended ("UCC"), by bringing previously exempt municipal transactions within the purview of Article 9 of the UCC. This legislation had an effective date of July 1, 2004.

In the 2004 Session, the General Assembly enacted Chapter 296 of the 2004 Acts of Assembly, which adopted curative language reinstating the exclusion of governmental liens on revenues and other governmental assets from Article 9. The curative language provides the following:

1. Section 109 of UCC Article 9 excludes from the scope of Article 9: "a sale of promissory notes by the Commonwealth or a governmental unit of the Commonwealth in connection with or in furtherance of the exercise of the borrowing power of the Commonwealth or a governmental unit of the Commonwealth."
2. Section 2.1-304.1:2 of the Code of Virginia of 1950, as amended, provides that, except for security interests in goods or software, any security interests granted by the Commonwealth or a governmental unit of the Commonwealth to pay or secure any indebtedness is effective immediately without delivery, filing or other act. The lien of such security interest has priority over any other obligations of the governmental unit.
3. Section 703 of UCC Article 9 provides that security interests granted by the Commonwealth or a governmental unit before July 1, 2004 shall continue to be enforceable and maintain their priority effective as of before July 1, 2004.

Chapter 296 was enacted by the General Assembly and approved by the Governor on March 15, 2004, and was effective upon adoption.

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the 2008 Bonds are as follows:

Sources of Funds:

Par Amount of the 2008 Bonds	\$ 58,415,000.00
Plus: Net Original Issue Premium	1,036,896.20
<i>Total Sources of Funds</i>	<u>\$ 59,451,896.20</u>

Uses of Funds:

Capital Projects	\$ 55,250,000.00
Deposit to Debt Service Reserve Fund	3,662,100.00
Underwriters' Discount	272,298.54
Costs of Issuance*	267,497.66
<i>Total Uses of Funds</i>	<u>\$ 59,451,896.20</u>

*Includes legal, financial advisory, rating, printing, and other costs of issuing the 2008 Bonds.

DEBT SERVICE REQUIREMENTS

Annual revenue bond debt service requirements on the outstanding 1993 Bonds, 1995 Bonds, 1998 Bonds, 2001 Bonds, 2005 Bonds and 2008 Bonds are shown in the table below. Totals may not sum due to rounding.

Fiscal Year Ending	Existing Revenue Bond Debt (as of 6/30/07)			2008 Bonds			Total Revenue Bond Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2008	\$7,665,000	\$14,022,200	\$21,687,200	\$-	\$-	\$-	\$7,665,000	\$14,022,200	\$21,687,200
2009	8,050,000	13,639,869	21,689,869	-	2,771,474	2,771,474	8,050,000	16,411,343	24,461,343
2010	8,455,000	13,232,930	21,687,930	965,000	2,696,750	3,661,750	9,420,000	15,929,680	25,349,680
2011	8,885,000	12,800,298	21,685,298	990,000	2,667,425	3,657,425	9,875,000	15,467,723	25,342,723
2012	9,355,000	12,336,246	21,691,246	1,020,000	2,637,275	3,657,275	10,375,000	14,973,521	25,348,521
2013	9,845,000	11,840,223	21,685,223	1,055,000	2,606,150	3,661,150	10,900,000	14,446,373	25,346,373
2014	10,370,000	11,315,735	21,685,735	1,085,000	2,574,050	3,659,050	11,455,000	13,889,785	25,344,785
2015	10,930,000	10,760,198	21,690,198	1,125,000	2,535,275	3,660,275	12,055,000	13,295,473	25,350,473
2016	11,520,000	10,167,244	21,687,244	1,170,000	2,489,375	3,659,375	12,690,000	12,656,619	25,346,619
2017	12,150,000	9,534,216	21,684,216	1,225,000	2,435,350	3,660,350	13,375,000	11,969,566	25,344,566
2018	12,820,000	8,863,723	21,683,723	1,285,000	2,372,600	3,657,600	14,105,000	11,236,323	25,341,323
2019	13,525,000	8,159,132	21,684,132	1,355,000	2,306,600	3,661,600	14,880,000	10,465,732	25,345,732
2020	14,270,000	7,412,294	21,682,294	1,425,000	2,237,100	3,662,100	15,695,000	9,649,394	25,344,394
2021	15,070,000	6,616,407	21,686,407	1,495,000	2,164,100	3,659,100	16,565,000	8,780,507	25,345,507
2022	15,910,000	5,772,370	21,682,370	1,570,000	2,087,475	3,657,475	17,480,000	7,859,845	25,339,845
2023	16,815,000	4,878,146	21,693,146	1,655,000	2,006,850	3,661,850	18,470,000	6,884,996	25,354,996
2024	17,760,000	3,933,139	21,693,139	1,735,000	1,922,100	3,657,100	19,495,000	5,855,239	25,350,239
2025	14,105,000	3,059,816	17,164,816	1,825,000	1,833,100	3,658,100	15,930,000	4,892,916	20,822,916
2026	14,900,000	2,264,126	17,164,126	1,920,000	1,739,475	3,659,475	16,820,000	4,003,601	20,823,601
2027	7,345,000	1,672,888	9,017,888	2,020,000	1,640,975	3,660,975	9,365,000	3,313,863	12,678,863
2028	7,725,000	1,294,419	9,019,419	2,120,000	1,537,475	3,657,475	9,845,000	2,831,894	12,676,894
2029	8,125,000	895,384	9,020,384	2,230,000	1,431,512	3,661,512	10,355,000	2,326,896	12,681,896
2030	2,980,000	619,519	3,599,519	2,335,000	1,326,013	3,661,013	5,315,000	1,945,532	7,260,532
2031	3,125,000	471,506	3,596,506	2,445,000	1,215,406	3,660,406	5,570,000	1,686,912	7,256,912
2032	3,285,000	315,409	3,600,409	2,565,000	1,096,419	3,661,419	5,850,000	1,411,828	7,261,828
2033	1,185,000	208,009	1,393,009	2,690,000	971,612	3,661,612	3,875,000	1,179,621	5,054,621
2034	1,240,000	151,931	1,391,931	2,820,000	840,750	3,660,750	4,060,000	992,681	5,052,681
2035	1,300,000	93,194	1,393,194	2,955,000	703,594	3,658,594	4,255,000	796,788	5,051,788
2036	1,365,000	31,566	1,396,566	3,100,000	559,788	3,659,788	4,465,000	591,354	5,056,354
2037	-	-	-	3,250,000	408,975	3,658,975	3,250,000	408,975	3,658,975
2038	-	-	-	3,410,000	250,800	3,660,800	3,410,000	250,800	3,660,800
2039	-	-	-	3,575,000	84,906	3,659,906	3,575,000	84,906	3,659,906
	<u>\$270,075,000</u>	<u>\$176,362,136</u>	<u>\$446,437,136</u>	<u>\$58,415,000</u>	<u>\$54,150,749</u>	<u>\$112,565,749</u>	<u>\$328,490,000</u>	<u>\$230,512,886</u>	<u>\$559,002,886</u>

Source: Department of Finance.

DEPARTMENT OF UTILITIES

Organizational Structure

The Department of Utilities (the "Department") operates and maintains the City's water and wastewater systems and oversees the Water and Wastewater Enterprise Funds. The Department currently employs approximately 290 employees who are grouped into seven divisions. A brief description of each division, follows:

Director's Office	Responsible for overall administration of the Department, including public information, human resources and grants management.
Water Production	Responsible for operation and maintenance of water treatment plants and finished water storage facilities. Maintains raw and finished water pump stations and raw water transmission mains. Reviews any encroachments or activities on the reservoirs.

Water Quality	Responsible for assuring that System water continues to meet state and federal regulations through laboratory analysis and reporting to regulatory agencies. Manages raw water resources.
Water Distribution	Responsible for the maintenance of over 800 miles of water mains. Also responsible for repair, replacement and installation of fire hydrants and valves and the detection of leaks in the distribution system. Provides routine flushing of water mains and the installation of service main extensions.
Engineering	Responsible for engineering design, construction oversight, contract management, and capital improvement program development. Also responsible for underground utility identification under the Miss Utility program, and other engineering functions.
Accounting and Budget	Responsible for financial oversight, budgeting and expenditure tracking for all phases of the utility operations. Coordinates with the City's Finance Department to maintain consistency in financial reporting and record keeping.
Water Accounts	Responsible for handling customer service inquiries concerning billing and establishment and disconnection of services. Coordinates the reading of meters. Also responsible for billing and collection activities in conjunction with joint billing arrangement with Hampton Roads Sanitation District.

The City operates under the City Council-Manager form of government. Policymaking and legislative authorities are vested in the governing City Council, which consists of a mayor and seven-member council. Members of the City Council serve four-year staggered terms. The City Council appoints the City Manager. The City Council is the only body with authority to set water rates and fees charged by the City.

The principal members of the City's management team and their experience are described in the Feasibility Study which is included as Appendix A to this Official Statement.

Management Initiatives

In Fiscal Year 2004, the City embarked on a ten-year, \$170 million water system rehabilitation and replacement program to upgrade certain aging infrastructure components of the Water System. The City Council approved Ordinance Number 41,047 on May 20, 2003, which provided a series of three \$.33 per 1,000 gallon rate increases for Fiscal Year 2004, Fiscal Year 2005 and Fiscal Year 2006, and annual increases of three and one half percent (3.50%) each July 1 thereafter, until amended. These series of gradual and predictable finished water retail rate adjustments position the System to support this program.

The City of Norfolk entered into a long-term raw water sales contract with the City of Chesapeake on December 17, 2002. Under the contract, Norfolk will provide the City of Chesapeake 7 mgd of raw water. Raw water sales began in July 2006 on a take or pay basis. The raw water is sold at a Fiscal Year 2008 rate of \$1.083 per 1,000 gallons adjusted annually for inflation.

Other developments since the City last issued Water Revenue Bonds in 2005 include:

- Renewed water sales contract with the U.S. Navy at a rate of Norfolk retail water rate plus 10%;
- Developed a 30-year capital improvement plan;
- The Moores Bridges Water Treatment Plant was awarded the Hampton Roads Sanitation District (HRSD) Pretreatment Award for meeting strict compliance with the regulations associated with our HRSD Discharge permit. Compliance with this permit is important because it serves to protect the environment as part of the Clean Water Act;
- Replaced the City's 28-year old utility billing system that bills for more than \$100 million annually. The new billing system provides enhanced service improvement through improved customer service;
- Replaced 38,500 feet of water mains;
- The City of Norfolk's expansive and diverse Water System allowed the City and the region to weather the drought of 2007 without having to issue any mandatory water restrictions. The City additionally was able to sell the City of Portsmouth approximately 7 million gallons per day (mgd) of water from September 2007 to January 2008. In accordance with an emergency contract established in 2002, the City agreed to endeavor to deliver and sell up to 10 mgd of temporary surplus raw water as needed by Portsmouth; and
- The City began selling to the City of Chesapeake 7 MGD of raw water in July 2006 on a take or pay basis.

Future initiatives of the Department include:

- Continue to implement long-term infrastructure renewal plan. The plan will address the condition of dams to meet federal and state dam safety regulations, the upgrade of aging sections of raw and finished water piping and the upgrade of components of the 37th Street Water Treatment Plant.
- Continue to market surplus water.
- Preserve the City's groundwater withdrawal rights through its permit renewal process.

THE SYSTEM

History and Overview

The City developed a surface water supply network starting with the use of a spring near Main Street in the late 1600s, through the development of an in-town lake system in the late 1800s, to the development of Lake Prince and Lake Burnt Mills in the City of Suffolk and Isle of Wight County in 1918 and the Western Branch Reservoir in the City of Suffolk in 1962. In the 1940s through the 1960s the System expanded, and the Blackwater and Nottoway River intakes in Southampton County were added. The existing surface water supply is sufficient to meet the 50-year projected water needs of Norfolk's residents and businesses and all current contract and non-contract wholesale requirements.

In order to process water, two treatment plants have been constructed and maintained. The Moores Bridges treatment plant, constructed in the late 1890s, currently treats all public water consumed in Virginia Beach and treats and supplies portions of the water consumed in the City. The 37th Street treatment plant, originally put into service in the 1920s, supplies water to the remainder of the City. Both treatment plants serve the U.S. Navy and the Moores Bridges serves a portion of Chesapeake.

Over time, the System has developed and expanded into the major regional provider of water for Southside Hampton Roads, currently serving an area encompassing a population of approximately 820,000, or approximately 10% of the population of the Commonwealth of Virginia.

The first transmission line to Virginia Beach was installed in 1924, and the City has provided water to its neighbor ever since through long-term water supply contracts. A water services contract provides for the System's wheeling and treating of Virginia Beach raw water, either from Lake Gaston or Stumpy Lake, through Fiscal Year 2030. The U.S. Navy and the City of Chesapeake are long-standing wholesale water customers. Although the City currently has no separate water supply contract with Chesapeake, the City sells water to Chesapeake at a rate of \$4.77 per 1,000 gallons which increases by 3.5% in subsequent fiscal years. Starting on July 1, 2006, the City also began selling raw water to the City of Chesapeake. See "THE SYSTEM-Wholesale Contracts" for further discussion of relationships with the Cities of Chesapeake, Portsmouth, and Virginia Beach, and the U.S. Navy.

For additional information with respect to the System, see the Feasibility Study which appears as Appendix A to this Official Statement.

Water Supply

The System receives water from a series of eight City-owned water supply reservoirs which are located as follows: three in the City of Suffolk and Isle of Wight County (which collectively are known as the "Western Reservoir System"), three in the City of Virginia Beach, and two in Norfolk (which collectively are known as the "In-Town Reservoirs"). The System's current raw water storage capacity is 15.2 billion gallons. These reservoirs are supplemented by two river intakes at the Blackwater and Nottoway Rivers and four ground water wells owned by the City that are available in times of shortages.

As more fully discussed in the section entitled "THE SYSTEM-Wholesale Contracts" and in Appendix E, "SUMMARY OF NORFOLK-VIRGINIA BEACH WATER SERVICES CONTRACT," the City and Virginia Beach entered into the Water Services Contract, as amended, and extending through June 30, 2030, to provide for the treatment and delivery of finished raw water supplied by the City to Virginia Beach, whether from Lake Gaston or Stumpy Lake, up to the contract maximum limit of 45.0 mgd, or 46.8 mgd upon request from Virginia Beach and approval from Norfolk. Under the utility basis of cost recovery for this Contract, Virginia Beach is paying the City its proportionate share of annual operation and maintenance expense, depreciation, and return on specific System facilities used by the City to provide service to Virginia Beach. Such facilities include several expansion and improvement projects to increase the System's capacity to receive Lake Gaston water for treatment at the Moores Bridges Water Treatment Plant ("WTP"); improvements to master water meters; construction of a raw water pumping station, a raw water booster pumping station and a second high service pumping station at the Moores Bridges WTP; construction of raw water and treated water transmission mains; and hydraulic improvements at the Moores Bridges WTP, including improvements to flash mixers, sedimentation basin, filters, plant laboratory, maintenance facilities and administrative offices.

On April 28, 1995, the City commenced the System improvements necessary to treat the Lake Gaston water after the City was requested to do so by Virginia Beach. Under the terms of the Water Services Contract, as amended, Virginia Beach is obligated to pay the City for all costs so incurred irrespective of Virginia Beach's ability to continue to provide Lake Gaston water.

Regional Water Requirements. The Moores Bridges WTP was expanded to provide for the treatment of up to 45 mgd of raw water that Virginia Beach receives from the Lake Gaston Reservoir. Norfolk is treating this water under a water services contract that went into effect in Fiscal Year 1998. This released 32 mgd of raw water from the Norfolk System that was being sold to Virginia Beach under the then existing water supply contract. The sale of 7 mgd of raw water under the City's wholesale raw water contract with the City of Chesapeake began July 1, 2006. Norfolk believes that continued growth in the South Hampton Roads area, including Virginia Beach, will generate a demand for this water. The City has begun discussions with several potential customers for either wholesale raw water and/or treated water, recognizing that it may take many years to contract, plan and construct water transmission and/or treatment facilities.

Water Treatment Facilities

The City owns and, through the Department, operates two major water treatment plants, the Moores Bridges WTP and the 37th Street WTP. The Moores Bridges WTP, with a rated capacity of 108 mgd (maximum day), provides finished water primarily to the eastern two-thirds of the City and the City of Virginia Beach. The 37th Street WTP, with a rated capacity of 28 mgd (maximum day), provides finished water primarily to the western one-third of the City. Flow from both treatment plants serves the U.S. Navy facilities and the Moores Bridges Plant serves the urban Northeastern section of Chesapeake. The City also provides raw water to a U.S. military facility in the City of Portsmouth.

Water Distribution and Storage Facilities

The System's distribution facilities within Norfolk include two ground level storage tanks with pumping stations, two elevated water storage tanks, approximately 16,200 water valves and approximately 4,100 hydrants. Treated water is distributed throughout the City, to the city limits of Virginia Beach and Chesapeake, and to the gates of the Naval facilities by more than 800 miles of water mains. For Fiscal Year 2007, peak day water production was 86.5 mgd and average day production was approximately 66.6 mgd. Average day production includes approximately 5.0 mgd of unaccounted for water, such as losses, water used for fire protection, and the flushing of water mains. According to the American Water Works Association (AWWA), the optimum unaccounted for water level for efficient distribution systems should be less than 10% of volume of water produced. Nationwide, AWWA reports that water utilities average about 15% unaccounted-for-water. For Fiscal Year 2007, the System's unaccounted for water level was approximately 10% which is within AWWA's acceptable levels.

Customer Base

As of June 30, 2007, the System had approximately 66,000 active accounts, a slight increase over the last five years. It is anticipated that the level of accounts will begin to stabilize. Prior to Fiscal Year 1998, Virginia Beach's water use was restrained from growth by the City due to concerns about exceeding the safe yield of the System's sources. Since Virginia Beach has completed the Lake Gaston Project, purchased Stumpy Lake and lifted its water consumption restrictions, Virginia Beach's water usage has increased. Future water consumption is anticipated to remain constant. The average annual daily amount of finished water pumped for Fiscal Year 2007 was 66.6 mgd, including approximately 5 mgd of unaccounted for water.

Table 1
Average Metered Consumption
Fiscal Year 2007

	Metered Consumption (mgd)	Percent of Total (%)
Norfolk	18.10	29.59
Virginia Beach	35.95	58.77
Navy	4.74	7.75
Chesapeake	<u>2.38</u>	<u>3.89</u>
Total	61.17	100.00

Source: Department of Utilities.

Table 2 provides data on the System's ten largest retail customers for the fiscal year ended June 30, 2007.

Table 2
Ten Largest Retail Customers
Fiscal Year 2007

Customer	Annual Water Consumption (1,000 gallons)
Norfolk Redevelopment and Housing Authority	518,000
Old Dominion University	154,000
Sentara Health System	108,000
S. L. Nusbaum	93,000
Virginia Int'l Terminal	76,000
Norshipco	73,000
Norfolk School Board	72,000
Norfolk State University	60,000
Bon Secours Hospital	50,000
Ecolochem	46,000
Total	1,250,000

Source: Department of Utilities.

The ten largest retail customers together represent less than 10% of total water consumption, and no single retail customer represents more than 3% of total consumption.

Wholesale Contracts

The City maintains wholesale contracts or water service agreements with the City of Chesapeake ("Chesapeake"), the City of Virginia Beach ("Virginia Beach"), the City of Portsmouth ("Portsmouth") and the United States Department of the Navy ("Navy"). These contracts and agreements set forth the amount of water to be sold, rate setting procedures, metering points, dispute resolution and other matters.

The descriptions of the contracts and agreements set forth below are brief outlines or summaries of certain provisions. Such outlines and summaries do not purport to be complete, and reference should be made to each respective contract or agreement. Copies of the contracts and agreements may be obtained from the City for a full and complete statement of their provisions.

City of Virginia Beach. On July 14, 1993, the City entered into a water sales contract (the "Water Sales Contract") and a water services contract (the "Water Services Contract") with Virginia Beach. The Water Sales Contract served as an interim arrangement for the sale of surplus System water to Virginia Beach pending completion of the Lake Gaston Project. Since January 1998, the Water Services Contract provides for the City's treatment and delivery of potable Lake Gaston water to Virginia Beach now that the Lake Gaston Project is completed. In 2001, the Water Services Contract was amended. As of June 2004, the amended Water Services Contract covers the use of Virginia Beach's Stumpy Lake raw water source in conjunction with Lake Gaston water.

The Water Services Contract, as amended, is a long-term contract (effective through June 30, 2030) which requires the City to receive, convey, treat and deliver to Virginia Beach up to an average of 45 mgd, or 46.8 mgd upon Virginia Beach's request and Norfolk's approval, of finished water to be provided from Virginia Beach's two raw water sources. The Water Services Contract, as amended, establishes engineering, water quality and operational standards for the City to meet as it provides service to Virginia Beach. Accordingly, certain components of the System, including raw water storage, raw water pumping stations and transmission lines, water treatment plants and treated water storage, and finished water pumping and transmission facilities, will be utilized to provide treated water to Virginia Beach. The Water Services Contract, as amended, also provides that Virginia Beach will pay its proportionate share of the capital costs of the System irrespective of Virginia Beach's ability to provide raw water.

Certain components of the payments required by the Water Services Contract are not related to actual water usage. All payments by Virginia Beach under the Water Services Contract, including any termination payments, are secured solely by revenues received by Virginia Beach from charges paid by users of its water and sewer system. The Water Services Contract requires that such payments be designated by Virginia Beach as operating expenses of its water and sewer system and, as such, are payable ahead of debt service on future general obligation bonds and revenue bonds paid from Virginia Beach water and sewer system revenues. The Water Services Contract may be terminated by the City or by Virginia Beach upon the occurrence of various events (see "SUMMARY OF

NORFOLK - VIRGINIA BEACH WATER SERVICES CONTRACT" appearing as Appendix E to this Official Statement) and provides for substantial termination payments by Virginia Beach which may not exceed \$102,252,907 or such higher amount as are the City's actual costs to construct the Lake Gaston related facilities described in the Water Services Contract.

For a more detailed description of the Water Services Contract see Appendix E, "SUMMARY OF NORFOLK-VIRGINIA BEACH WATER SERVICES CONTRACT." The above description of the Water Services Contract and all references in this Official Statement to such contract are brief outlines or summaries of certain of its provisions. Such outlines and summaries do not purport to be complete, and reference should be made to the Water Services Contract, copies of which may be obtained from the City, for a full and complete statement of its provisions.

City of Chesapeake. The City sells Chesapeake wholesale finished water at various delivery points for service to the northeastern section of Chesapeake. Sales in Fiscal Year 2007 averaged 2.38 mgd which represents approximately 3.89% of the System's total metered water consumption. Rates are set by ordinance of the City Council.

In December, 2002, the City entered into a raw water sales contract with Chesapeake for the sale of the City's surplus raw water to Chesapeake. The contract start-up date was July 1, 2006, and the term is through December 31, 2042. The contract specifies the terms and conditions of the sale, rates, termination provisions and dispute resolution. This is a take or pay contract for 7 mgd. Raw water sales averaged 5.66 mgd in Fiscal Year 2007, reflecting a partial year's consumption. In the contract, the City agrees to sell and deliver to Chesapeake and Chesapeake agrees to accept a targeted amount of raw water transmitted to the extent possible at a uniform flow rate. The initial targeted amount of raw water is 7 mgd.

The current water rate is \$1.083 per thousand gallons of surplus raw water sold. Each July 1, the then existing water rate shall be adjusted based on the change in the Consumer Price Index, but in no instance shall the water rate decrease. Chesapeake began making monthly payments for the metered amount of surplus raw water delivered on August 1, 2006.

City of Portsmouth. In 2002, the City entered into a contract with the City of Portsmouth for the sale of emergency raw water. Portsmouth has constructed the necessary improvements to convey the raw water to its treatment facility. According to the contract, the City shall endeavor to deliver and sell to Portsmouth up to 10 mgd of temporary surplus raw water. The rate of the temporary surplus raw water sold pursuant to the contract shall total \$1.08 per thousand gallons. During the period September 2007 – January 2008, the City sold Portsmouth approximately 7 mgd of raw water.

U.S. Navy. The City has a long-standing relationship of providing water to the U.S. Navy on a wholesale basis. The contract was modified effective July 1, 2003, to establish treated water rates applicable to the United States Navy facilities in Norfolk and Virginia Beach. Sales to the Navy averaged 4.74 mgd in Fiscal Year 2007 which represents approximately 7.75% of total metered water consumption for the System.

The Service Area

The System's current service area covers approximately 334 square miles and includes the City, Virginia Beach and the urban northeastern section of Chesapeake as well as Naval installations in the City, Virginia Beach and Portsmouth. This service area is part of what is commonly known as Southside Hampton Roads. These jurisdictions vary greatly in population and character. Virginia Beach and the City have the first and second largest populations of any cities in the Commonwealth, respectively. Chesapeake, currently the third largest city in the Commonwealth, is experiencing rapid population growth, and has significant land available for residential and commercial development. Ranked by geographical size, Chesapeake is the second largest city in the Commonwealth and Virginia Beach is third. The City is the most densely populated of the three communities and has extensive waterfront development and the region's central business district.

Virginia Beach and Chesapeake have grown to a degree that they are no longer only suburban, though both still serve as residential communities for many working in the City. Virginia Beach has the highest income and property values in the region and also is a resort city with over 10,000 hotel rooms and a significant tourist industry along its beachfront. Both cities promote industrial growth and each has extensive agriculture activity in its southern area.

Table 3 summarizes population trends from 1980 through 2006.

Table 3
Population
1980-2006

Area	1980	1990	2000	2006
Norfolk	266,979	261,250	234,403	238,832
Virginia Beach	262,199	393,089	425,257	433,549
Chesapeake	114,486	151,982	199,184	215,586
Hampton Roads MSA	1,160,311	1,430,974	1,533,739	1,623,139
Commonwealth of Virginia	5,346,279	6,189,197	7,078,515	7,640,249
United States	226,504,825	249,632,692	281,421,906	298,754,819

Source: U.S. Department of Commerce, Bureau of the Census.

Table 4 provides per capita income comparisons from 1998 through 2005.

Table 4
City of Norfolk, Virginia
Per Capita Personal Income Comparisons
1998-2005⁽¹⁾

Year	City	Hampton Roads MSA	Virginia Beach	Chesapeake	State	U.S.
1998	\$21,313	\$24,154	\$27,271	\$23,458	\$27,968	\$26,893
1999	21,848	24,905	28,356	24,646	29,246	27,880
2000	22,693	26,288	30,098	26,838	31,210	29,760
2001	24,885	27,789	31,171	28,329	32,501	30,562
2002	25,597	28,828	32,367	29,760	33,014	30,795
2003	27,088	30,129	34,092	31,169	33,976	31,466
2004	28,684	31,587	36,009	32,051	35,698	33,090
2005	30,528	33,163	37,839	33,302	37,503	34,471

(1) No information available for 2006 or 2007

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 2007

The City has the largest concentration of naval installations in the world. These installations include (i) the Norfolk Naval Base which is the home port for over 100 ships and is one of only two Naval ports on the east coast that can accommodate aircraft carriers; (ii) the Supreme Allied Atlantic Command of the North American Treaty Organization (NATO), which is the only NATO facility in the United States; (iii) the headquarters of the Navy's Atlantic Fleet; (iv) the Norfolk Air Station; and (v) several other major Naval commands. The Norfolk Naval Base, located in the City along the Chesapeake Bay, has been a major military installation since World War I.

The Navy remains a mainstay of the increasingly diversified southeastern Virginia economy. The Navy's direct economic impact on the region was \$12.6 billion in 2007, comprised of a total annual payroll of \$7.3 billion and the balance consumed on goods and services and procurement contracts. The region is host to approximately 111,842 active duty personnel with approximately 79,000 of these military and civilian defense employees employed in the City. This federal presence in the economy tends to smooth out fluctuations in the business cycle and to reduce the severity of recessions. Unemployment in the Hampton Roads area has historically been below the national average, especially during economic downturns. Although large military deployments can adversely affect the area's economy, especially consumer spending, the City and region in recent years has successfully diversified its economic base. Furthermore, any reduction in the federal government's military or civilian spending or presence in the service area could have an adverse impact on the service area's economy.

Annual employment figures and unemployment rates are shown in Table 5 and Table 6, respectively.

Table 5
Employment
2002-2006

<u>Year</u>	<u>Norfolk</u>	<u>Virginia Beach</u>	<u>Chesapeake</u>
2002	93,475	207,266	100,066
2003	93,317	210,388	102,535
2004	93,537	212,720	105,080
2005	95,175	216,447	106,921
2006	93,488	217,901	110,321

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Virginia Employment Commission.

Note: Annually Not Seasonally Adjusted Labor Force.

Table 6
Unemployment Rates
2002-2006

<u>Year</u>	<u>Norfolk</u>	<u>Virginia Beach</u>	<u>Chesapeake</u>	<u>Hampton Roads MSA</u>	<u>Virginia</u>	<u>U.S.</u>
2002	5.5%	3.7%	3.7%	4.2%	4.2%	5.8%
2003	5.7	3.8	3.8	4.3	4.1	6.0
2004	5.5	3.6	3.6	4.1	3.7	5.5
2005	5.4	3.4	3.5	4.0	3.5	5.1
2006	4.1	2.9	3.2	3.3	3.0	4.6

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Virginia Employment Commission.

Manufacturing activities in the region include shipbuilding and repair, food processing, paper milling and assorted light assembly operations. The region's harbor is host to a variety of firms which engage in import and export activities. Appalachian coal is the principal export product although significant amounts of grain and general cargo also are exported. The volume of imports is considerably less than exports and is primarily general cargo. Tourism, along with a growing convention business, is an additional source of regional income. General farming is the area's primary agricultural activity.

The annual volume of retail sales for the City, Virginia Beach and Chesapeake for 2002 to 2006 is shown in Table 7.

Table 7
Retail Sales
(Millions of Dollars)

<u>Area</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Norfolk	\$2,319.6	\$2,417.7	\$2,642.2	\$2,452.7	\$2,780.4
Virginia Beach	3,343.7	3,903.2	4,437.9	4,183.9	4,726.6
Chesapeake	2,012.1	2,348.9	2,856.4	2,723.7	3,177.7

Source: Virginia Department of Taxation.

CAPITAL PROGRAM

The City annually prepares a five-year capital improvement program for the Water System incorporating all known capital costs over that period. Future year projects in the Capital Improvement Program ("CIP") are considered for planning purposes only until funds are provided and may be modified, at any time, by the City Council. The anticipated CIP for Fiscal Years 2008 through 2012 includes projects which are estimated to cost \$86.3 million. These projects are classified in the following categories: (i) facility renovations and upgrades; (ii) retail water distribution system improvements; and (iii) regulatory driven projects. The anticipated timing of project costs associated with the current CIP is shown in Table 8.

Table 8
Capital Improvement Plan
(Fiscal Year Ending June 30)
($\$000$ s)

	2008	2009	2010	2011	2012	Total
Facility Renovations and Upgrades	\$2,300	\$18,750	\$1,950	\$0	\$0	\$23,000
Retail Water Distribution System Improvements	10,550	11,600	4,500	7,500	7,930	42,080
Regulatory Driven Projects	<u>16,200</u>	<u>0</u>	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>21,200</u>
Total	\$29,050	\$30,350	\$6,450	\$12,500	\$7,930	\$86,280

Source: City of Norfolk, Virginia, FY 2008 Approved Capital Improvement Program; FY 2009 - FY 2012 Department of Utilities.

The City anticipates spending an additional \$250 million for capital improvements to the Water System over the subsequent 25-year period. The major near-term projects consist of upgrades to the raw water reservoir dams and spillways, raw water transmission pipelines, distribution system piping, phased rehabilitation of the 37th Street WTP, and upgrades at the Moores Bridges WTP. These improvements will be followed by subsequent rehabilitation of the raw water pumping stations at the river intakes, and repair and continued replacement of critical portions of the raw water transmission mains and of the distribution system. Improvements to the lake aeration systems at the City's Lake Prince and Western Branch reservoirs will be made starting in FY 2010. These improvements will allow the City to provide continuous operation of the System and meet regulatory requirements.

Operation of the System requires compliance with environmental laws and regulations. For a more detailed representation of regulatory driven capital improvements, see the Feasibility Study included as Appendix A to this Official Statement. The Feasibility Study, however, does not purport to be a complete, comprehensive or definitive summary of all currently required or proposed water quality laws and regulations. Future legislative and regulatory proposals applicable to the System could result in increased capital or operating costs beyond those currently projected by the City.

Proceeds from the 2008 Bonds, along with other funds on hand, are expected to pay the cash flow requirements of CIP and current construction-work-in-progress project costs to be incurred through Fiscal Year 2009. The City expects to issue Additional Bonds under the Indenture in Fiscal Year 2010 and 2012 to finance portions of the remaining cash flow of project costs in the CIP and construction-work-in-progress to be incurred in Fiscal Year 2007 and Fiscal Year 2008.

The estimated project costs indicated above are based upon the City's assumptions of future events and existing practices which are subject to revision as actual water utility operating results, regulatory requirements and City policy changes dictate. For a detailed description of the CIP, see the Feasibility Study included as Appendix A to this Official Statement.

FINANCIAL MANAGEMENT

Overview

On July 1, 1979, the City Council established the Water Utility Fund (the "Fund") as a distinct enterprise fund of the City to account for all of the financial activity related to providing water services to its customers. The Fund is operated on a self-supporting basis.

Since its inception, regular transfers have been made from the Fund to the City's general fund for payments in lieu of taxes and as a return on the City's investment in the System. Additionally, transfers have been made to pay all debt service on general obligation bonds issued by the City to pay for System improvements. The City currently intends to pay for all future System capital costs from revenues and proceeds of Bonds. The Fund is reported on an

accrual basis of accounting. Included in Appendix B to this Official Statement are the audited financial statements for the Fund for the Fiscal Year Ended June 30, 2007.

Rate Regulation

The power of the City to fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the System is not subject to the regulatory jurisdiction of the State Corporation Commission of Virginia or any other federal, regional, state or local regulatory body. Subject to existing contractual commitments, the City has sole and exclusive authority over such rates, fees and other charges.

Water Rates

Retail rate recommendations are developed prior to the City's budgetary process. Retail rates are set by City Council. Virginia Beach formula driven biennial wholesale rate revisions are not submitted for City Council approval. The Department uses a retail rate structure comprised of a uniform rate per thousand gallons, with no quantity discount or lifeline rate, and a uniform service charge per bill. The System's retail customers' average annual cost for Fiscal Years 2003 through 2007 are shown in Table 9 for ease of comparison with wholesale customers' average annual costs during the same period shown in Tables 10, 11 and 12.

Table 9
Retail Customers' Average Annual Cost
Norfolk Retail
2003-2007

<u>Fiscal Year</u>	<u>Revenue (\$)</u>	<u>Volume (Mgal*)</u>	<u>Average Cost (\$/Mgal*)</u>
2003	\$24,669,000	7,121,000	\$3.46
2004	26,758,000	7,049,000	3.80
2005	28,898,000	6,991,000	4.13
2006	31,762,000	7,111,000	4.48
2007	31,801,528	6,886,000	4.62

* Mgal = 1,000 gallons

Source: Department of Utilities.

The rates from the wholesale contract with Virginia Beach are formula driven based on projected operating and capital cashflow expenditures for two years. Virginia Beach's bills reflect a four part rate structure. Two parts of the rate structure are fixed monthly charges which recover proportional share of costs for system capacity designed to serve, and used by, them. One part of the rate structure is a fixed charge related to their reservation of Norfolk's surplus water, as appropriate. One part of the rate structure is a uniform rate which recovers their proportional share of variable operation and maintenance costs based on current use. Chesapeake's single uniform rate is based on an equivalent retail rate that recovers costs associated with the City's retail service charge and uniform rate.

Table 10
Wholesale Customers' Average Annual Costs
Virginia Beach
2003-2007

<u>Fiscal Year</u>	<u>Revenue (\$)</u>	<u>Volume (Mgal*)</u>	<u>Average Cost (\$/Mgal*)</u>
2003	\$25,465,000	12,459,000	\$2.04
2004	23,206,000	12,954,000	1.79
2005	23,203,000	12,856,000	1.80
2006	25,455,000	12,953,000	1.96
2007	25,724,000	13,089,000	1.97

* Mgal = 1,000 gallons

Source: Department of Utilities.

Table 11
Wholesale Customers' Average Annual Costs
U.S. Navy, including Norfolk and Virginia Beach
2003-2007

<u>Fiscal Year</u>	<u>Revenue (\$)</u>	<u>Volume (Mgal*)</u>	<u>Average Cost (\$/Mgal*)</u>
2003	\$9,579,000	2,262,000	\$4.23
2004	8,255,000	2,031,000	4.06
2005	8,357,000	1,889,000	4.42
2006	9,099,000	1,901,000	4.79
2007	8,548,000	1,724,000	4.96

* Mgal = 1,000 gallons

Source: Department of Utilities.

Table 12
Wholesale Customers' Average Annual Costs
Chesapeake
2003-2007

<u>Fiscal Year</u>	<u>Revenue (\$)</u>	<u>Volume (Mgal*)</u>	<u>Average Cost (\$/Mgal*)</u>
2003	\$4,396,000	1,270,000	\$3.46
2004	4,356,000	1,149,000	3.80
2005	5,187,000	1,256,000	4.13
2006	4,476,000	1,047,000	4.47
2007	3,987,000	865,000	4.61

* Mgal = 1,000 gallons

Source: Department of Utilities.

As shown in Table 13, the System's charges compare favorably with other providers of water in the region.

Table 13
Select Water Charges in the Region
(as of July 1, 2007)

<u>City</u>	<u>Monthly Water Charges for Median Household⁽¹⁾⁽²⁾</u>
Chesapeake	\$29.08
Norfolk	24.43
Newport News	23.77
Portsmouth	22.62
Virginia Beach	22.76

(1) Based on estimated average consumption of 5,236 gallons per month.

(2) Excludes utility taxes levied by the City.

Source: Department of Utilities.

Billing, Collections and Enforcement Procedures

The Department bills for water monthly using a billing and information system that combines account, work order, meter and customer service management. Effective May 1994, the Department implemented a joint billing program with Hampton Roads Sanitation District ("HRSD"), a political subdivision of the Commonwealth that provides wastewater treatment to the Hampton Roads region. This program has resulted in annual billing and collection efficiencies to the City and HRSD of approximately 99.3%.

Meters are read on a monthly basis. Billing data is transmitted to the Hampton Roads Utility Billing System (HRUBS), which is managed by HRSD, for the inclusion with HRSD's billing of wastewater, resulting in bills

mailed within two days from when meters are read. The Department uses estimated billing only in extraordinary circumstances.

The Department has a collection staff that actively pursues the collection of past due bills in coordination with its efforts with the City's Legal Department and HRSD. Extensive efforts are directed towards collection of delinquent accounts. Water customers are subject to having their water service discontinued if payments are delinquent by more than 45 days. Water service is restored when full payment is received or an acceptable payment plan is arranged. Delinquent bills are pursued with the use of property liens, payment arrangements and through the court system. Accounts are written off after they have been inactive for three years and collection efforts have not been successful. The Department participates in the State Debt Set-Off Program, which provides a way for the Department to have delinquent account balances, which contain the customer's social security number, withheld from the customer's Virginia State Income Tax refund or Virginia Lottery winnings. Write-offs must be approved by City Council. Historical write-offs of bad debt for Fiscal Years 2003 through 2007 are shown in Table 14.

Table 14
Water Utility Fund
Bad Debt Write-off

Fiscal Year	Years Written Off	Amount	Corresponding Billed Water Revenue⁽¹⁾	% of Net Charges for Services
2003	1998	\$416,736	\$56,503,568	0.74%
	1999	271,794	68,648,309	0.40
2004	2000	293,429	59,729,090	0.49
2005	2001	315,264	59,118,966	0.53
2006	2002	288,388	58,036,027	0.50
2007	None	0	0	0.00

⁽¹⁾ Corresponding Billed Water Revenue relates to revenue billed for the years in which the accounts receivable originate.

Source: Department of Utilities.

Budget Process

The Department prepares an annual budget for the Water Utility Fund in conformity with the City's requirements and procedures for the ensuing fiscal year. An interactive process is used during this review, involving personnel from the Department of Finance and the Office of Budget and Management.

The Water Utility Fund is accounted for on a full accrual basis which recognizes and records expenses and business services when goods and services are received and revenues when earned. The budget is prepared on a cash basis and non-cash items such as depreciation are not included. The Water Utility Fund is a self-supporting enterprise fund with no subsidy from the City's General Fund. All debt service on general obligation bonds issued to fund System improvements, a payment in lieu of taxes (PILOT), a return on investment and indirect overhead are budgeted to be paid from the annual revenues of the Water Utility Fund. The Water Utility Fund annual budgets for Fiscal Year 2007 and Fiscal Year 2008 are shown in Table 15.

Table 15
Water Utility Fund
Annual Budget
(Fiscal Year Ending June 30)
(Cash Basis)

Revenue	<u>2007</u>	<u>2008</u>
Total Water Revenue	\$75,181,651	\$73,980,285
Interest Income	749,803	1,980,386
Miscellaneous	<u>3,530,846</u>	<u>2,853,829</u>
Total Revenue	<u><u>\$79,462,300</u></u>	<u><u>\$78,814,500</u></u>

Appropriations

Personnel Services	\$15,312,927	\$15,673,796
Materials, Supplies & Repairs	10,540,818	11,576,809
General Operations and Fixed Charges	10,303,296	10,828,953
Equipment	843,725	691,508
Debt Services & Expenses	29,610,918	28,323,164
All-Purpose Appropriations	<u>12,850,616</u>	<u>11,720,270</u>
Total Appropriations	<u><u>\$79,462,300</u></u>	<u><u>\$78,814,500</u></u>

Source: City of Norfolk. Approved Operating Budgets, Fiscal Years 2007 and 2008.

Results of Operations

Statements of Revenues, Expenses and Changes in Fund Net Assets for the Water Utility Fund have been compiled from the City's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2003 through Fiscal Year 2007 and appear in Table 16. The statements have been organized in such a manner as to facilitate year to year comparisons.

