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Standard & Poor's
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February 10, 2003

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FINANCE DEPT. DIRECTOR

Mr. Michael W. Hill, CPA
Director of Financial Planning
City of Lynchburg
City Hall
900 Church Street
Lynchburg, VA 24505

Re: ***$40,865,000 City of Lynchburg, Virginia, General Obligation Public Improvement and Refunding Bonds, Series 2003A&B dated: February 1, 2003, due: February 1, 2004-2023***

Dear Mr. Hill:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the *MEMORANDUM OF AGREEMENT* on the reverse side hereof, have assigned a rating of 'AA' to the obligations. S&P views the outlook for this rating over the intermediate to longer term as stable.

Please note that the ongoing information required includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed and should be forwarded to:

> *Standard & Poor's Ratings Services*
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S&P relies on the issuer and its counsel, accountants and other experts for the accuracy and completeness of the information submitted in connection with the rating. In addition, it should be understood that the rating is not a *"market"* rating nor a recommendation to buy, hold or sell these securities. Please note that the rating, as is the case with all of S&P's municipal ratings, does not address the likelihood that interest payable on the Bonds may be deemed or declared includable in the gross income of Bondholders by the relevant authorities at any time.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Thank you for choosing Standard & Poor's Ratings Services. If you have any questions, please contact us.

Very truly yours,

cf

cc: Mr. Frank Williams, III, Vice President
BB&T Capital Markets

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Summary: Lynchburg, VA

Credit Analysts: John Sugden-Castillo, New York (1) 212-438-1678; Kenneth A Gear, Washington D.C. (1) 202-383-3540

Credit Profile
$40.865 mil GO bnds dtd 02/01/2003 due 02/01/2023
AA
Sale date: 19-FEB-2003

AFFIRMED
Outstanding GO bnds
AA

OUTLOOK: STABLE

Rationale

The 'AA' rating on Lynchburg, Va.'s GO bonds reflects:

- A diverse and stable local economy that serves as a regional employment base and retail center,
- Good financial operations coupled with well-defined financial policies and good planning practices, and
- A moderate debt burden with a manageable capital plan.

Offsetting factors include below-average wealth levels and high unemployment related to the durable manufacturing sector's sensitivity to economic slowdown.

Lynchburg (population 65,300) is at the center of a four-county metropolitan area. The diverse economy has been relatively stable over the past decade. Although manufacturing is no longer the city's leading employment sector, it remains a significant portion of the city's economy. The service sector is now the city's leading employment sector and accounts for 29.5% of employment, followed by manufacturing at 23.0% and trade at 20.7%. However, the manufacturing sector remains the city's leading income source, accounting for more than one-third of county residents' income. Leading employers in the area include Centra Health (3,800 employees), BWX Technologies (1,940, naval nuclear fuel systems), Sanmina (1,600, electronics), and Central Virginia Training Center (1,600). Unemployment levels peaked at 6.7% during the last recession and declined gradually throughout the mid-to-late 1990s to a low 2.1% in 2000. As a result of the economic downturn, unemployment has been on the rise over the past two years, increasing to 4.3% in 2001 and 6.2% as of November 2002. Through continued residential and increased commercial building activity, the city's tax base continues to grow, reaching $3.46 billion in fiscal 2002--an increase of 6.6% from 2001. Building permit activity peaked at $147 million in 1997 thanks to strong commercial activity. Building activity remained strong in 2002, reaching $125 million. The 10 leading taxpayers account for a diverse 11.7% of assessed value. Wealth and income levels, as measured by median household effective buying income, are below both state and national averages at 69% and 75%, respectively.

Through conservative budgetary practices and a diverse revenue stream, the city's financial position remains solid. Fiscal 2002 ended with a $1.3 million surplus in the general fund, with a closing undesignated general fund balance of almost $18 million--meeting and exceeding the city's formal policy of 10% expenditures. Fiscal 2001 posted a modest deficit of $5 million after transfers, which reflects the use of approximately $7 million for pay-as-you-go financing of capital projects. The city's fiscal 2003 budget is balanced and projects an undesignated general fund balance in line with prior years' fund balances. The city has set aside $1.2 million in contingency funds to deal with state aid cuts, estimated at $2 million total for fiscals 2003 and 2004. Human services and jails will be directly affected by the cuts, while state aid for education remains untouched. Management anticipates use of just $300,000 of the contingency funds in fiscal 2003. If needed, the city could tap into its general fund balance to mitigate the effects of the anticipated cuts while continuing to maintain a healthy fund balance reserve and exceeding its 10% reserve policy.

The city's overall debt burden is moderate at $1,516 per capita, or 2.9% of market value. Debt amortization is average, with 63% of outstanding principal maturing in 10 years and 90% maturing in 20 years. The city's formal 2003-

2008 capital improvement plan is manageable at $168.8 million. The majority of projects will be used to finance general improvements (35%), followed by utilities and schools, each representing 27%, and airport (11%). Sources for the financing of the plan include bond issuances (74%), annual city funds and grants (19%), and Virginia revolving loans (7%). Proceeds of the series 2003 A and B bonds will be used to fund various capital improvement projects and refund approximately $23 million in outstanding principal of the city's series 1993 and 1994 GO bonds. The refunding is estimated to generate net present value savings of $1.2 million, or 5% of refunded bonds. The bulk of the savings will be taken in fiscals 2003 and 2004.

Outlook

The stable outlook reflects the expectation that the city will continue to maintain good financial operations, a healthy fund balance, and manageable debt service.

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