Table 16
Water Utility Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
(Accrual Basis)
(Fiscal Year Ending June 30)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues					(as restated)
Charges for Services	\$63,785,185	\$60,964,284	\$61,002,286	\$74,218,336	\$69,815,982
Miscellaneous	2,779,992	4,374,025	3,419,431	3,472,406	2,941,067
Total Operating Revenues	<u>66,565,177</u>	<u>65,338,309</u>	<u>64,421,717</u>	<u>77,690,742</u>	<u>72,756,999</u>
Operating Expenses					
Personal Services	11,101,788	11,321,992	11,905,877	12,333,921	12,737,845
Plant Operations	5,275,780	5,040,432	4,937,669	7,631,051	5,780,847
Chemicals	1,592,238	1,644,474	2,446,167	3,227,636	3,318,311
Provision of Bad Debts	252,813	414,468	215,544	155,116	52,634
Depreciation	9,321,367	9,567,306	9,546,146	10,232,808	10,796,178
Retirement Contribution	954,769	1,350,927	1,986,266	1,529,200	1,582,668
Administrative Expenses	1,464,304	1,477,686	1,411,202	1,612,230	2,064,339
Other	10,230,396	15,509,885	14,681,967	10,835,628	10,117,700
Total Operating Expenses	<u>40,193,455</u>	<u>46,327,170</u>	<u>47,130,838</u>	<u>47,557,590</u>	<u>46,450,522</u>
Operating Income	<u>26,371,722</u>	<u>19,011,139</u>	<u>17,290,879</u>	<u>30,133,152</u>	<u>26,306,477</u>
Nonoperating Revenue (expenses):					
Interest Income	511,015	348,504	565,761	1,097,416	1,704,565
Intergovernmental Revenues	-	-	-	-	333,350
Interest Expense and Fiscal Charges	(14,185,142)	(13,741,959)	(13,076,471)	(14,760,173)	(14,060,054)
Gain (Loss) on Sale or Disposal of Fixed Assets	121,466	23,290	(70,119)	1,126,108	(6,032)
Unrealized Gain/(Loss) on Investments	(3,350)	(572,240)	(3,930)	-	-
Total Nonoperating Revenue (Expenses)	<u>(13,556,011)</u>	<u>(13,942,405)</u>	<u>(12,584,759)</u>	<u>(12,536,649)</u>	<u>(12,028,171)</u>
Net Income (Loss) before Contributions and Transfers	12,815,711	5,068,734	4,706,120	17,596,503	14,278,306
Operating Transfers In	253,560	138,861	-	59,059	594,926
Transfer Out	(8,455,000)	(8,500,000)	(8,500,000)	(10,117,535)	(8,921,465)
Change in Net Assets	4,614,271	(3,292,405)	(3,793,880)	7,538,027	5,951,767
Total Net Assets - Beginning Adjustment to Beginning Balance	167,230,896	171,845,167	168,552,761	164,758,881	171,002,195
Total Net Assets - Ending	<u>\$171,845,167</u>	<u>\$168,552,762</u>	<u>\$164,758,881</u>	<u>\$171,002,195</u>	<u>\$176,953,962</u>

Source: Water Utility Financial Statements, City of Norfolk Comprehensive Annual Financial Report. Fiscal Year 2003 through Fiscal Year 2007.

Management Discussion of Operating Results

The following discussion is based on operating budgets and historical operating results as shown in Table 15 and Table 16, respectively. Since inception of the Water Sales Contract and Water Services Contract with Virginia Beach and the water sales contract with the U.S. Navy, the Water Utility Fund has remained financially stable. The use of a cost of service formula driven rate for the City of Virginia Beach has assured sufficient revenue to cover the operating costs. Through this formula there is a paid return and depreciation for the use of the constructed assets and a return on assets being constructed. See "THE SYSTEM - Wholesale Contracts."

The revenues of the Water Utility Fund have remained fairly stable over the past three years, after adjusting for the Virginia Beach true up in Fiscal Year 2005 and Fiscal Year 2006. The total expenses of operating the System have remained fairly level over the last several years.

PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE

HDR/EES, the City's Consulting Engineer with respect to the System, has prepared a Feasibility Study included in this Official Statement as Appendix A in reliance on HDR/EES as experts in the preparation of rate studies and financial projections for water systems. The Feasibility Study provides a review of existing facilities, planned capital improvements and a projection of the revenues and expenses for the System. Table 17 summarizes the Feasibility Study's projected operating results (as shown in Tables 19 and 20 of the Feasibility Study) for Fiscal Year 2008 through Fiscal Year 2012.

Table 17
Water Utility Fund
Projected Operating Results
Cash Basis
(Fiscal Years Ending June 30)
(\$000s)

	2008	2009	2010	2011	2012
Revenues ¹	\$77,229	\$79,803	\$81,506	\$83,177	\$84,942
Operation and Maintenance Expenses	(32,590)	(33,684)	(34,820)	(36,001)	(37,229)
Net Revenue	<u>44,639</u>	<u>46,119</u>	<u>46,686</u>	<u>47,176</u>	<u>47,713</u>
Total Revenue Bond Debt Service	(21,687)	(24,461)	(26,765)	(27,751)	(28,134)
Current Year Debt Service Coverage	2.06	1.89	1.74	1.70	1.70
Capital Improvement Paid from Operations	(2,039)	(2,183)	(1,679)	(1,727)	(1,776)
Payments to the City					
General Obligation Bond Debt Service	(4,696)	(4,383)	(3,250)	(3,128)	(2,222)
Payment in Lieu of Taxes (PILOT)	(3,136)	(3,293)	(3,458)	(3,631)	(3,812)
Payment to General Fund (ROI)	<u>(8,500)</u>	<u>(8,500)</u>	<u>(8,500)</u>	<u>(8,500)</u>	<u>(8,500)</u>
Total Payments to the City	<u>(16,332)</u>	<u>(16,176)</u>	<u>(15,208)</u>	<u>(15,259)</u>	<u>(14,534)</u>
Change in Cash Balance and Reserves	(2,142)	(173)	(180)	(187)	(195)
Beginning Cash Balance and Reserves ²	23,770	46,709	49,834	52,689	54,942
Ending Cash Balance and Reserves ²	<u>\$46,709</u>	<u>\$49,835</u>	<u>\$52,689</u>	<u>\$54,942</u>	<u>\$58,017</u>

¹ Revenues reflect transfers to and from the Rate Stabilization Fund.

² Includes working capital plus Operating Fund and Repair and Replacement Reserve Fund balances.

CONCLUSIONS OF THE CONSULTING ENGINEER

For a more complete discussion of historical and projected operating results and debt service coverage for Norfolk's Water Utility Fund, see Table 19 and 20 of the Consulting Engineer's Feasibility Study.

The Feasibility Study has been included in the Official Statement in reliance upon the authority of the Consulting Engineer as an expert in the field of water system engineering and financial forecasts. Based on review, analysis and assumptions set forth in the Feasibility Study, the Consulting Engineer concludes that:

- The City is currently in compliance with water quality regulations under the Safe Drinking Water Act.
- The City is currently in compliance with the requirements of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the "Bioterrorism Act").
- The funds available from the 2008 Bonds, additional borrowings, together with other money available to the City, will be sufficient to complete the design and/or construction of the Water System capital improvements.
- The City's revenues from water service, including rate increases approved by Ordinance 41,047, §14 and anticipated change in wholesale rates per the contracts will be sufficient during the period Fiscal Year 2008 through Fiscal Year 2009 to pay the costs of operation and maintenance expenses, pay debt service, meet coverage requirements, pay a portion of the Water System Capital improvements and maintain required reserve balances.
- The Water System is currently operated and maintained in a manner consistent with sound engineering practices to assure continuous operation of the Water System and compliance with permits and other regulations. The City's current planning and construction practices will assure adequate facilities for maintenance of the Water System, compliance with future regulatory requirements, and growth of the Water System.
- The amount of Net Revenues received during the twelve month period ended June 30, 2007, as adjusted as permitted by Section 5.3(h)(3) of the Bond Indenture satisfies the revenue covenant contained in Section 9.4 of the Bond Indenture for the twelve month period ending June 30, 2007, taking into account the maximum amount of principal and interest payments due on (i) Bonds and Parity Indebtedness then Outstanding and (ii) the 2008 Bonds.

The Feasibility Study should be read in its entirety in order for the reader to effectively evaluate the Consulting Engineer's findings, analyses, assumptions, and conclusions.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the 2008 Bonds are subject to the approving opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel, which will be in substantially the form of Appendix F to this Official Statement. Such opinion will be furnished at the expense of the City upon delivery of the 2008 Bonds. Since Bond Counsel has not prepared this Official Statement and has not verified its accuracy, completeness or fairness, such opinion will be limited to matters relating to the authorization and validity of the 2008 Bonds and to the exemption of interest thereon under present federal and Virginia income tax laws. Certain legal matters will be passed on for the City by the City Attorney.

TAX MATTERS

Opinion of Bond Counsel

Bond Counsel's opinion will state that, under current law and assuming the compliance with the Covenants (as defined below) by and assuming the accuracy of certain representations and certifications, interest on the 2008 Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2008 Bonds), (a) is excludable from the gross income of the owners of the 2008 Bonds for purposes of federal income taxation under Section 103 of the Code and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel observes that interest on the 2008 Bonds may be included in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations. See Appendix F for the form of the opinion of Bond Counsel.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2008 Bonds.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the 2008 Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The City has covenanted, however, to comply with the requirements of the Code.

Reliance and Assumptions; Effect of Certain Changes

In delivering its opinion regarding the 2008 Bonds, Bond Counsel is relying upon and assuming the accuracy of certifications and representations of representatives of the City, the Underwriters and other public officials as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants (as hereinafter defined) by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2008 Bonds in order for interest on the 2008 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2008 Bonds and the use of the property financed or refinanced by the 2008 Bonds, limitations on the source of the payment of and the security for the 2008 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2008 Bonds to the United States Treasury. The tax certificate for the 2008 Bonds (the "Tax Certificate") contains covenants (the "Covenants") under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the 2008 Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2008 Bonds from becoming includable in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the 2008 Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the 2008 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of such 2008 Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the 2008 Bonds.

Prospective purchasers of the 2008 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," 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 attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the 2008 Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any such payments made after March 31, 2007, to any 2008 Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any 2008 Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such

interest from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Bond Premium

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Possible Legislative or Regulatory Action

Legislation and regulations affecting tax-exempt bonds are continually being considered by the United States Congress, the U.S. Department of the Treasury ("Treasury") and the IRS. In addition, the IRS has established an expanded audit and enforcement program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed after the date of issue of the 2008 Bonds or an audit initiated or other enforcement or regulatory action taken by the Treasury or the IRS involving either the 2008 Bonds or other tax-exempt bonds will not have an adverse effect on the tax status or the market price of the 2008 Bonds or on the economic value of the tax-exempt status of the interest thereon.

Virginia Tax Matters

Bond Counsel's opinion also will state that interest on the Bonds is excludable from the gross income of the owners thereof for purposes of income taxation by the Commonwealth. Bond Counsel will express no opinion regarding (i) other Virginia tax consequences arising with respect to the Bonds or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than Virginia. Prospective purchasers of the Bonds should consult their own tax advisors regarding the tax status of interest on the Bonds in a particular state or local jurisdiction other than Virginia.

PENDING LITIGATION

The City is involved from time to time in various legal actions some of which affect the System. In the opinion of the City Attorney, there is no litigation now pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2008 Bonds, or in any way contesting or affecting the validity of the 2008 Bonds, any proceeding of the City taken with respect to their issuance or sale, or the powers of the City with respect to the operation of the System including the City's ability to collect and apply Revenues of the System as set forth in the Indenture.

According to the City there is no litigation pending or, to its knowledge and belief, threatened which would have a material adverse effect on the operations or financial condition of the System.

BOND RATINGS

The 2008 Bonds have been rated A1 by Moody's Investors Service, Inc. ("Moody's"), AA+ by Standard & Poor's Ratings Services ("Standard & Poor's") a division of The McGraw-Hill Companies, Inc., and AA by Fitch Ratings ("Fitch").

Explanations of the significance of such ratings may be obtained from Moody's, Standard & Poor's and Fitch. The ratings are not a recommendation to buy, sell or hold the 2008 Bonds and should be evaluated independently.

There is no assurance that such ratings will not be withdrawn or revised downward by Moody's, Standard & Poor's or Fitch. Such action may have an adverse effect on the market price of the 2008 Bonds. Neither the City nor the Underwriters have undertaken any responsibility after the issuance of the 2008 Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

FINANCIAL STATEMENTS

The audited Water Utility Fund financial statements with accompanying notes for the fiscal years ended June 30, 2007 and 2006, are published, along with the accompanying report of the City's Independent Accountants, in Appendix B to this Official Statement.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc. of Arlington, Virginia, as financial advisor in connection with the issuance and sale of the 2008 Bonds. Although Public Financial Management, Inc. has assisted in the preparation of this Official Statement, Public Financial Management, Inc. 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 this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

CERTIFICATES OF CITY OFFICIALS

Concurrently with the delivery of the 2008 Bonds, the City will furnish (1) a certificate, dated the date of delivery of the 2008 Bonds, signed by appropriate City officials, stating that, to the best of their knowledge, no litigation is then pending or threatened (i) to restrain or enjoin the issuance or delivery of the 2008 Bonds; (ii) in any way contesting or affecting any authority for the issuance of the 2008 Bonds or the validity of the 2008 Bonds or the Indenture; (iii) in any way contesting the existence or powers of the City; or (iv) to restrain or enjoin the collection of the Net Revenues pledged or to be pledged to pay the principal of and premium, if any, and interest on the 2008 Bonds and (2) a certificate dated the date of delivery of the 2008 Bonds signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement including the Appendices hereto (except in the section entitled "PENDING LITIGATION") at the time of acceptance of the proposal for the 2008 Bonds and at the date of delivery were and are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

SALE AT COMPETITIVE BIDDING

The 2008 Bonds were sold at competitive bidding on April 8, 2008, to Wachovia Bank, N.A. (the "Underwriter"). The Underwriter has supplied the information as to the interest rates and offering prices or yields of the 2008 Bonds as set forth on the inside cover of this Official Statement. If all of the 2008 Bonds are resold to the public at such offering prices or yields, the Underwriter has informed the City that they anticipate total underwriting compensation of \$272,299.

CONTINUING DISCLOSURE

The offering of the 2008 Bonds is subject to the continuing disclosure requirements of Rule 15c2-12 (the "Rule") issued by the Securities and Exchange Commission. Pursuant to the Rule, the City has undertaken for the benefit of the Bondholders to make public certain annual financial information and notice of certain material events by furnishing such information to each nationally recognized municipal securities information repository and to certain other entities. The City is in compliance with all Rule requirements.

See Appendix G "Form of Continuing Disclosure Agreement" for a more detailed description of the City's continuing disclosure undertakings.

There have been no instances in which the City has failed in any material respect to comply with the provisions of the Rule. A failure by the City to comply with its continuing disclosure undertaking will not constitute an Event of Default under the Indenture (although the Bondholders will have any available remedy at law or in equity to enforce the undertaking). However, a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2008 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2008 Bonds and their market price.

MISCELLANEOUS

This Official Statement and any advertisement of the 2008 Bonds are not to be construed as a contract with the purchasers of the 2008 Bonds. Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly identified, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The references in this Official Statement to and summaries of federal, Commonwealth and City laws, including but not limited to the Constitution of the Commonwealth, the Code of Virginia, the City Charter and documents, agreements and court decisions are summaries of certain of their provisions. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions, copies of which are available for inspection during normal business hours at the office of the City Attorney.

Any question concerning the content of this Official Statement should be directed to the Director of Finance, 600 City Hall Building, Norfolk, Virginia 23510, (757) 664-4346.

The City Council has by ordinance authorized the execution and delivery of this Official Statement on behalf of the City by the City Manager and the Director of Finance.

CITY OF NORFOLK, VIRGINIA

/s/ Regina V.K. Williams

City Manager

/s/ Steven G. de Mik

Director of Finance

APPENDIX A

WATER UTILITY REVENUE BOND FEASIBILITY STUDY

[THIS PAGE INTENTIONALLY LEFT BLANK]

City of Norfolk, Virginia

**Water Revenue Bonds, 2008
Consulting Engineers Report**

Final Draft Report

April 2008



Prepared by

**HDR
1001 SW Fifth Avenue, Suite 1800
Portland, Oregon 97204**

HDR

[THIS PAGE INTENTIONALLY LEFT BLANK]

April 11, 2008

City of Norfolk
810 Union Street
Norfolk, Virginia 23510

**Re: Consulting Engineers Report - City of Norfolk, Virginia
Water Revenue Bonds, Series 2008**

Ladies and Gentlemen:

Presented herein is a summary of our analyses, investigations and studies with respect to the proposal by the City of Norfolk, Virginia (the "City") to issue \$58,415,000.00 of Water Revenue Bonds, Series 2008 (the "2008 Bonds"). The proceeds of the 2008 Bonds are to be used to: (i) fund improvements to the City's Water System (the "Water System"), (ii) reimburse the City for previous capital expenditures, (iii) pay the cost of the Debt Service Reserve Requirement or reserve equivalent, and (iv) pay the cost of issuance for the 2008 Bonds. The 2008 Bonds are being issued pursuant to the Master Indenture of Trust dated November 1, 1993, as previously supplemented and amended and as supplemented by the seventh Supplemental Indenture of Trust dated February 1, 2008 (the "Bond Indenture"). Capitalized terms used herein shall have the same meaning as set forth in the Bond Indenture unless otherwise denoted.

The 2008 Bonds are part of an overall financing program to provide for water treatment plant improvements, distribution and transmission line improvements, raw water pump stations, and dam and spillway improvements. These projects, along with other proposed future additions, betterments and extensions to the Water System are herein referred to as "the Water System Capital Improvements." The funds required for completion of the Water System Capital Improvements will be provided from the proceeds of the 2008 Bonds, additional borrowings, and other funds available to the City.

The City's Water System currently has outstanding: \$48,650,000 Water Revenue Bonds Series 1993, \$90,480,000 Water Revenue Bonds Series 1995, \$70,115,000 Water Revenue Bonds Series 1998, \$31,160,000 Water Revenue and Refunding Bonds Series 2001, and \$22,005,000 Water Revenue Bonds Series 2005 (collectively the "Outstanding Bonds"). The City also has outstanding \$15,012,921 in general obligation bonds (the "General Obligation Bonds") allocable to the Water System. Such General Obligation Bonds are not secured by a pledge of the revenues derived from the ownership or operation of the City's Water System (the "Water System Revenues"); however, Water System Revenues are used to service the debt service payments of these General Obligation Bonds.

City of Norfolk
April 11, 2008
Page 2

This report summarizes our work to date on the report. Changed conditions occurring or becoming known after such date could affect the material presented herein to the extent of such changes.

Thank you for the opportunity to assist the City in its financing activities.

Very truly yours;

HDR Engineering, Inc.

/S/
Randall P. Goff
Project Principle

Table of Contents

Executive Summary

Introduction.....	1
Capital Improvement Plan	1
Projected Operating Results.....	3
Opinions.....	5

Section 1 The City

Introduction.....	6
Service Area.....	7
Organization.....	7
Facilities.....	12
Rates and Charges for Service	12
Connection Charges.....	13
Wholesale Contracts	14
Water Rate Comparison.....	14

Section 2 Wholesale Contracts

Introduction.....	16
City of Chesapeake – Finished Water.....	16
City of Chesapeake – Raw Water	16
United States Department of the Navy	18
City of Virginia Beach	19
City of Portsmouth.....	20

Section 3 Water Quality

Introduction.....	22
Compliance	24
Recent Regulatory Changes.....	24
Future Regulations	27
Operator Certification	28
Security Compliance.....	29

Section 4 Water System

Introduction.....	30
Water Supply	30
Capital Improvement Plan	36

Table of Contents

Section 5 Historical and Projected Operating Results

Introduction.....	40
Water System Funds	40
Budgeting.....	41
Metered Accounts	41
Water Sales and Revenues	42
Water System Capital Improvement Financing and Fund Balances	46
Historical and Projected Operating Results	47
Additional Bonds Test	50

Section 6 Principle Considerations and Assumptions53

Section 7 Opinions55

Tables

1	Capital Improvement Projects.....	2
2	Projected Operating Results.....	4
3	Selected Operating and Financial Data.....	7
4	City Council	8
5	Summary of Water Rate Charges	12
6	Adopted Rates.....	13
7	Service and Water Taps for New Retail Connections	13
8	Monthly Bill Comparison	15
9	Navy Treated Water Rates	18
10	Summary of Relevant SDWA Regulations.....	23
11	Summary of Water System Operator Certifications	29
12	Summary of Finished Water Storage	35
13	Capital Improvement Projects.....	37
14	Historical and Projected Metered Accounts	42
15	Historical Water Sales and Revenue.....	43
16	Projected Water Sales and Revenue	45
17	Capital Improvement Financing Cash Flow and Fund Balances.....	47
18	Historical Operating Results	48
19	Projected Operating Results.....	49
20	General Reserve Fund.....	50
21	Additional Bonds Test	52

Executive Summary

Introduction

HDR Engineering Inc. (“HDR”) was retained by the City of Norfolk, Virginia (the “City”) to prepare a consulting engineer’s report for the City’s Water System (the “Water System”) to determine the feasibility of the City issuing \$58,415,000.00 of Water Revenue Bonds, Series 2008 (the “2008 Bonds”). As part of the process, HDR reviewed the operating results of the Water System, the City’s wholesale water contracts, planning information, maintenance procedures and water quality compliance. Additionally, HDR personnel met with the City in December 2007 and conducted an inspection of the City’s major facilities. Presented in this executive summary are the highlights of our findings and analyses.

Capital Improvement Plan

The 2008 Bonds will be used to finance a portion of the City’s Water System Capital Improvements. The City’s current Water System Capital Improvement Plan totals \$86.3 million for the fiscal year (“FY”) period of FY 2008 through FY 2012. The City also anticipates spending an additional \$250 million for improvements to the Water System over the subsequent 25-year period. The major near-term projects consist of upgrades to the raw water reservoir dams and spillways, raw water transmission pipelines, distribution system piping, and phased rehabilitation of the 37th Street Water Treatment Plant (WTP) and Moores Bridges WTP. These improvements will be followed by subsequent funding for continued replacement of the raw water transmission mains, rehabilitation of the raw water pump stations, continued phased rehabilitation of the 37th Street WTP and Moores Bridges WTP, and continued repair and replacement of the distribution system. These improvements will allow the City to provide continuous operation of the Water System and meet current and future regulatory requirements. A summary of the Water System Capital Improvements plan for the next five years is provided in Table 1.

Table 1
City of Norfolk, Virginia
Water System
Capital Improvement Projects

Project	Fiscal Year Ended June 30th					Total
	2008	2009	2010	2011	2012	
Anticipated Bond Financed Projects						
Rehabilitation Raw Water Pump Stations	\$2,150,000	\$0	\$1,000,000	\$0	\$0	\$3,150,000
Design and Construct Dams and Spillways	16,000,000	0	0	5,000,000	0	21,000,000
Lake Whitehurst	150,000	0	0	0	0	150,000
Lake Prince Aeration	0	0	600,000	0	0	600,000
Western Branch Aeration	0	0	350,000	0	0	350,000
Replace or Rehabilitate Water Pipelines	9,886,000	10,950,000	4,400,000	7,400,000	7,830,000	40,466,000
Moores Bridges Water Treatment Plant	0	5,750,000	0	0	0	5,750,000
37th Street Water Treatment Plant	0	10,000,000	0	0	0	10,000,000
Western Branch Pump Station	0	3,000,000	0	0	0	3,000,000
Improve East Church Street Water Mains	314,000	0	0	0	0	314,000
Total Anticipated Bond Financed Projects	\$28,500,000	\$29,700,000	\$6,350,000	\$12,400,000	\$7,830,000	\$84,780,000
Anticipated Cash/Capital Lease Financed						
Safe Drinking Water Act	\$200,000	\$0	\$0	\$0	\$0	\$200,000
Meter Changeout Program	100,000	100,000	100,000	100,000	100,000	500,000
Geographic Information System	250,000	250,000	0	0	0	500,000
SCADA Improvements	0	300,000	0	0	0	300,000
Total Anticipated Cash/Capital Leased Financed	\$550,000	\$650,000	\$100,000	\$100,000	\$100,000	\$1,500,000
Total Anticipated Capital Projects	\$29,050,000	\$30,350,000	\$6,450,000	\$12,500,000	\$7,930,000	\$86,280,000

Projected Operating Results

Projected operating results for the City for FY 2008 through FY 2012 are shown in Table 2. Future revenues were projected based on increases in water rates as adopted by the City Council and/or anticipated by wholesale contracts. Future expenses were projected based on increases associated with inflation, customer growth, and increased personnel costs. Interest earnings were calculated based on funds held by the City and the projected reinvestment rate.

Table 2
City of Norfolk, Virginia
Water System
Projected Operating Results

Description	Projected (Fiscal Year Ending June 30th)				
	2008 (1)	2009	2010	2011	2012
Revenues					
Water Rates - Present Rates (2)	\$73,157,329	\$73,161,237	\$73,165,144	\$73,169,051	\$73,172,958
Water Rates - Increases (2)	509,946	2,473,225	3,966,780	5,517,525	7,127,460
Transfers From/(To) Rate Stabilization	3,111,739	70,000	70,000	70,000	70,000
Virginia Beach True-up/Navy Settlement	(3,111,739)	0	0	0	0
Other Revenue (3)	1,978,855	1,998,644	2,018,630	2,038,816	2,059,204
Interest Income (4)	1,583,201	2,099,889	2,285,881	2,381,673	2,512,852
Total Revenue	\$77,229,331	\$79,802,995	\$81,506,435	\$83,177,065	\$84,942,474
Operating Expenses (5)					
Labor (6)	\$11,958,710	\$12,317,471	\$12,686,995	\$13,067,605	\$13,459,633
FICA (6)	897,184	924,100	951,823	980,378	1,009,789
Retirement (7)	1,582,672	1,677,632	1,778,290	1,884,987	1,998,086
Health Care (8)	979,166	1,077,083	1,184,791	1,303,270	1,433,597
Materials and Services (6)	6,650,897	6,850,424	7,055,937	7,267,615	7,485,643
Chemicals (9)	3,324,000	3,423,720	3,526,432	3,632,225	3,741,192
Electricity (9)	3,249,560	3,347,047	3,447,458	3,550,882	3,657,408
Contract Services (6)	3,286,033	3,384,614	3,486,152	3,590,737	3,698,459
Equipment (6)	661,814	681,668	702,118	723,182	744,877
Total Operating Expenses	\$32,590,036	\$33,683,759	\$34,819,996	\$36,000,881	\$37,228,684
Net Revenue Available for Debt Service	\$44,639,295	\$46,119,236	\$46,686,439	\$47,176,184	\$47,713,790
Revenue Bond Debt Service					
Prior Bonds	\$21,687,200	\$21,689,869	\$23,103,045	\$22,130,730	\$22,254,269
2008 Bonds	0	2,771,474	3,661,750	3,657,425	3,657,275
Future Parity Bonds (10)	0	0	0	1,963,126	2,222,251
Total Revenue Bond Debt Service	\$21,687,200	\$24,461,343	\$26,764,795	\$27,751,281	\$28,133,795
Revenue Bond Debt Service Coverage Ratio	2.06	1.89	1.74	1.70	1.70
Net Revenue Available for G.O. Debt Service	\$22,952,095	\$21,657,893	\$19,921,644	\$19,424,903	\$19,579,995
General Obligation Debt Service	\$4,695,964	\$4,382,970	\$3,250,279	\$3,127,797	\$2,222,167
G.O. Debt Service Coverage Ratio	4.89	4.94	6.13	6.21	8.81
Combined Debt Service Coverage Ratio	1.69	1.60	1.56	1.53	1.57
Net Available for Other Purposes	\$18,256,131	\$17,274,923	\$16,671,365	\$16,297,106	\$17,357,828

(1) - Budget.

(2) - From Table 16.

(3) - 2008 Budget increased by the rate of inflation annually.

(4) - Based on the average fund balances and the assumed reinvestment rate of 3.5%.

(5) - Does not include ROI or PILOT.

(6) - 2008 Budget increased at a rate of 3.0% annually.

(7) - 2008 Budget increased at a rate of 6.0% annually.

(8) - 2008 Budget increased at a rate of 10.0% annually.

(9) - 2008 Budget increased at the rate of inflation and water sales annually.

(10) - \$36.610 million in 2010 and \$15.205 million in 2012. Debt service estimates provided by Public Financial Management, Inc.

Debt service for the 2012 bond issue does not begin until FY 2013.

Opinions

Based on our analyses, studies, and the considerations and assumptions set forth in this report, we are of the opinion that:

- The City is currently in compliance with water quality regulations under the Safe Drinking Water Act.
- The City is currently in compliance with the requirements of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the “Bioterrorism Act”).
- The funds available from the 2008 Bonds, additional borrowings, together with other money available to the City will be sufficient to complete the design and/or construction of the Water System Capital Improvements.
- The City's revenues from water service, including rate increases approved by Ordinance 41,047, § 14 and anticipated changes in wholesale rates per the contracts will be sufficient during the period FY 2008 through FY 2012 to pay the costs of operation and maintenance expenses, pay all debt service, meet coverage requirements, pay a portion of the Water System Capital Improvements and maintain required reserve balances.
- The Water System is currently operated and maintained in a manner consistent with sound engineering practices to assure continuous operation of the Water System and compliance with permits and other regulations. The City's current planning and construction practices will assure adequate facilities for maintenance of the Water System, compliance with known regulatory requirements and growth of the Water System.
- The amount of Net Revenues received during the twelve month period ending June 30, 2007, adjusted as permitted by Section 5.3(h)(3) of the Bond Indenture, satisfies the revenue covenant contained in Section 9.4 of the Bond Indenture for the twelve month period ending June 30, 2007, taking into account the maximum amount of principal and interest payments due on (i) the Outstanding Bonds and (ii) the 2008 Bonds.

Section 1

The City

Introduction

The City of Norfolk, Virginia (the “City”) is a city of approximately 238,832 residents and more than 100 diverse neighborhoods. It offers a mix of cultural, educational, and business amenities. The City hosts the primary medical center of the Hampton Roads region, the region's international airport, the world's largest Naval facility, and is one of the busiest international seaports on the East Coast of the United States. The City's water system (the “Water System”) is the major regional provider of water to retail and wholesale customers currently serving approximately 820,000 people or approximately ten percent (10%) of the population of the Commonwealth of Virginia.

The Water System receives water from a series of eight City-owned water supply reservoirs with a storage capacity of over 15.2 billion gallons. These reservoirs are supplemented by two river intakes at the Blackwater and Nottoway Rivers. The City also owns four ground water wells that are used in time of water shortages.

Water is treated in two City-owned water treatment plants (“WTP”), the Moores Bridges and 37th Street water treatment plants. The Moores Bridges WTP has a rated capacity of 108 million gallons per day (“mgd”) (maximum day) and provides water primarily to the eastern two-thirds of the City and the City of Virginia Beach (“Virginia Beach”). The 37th Street WTP has a rated capacity of 28 mgd (maximum day) and serves water primarily to the western one-third of the City. Flow from both treatment plants also serves the facilities of the United States Department of the Navy (“Navy”) and the urban northeastern section of the City of Chesapeake (“Chesapeake”). The City also provides raw water to a U.S. military facility in the City of Portsmouth (“Portsmouth”) and Chesapeake.

The City is responsible for the distribution of treated water to customers within the City through a system comprised of two ground level storage tanks with pumping stations, two elevated water storage tanks and over 800 miles of transmission and distribution lines. The City also provides treated water under contract to the city limits of Virginia Beach and Chesapeake and to the gates of the Naval facilities. These customers in turn maintain their own distribution systems.

Table 3 displays selected operating and financial data regarding the City's water operations as of June 30, 2007.

Table 3
City of Norfolk, Virginia
Water System
Selected Operating and Financial Data
(Fiscal Year Ended June 30, 2007)

Number of Customers (1)	66,011
Average Daily Water Sales (2)	66.65 mgd
Peak Day Demand	83.64 mgd
Plant Capacity	136.0 mgd
Water Sales Revenue	\$ 73,083,928
Net Investment in Plant	\$ 491,233,578
Total Net Assets	\$ 179,534,476
Ratio of Current Assets to Current Liabilities (3)	1.20
Debt/Net Asset Ratio (4)	63.45%

(1) *Retail Customers, Wholesale Meters, and Fire Service Meters.*

(2) *Retail and Wholesale Sales.*

(3) *Current Assets Divided by Current Liabilities.*

(4) *Debt / (Debt + Net Assets). Excludes the 2008 Bonds.*

Service Area

The City's current service area covers approximately 334 square miles and includes the City, Virginia Beach, the urban northeastern section of Chesapeake, as well as Naval installations in the City, Virginia Beach and Portsmouth. This service area is part of what is commonly known as South Hampton Roads. Virginia Beach and the City have the first and second largest populations respectively among cities in the Commonwealth of Virginia, while Chesapeake is the third largest. While there has been some growth in the City's service area, overall water sales have been fairly constant over the last five years. While the City is experiencing redevelopment and some change in historical customer base as traditional land uses locally evolve from light commercial and industrial to multi- and single-family residential units, this has not had an impact on water sales due to conservation measures and the use of more efficient plumbing fixtures.

Organization

The City operates under the City Council-Manager form of government. Policymaking and legislative authorities are vested in the governing City Council ("City Council"), which consists of a Mayor, Vice Mayor and six-member council. The council members serve four (4) year staggered terms. The City Council appoints the City Manager. The City Council is the only body with authority to set water rates charged by the City.

Table 4 provides the names of the City council members, their terms and occupations.

Table 4
City of Norfolk, Virginia
Water System
City Council

Name	Position	Term		Occupation
		Beginning	Term Ending	
Paul D. Fraim	Mayor	1986	2010	Attorney
Anthony L. Burfoot	Vice Mayor	2002	2010	Insurance Agent/ College Faculty Member
Daun S. Hester	Councilor	1996	2008	Consultant
Paul R. Riddick	Councilor	1992	2010	Business Owner
Theresa W. Whibley	Councilor	2006	2010	Physician
Donald L. Williams	Councilor	2002	2010	Real Estate
Barclay C. Winn	Councilor	2000	2008	Business Owner
W. Randy Wright	Councilor	1992	2010	Business Owner

The Department of Utilities (the “Department”) operates and maintains the City’s water and wastewater systems and oversees the Water and Wastewater Enterprise Funds. The Water Utility Fund currently employees 288 individuals who are grouped into seven (7) operating divisions.

A brief description of the each division is as follows:

- Director’s Office – Responsible for the overall administration of the Department including human resources, public information and grants management.
- Water Production – Responsible for the operation and maintenance of water treatment and finished water storage facilities. Maintains raw and finished water pump stations and raw water transmission mains. Reviews any encroachments or activities on the reservoirs.
- Water Quality – Responsible for assuring that the Water System continues to meet federal and state water quality regulations through laboratory analysis and reporting to regulatory agencies. Manages raw water resources.
- Water Distribution – Responsible for the operation and maintenance of over 800 miles of water mains. Also responsible for repair, replacement and installation of fire hydrants and valves and the detection of leaks in the distribution system. Provides routine flushing of water mains and the installation of service main extensions.
- Engineering – Responsible for engineering design, construction oversight, contract management and development of the Water System Capital Improvement plan. Also responsible for underground utility identification under the Miss Utility program, a program required by the State to mark and identify infrastructure prior to construction, and other engineering functions.
- Accounting and Budget – Responsible for financial oversight, budgeting and expenditure tracking for all phases of utility operations. Coordinates with the City’s Finance Department to maintain consistency in financial reporting and record keeping.

- Water Accounts – Responsible for handling customer service inquiries concerning billing and establishment and disconnection of services. Coordinates the reading of meters. Also responsible for billing and collection activities in conjunction with joint billing arrangement with Hampton Roads Sanitation District.

A summary of the City management team and their experience is as follows:

Regina V.K. Williams, City Manager

Regina V.K. Williams, assumed the post of Norfolk City Manager in January 1999. Her responsibilities include the supervision of the administrative operations of the City and the preparation of its annual budget. She served as City Manager for the City of San Jose, California for five years and previously served as Assistant City Manager for five years. Prior to serving in San Jose, Mrs. Williams was Deputy City Manager and Chief of Staff for the City of Richmond, Virginia. In 1982, Mrs. Williams was appointed by then Virginia Governor Charles Robb as the first female and first African American to be State Director of Personnel and Training. In 1991, she was inducted as a fellow into the National Academy of Public Administration (NAPA). In 1988, Mrs. Williams was elected to vice-president of the Board of Directors for the International City-County Management Association (ICMA). She was awarded the designation of Manager of the Year in September 2002 by ICMA. Mrs. Williams also served as President of the National Forum of Black Public Administrators in 1995-96 and is a founder and former President of the Richmond, Virginia Chapter of the Conference of Minority Public Administrators. She earned her Bachelor of Science degree from Eastern Michigan University, Ypsilanti, Michigan and a Masters degree in Public Administration from Virginia Commonwealth University, Richmond, Virginia.

Steven G. de Mik, Director of Finance

Steven G. de Mik, commenced his tenure as Director of Finance on September 1, 2000, and Director of Finance and Business Services on July 1, 2005. At the direction of the City Manager, he is responsible for identifying strategic opportunities for the City in the policy areas of taxation, financial management and fiscal policy development and instruction. In addition, he is responsible for the administration of the financial affairs of the City which include cash management and investments, debt management, financial accounting and reporting, procurement, risk management, retiree benefits, parking facilities and operations, facility maintenance and the City's fleet operations. Mr. de Mik came to the City from Knox County, Tennessee where he served as the Deputy Director of Finance and Administration. His other work experiences include service with the State of Tennessee Comptroller of the Treasury and Chipman and McMurray, Certified Public Accountants. Mr. de Mik earned a Bachelor of Science degree in Accounting and Business Administration from Southwest Baptist University, Bolivar, Missouri. He also is a licensed Certified Public Accountant.

A summary of the Department's management team and their experience is as follows:

Kristen M. Lentz, P.E., Director of Utilities

Kristen M. Lentz, P.E., was appointed Acting Director of Utilities in 2001 and Director of Utilities in 2002. Ms. Lentz is a registered professional engineer and has approximately twenty-six years of professional experience. Prior to her appointment, Ms. Lentz held the positions of Assistant Director of Public Works for the City of Norfolk for nine years and has served as City Engineer and Director of Engineering and Utilities for the City of Poquoson, Virginia. She holds a Bachelor of Science degree in Civil Engineering from Old Dominion University in Norfolk, Virginia. She also serves on the Old Dominion University Civil and Environmental Engineering Visiting Council.

Stephanie M. Tinsley, CPA, Assistant Director of Utilities

Stephanie M. Tinsley, CPA, began serving as the Assistant Director of Utilities in November 2004. Ms. Tinsley is a licensed Certified Public Accountant and has over twelve years of professional experience. She previously held positions as the Manager of Budget and Accounting for the City of Norfolk's Public Works Department, Director of Finance and Administration for the Chesapeake Redevelopment and Housing Authority, and several managerial positions in the private sector. She holds a Master of Business Administration from the College of William and Mary in Williamsburg, Virginia.

Kenneth R. Turner, P.E., Engineering Manager

Kenneth R. Turner, P.E., has served as the Department's Engineering Manager since November 2005. Mr. Turner is a registered professional engineer with the Commonwealth of Virginia and has been licensed with the Commonwealth for 22 years. He holds a Bachelors degree in Civil Engineering from Old Dominion University in Norfolk, Virginia. His responsibilities with the Department include overseeing the City's Capital Improvement Plan and administering the annual budget which includes replacement of water and sewer pipes throughout the City's water and sewer system, rehabilitation of the 37th Street water treatment plant and significant dam safety improvement projects on the western reservoir system. Prior to working for the City, he served as Regional Manager of Construction Service and as Civil Engineering Manager with the consulting firm of Michael Baker, Jr. Inc.

Vernon R. Land, Water Quality Manager

Vernon R. Land has served as the Department's Water Quality Manager since 1991. Mr. Land previously served as a Bacteriologist and Water Chemist II, and has been with the Department since 1981. He holds a Bachelor of Science degree in Biology from Old Dominion University in Norfolk, Virginia. Mr. Land has served on the Virginia American Water Works Association Water Quality Committee and has completed training in bacteriological laboratory analysis and water plant operations.

Richard M. Saul, Water Production Manager

Richard M. Saul has served as the Department's Water Production Manager since 1989. Mr. Saul previously served as a Water Chemist and Senior Water Chemist and has been with the Department since 1976. He holds a Bachelor of Science degree in Chemistry and a Master of Science degree in Civil Engineering from Old Dominion University in Norfolk, Virginia. Mr. Saul also has received training in Water Utility Vulnerability Assessments and Response and Preparation for Terrorism and Weapons of Mass Destruction.

Eric G. Tucker, Operations Manager

Eric G. Tucker was appointed the Department's Operation Manager in September 2002. Mr. Tucker has over twenty years of professional experience and held management positions with PEMCCO, Incorporated, Thyssen Elevator Company and URS as well as engineering positions with Camp Dresser & McKee and CDI Marine Company. Mr. Tucker holds a Bachelor of Science degree in Industrial Technology from Virginia State University in Petersburg, Virginia and a Master of Business Administration degree from Averett University in Danville, Virginia.

Robert A. Carteris, Manager of Budget and Accounting

Robert A. Carteris, the Department's Manager of Budget and Accounting, has worked for the Department since March 2007. Prior to his appointment as Manager of Budget and Accounting, Mr. Carteris had been a senior financial officer for various European-based multinational companies engaged in manufacturing, international trade, shipping and logistics. He has over thirty years of professional experience in accounting, finance, treasury and administration. He holds a Bachelor of Science degree in Accounting from Manhattan College in New York, New York and a Master of Business Administration and Policy from Baruch College in New York, New York.

Melanie Pesola, Management Services Administrator

Melanie Pesola, has served as the Management Services Administrator since October 2002. Before joining the Department of Utilities leadership staff, she served the City of Norfolk's Department of Public Works for four years as a Public Information Specialist. She holds a Bachelor of Arts degree in English with a concentration in journalism from Christopher Newport University in Newport News, Virginia and a Masters degree in English with a concentration in professional writing from Old Dominion University in Norfolk, Virginia. She earned a certification as a Human Resources Manager through the Society for Human Resources Management at Old Dominion University, as well. She is an active member of the Public Relations Society of America.

The Water Fund currently budgets for 288 full-time employees. City management considers employee relationships to be good.

Facilities

The City owns, operates and maintains all reservoirs, pump stations, water treatment plants, and distribution storage and distribution mains within its service territory. The City owns and operates eight reservoirs, two river intakes, four groundwater supply wells, and two treatment plants for the production of potable water. Water is distributed via approximately 800 miles of pipelines.

Rates and Charges for Service

Rates for retail water services and Chesapeake finished water are established by City Council ordinance. The City maintains rates to meet the requirements under the Bond Indenture. See the section in the Official Statement entitled *“Appendix C - Definitions and Summary of Certain Provisions of the Indenture”* for a summary of the Revenue Covenant and definitions of Revenue and Operating Expenses.

The City has maintained rates for services that have been sufficient to provide payment for Operating Expenses, Debt Service costs (including coverage), repairs and provide a margin for capital additions to the Water System. Wholesale rates for Virginia Beach are adjusted based on the terms and conditions under the wholesale contracts between the parties. The Navy rates were based on the City's retail rates and are adjusted as retail rates are adjusted. Both the raw water and finished water rates for Chesapeake are adjusted annually based on the consumer price index. The summary of the rates for the Water System from FY 2003 through FY 2008 is provided in Table 5.

Table 5
City of Norfolk, Virginia
Water System
Summary of Water Rate Charges (1)

Year (2)	Retail (3)	Virginia Beach (4)	Navy - Norfolk (5)	Navy - Virginia Beach (6)	Chesapeake Finished Water (7)	Chesapeake Raw Water (8)
2003	\$2.51	\$1.50	\$3.38	\$3.93	\$2.59	\$0.00
2004	2.76	1.34	3.04	3.04	2.84	0.00
2005	3.01	1.35	3.31	3.31	3.09	0.00
2006	3.26	1.47	3.58	3.58	3.34	0.00
2007	3.37	1.47	3.71	3.71	3.45	0.77
2008	3.49	1.41	3.84	3.84	3.57	0.79

(1) - Rates in \$ per ccf.

(2) - Fiscal Year ended June 30th.

(3) - A one dollar (\$1.00) per month service charge also applies.

(4) - Estimated average cost based on treatment and wheeling.

(5) - Estimated average cost based on average daily sales of 6.75 mgd.

(6) - Estimated average cost based on average daily sales of 2.00 mgd.

(7) - Finished water rate.

(8) - Raw water rate, start date of July 2006.

The City Council, on May 20, 2003, passed Ordinance Number 41,047, § 14 (the "Ordinance"), which provided for rate increases for retail customers and finished water for Chesapeake into perpetuity. The Ordinance specified finished water rates through June 30, 2006, and annual increases of three and one-half percent over the previous year's rate beginning July 1, 2006, and

each July 1 thereafter, until amended. A summary of the retail water rates and the Chesapeake finished and raw water rates for FY 2008 through FY 2012 are provided in Table 6.

Table 6 City of Norfolk, Virginia Water System Adopted Rates (\$/ccf)				
Fiscal Year Ending June 30th	Norfolk Retail	U.S. Navy (1)	Chesapeake Finished Water	Chesapeake Raw Water (2)
2008	\$3.49	\$3.84	\$3.57	\$0.79
2009	\$3.61	\$3.97	\$3.69	\$0.82
2010	\$3.74	\$4.11	\$3.82	\$0.85
2011	\$3.87	\$4.26	\$3.96	\$0.88
2012	\$4.00	\$4.41	\$4.10	\$0.91

(1) - Norfolk Retail Rate plus 10%.

(2) - Adjusted Annually by CPI.

Connection Charges

The City imposes one type of connection charge to provide new service to retail customers, which is a meter and service installation charge. The meter and service installation charge covers the City's actual cost for placement of a meter and service line to the new retail customer. A summary of the City's current meter and service connection charges is provided in Table 7.

Table 7 City of Norfolk, Virginia Water System Service and Water Taps for New Retail Connections	
Meter Size	Charge
3/4 inch and meter	\$525
1 inch and meter	\$750
Over 1 inch and meter	Actual Cost
Meter only for 3/4 inch tap	\$125
Meter only for 1 inch tap	\$150
Meter only for 1 1/2 inch tap	\$225
Meter only for 2 inch tap	\$275
Meter only for over 2 inch tap	Actual Cost

Wholesale Contracts

The City currently supplies wholesale finished water service to Virginia Beach, Chesapeake, and the Navy. The City also provides raw water service to Chesapeake which started on July 1, 2006. Water is supplied to the City's wholesale customers in accordance with the individual service contracts. The service contract with Virginia Beach expires in 2030. The service contract with Chesapeake for raw water expires in 2042 and the sale of finished water to Chesapeake is not subject to a contract. The current service contract to provide wholesale service to the Navy expires on July 1, 2008. However, recent discussions with the Navy have resulted in a settlement agreement and the contract will be renewed for another three-year period expiring in 2011. The rate for the Navy will be the retail rate plus ten percent (10%). The City also has a service contract with Portsmouth for the sale of emergency raw water, which will continue until terminated by either the City or Portsmouth.

See Section 2 of the report for a more detailed discussion of the terms and conditions of the wholesale contracts. As of the date of this report, nothing has come to the attention of the City that would cause it to believe the terms and conditions of the contracts will materially change in the near future.

Water Rate Comparison

The City's charges for water service are comparable with other water purveyors in the region, also known as the South Hampton Roads area. In some instances, the rates are higher or lower than other water purveyors depending on the type of customer and amount of water usage.

Table 8 provides a comparison of water rates for various municipalities in Virginia and nationwide.

Table 8
City of Norfolk, Virginia
Water System
Monthly Bill Comparison

City	Population (1)	Monthly Bills			
		Residential		Commercial	
		5/8" 10 ccf	5/8" 10 ccf	1" 10 ccf	1" 20 ccf
Norfolk	238,832	\$34.90		\$34.90	\$69.80
Virginia					
Fairfax County	1,010,443	\$21.50		\$22.80	\$42.40
James City County	59,741	29.96		32.46	54.91
Virginia Beach	435,619	32.52		32.52	64.45
Chesapeake	214,725	41.55		41.55	77.33
Richmond	192,913	30.90		38.08	55.97
Newport News	178,281	33.96		34.80	37.10
Hampton	145,017	33.96		34.80	37.10
Portsmouth	101,377	32.31		32.31	35.31
Other Cities					
Detroit, MI	871,121	\$16.38		\$16.38	\$21.85
Baltimore, MD	631,366	21.78		21.78	43.56
Seattle, WA (2)	582,454	33.35		30.95	31.50
Denver, CO	566,974	16.74		16.74	17.31
Pittsburgh, PA	312,819	37.43		36.60	36.60
Riverside, CA	293,761	14.87		19.69	24.32

(1) City populations are from the U.S. Census Bureau 2006 projections (www.census.gov).

(2) Off peak rates from September to May.

Section 2

Wholesale Contracts

Introduction

The City maintains wholesale contracts or water service agreements with Chesapeake, Virginia Beach, Portsmouth, and the Navy. These contracts and agreements set forth the amount of water to be sold, rate setting procedures, metering points, dispute resolution and other matters.

The descriptions of the contracts and agreements set forth below are brief outlines or summaries of certain of their provisions. Such outlines and summaries do not purport to be complete, and reference should be made to each respective contract or agreement. Copies of the contracts and agreements may be obtained from the City for a full and complete statement of their provisions.

Capitalized terms used in this section shall have the same meaning as such terms are defined in the applicable water service contract or agreement.

City of Chesapeake – Finished Water

The City sells Chesapeake wholesale finished water at various delivery points for service to the northeastern section of Chesapeake. Sales in FY 2007 averaged 2.38 mgd representing approximately four percent (4%) of the Water System's total metered water consumption. Rates are set by ordinance of the City Council. The current rate as set by Ordinance Number 41,047, § 14 is \$3.57 per ccf (see Table 6). The sale of finished water to Chesapeake is not subject to a contract. For this analysis it has been assumed that the current level of water purchases will continue through the time period reviewed.

City of Chesapeake – Raw Water

In December 2002, the City entered in to a raw water sales contract with Chesapeake for the sale of surplus raw water. The contract specifies the terms and conditions of the sale of raw water, rates, termination provisions and dispute resolution. Raw water sales to the City of Chesapeake averaged 5.66 mgd, in FY 07 which represents approximately ten percent (10%) of the Water System's total metered water consumption.

Term of Contract: The contract is for a term beginning January 1, 2003, and ending December 31, 2042. Pursuant to the contract, the City began service to Chesapeake as of July 1, 2006 (the "Start-up Date").

Delivery and Sale of Surplus Raw Water: Upon and following the Start-up Date, the City agrees to sell and deliver to Chesapeake and Chesapeake agrees to accept the Target Amount transmitted to the extent practical at a uniform flow rate. The initial Target Amount shall be seven (7) mgd.

In the event that the metered amount of Surplus Raw Water delivered in a Billing Month is less than the Target Amount multiplied by the number of days in the Billing Month (the difference being a “Shortfall”), Chesapeake may request, in addition to the Target Amount, that an amount up to such Shortfall be delivered in subsequent Billing Months.

Chesapeake may request to temporarily or permanently increase the Target Amount. If the City determines that it can satisfy such request, the City at its sole discretion, may agree to increase the Target Amount accordingly. Chesapeake may request to temporarily decrease the Target Amount and, upon agreement by the City, the Target Amount shall be decreased.

Water Rates and Charges: The initial Water Rate was ninety-five cents (\$0.95) per thousand gallons of Surplus Raw Water sold, which rate was effective through June 30, 2003. Beginning on July 1, 2003, and upon each July 1 thereafter, the Water Rate is adjusted by multiplying the Water Rate by the greater of (1) the CPI adjustment factor or (2) 100%. In no instance shall the Water Rate decrease. The rate for FY 2008 is \$1.083 per thousand gallons.

Chesapeake shall make monthly payments for the metered amount of Surplus Raw Water delivered. Chesapeake’s monthly payment shall equal the Target Amount, which is seven (7) mgd, multiplied by the number of days in the Billing Month unless, (1) Chesapeake and Norfolk have agreed to decrease the Target Amount, in which case such decreased Target Amount shall be used in such calculation; (2) the average daily flow for a billing month exceeds 0.75 mgd over the sum of the Target Amount plus the average daily volume of Shortfall, in which case Chesapeake’s monthly payment for such month shall equal the sum of the Target Amount, plus the average daily volume of Shortfall delivered, plus 0.75 mgd multiplied by the number of days in that Billing Month; and (3) the amount of Shortfall delivered in any Billing Month shall be included in the total volume of Surplus Raw Water delivered for the calculation of that Billing Month’s monthly payment; provided, however, that the Water Rate charged for any amount of delivered Shortfall shall be the Water Rate in effect for the Billing Month during which such Shortfall was initially determined.

Reductions and Curtailments: The City may reduce the Target Amount of Surplus Raw Water delivered to Chesapeake only if one or more of the following conditions occur:

- Decrease in Surplus Water Supply;
- Facility or Equipment Failure;
- Drought;
- Contamination; and
- Force Majeure.

Termination by the City: The City may terminate the contract if one or more of the following events of default occurs: (a) Chesapeake does not pay in full within sixty (60) days from the date of a receipt for payment, (b) Chesapeake has willfully breached the terms of the contract which significantly affects the operation of the contract, or (c) construction of the Raw Water Delivery System is not fully complete within five (5) years of the established Start-up date of July 1, 2006.

Termination by Chesapeake: Chesapeake may terminate the contract if: (a) the City has willfully breached any term of the contract which significantly affects the operation of the contract or (b) the City delivers less than the difference of the Target Amount minus 0.75 mgd for more than six (6) consecutive Billing Months.

Pre-existing Surplus Treated Water Purchase Arrangement. Chesapeake has been purchasing surplus treated water from the City for over thirty (30) years. No term of the raw water contract shall reduce or waive either party's rights of obligations regarding the City's sale to Chesapeake of surplus treated water. As part of the raw water contract, the City agrees to continue selling and Chesapeake agrees to continue purchasing no less than two (2) mgd of surplus treated water as long as the raw water sales contract is effective.

United States Department of the Navy

In 1981, the City entered into a utility service contract for water service with the Department of the Navy for the delivery of water to the gates of the various Navy installations located in the City and outside the City. The contract was modified effective July 1, 2003, to establish treated water rates applicable to the Naval facilities located in Norfolk and Virginia Beach. In January of 2008, the City and the Navy agreed in principle to a three-year renewal of the contract based on the retail rate plus ten percent (10%). Sales to the Navy averaged 4.74 mgd for the fiscal year ending June 30, 2007, which represents approximately seven and a half percent (7.5%) of the total metered water consumption of the Water System.

Rates and Charges: The Navy agreed to pay the rates as shown in Table 9 for treated water delivered to the point of delivery as contained in the Water Services Specifications (as defined in the contract) during the term of the contract.

Table 9
City of Norfolk, Virginia
Water System
Navy Treated Water Rates

FY Ended	Rate (\$/ccf)
2004	\$3.04
2005	\$3.31
2006	\$3.58
2007	\$3.71
2008	\$3.84

The rates set forth above are the amended rates applied to the actual amount of water delivered to the points of delivery. In 2003, the contract with the Navy was amended so that the Navy rate is the City retail water rate plus ten percent (10%). Since the payment for services is now based on the established retail rate, there will be no future adjustments to the rate based on a true-up cost of service study. The current contract expires July 1, 2011.

Prior to the contract modification with the Navy, the City's contract required a biennial true-up of rates. The Defense Contract Audit Agency (DCAA) completed the FY 2002/FY 2003 True-Up in March 2006. The water charge for the FY 2002/FY 2003 True-Up period was \$3.9 million. In May 2007, the City of Norfolk offered a settlement amount of \$1.9 million. The Navy had requested that the City apply the 2004 fixed rates and had claimed that \$3,500,000 be rebated as a result of the application of the 2004 rates. The City reviewed the claim of the Navy and believed that the claim was without merit. On January 28, 2008, a preliminary agreement was reached and the Navy accepted the City's \$1.9 million settlement. Based on this information, this feasibility study has included the \$1.9 million settlement amount with the Navy.

Disputes Clause: The contract is subject to the Contract Disputes Act of 1978 (Act). Except as provided in the Act, all disputes arising out of the contract shall be resolved as specified in the contract. The Contracting Officer's decision will be final unless appealed by the City or a suit is filed by the City as provided in the Act.

In the event of a disagreement, the City shall continue to provide water service and the Navy shall continue to pay the City at the then existing rate. After a determination of the final rates, the Navy shall promptly pay from that point forward such rates that are determined to be just and reasonable.

City of Virginia Beach

In 1993, the City entered into a water services contract (the "Water Services Contract") with Virginia Beach for the storage, treatment and conveyance of Virginia Beach's Lake Gaston and Stumpy Lake water. The contract was last amended in 2001. The City treated on average 35.95 mgd of Virginia Beach water in fiscal year 2007, which represents approximately fifty-eight percent (58%) of the total metered water consumption of the Water System. See the appendix in the Official Statement entitled "*Appendix E - Summary of the Norfolk-Virginia Beach Water Services Contract*" for a more detailed description of the contract terms and conditions.

Term: The Water Services Contract is in effect until June 30, 2030, unless terminated earlier.

Water Treatment, Delivery Services and Obligations: Under the Water Services Contract, the City must receive and store Virginia Beach raw water in locations satisfactory to both parties, transport the water through the City's raw water system, treat the water, provide clear well storage, pump and transport the treated water to the metered points of delivery for the Virginia Beach distribution system, and perform all related acts to provide treated water to Virginia Beach. The Water Services Contract is a water services contract, not a contract for the sale of treated water, and the right of Virginia Beach to receive treated water under the Water Services Contract is dependent on Virginia Beach's ability to provide Virginia Beach raw water to a discharge point satisfactory to Virginia Beach and the City.

Except as otherwise provided in the Water Services Contract, the City must deliver treated water to the Virginia Beach distribution system in such amounts as required by Virginia Beach, up to a total annual average amount of 45 mgd, but not to exceed 0.9 times the maximum sustainable rate of Lake Gaston water which Virginia Beach is capable of delivering to the City for Virginia

Beach's use, plus 1.8 mgd for Stumpy Lake water. If the Stumpy Lake contract capacity increase option is exercised, the maximum permissible total annual average amount stated above shall increase by 1.8 mgd to 46.8 mgd.

Rates and Charges: The annual rates charged by the City for rendering treated water service under the terms of the Water Services Contract are based upon the utility basis of cost of service principles established by the American Water Works Association. Under such principles, Virginia Beach is charged for treated water service in a manner that recovers its allocable share of operation and maintenance expense, depreciation expense and return on rate base associated with the Water System.

The City sets the rates for Virginia Beach in two year increments, for each of the next two fiscal years. The projected rates are set in advance based on estimates of operating costs for providing service to Virginia Beach. Within six (6) months after the end of the second fiscal year, the City must complete and submit to Virginia Beach a true-up schedule of rates and annual billings applicable to the previous two (2) fiscal years. This analysis reflects an allocation of costs of service based on actual cost and expenses incurred by the Water System as shown in the audited books and records of the City. The completion of the true-up analysis results in a credit to the City or Virginia Beach. This credit is applied to the monthly bills for the following fiscal year. The current analysis has included the estimated true-up credit to Virginia Beach of \$1.2 million for the previous two (2) fiscal years.

Termination: The contract may be terminated by the City and Virginia Beach under a number of different conditions. Virginia Beach is obligated to pay Norfolk all of Norfolk's actual costs incurred between January 1, 1990, and the effective date of termination to construct certain facilities necessary to meet its obligation under the Contract. Termination is described more fully in the appendix in the Official Statement entitled "*Appendix E - Summary of the Norfolk-Virginia Beach Water Services Contract.*"

City of Portsmouth

In 2002, the City entered into a contract with Portsmouth for sale of emergency raw water. Portsmouth has constructed and tested the necessary improvements to convey raw water to its reservoirs.

Delivery Point, Plan, Construction and Operation: It is the responsibility of Portsmouth to finance, design, construct and operate the Raw Water Delivery System. In September 2004, the City provided Portsmouth written approval and acceptance of the Raw Water Delivery System after assurance was received that the improvements provide proper and safe integration with the City's Water System. The City, starting on September 11, 2007 (the "Start-up Date"), provided Portsmouth with service of ten (10) mgd of temporary surplus raw water. Recently, however, Portsmouth is only requesting service of 2.5 mgd. Even with the recent drought, the City would have been able to provide Portsmouth with 10.0 mgd while maintaining sufficient surplus water throughout the drought period.

Delivery and Sale of Temporary Surplus Raw Water: Following the Start-up Date, the City shall endeavor to deliver and sell to Portsmouth up to ten (10) mgd of Temporary Surplus Raw Water. Temporary Surplus Raw Water means the difference between the Safe Yield of the City's Water System, as expressed in millions of gallons per day (mgd) of raw water after adjusting for losses, and the total of (i) the amount of raw water required to supply the persons and entities in the City with treated water, (ii) the amount of raw water required to supply raw and treated water to the City's United States government customers and (iii) the amount of raw water required to supply raw and treated water to the City's other existing and future customers under fixed term contracts.

Water Rates and Charges: The rate of the Temporary Surplus Raw Water sold pursuant to the contract shall be \$1.08 per thousand gallons of Temporary Surplus Raw Water delivered to the Delivery Point.

Term of Contract: The contract shall continue to be in effect until either party, on ten (10) days' written notice, terminates the contract.

Section 3

Water Quality

Introduction

Regulatory requirements are established for assuring safe drinking water for all water systems that serve the public. The applicable regulations are promulgated by the U.S. Environmental Protection Agency (USEPA), as stipulated under the Federal Safe Drinking Water Act (SDWA) of 1974 and its 1986 and 1996 amendments. The law outlines a series of monitoring standards and operational criteria related to source water protection, treatment, distribution system compliance, and reporting. A summary of the relevant rules and their related compliance standards is outlined in Table 10.

Table 10
City of Norfolk, Virginia Water System
Summary of Relevant SDWA Regulations

Regulation	Requirements
Phase I (VOCs) , Phase II and Phase V Regulations (IOCs and SOCs) (1976)	<ul style="list-style-type: none"> • Written Monitoring Plan • Monitoring
Phase II - Asbestos	<ul style="list-style-type: none"> • Monitoring in the Distribution System
Radionuclides (1976)	<ul style="list-style-type: none"> • Monitoring
Radionuclides (2000)	<ul style="list-style-type: none"> • Monitoring
Surface Water Treatment Rule (1990)	<ul style="list-style-type: none"> • Monitoring chlorine residuals where surface water enters the distribution system
Interim Enhanced Surface Water Treatment Rule (1999)	<ul style="list-style-type: none"> • Monitoring turbidity where surface water leaves the filters and turbidity removal to less than 0.3 NTU for 95% of measurements • 2-log Cryptosporidium removal
Long Term 2 Enhanced Surface Water Treatment Rule (2006)	<ul style="list-style-type: none"> • Source water monitoring • Disinfection profiling and benchmarking • Implementation of treatment options
Source Water Protection Program (1996)	<ul style="list-style-type: none"> • Wellhead Protection Plan
Filter Backwash and Recycling Rule (2001)	<ul style="list-style-type: none"> • Monitoring
Total Coliform Rule (1990)	<ul style="list-style-type: none"> • Written Monitoring Plan • Monitoring
Stage I D/DBP Rule 2002	<ul style="list-style-type: none"> • Written Monitoring Plan • Monitoring • Monitoring TTHM/HAA5
Stage 2 Disinfection/Disinfectants Byproduct Rule (2006)	<ul style="list-style-type: none"> • Change method of calculating DBP compliance from system running annual average to locational running annual averages • Conduct IDSE and revise DBP sites • Establish and review DBP operational levels at each monitoring site
Lead and Copper Rule (1992)	<ul style="list-style-type: none"> • Monitoring • Treatment Optimization
LCR Minor Revisions (2000)	<ul style="list-style-type: none"> • Monitoring • Treatment Optimization
LCR Short Term Revisions and Clarifications (2007)	<ul style="list-style-type: none"> • Provide advance notification to state prior a treatment change
Consumer Confidence Rule (1998)	<ul style="list-style-type: none"> • Annual Reports
Public Notification Rule (2000)	<ul style="list-style-type: none"> • Reporting as needed
Unregulated Contaminant Monitoring Rule (UCMR) (2000)	<ul style="list-style-type: none"> • Monitoring for contaminants included on assessment and screening lists
Unregulated Contaminant Monitoring Rule 2 (UCMR2) (2005)	<ul style="list-style-type: none"> • Conduct assessment monitoring for 11 contaminants on the <i>Assessment Monitoring List</i> • Conduct screening monitoring for 15 contaminants on the <i>Screening Survey List</i>
Arsenic Rule (2001)	<ul style="list-style-type: none"> • Monitoring • Revised lower MCL of 0.010 mg/L, effective January 2006

To comply with these regulations, the City maintains a regular sampling schedule for all regulated and unregulated compounds on a quarterly basis. In addition, the City prepares quarterly water quality reports after testing for all regulated constituents and annual consumer

confidence reports, oversees operator training and certification, and conducts cross connection identification and control programs.

Compliance

Within the regulatory process, public water suppliers in Virginia are responsible for taking all reasonable precautions to assure the water delivered to their customers does not exceed maximum contaminant levels (MCLs) for all primary regulated compounds and related standards for secondary contaminates established under state and federal law. Moreover, all such suppliers are required to provide reasonable assurance that water system facilities are free of public health hazards, as required under federal law.

According to available EPA data, and in discussions with City staff, the City has not had any reported violations of drinking water regulations. In addition, the City has removed nearly all-lead related components within its distribution system and has had a compliant record over this same period with regard to lead and copper.

The City continues to maintain an aggressive water quality compliance program and is in an on-going position to preserve regulatory compliance standards and consumer confidence throughout its water treatment and distribution systems.

Recent Regulatory Changes

Recent changes to the SDWA regulations include:

- Unregulated Contaminant Monitoring Rule 2 (2005);
- Stage 2 Disinfectants/Disinfection Byproduct Rule (2006);
- Long Term 2 Enhanced Surface Water Treatment Rule (2006); and
- Lead and Copper Rule Short Term Revisions (2007).

Unregulated Contaminant Monitoring Rule 2

In August 2005, the USEPA proposed a second Unregulated Contaminant Monitoring Rule (UCMR2), which includes two lists of contaminants for which some systems will be required to monitor. All public water systems serving more than 10,000 people (including both retail and wholesale customers) will be required to conduct assessment monitoring at distribution system entry points for 11 contaminants on the Assessment Monitoring List. Systems serving more than 100,000 people (including both retail and wholesale customers) and selected smaller systems will be required to conduct screening monitoring for 15 contaminants on the screening survey list. This list includes contaminants that will be monitored at distribution system entry points and within the distribution system. This monitoring will be required during a 12-month period between 2007 and 2009.

Stage 2 Disinfectants/Disinfection Byproduct Rule

The final Stage 2 disinfection byproduct rule (“DBP Rule”) was promulgated on January 4, 2006. The Stage 2 D/DBP Rule has been developed by the USEPA to further reduce exposure to DBPs linked to bladder, rectal, and colon cancers. This rule applies to community water and nontransient, noncommunity water systems that serve drinking water treated with a primary or secondary disinfectant other than ultraviolet (UV) treatment. The Stage 2 Rule does the following:

- Changes the method of calculating DBP regulatory compliance to a locational running annual average (LRAA) of quarterly samples, in which the system calculates a running annual average for each DBP monitoring location instead of calculating a running annual average for the entire system.
- Re-establishes the location and number of DBP monitoring sites. The rule requires systems to conduct an Initial Distribution System Evaluation (IDSE) to select Stage 2 DBP monitoring locations in areas of the distribution system with elevated DBP levels. Additionally, the final Stage 2 DBP Rule requires systems to determine monitoring requirements based on retail population.
- Establishes DBP operational evaluation levels. Systems are to calculate a system-specific operational evaluation level which provides early warning, indicating a system could exceed the MCL within the next year. A system with an operational evaluation level greater than the MCL is required to conduct an operational evaluation, i.e., evaluating their distribution system operations to determine ways to reduce DBP levels. The system is required to notify the State of an operational evaluation level exceedance and submit evaluation results within 90 days of the exceedance.
- Consecutive systems that purchase drinking water carrying a disinfectant are required to implement Stage 2 DBP requirements on the same schedule as the largest water system in their combined distribution system.

The City of Norfolk has taken a number of steps to prepare for complying with the revised rule. In particular, the City has moved away from using free chlorine as the primary disinfectant at both the Moores Bridges and 37th Street WTPs, relying instead on chloramines (i.e. a combination of chlorine and ammonia) which have a much lower formation potential for Trihalomethanes (THMs) and haloacetic acids (HAAs). In addition, the City converted a portion of its primary coagulant from aluminum sulfate (alum) to ferric sulfate, resulting in reduced Total Organic Carbon (TOC) and lower disinfection by-product formation.

Long Term 2 Enhanced Surface Water Treatment Rule

The Long Term 2 Enhanced Surface Water Treatment Rule (LT2 Rule) was promulgated in January 2006 and became effective on March 6, 2006. This regulation applies to public water systems using surface water or groundwater under the influence of surface water sources. This rule was developed to protect drinking water consumers from microbiological pathogens,

especially *Cryptosporidium*. *Cryptosporidium*, which can be found in surface water supplies, is of particular concern because it can cause cryptosporidiosis, a gastrointestinal illness that can have severe impacts on people with weakened immune systems. Additionally, *Cryptosporidium* is resistant to chlorination.

The LT2 Rule establishes the following types of requirements:

- Two distinct rounds of source water monitoring for *Cryptosporidium* and *E. coli*;
- Profiling and benchmarking requirements;
- Treatment technique requirements;
- Microbial toolbox for meeting inactivation requirements ;
- Covering finished water storage facilities; and
- Sanitary surveys.

Filtered water systems will be classified into one of four treatment categories, or bins, based on the *Cryptosporidium* monitoring results from the first round of monitoring. Systems in bins associated with a higher risk for *Cryptosporidium* will be required to provide additional treatment for removal of *Cryptosporidium*. Systems may be required to add treatment to provide up to 2.5-log removal of *Cryptosporidium*, based on the requirements associated with the bin. Systems select appropriate treatment or source water management activities from the USEPA's Microbial Toolbox.

Systems that store water in open reservoirs after treatment will be required to either cover these reservoirs or provide treatment at the reservoir effluent to provide inactivation of viruses, *Giardia lamblia*, and *Cryptosporidium*.

Finally, systems will be required to conduct disinfection benchmarking when making changes to disinfection practices. Benchmarking aims to ensure continued compliance with both LT2 and Stage 2 Rules after implementing any necessary changes.

Systems that are consecutive systems, purchasing some or all of their water from another system, and systems that sell water wholesale must comply with the LT2 Rule on the same schedule based on the largest system in the combined distribution system. A combined distribution system consists of the interconnected wholesale systems and consecutive systems that receive finished water from those wholesale system(s).

Lead and Copper Rule Short Term Revisions and Clarifications

The short-term revisions to the Lead and Copper Rule were promulgated on October 10, 2007. The revisions and clarifications are targeted at improved implementation of the LCR in terms of monitoring, treatment, customer awareness and public education. Additional comprehensive revisions to the Lead and Copper Rule are planned in the longer term.

The short-term revisions include:

- Clarification of language related to sampling and number of samples, defines monitoring and compliance periods and requires that all compliance samples are to be taken in the same calendar year.
- Adding a new reduced monitoring requirement, which prevents water systems above the lead action level remaining on a reduced monitoring schedule.
- The requirement that water systems provide advanced notification and receive approval from the primacy agency for a planned change in treatment or source water that could increase corrosion of lead.
- The requirement that all utilities provide notification of tap water monitoring results for lead to owners and/or occupants of homes and buildings who consume water from the taps that are part of the utility's sampling program.
- Adding a requirement that utilities reconsider previously “tested-out” lines when resuming lead service line replacement programs.
- Changes the content, delivery and timeframe of the message that must be provided to consumers, in the event of an Action Level exceedance.

Future Regulations

The City actively monitors the status of all existing and proposed regulations and makes plans in advance for changes in operations and required Water System Capital Improvements to ensure compliance before pending regulations become effective.

There are several proposed and pending regulations that could have an impact on the City's costs related to water supply and treatment.

Anticipated Revised Total Coliform Rule/Distribution System Rule

As part of its 6-year review of existing regulations, the USEPA has determined the need to revise the total coliform rule (TCR). Revisions may include requirements to address finished water quality in the distribution system as well as to evaluate additional or alternative monitoring strategies that would be more cost-effective and maintain or improve public health. The USEPA and other stakeholders have developed issue papers related to the development of revisions to the current TCR. These papers cover the distribution system topics of:

- Indicators of water quality;
- Effectiveness of disinfectant residuals;
- Compliance with the existing TCR;
- Assessment of distribution systems;
- Optimization of monitoring strategies;
- Hazard analysis and control strategies;
- Accumulation of inorganic contaminants;

- Nutrient availability;
- Causes of contaminant events and positive coliform samples; and
- Total coliform sample invalidation.

As part of the USEPA's process for determining the appropriate revisions to this rule and the need for a future Distribution System Rule, a series of white papers were developed by the USEPA and other stakeholders in 2002 to describe potential health risks in the distribution system. These papers cover the topics of:

- Intrusion;
- Cross-connection control;
- Aging infrastructure and corrosion;
- Permeation and leaching;
- Nitrification;
- Biofilms and bacterial growth;
- Covered storage;
- Decay in water quality over time; and
- New or repaired water mains.

The date for a proposed revised TCR and/or Distribution System Rule is undetermined at this time, but will likely occur within the next 3 to 6 years.

Other Areas of Regulatory Interest

Within the water utility industry there is increasing public interest in pharmaceutical contaminants that may arise in association with traditional municipal wastewater discharges. Such contaminants potentially could find themselves into the source of municipal drinking water supplies, especially in those systems relying on streams and rivers for water supply. The USEPA has yet to establish either permanent or interim standards for such compounds, called endocrine disruptors. Since the City's water supply sources are free from municipal wastewater discharges and since Virginia Beach's Lake Gaston supply represents only a portion of the overall supply, the potential impacts of endocrine disrupting compounds may be limited for the City. The potential impact on City operations is difficult to determine, but the City's monitoring and compliance is sufficiently adaptable to employ compliant sampling and treatment programs in the event such new standards are promulgated.

In summary, it appears that the City can meet all known existing federal and state safe drinking water standards and is implementing plans to meet any anticipated future safe drinking water standards.

Operator Certification

The City employs a number of properly certified individuals to maintain and operate its water treatment plants in accordance with State Operator Certification requirements. Table 11 outlines the City's current staff certification with regard to water treatment operations.

Table 11
City of Norfolk, Virginia
Water System
Summary of Water System Operator Certifications

Water Treatment Certification Level	No. of Certified Staff
Level III Operators	5
Level II Operators	3
Level I Operators	15

Security Compliance

In June 2002, the Public Health, Security, and Bioterrorism Preparedness and Response Act (the “Bioterrorism Act”) was signed into law. The Bioterrorism Act first required communities serving a population of 3,300 or more to conduct an assessment of the vulnerability of their water system to a terrorist attack or other intentional acts intended to disrupt the provision of safe and reliable drinking water. For systems serving a population of 100,000 or more, the deadline for completing and submitting the Vulnerability Assessment to the USEPA was March 31, 2003. The Bioterrorism Act also required the follow-up activity of completing a Water System Emergency Response Plan within six months of submitting its Vulnerability Assessment. The City submitted a Vulnerability Assessment on January 30, 2003 and updated its Emergency Response Plan on March 27, 2003. The City subsequently has made security related structural and procedural improvements resulting from continual evaluation of the required assessment and plans.

Section 4

Water System

Introduction

This section provides a description of the City's current Water System and review of the planned Capital Improvements to be financed with the 2008 Bonds. A discussion of the planning and operation and maintenance procedures of the City is also provided to determine the ability to provide continued water service. HDR representatives undertook a facilities inspection for the major system components in December 2007 to determine the operating condition of the existing facilities and met with engineering and operations personnel to review planning and operating procedures. HDR staff was accompanied on the inspection by City staff knowledgeable about the Water System's facilities and operations and maintenance practices.

Water Supply

Source Water Supply

The City's multiple source raw water supply system consists of two river intake/pumping stations, three reservoirs in western Suffolk and eastern Isle of Wight County known collectively as the "Western Reservoir System," five City-owned reservoirs in or near Norfolk called the "In-Town Reservoirs," and four groundwater supply wells that discharge into Lake Prince and Lake Burnt Mills (components of the Western Reservoir System). Virginia Beach also contributes to the supply through its Stumpy Lake in-town reservoir and pump station that withdraws water from Lake Gaston.

The City's two river intakes/pumping stations are on the Nottoway and Blackwater Rivers and discharge into pipelines terminating at Ennis Pond at the headwaters of Lake Prince in the Western Reservoir System. Both pumping stations are in satisfactory condition, based on visual inspection and comments of the operating staff. Water from Lake Gaston also enters the Western Reservoir System at the same discharge point as the Nottoway and Blackwater discharges. With the Lake Gaston system on line, the City is responsible for effectively managing the operation of its two pumping stations and Virginia Beach's Lake Gaston Pumping Station to control lake levels in the Western Reservoir System, pursuant to the provisions of the City's water services contract with Virginia Beach.

The Western Reservoir System consists of Lake Prince, Lake Burnt Mills, and the Western Branch Reservoir with capacities of approximately 3.6, 3.2 and 6.4 billion gallons, respectively. Water from Lake Prince and Lake Burnt Mills overflows their spillways or can be released directly into the Western Branch Reservoir. Overflow from Western Branch enters the Nansemond River and flows to the Chesapeake Bay. The dams for these reservoirs are in adequate condition based on visual inspection. However, each Class I dam requires construction

of parapet walls on top of the earthen dams to create additional floodwater control volumes, and their spillways will be modified to comply with current federal and Virginia State dam safety regulations. At Lake Burnt Mills, the parapet wall and spillway modifications are nearing completion and modifications to the outlet structure are underway. Spillway and associated dam rehabilitation are scheduled for completion in FY 2008 for Lake Burnt Mills. At Western Branch, the design of the proposed modifications are underway to add the desired capability to pass the probable maximum flood without storm water breaching the dams. Final design, permitting, and land acquisition is scheduled from FY 2008 through FY 2013, and construction of the facility improvements and emergency spillway is scheduled for FY 2014.

Water quality at Lake Prince and Western Branch is enhanced by an aeration system. The aeration system maintains oxygen concentrations at the bottom of the reservoir preventing the release of iron and manganese from lake bottom sediments. Lake aeration helps to reduce disinfection by-product formation at the treatment plant by avoiding the need to pre-chlorinate the water for iron and manganese control. The lake aeration system results in reduced chemical costs of water treatment since pre-chlorination is avoided. The components of the aeration system are in good condition, based on visual inspection, and are scheduled for periodic rehabilitation in FY 2010 and for approximately 10 years thereafter.

The City's four deep groundwater supply wells were constructed in response to the 1965-66 drought and have a permitted capacity of approximately 16 mgd. These wells are typically used only during periods of reduced supply and are in relatively good condition, based on visual inspection. At the time of the site visits the annual maintenance was being performed. Wells 1, 2, and 4 discharge into Lake Prince and Well 3 discharges into Lake Burnt Mills. The City plans to add sulfuric acid feed at Wells 1, 2, and 4 to control the alkalinity of the groundwater making the raw water more compatible with the surface water treatment processes.

The City's raw water storage system also includes the In-Town Reservoirs, consisting of Lake Lawson, Lake Smith, Lake Wright, Lake Whitehurst and the Little Creek Reservoir. Virginia Beach also owns and operates Stumpy Lake that contributes to the storage volume. The total storage capacity of these six In-Town Reservoirs is approximately 2.3 billion gallons. Canals connect the remaining In-Town Lakes allowing water to flow by gravity to an intake and pumping station at the Moores Bridges WTP. In-Town Reservoirs' raw water is presently used in combination with the Western Reservoir System raw water to meet water demands placed on the System. The City has made significant dam, spillway, and dredging improvements to the In-Town Reservoirs, resulting in adequate conditions for these facilities, based on visual inspections. The interconnecting culvert under Azalea Garden Road is scheduled for improvement in FY 2008.

The collective reservoir systems are under the supervision of the Department's Division of Water Quality for environmental control. This group oversees the enforcement of ordinances, rules and regulations governing the lakes, such as building setbacks on adjacent private property, storm water drainage into lakes, and recreational use of lakes.

Raw Water Pumping and Transmission

Raw water from the Nottoway River is conveyed through its pumping station and delivered via 20 miles of 42-inch transmission main. Raw water from the Blackwater River is conveyed through its pumping station and delivered via 10 miles of 42-inch transmission main. Both pipelines discharge into an open-channel system at the source for the Western Reservoir System. Facility improvements for protection from flooding at the two river pumping stations are scheduled for FY 2008. The operations staff report that the transmission mains are in adequate condition.

Raw water from the Western Reservoirs is pumped via the Western Branch Pumping Station through separate mains serving the Moores Bridges WTP and the 37th Street WTP. In addition, water from Lake Prince is pumped via the Lake Prince Pumping Station serving the Moores Bridges WTP. A new Western Branch Pumping Station was recently constructed, with an installed pumping capacity of 112 mgd (and a facility design capacity of 152 mgd). The new Western Branch Pumping Station, which was constructed above the flood plain, replaces an old flood-prone, 60 mgd pumping station that has been demolished. The combination of the Western Branch and Lake Prince Pumping Stations is able to deliver raw water at maximum day demands to meet the design capacity at both the Moores Bridges and 37th Street WTPs. There is also a separate water main from the Lake Prince Pumping Station for the sale of raw water to Portsmouth by transmission to the Portsmouth Lakes in Suffolk.

The Western Branch Pumping Station serves the 37th Street WTP via a 39-mile long pair of 36-inch transmission mains (Lines 1 & 2), with a reported capacity of 29.4 mgd. These mains are in need of repair and replacement along areas of continued leakage and where recent analysis indicates that the pipe pressure class rating is insufficient to meet pumping pressures. The City has established a repair schedule that will replace critical sections of main totaling about 25% of the paired mains overall length over the next 30 years, to provide for continued reliable raw water supply operations. Replacement will be relatively expensive as portions of the pipeline to be replaced are structurally elevated or in environmental sensitive areas, such as waterways or protected wetlands.

Raw water serving the Moores Bridges WTP is delivered via a 30-mile pair of 48-inch transmission mains (Lines 3 & 4), with a reported capacity of 109 mgd when operated separately. These mains are relatively new and are reported by operations staff to be in good condition. The water flow rate in these mains may be increased, when needed, by two Simonsdale Booster Pumping Stations, No. 1 and No. 2. In an emergency, water being transported to the Moores Bridges WTP may be diverted around Pumping Station No. 1 to the 37th Street WTP through an interconnecting main between Lines 3 & 4 and Lines 1 & 2. Recent improvements to Pumping Station No. 1 include pump replacement and upgrades to the control and ventilation systems. Pumping Station No. 2 is eight years old. Both Simonsdale pumping stations are in good condition, based on visual inspections.

Water Treatment Facilities

Moores Bridges Water Treatment Plant (WTP)

The first plant at the Moores Bridges WTP location was constructed in the late 1890s. Additions and improvements have been made to the plant over the years resulting in a current hydraulic capacity of 108 mgd. The plant receives water directly from the In-Town Reservoirs through an on-site intake structure and pumping station on Lake Wright, and from the Western Reservoir System through two parallel 48-inch pipelines (Lines 3 & 4). Moores Bridges WTP is a conventional water treatment plant incorporating chemical addition and rapid mixing, flocculation, coagulation and sedimentation, rapid-sand filtration, and disinfection. The plant produces high quality, finished water in compliance with the Safe Drinking Water Act standards.

The Moores Bridges WTP capacity was expanded by 30 mgd in 1998, allowing the City to meet obligations under the Services Contract to supply treated water to Virginia Beach. The WTP expansion included a new High Service Pumping Station, replacement of filter media, and new plate settlers in the sedimentation basins, and also included the installation and testing of a new central preventive maintenance computer system that integrates facilities throughout the Division of Water Production. Other recent modifications included the conversion of primary disinfection from chlorine gas to sodium hypochlorite and the formation of chloramines (by addition of ammonia), along with the elimination of pre-chlorination. These steps have greatly reduced the potential formation of regulated disinfection by-products. Installation of five emergency standby generators along with two separate Virginia Power connections provide adequate primary and emergency back-up power to support the plant during power interruptions.

The plant's solids handling facilities consists of chemical conditioning, sludge gravity thickening and sludge dewatering with two plate and frame presses. The City has a contract with the Southeastern Public Service Authority (SPSA) specifying that dewatered cake solids may be transported by SPSA to its landfills. The City intends to convert the existing dewatering devices to centrifuges in FY 2009.

Overall, the Moores Bridges WTP is in good operating condition, based on reports of the operations staff and visual inspections. The City's treated water meets current water quality standards and is tested in accordance with regulatory requirements at the plant's laboratory or by an outside certified laboratory. The plant meets all current regulatory requirements. All equipment and structures are regularly inspected and well maintained.

37th Street WTP

The 37th Street WTP was initially placed into service in 1922, and was extensively renovated and expanded in 1942. The plant has a rated treatment capacity of 28 mgd. Raw water is supplied to the plant by two 36-inch pipelines from the Western Reservoir System. The plant is operated at a relatively constant production rate and provides an excellent quality of water.

The 37th Street WTP has a conventional water treatment process consisting of chemical addition and rapid mixing, flocculation, coagulation and sedimentation, rapid-sand filtration, and

disinfection. Recent renovations to the flocculation and sedimentation basins include concrete repairs to the tankage and new flocculation and sludge collection equipment. Like the Moores Bridges WTP, the 37th Street facility has eliminated the use of free chlorine as the primary disinfectant and now utilizes chloramines. This change required the construction of sodium hypochlorite and ammonia storage and feed systems. In 2003, the improvements included a new chemical feed building, new control room, electrical system upgrades and a new emergency generator.

The facility also includes a sludge handling unit consisting of sludge receiving basins and transfer pumps, a polymer conditioning system, three rotary drum sludge thickeners, and a filtrate treatment system. The thickened solids are pumped through dedicated pipelines directly to the Virginia Initiative Plant, a nearby wastewater treatment facility owned and operated by the Hampton Roads Sanitation District (HRSD), for co-disposal with the wastewater treatment plant sludge. The filtrate from the WTP sludge thickening process is treated by flocculation and sedimentation and discharged to the HRSD sanitary sewer system for treatment in the HRSD liquid stream.

Based on reports of the operations staff and visual inspections, the 37th Street WTP is in adequate operating condition. It produces an excellent quality of finished water. Its filters are adequate, settling tanks are good, and high service pumping is adequate. Due to the original design, the finished water clearwells lie below the sedimentation basins, which is not an acceptable practice by today's State Department of Health design standards. The clearwells are regularly checked and maintained to ensure integrity. The City has made the State Department of Health aware of this 'as constructed' condition. The City intends to remedy this situation in conjunction with future major improvements to this facility scheduled after FY 2014.

All current water quality standards are being met. Water samples are frequently tested in the on-site operator's laboratory or at the Moores Bridges laboratory and records are well kept. Quarterly testing for compliance for infrequently tested constituents is performed by outsourced certified laboratories for cost efficiency. Phased improvements of the 37th Street WTP are scheduled for FY 2008 through FY 2010 and then extending into the subsequent five year period of FY 2014 through FY 2018. These future improvements will essentially rehabilitate the existing 28 mgd capacity with new technology and address reconfiguration of the finished water clearwells.

Finished Water Storage and Distribution

In FY 2007, peak day water demand was 83.64 mgd, while average day totaled 66.65 mgd. To serve this demand, the City owns and operates two ground storage tanks with booster pumping stations, two elevated water storage tanks, and approximately 800 miles of water pipelines. There are also approximately 16,200 water valves and 4,100 hydrants on the distribution system.

Finished water storage is comprised of both on-site storage at the water treatment plants and storage located within the distribution system. The distribution system's storage tanks

and associated pumping stations are in good condition based on reports of the operations staff and visual inspections. A summary of the storage capacity is outlined in Table 12.

Table 12 City of Norfolk, Virginia Water System Summary of Finished Water Storage	
Location	Capacity
Moores Bridges WTP	
4 Ground Storage Tanks	24.0 MG
Clearwell System	2.3 MG
37th Street WTP	
1 Ground Storage Tank	4.0 MG
Clearwell System	6.0 MG
Distribution System Tanks	
Little Creek Ground Storage Tank and Pumping Station	5.0 MG
Chesterfield Heights Ground Storage Tank and Pumping Station	3.0 MG
Ocean View Elevated Storage Tank	1.0 MG
Berkley Elevated Storage Tank	1.0 MG

Pipelines within the distribution system range in size from 2 to 60 inches in diameter and are comprised mainly of cast iron pipe and ductile iron pipe, with lesser inventories of PVC and other pipe materials.

The City maintains a fairly aggressive annual pipe repair and replacement program, with a high emphasis on renovating the older sections of the distribution system. The distribution system also faces a valve aging problem and the City has begun an annual renewal and replacement program to address this issue.

The City also maintains an adequate meter testing and replacement program. Master meters that monitor production and wholesale services are calibrated and repaired bi-annually and local retail meters are replaced every 12 years. According to the American Water Works Association (AWWA), the optimum unaccounted for water level for efficient distribution systems should be less than 10% of volume of water produced. Nationwide, AWWA reports that water utilities average about 15% unaccounted for water. The Water System's FY 2007 unaccounted for water level was approximately 10% which is within AWWA's acceptable level and below the nationwide average. The City's full time leak detection crew routinely conducts a leak detection program for the distribution system designed to locate and repair main leaks. The crew uses three technical approaches to locate system leaks.

The hydrant crew routinely conducts flow tests on fire hydrants and color-codes them by flow capacity for the fire department. Fire hydrants are being replaced with breakaway type hydrants according to a scheduled replacement program. In addition, the City has implemented a valve exercise program to systematically uncover paved-over valve covers and periodically exercises all valves in the system to keep these assets functional. All known lead service lines in the system have been replaced, and any additional lead service lines are replaced as discovered.

The City operates a centralized Water Distribution Maintenance Facility located at 1316 Ballentine Boulevard. This facility contains administrative offices and records storage, a parts and materials storehouse, a pipe, valve and hydrant storage yard, a meter and hydrant repair shop, and equipment storage facilities for field crews. Distribution system maintenance appears to be a well-run operation. Maintenance crews have training on trench safety, working in confined spaces safety, and distribution system maintenance techniques.

The City also maintains an administrative office staff, which provides for customer services, accounting, billing, and financial planning and project management.

Overall, the distribution network is in adequate condition, especially given its age and the City is providing for adequate maintenance and repair programs to help address identified deficiencies.

Capital Improvement Plan

The City's current Water System Capital Improvement Plan totals \$86.3 million for the period FY 2008 through FY 2012. The City anticipates spending an additional \$250 million for capital improvements to the Water System over the subsequent 25-year period. The major near-term projects consist of upgrades to the raw water reservoir dams and spillways, raw water transmission pipelines, distribution system piping, phased rehabilitation of the 37th Street WTP, and upgrades at the Moores Bridges WTP. These improvements will be followed by subsequent rehabilitation of the raw water pumping stations at the river intakes, continued phased rehabilitation of the 37th Street WTP, upgrades to the Moores Bridges WTP, and repair and replacement funding for continued replacement of critical portions of the raw water transmission mains, and of the distribution system. These improvements will allow the City to provide continuous operation of the Water System and continue to meet regulatory requirements. A summary of the Capital Improvement Plan for FY 2008 to continue to FY 2012 is provided in Table 13, followed by a summary description of the major capital improvements.

Table 13
City of Norfolk, Virginia
Water System
Capital Improvement Projects

Project	Fiscal Year Ended June 30th					Total
	2008	2009	2010	2011	2012	
Anticipated Bond Financed Projects						
Rehabilitation Raw Water Pump Stations	\$2,150,000	\$0	\$1,000,000	\$0	\$0	\$3,150,000
Design and Construct Dams and Spillways	16,000,000	0	0	5,000,000	0	21,000,000
Lake Whitehurst	150,000	0	0	0	0	150,000
Lake Prince Aeration	0	0	600,000	0	0	600,000
Western Branch Aeration	0	0	350,000	0	0	350,000
Replace or Rehabilitate Water Pipelines	9,886,000	10,950,000	4,400,000	7,400,000	7,830,000	40,466,000
Moores Bridges Water Treatment Plant	0	5,750,000	0	0	0	5,750,000
37th Street Water Treatment Plant	0	10,000,000	0	0	0	10,000,000
Western Branch Pump Station	0	3,000,000	0	0	0	3,000,000
Improve East Church Street Water Mains	314,000	0	0	0	0	314,000
Total Anticipated Bond Financed Projects	\$28,500,000	\$29,700,000	\$6,350,000	\$12,400,000	\$7,830,000	\$84,780,000
Anticipated Cash/Capital Lease Financed						
Safe Drinking Water Act	\$200,000	\$0	\$0	\$0	\$0	\$200,000
Meter Changeout Program	100,000	100,000	100,000	100,000	100,000	500,000
Geographic Information System	250,000	250,000	0	0	0	500,000
SCADA Improvements	0	300,000	0	0	0	300,000
Total Anticipated Cash/Capital Leased Financed	\$550,000	\$650,000	\$100,000	\$100,000	\$100,000	\$1,500,000
Total Anticipated Capital Projects	\$29,050,000	\$30,350,000	\$6,450,000	\$12,500,000	\$7,930,000	\$86,280,000

Raw Water Reservoirs Dams and Spillway Improvements

Modifications are being undertaken to accommodate federal and state dam safety standards requiring the ability to pass the probable maximum flood at each of the Class I raw water reservoir dams. These improvements require raising the dam crest heights and expansion of spillway capacities. The dam safety standards also require emergency spillway improvements at Western Branch. The anticipated costs for permitting, design and land acquisition at the Western Branch Reservoir Dam total \$16.0 million and are scheduled for FY 2008 through FY 2012, with an additional major emergency spillway parapet wall and other construction at Western Branch of \$5.5 million by FY 2016.

Minor improvements to a culvert crossing under Azalea Garden Road in the In-Town Reservoirs will cost \$150,000 and is scheduled for FY 2008.

37th Street Water Treatment Plant Improvements

This facility is to undergo rehabilitation and technology upgrade under a schedule of phased improvements that began in FY 2006 and will continue into FY 2012. These improvements will include structural rehabilitation of major process units and the sludge removal system, as well as upgrades to supporting pumping and piping facilities. The improvements will rehabilitate and renew the existing 28 mgd plant capacity at a schedule of \$10 million for FY 2009. The long-term capital plan for this facility also includes an additional \$20.0 million to be employed for the period of FY 2014 through FY 2037.

Moores Bridges Water Treatment Plant Improvements

Improvements to this facility will include upgrades of \$750,000 in FY 2009 for the WTP's heating ventilation and air conditioning system. The City will also upgrade the existing sludge dewatering equipment in FY 2009 at a cost of \$5.0 million. In addition, this facility is to undergo capacity expansion by FY 2017, including \$15.0 million for the renovation of sedimentation units and new clarifiers. These funds also may provide additional hydraulic capacity to accommodate potential new water sales to surrounding communities.

Raw Water Pumping and Transmission Improvements

Initial upgrades to the Nottoway and Blackwater River pumping stations are scheduled for FY 2008 for flood protection at an estimated cost of \$2.15 million, with more substantial rehabilitation scheduled between FY 2013 and FY 2037 at an estimated cost of \$29 million. Upgrades are also scheduled for the Lake Prince pumping station totaling \$1 million for flood protection in FY 2010.

Improvements are also in the planning process for phased replacement of critical sections of the twin 36-inch transmission mains that extend from the Western Branch Pumping Station to the 37th Street WTP. Initial plans are to replace between four and five miles of pipeline at an estimated cost of \$5.0 million for the period FY 2009 through FY 2011. Additional raw water

pipeline replacement will occur between FY 2013 and FY 2037 at an estimated cost of \$25 million.

Transmission and Distribution Pipeline Improvements

The City is undertaking an aggressive renewal and replacement of its transmission and distribution system piping, with the primary goal of replacing all deteriorating pipes over 50 years old. This capital project is anticipated to cost approximately \$35.4 million from FY 2008 through FY 2012. Continued long-term renewal and replacement of the distribution system is expected to cost an additional \$120 million for the period extending from FY 2013 through FY 2037.

Groundwater Well Improvements

Improvements to each of the City's four groundwater wells are expected to occur over the next 20 years. An estimate of \$8 million for these upgrades has been scheduled for the period FY 2023 through FY 2027.

Lake Aeration System Replacement

Improvements to the lake aeration systems at the City's Lake Prince and Western Branch Reservoirs will be made starting in FY 2010. The cost of the rehabilitation to the lake aerators is \$600,000 for Lake Prince and \$350,000 for Western Branch.

Section 5

Historical and Projected Operating Results

Introduction

Presented in this section is a review of the City's Water System financial operating results. A review of the City's Water System funds and budgeting is also provided. A discussion of the City's historical and projected customers, water sales and operating results, along with the City's funding projections for capital improvements is presented.

Water System Funds

The City maintains and operates the following funds pursuant to the Bond Indenture:

- Revenue Fund

The City will collect and deposit in the Revenue Fund all Revenue derived from the ownership and operation of the Water System. No later than the fifth Business Day before the end of each month, the City will make transfers to the other funds.

- Operating Fund

The City shall transfer from the Revenue Fund to the Operating Fund, an amount to pay for Operating Expenses and maintain a balance equal to one-sixth of the annual Operating Expenses budgeted to be paid from the Operating Fund.

- Bond Fund

The City shall transfer from the Revenue Fund an amount such that the funds available on the Interest and Principal Payment Date will be equal to the interest and principal payment on the Outstanding Bonds.

- Parity Debt Service Fund

The City shall transfer from the Revenue Fund an amount such that the funds available on the Interest and Principal Payment Date will be equal to the interest and principal payment on the Outstanding Parity Debt.

- Debt Service Reserve Fund

The City shall transfer from the Revenue Fund an amount such that the funds in the Debt Service Reserve Fund will equal the Debt Service Reserve Requirement.

- Subordinate Debt Service Fund

The City shall transfer from the Revenue Fund an amount such that the funds in the Subordinate Debt Service Fund will be adequate to provide for payment when due of the principal and interest on the Subordinate Debt.

- Repair and Replacement Reserve Fund

The City shall transfer from the Revenue Fund an amount to pay for renewals and replacement to the Water System and maintain a balance equal to the Replacement Reserve Requirement established pursuant to the Bond Indenture. The Replacement Reserve Requirement was initially established at \$1,000,000. The current balance in the Repair and Replacement Reserve Fund is \$2,000,000.

- Rate Stabilization Fund

The City shall transfer from the Revenue Fund an amount such as to maintain a fund balance equal to the Rate Stabilization Requirement. The current Rate Stabilization Requirement as established by the City pursuant to the Bond Indenture is zero (0). However, the City as a general practice maintains balances in the Rate Stabilization Account to provide funds for true-ups under the wholesale contacts.

- General Reserve Fund

The City shall transfer from the Revenue Fund all funds remaining after funding of the above-mentioned accounts to the General Reserve Fund. Such funds may be used for any lawful purpose determined by the City.

- Project Fund

The City shall deposit the proceeds from the sale and issuance of the 2008 Bonds and any future Bonds to the Project Fund.

Budgeting

Annually, the City prepares a budget for the Water System that conforms to state law and the legal requirements of the City Charter which is then approved by the City Council. For the purpose of cost accounting, the City maintains a number of different accounts, which follow along operating units (e.g., water treatment, distribution, etc.).

Metered Accounts

During the five-year period, FY 2003 to FY 2007, the number of metered accounts served by the City increased from 62,792 to 66,011 or an annual growth of one percent (1%) per year. For the projection period of FY 2008 through FY 2012, the City has assumed increases in total metered accounts of zero percent (0%) per year reflecting the built out nature of the City's service area. The historical number of metered accounts and projected number of metered accounts for the various classes is shown in Table 14.

Table 14
City of Norfolk, Virginia
Water System
Historical and Projected Metered Accounts

Customer Class	Historical (Fiscal Year Ended June 30th)				
	2003	2004	2005	2006	2007
Norfolk Retail	61,837	62,292	63,782	64,319	64,856
Norfolk Fire Protection	612	645	678	711	744
Virginia Beach	24	24	26	24	24
U.S. Navy	59	59	59	55	55
Chesapeake - Finish Water	6	6	6	9	9
Chesapeake - Raw Water	0	0	1	1	1
Raw Water	254	271	288	305	322
Total Metered Accounts	62,792	63,297	64,840	65,424	66,011
Customer Class	Projected (Fiscal Year Ending June 30th)				
	2008	2009	2010	2011	2012
Norfolk Retail	64,856	64,856	64,856	64,856	64,856
Norfolk Fire Protection	744	744	744	744	744
Virginia Beach	24	24	24	24	24
U.S. Navy	55	55	55	55	55
Chesapeake - Finish Water	9	9	9	9	9
Chesapeake - Raw Water	1	1	1	1	1
Raw Water	322	322	322	322	322
Total Metered Accounts	66,011	66,011	66,011	66,011	66,011

Water Sales and Revenues

The City receives approximately 95% of its operating revenue from water service charges. Additional revenues are obtained through interest earnings and miscellaneous fees.

As shown in Table 15, during the five-year period, FY 2003 through FY 2007, water sales ranged from a low of 30,743,523 ccf in FY 2005 to a high of 33,620,142 ccf in FY 2007. Overall, there has been minimal Water System growth due to the built out nature of the City's service area. While there has been significant, focused redevelopment, the impact to water sales has been minimal primarily due to new building codes and reduced flow appliances. The City's revenues from sales of water increased from approximately \$64.9 million in FY 2003 to approximately \$73.1 million in FY 2007, primarily due to rate increases.

Table 15
City of Norfolk, Virginia
Water System
Historical Water Sales and Revenue

Customer Class	Historical (Fiscal Year Ended June 30th)				
	2003	2004	2005	2006	2007
Water Sales - ccf					
Norfolk Retail	9,520,129	9,423,790	9,346,619	9,506,395	9,205,714
Virginia Beach	16,678,555	17,317,821	17,187,400	17,316,575	17,499,324
U.S. Navy	3,005,851	2,715,547	2,524,768	2,541,748	2,304,150
Chesapeake - Finish Water	1,698,368	1,536,642	1,678,752	1,400,137	1,155,623
Chesapeake - Raw Water	17,194	45,194	5,984	995,135	3,455,331
Total Water Sales - ccf	30,920,097	31,038,994	30,743,523	31,759,990	33,620,142
Rates - \$/ccf					
Norfolk Retail - Unit Cost	\$2.51	\$2.76	\$3.01	\$3.26	\$3.37
Norfolk Retail - Service Charge (1)	1.00	1.00	1.00	1.00	1.00
Norfolk Fire Protection (2)	40.70	40.70	40.70	40.70	40.70
Virginia Beach (3)	1.50	1.34	1.35	1.47	1.47
U.S. Navy (3)	3.51	3.04	3.31	3.58	3.71
Chesapeake - Finish Water	2.59	2.84	3.09	3.34	3.45
Chesapeake - Raw Water	0.74	0.74	0.74	0.77	0.79
Revenues					
Norfolk Retail - Unit Cost	\$23,895,524	\$26,009,660	\$28,133,323	\$30,990,848	\$31,023,256
Norfolk Retail - Service Charge	742,044	747,504	765,384	771,828	778,272
Norfolk Fire Protection	315,000	315,000	315,000	315,000	315,000
Virginia Beach	25,017,833	23,205,880	23,202,990	25,455,365	25,724,006
U.S. Navy	10,537,655	8,255,263	8,356,982	9,099,458	8,548,397
Chesapeake - Finish Water	4,398,773	4,364,063	5,187,344	4,676,458	3,986,899
Chesapeake - Raw Water	12,724	33,444	4,428	766,254	2,729,711
Total Revenue	\$64,919,553	\$62,930,814	\$65,965,451	\$72,075,211	\$73,105,541

(1) - Service Charge per meter month.

(2) - Fire protection bill on meter size - number represents cost per meter per month.

(3) - Average unit cost. Actual rates per water service contracts.

The projection of water service revenues was based on current rates and the projected number of customers for FY 2008 through FY 2012. The increase in revenue due to rate increases for the City's retail customers and Chesapeake finished water customers was based on the increase approved by the City Council of three and a half percent (3.5%) annually, unless modified by City Council. Rates for Virginia Beach were only assumed to adjust based on increases in operation and maintenance expenses, but no increases in return or depreciation. This was primarily done as historically the City has provided a credit to Virginia Beach based on the "true-up" completed every two (2) years. Therefore, the City has not seen a significant change in revenues from Virginia Beach. Raw water rates to Chesapeake were assumed to increase based on the rate of inflation pursuant to the Raw Water Sales Contract. Navy rates were increased

pursuant to the contract with the Navy through 2008 with 2009 rates equivalent to the City's retail rate plus ten percent1(0%). Details are provided in Table 16.

Table 16
City of Norfolk, Virginia
Water System
Projected Water Sales and Revenue

Customer Class	Projected (Fiscal Year Ending June 30th)				
	2008	2009	2010	2011	2012
Water Sales - ccf					
Norfolk Retail	9,205,714	9,205,714	9,205,714	9,205,714	9,205,714
Virginia Beach	17,499,324	17,499,324	17,499,324	17,499,324	17,499,324
U.S. Navy	2,304,150	2,304,150	2,304,150	2,304,150	2,304,150
Chesapeake - Finish Water	1,155,623	1,155,623	1,155,623	1,155,623	1,155,623
Chesapeake - Raw Water	3,455,331	3,455,331	3,455,331	3,455,331	3,455,331
Total Water Sales - ccf	33,620,142	33,620,142	33,620,142	33,620,142	33,620,142
Present Rates (\$/ccf)					
Norfolk Retail - Unit Cost	\$3.37	\$3.37	\$3.37	\$3.37	\$3.37
Norfolk Retail - Service Charge (1)	1.00	1.00	1.00	1.00	1.00
Norfolk Fire Protection (2)	40.70	40.70	40.70	40.70	40.70
Virginia Beach (3)	1.47	1.47	1.47	1.47	1.47
U.S. Navy (3)	3.71	3.71	3.71	3.71	3.71
Chesapeake - Finish Water	3.45	3.45	3.45	3.45	3.45
Chesapeake - Raw Water	0.79	0.79	0.79	0.79	0.79
Revenue at Present Rates					
Norfolk Retail - Unit Cost	\$31,023,256	\$31,023,256	\$31,023,256	\$31,023,256	\$31,023,256
Norfolk Retail - Service Charge	778,272	778,272	778,272	778,272	778,272
Norfolk Fire Protection	366,788	370,696	374,603	378,510	382,417
Virginia Beach	25,724,006	25,724,006	25,724,006	25,724,006	25,724,006
U.S. Navy	8,548,397	8,548,397	8,548,397	8,548,397	8,548,397
Chesapeake - Finish Water	3,986,899	3,986,899	3,986,899	3,986,899	3,986,899
Chesapeake - Raw Water	2,729,711	2,729,711	2,729,711	2,729,711	2,729,711
Total Revenue at Present Rates	\$73,157,329	\$73,161,237	\$73,165,144	\$73,169,051	\$73,172,958
Rate Increase - \$/ccf					
Norfolk Retail - Unit Cost	\$0.12	\$0.24	\$0.37	\$0.50	\$0.63
Norfolk Fire Protection	0.00	0.00	0.00	0.00	0.00
Virginia Beach	(0.06)	(0.04)	(0.05)	(0.06)	(0.07)
U.S. Navy	0.13	0.26	0.40	0.55	0.70
Chesapeake - Finish Water	0.12	0.25	0.37	0.51	0.65
Chesapeake - Raw Water	0.01	0.02	0.03	0.04	0.05
Rate Increase Revenue					
Norfolk Retail - Unit Cost	\$1,087,135	\$2,212,320	\$3,376,886	\$4,582,212	\$5,829,724
Norfolk Fire Protection	0	0	0	0	0
Virginia Beach	(1,049,959)	(699,973)	(874,966)	(1,049,959)	(1,224,953)
U.S. Navy	298,815	608,088	928,186	1,259,488	1,602,384
Chesapeake - Finish Water	139,402	283,683	433,014	587,571	747,538
Chesapeake - Raw Water	34,553	69,107	103,660	138,213	172,767
Total Rate Increase Revenue	\$509,946	\$2,473,225	\$3,966,780	\$5,517,525	\$7,127,460
Total Rate Revenue	\$73,667,275	\$75,634,462	\$77,131,924	\$78,686,576	\$80,300,418

(1) - Service Charge per meter month.

(2) - Fire protection bill on meter size - number represents cost per meter per month.

(3) - Average unit cost. Actual rates per water service contracts.

Water System Capital Improvement Financing and Fund Balances

The City has projected its Water System Capital Improvements financing requirements for FY 2008 through FY 2012 will result in cash flow funding requirements totaling approximately \$86.3 million. In addition to the capital project funding, the 2008 Bonds will reimburse the water general reserve fund for past water capital improvements as well as funding the debt service reserve for the 2008 Bonds.

In its planning process, the City specifies Water System Capital Improvements in the year that projects are to begin. Many of the capital improvement projects require multiple years to complete construction. To determine the need for funds for the purposes of cash flow expenditures for FY 2008 and FY 2009 the City has reviewed current projects and the capital improvement plan and determined the cash flow for the next two-year period. The result of this analysis has provided the needed cash flow for FY 2008 and FY 2009. In order to determine the cash flow requirements for the future time period (FY 2010 - FY 2012), the Capital Improvement Plan was reviewed and the timing of the projects was determined to estimate the sizing of the future bond issues. For each year of this analysis, it was assumed that 25% of the prior years projects value would be completed, 50% of the current year expenditures would be undertaken, and 25% of the following years projects would begin (i.e., design, planning, etc.). Therefore, the amount of actual cash flow expenditures for capital improvements shown in Table 17 for each year will not match the amount of capital expenditures which are approved by the City Council as shown in Table 13.

Table 17 provides a summary of the sources and uses of funds for capital expenditures for FY 2008 through FY 2012 and ending fund balances for the various funds held by the City in accordance with the Bond Indenture. As shown, in addition to the 2008 Bonds, the City will require an additional borrowing of approximately \$36.6 million in FY 2010 and \$15.2 million in FY 2012 to finance the Water System Capital Improvements.

Table 17
City of Norfolk, Virginia
Water System
Capital Improvement Financing Cash Flow
and
Fund Balances

Description	Projected (Fiscal Year Ending June 30th)				
	2008	2009	2010	2011	2012
Project Fund					
Sources of Funds					
Beginning Balance	\$0	\$20,104,323	\$464,273	\$12,473,223	\$869,216
Bond Par Amount (1)	\$59,451,896	0	36,610,000	0	15,205,000
Interest Earnings	351,826	359,950	226,406	233,493	151,365
Total Sources	\$59,803,722	\$20,464,273	\$37,300,679	\$12,706,716	\$16,225,581
Uses of Funds					
Cost of Issuance (2)	\$537,299	\$0	\$383,050	\$0	\$276,025
Transfer to Debt Service Reserve	3,662,100	0	2,222,906	0	924,335
Reimbursement Amount	20,500,000	0	0	0	0
FY 2007	0	0	0	0	0
FY 2008	15,000,000	0	7,009,000	0	0
FY 2009	0	20,000,000	13,625,000	6,812,500	0
FY 2010	0	0	1,587,500	3,175,000	1,587,500
FY 2011	0	0	0	1,850,000	3,700,000
FY 2012	0	0	0	0	1,957,500
Total Uses	\$39,699,399	\$20,000,000	\$24,827,456	\$11,837,500	\$8,445,360
Ending Project Fund Balance	\$20,104,323	\$464,273	\$12,473,223	\$869,216	\$7,780,221
End of Fiscal Year Water System Fund Balances					
Operating Fund	\$6,100,000	\$6,272,825	\$6,452,549	\$6,639,512	\$6,834,079
Debt Service Reserve Fund (3)	3,662,100	3,662,100	5,885,006	5,885,006	6,809,341
Repair and Replacement Fund	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Rate Stabilization Account	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Project Fund	20,104,323	464,273	12,473,223	869,216	7,780,221
General Reserve Fund	46,709,363	49,834,953	52,689,428	54,942,137	58,017,626
Total Fund Balances	\$80,575,786	\$64,234,151	\$81,500,206	\$72,335,871	\$83,441,267

(1) - Includes net premium on the 2008 Bond.

(2) - Includes projected costs of debt service reserve fund underwriters discount, bond insurance and other costs of issuance.

(3) - Debt Service Reserve Fund was funded in full with bond proceeds.

Debt Service Reserves on prior Bonds are funded through Surety Bonds.

Historical and Projected Operating Results

The historical operating results for the City for FY 2003 through FY 2007 are shown in Table 18. Projected operating results for the City for FY 2008 through FY 2012 are shown in Table 19. Future revenues have been projected based on increases in water rates as adopted by the City Council and/or anticipated by wholesale contracts. Future expenses have been projected based on increases associated with inflation, customer growth, and increased personnel costs.

Projected interest earnings are calculated based on funds held by the City and the reinvestment rate.

Table 18
City of Norfolk, Virginia
Water System
Historical Operating Results

Description	Historical (Fiscal Year Ended June 30th)				
	2003	2004	2005	2006	2007
Revenues					
Net Charges for Water Service (1)	\$63,785,185	\$60,964,284	\$61,002,286	\$74,218,336	\$69,815,932
Other Revenue	2,779,992	4,374,025	3,419,431	3,472,406	2,941,067
Interest Income	511,015	348,504	565,761	1,097,416	1,704,565
Total Revenue	\$67,076,192	\$65,686,813	\$64,987,478	\$78,788,158	\$74,461,564
Operation and Maintenance Expense					
Personnel Services	\$11,101,788	\$11,321,992	\$11,905,877	\$12,333,921	\$12,737,845
Plant Operations	5,275,780	5,040,432	4,937,669	7,631,051	5,780,847
Chemicals	1,592,238	1,644,474	2,446,167	3,227,636	3,318,311
Administrative Expense	2,419,073	2,828,613	3,397,468	3,141,430	3,647,007
Other (2)	7,240,289	11,732,375	11,740,943	7,893,615	7,494,383
Total Operation and Maintenance Expense	\$27,629,168	\$32,567,886	\$34,428,124	\$34,227,653	\$32,978,393
Net Revenue Available for Debt Service	\$39,447,024	\$33,118,927	\$30,559,354	\$44,560,505	\$41,483,171
Revenue Bond Debt Service	\$21,541,156	\$20,291,043	\$20,431,309	\$21,407,960	\$21,689,821
WRBANs Interest	0	69,346	0	0	0
Total Debt Service	\$21,541,156	\$20,360,389	\$20,431,309	\$21,407,960	\$21,689,821
Revenue Bond Debt Service Coverage Ratio	1.83	1.63	1.50	2.08	1.91
Net Revenue Available for G.O. Debt Service	\$17,905,868	\$12,758,538	\$10,128,045	\$23,152,545	\$19,793,350
General Obligation Debt Service	\$9,331,640	\$8,399,588	\$6,421,487	\$5,272,575	\$4,663,352
G.O. Debt Service Coverage Ratio	1.92	1.52	1.58	4.39	4.24
Combined Debt Service Coverage Ratio	1.28	1.15	1.14	1.67	1.57
Net Available for Other Purposes	\$8,574,228	\$4,358,950	\$3,706,558	\$17,879,970	\$15,129,998

(1) - Based on accrued sales and net of refunds, etc., therefore different from Table 15.

(2) - Includes supplies, legal and accounting fees, data processing, rent, contractual services and other miscellaneous expenses.

Expenses were high in 2004 due to the cost of hurricane clean-up. Does not include ROI or PILOT.

Table 19
City of Norfolk, Virginia
Water System
Projected Operating Results

Description	Projected (Fiscal Year Ending June 30th)				
	2008 (1)	2009	2010	2011	2012
Revenues					
Water Rates - Present Rates (2)	\$73,157,329	\$73,161,237	\$73,165,144	\$73,169,051	\$73,172,958
Water Rates - Increases (2)	509,946	2,473,225	3,966,780	5,517,525	7,127,460
Transfers From/(To) Rate Stabilization	3,111,739	70,000	70,000	70,000	70,000
Virginia Beach True-up/Navy Settlement	(3,111,739)	0	0	0	0
Other Revenue (3)	1,978,855	1,998,644	2,018,630	2,038,816	2,059,204
Interest Income (4)	1,583,201	2,099,889	2,285,881	2,381,673	2,512,852
Total Revenue	\$77,229,331	\$79,802,995	\$81,506,435	\$83,177,065	\$84,942,474
Operating Expenses (5)					
Labor (6)	\$11,958,710	\$12,317,471	\$12,686,995	\$13,067,605	\$13,459,633
FICA (6)	897,184	924,100	951,823	980,378	1,009,789
Retirement (7)	1,582,672	1,677,632	1,778,290	1,884,987	1,998,086
Health Care (8)	979,166	1,077,083	1,184,791	1,303,270	1,433,597
Materials and Services (6)	6,650,897	6,850,424	7,055,937	7,267,615	7,485,643
Chemicals (9)	3,324,000	3,423,720	3,526,432	3,632,225	3,741,192
Electricity (9)	3,249,560	3,347,047	3,447,458	3,550,882	3,657,408
Contract Services (6)	3,286,033	3,384,614	3,486,152	3,590,737	3,698,459
Equipment (6)	661,814	681,668	702,118	723,182	744,877
Total Operating Expenses	\$32,590,036	\$33,683,759	\$34,819,996	\$36,000,881	\$37,228,684
Net Revenue Available for Debt Service	\$44,639,295	\$46,119,236	\$46,686,439	\$47,176,184	\$47,713,790
Revenue Bond Debt Service					
Prior Bonds	\$21,687,200	\$21,689,869	\$23,103,045	\$22,130,730	\$22,254,269
2008 Bonds	0	2,771,474	3,661,750	3,657,425	3,657,275
Future Parity Bonds (10)	0	0	0	1,963,126	2,222,251
Total Revenue Bond Debt Service	\$21,687,200	\$24,461,343	\$26,764,795	\$27,751,281	\$28,133,795
Revenue Bond Debt Service Coverage Ratio	2.06	1.89	1.74	1.70	1.70
Net Revenue Available for G.O. Debt Service	\$22,952,095	\$21,657,893	\$19,921,644	\$19,424,903	\$19,579,995
General Obligation Debt Service	\$4,695,964	\$4,382,970	\$3,250,279	\$3,127,797	\$2,222,167
G.O. Debt Service Coverage Ratio	4.89	4.94	6.13	6.21	8.81
Combined Debt Service Coverage Ratio	1.69	1.60	1.56	1.53	1.57
Net Available for Other Purposes	\$18,256,131	\$17,274,923	\$16,671,365	\$16,297,106	\$17,357,828

(1) - Budget.

(2) - From Table 16.

(3) - 2008 Budget increased by the rate of inflation annually.

(4) - Based on the average fund balances and the assumed reinvestment rate of 3.5%.

(5) - Does not include ROI or PILOT.

(6) - 2008 Budget increased at a rate of 3.0% annually.

(7) - 2008 Budget increased at a rate of 6.0% annually.

(8) - 2008 Budget increased at a rate of 10.0% annually.

(9) - 2008 Budget increased at the rate of inflation and water sales annually.

(10) - \$36.610 million in 2010 and \$15.205 million in 2012. Debt service estimates provided by Public Financial Management, Inc.

Debt service for the 2012 bond issue does not begin until FY 2013.

The beginning balances, income and expenditure for the General Reserve Fund are shown in Table 20. Expenditures include changes in cash working capital for the Operating Fund Reserve Requirement, capital expenditures paid with cash, payments in lieu of taxes (“PILOT”) and the return on investment (“ROI”) paid to the City.

Table 20 City of Norfolk, Virginia Water System General Reserve Fund					
Description	Projected (Fiscal Year Ending June 30th)				
	2008 (1)	2009	2010	2011	2012
General Reserve Fund					
Beginning Balance	\$23,770,000	\$46,709,363	\$49,834,953	\$52,689,428	\$54,942,137
From Project Fund (Reimbursement of Funds)	20,500,000	0	0	0	0
Net Available for Other Purposes (2)	18,256,131	17,274,923	16,671,365	16,297,106	17,357,828
Total Sources	\$62,526,131	\$63,984,286	\$66,506,318	\$68,986,534	\$72,299,965
Uses of Funds					
Return on Investment	\$8,500,000	\$8,500,000	\$8,500,000	\$8,500,000	\$8,500,000
Payment in-Lieu of Taxes (3)	3,136,332	3,293,149	3,457,806	3,630,696	3,812,231
Cash-Financed Capital Improvements (4)	2,038,698	2,183,359	1,679,360	1,726,740	1,775,542
Changes in Cash Working Capital (5)	2,141,738	172,825	179,724	186,961	194,566
Total Uses	\$15,816,768	\$14,149,333	\$13,816,890	\$14,044,397	\$14,282,339
Ending General Fund Balance	\$46,709,363	\$49,834,953	\$52,689,428	\$54,942,137	\$58,017,626

(1) - Budget.

(2) - From Table 19.

(3) - 2008 Budget increased at 5% annually.

(4) - Includes equipment, autos and cash financed capital.

(5) - Change in Operating Fund Reserve Requirement based on 1/6 of annual operating expenses.

2008 also includes replenishing the Rate Stabilization Fund for projected true-up expenditures.

Additional Bonds Test

Pursuant to the Master Bond Indenture Section 5.3 (h), the City must meet certain tests prior to the issuance of Additional Bonds on parity with the Outstanding Bonds. Section 5.3 (h) states:

“(h) If the Bonds (other than the initial Series of Bonds issued under this Master Indenture) are issued to pay the cost of acquiring, renovating, equipping or constructing improvements, extensions, additions or replacements to the System:

(1) Written certificates from (i) the Director of Utilities setting forth the Director’s estimate of the cost of the acquisition, renovation, equipping or construction (including all financing, reserves and related costs) and the date on which such acquisition, renovation, equipping or construction is expected to be completed and (ii) the Director of Finance setting forth the Director’s opinion that the proceeds of the Bonds, together with any other money available or

anticipated to be available for such purpose, will be sufficient to pay the cost of the acquisition, renovation, equipping or construction; and

(2) A written certificate from the Director of Finance or the Consulting Engineer that the amount of the Net Revenues as received during any twelve consecutive months of the twenty-four months immediately preceding the issuance of the Bonds or Parity Indebtedness (the "Test Period"), as may be adjusted as permitted in subsection (3) of this Section, will satisfy the revenue covenant contained in Section 9.4 for the Test Period taking into account the maximum amount of principal and interest payments due on (i) the Bonds and Parity Indebtedness then Outstanding and (ii) the Bonds or Parity Indebtedness proposed to be issued.

(3) For the purpose of subsection (2) of this Section, Net Revenues will be computed as follows:

(i) If the City, before the issuance of the proposed Bonds or Parity Indebtedness, has increased the rates, fees or other charges for the services or use of the System, the Net Revenues for the Test Period will be adjusted to include the Net Revenues which would have been derived from the System during the Test Period if such increased rates, fees or other charges had been in effect during the Test Period;"

The Revenue covenant set forth in Section 9.4 of the Bond Indenture states:

"The City will establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the Water System, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each FY Net Revenues are not less than the greater of (i) the sum of 1.1 times Senior Debt Service and 1.0 times Subordinated Debt Service for the FY and (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund and the Repair and Replacement Reserve Fund as set forth in Section 7.2(a)."

During the Test Period the sum of 1.1 times Senior Debt Service and 1.0 times Subordinated Debt Service exceeds 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, Bond Fund, Parity Debt Service Fund, Debt Service Reserve Fund, Subordinate Debt Service Fund, and Repair and Replacement Reserve Fund.

As shown in Table 21, the City is in compliance with the test required by Section 5.3 (h) and may issue the 2008 Bonds on parity with the Outstanding Bonds.

Table 21
City of Norfolk, Virginia
Water System
Additional Bonds Test

(1) **12 months Net Revenue Ending June 30, 2007** \$41,483,171

Revenue Adjustments for:

(2)	2008 Rate Increase - 5.3(h)(3)(i)	\$509,946
	Utility System Acquisitions - 5.3(h)(3)(ii)	0
	New Water Service Contracts - 5.3(h)(3)(iii)	0
	System Additions, Extensions and Improvements - 5.3(h)(3)(iv)	0

Total Adjustments \$509,946

Adjusted Net Revenue \$41,993,117

(3)	Projected Maximum Senior Debt Service	\$ 25,354,996
	Projected Maximum Subordinate Debt Service	0

Total Projected Maximum Debt Service \$25,354,996

Projected Debt Service Coverage 1.66

Revenue After Maximum Debt Service \$16,638,121

(1) - 2007 Net Revenue Available for Debt Service from Table 18.

(2) - 2008 Rate Increase from Table 19.

- Notations (i.e., i.ii, iii) reflect bond indenture notes.

(3) - Maximum Debt Service occurs in 2023.

Section 6

Principle Considerations and Assumptions

In the preparation of this report and the opinions that follow, we have made certain assumptions with regard to conditions that may occur in the future. In addition, we use and rely upon certain information and assumptions provided to us by sources we believe to be reliable. We believe the use of such information and assumptions is reasonable for the purpose of this report. However, some assumptions will invariably not materialize as stated herein or will vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others. The principle considerations and assumptions made by us and the principle information and assumptions provided to us by others include the following:

- Economic development in the City's service area will continue in the future.
- The Navy's operations in the City's service area will continue at historical levels.
- The Navy's rates for FY 2009 – FY 2012 are assumed to be set at the retail rate plus 10%.
- Retail water sales are projected to increase at zero percent (0%) annually.
- Wholesale water sales are projected to increase at zero percent (0%) annually.
- Virginia Beach revenues are assumed to decline due to the credit from the "true-up" every 2 years.
- The City provided Water System Capital Improvement costs.
- The City provided other revenue for FY 2008.
- Operating results for FY 2008 were based on the budget prepared by City staff and adopted by the City Council.
- The reinvestment rate for funds held by the City was assumed at three and one-half percent (3.5%) for FY 2008 through FY 2012.
- The inflation rate was assumed at three percent (3%).
- Projections of operating expenses were assumed to increase from FY 2008 budget levels at the rate of inflation.
- Health care costs were assumed to increase at a rate of ten percent (10%) annually from the FY 2008 budget levels.
- Labor costs were assumed to increase at a rate of three percent (3%) annually from FY 2008 budget levels.
- Retirement benefit costs were assumed to increase at a rate of six percent (6%) annually from FY 2008 budget levels.

- Payments in-lieu of taxes were assumed to increase at a rate of five percent (5%) annually from FY 2008 budget levels.
- Return on investment paid to the City was assumed to remain at the FY 2008 budget level for the projection period FY 2008 through FY 2012.
- Future Additional Bonds interest rates and terms were estimated and provided by Public Financial Management, Inc., financial advisor to the City.
 1. 2008 bond issue – 30-year term, average coupon of 4.7%
 2. 2010 bond issue – 30-year term, average coupon of 4.5%.
 3. 2012 bond issue – 30-year term, average coupon of 4.5%.
- The City provided historical operating results.

Section 7

Opinions

Based on our analyses, studies, and the considerations and assumptions set forth in this report, we are of the opinion that:

- The City is currently in compliance with water quality regulations under the Safe Drinking Water Act.
- The City is currently in compliance with the requirements of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the “Bioterrorism Act”).
- The funds available from the 2008 Bonds, additional borrowings, together with other money available to the City will be sufficient to complete the design and/or construction of the planned Water System Capital Improvements.
- Given the projections made in this report it is reasonable to expect that the City will have sufficient cash on hand and the ability to issue additional debt to fund the projects as outlined in the Capital Improvement Plan.
- The City's revenues from water service, including rate increases approved by Ordinance 41,047, § 14 and anticipated changes in wholesale rates per the contracts will be sufficient during the period FY 2008 through FY 2012 to pay the costs of operation and maintenance expenses, pay all debt service, meet coverage requirements, pay a portion of the Water System Capital Improvements and maintain required reserve balances.
- The Water System is currently operated and maintained in a manner consistent with sound engineering practices to assure continuous operation of the Water System and compliance with permits and other regulations. The City's current planning and construction practices will assure adequate facilities for maintenance of the Water System, compliance with known regulatory requirements and growth of the Water System.
- The amount of Net Revenues received during the twelve month period ending June 30, 2007, as adjusted as permitted by Section 5.3(h)(3) of the Bond Indenture satisfies the revenue covenant contained in Section 9.4 of the Bond Indenture for the twelve month period ending June 30, 2007, taking into account the maximum amount of principal and interest payments due on (i) the Outstanding Bonds and (ii) the 2008 Bonds.

APPENDIX B

**WATER UTILITY FUND FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

[THIS PAGE INTENTIONALLY LEFT BLANK]

McGladrey & Pullen

Certified Public Accountants

Water Utility Fund of the City of Norfolk, Virginia

Financial Report

6.30.2007

Contents

Independent Auditor's Report	1 – 2
Financial Statements	
Statements of net assets	3
Statements of revenues, expenses and changes in fund net assets	4
Statements of cash flows	5 – 6
Notes to financial statements	7 – 19
Supplemental Information	
Annual budgets (unaudited)	20

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

The Honorable Members of the City Council
Water Utility Fund of the City of Norfolk, Virginia
Norfolk, Virginia

We have audited the accompanying statements of net assets of the Water Utility Fund of the City of Norfolk, Virginia as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the City of Norfolk. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

As discussed in Note 1 to the financial statements, the accompanying financial statements present only the Water Utility Fund and do not purport to, and do not, present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. Furthermore, management has chosen not to present a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not be part of the basic financial statements.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Utility Fund of the City of Norfolk, Virginia as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the Fund restated beginning Net Assets to correct errors associated with improper capitalization of capital assets.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Water Utility Fund, taken as a whole. The supplemental material on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Greensboro, North Carolina
December 20, 2007

Water Utility Fund of the City of Norfolk, Virginia

Statements of Net Assets

June 30, 2007 and 2006

	2007	2006
	(As Restated)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 25,773,253	\$ 18,001,900
Investments	-	6,079,201
Receivables:		
Accounts, net	11,250,348	11,526,794
Unbilled accounts	1,041,527	1,154,313
Accrued investment income	88,087	74,301
Other receivable	345,000	460,000
Due from other funds	421,666	418,926
Inventories	1,501,176	1,485,161
Restricted cash held with fiscal agent	7,577,321	7,404,483
Total current assets	47,998,378	46,605,079
Restricted investments	9,000,000	8,900,000
Capital assets (Note 13):		
Land and construction in process	30,449,221	23,060,366
Buildings, improvements and equipment, net of accumulated depreciation	401,205,465	400,624,736
Total assets	431,654,686	423,685,102
488,653,064	479,190,181	
Liabilities		
Current Liabilities		
Vouchers payable	4,483,420	1,520,878
Contract retainage	465,078	428,189
Accrued interest	316,500	374,000
Accrued payroll	250,191	263,767
Due to other funds	14,264,393	3,914,202
Contribution to Employees Retirement System	1,582,672	1,529,200
Current portion of bonds payable	11,577,746	11,036,450
Liabilities payable from restricted assets	2,367,800	2,424,600
Compensated absences	581,200	720,700
Other liabilities	2,446,613	1,185,390
Total current liabilities	38,335,613	23,397,376
Noncurrent Liabilities		
General obligation bonds payable	14,579,318	18,840,442
Revenue bonds payable	258,510,671	265,837,368
Compensated absences	273,500	112,800
Total noncurrent liabilities	273,363,489	284,790,610
Total liabilities	311,699,102	308,187,986
Commitments and contingencies (Notes 7, 8, 11 and 12)		
Net Assets		
Invested in capital assets, net of related debt	155,521,873	136,442,653
Unrestricted	21,432,089	34,559,542
	\$ 176,953,962	\$ 171,002,195

See Notes to Financial Statements.

Water Utility Fund of the City of Norfolk, Virginia

Statements of Revenues, Expenses and Changes in Fund Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
	(As Restated)	
Operating revenues:		
Charges for services	\$ 69,815,932	\$ 74,218,336
Miscellaneous	2,941,067	3,472,406
Total operating revenues	72,756,999	77,690,742
Operating expenses:		
Personal services	12,737,845	12,333,921
Plant operations	5,780,847	7,631,051
Chemicals	3,318,311	3,227,636
Provision of bad debts	52,634	155,116
Depreciation	10,796,178	10,232,808
Retirement contribution	1,582,668	1,529,200
Administrative expenses	2,064,339	1,612,230
Other	10,117,700	10,835,628
Total operating expenses	46,450,522	47,557,590
Operating income	26,306,477	30,133,152
Nonoperating revenue (expenses):		
Interest income	1,704,565	1,097,416
Intergovernmental Revenues	333,350	-
Interest expense and fiscal charges	(14,060,054)	(14,760,173)
Gain (loss) on sale or disposal of capital assets	(6,032)	1,126,108
Total nonoperating expenses	(12,028,171)	(12,536,649)
Income before contributions and transfers	14,278,306	17,596,503
Capital contributions	594,926	59,059
Transfers out	(8,921,465)	(10,117,535)
Change in net assets	5,951,767	7,538,027
Net assets:		
Beginning	171,002,195	164,758,881
Adjustment to beginning balance (Note 13)	-	(1,294,713)
Ending	\$ 176,953,962	\$ 171,002,195

See Notes to Financial Statements.

Water Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
	(As Restated)	
Cash Flows From Operating Activities		
Receipts from customers	\$ 73,208,597	\$ 72,475,228
Payments to suppliers	(19,917,338)	(24,060,416)
Payments to employees	(12,676,749)	(12,188,456)
Other receipts (payments)	1,261,223	(3,128,461)
Net cash provided by operating activities	41,875,733	33,097,895
Cash Flows From Noncapital Financing Activities		
Operating subsidies and transfers to other funds	(8,921,465)	(10,117,535)
Intergovernment revenue	333,350	-
Internal activity, receipts from other funds	10,347,451	4,104,225
Net cash provided by (used in) noncapital financing activities	1,759,336	(6,013,310)
Cash Flows From Capital and Related Financing Activities		
Contributed capital	594,926	59,059
Purchases of capital assets	(18,029,010)	(9,518,389)
Proceeds from sale of capital assets	-	1,410,625
Principal paid on capital debt	(11,036,450)	(10,722,778)
Interest paid and bond service charges	(14,890,324)	(15,314,961)
Net cash used in capital and related financing activities	(43,360,858)	(34,086,444)
Cash Flows From Investing Activities		
Net proceeds from sales and maturities of investments	6,079,201	8,976,910
Net purchases of certificates of deposits	(100,000)	(1,000,000)
Interest and dividends	1,690,779	1,050,285
Net cash provided by investing activities	7,669,980	9,027,195
Net increase in cash and cash equivalents	7,944,191	2,025,336
Cash and cash equivalents:		
Beginning	25,406,383	23,381,047
Ending	\$ 33,350,574	\$ 25,406,383

(Continued)

Water Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows (Continued)

Years Ended June 30, 2007 and 2006

	2007	2006
	(As Restated)	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 26,306,477	\$ 30,133,152
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	10,796,178	10,232,808
Provision for bad debt	52,634	155,116
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables, net	336,598	(5,340,097)
Other receivables	115,000	124,583
Inventories	(16,015)	162,465
Other assets	-	99,346
Increase (decrease) in:		
Vouchers payable	2,962,542	612,864
Accrued payroll	(13,576)	(133)
Other liabilities	1,335,895	(3,082,209)
Net cash provided by operating activities	\$ 41,875,733	\$ 33,097,895
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents	\$ 25,773,253	\$ 18,001,900
Restricted cash with fiscal agent	7,577,321	7,404,483
Total cash and cash equivalents per statement of net assets	\$ 33,350,574	\$ 25,406,383
Noncash Investing, Capital and Financing Activities		
(Gain) loss on sale or disposal of capital assets	\$ 6,032	\$ (1,126,108)
Acquisition of capital assets through change in contract retainage	\$ 465,078	\$ 428,189
Capitalized interest, less interest earned on certain long-term construction contracts	\$ 705,895	\$ 620,554

See Notes to Financial Statements.

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Water Utility Fund (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1979. The Fund accounts for the provision of water services to City of Norfolk (the "City") residents, municipal customers and others outside the City. Activities necessary to provide water services, including operations, maintenance, financing and related debt service, and billing and collection, are accounted for in the Fund. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as an Enterprise Fund.

A summary of the Fund's significant accounting policies is as follows:

Basis of accounting: The financial statements are presented on the accrual-basis of accounting, wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the related liabilities are incurred. The Fund adopted Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Accordingly, the Fund has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

Cash and cash equivalents: All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. Such investments are valued at cost which approximates market.

Investments: The Fund reports investments at fair market value. Investment income includes both realized and unrealized gain and loss components.

Accounts receivable: Accounts receivable are receivables due at the end of the fiscal year which have not been collected by year-end, net of allowance for doubtful accounts. The Fund determines past due status of individual water account receivables based on contractual terms and generally does not charge interest on past-due amounts. The Fund estimates its allowance for doubtful accounts based on a combination of factors, including the Fund's historical loss experience and any anticipated effects related to current economic conditions, as well as management's knowledge of the current composition of water receivables. Accounts that management believes to be ultimately not collectible are written off upon such determination. Unbilled accounts, net are estimated at each fiscal year and based on water usage by customers for which billings have not yet been processed.

Inventories: Inventories are stated at the lower of cost (using the first-in, first-out method) or market.

Restricted assets: Certain unspent proceeds of the revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets: Capital assets are recorded at cost, less accumulated depreciation. Assets acquired prior to July 1977, for which historical cost records were not available, were appraised and valued at estimated historical cost by means of accepted-price-indexing methodology.

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Depreciation: Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	40 - 75
Transmission and distribution mains	50 - 99
Service meters and meter installation	35 - 50
Pumping and other water equipment	10 - 30
Furniture, fixtures and equipment	5 - 25

When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected as nonoperating revenue or expense.

Interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds.

The Fund evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the government are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Compensated absences: It is Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund employees. Sick leave does not vest for Fund employees; however, upon retirement, Fund employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the Fund does not pay when the employee separates from service.

Net assets: Net assets in the financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grants, contributions, laws and regulations of other governments or imposed by law through state statute.

Operating and nonoperating revenues: The Fund reports as operating revenues all charges for services generated through service fees and certain other miscellaneous revenues. Other revenues, including interest revenue and grants, are reported as nonoperating. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, and then unrestricted resources as they are needed.

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Transfers to/from other funds: The General Fund of the City provides administrative services to the Fund, which totaled \$2,064,339 and \$1,612,230 for the years ended June 30, 2007 and 2006, respectively. Charges for these services are treated as expenses by the Fund and as revenue by the General Fund. In addition the Fund recorded, as other expenses, payments to the General Fund in lieu of taxes of \$2,623,317 and \$2,942,013 for the years ended June 30, 2007 and 2006, respectively.

Bond discount/premium: Discounts and premiums on bonds are amortized, using the effective interest method, over the life of the related debt with the amortization included in interest expense.

Deferred gain (loss) on advance refunding: Gain or (loss) on advance refunding is amortized, using the effective method, over the shorter of the life of the refunded bonds or the life of the new bonds.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that 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 could differ from those estimates.

Reclassification: The Fund's policy is to reclassify certain amounts reported in prior years' financial statements when necessary for conformity with classifications adopted in the current year. These reclassifications did not have an effect on the prior year's change in net assets or net assets.

Note 2. Cash and Investments

Deposits: All cash of the Fund is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

The Fund's restricted assets on the statement of net assets includes \$9,000,000 and \$8,900,000 of certificates of deposits at June 30, 2007 and 2006, respectively. These deposits mature at a date later than three months after year-end and therefore do not meet the definition of cash and cash equivalents.

Investments: Statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank") and Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool ("LGIP"), certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

The Fund has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk.

The Fund had \$21,370,000 and \$18,000,000 deposited in the State Treasurer's LGIP at June 30, 2007 and 2006, respectively, which has a Standard and Poor's rating of AAA and is included in cash and cash equivalents.

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 2. Cash and Investments (Continued)

The Fund's investments for the years ended June 30, 2007 and 2006, other than in LGIP, are categorized below to give an indication of the level of interest rate risk for each investment type by the entity at year-end.

Investment Type	Fiscal Year 2007		Fiscal Year 2006	
	Less Than		Less Than	
	Fair Value	1 year	Fair Value	1 year
SNAP Mutual Fund	\$ -	\$ -	\$ 6,079,201	\$ 6,079,201

The Fund's rated debt investments, other than in LGIP, as of June 30, 2007 and 2006 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Investment Type	Fiscal Year 2006				
	AAA	A-1+	A-1	A+	Total
SNAP Mutual Fund	\$ 595,762	\$ 3,410,432	\$ 1,617,067	\$ 455,940	\$ 6,079,201

The following is a summary of the Water Utility Fund's investments, other than LGIP, as of June 30, 2007 and 2006:

	2007		2006	
	Cost	Fair	Cost	Fair
		Value		Value
SNAP Mutual Fund	\$ -	\$ -	\$ 6,079,201	\$ 6,079,201

The City's Water Utility Fund has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the statements for the Water Utility Fund. These amounts are not available to meet obligations arising from the operating activities of the Fund.

A summary of the liabilities payable from restricted assets at June 30, 2007 and 2006, follows:

	2007	2006
Accrued interest	\$ 2,367,800	\$ 2,424,600

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 3. Accounts Receivable

Accounts receivable at June 30, 2007 and 2006 are comprised of the following:

	2007	2006
City of Virginia Beach	\$ 2,223,264	\$ 4,201,089
United States Navy	1,852,704	1,364,852
Residential	1,979,310	1,934,304
Refuse disposal fees	1,523,443	1,231,558
Commercial	931,737	863,433
Utility taxes	586,134	523,481
Industrial	216,577	133,850
Penalties	190,530	166,750
Other	<u>3,264,940</u>	<u>2,777,907</u>
	<u>12,768,639</u>	<u>13,197,224</u>
Less allowance for uncollectible accounts	<u>(1,518,291)</u>	<u>(1,670,430)</u>
	<u><u>\$ 11,250,348</u></u>	<u><u>\$ 11,526,794</u></u>

Utility taxes and refuse disposal fees receivable are remitted to the City's General Fund when collected.

Note 4. Unbilled Accounts Receivable

At June 30, 2007 and 2006, the Fund recognized \$1,041,527 and \$1,154,313, respectively, as unbilled accounts receivable related to unread meters. The associated revenue is included in net charges for services.

Note 5. Capital Assets

Capital assets at June 30, 2007 and 2006 are comprised of the following:

	Balance			Balance	
	June 30, 2006	Additions	Retirements	Transfers	June 30, 2007
Nondepreciable assets:					
Land	\$ 12,338,879	\$ -	\$ -	\$ -	\$ 12,338,879
Construction-in-progress	10,721,487	<u>16,442,433</u>	-	(9,053,578)	18,110,342
Total nondepreciable assets	<u>23,060,366</u>	<u>16,442,433</u>	-	(9,053,578)	30,449,221
Depreciable assets:					
Buildings and equipment	515,920,583	2,323,329	(1,813,205)	9,053,578	525,484,285
Less accumulated depreciation	(115,295,847)	(10,796,178)	1,813,205	-	(124,278,820)
Total depreciable assets, net	<u>400,624,736</u>	<u>(8,472,849)</u>	-	9,053,578	401,205,465
Total capital assets, net	<u><u>\$ 423,685,102</u></u>	<u><u>\$ 7,969,584</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 431,654,686</u></u>

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 5. Capital Assets (Continued)

	Balance June 30, 2005	Restatement Amount	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
	(Previously Reported)		(As Restated)				(As Restated)
Nondepreciable assets:							
Land	\$ 11,790,455	\$ -	\$ 11,790,455	\$ -	\$ (49,004)	\$ 597,428	\$ 12,338,879
Construction-in-progress	31,833,767	(3,143,656)	28,690,111	8,446,629	-	(26,415,253)	10,721,487
Total nondepreciable assets	43,624,222	(3,143,656)	40,480,566	8,446,629	(49,004)	(25,817,825)	23,060,366
Depreciable assets:							
Buildings and equipment	486,860,437	2,139,694	489,000,131	2,102,680	(1,000,053)	25,817,825	515,920,583
Less accumulated depreciation	(105,536,828)	(290,751)	(105,827,579)	(10,232,808)	764,540	-	(115,295,847)
Total depreciable assets, net	381,323,609	1,848,943	383,172,552	(8,130,128)	(235,513)	25,817,825	400,624,736
Total capital assets, net	\$ 424,947,831	\$ (1,294,713)	\$ 423,653,118	\$ 316,501	\$ (284,517)	-	\$ 423,685,102

The Fund capitalized \$1,129,893 and \$1,263,351 of interest expense and \$423,998 and \$642,797 of interest income for the fiscal years ended June 30, 2007 and 2006, respectively. The total interest cost was \$15,189,947 and \$16,023,524 for the fiscal years ended June 30, 2007 and 2006, respectively.

Note 6. Long -Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2007 and 2006 follows:

	2007	2006
General obligation bonds outstanding at July 1	\$ 20,936,796	\$ 25,079,574
Bonds retired	(3,726,450)	(4,142,778)
Bonds outstanding at June 30	17,210,346	20,936,796
Unamortized discount/premium	1,281,718	1,630,096
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	18,492,064	22,566,892
Less current portion	(3,912,746)	(3,726,450)
	\$ 14,579,318	\$ 18,840,442

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 6. Long -Term Obligations (Continued)

Water utility general obligation bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2007	2006
Series 1998 Refunding	06/15/1998	\$ 49,190,000	4.25 - 5.00%	\$ 7,703,784	\$ 9,056,946
Series 2002 Refunding	02/01/2002	47,200,000	2.00 - 5.00%	3,006,589	3,734,008
Series 2002B Refunding	11/01/2002	39,890,000	5.00 - 5.25%	1,688,141	1,693,392
Series 2004 Refunding	03/01/2004	96,395,000	2.00 - 5.00%	4,811,832	6,452,450
Total Water Utility General Obligation Bonds				\$ 17,210,346	\$ 20,936,796

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2007 is as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 3,912,746	\$ 783,218
2009	3,757,732	625,238
2010	2,812,578	437,701
2011	2,822,993	304,804
2012	2,058,267	163,900
2013 - 2015	1,846,030	129,406
	\$ 17,210,346	\$ 2,444,267

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 6. Long -Term Obligations (Continued)

General obligation bonds are payable first from the revenue of the specific funds in which they are recorded; however, the full faith and credit of the City are pledged to the payment of the principal and interest on general obligation bonds.

Revenue bonds: A summary of revenue bond transactions for the fiscal years ended June 30, 2007 and 2006 follows:

	2007	2006
Revenue bonds outstanding at July 1	\$ 277,385,000	\$ 283,965,000
Bonds retired	(7,310,000)	(6,580,000)
Bonds outstanding at June 30	<u>270,075,000</u>	<u>277,385,000</u>
Less unamortized discount	(3,899,329)	(4,237,632)
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	266,175,671	273,147,368
Less current portion	(7,665,000)	(7,310,000)
	<u><u>\$ 258,510,671</u></u>	<u><u>\$ 265,837,368</u></u>

Water utility revenue bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2007	2006
Series 1993 Water Revenue	11/01/1993	\$ 68,430,000	2.80 - 5.375%	\$ 50,530,000	\$ 52,320,000
Series 1995 Water Revenue	08/15/1995	115,680,000	5.00 - 7.00%	93,265,000	95,905,000
Series 1998 Water Revenue and Refunding	11/01/1998	84,605,000	4.00 - 5.125%	72,000,000	73,805,000
Series 2001 Water Revenue and Refunding	10/15/2001	35,000,000	4.00 - 5.00%	31,865,000	32,545,000
Series 2005 Water Revenue and Refunding	03/23/2005	22,810,000	3.50 - 5.00%	22,415,000	22,810,000
				<u><u>\$ 270,075,000</u></u>	<u><u>\$ 277,385,000</u></u>

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 6. Long -Term Obligations (Continued)

A summary of the requirements to amortize water revenue bonds outstanding at June 30, 2007 is as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 7,665,000	\$ 14,022,200
2009	8,050,000	13,639,869
2010	8,455,000	13,232,930
2011	8,885,000	12,800,298
2012	9,355,000	12,336,246
2013 - 2017	54,815,000	53,617,616
2018 - 2022	71,595,000	36,823,926
2023 - 2027	70,925,000	15,808,114
2028 - 2032	25,240,000	3,596,237
2033 - 2036	5,090,000	484,701
	\$ 270,075,000	\$ 176,362,137

Water revenue bonds are payable solely from the revenue of the Fund. The most restrictive covenant of the water revenue bonds requires that the Fund's net revenue to be not less than the greater of (1) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service for the fiscal year or (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Revenue Fund, the Subordinated Debt Service Fund and the Repair and Replacement Reserve Fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash held with fiscal agent on the statement of net assets because their use is limited by applicable bond covenants.

Bonds authorized and unissued as of June 30, 2007 were approximately \$32,457,000.

Advance refunding: Previously, the Fund defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2007 and 2006, \$1.10 million of bonds outstanding for the Fund are considered defeased.

Note 7. Retirement Obligations

The Fund contributes to the Employees' Retirement System of the City of Norfolk (the "System"), a single-employer noncontributory defined benefit plan, which is accounted for as a separate Pension Trust Fund. Reference should be made to the Comprehensive Annual Financial Report of the City System for a further description of the plan. Retirement expense was \$1,582,668 and \$1,529,200 for the years ended June 30, 2007 and 2006, respectively.

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 8. Other Liabilities

In 2006, a current liability of \$853,000 was recorded in the Water Utilities Fund to reflect over-recovery of revenue from a wholesale customer during fiscal year 2006 under the water contract. In 2007 an additional liability of \$1,067,000 was recorded for this same wholesale customer. Pursuant to the terms of the water services contract, billings to the customer were based on budgeted Water Utility Fund capital and operating expenditures during the fiscal years. The liability reflects the adjustments to billings based on the difference between budgeted expenditures and actual cost of service for that customer (capital and operating). In accordance with the water services contract, this liability is planned to be reduced in fiscal years 2010 and 2011 through credits to the customer billings. At June 30, 2007, the liability was \$1,920,000 for this customer.

Note 9. Concentration of Credit Risk and Significant Customers

Accounts receivable includes \$2,223,264 and \$4,201,089 due from the City of Virginia Beach and \$1,852,704 and \$1,364,852 due from the United States Navy for water sales at June 30, 2007 and 2006, respectively. Net charges for services includes \$25,171,343 and \$29,923,627 for water sales to the City of Virginia Beach and \$7,420,050 and \$8,130,309 for the United States Navy for the fiscal years ended June 30, 2007 and 2006, respectively.

Certain of the Fund's cash and investments are combined with other City monies for investment purposes. These amounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk for further cash and investment disclosures.

Note 10. Commitments

Commitments for completion of capital projects authorized at June 30, 2007 were approximately \$14,400,000.

Note 11. Litigation

From time-to-time the Fund and the City are defendants in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the Fund's financial condition.

During fiscal year 2006, the Fund and a wholesale customer became involved in a dispute over the amount of water usage by the customer and related water billings going back to 2002. The Fund has recorded amounts it believes is consistent with the requisite water contracts with this customer (see Note 8).

Note 12. Risk Management

The Fund is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors and officers' liability. The Fund's coverage is provided through the City of Norfolk's combination of purchased insurance policies and self-insurance plans.

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 13. Adjustments to Beginning Capital Assets and Net Assets

The Fund's beginning capital asset and net assets have been restated to adjust historical cost and accumulated depreciation on the Fund's capital assets. The Fund did not properly reclassify construction in progress ("CIP") assets to capitalized assets when projects were completed and the assets were placed into service, or expense those costs associated with previously capitalized CIP for projects that were subsequently abandoned.

Restatement of the Fund's net assets are as follows:

	Buildings, and Improvements and Equipment,		Invested in Capital Assets, Net of Related			
	Land and Construction in Process	Net of Accumulated Depreciation	Total Capital Assets, Net	Debt	Unrestricted	Total Net Assets
As previously reported, June 30, 2005	\$ 43,624,222	\$ 381,323,609	\$ 424,947,831	\$ 126,615,836	\$ 38,143,045	\$ 164,758,881
Restatement adjustments	(3,143,656)	1,848,943	(1,294,713)	(1,294,713)	-	(1,294,713)
As restated, June 30, 2005	40,480,566	383,172,552	423,653,118	125,321,123	38,143,045	163,464,168
Net changes, as previously reported	(15,509,141)	15,849,879	340,738	11,430,284	(3,583,503)	7,846,781
Restatement adjustments	(1,911,059)	1,602,305	(308,754)	(308,754)	-	(308,754)
As restated, June 30, 2006	\$ 23,060,366	\$ 400,624,736	\$ 423,685,102	\$ 136,442,653	\$ 34,559,542	\$ 171,002,195
<hr/>						
	Depreciation	Other	Total			
As previously reported, for the year ended June 30, 2006	\$ 10,162,060	\$ 10,597,622	\$ 20,759,682			
Restatement adjustments	70,748	238,006	308,754			
As restated, for the year ended June 30, 2006	\$ 10,232,808	\$ 10,835,628	\$ 21,068,436			

Note 14. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements prior to June 30, 2007 that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Fund.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of expenses/expenditures and related liabilities (assets), note disclosures and if applicable, required supplementary information in the financial reports of state and local governmental employers on other postemployment benefits ("OPEB"). The Fund is required to adopt this Statement in fiscal year 2008.

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 14. Accounting Pronouncements Issued But Not Yet Implemented (Continued)

- GASB Statement No. 47, *Accounting for Termination Benefits*. This Statement requires financial statements prepared on the accrual basis of accounting to recognize a liability and expense for voluntary termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the entity to the plan, the plan has been communicated to employees, and the amount can be estimated. The Fund is required to adopt this Statement the same time it adopts GASB Statement No. 45 mentioned above.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving *receivables* should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

This Statement includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred.

This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:
 - Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem
 - A government has violated a pollution prevention-related permit or license
 - A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up

Water Utility Fund of the City of Norfolk, Virginia

Notes to Financial Statements

Note 14. Accounting Pronouncements Issued But Not Yet Implemented (Continued)

- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

GASB Statement No. 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period, so that beginning net assets can be restated.

- GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for OPEB Plans*, and No. 45, *Accounting and Financial Reporting by Employers for OPEB*.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated and establishes criteria for when such expenditures should be capitalized. This Statement is effective for periods beginning after June 15, 2009 (the Fund's fiscal year ended June 30, 2010) and generally requires its provisions to be applied retroactively.

**City of Norfolk, Virginia
Water Utility Fund**

**Annual Budgets (Cash Basis) (Unaudited)
Years Ended June 30, 2007 and 2006**

	2007	2006
Revenues:		
Total water revenues	\$ 74,816,668	\$ 75,071,336
Interest income	1,704,565	1,097,416
Miscellaneous	<u>2,941,067</u>	3,472,406
Total revenues	\$ 79,462,300	\$ 79,641,158
 Appropriations:		
Personal services	\$ 12,737,845	\$ 12,333,921
Materials, supplies, and repairs	10,540,818	8,884,760
General operations and fixed charges	12,197,655	16,175,033
Equipment	843,725	635,237
Allocated overhead	1,986,265	1,986,265
Debt service and expenses:		
Revenue bond	22,033,797	20,326,247
General obligation bond debt	7,577,212	7,858,671
Payment in lieu of taxes (PILOT)	3,044,983	2,941,024
Transfer to General Fund	<u>8,500,000</u>	8,500,000
Total appropriations	\$ 79,462,300	\$ 79,641,158

APPENDIX C

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

[THIS PAGE INTENTIONALLY LEFT BLANK]

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

Definitions of Certain Terms

"Accreted Value" will have the meaning set forth in the Supplemental Indenture authorizing any Capital Appreciation Bonds.

"Act" means the Public Finance Act of 1991, Chapter 26 of Title 15.2, of the Code of Virginia of 1950, as amended.

"Additional Bonds" mean any Bonds other than the 1993 Bonds, the 1995 Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Bonds, or the 2008 Bonds.

"Annual Budget" means the budget referred to in the Master Indenture.

"Authorized City Representative" means any person or persons designated to act on behalf of the City by a certificate signed by its Director of Finance and filed with the Trustee.

"Average Interest Rate" means 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 Variable Rate Indebtedness for the initial interest rate period will be the initial rate at which such Variable Rate Indebtedness is issued and thereafter will be calculated as set forth above.

"Balloon Indebtedness" means any Indebtedness, including any Bond Anticipation Notes, twenty-five percent or more of the original principal amount of which matures or is subject to mandatory redemption during any consecutive twelve-month period, if the maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment before the twelve-month period.

"Bank" means (i) a bank or trust company that has a combined capital, surplus and undivided profits of not less than \$50,000,000 or (ii) a subsidiary trust company with combined capital, surplus and undivided profits, together with that of its parent bank or bank holding company, as the case may be, of not less than \$50,000,000; provided, however, that any such bank or trust company will have (or have a parent company which has) a long-term debt rating within one of the three highest categories by at least one of the Rating Agencies.

"Bond" or "Bonds" mean any bond or all of the bonds, as the case may be, issued pursuant to the Master Indenture and any Supplemental Indenture, but not including any Parity Indebtedness or Subordinate Debt or any bonds or other evidence of indebtedness of the City issued from time to time under any other indenture, trust agreement, ordinance, resolution or similar instrument.

"Bond Anticipation Notes" mean notes or other obligations issued in anticipation of the issuance of Bonds.

"Bond Counsel" means an attorney or a firm of attorneys (designated by the City) of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"Bond Debt Service" means for any period of twelve consecutive months the Debt Service Requirement with respect to any Bonds then Outstanding.

"Bond Fund" means the bond fund established under the Master Indenture.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in the Commonwealth, or the city in which the principal corporate trust office of the Trustee or the Paying Agent is located, are authorized by law to close, (iii) a day on which the New York Stock Exchange is closed, or (iv) such other days as may be specified in a Supplemental Indenture.

"Capital Appreciation Bonds" mean the Bonds in any Series designated as Capital Appreciation Bonds in the Supplemental Indenture authorizing the issuance of the Series.

"Capitalized Interest Account" means the Capitalized Interest Account of the Bond Fund.

"City" means the City of Norfolk, Virginia, a political subdivision of the Commonwealth.

"City Obligations" means for any Fiscal Year the amount budgeted to be paid to the general fund of the City for PILOT and ROI.

"Code" means the Internal Revenue Code of 1986, as amended, including applicable regulations and revenue rulings, and any successor codification.

"Commonwealth" means the Commonwealth of Virginia.

"Compounding Date" for Bonds of any Series will have the meaning set forth in the Supplemental Indenture authorizing the issuance of such Series.

"Consulting Engineer" means an independent engineering firm or individual engineer licensed to do business in Virginia and experienced with matters related to utilities similar to the System retained by the City as Consulting Engineer.

"Contracted Services" mean services rendered or facilities provided to the City in respect of the System or for the performance for or on behalf of the City of functions similar to those performed by the System, from a specific project, projects or systems, pursuant to a Service Contract, whether a financing lease, a service agreement or another arrangement.

"Cost" or "Cost of the Project" means all costs incurred by the City in connection with the acquisition, expansion, construction, improvement, renovation and equipping of the System or any Project comprising a portion of the System, as permitted by the Act, including, without limitation, the payment of costs of issuance of Bonds and the funding of such funds and accounts as provided in the Master Indenture or any Supplemental Indenture, the cost of all lands, properties, rights, easements, franchises and permits acquired, the cost of all machinery and equipment, amounts paid to purchase capacity or services from other entities which are required to be capitalized or which the City makes an election to capitalize, financing charges, initial credit enhancement charges, interest before and during construction of any Project and for up to one year after completion of construction of any Project, any amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code, any deposits to any bond interest and principal reserve accounts, the cost of engineering and legal services, plans, specifications, surveys, estimates of costs and of revenues, other expenses necessary or incident to determining the feasibility or practicability of any acquisition, improvement or construction, administrative expenses, working capital, the retirement of notes or other interim financing the proceeds of which were used to pay Costs, and such other expenses as may be necessary or incidental to the improvement of the System and placing it in operation.

"Cost of Contracted Services" means the payments to be made by the City for Contracted Services which may be allocated by the City between: (i) a Debt Service Component and (ii) an Operating Component. No designation or characterization of payments under a Service Contract will affect the City's right to make some other allocation of the payments for the purpose of the Master Indenture.

"Counsel" means such attorney or firm of attorneys selected or approved by the City who are duly admitted to practice law before the highest court of any state of the United States of America, none of whom is a full-time employee, member, director or officer of the City or a full-time employee or officer of the Trustee.

"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 Bonds or Parity Indebtedness.

"Dealer" means a financial institution or government bond dealer which (i) is a member of the Securities Investors Protection Corporation and (ii) has a long-term debt rating in one of the three highest rating categories by at least one of the Rating Agencies or has a dealer or parent holding company that has a long-term debt rating within one of the three highest rating categories by at least one of the Rating Agencies.

"Debt Service Component" means the portion of the Cost of Contracted Services that an Authorized City Representative determines, in a certificate delivered to the Trustee, to be for the purpose of paying a fixed charge or the principal of or interest on the obligations, directly or indirectly associated with rendering the Contracted Services, of the person providing the Contracted Services.

"Debt Service Requirement" means, for any period of twelve consecutive months for which such determination is made, the aggregate of the amounts required to be deposited, as the case may be in the Bond Fund, the Parity Debt Service Fund and the Subordinate Debt Service Fund during this period with respect to any Bonds, Parity Indebtedness or Subordinate Indebtedness; provided, however, that:

(a) with respect to any Option Obligations, such Option Obligations will be assumed to mature on their stated dates of maturity;

(b) with respect to Balloon Indebtedness, it will be assumed that the principal of such Balloon Indebtedness, together with interest at the rate applicable to such Balloon Indebtedness, will be amortized in equal annual installments over a period of thirty years from the date the Balloon Indebtedness was incurred;

(c) with respect to Variable Rate Indebtedness, interest on such Indebtedness will be calculated at the Average Interest Rate;

(d) with respect to obligations related to any Credit Facility which constitute Parity Indebtedness or Subordinate Debt, to the extent that such Credit Facility has not been used or drawn upon, or any such drawing or use has been reimbursed to the provider the principal and interest relating to such Credit Facility will not be included in the Debt Service Requirement for such Parity Indebtedness or Subordinate Debt; and

(e) with respect to any Derivative Indebtedness, the interest on such Indebtedness will be calculated at the Hedged Fixed Rate, if any.

"Debt Service Reserve Fund" means the debt service reserve fund established under the Master Indenture.

"Debt Service Reserve Requirement" means an amount equal to the maximum amount of principal and interest payments due on the Bonds in the current or any future Fiscal Year; provided, however, that the Debt Service Reserve Requirement for any Series of Bonds may be less than the amount specified above if such lesser amount is set forth in the Supplemental Indenture authorizing the issuance of such Series of Bonds and such Supplemental Indenture establishes separate accounts in the Bond Fund and, if necessary in the Debt Service Reserve Fund for such Series of Bonds and provides that only such separate accounts within the Bond Fund and the Debt Service Reserve Fund are pledged to the payment of such Series of Bonds. With respect to any Series of Bonds, the Debt Service Reserve Requirement may be increased by the City to the extent that there is delivered to the Trustee an opinion of Bond Counsel to the effect that the increase will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. In determining the amount of principal and interest due on Bonds which are Variable Rate Indebtedness, interest will be calculated at a rate equal to the greater of (i) the actual interest rate on the Bonds in effect on the date of their issuance or (ii) the current average yield on municipal revenue bonds maturing in thirty years, according to the weekly index published by The Bond Buyer for the week immediately preceding the week in which the Bonds are issued. In the event The Bond Buyer is not published as the date of any determination, or if published, does not publish an index of the current yield on municipal revenue bonds maturing in thirty years, an alternative index or other source of current bond yields may be selected by the City with the consent of the Trustee. In determining the amount of principal and

interest due on Bonds which are Balloon Indebtedness, the amount of principal and interest on the Balloon Indebtedness due in any year will be calculated by assuming that the original principal amount of the Balloon Indebtedness amortized in equal annual installments over a period of thirty years from the date the Balloon Indebtedness was incurred.

"Defeased Municipal Obligations" mean obligations of state or local government municipal bond issuers, which are rated in the highest rating category by Moody's Investors Service, Inc., and Standard & Poor's Corporation, provision for the payment of the principal of and interest on which has been made by the deposit with a trustee or escrow agent of Government Obligations or Government Certificates, the maturing principal of and interest on which, when due and payable, will provide sufficient money to pay the principal of, redemption premiums, if any, and interest on such obligations of state or local government municipal bond issuers.

"Defeased Municipal Obligation Certificate" means evidence of ownership of a proportionate interest in specified Obligations, which Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any of its states acceptable to the Trustee in the capacity of custodian.

"Defeasance Obligations" mean (i) noncallable Government Obligations, (ii) Government Certificates, (iii) Defeased Municipal Obligations and (iv) Defeased Municipal Obligation Certificates.

"De Minimis Amount" means (i) in reference to original issue discount (as defined in Section 1273(a)(1) of the Code) or premium on an obligation (A) an amount that does not exceed two percent multiplied by the stated redemption price at maturity plus (B) any original issue premium that is attributable exclusively to reasonable underwriter's compensation; and (ii) in reference to market discount (as defined in Section 1278(a)(2)(A) of the Code) or premium on an obligation, an amount that does not exceed two percent multiplied by the stated redemption price at maturity.

"Derivative Indebtedness" has the meaning given to it in any Supplemental Indenture authorizing the issuance of a Series of Bonds and may also include, but is not limited to, a portion of Indebtedness which bears interest at a variable rate during any future period of time meeting the following requirements:

(a) the City has entered into a Hedge Agreement in respect of such Indebtedness within sixty days of the date of the issuance of the Indebtedness, and

(b) the Hedge Agreement provides that during the entire period that such Indebtedness bears interest at a variable rate the City will pay a fixed rate to the provider of the Hedge Agreement and the provider of the Hedge Agreement will pay the variable rate borne by such Indebtedness, or such Indebtedness, taken together with the Hedge Agreement, results in a net fixed rate payable by the City to the provider of the Hedge Agreement for such period of time (the "Hedged Fixed Rate"), assuming the City and the provider of the Hedge Agreement make all payments required to be made by the terms of the Hedge Agreement.

"Director of Finance" means the Director of Finance of the City or, if the City no longer has a person with the title of Director of Finance, the person filling the office with similar duties as the Director of Finance.

"Director of Utilities" means the Director of Utilities of the City or if the City no longer has a person with the title of Director of Utilities, the person filling the office with similar duties as the Director of Utilities.

"Existing Debt Service" means for any Fiscal Year the amount budgeted to be paid to the general fund of the City to pay debt service on general obligation bonds of the City issued to pay costs of the System.

"Event of Default" means any Event of Default described in "Summary of Certain Provisions of the Indenture – Event of Default."

"Financial Institution" means any Bank, Insurance Company or Dealer.

"Fiscal Year" means the period of twelve months established by the City as its annual accounting period.

"Fixed Rate Investment" means any obligation the yield on which was fixed and determinable on its issue date.

"General Reserve Fund" means the general reserve funds established under the Master Indenture.

"Government Certificates" mean evidences of ownership of a proportionate interest in specified Government Obligations which are held by a bank or trust company organized and existing under the laws of the United States of America or any of its states acceptable to the Trustee in the capacity of custodian.

"Government Obligations" mean bonds, notes and other direct obligations of the United States of America and securities unconditionally guaranteed as to the timely payment by the United States of America.

"Hedge Agreement" means a contract or agreement, payable from Net Revenues on a parity with or subordinate to any Bonds or Parity Indebtedness intended to place Indebtedness on the interest rate, currency, cash flow or other basis desired by the City, including, without limitation, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the City and a counterparty; provided that not less than 30 days prior to the City's execution of such contract or agreement, each Rating Agency which maintains a rating with respect to any Indebtedness receives notice in writing of the City's pending execution thereof; and provided further that at the time of origination each Rating Agency which maintains a rating with respect to any Indebtedness confirms in writing to the City that the City's execution and delivery of such contract will not result in a downgrading, withdrawal or suspension of such rating.

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

"Indebtedness" means the Bonds, any Parity Indebtedness or any Subordinate Debt.

"Insurance Company" means an insurance company with a long-term debt rating within one of the three highest rating categories by at least one of the Rating Agencies.

"Interest Account" means the Interest Account of the Bond Fund.

"Interest Payment Date" means any date on which a payment of interest on any Bonds or any Parity Indebtedness is due.

"Interest Period" means the period from and including an Interest Payment Date to and including the day before the next Interest Payment Date, except the first Interest Period for each Series of Bonds and Parity Indebtedness will be the period from and including the date specified in the Supplemental Indenture authorizing the Series of Bonds or the document authorizing the Parity Indebtedness for the Bonds or Parity Indebtedness to begin to bear interest to and including the day before the first Interest Payment Date.

"Master Indenture" means the Master Indenture of Trust, between the City and the Trustee, as it may be modified, altered, amended and supplemented from time to time in accordance with its terms.

"Net Proceeds" mean the proceeds from any insurance recovery remaining after payment of attorneys' fees, fees and expenses of the City and the Trustee and all other expenses incurred in collection of the gross proceeds.

"Net Revenues" mean Revenues less Operating Expenses.

"Operating Component" means the portion of the Cost of Contracted Services reasonably determined by an Authorized City Representative, in a certificate delivered to the Trustee from time to time, to be directly or indirectly attributable to the ownership or operation of the System without regard to its treatment under generally accepted accounting principles; provided, however, if no such determination is made, all of the Cost of Contracted Services will be treated as Operating Component.

"Operating Expenses" mean all expenses which may reasonably be determined by the City in its Annual Budget to be directly or indirectly attributable to the ownership or operation of the System and payable as Operating Expenses without regard to the treatment of such expenses under generally accepted accounting principles, including, without limitation, reasonable and usual expenses of administration, operation, maintenance and repair, which may include expenses not annually recurring, costs of billing and collecting the rates, fees and charges for the use of or the services furnished by the System, the Operating Component of the Cost of Contracted Services, insurance and surety bond premiums and reserves, other charges and fees necessary for the maintenance of adequate insurance coverage for the City and the System, fees and payments for any Credit Facility, legal, engineering and auditing expenses, expenses and compensation of the Trustee, reimbursement to the City's general fund for the cost of services rendered with respect to the System, and other expenses of the City required to be paid by law or under the Master Indenture or any Supplemental Indenture, but will not include (i) any allowance for amortization or depreciation, (ii) deposits or transfers to the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund, the Repair and Replacement Reserve Fund, the Rate Stabilization Fund, (iii) payments for Existing Debt Service or City Obligations and (iv) expenditures which the City makes an election to capitalize.

"Operating Fund" means the operating fund established under the Master Indenture.

"Opinion of Counsel" means a written opinion of any Counsel in form and substance acceptable to the Trustee.

"Option Obligations" mean any Indebtedness which by its terms may be tendered by and at the option of its Owner or holder for purchase before its stated maturity.

"Outstanding" means, at any date, the aggregate of all Indebtedness authorized, issued, authenticated and delivered under the Master Indenture and not paid and discharged, except:

- (a) Indebtedness cancelled or surrendered to the Paying Agent for cancellation;
- (b) Indebtedness deemed to have been paid as provided in the Master Indenture or in such other instrument authorizing its issuance; and
- (c) Indebtedness in lieu of or in substitution for which other Indebtedness has been authenticated and delivered pursuant to the Master Indenture and any Supplemental Indenture unless proof satisfactory to the Paying Agent is presented that any such Indebtedness is held by a bona fide Owner.

In determining whether Owners of a requisite aggregate principal amount of the Outstanding Bonds or Parity Indebtedness have concurred in any request, demand, authorization, direction, notice, consent or waiver under the Indenture, the principal amount of Capital Appreciation Bonds will be their Accreted Value (as of the immediately preceding Compounding Date). Indebtedness which is owned by the City will be disregarded and deemed not to be Outstanding for the purpose of any such determination; provided, however, that for the purpose of determining whether the Trustee will be protected in relying upon any request, demand, authorization, direction, notice, consent or waiver, only Indebtedness which the Trustee knows to be so owned will be disregarded.

"Owner" means the Person in whose name a particular Bond is registered on the records of the Paying Agent or who is the holder of Parity Indebtedness.

"Parity Debt Service" means, for any period of twelve consecutive months, the Debt Service Requirement with respect to Parity Indebtedness.

"Parity Debt Service Component" means all or any portion of the Debt Service Component of the Cost of Contracted Services under the Service Contracts meeting the requirements of the Master Indenture that an Authorized City Representative, determines in a certificate delivered to the Trustee will be payable on a parity with the Bonds.

"Parity Debt Service Fund" means the parity debt service fund established under the Master Indenture.

"Parity Indebtedness" means (i) the Parity Debt Service Component of the Cost of Contracted Services and (ii) any other Parity Indebtedness incurred in accordance with the Master Indenture which is secured on a parity with the Bonds, including bonds, notes or other evidences of indebtedness issued pursuant to the Master Indenture and any Supplemental Indenture equally and ratably secured by a pledge of Net Revenues and, at the City's option, any other security pledged to such bonds, notes or other evidences of indebtedness but which are not secured by the Debt Service Reserve Fund. Parity Indebtedness may also include Bond Anticipation Notes, Hedge Agreements or obligations with respect to Credit Facilities; provided, however, Parity Indebtedness does not include any Bonds or any other indebtedness of the City issued from the time to time under any other indenture, trust agreement, ordinance, resolution or other instrument not secured by a pledge of Revenues.

"Paying Agent" means any paying agent for the Bonds (and may include the Trustee) and its successor or successors appointed pursuant to the provisions of any Supplemental Indenture. Unless otherwise provided in a Supplemental Indenture, the Trustee will be the Paying Agent.

"Person" means an individual, a corporation, a partnership, a general partner of a partnership, an association, a joint stock company, a trust, any unincorporated organization, or a governmental unit or its political subdivision.

"PILOT" means for any Fiscal Year the amount budgeted to be paid with respect to the System to the general fund of the City in lieu of taxes.

"Plain Par Investments" mean a Fixed Rate Investment:

- (a) Issued with not more than a De Minimis Amount of original issue discount or premium, or, if acquired on a date other than its issue date, acquired with not more than a De Minimis Amount of market discount or premium;
- (b) Issued for a price that does not include accrued interest other than pre-issuance accrued interest;
- (c) That bears interest from its issue date at a single, stated, fixed rate, with interest unconditionally payable at least annually; and
- (d) That has a lowest stated redemption price that is not less than its outstanding stated principal amount.

"Present Value" means the present value computed under the economic accrual method (using the same compounding interval and financial conventions used to compute the yield on the relevant Series of Bonds under Section 148 of the Code), of all unconditionally payable receipts to be received from and payments to be paid for an investment after the valuation date, using the Yield (as defined in the Tax Compliance Agreement) on the investment as the discount rate.

"Principal Account" means the Principal Account of the Bond Fund.

"Principal Payment Date" means any date on which a payment of principal or Accreted Value of any Bonds or any Parity Indebtedness is due.

"Principal Period" means the period from and including a Principal Payment Date to and including the day before the next Principal Payment Date, except the first Principal Period for each Series of Bonds or Parity Indebtedness will be the twelve months immediately preceding the first Principal Payment Date unless some other period is specified in the Supplemental Indenture authorizing the Series of Bonds or the Service Contract or other document authorizing the Parity Indebtedness.

"Project" will have the meaning set forth in any Supplemental Indenture.

"Project Fund" means the project fund established under the Master Indenture.

"Rate Stabilization Fund" means the Rate Stabilization Fund established under the Master Indenture.

"Rate Stabilization Requirement" means such amount as may be established by the City pursuant to the Master Indenture, and if no such amount is established, the Rate Stabilization Requirement will be zero.

"Rating Agency" means any nationally recognized securities rating agency then rating the Bonds at the request of the City.

"Redemption Account" means the Redemption Account of the Bond Fund.

"Refunding Bonds" means a Series or portion of a Series of Bonds issued to retire or refund all or any portion of another Series of Bonds, Parity Indebtedness or other obligations of the City.

"Repair and Replacement Reserve Fund" means the repair and replacement reserve fund established under the Master Indenture

"Replacement Reserve Requirement" means an amount to be determined by the City pursuant to Section 7.8(b), but not less than \$1,000,000.

"Revenue Fund" means the fund established in the Master Indenture

"Revenues" mean all revenues, receipts and other income derived or received by the City from the ownership or operation of the System including, without limitation, any investment earnings and transfers, if any, from the Rate Stabilization Fund to the Revenue Fund, but excluding (i) any gift, grant or contributions to the extent restricted by the donor or grantor to a particular purpose inconsistent with its use for the payment of Senior Debt Service or Subordinate Debt Service, (ii) proceeds derived from insurance or condemnation, and (iii) any transfers from the Revenue Fund to the Rate Stabilization Fund. Any lump sum prepayment of Revenues received by the City will be reserved by the City in a subaccount in the Revenue Fund and disbursed from the subaccount and recognized as Revenues monthly over the appropriate accrual period.

"ROI" means for any Fiscal Year the amount budgeted to be paid with respect to the System to the general fund of the City as a return on the City's investment in the System.

"Senior Debt Service" means for any period of twelve consecutive months the sum of Bond Debt Service and Parity Debt Service during the period.

"Serial Bonds" mean any Bonds of a Series which are stated to mature in annual installments including any Capital Appreciation Bonds, but not including any Term Bonds.

"Series" or "Series of Bonds" mean a separate series of Bonds issued under the Master Indenture pursuant to a Supplemental Indenture.

"Service Contracts" mean any contracts or agreements for Contracted Services entered into by the City from time to time.

"Subordinate Debt" means bonds, notes or other evidences of indebtedness of the City, including the Debt Service Component of the Cost of Contracted Services and any lease which is required to be capitalized by generally accepted accounting principles which is not a Parity Debt Service Component, secured by a pledge of Net Revenues expressly made subordinate to the pledge of Net Revenues securing the Bonds and Parity Indebtedness or which is unsecured.

"Subordinate Debt Service" means for any period of twelve consecutive months the Debt Service Requirement with respect to any Subordinate Debt and the Debt Service Component of the Cost of Contracted Services which is not a Parity Debt Service Component.

"Subordinate Debt Service Fund" means the subordinate debt service fund established in the Master Indenture.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Master Indenture as originally executed, which is duly executed and delivered in accordance with the provisions of the Master Indenture.

"System" means the water system, owned or operated by or on behalf of the City, including but not limited to, any Project and all additions, extensions, improvements and replacements to the System, and any other utility system which may be added by the City as a part of the System pursuant to the Master Indenture, but excluding any independent utility systems hereafter owned or operated by the City and accounted for separately by the City unless made part of the System by the City.

"Term Bonds" means Bonds of a Series which are stated to mature on one date and which are subject to scheduled mandatory redemption before such date.

"Test Period" has the meaning given to it in the Indenture in connection with the issuance of Additional Bonds.

"Variable Rate Indebtedness" means any Indebtedness, interest on which is not established at the time of its issuance at a rate which is fixed until its maturity.

Summary of Certain Provisions of the Indenture

The following is a brief summary of certain provisions contained in the Master Indenture and the Seventh Supplemental Indenture and does not purport to be a complete statement of all of the provisions of those documents. Reference is made to the Master Indenture and the Seventh Supplemental Indenture in their entirety for complete information on their terms and on the terms of the 2008 Bonds, the applicable security provisions and the application of the Revenues. See also "DESCRIPTION OF THE 2008 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

Definitions

Unless defined below, all capitalized terms used in this Appendix have the meanings set forth in the foregoing section entitled "Definitions of Certain Terms."

Additional Bonds

In connection with the issuance of Additional Bonds, the City is required to file, among other things, the following documents with the Trustee:

(1) A certificate of the City dated as of the date of delivery of the Additional Bonds and signed by the City Manager or Director of Finance to the effect that to the best of his or her knowledge, upon and immediately following the issuance of the Additional Bonds, no event of default under the Indenture and no event or condition which, with notice or lapse of time or both, would become an event of default, will have occurred and be continuing or, if such an event or condition has occurred and is continuing, it will be cured upon the issuance of the Additional Bonds or upon completion of the Project to be financed with the Additional Bonds.

(2) A copy of the resolution or ordinance and an executed counterpart of the supplement to the Master Indenture authorizing the Additional Bonds, which supplement will specify, among other things, the details of the Additional Bonds and the amount, if any, to be deposited from the proceeds of sale of the Additional Bonds into the Debt Service Reserve Fund.

(3) An opinion of Bond Counsel, subject to customary exceptions and qualifications, to the effect that the issuance of the Additional Bonds has been duly authorized, that the Additional Bonds are valid and binding limited obligations of the City entitled to the benefits and security of the Master Indenture and that the interest on the Additional Bonds is excludable from gross income for purposes of federal income taxation or, if the interest is not excludable, that the issuance and the intended use of the proceeds of the Additional Bonds will have no adverse effect on the tax-exempt status of interest on any other Bonds then Outstanding, the interest on which was excludable from gross income when issued.

(4) If the Additional Bonds are issued to pay the cost of acquiring, renovating, equipping or constructing improvements, extensions, additions or replacements to the System,

(a) A written statement from (i) Director of Utilities setting forth his or her estimate of the cost of the acquisition, renovation, equipping or construction (including all financing, reserves and related costs) and the date on which such acquisition, renovation, equipping or construction will be completed and (ii) the Director of Finance giving his or her opinion that the proceeds of the Additional Bonds, together with any other money available for such purpose, will be sufficient to pay the cost of the acquisition, renovation, equipping or construction; and

(b) The amount of the Net Revenues as received during any twelve (12) consecutive months of the twenty-four months immediately preceding the issuance of the Bonds (the "Test Period"), as certified by the Director of Finance or the Consulting Engineer, subject to adjustment as permitted in subsection (c) below, will be equal to the revenue covenant contained in the Master Indenture for the Test Period taking into account the maximum principal and interest payments due on (i) any Bonds and Parity Indebtedness then outstanding, and (ii) the Bonds and Parity Indebtedness then proposed to be issued.

(c) Adjustments to Net Revenues permitted by the foregoing subsection, shall be certified by the Director of Finance or the Consulting Engineer to the Director of Utilities and shall be computed as follows:

(i) If the City, before the issuance of the proposed Bonds, has increased the rates, fees, rentals or other charges for the services or use of the System, the Net Revenues for the Test Period shall be adjusted to include the Net Revenues which would have been derived from the System during the Test Period as if such increased rates, fees, rentals or other charges had been in effect during the Test Period.

(ii) If the City has acquired or has contracted to acquire any privately or publicly owned existing water system, sewer system, solid waste collection and disposal system, stormwater retention system, or any other utility system that the City will consolidate with the System, the cost of which shall be paid from all or part of the proceeds of the issuance of the proposed Bonds, then the Net Revenues derived from the System during the Test Period shall be increased by adding to the Net Revenues for the Test Period the projected Net Revenues which would have been derived from the System as if such utility system had been operated by the City as part of the System during the Test Period.

(iii) If the City has entered into a contract on or before the date of the issuance of the proposed Bonds or Parity Indebtedness, with any public body whereby the City has agreed to furnish services consistent with the services performed by the System, which contract (A) is for a duration of not less than the final maturity of the Bonds or Parity Indebtedness proposed to be issued, or (B) if less than the final maturity of such Bonds or Parity Indebtedness, contain provisions obligating the party contracting with the City to pay in full its allocated share of the costs of capital improvements to the System needed to carry out the terms of the contract, then the Net Revenues of the System during the Test Period shall be increased by the least amount which the entity receiving such services shall be required to pay by the terms of the contract in any one year during which the City is to furnish services and such Bonds or Parity Indebtedness are anticipated to be Outstanding, after deducting from such payment the estimated proportion of operating expenses and repair, renewal and replacement cost attributable in such year to such services.

(iv) If there is an estimated increase in Revenues to be received by the City, as a result of additions, extensions or improvements to the System during the period of three years after delivery of the Bonds and the governing body of the City has by ordinance or resolution authorized the additions, extensions or improvements (and if such additions, extensions or improvements involve another jurisdiction, the governing body of such other jurisdiction has also given its approval by ordinance or resolution), then the Net Revenues derived from the System during the Test Period will be increased by the estimated average annual additional Net Revenues for the first two full years after such additions, improvements or extensions have been placed in service.

In connection with any Net Revenue adjustment permitted by subparagraphs (ii), (iii) or (iv) above, the City may take into account any increases in rates, fees or charges that have been approved by the City at the time of certification.

(5) If the Additional Bonds are issued to refund any of the Bonds or other Parity Indebtedness of the City issued under the Indenture,

(a) Evidence satisfactory to the Trustee that the City has made provision as required by the Indenture for the payment or redemption of all Bonds or Parity Indebtedness of the City to be refunded;

(b) A written determination by the Trustee or by a firm of independent certified public accountants that the proceeds (excluding accrued interest) of the refunding bonds, together with any other money deposited with the Trustee for such purpose and the investment income to be earned on funds held by the Trustee for the payment or redemption of Bonds or Parity Indebtedness, will be sufficient to pay,

whether upon redemption or at maturity, the principal of and premium, if any, and interest on the Bonds or Parity Indebtedness to be refunded and the estimated expenses incident to the refunding; and

(c) (i) A written determination by the Trustee or by a firm of independent certified public accountants that after the issuance of the refunding bonds and the provision for payment or redemption of all Bonds or Parity Indebtedness of the City to be refunded, the Senior Debt Service for each Fiscal Year in which there will be Outstanding Bonds of any Series not to be refunded will be not more than the Senior Debt Service for the Fiscal Year would have been on all Outstanding Bonds and Parity Indebtedness immediately before the issuance of the refunding bonds, including the Bonds and Parity Indebtedness of the City to be refunded; or (ii) in the case of Refunding Bonds issued to refund Parity Indebtedness issued under the Master Indenture in the form of Bond Anticipation Notes, the City shall provide the written certification required in 4(b) above.

(6) If the Additional Bonds are issued to refund obligations of the City with respect to the System other than Bonds or Parity Indebtedness, the certifications similar to those required in 5(a) and 4(b) above.

The proceeds of Additional Bonds (including accrued interest) will be applied as set forth in the Seventh Supplemental Indenture authorizing their issuance.

Parity Indebtedness

The City may designate the Debt Service Component of the Cost of Contracted Services as Parity Indebtedness and may issue or refinance other Parity Indebtedness provided the requirements of paragraphs (4) or (5), as appropriate, for the issuance of Additional Bonds are met as if the Parity Indebtedness was a series of Additional Bonds. Parity Indebtedness will be secured by the pledge of Net Revenues under the Indenture on a parity with Bonds issued under the Indenture, except Parity Indebtedness will not be secured by money in the Project Fund, the Bond Fund or the Debt Service Reserve Fund.

Subordinate Debt

Nothing in the Indenture prohibits or prevents the City from issuing Subordinate Debt for any lawful purpose payable from and secured by a pledge of Net Revenues subject and subordinate to the payment of any Bonds and Parity Indebtedness; provided, however, any Subordinate Debt may only be declared immediately due and payable if payment of the Bonds and Parity Indebtedness has been accelerated in accordance with the Indenture.

Establishment of Funds and Accounts

The following funds are established under the Indenture, to be held as follows:

- (1) City of Norfolk, Virginia, Project Fund, to be held by or at the direction of the City;
- (2) City of Norfolk, Virginia, Revenue Fund, to be held by or at the direction of the City;
- (3) City of Norfolk, Virginia, Operating Fund, to be held by or at the direction of the City;
- (4) City of Norfolk, Virginia, Bond Fund, in which there is established an Interest Account, a Principal Account and a Redemption Account and a Capitalized Interest Account, to be held by the Trustee;
- (5) City of Norfolk, Virginia, Parity Debt Service Fund, to be held by or at the direction of the City;
- (6) City of Norfolk, Virginia, Debt Service Reserve Fund, to be held by the Trustee;
- (7) City of Norfolk, Virginia, Subordinate Debt Service Fund, to be held by or at the direction of the City;

- (8) City of Norfolk, Virginia, Repair and Replacement Reserve Fund, to be held by or at the direction of the City;
- (9) City of Norfolk, Virginia, Rate Stabilization Fund, to be held by or at the direction of the City;
and
- (10) City of Norfolk, Virginia, General Reserve Fund, to be held by or at the direction of the City.

Project Fund

The proceeds of the 2008 Bonds will be deposited in the Project Fund and used to pay costs of the 2008 Project. The City will maintain for each Series of Bonds a separate subaccount. Net Proceeds used to repair, restore or reconstruct the System will also be deposited in the Project Fund and maintained within separate subaccounts for each Series of Bonds.

Revenue Fund

The City will collect and deposit in the Revenue Fund as received all Revenues. Money on deposit in the Revenue Fund will be used as follows:

- (1) To make monthly deposits to the Operating Fund in an amount such that the balance on deposit in the Fund will be equal to not less than one-sixth of the Operating Expenses budgeted to be paid from the Fund in the current Annual Budget;
- (2) To make equal monthly deposits to the Bond Fund and Parity Debt Service Fund so that there will be sufficient money in the Funds to pay the Bonds and Parity Indebtedness when due;
- (3) To restore any deficit in the Debt Service Reserve Fund;
- (4) To make deposits to the Subordinate Debt Service Fund of amounts determined by the City to be necessary to pay Subordinate Debt when due;
- (5) To make deposits to the Repair and Replacement Reserve Fund to accumulate the Replacement Reserve Requirement in thirty-six approximately equal installments and then to restore any deficit in sixty approximately equal monthly installments;
- (6) To make other deposits to the Repair and Replacement Reserve Fund in amounts determined by the City;
- (7) To make deposits to the Rate Stabilization Fund to accumulate the Rate Stabilization Requirement in twenty-four approximately equal installments and thereafter to restore any deficit in such Fund in the same number of installments; and
- (8) To make deposits of any remaining balance to the General Reserve Fund.

Operating Fund

The City will pay Operating Expenses from the Operating Fund as they become due and in accordance with the purposes and amounts provided in the Annual Budget. In the event the balance in the Operating Fund is insufficient for its purposes, the City will transfer to the Operating Fund such amounts as may be necessary first from the General Reserve Fund and then from the Repair and Replacement Reserve Fund. The City may also make transfers from the Rate Stabilization Fund to the Operating Fund to cover any deficit and may do so before, in combination with, or in lieu of transfers from the General Reserve Fund and the Repair and Replacement Reserve Fund. Interest received on and any profit realized from the investment of money in the Operating Fund will be transferred as earned to the Revenue Fund.

Bond Fund

The Trustee will pay the principal of and interest on the Bonds when due from the Principal Account and the Interest Account, respectively. The Trustee will use money in the Redemption Account of the Bond Fund to redeem Bonds pursuant to any optional redemption provision exercised by the City. In the event the balances on deposit in the Principal Account or the Interest Account are insufficient, the Trustee will transfer to such Accounts the amount necessary to pay the Bonds from the Debt Service Reserve Fund after making transfers first from the General Reserve Fund, the Repair and Replacement Reserve Fund and the Rate Stabilization Fund. Interest received on and any profit realized from the investment of money in the Bond Fund will become a part of the account in the Bond Fund in which the investment is held.

Parity Debt Service Fund

The City will use money in the Parity Debt Service Fund to make payments on any Parity Indebtedness when due. Interest received on and any profit realized from the investment of money in the Parity Debt Service Fund will be deposited when received in the Revenue Fund. Amounts in the Parity Debt Service Fund do not secure the 1993 Bonds, the 1995 Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Bonds, the 2008 Bonds or any Additional Bonds.

Debt Service Reserve Fund

The Debt Service Reserve Fund will be used by the Trustee to make transfers to the Bond Fund to the extent necessary to pay the principal of and interest on the Bonds when due if the amounts on deposit in the Principal and Interest Accounts of the Bond Fund, and any amounts transferred by the City to the Debt Service Reserve Fund from the General Reserve Fund and the Repair and Replacement Reserve Fund are insufficient for such purpose. In the event the amount on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the City will transfer funds from the Revenue Fund to the Debt Service Reserve Fund to restore the Debt Service Reserve Requirement in the manner provided in the Master Indenture. If the balance in the Debt Service Reserve Fund is equal to the Debt Service Reserve Fund Requirement, any interest received and profit realized from the investment of money in the Debt Service Reserve Fund will be transferred to the Interest Account of the Bond Fund, unless otherwise provided in any Supplemental Indenture.

In lieu of maintaining and depositing money or securities in the Debt Service Reserve Fund, the City may deposit with the Trustee a letter of credit, bond insurance policy or surety bond in an amount equal to all or a portion of the Debt Service Reserve Requirement, provided the issuer of the letter of credit or surety bond or the bond insurer, as appropriate, is rated in one of the two highest long-term debt rating categories by the Rating Agencies then rating the Bonds, without regard to any refinement or gradation of such rating category by numerical modifier or otherwise. Any letter of credit, bond insurance policy or surety bond will permit the Trustee to draw or obtain amounts under it for deposit in the Debt Service Reserve Fund that, together with any money already on deposit in the Debt Service Reserve Fund, are not less than the Debt Service Reserve Requirement.

The Trustee will make a drawing on the letter of credit or obtain funds under the bond insurance policy or surety bond before its expiration or termination (1) whenever money is required for the purposes for which Debt Service Reserve Fund money may be applied and (2) unless the letter of credit or bond insurance policy has been extended or a qualified replacement for it delivered to the Trustee, in the event the City has not deposited money in immediately available funds equal to the Debt Service Reserve Requirement at least two Business Days preceding the expiration or termination of the letter of credit, bond insurance policy or surety bond.

If the City provides the Trustee with a letter of credit, bond insurance policy or surety bond, the Trustee will transfer the funds then in the Debt Service Reserve Fund to the City, provided the City delivers to the Trustee an opinion of Bond Counsel that such transfer of funds will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any 2008 Bonds and the City covenants to comply with any directions or restrictions contained in such opinion concerning the use of the funds.

Subordinate Debt Service Fund

The City will use money in the Subordinate Debt Service Fund to make payments of debt service on any Subordinate Debt when due. Interest received on and any profit realized from the investment of money in the Subordinate Debt Service Fund will be deposited when received in the Revenue Fund.

Repair and Replacement Reserve Fund

The City may use amounts in the Repair and Replacement Reserve Fund for any of the following purposes:

- (1) Reasonable and necessary expenses with respect to the System for major repairs, replacement or maintenance of items of a type not recurring annually;
- (2) To pay costs of reconstruction of parts of the System;
- (3) To pay costs of construction of parts of the System;
- (4) To pay any capital costs with respect to the System;
- (5) To make payments on Service Contracts; or
- (6) To make deposits to the Revenue Fund, the Operating Fund, the Bond Fund, the Parity Debt Service Fund or the Debt Service Reserve Fund.

At least biennially, the City agrees to review the adequacy of the amount of the Replacement Reserve Requirement under then current operating conditions, and in light of then applicable operating, replacement and maintenance costs of the major components of comparable systems. If at any time the City determines in its judgment that the amount of the Replacement Reserve Requirement should be increased or decreased, it will notify the Trustee of its determination setting forth the amount of the new Replacement Reserve Requirement. The new Replacement Reserve Requirement will take effect on the date of the receipt of the notice by the Trustee unless some other effective date is specified in the notice in which case the date specified in the notice will control. In no event will such requirement be reduced below \$1,000,000.

If the amount on deposit in the Repair and Replacement Reserve Fund exceeds the Replacement Reserve Requirement, the City may transfer the excess to the Rate Stabilization Fund or the General Reserve Fund.

Rate Stabilization Fund

The City may at its option make transfers from the Rate Stabilization Fund to the Revenue Fund and amounts so transferred will be deemed Revenues. Interest earnings or any profit from investing the Rate Stabilization Fund will be transferred at least monthly to the Revenue Fund.

The City may at any time reduce or increase the balance in the Rate Stabilization Fund to any amount, including zero upon certification of the Director of Finance setting forth the amount to be withdrawn or added. Upon satisfaction of the requirements set forth above, the amount of the reduction in the Rate Stabilization Fund will be transferred from the Rate Stabilization Fund to the Revenue Fund, unless otherwise specified in a Supplemental Indenture.

General Reserve Fund

Money on deposit in the General Reserve Fund may be used for any lawful purpose. The City has agreed to use money in the General Reserve Fund to cure deficits in the Operating Fund, the Bond Fund, the Parity Debt

Service Fund and the Debt Service Reserve Fund. Money in the General Reserve Fund is not pledged to secure the Bonds or Parity Indebtedness.

Investments

Any money held in any funds and accounts established by the Indenture, except the Bond Fund and the Debt Service Reserve Fund, may be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized Representative of the City, in any of the following investments which are at the time legal investments for public funds under the Investment of Public Funds Act, Chapter 18, Title 2.1, Code of Virginia of 1950, as amended ("Investment Act"), or any subsequent provision of law applicable to such investments:

- (1) Bonds, notes and other evidences of indebtedness to which the full faith and credit of the Commonwealth is pledged for the payment of principal and interest or which are unconditionally guaranteed as to the payment of principal and interest by the Commonwealth and which are rated on one of the two highest debt rating categories by at least one of the Rating Agencies;
- (2) Government Obligations;
- (3) Government Certificates;
- (4) Bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth which are rated in one of the two highest long-term debt rating categories by at least one of the Rating Agencies;
- (5) Savings accounts, time deposits and certificates of deposit in any Bank, including the Trustee and its affiliates, or savings and loan association within the Commonwealth, provided that the funds are secured in the manner required by the Virginia Security for Public Deposits Act or any successor legislation and no deposit will be made for more than five years;
- (6) Obligations of the Export-Import Bank, the Farmers Home Administration, the General Services Administration, the United States Maritime Administration, the Small Business Administration, the Government National Mortgage Association, the Department of Housing and Urban Development and the Federal Housing Administration, provided such obligations represent the full faith and credit of the United States;
- (7) Bonds, notes or other evidences of indebtedness of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank and the Federal Farm Credit Bank;
- (8) Commercial paper issued by corporations, including banks and bank holding companies, organized under the laws of the United States or any State which is rated by Moody's Investors Service, Inc., or its successor, within its NCO/Moody's rating of prime 1 and by Standard & Poor's Corporation, or its successor, within its rating of A-1, and which matures not more than 270 days after the date of its purchase;
- (9) Corporate notes with a rating of at least Aa by Moody's and AA by Standard & Poor's Corporation with a maturity of not more than five years;
- (10) Banker's acceptance, as permitted by the Investment Act, with banks rated in one of the two highest debt rating categories by at least one of the Rating Agencies;
- (11) Investments pursuant to the Government Non-Arbitrage Act, Article 7.1, Chapter 14, Title 2.1 of the Virginia Code; and
- (12) Such other investments as may be permitted by the Investment Act; provided they are rated within one of the two highest rating categories by at least one of the Rating Agencies.

Any money held by the Trustee in the Bond Fund will be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized City Representative, only in investments described in subsections (1), (2), (3), (4) and (5) above, which are at the time legal investments for public sinking funds under the Investment Act, or any subsequent provisions of law applicable to such investments.

Any money held by the Trustee in the Debt Service Reserve Fund will be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized City Representative, only in investments described in subsections (1), (2), (3), (4), (5), (6) and (7) above.

Any investments described above may be purchased by the Trustee or the City pursuant to an overnight term or open repurchase agreement in accordance with the provisions of the Indenture.

Investments in a money market fund or in the shares of any other management type investment company registered under the Investment Company Act of 1940, the investments of which fund or company are exclusively in obligations or securities described in paragraphs (1), (2), (3), (4), (6) or (7) above, will be considered investments in obligations described in such subsections, provided that the fund or company, which investments are comprised exclusively of the obligations described in subsections (1), (4) or (7), is rated in the highest debt rating category by at least one of the Rating Agencies.

Subject to the provisions of any Supplemental Indenture, all investments will be held by or under the control of the Trustee or the City, as the case may be, and while so held will be deemed a part of the fund or account in which the money was originally held. Except as otherwise specifically provided in the Master Indenture or any Supplemental Indenture, the interest received on and any profit realized from such investments will be transferred not less frequently than monthly to the City for deposit in the Revenue Fund. The Trustee and the City will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in any fund or account is insufficient for its purpose.

Investments of money in the Debt Service Reserve Fund must mature or be payable at the option of the Trustee for purposes of the Debt Service Reserve Fund not more than ten years after the date of their purchase.

Money in funds and accounts held by the City may be pooled and commingled for purposes of investment.

Investments are subject to change to the extent and in the manner permitted by subsequent modification or amendment to the Investment Act; provided, however, any rating limitations imposed by the Indenture on a particular type or category of investment will apply to any additional permitted investments of the same or similar type or category.

Particular Covenants

Compliance with Indenture; Payment of Bonds. In the Indenture, the City covenants to perform its obligations under the Indenture and related documents and to pay the Bonds, but only from the Net Revenues and other funds specifically pledged for such purpose.

Revenue Covenant. The City will establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the System, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each Fiscal Year Net Revenues are not less than the greater of (i) the sum of 1.1 times Senior Debt Service and 1.0 times Subordinated Debt Service for the Fiscal Year and (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund and the Repair and Replacement Reserve Fund as set forth in the Master Indenture.

Billing; Enforcement of Charges; Free Service. The City will bill the users of the services of the System no less frequently than quarterly, except in the case of wholesale customers who will be billed as provided in the contract between the City and the wholesale customer. The City has agreed to take all appropriate steps to enforce collection of any overdue charges by any remedy available at law or in equity. The City will not permit connection

with or the use of the System, or furnish any services of the System, without making a charge based on the City's schedule of rates, fees and charges, except for connections and service for fire protection purposes.

Sale or Encumbrance. The City may grant easements, licenses or permits across, over or under parts of the System for streets, roads and utilities as will not adversely affect the use of the System. The City may sell or otherwise dispose of any property constituting a part of the System which is either no longer needed or useful or is replaced from the proceeds of the disposition and any other necessary money with property serving the same or similar function. If the proceeds received from a sale or disposition not used to replace property exceeds \$100,000, the proceeds will at the option of the City be (1) applied to the payment or redemption of Bonds then Outstanding and Parity Indebtedness in a manner which in the opinion of Bond Counsel will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any Bonds the interest on which was excludable on the date of their issuance or (2) deposited in the Repair and Replacement Reserve Fund and applied solely to pay the costs of capital improvements to the System. The City may transfer all or substantially all of the assets of the System to an authority or special purpose political subdivision; provided, the City's obligations under the Indenture are assumed in writing, the City receives an Opinion of Bond Counsel that the exempt status of the interest income on the Bonds will not be adversely affected and upon compliance with certain other conditions in the Indenture. The City may add to the System sewer systems, solid waste systems, storm water systems and other utilities on certain terms and conditions set forth in the Indenture similar to those regarding the transfer of System assets.

Creation of Liens. The City has agreed not to create or suffer to be created any lien or charge upon the System, except as provided in the Indenture.

Insurance. To the extent such insurance is available at reasonable costs, the City has agreed to continuously maintain and pay the premiums on insurance against such risks as are customarily insured against by other entities owning and operating similar systems.

Damage, Destruction, Condemnation and Loss of Title. If all or any part of the System is destroyed or damaged by fire or other casualty, condemned or lost by failure of title, the City will restore promptly the property damaged or destroyed to substantially the same condition as before the damage, destruction, condemnation or loss of title with such alterations and additions as the City may determine and which will not impair the capacity or character of the System for the purpose for which it then is being used or is intended to be used. The Trustee will apply as much as may be necessary of the Net Proceeds received on account of any the damage, destruction, condemnation or loss of title to payment of the cost of such restoration, either on completion or as the work progresses. If the Net Proceeds are not sufficient to pay in full the cost of the restoration and other funds are not available for such purpose, the City will pay from the Repair and Replacement Reserve Fund or the General Reserve Fund so much of the cost as may be in excess of such Net Proceeds. Any balance of Net Proceeds remaining after payment of the cost of restoration will be deposited in the Repair and Replacement Reserve Fund.

Financial Records and Statements. The City will keep proper books of records and accounts, in which full and correct entries will be made in accordance with generally accepted accounting principles, of all of its business and affairs. The City will cause an audit of its records and accounts to be made by an independent certified public accountant at the end of each Fiscal Year.

Arbitrage and Tax Covenants. The City has covenanted that it will comply throughout the term of the 2008 Bonds with the requirements of Section 148 of the Code applicable to them, including the rebate and reporting requirements of Section 148(f), and that the City will not take or omit to take any action that would cause interest on any of the 2008 Bonds to be or to become includable in the gross income of the Owners for purposes of federal income taxation.

Events of Default

Each of the following events is an Event of Default under the Indenture:

- (1) Payment of any interest on any Bond or Parity Indebtedness is not made when due and payable;

(2) Payment of the principal of or premium, if any, on any Bond or Parity Indebtedness is not made when due and payable;

(3) Subject to certain rights of the City to cure such defaults as set forth in the Master Indenture, default in the observance or performance of any other covenant, condition or agreement on the part of the City under the Master Indenture, any Supplemental Indenture, in the Bonds or any document under which Parity Indebtedness has been issued; or

(4) Appointment by a court of competent jurisdiction of a receiver for all or any substantial part of the Revenues and other funds of the City pledged pursuant to the Master Indenture, or the filing by the City of any petition for reorganization of the City or rearrangement or readjustment of the obligations of the City under provisions of any applicable bankruptcy or insolvency law.

Remedies; Rights of Bondholders

Upon the occurrence and continuation of an event of default under the Indenture, the Trustee may, and if requested by the Owners of not less than 25% in aggregate principal amount of Bonds and Parity Indebtedness then Outstanding will, by notice to the City, declare the entire unpaid principal of, Accrued Value of and interest on the Bonds and Parity Indebtedness due and payable. Upon any such declaration the City will pay to the Owners the entire unpaid principal of and accrued interest on the Bonds and Parity Indebtedness, but only from the Net Revenues and the other funds specifically pledged in the Indenture for such purpose.

Upon the occurrence and continuation of an event of default under the Indenture the Trustee may pursue any available remedy, at law or in equity, to enforce the payment of the principal of, Accrued Value of, premium, if any, and interest on the Bonds and Parity Indebtedness, to enforce any covenant or condition under the Indenture or to remedy any event of default.

Upon the occurrence and continuation of an event of default under the Indenture, if requested to do so by the Owners of at least 25% in aggregate principal amount of Bonds and Parity Indebtedness then Outstanding and if indemnified as provided in the Indenture, the Trustee will exercise such of the rights and powers conferred by the Indenture as the Trustee, upon being advised by counsel, deems most effective to enforce and protect the interests of the Owners.

Anything in the Indenture to the contrary notwithstanding the Owners of a majority in aggregate principal amount of Bonds and Parity Indebtedness then Outstanding will have the right, upon providing satisfactory security and indemnity to the Trustee, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

No Owner of any Bonds or Parity Indebtedness will have any right to institute any suit action or proceeding in equity or at law for the enforcement of the Indenture or any remedy under the Indenture or the Bonds except as expressly provided in the Indenture.

Waiver of Events of Default

The Trustee will waive any event of default under the Indenture and its consequences and rescind any declaration of acceleration upon the written request of the Owners of a majority in aggregate principal amount of all Outstanding Bonds and Parity Indebtedness. If any event of default with respect to the Bonds and Parity Indebtedness has been waived as provided in the Master Indenture, the Trustee will promptly give written notice of the waiver to the City and by first class mail, postage prepaid, to all Owners of Outstanding Bonds and Parity Indebtedness if the Owners had previously been given notice of the event of default. No waiver, rescission and annulment will extend to or affect any subsequent event of default or impair any right, power or remedy available under the Master Indenture.

Discharge of Indebtedness

If (1) all Bonds and Parity Indebtedness secured by the Indenture have become due and payable or irrevocable instructions to redeem the Bonds and Parity Indebtedness or to pay them at maturity have been given by the City to the Trustee and (2) the Trustee holds cash or noncallable Government Obligations or Government Certificates the principal of, Accreted Value of, and the interest on which at maturity will be sufficient (i) to redeem in accordance with the relevant section of the Indenture all Bonds and Parity Indebtedness that have been called for redemption on the date set for such redemption, (ii) to pay at maturity all Bonds and Parity Indebtedness not irrevocably called for redemption, (iii) to pay interest accruing on all Bonds and Parity Indebtedness until their redemption or payment at maturity, and (iv) to pay to the Trustee its reasonable fees and expenses, including the costs and expenses of cancelling and discharging the Indenture, the Trustee will cancel and discharge the Indenture, and assign and deliver to the City any property at the time subject to the Indenture that may then be in its possession, except funds or securities in which such funds are invested which are held by the Trustee for the payment of principal of, Accreted Value of, or premium, if any, or interest on the Bonds and Parity Indebtedness.

Bonds and Parity Indebtedness will be deemed paid and no longer Outstanding for the purposes of the Indenture when there has been deposited with the Trustee cash or noncallable Government Obligations or Government Certificates the principal of, Accreted Value of, and interest on which will be sufficient to pay or redeem such Bonds and Parity Indebtedness and to pay interest on them to their payment or redemption date (whether on or before the date of their maturity or their redemption date), however, that if such Bonds and Parity Indebtedness are to be redeemed before their maturity, notice of the redemption must have been duly given or irrevocable instructions to redeem such Bonds and Parity Indebtedness must have been given to the Trustee.

Modification or Amendment of the Indenture

The City and the Trustee may, without consent of, or notice to, any of the Owners, enter into an agreement or agreements supplemental to the Indenture for any one or more of the following purposes:

- (1) To add to the covenants and agreements of the City contained in the Master Indenture and any Supplemental Indentures other covenants and agreements, and to surrender any right or power in the Master Indenture and any Supplemental Indentures reserved to or conferred upon the City;
- (2) To cure any ambiguity, to supply any omission or to cure, correct or supplement any defect or inconsistent provisions contained in the Master Indenture or any Supplemental Indenture;
- (3) To grant to the Trustee for the benefit of the Owners additional rights, remedies, powers or authority;
- (4) To subject to the Master Indenture and the Supplemental Indentures additional collateral;
- (5) To modify the Master Indenture, any Supplemental Indenture, or the Bonds or Parity Indebtedness to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
- (6) To provide for uncertificated Bonds or Parity Indebtedness;
- (7) To evidence the succession of a new Trustee or Paying Agent or the appointment by the Trustee or the City of a Co-Trustee or a Co-Paying Agent and to specify the rights and obligations of such Co-Trustee or Co-Paying Agent;
- (8) To make any change (including but not limited to a change to reflect any amendment to the Code or interpretations of it by the Treasury Department or the Internal Revenue Service) that in the opinion of the Trustee does not materially adversely affect the rights of any Owner of any Bonds or Parity Indebtedness;

(9) To make any modifications or changes necessary or appropriate to issue an additional Series of Bonds or any Parity Indebtedness; or

(10) To make any modifications or changes necessary or appropriate to permit Bonds of any Series or Parity Indebtedness to be secured by a credit or liquidity facility or to accommodate the issuance of Bonds or Parity Indebtedness bearing variable interest rates, including the addition of provisions for the appointment of tender agents and similar parties and the specification of the duties and powers of such parties that in the opinion of the Trustee does not materially adversely affect the rights of any Owner of any Bonds or Parity Indebtedness.

Any other modification or alteration of the Master Indenture and any Supplemental Indenture or the rights and obligations of the City or of the Owners of the Bonds or Parity Indebtedness may be made by the City and the Trustee with the consent of (1) the Owners of a majority in aggregate principal amount of the Bonds and Parity Indebtedness then Outstanding; or (2) in case less than all of the Bonds and Parity Indebtedness then Outstanding are affected by the modifications or amendments, the Owners of a majority in aggregate principal amount of the Bonds and Parity Indebtedness so affected then Outstanding. However, without the consent of each Owner affected, no modification or alteration may (i) extend the maturity of the principal of, or interest on, any Bond or Parity Indebtedness, (ii) reduce the principal amount of, or rate of interest on, any Bond or Parity Indebtedness, (iii) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iv) reduce the percentage of the principal amount of the Bonds or Parity Indebtedness required for consent to such modification or alteration, (v) if applicable, impair the exclusion of interest on any Bonds or Parity Indebtedness from gross income for purposes of federal income taxation, (vi) eliminate or extend the mandatory redemption date of any Bonds or Parity Indebtedness or reduce the redemption price of Bonds or Parity Indebtedness, (vii) create a lien ranking prior to or on a parity with the lien of the Master Indenture or (viii) deprive any Owner of the lien created by the Master Indenture on such property.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

CERTAIN INFORMATION CONCERNING THE CITY

[THIS PAGE INTENTIONALLY LEFT BLANK]

THE CITY OF NORFOLK

INTRODUCTION

The City of Norfolk was established as a town in 1682, as a borough in 1736 and incorporated as a city in 1845. The City lies at the mouth of the James and Elizabeth Rivers and the Chesapeake Bay, and is adjacent to the Atlantic Ocean and the cities of Virginia Beach, Portsmouth and Chesapeake.

Table D-1
City of Norfolk, Virginia
Area of City

<u>Year</u>	<u>Square Miles</u>
1950	37.19
1960	61.85
1970	61.85
1980	65.75
1990	65.98
2000	65.98
2008	65.98

CITY GOVERNMENT

Norfolk is an independent, full-service City with sole local government taxing power within its boundaries. It derives its governing authority from a charter (the "Charter"), originally adopted by the General Assembly of Virginia (The "General Assembly") in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon the City. Having sought and gained approval from the U.S. Justice Department and the General Assembly, the City gave its citizens the right to elect their Mayor directly, effective May 2006. Previously the City's Mayor had been chosen by the City Council from among its members. This change adds an eighth member to the City Council, with the Mayor elected at large, and retains the current seven wards with two members elected from City-wide super wards. The City Council elects a Vice Mayor from among its members. Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out its policies, directs business procedures and appoints, with the power to remove, the heads of departments and other employees of the City except those otherwise specifically covered by statutory provisions. The City Council also appoints certain boards, commissions and authorities of the City.

Certain Elected Officials

The City's current elected officials include:

Paul D. Fraim, Mayor

In May 2006 Mayor Fraim became the City's first popularly elected mayor in nine decades. Mayor Fraim is a 20-year incumbent on City Council, and was first elected Mayor by his peers in 1994. He is the president of the law firm Fraim & Fiorella, P.C., and was first elected to City Council in 1986. He has a Bachelor of Arts degree from Virginia Military Institute, Lexington, Virginia, and a Masters in Education degree from the University of Virginia, Charlottesville, Virginia. He received his law degree from the University of Richmond, Richmond, Virginia. Mayor Fraim is an active member of the Virginia State Bar, the Virginia Bar Association and the Norfolk-Portsmouth Bar Association and has held a number of leadership positions in these organizations.

Anthony L. Burfoot, Vice Mayor

Mr. Burfoot, representing Ward 3, was first elected to City Council in July 2002. He is employed by New York Life as a licensed Life and Annuities Health Agent. Additionally, he is an adjunct faculty member at Tidewater Community College. He received a Bachelor of Science degree in Public Administration and a Master's degree in Educational and Administrative Supervision from Virginia State University, Petersburg Virginia. He is involved in many civic and business activities.

Daun S. Hester, Council Member

Mrs. Daun Hester, representing Super Ward 7, was first elected to City Council in July 1996. Mrs. Hester is currently a consultant with Hester, Hester & Associates, Ltd.. She received a Bachelor of Science degree from Virginia State University, Petersburg, Virginia, and a Master of Arts degree in Education and Human Development from The George Washington University, Washington, D.C. Mrs. Hester is active in many local professional organizations.

Paul R. Riddick, Council Member

Mr. Riddick, representing Ward 4, was first elected to City Council in July 1992. He is the owner and operator of Riddick Funeral Service. He attended Norfolk State University, Norfolk, Virginia, and has an Associates in Art and Sciences degree in Funeral Service from John Tyler Community College, Chester, Virginia. Mr. Riddick is active in many local professional organizations.

Dr. Theresa W. Whibley, Council Member

Dr. Whibley, representing Ward 2, was first elected to City Council in July 2006. She is an obstetrician and gynecologist in private practice at Woman Care Centers, PLC in Norfolk. Dr. Whibley is a graduate of Eastern Virginia Medical School, Jones Institute of Reproductive Medicine, Old Dominion University, and the College of William and Mary. Dr. Whibley is active in many local professional organizations.

Donald L. Williams, Council Member

Mr. Williams, representing Ward 1, was first elected to City Council in July 2002. Prior to running for Council, Mr. Williams served as a delegate in the Virginia House of Delegates from 1998 through 2001. He is currently president of the Hampton Roads Housing Center. He attended Old Dominion University and obtained a real estate broker's license in 1983. Mr. Williams is active in many civic and business activities.

Barclay C. Winn, Council Member

Mr. Winn, representing Super Ward 6, was first elected to City Council in July 2000. He is the Chief Executive Officer of Winn Nursery of Virginia, Inc. He received a Bachelor of Science degree from North Carolina State University, Raleigh, North Carolina. Mr. Winn is active in many civic and business activities.

W. Randy Wright, Council Member

Mr. Wright, representing Ward 5, was first elected to City Council in July 1992. He is the owner of Randy Wright Printing and Publishing. He is involved in many civic and business activities.

Certain Appointed Officials

Regina V.K. Williams, City Manager

Regina V.K. Williams assumed the post of Norfolk City Manager in January 1999. Her responsibilities include the supervision of the administrative operations of the City and the preparation of its annual budget. She served as City Manager for the City of San Jose, California for five years and previously served as Assistant City Manager for five years. Prior to serving in San Jose, Mrs. Williams was Deputy City Manager and Chief of Staff for the City of Richmond, Virginia. In 1982, Mrs. Williams was appointed by then Virginia Governor Charles Robb as the first female and first African American to be State Director of Personnel and Training. In 1991, she was inducted as a fellow into the National Academy of Public Administration (NAPA). In 1988, Mrs. Williams was elected to vice-president of the Board of Directors for the International City-County Management Association (ICMA). She was awarded the designation of manager of the year in September 2002 by ICMA. Mrs. Williams also served as the President of the National Forum of Black Public Administrators in 1995-96 and is a founder and former President of the Richmond, Virginia Chapter of the Conference of Minority Public Administrators. She earned her Bachelor of Science degree from Eastern Michigan University, Ypsilanti, Michigan and a Masters degree in Public Administration from Virginia Commonwealth University, Richmond, Virginia.

Steven G. de Mik, Director of Finance

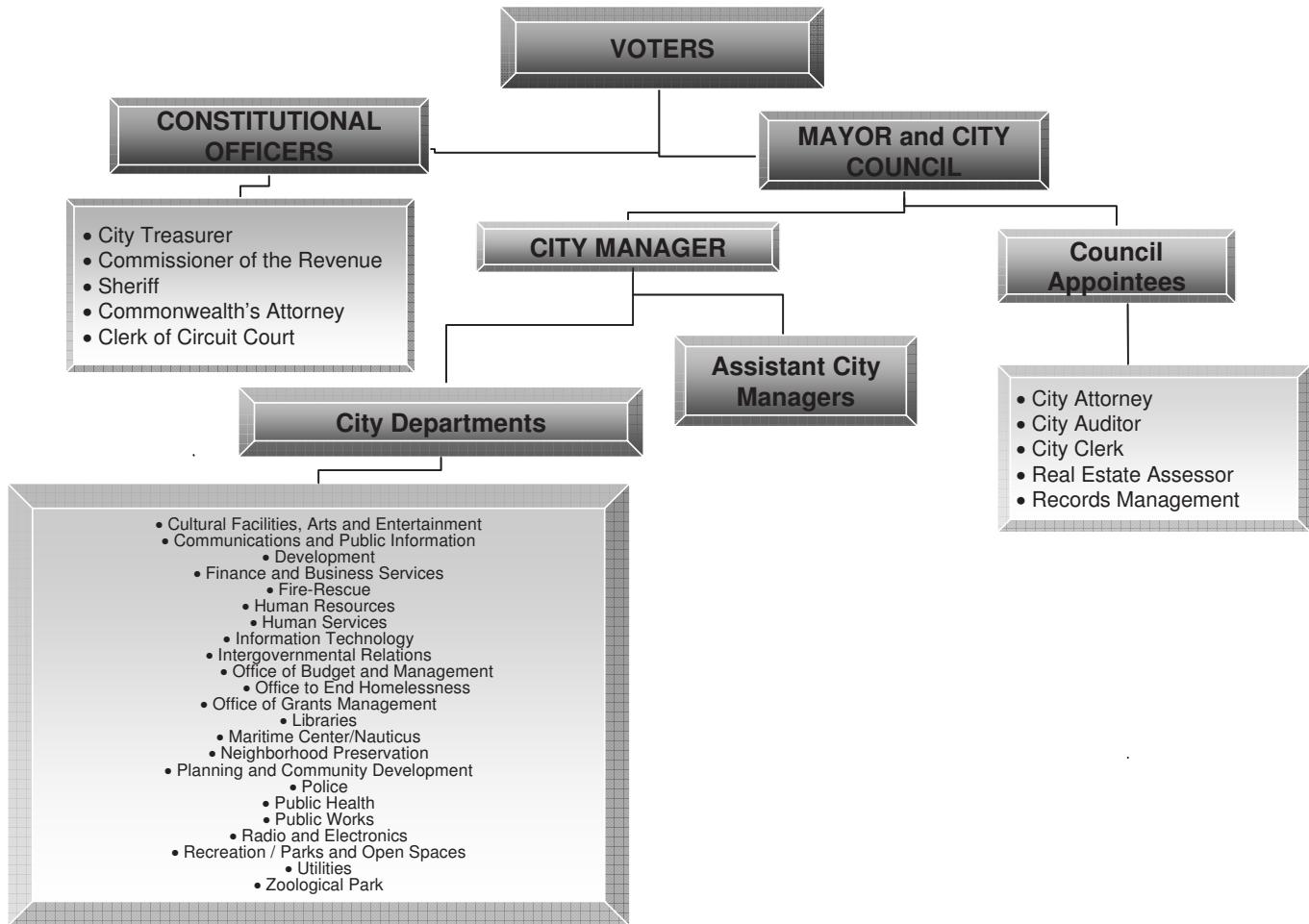
Steve G. de Mik commenced his tenure as Director of Finance on September 1, 2000, and Director of Finance and Business Services on July 1, 2005. At the direction of the City Manager, he is responsible for identifying strategic opportunities for the City in the policy areas of taxation, financial management and fiscal policy development and instruction. In addition, he is responsible for the administration of the financial affairs of the City which include cash management and investments, debt management, financial accounting and reporting, procurement, risk management, retiree benefits, parking facilities and operations, facility maintenance and the City's fleet operations. Mr. de Mik came to the City from Knox County, Tennessee where he served as the Deputy Director of Finance and Administration. His other work experiences include service with the State of Tennessee Comptroller of the Treasury and Chipman and McMurray, Certified Public Accountants. Mr. de Mik earned a Bachelor of Science degree in Accounting and Business Administration from Southwest Baptist University, Bolivar, Missouri. He is also a licensed Certified Public Accountant.

Bernard A. Pishko, City Attorney

Bernard A. Pishko was first appointed by City Council as City Attorney in November 1997. He previously served as Deputy City Attorney from 1989 to 1997 and as an Assistant City Attorney from 1984 to 1989. He has practiced law since 1982. The City Attorney is also general counsel for the Norfolk School Board, Norfolk Recreational Facilities Authority, Norfolk Community Services Board, Hospital Authority of Norfolk, Norfolk Municipal Employees' Retirement System, Norfolk Electoral Board, Civil Service Commission and The Chrysler Museum of Art. Mr. Pishko is a member of many professional associations and community organizations. He received his undergraduate degree from Brown University, Providence, Rhode Island, a Masters degree in Business Administration from the College of William and Mary, Williamsburg, Virginia, and a law degree from the Marshall-Wythe School of Law.

Governmental Services and Facilities

City Organization



In Virginia, cities and counties are not overlapping units of government. Each city or county is a distinct political entity providing services for the population within its respective jurisdiction. The City of Norfolk provides a comprehensive range of public services characteristic of its form of government under Virginia law. These services are designed to provide an environment within which the educational, physical, social and cultural needs of its citizens are met. These general governmental services include police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, storm water management, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund concept with user-charges set by City Council.

Other Governmental Entities

School Board of the City of Norfolk

The seven members of the School Board of the City of Norfolk (the “School Board”) are appointed by the City Council. The School Board is a corporate body and in its corporate capacity is vested with all of the duties, obligations and responsibilities imposed upon school boards by law. The City Council is required to appropriate annually to the School Board the amount needed for the support of the public schools in maintaining educational programs which meet the standards of quality prescribed by law. Categorical aid from the Commonwealth of Virginia and the federal government designated for educational purposes is included in the City’s General Fund budgetary revenue. This categorical aid, plus monies derived from local sources, provides the funds for the major share of the School Board’s operations. On an ongoing basis, the City also issues debt to finance needed capital projects of the school system.

The School Board presently operates thirty-five (35) elementary schools, nine (9) middle schools, five (5) high schools and several auxiliary schools, including alternative, magnet and specialty programs. For the fiscal year ended June 30, 2007, the School Board’s expenditures for education totaled \$368,841,788.

Norfolk Airport Authority

The Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport Fund and an Investment Fund. The Airport Fund was established by the Authority to account for the operations of the Norfolk International Airport (the “Airport”). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment Fund was established by the Authority to provide for certain airport capital improvements.

The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments.

The Authority’s Commissioners are appointed by City Council, but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority, and pursuant to Section 144(q) of the City Charter, the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City of Norfolk has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

Hampton Roads Regional Jail Authority

The Hampton Roads Regional Jail Authority (HRRJA) is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The facility (the “Jail”), which opened in March 1998, consists of approximately 385,518 square feet of building area, including three housing building units, a support building and a central plant. The Jail holds 875 inmates of which 250 are designated to the City. The City is responsible for 28.57% of the total operating cost less the revenue derived from the Virginia Compensation Board and the per diem reimbursement from the Commonwealth for the housing of state inmates.

The Southeastern Public Service Authority of Virginia

The Southeastern Public Service Authority (SPSA) is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by an eight-member Board of Directors, consisting of a representative appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors, with each individual having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The regional system includes a refuse-derived fuel plant and a fuel delivery system, located on federally-owned land in the City of Portsmouth, as well as solid waste transfer stations in each of the member jurisdictions, a landfill, rolling stock and ancillary facilities, and an extensive recycling program which collects recyclable waste products from single-family homes and at drop-off centers.

Transportation District Commission

Hampton Roads Transit was created on October 1, 1999, with the consolidation of the Tidewater Regional Transit (“TRT”) and Peninsula Transportation District Commission (“PENTRAN”). It is believed to be the first voluntary merger of public transit agencies in the nation. The district continues to be a political subdivision of the Commonwealth of Virginia, formed as a joint exercise of governmental power in accordance with the provisions of Chapter 32 of Title 15.2 of the Code of Virginia. The District provides public transportation facilities and services within Cities of Norfolk, Chesapeake, Hampton, Newport News, Portsmouth, Suffolk and Virginia Beach.

The Hampton Roads (formerly Tidewater) Transportation District Commission, a political subdivision of the Commonwealth of Virginia, was formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Code of Virginia.

Table D-2
City of Norfolk, Virginia
Contributions to Hampton Roads Transportation District Commission
2004-2008

<u>Fiscal Year</u>	<u>Contributions</u>
2004	\$ 3,002,003
2005	3,021,200
2006	4,559,463
2007	5,960,949
2008	7,047,624

Sources: Approved Operating Budgets, Fiscal Years 2004 through 2008.

Hospital Authority of Norfolk

The Hospital Authority of Norfolk (“HAN”), which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth created pursuant to an Agreement of Transfer dated July 1, 1988. The Hospital Authority operates Lake Taylor Hospital as a long-term care facility licensed by the Virginia State Health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

Norfolk Redevelopment and Housing Authority

The Norfolk Redevelopment and Housing Authority (“NRHA”), a political subdivision of the Commonwealth, was created by the City on July 30, 1940, under the provisions of the United States Housing Act of 1937. The NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. The NRHA is responsible, through a contract with the City, for the administration of such activities as community development, and urban renewal. The NRHA develops its operating budget without approval from the City Council and executes contracts on its own behalf. However, the City does not exercise a significant degree of oversight responsibility for the NRHA as it is responsible for designating its own management, developing its own operating budget and executing major contracts on its own behalf. The NRHA is responsible for its own fiscal matters as it maintains its own books of account, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

As reflected in the Table D-3, from 1970 to 2002, the population of the City declined; a fact which can be attributed in part to the clearance and redevelopment of blighted areas and to a reduction in the birth rate. More recently published population statistics suggest the City's population has now stabilized. The City is the second most populous city in Virginia, as shown in Table D-4.

Table D-3
Population Trend Comparisons
1960-2007

Year	Norfolk⁽³⁾	Hampton Roads	Virginia⁽⁴⁾	U.S.⁽⁴⁾
		MSA⁽¹⁾⁽³⁾		
1960	305,872	881,600 ⁽²⁾	3,954,429	179,323,175
1970	307,951	1,058,764 ⁽²⁾	4,468,479	203,211,926
1980	266,979	1,160,311	5,346,279	226,504,825
1990	261,250	1,430,974	6,189,197	249,632,692
2000	234,403	1,533,739	7,078,515	281,421,906
2001	234,000	1,567,300	7,190,468	285,112,030
2002	233,600	1,574,500	7,281,659	287,888,021
2003	233,900	1,583,900	7,370,557	290,447,644
2004	235,200	1,605,900	7,464,033	293,191,511
2005	235,071	1,615,415	7,557,588	295,895,897
2006	238,832	1,623,139	7,640,249	298,754,819
2007	N/A	N/A	7,712,091	301,621,157

Sources: Various Reports of the Bureau of the Census and the Weldon Cooper Center for Public Service, University of Virginia.

Notes: (1) Until March 1993, the Hampton Roads MSA consisted of the Virginia localities of Norfolk, Chesapeake, Hampton, Newport News, Poquoson, Portsmouth, Suffolk, Virginia Beach, Williamsburg, Gloucester County, James City County, and York County. In March 1993, Mathews County and Isle of Wight County, Virginia, and Currituck County, North Carolina were added to the Hampton Roads MSA.
 (2) Weldon Cooper Center for Public Service, University of Virginia, is the source for the 1970 and the 1980 MSA Population.
 (3) For years 2001-2006, population estimates are from the U.S. Census Bureau.
 (4) For years 2000-2006, U.S. and Virginia population estimates are from the U.S. Census Bureau.

Table D-4
Five Most Populous Cities in Virginia

City	2000 Census Population	2006 Population Estimate
Virginia Beach	425,257	435,619
Norfolk	234,403	238,832
Chesapeake	199,184	220,560
Richmond	197,790	102,120
Newport News	180,697	178,281

Source: Bureau of the Census.

Table D-5 provides an annual comparison of per capita personal income since 1996.

Table D-5
City of Norfolk, Virginia
Per Capita Personal Income Comparisons
1996-2005

Year	City	Hampton Roads MSA	State	U.S.
1996	\$ 19,401	\$ 21,876	\$ 25,034	\$ 24,175
1997	20,361	22,838	26,307	25,334
1998	21,406	24,026	27,780	26,883
1999	22,131	24,912	29,226	27,939
2000	23,547	26,364	31,085	29,843
2001	24,885	27,789	32,501	30,562
2002	25,597	28,828	33,014	30,795
2003	27,088	30,129	33,976	31,466
2004	28,684	31,587	35,698	33,090
2005	30,528	33,163	37,503	34,471

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 2007.

The age distribution of the City's population is presented in Table D-6.

Table D-6
City of Norfolk, Virginia
City Population Distribution by Age
1960-2000

Year	Population	Under 20	20-64	65 or Older
1960	305,872	39.8%	54.5%	5.7%
1970	307,951	35.4	57.8	6.8
1980	266,979	30.7	60.1	9.2
1990	261,250	28.1	61.4	10.5
2000	234,403	27.3	61.5	11.2

Source: Various Reports of the Bureau of the Census.

Housing and Construction Availability

Table D-7 provides an annual breakdown of residential building permits over the past 10 years.

Table D-7
City of Norfolk, Virginia
Residential Construction
Fiscal Years 1998 - 2007

<u>Fiscal Year</u>	<u>Building Permits</u>	<u>Number of Units</u>	<u>Value (in thousands)</u>
1998	192	282	\$ 24,263
1999	174	241	21,872
2000	189	310	38,739
2001	185	401	35,109
2002	290	462	44,498
2003	287	609	61,790
2004	506	766	83,525
2005	560	1,191	204,391
2006	531	1,058	133,053
2007	389	491	688,476

Source: Permit Tracking System, Department of Planning, City of Norfolk.

Table D-8 presents annual nonresidential construction, which includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures.

Table D-8
City of Norfolk, Virginia
Nonresidential Construction
Fiscal Years 1998 - 2007

<u>Fiscal Year</u>	<u>Building Permits</u>	<u>Value (in thousands)</u>
1998	54	\$ 79,500
1999	46	52,932
2000	45	138,472
2001	35	62,046
2002	53	51,451
2003	35	24,084
2004	59	134,197
2005	70	70,677
2006	60	165,989
2007	55	81,396

Source: Permit Tracking System, Department of Planning, City of Norfolk.

Employment

Businesses in the City provide residents with employment opportunities in a variety of industries of which services, government and trade are the most significant.

The unemployment rate for the City is illustrated in Table D-9.

Table D-9
City of Norfolk, Virginia
Unemployment Rates
1998 – 2007

	Hampton Roads			
	Norfolk	MSA	Virginia	U.S.
1998	5.2%	3.4%	2.8%	4.5%
1999	5.0	3.2	2.7	4.2
2000	3.3	2.5	2.3	4.0
2001	4.3	3.3	3.2	4.7
2002	5.5	4.2	4.2	5.8
2003	5.7	4.3	4.1	6.0
2004	5.5	4.1	3.7	5.5
2005	5.4	4.0	3.5	5.1
2006	4.1	3.3	3.0	4.6
2007 ⁽¹⁾	4.5	3.5	3.3	4.8

Source: Virginia Employment Commission.

⁽¹⁾ 2007 data is as of December, 2007.

Table D-10
City of Norfolk, Virginia
Civilian Employment and Average Weekly Gross Wages
3rd Quarter, 2007

Category	Number of Establishments	Number of Employees	Average Weekly Gross Wage	Percentage of Employment
Construction	472	6,293	\$ 820	8.30%
Manufacturing	166	7,475	1,539	2.92
Trade, Transportation & Utilities	1,406	29,947	843	24.71
Information	118	3,708	989	2.07
Financial Activities	636	9,481	841	11.18
Professional & Business Services	979	20,622	983	17.21
Education and Health Services	617	35,428	711	10.85
Leisure and Hospitality	598	13,207	322	10.51
Other Services	620	3,930	522	10.90
Public Administration	74	12,254	1,176	1.30
Natural Resources & Mining	3	12	455	0.05
Total	5,689	142,359	\$ 836	100.00%

Source: U.S. Bureau of Labor Statistics. Virginia Employment Commission, Quarterly Census of Employment & Wages Program.

Economic Development

Economic development initiatives are focused on the attraction, expansion and retention of businesses, neighborhood and community revitalization and commercial corridor development. Some of the City-lead initiatives to stimulate commercial revitalization include: Tax Abatement Program; Federal Empowerment and HUB Zones; State Enterprise Zones; Small Area Aesthetic Matching Grant Program; Aesthetic Improvement Grant Pool; Pedestrian Commercial Overlay Zones Tax and Grant Benefits; Concentrated Development Zone Incentives; public infrastructures; amenities; Tax Increment Financing Zones; and Revolving Loan Funds.

Downtown Development

Downtown offers a mix of cultural attractions and entertainment for its citizens and tourists. Resulting from the coordinated efforts of the City, downtown property assessed value increased 69.43% from fiscal year 2000 to fiscal year 2007.

The current vacancy rate for Downtown Class A office space is below 10 percent, as shown in Table D-11 below.

**Table D-11
City of Norfolk, Virginia
Downtown Norfolk Vacancy
January 2008**

Class A

	<u>Rentable SF</u>	<u>Vacant SF</u>	<u>% Vacant</u>
150 West Main Street	226,183	5,745	2.54%
Crown Center	62,000	-	0.00
Dominion Tower	403,276	33,620	8.34
Main Street Tower	200,000	17,351	8.68
Norfolk Southern Tower	301,463	-	0.00
Town Point Center	130,266	7,404	5.68
World Trade Center	<u>366,941</u>	<u>57,996</u>	<u>15.81</u>
TOTAL	1,690,129	122,116	7.23%

Source: Costar, January 2008.

Bank presence along Main Street includes Bank of America, BB&T, Monarch, Old Point National, RBC Centura, SunTrust, TowneBank and Wachovia. Bank of Hampton Roads, Heritage, Bank of the Commonwealth and several credit unions are also downtown.

Residential Development

Neighborhood revitalization is one of the City's core initiatives and part of the economic development plan. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial development is to provide an environment that will increase private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and coordinated public and private investment and build upon and coordinate with other ongoing community development initiatives.

Residential investment continues to grow throughout the City. Several mixed-use offerings Downtown include: Harbor Heights, a \$57 million investment, 99 condos (some lofts), with a first floor retail grocery with integral parking and two floors of administrative space for Tidewater Community College. The Belmont at Freemason, a Kotarides development, contains 241 apartments in two buildings and a garage with 531 parking spaces at Brambleton and Bute Streets with an estimated value of \$45 million. St. Paul's Place is complete with 90 condos alongside the MacArthur Center bringing a mix of historic façade, traditional condos (The Flats); and industrial lofts along St. Paul's Boulevard (The Lofts). The same developers renovated the Rotunda, a signature round building adjacent to St. Paul's Place into 66 condominiums ranging in price from \$250,000 to \$1.2 million. In addition to this there are 94 condominium units at 388 Boush Street, an upscale community representing a \$26 million project with a hidden City parking garage in the center.

Residential development also continues to grow in areas beyond Downtown Norfolk. In Larchmont, located on the west side of Norfolk, The Landings at Bolling Square, a 184 condominium unit development estimated at \$60 million, is under construction. The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View experienced redevelopment over the past decade. More than 200 new homes have been built in Ocean View with an average value of \$250,000. The East Beach section of Ocean view will have 700 housing units with prices ranging from \$200,000 to over \$1 million. A portion of the homes are currently occupied with the remainder of the development on track for completion by 2010. Broad Creek is a \$200 million new community near Norfolk State University with 600 mixed-income homes. Broad Creek, which made its debut at Homearama 2005, was the region's first mixed-use, mixed-income community. The development was recognized nationally in 2006 by the National Association of Homebuilders with an Award of Excellence, in partnership with the Tidewater Builders Association. The last development phase located to the north of Princess Anne Road will include homeownership opportunities ranging from higher-end to lower moderately priced units. The City is also redeveloping the Fort Norfolk area, which is a 30-acre urban waterfront area linking Downtown Norfolk to the region's medical complex and Ghent community. In the Fort Norfolk section of Downtown Norfolk, the City's first retirement community, known as Harbour's Edge, opened in September 2006.

Arts and Culture

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourists. Recently, investments in this segment include restoring three live performance theatres, the construction of a cruise terminal building and upgrades to civic venues. Norfolk is home to the Chrysler Museum of Art, Virginia Arts Festival, Virginia Ballet, Virginia Opera, Virginia Stage Company and Virginia Symphony. Norfolk's entertainment and theatre venues include the Attucks Theatre, the Harrison Opera House, Chrysler Museum, and the "Theater District" which includes Chrysler Hall, Jeanne and George Roper Theater, Wells Theatre and the NorVa.

International Intermodal City Expansions

Cruise Norfolk

The 80,000 square foot Half Moone Cruise & Celebration Center opened in spring 2007. The cruise terminal, Norfolk's newest and most unique waterfront attraction, is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. Norfolk is a homeport for Royal Caribbean International and Carnival ships, which provide regular service to Bermuda, the Bahamas and the Caribbean. During the 2006 – 2007 cruise season, 73,000 cruise ship passengers traveled from Norfolk. Norfolk was selected as "Port of the Month" in April 2006 issue of Cruise Travel for its rich maritime heritage, its convenient downtown cruise facility and its investment in its new terminal. The terminal received its name Half Moone from a fort that was built on the same site in 1673 in the form of a "half moone".

Norfolk Airport Authority

Norfolk is served by American, Continental, Delta, Northwest, Southwest, United Express and US Airways. In 2007, 3.7 million passengers used Norfolk International Airport, a 0.29% increase over 2006. In addition, over 70 million pounds of cargo flowed through the airport. In Norfolk, service has remained stable over the past two years, with an average of 95 daily departures a month.

Hotel Development

The City continues to be a national leader in hotel performance with growth in hotel occupancy rates. In 2005, average daily rates rose from \$74 to \$76 per room, citywide and total hotel revenues increased from \$89.5 million to \$93.2 million. Currently there are three hotels under construction or proposed in Downtown Norfolk. A \$47 million, 16-story luxury hotel is planned to be built adjacent to a new city conference center at the corner of Granby and Main Streets. A nine-story, 160-room Residence Inn by Marriott broke ground in November 2007 on Brambleton between Duke and Boush Streets. In November 2007, a developer announced plans to build a 15-story Hampton Inn & Suites in the 100 block of West Brambleton Avenue.

Waterfront Recreation Investment

Over \$17 million of overall investment has been made recently along Norfolk's waterfronts. In Ocean View, adjacent to the East Beach slated retail area called "Little Annapolis" is the Taylor's Landing Marina Center, a \$10 million private investment bringing 500 new recreational boat slips to the area. This marina complex is being expanded to include retail boat showrooms, a boat repair facility, condominiums and restaurant and retail offerings.

Sports and Recreation

Norfolk has several waterfronts with the Chesapeake Bay on its North boundary and two major rivers within its boundaries. The City has a public boat ramp in Willoughby Spit with access to the

Chesapeake Bay, several other boat ramps and a rowing facility located in Lakewood Park. There are also three golf courses located within the City.

Norfolk is home to the Norfolk Tides, (a AAA baseball team), the Norfolk Admirals (a professional hockey club), and hosts Arena Racing USA on an indoor track.

Norfolk's Educational Institutions

Available within the City are a wide variety of educational facilities including public elementary, middle and high schools, private and parochial schools, two universities, one college, one community college and a medical school.

Public Schools

Norfolk public schools have a low pupil-teacher ratio with class sizes well below the national average. Norfolk offers innovative public school programs, which include Early Childhood Education, a unique, comprehensive program for three and four-year-olds and their parents located in the public housing community of Diggs Town, at the Park Place/Colonial Place Community Center and at Ocean Air Elementary.

Approximately \$90 million has been recently invested in Norfolk public schools. Facilities receiving renovations and new construction include Norview High School, Blair Middle School, Bay View Elementary, Granby High School, Taylor Elementary and the School of International Studies at Meadowbrook.

The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 students from six cities and two counties. The school system also has a program for gifted science students that enables them to study at Eastern Virginia Medical School.

The Broad Foundation awarded Norfolk public schools the "Nobel Prize" of education in 2006 designating it as the Best Urban School District in the nation. This is the third year in a row that Norfolk has been selected as one of five finalists for this prestigious award. The Broad Prize is presented annually to an urban school district that has demonstrated considerable success in narrowing achievement gaps between groups of students while improving performance for all.

Student population for the past five fiscal years is shown in Table D-12.

Table D-12
City of Norfolk, Virginia
Public Schools Student Population
Fiscal Years 2003 – 2007

<u>Fiscal Year</u>	<u>September 30</u>	<u>Percent Change</u>
<u>Membership</u>		
2003	34,349	-1.02%
2004	34,030	-0.93
2005	34,445	1.28
2006	34,063	-1.12
2007	33,593	-1.38

Source: Virginia Department of Education. Superintendents Annual Report. Table 1, Membership.

Higher Education

Norfolk is home to five institutions of higher learning: Old Dominion University, Norfolk State University, Virginia Wesleyan College, Tidewater Community College and Eastern Virginia Medical School. Old Dominion University (“ODU”) is one of only 100 public research universities nationwide, with a full and part-time enrollment of nearly 21,000 students. ODU’s Innovation Research Park, one of the only research parks in the nation to be located on the campus of its research institution, is located in the 75-acre, mixed use University Village. Norfolk State University is Virginia’s largest public, historically black university (“HBCU”) and the seventh largest HBCU in the nation.

Institutional Technology Parks

Old Dominion University – University Village. Old Dominion University, in partnership with the City, the Norfolk Redevelopment and Housing Authority, and private developers, has initiated a large scale, mixed-use redevelopment project. This redevelopment project, the University Village, will directly impact 75 acres (13 City blocks) and result in over \$260 million in private and public investments. The project includes student housing, retail, a convocation center, parking, research/office buildings, apartments and a hotel. The research park, named Innovation Research Park, is one of a few research parks in the country located on the campus of its research institution.

Norfolk State University – The RISE Center. The Research and Innovations to Support Empowerment (RISE) Center is located on the campus of Norfolk State University. Designed to promote interaction between the university, the business sector and community and federal agencies in research and technology, the RISE Center houses classrooms, labs and offices for professors in areas such as materials research, engineering and computational science, as well as the office of research and technology.

Norfolk’s Medical Institutions

Within the City, there are four general, acute care and specialized hospitals including Sentara Norfolk General Hospital, Sentara Leigh Hospital, Bon Secours DePaul Medical Center and Children’s Hospital of The King’s Daughters (“CHKD”). Sentara Norfolk General Hospital opened its new \$100 million heart hospital in February 2006, a 112-bed, 254,000 square feet center. The heart hospital is leading the way for Sentara’s 2010 expansion plan for the medical complex.

The Virginia Port Authority

In 1981, the Virginia General Assembly passed landmark legislation designed to unify the ports in southeastern Virginia Hampton Roads harbor under a single agency, the Virginia Port Authority, with a single operating company, the Virginia International Terminals, Inc. The Port of Virginia, one of the world’s largest natural deep-water harbors, is an integral part of Norfolk’s economy.

The Virginia Port Authority is one of the top three ports on the east coast in terms of total value of port trade. Over 17.7 million tons of cargo shipped from the region’s three main marine cargo terminals in 2007. The cargo volume shipped in 2007 increased by 6.9% over that of 2006. As a result of the events of September 11th, concern for security risk has increased. The Port of Virginia is one of the few U.S. Customs ports utilizing a computerized, truck-mounted gamma-ray machine to check containers’ density. This technology allows monitors to ensure that the cargo being tested is what it is supposed to be and takes only 6 seconds per container.

Table D-13
Virginia Port Authority Terminals
General Cargo Tonnage
Calendar Years 2003 – 2007

Calendar Year	Total General Cargo Tonnage (000's)	Percent Change over Previous Year
2003	13,984	9.0%
2004	14,858	6.3
2005	15,964	7.4
2006	16,583	3.9
2007	17,726	6.9

Source: Virginia Port Authority.

Port-related business increases at the Virginia International Terminals drive new capital investment into the region. By 2012, a 300-acre expansion of Norfolk International Terminal will be completed making it the largest inter-modal center in the United States.

Business, Industry and Commerce

Several major companies are headquartered in Norfolk, including:

- Norfolk Southern, a Fortune 500 company and one of the country's largest railroad operators;
- Landmark Communications, one of the country's largest privately owned media companies with ownership of several daily newspapers, local TV stations, specialty publications, and The Weather Channel and weather.com;
- Dominion Enterprises, a wholly-owned subsidiary of Landmark Communications, Inc., is a print and internet media group that includes numerous specialty publications and online classifieds;
- FHC Health Systems, one of the top 250 largest private companies in the country, specializing in health care management, health services, and online medical reports;
- CMA CGM (America), Inc., one of the world's largest container transportation and shipping company;
- Portfolio Recovery Associates, a firm whose primary business is the purchase, collection and management of defaulted customer receivables; and
- BlackHawk Products Group, which provides tactical gear such as holsters, body armor, and backpacks to the U.S. Defense Department and law enforcement agencies throughout the world.

Additionally, there are a large variety of industrial, commercial and service employers are located within the City. Table D-14 presents data regarding the major non-government employers in the City.

Table D-14
City of Norfolk, Virginia
Major Non-Government Employers in 2nd Quarter 2007

Company	Number of Employees	Product/Service
	1,000+	
Sentara Healthcare		Health Care Network
Children's Hospital of the King's Daughter		Health Care Facilities
Medical College of Hampton Roads		Private College
Ford Motor Company, Inc. ⁽¹⁾		Tuck Manufacturing and Assembly
Norshipco		Shipbuilders and Repairers
Bon Secours DePaul Medical Center		Health Care Facility
Bank of America Card Services Corp.		Banking and Credit Card Service Center
	500 – 999	
United Services Automobile Association		Insurance Support Center
Wal-Mart		Retail
Bank of America		Banking
Maersk Line Limited		Shipping Company
Portfolio Recovery Association		Financial Recovery Services
Virginia International Terminal		Ports
Landmark Communications, Inc.		Newspaper and Media
Sentara Health Management		Healthcare Network
The Titan Corporation		Communication System
Farm Fresh		Retail
ODU Research Foundation		Research
American Funds Service Co		Financial Services
Electronic Data Systems Corp		Systems Analysis and Design
Dominion Enterprises		Electronic Media
7-Eleven		Retail
Tidewater Wholesale Grocery		Retail
CooperVision Inc.		Contact Lens Manufacturing
Virginia Wesleyan College		Education
CP&O LLC		Port Services
	250-499	
McDonald's		Retail
CMA-CGM (America), Inc.		Shipping Company
Food Lion		Retail
Personal-Touch Home Care, Inc.		Comprehensive Home Care Services
Colonna's Shipyard		Ship Builders and Repairers
General Foam Plastics Corporation		Plastic Extractions
Lake Taylor Transitional, Inc.		Health Services
Office Team		Office Staffing Services
Amer-Force Craft Services, Inc.		Craft Labor to the Marine and Industrial Sectors
Metro Machine Corporation		Ship Builders and Repairers
Transit Management Company		Transportation

Source: Virginia Employment Commission.

Notes: (1) The Ford Motor Company, Inc. closed its Norfolk assembly plant in June, 2007.

Table D-15 is a representation of selected business growth or expansion for the period 2005 - 2007.

Table D-15
City of Norfolk, Virginia
Business Growth
A Sampling of Business Activity in 2005-2007

Company	Type	Investment (Mil)
Air Wisconsin Airlines Corporation	Aircraft Maintenance and Flight Crew Hub	\$31.00
Berkley Shopping Center	Shopping Center	\$4.70
Bio-Electrics Phase II	Biotechnology Consulting Firm	\$1.25
Blackhawk Industries	HQ, Tactical Gear for Military and Law Enforcement	\$12.00
Central Center Office Building	Office/Flex	\$4.00
Church Street Executive Center	Office/Flex	\$7.00
CMA-CGM America Inc.	North American HQ, Shipping Line	\$15.00
Colonna's Shipyard	Ship Repair/Industrial Fabrication	\$4.20
Commander Corporate Center	Military Apparel Manufacturer	\$24.00
Computerized Imaging Reference Systems	Manufacture Surgical and Medical Instruments	\$0.50
CorrPro Companies	Corrosion Protection Services	\$0.30
Cruise Ship Terminal	Cruise Ship Terminal	\$41.00
Delphinus Engineering	Office/Flex	\$2.25
Dister Wholesale Printing, Inc.	Manufacturer Business Cards	\$0.90
Ghent Towers South	Mixed-Use Residential/ Office/ Hotel	\$80.00
Hampton Inn	Hotel	\$9.00
Hilton Hotel and Conference Center	Hotel and Conference Center	\$76.00
Innovation Research Park @ ODU Bldg I	High-Tech Research Park	\$22.50
Innovation Research Park @ ODU Bldg II	High-Tech Research Park	\$22.50
Maersk Line Ltd.	Shipping Contractor Headquarters	\$ -
Marine Hydraulics International Inc.	Ship Repair Facility Expansion	\$25.00
Mark Barr – Denison Building One	Office/Flex	\$1.80
Mark Barr II – Denison Building Two	Office/Flex	\$1.80
Norfolk Airport Hilton	Hotel Renovations	\$18.00
Old Dominion University	Bookstore	\$7.00
P&P LLC	Office/Flex	\$5.40
Phoenix Industries	Underwater Ship & Marine Structure Repair	\$0.13
RBC Centura Banks	Commercial Banking	\$ -
Ride-Away Corporation	Retail	\$1.00
SAIC Norfolk	IT/Communications	\$1.70
Savannah Suites	Hotel	\$6.00
Sentara Heart Hospital	Hospital	\$100.00
Social Security Administration	Office Building	\$8.50
Spring Hill Suites by Marriot at ODU	Hotel	\$10.00
Taylor Executive Center	Office/Flex	\$5.50
Taylor's Boatel and Marina	Marina Facility	\$7.58
Techcon General Contractor	Construction Management	\$1.00
The Titan Corporation	IT/Communications	\$ -
Tidewater Comm. Coll. Student Center	Student Center	\$14.00
TowneBank of Portsmouth	Commercial Banking	\$ -
Trader Publishing Company	Office Tower	\$51.00
US Gypsum	Plant Expansion	\$132.00
Va Eye Consultants & Surgery Center	Eye Clinic and Surgery Center	\$15.00
Wal-Mart Super Center	Retail New Super Center	\$31.00
Wasabi Systems	Custom Software	\$0.80

Source: City of Norfolk, Economic Development Department.

Maritime Business Investment

In 2007, Maersk Sealand opened a \$450 million cargo terminal on 560 undeveloped acres on the Portsmouth waterfront – across the Elizabeth River from the downtown and Berkley sections of Norfolk. The facility features 4,000 feet (1,219 meters) of deepwater berth space (four times the current amount), and serve as a Mid-Atlantic platform for future growth. The amount of cargo shipped through Hampton Roads is expected to at least double by 2020, in part due to the area's attraction as a major distribution center. A.P. Moller is the parent company of Maersk Sealand, the world's largest shipping line.

Military

The presence and role of the military in Norfolk remains a positive force and continues to have a significant impact on the local economy. The City is the home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

The Navy's direct economic impact on the region was \$12.6 billion in 2007, comprised of a total annual payroll of \$7.3 billion and the balance consumed on goods and services and procurement contracts. The City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) in excess of 79,000. There were 83,906 active-duty Navy military personnel in Hampton Roads in 2006, of which 80% were assigned to Norfolk.

Although the military remains a key part of Hampton Roads' economy, the region has successfully diversified its economy in recent years.

APPENDIX E

**SUMMARY OF NORFOLK - VIRGINIA BEACH
WATER SERVICES CONTRACT**

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

The City of Norfolk ("Norfolk") and the City of Virginia Beach ("Virginia Beach") entered into a Water Services Contract originally dated July 14, 1993, and amended and restated as of February 14, 2001 (as amended and restated, the "Water Services Contract"). Capitalized terms used in this Appendix are defined in the Water Services Contract or in the Official Statement. A copy of the Water Services Contract is available at the office of the Norfolk City Attorney. This Appendix does not purport to be complete, and reference is made to the Water Services Contract for a full and complete statement of its provisions.

WATER SERVICES CONTRACT

The Water Services Contract provides for Norfolk to store, wheel and treat Virginia Beach's Gaston and Stumpy Lake water (sometimes referred to herein as "Virginia Beach Water").

Term of Contract: The Water Services Contract is in effect until June 30, 2030, unless earlier terminated.

Water Treatment, Delivery Services and Obligations. Norfolk must receive and store Virginia Beach Water to locations satisfactory to both parties, transport the water through Norfolk's raw water system, treat the water, provide clear well storage, pump and transport the treated water to the metered points of delivery for the Virginia Beach Water distribution system, and perform all related acts to provide treated water to Virginia Beach. Virginia Beach must pay for these services and provide Virginia Beach Water. The Water Services Contract is a water services contract, not a contract for the sale of treated water, and the right of Virginia Beach to receive treated water under the Water Services Contract is dependent on Virginia Beach's ability to provide Virginia Beach Water, including, but not limited to, obtaining all necessary permits from governmental agencies, and constructing, operating and maintaining the Gaston pipeline, Stumpy Lake and Stumpy Lake pipeline providing Virginia Beach Water to discharge points satisfactory to Norfolk and Virginia Beach. Norfolk must obtain all permits required to construct, operate, maintain or expand Norfolk's water system in conjunction with performance of the Water Services Contract; provided, however, in obtaining or retaining any permit, Norfolk is only required to use its good faith best efforts by all reasonable legal means. Virginia Beach and Norfolk must cooperate and assist each other in obtaining the permits. Norfolk must also keep and maintain its water facilities in good working order in accordance with generally accepted standards for the operation and maintenance of a water system.

Except as otherwise provided in the Water Services Contract, Norfolk must deliver treated water to the Virginia Beach distribution system in such amounts as required by Virginia Beach, up to a total annual average amount of 45 MGD, but not to exceed 0.9 times the maximum sustainable rate of Gaston water which Virginia Beach is capable of delivering to Norfolk for Virginia Beach's use, plus 1.8 MGD for Stumpy Lake water. If the Stumpy Lake contract capacity increase option is exercised (as described under the caption "*Effective Date*" below), the maximum permissible total annual average amount stated above shall increase by 1.8 MGD to 46.8 MGD.

Virginia Beach is obligated to supply additional Virginia Beach Water above the Virginia Beach current monthly demand if requested by Norfolk, but is not required to supply an amount of Virginia Beach Water in any consecutive 36-month period in excess of the amount of treated water delivered to Virginia Beach under the Water Services Contract during the same period adjusted for certain losses.

Norfolk is obligated to exercise due care and adhere to generally-accepted engineering practices in the planning, construction, operation, maintenance, and expansion of its water system in order to meet its obligations under the Water Services Contract. Norfolk may not use, sell, assign, or otherwise commit to supply water in excess of Norfolk's safe yield, transmission or treatment capacity except as otherwise provided in the Water Services Contract. Norfolk may sell water, pursuant to a written contract, in excess of

its safe yield on an interruptible basis to industrial customers having installed and permitted alternate water sources available, with the consent of Virginia Beach, such consent not to be unreasonably withheld. Norfolk must terminate or restrict the supply of water to such interruptible customers (in accordance with the terms of each contract) in order that Norfolk can meet its obligations to Virginia Beach under the Water Services Contract.

Delivery Points and Measurement. Norfolk must deliver treated water to Virginia Beach at the delivery points set forth in the Water Services Contract, and at such additional points as may be mutually agreed upon by the parties. Unless otherwise agreed by both parties, Norfolk must construct, own and maintain treated water meter vaults, meters, and all associated facilities located at the delivery points. Virginia Beach must provide Norfolk's employees and agents ingress and egress across property owned by Virginia Beach to all of Norfolk's premises inside Virginia Beach's boundaries to install, operate, inspect, test, and maintain pipelines, pump stations, and facilities, and to read meters owned or maintained by Norfolk within the city limits of Virginia Beach or on property controlled by Virginia Beach. Virginia Beach must install and operate raw water meter or meters capable of measuring the amount of water being delivered from the Gaston pipeline and the Stumpy Lake pipeline to Norfolk including totalizing and recording total flow and daily rates of flow. Each meter must be tested at least once every two (2) years.

Quality and Pressure of Water Delivered to Virginia Beach. Norfolk must provide the necessary water treatment facilities, operational practices and related services to ensure that the quality of treated water delivered to Virginia Beach pursuant to the Water Services Contract meets all potable water standards mandated by federal and state law, rule or regulation. Except as otherwise provided in the Water Services Contract, Virginia Beach bears the sole responsibility for maintaining water quality beyond the delivery points within the Virginia Beach distribution system.

Rates and Charges.

Method of Rate Determination. The annual rates charged by Norfolk for rendering treated water service under the terms of the Water Services Contract are based upon the utility basis of cost of service principles established by the American Water Works Association. Under such principles, Virginia Beach is charged for treated water service in a manner which recovers its allocable share of operation and maintenance expense, depreciation expense and return on rate base associated with the Norfolk water system.

Operation and Maintenance Expense. Virginia Beach must pay its share of annual expenses of the Norfolk water system, including appropriate departmental and city general overhead and payments in lieu of real estate and tangible personal property taxes, excluding payments to Norfolk's general fund and certain non-common payments.

Depreciation Expense. Virginia Beach must pay an annual depreciation expense associated with the Virginia Beach rate base, excluding construction work in progress.

Return on Rate Base. Virginia Beach must pay to Norfolk an annual return on the Virginia Beach rate base. The annual rate of return to be applied to the Virginia Beach rate base is computed by multiplying the embedded effective average annual interest cost of the Norfolk Utilities Department water system debt for the applicable rate year by 1.25.

Rate Base. The rate base for the purposes of the Water Services Contract is the original cost of the Norfolk water system less accrued depreciation (as shown on Norfolk's books and records). The rate base includes construction work in progress, expenditures which have been paid by Norfolk at the time of rate determination, and general facilities related to the Norfolk water system.

The rate base is allocated between Virginia Beach and Norfolk based on the contract allocation capacities and safe yield of Virginia Beach compared to the capacities of the Norfolk water system facilities

serving Virginia Beach and the combined system safe yield. All facilities in the Norfolk water system providing service or benefit to Virginia Beach, including raw water supply, storage and transmission, treatment, pumping, storage, and treated water transmission mains, meters, and administrative and general facilities are included in the rate base subject to allocation to Virginia Beach. Excluded from the rate base subject to allocation to Virginia Beach are: fire hydrants; retail meters and services; all transmission and distribution facilities not used to serve Virginia Beach; ~~and~~ land, land rights and general plant related to excluded items; and certain contributed capital.

Fixed Capacity Charge. Virginia Beach must pay an annual fixed capacity charge sufficient to recover depreciation expense and the return on the Virginia Beach rate base. This fixed capacity charge is payable in equal monthly amounts during the year or years for which rates are applicable.

Demand Charge. Virginia Beach must pay an annual unit demand charge per MGD applied to the measured coincidental maximum hourly demand of Virginia Beach. The annual unit demand charge is based on the common to all operation and maintenance expense of the facilities providing service to Virginia Beach, excluding the energy portion of power costs, chemical costs, sludge disposal and other costs which vary directly with volume of treated water produced. The annual unit demand charge per MGD is 1.01 times the result of dividing the common to all operation and maintenance expense described in the preceding sentence by the sum of the Virginia Beach and Norfolk noncoincidental maximum hourly pumpage outputs at the Norfolk treatment plants providing service to Virginia Beach.

Supplemental Demand Charge. In the event that Virginia Beach's maximum hourly demand exceeds its contract hourly demand rate of 90 MGD, Virginia Beach must pay a supplemental demand charge for that portion of its maximum hourly demand which exceeds 90 MGD. The amount of the supplemental unit demand charge is equal to two (2) times the unit demand charge as determined in accordance with the formulas set forth above. If the Stumpy Lake contract capacity increase option is exercised (as described under the caption "*Effective Date*" below), the maximum hourly demand rate above shall be 93.6 MGD.

Commodity Charge. Virginia Beach must pay a commodity rate per 1,000 gallons of treated water. This charge is sufficient to recover the energy portion of power costs, chemical costs, sludge disposal, and other costs which vary directly with the volume of treated water produced. The Virginia Beach commodity charge is 1.01 times the amount determined by dividing the total variable cost described in the preceding sentence for the Norfolk water treatment plants providing service to Virginia Beach by the total treated water volume output of such Norfolk water treatment plants, in thousands of gallons.

Biennial Adjustment of Rates. Norfolk is obligated to develop projections of rates applicable to Virginia Beach for treated water service on a biennial basis based on a cost of service study prepared by an independent consulting firm. The projections of rates, along with a copy of the cost of service study, must be submitted to Virginia Beach not less than 120 days prior to the beginning of the two (2) year period. Virginia Beach will be billed monthly for treated water service by Norfolk using the projected rates applicable to water use beginning with the first day of the applicable fiscal year and for the remainder of the two (2) fiscal years. Such projections of rates, however, may be revised at any time, upon 60 days' advance notice, during the two (2) fiscal years by Norfolk should unexpected significant increases or decreases in Virginia Beach's allocated portion of Norfolk's water system costs occur during the fiscal years; however, Norfolk may not adjust Virginia Beach's rates more than once during the two (2) year period unless it also adjusts rates to its own retail customers.

Within six (6) months after the end of the second fiscal year, Norfolk must complete and submit to Virginia Beach a true-up schedule of rates and annual billings applicable to the previous two (2) fiscal years which reflects an allocation of costs of service based on actual cost and experience incurred by the Norfolk water system as shown in the audited books and records of Norfolk. The February, 2001, amendments to the amended and restated water services contract clarified the contract's methodology as to cost of service and true-up adjustments. Any resulting credits or payments applicable to treated water service resulting from this

true-up shall be divided into twelve equal payments or credits to be paid or applied during the second fiscal year.

Source and Priority of Payments.

Source of Payment. Virginia Beach must make payments of all charges for treated water service, as well as charges upon termination of the Water Services Contract (the "termination payments") and any other charges payable under the Water Services Contract, solely from revenues received by Virginia Beach from charges paid by users of its water and sewer system and available to it for such purposes for so long as Virginia Beach operates its water and sewer system on a combined basis; provided, however, if Virginia Beach chooses to operate its water system separate and apart from its sewer system, then such charges must be paid solely from revenues of its water system. The charges payable under the Water Services Contract are not deemed to create or constitute an indebtedness or a pledge of the faith and credit of the Commonwealth or of any county, city, town or other political subdivision thereof, including Virginia Beach, for purposes of any constitutional, statutory or charter limitations.

Characterization of Charges under the Water Services Contract. The demand charge, supplemental demand charge, commodity charge, fixed capacity charge and termination payments are deemed to be a part of the annual operating expense of the Virginia Beach water and sewer system, or the water system, as applicable.

Except as described in the following paragraph, the demand charge, supplemental demand charge, commodity charge, fixed capacity charge and termination payments must be paid prior to the debt service on any water and sewer revenue bonds or double barrel bonds of Virginia Beach.

The payment of the fixed capacity charge is on parity with the payment of debt service on certain bonds of Virginia Beach. The payment of the termination payments is subordinate to the payment of debt service on such bonds.

Other than as described above, Virginia Beach will not issue any water and sewer revenue bonds or double barrel bonds as long as the Water Services Contract is in full force and effect (including (i) certain refunding bonds and (ii) revenue or general obligation bonds, the proceeds of which finance the cost of termination payments), the debt service on which will be payable prior to or on parity with Virginia Beach's payment obligations under the Water Services Contract (i.e., the demand charge, supplemental demand charge, commodity charge, fixed capacity charge and termination payments). Virginia Beach may not amend or supplement its Master Bond Resolution or enter into any successor indenture, trust agreement or resolution pledging the revenues of its water and sewer system, or its water system, as applicable, in such a way that will subordinate or adversely affect the pledge or the dignity thereof securing its payment obligations under the Water Services Contract (including the termination payments), without the written consent of Norfolk.

Maximum Amount and Final Payment Date of Termination Payments. The total amount of termination payments may not exceed \$102,252,907 (the "Maximum Termination Amount") or such higher amount as are Norfolk's actual costs to construct the facilities set forth in the Water Services Contract, in which event Norfolk must advise Virginia Beach of such higher Maximum Termination Amount and provide appropriate documentation supporting the same. Payment in full of the termination payments may be made no later than July 1, 2009. Virginia Beach may substitute insurance or a letter of credit for its obligation to make termination payments.

Issuance of Bonds. Virginia Beach retains the right under the Water Services Contract to issue either its revenue or general obligation bonds, the proceeds of which will finance the costs of making the termination payments. The determination as to whether to issue such bonds is within the complete control of Virginia Beach.

Rate Covenant. Virginia Beach must fix, charge and collect such rates, fees and other charges for the use of and for the services furnished by its water and sewer system, or its water system, as applicable, and must from time to time and as often as shall appear necessary, revise such rates, fees and other charges so that revenues received from its water and sewer or its water system, as appropriate, will be sufficient in each year to pay all amounts due under the Water Services Contract and all other operation and maintenance expenses of its water and sewer system, or its water system, as applicable.

Reduced Water Usage By Virginia Beach. If Virginia Beach receives reduced quantities of treated water from Norfolk because Virginia Beach has developed or acquired additional treated water supplies, Virginia Beach must for the duration of the Water Services Contract pay the annual fixed capacity charge, and the commodity rate for the actual treated water delivered to Virginia Beach. In addition, for a period of three (3) years, Virginia Beach must pay the annual demand charge applied to the greater of its hourly demand for the year or the highest maximum hourly demand experienced during the five (5) years immediately preceding the reduction.

Curtailment. The parties acknowledge in the Water Services Contract that supply or treatment problems may occur which prevent or limit Norfolk's ability to deliver treated water to Virginia Beach and/or Norfolk's other treated water customers. In the event that the conditions which prevent or limit Norfolk's ability to deliver treated water to Virginia Beach are applicable to other of Norfolk's customers, Norfolk must seek and, to the extent permitted by federal and state laws and regulations and national security constraints as declared by an official of the United States, enforce the imposition of treated water curtailment upon all affected customers, retail, wholesale or otherwise, in order that all such treated water customers will be similarly affected. If water supplies or services are curtailed in accordance with the procedures set forth above, Virginia Beach and Norfolk are obligated to cooperate by imposing conservation measures upon their respective customers. Neither Norfolk nor Virginia Beach are required to impose curtailments of water supply which would violate any requirements imposed by the State Water Control Board and other state and federal agencies and laws.

Force Majeure and Hold Harmless. Norfolk is not liable to Virginia Beach for any act, omission, or circumstances occasioned by or in consequence of any act of God, strikes, lockouts, acts of the public enemy, wars, etc.

In case of breaks in the mains, or malfunction of pumping machinery, or other water works equipment, or the occurrence of any other event which makes it necessary temporarily to reduce pressure or cease delivery of water to Virginia Beach, Norfolk must, if practicable, give previous notice of one week. In no case may any claim for damage due to reduced water service or pressure be made by Virginia Beach, and Virginia Beach must hold Norfolk harmless from any third-party suit arising from, or related to, reduced water service or pressure on the Virginia Beach distribution system unless Norfolk's negligence was the cause of the reduced water service or pressure.

Virginia Beach must hold harmless and indemnify Norfolk against any claims or losses arising from receipt of Virginia Beach Water by Norfolk or delivery by Norfolk of treated water to Virginia Beach, unless Norfolk's negligence or failure to comply with its water quality obligations was the cause of the damage which gave rise to the claim or loss.

Stumpy Lake contract capacity increase. By reason of Virginia Beach's acquisition of Stumpy Lake, Virginia Beach may desire to request an increase of the Virginia Beach contract capacities provided for in the Water Services Contract, from an annual average day rate of 45 MGD to 46.8 MGD, a maximum day rate of 67.5 MGD to 70.2 MGD, and a maximum hour rate of 90 MGD to 93.6 MGD. Norfolk, in its sole opinion, shall determine whether existing uncommitted constructed capacity exists in Norfolk facilities capable of meeting any of such additional contract capacities. Upon affirmative notice by Norfolk of such existing uncommitted constructed capacity, the increased contract capacities shall become effective on July 1 of the following year.

Breaches Related to Treated Water Safe Yield. If Virginia Beach's treated water average day demand (measured at the metering points) exceeds the lesser of 45 MGD or 99.0% of its treated water safe yield, Virginia Beach must reduce its treated water usage such that it does not exceed the lesser of 45 MGD or 99.0% of its treated water safe yield. In such event, Virginia Beach must institute adequate measures to ensure that its demand does not exceed the lesser of 45 MGD or 99.0% of its treated water safe yield. In addition, in such event, Norfolk may restrict the amount of treated water Virginia Beach may receive to ensure that the usage of Virginia Beach does not exceed the lesser of 45 MGD or 99.0% of its treated water safe yield. If the Stumpy Lake contract capacity increase option is exercised, Virginia Beach's maximum permissible annual average day demand of 45 MGD shall be 46.8 MGD.

If the Virginia Beach average day demand (measured at the metering points) exceeds the lesser of 45 MGD or 99.0% of its treated water safe yield, for a fiscal year, then Virginia Beach must pay a supplemental charge for all usage above the lesser of 45 MGD or 99.0% of its treated water safe yield in addition to all other charges provided in the Water Services Contract. The supplemental charge is the rate of \$4.00 per 1,000 gallons multiplied by the sum of 1 plus .05 times the number of years since 1990. If the Stumpy Lake contract capacity increase option is exercised, Virginia Beach's maximum permissible annual average day demand of 45 MGD shall be 46.8 MGD.

If the combined treated water average day demand of Norfolk and all of its treated water customers (measured at the treatment plants), excluding Virginia Beach and any other customers for which and to the extent that Norfolk wheels and treats raw water (adjusted for losses), exceeds Norfolk's treated water safe yield, then Norfolk must reduce its usage and that of its treated water customers, other than Virginia Beach and any other customers for which and to the extent that Norfolk wheels and treats their raw water (adjusted for losses), such that their combined treated water usage does not exceed Norfolk's treated water safe yield. In addition, in such event, Norfolk must at the request of Virginia Beach, to the extent permitted by federal and state laws and regulations and national security constraints as declared by an official of the United States, restrict the amount of treated water that Norfolk and its customers may receive to ensure that the combined usage of Norfolk and its customers (excluding Virginia Beach and any other customers for which and to the extent that Norfolk wheels and treats their raw water (adjusted for losses)) does not exceed Norfolk's treated water safe yield.

If the combined treated water average day demand of Norfolk and its customers (excluding Virginia Beach, any other customers for which and to the extent that Norfolk wheels and treats raw water, adjusted for losses, and interruptible) at the treatment plants exceeds Norfolk's treated water safe yield for a fiscal year, then it must pay a supplemental charge to Virginia Beach for all use above Norfolk's treated water safe yield. The supplemental charge is equal to \$4.00 per 1,000 gallons multiplied by the sum of 1 plus .05 times the number of years since 1990.

Breaches Related to Contract Capacities. If Virginia Beach's average day, maximum day or maximum hour demand exceeds the capacities contracted for and set forth in the Water Services Contract, then Virginia Beach must reduce its treated water demands to the average day, maximum day, and maximum hour capacities for which it has contracted in the Water Services Contract. To ensure that the necessary reductions do occur, Virginia Beach must institute adequate conservation measures. In addition, in such event, Norfolk may restrict the rate at which Virginia Beach may receive water to ensure that the demands of Virginia Beach do not exceed the average day, maximum day, or maximum hour capacities for which Virginia Beach has contracted.

Other Breaches. If either party breaches any term of the Water Services Contract, the other party must give written notice of the breach, identifying the provision(s) of the Water Services Contract which are being breached. The breaching party has six (6) months from the date of the notice within which to cure the breach. In the event the breach remains uncured for six (6) months, then the breaching party must pay to the other, for each 30 days or portion thereof the breach remains uncured, in addition to all other payments due

under the Water Services Contract, an amount, beginning with the seventh month, equal to 10% of the total charge for water on a monthly basis due by the City of Virginia Beach to Norfolk. This 10% amount increases to 50% should the breach remain uncured for an uninterrupted period of twelve months. However, no payment is required so long as the party in breach makes a continuous, good faith effort to cure the breach. These provisions of the Water Services Contract do not apply to the conditions, breaches and circumstances with respect to rates and charges or breaches related to treated water safe yield.

Termination by Norfolk. Norfolk may terminate the Water Services Contract if one (1) of the following events occurs:

- (a) The Gaston pipeline is not 50% complete by June 30, 1998, with (i) all permits and approvals still in force for the construction in progress and (ii) all permits and approvals necessary to withdraw water from Lake Gaston and have the pipeline fully operational.
- (b) The Gaston pipeline is not 100% complete and fully operational by June 30, 2000, with all permits and approvals still in force.
- (c) Virginia Beach does not give authorization for the construction of the Plant Hydraulic Improvements prior to January 1, 1997.
- (d) Virginia Beach does not pay in full a statement within 120 days of receipt unless the unpaid portion of such statement has been submitted to the dispute resolution process set forth in the Water Services Contract.
- (e) Virginia Beach has a total and permanent loss of ability to deliver Virginia Beach Water to Norfolk, including, but not limited to, equipment failure or destruction, or the loss of any required permit, approval, or authority. Such loss is deemed permanent if it continues for twenty-four consecutive months.
- (f) Virginia Beach willfully and continuously breaches any term of the Water Services Contract which significantly affects the operation of the Water Services Contract.

Upon termination of the Water Services Contract by Norfolk after the Gaston Pipeline is fully operational, Virginia Beach may receive water from Norfolk (in amounts to be determined by Norfolk) for three (3) years after the effective date of termination, if Norfolk has sufficient surplus water available, provided, however, if there is a then existing surplus water contract between Norfolk and Virginia Beach, then the terms of the surplus water contract govern. Virginia Beach must pay for all such surplus water at a rate equal to two (2) times the sum of the charges which would be applicable under the Water Services Contract. Except as described in this paragraph, Virginia Beach is not entitled to receive any water under the terms of the Water Services Contract after the effective date of termination of the Water Services Contract.

If Virginia Beach receives water from Norfolk which is not provided for under the terms of the Water Services Contract or another written contract between the parties, Virginia Beach must pay for all such water received at a rate equal to three (3) times the sum of the charges which would be applicable under the Water Services Contract.

In the event that the Water Services Contract is terminated by Norfolk prior to the date that Virginia Beach receives services under the Water Services Contract and prior to the date Virginia Beach authorizes the construction of the Plant Hydraulic Improvements, Virginia Beach must make certain payments to Norfolk as if Virginia Beach had terminated the Water Services Contract. In the event that the Water Services Contract is terminated by Norfolk prior to the date that Virginia Beach receives services under the Water Services Contract and after the date Virginia Beach authorizes the construction of the Plant Hydraulic Improvements, Virginia Beach must make certain other payments to Norfolk as if Virginia Beach had terminated the Water Services Contract. In the event that the Water Services Contract is terminated by Norfolk, after the date that

Virginia Beach receives services under the Water Services Contract, or by Virginia Beach, Virginia Beach must pay to Norfolk an amount equal to the rate base allocated to Virginia Beach under the most recent cost of service study, provided such facilities are not necessary for Norfolk to provide service to Norfolk or customers of Norfolk with contracts for the sale of water, including Virginia Beach. Virginia Beach's rights to services under the Water Services Contract are not considered in making the determination of whether the facilities are necessary. In the event Norfolk needs part, but not all, of the facilities allocated to Virginia Beach, Virginia Beach must pay an amount equal to the part of the rate base allocated to Virginia Beach which is not needed by Norfolk. Virginia Beach must pay amounts described in this paragraph in not more than ten (10) equal annual installments beginning twelve months from the effective date of termination. In addition, with each such installment of principal, Virginia Beach must pay a return on the unpaid balance equal to the return on rate base determined for the immediately preceding fiscal year.

Termination by Virginia Beach. Virginia Beach may terminate the Water Services Contract at any time prior to authorizing construction of the Plant Hydraulic Improvements by providing written notice. Such termination is effective 90 days after the notice is provided. In the event of such termination by Virginia Beach, Virginia Beach is obligated to pay to Norfolk all of Norfolk's actual costs incurred between January 1, 1990, and the effective date of termination, to complete certain projects necessary to meet its obligations under the Water Services Contract, to the extent such projects are required to meet the obligations of the Water Services Contract and are not, at such time, needed to serve Norfolk or the customers of Norfolk with contracts for the sale of water, including Virginia Beach. Virginia Beach must pay such costs in not more than five (5) equal annual installments beginning on the effective date of termination. In addition, with each such installment of principal, Virginia Beach must pay a return on the unpaid balance equal to the return on rate base determined for each immediately preceding fiscal year.

Virginia Beach may, by written notice, terminate the Water Services Contract at any time after notifying Norfolk to proceed with the Plant Hydraulic Improvements and prior to receiving services pursuant to the Water Services Contract, if Virginia Beach believes that the Gaston pipeline will not become fully operational. Such termination is effective 90 days after the notice is provided. In the event of such termination by Virginia Beach, Virginia Beach is obligated to pay to Norfolk all of Norfolk's actual costs incurred between January 1, 1990, and the effective date of termination, to construct certain facilities necessary to meet its obligations under the Water Services Contract, to the extent such facilities are not, at such time, needed to serve Norfolk or the customers of Norfolk with written contracts for the sale of water, including Virginia Beach, in addition, the costs incurred to construct such facilities will include all costs incurred after the effective date of termination with respect to such construction projects in progress on the date termination notice was given; provided, however, such additional costs are the lesser of (i) the additional cost to complete any such project, or (ii) the cost to place the facilities being constructed or modified in good working order with reduced capacity so long as, in the case of the modification of a facility, the capacity is not less than it was before the modification was undertaken. In addition, Virginia Beach must pay any termination or other contract charges associated with terminating any such construction projects as a result of the termination of the Water Services Contract. Virginia Beach must pay all costs described above in not more than ten (10) equal annual installments beginning on the effective date of termination, provided, however that any termination or completion costs must be paid in not more than nine (9) equal annual installments beginning one (1) year after the effective date of termination. In addition, with each such installment of principal, Virginia Beach must pay a return on the unpaid balance equal to the return on rate base determined for each immediately preceding fiscal year.

Except as otherwise provided in the two preceding paragraphs, Virginia Beach may terminate the Water Services Contract if one (1) of the following events occurs:

- (a) Norfolk has a permanent and total loss of ability to wheel and treat Gaston water for 24 consecutive months.

(b) Norfolk willfully and continuously breaches any term of the Water Services Contract which significantly affects the operation of the Water Services Contract.

(c) Virginia Beach has a total and permanent loss of ability to deliver Gaston water to Norfolk, including, but not limited, equipment failure or destruction, or the loss of any required permit, approval or authority. Such loss is deemed permanent if it continues for twenty-four (24) consecutive months.

Upon the effective date of termination by Virginia Beach other than for events specified in subparagraph (c) above, Virginia Beach has no further obligations or responsibilities to Norfolk under the Water Services Contract except to pay any outstanding amounts due for service provided under the Water Services Contract.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

[FORM OF BOND COUNSEL OPINION]

[SUBJECT TO REVIEW]

_____, 2008

Mayor and Council of the
City of Norfolk, Virginia
Norfolk, Virginia

**\$58,415,000
City of Norfolk, Virginia
Water Revenue Bonds,
Series 2008**

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the issuance and sale by the City of Norfolk, Virginia (the "City"), of its \$58,415,000 Water Revenue and Bonds, Series 2008 (the "2008 Bonds"), dated the date of delivery. The 2008 Bonds are issued pursuant to a Master Indenture of Trust dated as of November 1, 1993, as previously supplemented and amended (the "Master Indenture"), between U.S. Bank National Association, as successor trustee to SunTrust Bank and Crestar Bank by merger, (the "Trustee") and the City, as supplemented and amended by a Seventh Supplemental Indenture of Trust dated as of April 1, 2008 (the "Seventh Supplemental Indenture"), between the Trustee and the City. The Master Indenture and the Seventh Supplemental Indenture are referred to collectively as the "Indenture." Unless otherwise defined, each capitalized term used in this opinion has the meaning given to it in the Indenture.

We refer you to the 2008 Bonds and the Indenture for a description of the purposes for which the 2008 Bonds are issued, their terms and the security for them.

In connection with this opinion, we have examined the Constitution of Virginia and the applicable laws of both the United States and the Commonwealth of Virginia, including without limitation the Internal Revenue Code of 1986, as amended (the "Code"), and the Public Finance Act of 1991, Chapter 26, Title 15.2, Code of Virginia of 1950, as amended, and copies of proceedings and other documents relating to the issuance and sale of the 2008 Bonds by the City as we have deemed necessary to render this opinion.

As to questions of fact material to this opinion, we have relied upon (a) representations of the City, including, without limitation, representations as to the use of proceeds of the 2008 Bonds, (b) certifications of public officials furnished to us, and (c) certifications and representations contained in certificates of the City and others delivered at closing, without undertaking to verify them by independent investigation. We have assumed that all signatures on documents, certificates, and instruments examined by us are genuine, all documents, certificates, and instruments submitted to us as originals are authentic, and all documents, certificates, and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates, and instruments relating to this financing have been duly authorized, executed, and delivered by all parties to them other than the City, and we have further assumed the due organization, existence, and powers of all parties other than the City.

Based on the foregoing, in our opinion, under current law:

1. The City has the requisite authority and power to enter into the Indenture to issue and sell the 2008 Bonds, and to apply the proceeds from the issuance and sale of the 2008 Bonds as set forth in the Seventh Supplemental Indenture. Neither the faith and credit of the Commonwealth of Virginia nor the faith and credit of the City or any other political subdivision of the Commonwealth of Virginia are pledged to the payment of the principal of or premium, if any, or interest on the 2008 Bonds.

2. The 2008 Bonds have been duly authorized, executed, and delivered in accordance with the Constitution and statutes of the Commonwealth of Virginia and the Indenture and constitute valid and binding limited obligations of the City, payable solely from the Net Revenues and other property pledged for such purpose under the Indenture for the security of the 2008 Bonds on a parity with the Outstanding 1993 Bonds, 1995 Bonds, 1998 Bonds, 2001 Bonds, 2005 Bonds and any Additional Bonds to be issued in the future under the Indenture and any Parity Indebtedness.

3. The Indenture has been duly authorized, executed, and delivered by the City, constitutes a valid and binding obligation of the City, and is enforceable against the City in accordance with its terms. The Seventh Supplemental Indenture complies in all respects with the requirements of the Master Indenture.

4. The Master Indenture requires the City to fix, revise, and collect rates, fees, and other charges for the use of and for the services furnished by the System so that Net Revenues will be sufficient to pay, among other things, when due Operating Expenses and the principal of and interest on the 1993 Bonds, the 1995 Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Bonds and the 2008 Bonds.

5. Additional Bonds may be issued and Parity Indebtedness incurred from time to time under the conditions, limitations, and restrictions set forth in the Master Indenture, and will be secured equally and ratably as to the pledge of Net Revenues with the 1993 Bonds, the 1995 Bonds, the 1998 Bonds, the 2001 Bonds, the 2005 Bonds and the 2008 Bonds.

6. The obligations of the City under the 2008 Bonds and the Indenture are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally. Such obligations are also subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of the obligations.

7. Interest on the 2008 Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2008 Bonds, is excludable from gross income for purposes of federal income taxation under Section 103 of the Code, and is not a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. We observe, however, that for purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Code, interest on the 2008 Bonds must be included in computing adjusted current earnings. The "original issue discount" on any 2008 Bond is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the 2008 Bonds of the same maturity was sold. The "public" does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the 2008 Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of certifications and representations of representatives of the City as to facts material to the opinion, and (ii) assuming continuing compliance with the Covenants (as defined below) by the City, so that interest on the 2008 Bonds will remain excludable from gross income for federal income tax purposes. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2008 Bonds in order for interest on the 2008 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2008 Bonds and the use of the property financed or refinanced by the 2008 Bonds, limitations on the source of the payment of and the security for the 2008 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2008 Bonds to the United States Treasury. The City's tax certificate for the 2008 Bonds (the "Tax Certificate") contains covenants (the "Covenants") under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the 2008 Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2008 Bonds from becoming includable in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issue of the 2008 Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or

omitted under the circumstances and subject to the terms and conditions set forth in such document.

8. Interest on the 2008 Bonds is excludable from gross income of the owners thereof for purposes of income taxation by the Commonwealth of Virginia. We express no opinion regarding (i) other Virginia tax consequences arising with respect to the 2008 Bonds or (ii) any consequences arising with respect to the 2008 Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth of Virginia.

Our services as Bond Counsel have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the 2008 Bonds and the income tax status of the interest on them. We have not been engaged and have not undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the 2008 Bonds and, therefore, we express no opinion as to the accuracy or completeness of any information that may have been relied upon by any owner of the 2008 Bonds in making a decision to purchase the 2008 Bonds.

Very truly yours,

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Norfolk, Virginia (the "City"), in connection with the issuance by the City of \$58,415,000 original aggregate principal amount of its Water Revenue Bonds, Series 2008 (the "Bonds"), pursuant to Ordinance No. 42,956 adopted by the Council of the City on January 8, 2008 (the "Ordinance"), and a Master Indenture of Trust dated as of November 1, 1993, as previously supplemented and amended, between the City and Crestar Bank, as trustee (the "Trustee"), as supplemented and amended by a Seventh Supplemental Indenture of Trust dated as of April 1, 2008, between the City and U.S. Bank, National Association, as successor trustee to SunTrust Bank and Crestar Bank by merger (collectively, the "Indenture"). The proceeds of the Bonds are being used by the City, along with other available funds, (i) to finance certain costs of acquiring, constructing and equipping capital improvements to the City's water system, (ii) to provide the funding for the debt service reserve fund for the Bonds and (iii) to pay the financing and issuance costs of the Bonds. Pursuant to the Ordinance, the City approved the offering and sale of the Bonds to the public pursuant to an Official Statement relating to the Bonds, dated April 8, 2008 (the "Official Statement"). The City has determined that it constitutes an "obligated person" within the meaning of the Rule (hereinafter defined) with respect to the Bonds and, accordingly, hereby represents, covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement; Representation. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders (as defined below) and in order to assist the Participating Underwriters in complying with the Rule (as defined below). The City 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 Ordinance, 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 Financial Information" with respect to any Fiscal Year of the City means the following:

- (i) the financial statements (consisting of at least, for the Fiscal Year 2007, a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets and thereafter a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets) of the City's Water Utility Fund, which (A) are prepared annually in accordance with generally accepted accounting principles in effect from time to time consistently applied (provided that nothing in this Disclosure Agreement will prohibit the City after the date of the Official Statement from changing such principles so as to comply with generally accepted accounting principles as then in effect or to comply with a change in applicable Virginia law); and (B) are audited by an independent certified public accountant or firm of such accountants in accordance with generally accepted auditing standards as in effect from time to time; and

(ii) updates of the operating data contained in the following sections and subsections of the Official Statement entitled: (a) "THE SYSTEM" -- "Customer Base" (but only with respect to Table 1, Average Metered Consumption); and (b) "FINANCIAL MANAGEMENT" -- "Water Rates" (but only with respect to Table 9, Retail Customers' Average Annual Cost Norfolk Retail, Table 10, Wholesale Customers' Average Annual Costs Virginia Beach, Table 11, Wholesale Customers' Average Annual Costs U.S. Navy, including Norfolk and Virginia Beach and Table 12, Wholesale Customers' Average Annual Costs Chesapeake) and "Budget Process" (but only with respect to Table 15, Water Utility Fund Annual Budget for the two most recent fiscal years). All of the operating data to be provided pursuant to this subparagraph may be presented in the form of tables.

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

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the City and the results of its operations for such period are determined. Currently, the City's Fiscal Year begins July 1 and continues through June 30 of the next year.

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

"Make Public" or "Made Public" has the meaning set forth in Section 4 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"NRMSIR" shall mean each nationally recognized municipal securities information repository approved as such by the SEC from time to time.

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

"Rule" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934 and any similar rules of the SEC relating to disclosure requirements in the offering and sale of municipal securities, all as in effect from time to time.

"SEC" shall mean the U.S. Securities and Exchange Commission.

"SID" shall mean any state-based information depository existing from time to time in the Commonwealth of Virginia for the purpose of receiving information concerning municipal securities and recognized as such by the SEC.

Section 3. Obligations of the City. (a) The City shall complete the preparation of the Annual Financial Information with respect to any Fiscal Year of the City not later than 270 days after the end of such Fiscal Year.

(b) The City shall, in accordance with the Rule, Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), the Annual Financial Information within 30 days after it is prepared in final form.

(c) The City shall Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), in a timely manner, notice of any of the following events that may from time to time occur with respect to the 2008 Bonds, but with respect to the items in (i) through (xi), only if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancement maintained with respect to the 2008 Bonds reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of interest on the 2008 Bonds;
- (vii) modifications to rights of Holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the 2008 Bonds;
- (xi) rating changes; and
- (xii) the failure of the City on or before the date required by this Disclosure Agreement to provide Annual Financial Information to the persons and in the manner required by this Disclosure Agreement;

provided that nothing in this subsection (c) shall require the City to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the 2008 Bonds or to pledge any property as security for repayment of the 2008 Bonds.

(d) The City shall notify each NRMSIR (as defined below) of any change in its Fiscal Year not later than the date on which it first provides any information to the NRMSIRs in the current Fiscal Year.

Section 4. Information Made Public. Information shall be deemed to have been "Made Public" for purposes of this Disclosure Agreement if transmitted to each of the following as herein required:

(a) (i) each NRMSIR, at its then current address, including the following NRMSIRs existing as of the date hereof:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
<http://www.bloomberg.com/markets/rates/municontacts.html>
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.munifilings.com>
Email: nrmsir@dpcdata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
<http://www.disclosuredirectory.standardandpoors.com>
Email: nrmsir_repository@sandp.com

Interactive Data Pricing and Reference Data, Inc.
Attn: NRMSIR
100 William Street, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; (800) 689-8466
Fax: (212) 771-7390
www.interactiveidata-prd.com
Email: NRMSIR@interactiveidata.com

(ii) at its then current address, the SID, if any; provided that in the case of any information Made Public under Section 3(c), such information may be

provided to the MSRB at the following address (or such other address as may at the time be in effect), in lieu of providing it to the NRMSIRs as described in clause (i) above:

Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, Virginia 22314
Phone: (703) 797-6600
Fax: (703) 797-6704

Section 5. Incorporation by Reference. Any or all of the Annual Financial Information may be incorporated by reference from other documents, including official statements containing information with respect to the City, which have been filed with each of the NRMSIRs or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

Section 6. CUSIP Numbers. The City shall reference, or cause the Dissemination Agent (if other than the City) to reference, the CUSIP prefix number for the 2008 Bonds in any notice provided to the NRMSIRs, the MSRB and/or the SID pursuant to Sections 3 and 4.

Section 7. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2008 Bonds.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

Section 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws addressed to the City and the Underwriter for the 2008 Bonds to the effect that such amendment is permitted or required by the Rule.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City 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 Financial Information or notice of occurrence of an event listed in Section 3(c), in addition to that which is required by this Disclosure Agreement. If the City chooses to report any information in any Annual Financial Information or include any information in a notice of occurrence of an event listed in Section 3(c), in addition to that which is specifically required by this Disclosure Agreement, the City shall have no

obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of such an event.

Section 11. Default. Any Holder, whether acting jointly or severally, may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligations of the City under this Disclosure Agreement. In addition, any Holder, whether acting jointly or severally, may take such action as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the City hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Ordinance, the Indenture, any 2008 Bond or any other debt authorization of the City, and the sole remedy under this Disclosure Agreement in the event of any failure of the City 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 12. Central Post Office. Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Participating Underwriters and Holders from time to time of the 2008 Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: _____, 2008

CITY OF NORFOLK, VIRGINIA

By: _____

City Manager,
City of Norfolk, Virginia

By: _____

Director of Finance,
City of Norfolk, Virginia

AGREED TO AND ACKNOWLEDGED:

By: _____
Title: _____

Approved as to Form and Correctness:

Office of the City Attorney
Norfolk, Virginia

[Signature page to Continuing Disclosure Agreement]

[THIS PAGE INTENTIONALLY LEFT BLANK]



Printed on Recycled Paper
IMAGEMASTER 800.452.5152