STANDARD
&POOR'S

55 Water Street, 38th Floor
New York, NY 10041-0003
tel 212 438-2066
reference no.: 842005

July 6, 2007

City of Lynchburg
City Hall
900 Church Street
Lynchburg, VA 24505
Attention: Ms. Donna Witt, Interim Finance Director

Re: ***US$33,800,000 City of Lynchburg, Virginia, General Obligation Bonds, Series 2007, dated: Date of Delivery, due: July 15, 2027***

Dear Ms. Witt:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions,* have assigned a rating of "AA". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. If we can be of help in any other way, please call or contact us at nypublicfinance@standardandpoors.com. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.

Standard & Poor's

amh
enclosures
cc: Mr. Courtney E. Rogers, Vice President
Davenport & Company, LLC

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Standard & Poor's Ratings Services
Terms and Conditions
Applicable To
U.S. Public Finance Ratings

Request for a rating. Standard & Poor's issues public finance ratings for a fee upon request from an issuer, or from an underwriter, financial advisor, investor, insurance company, or other entity, provided that the obligor and issuer (if different from the obligor) each has knowledge of the request. The term "issuer/obligor" in these Terms and Conditions means the issuer and the obligor if the obligor is different from the issuer.

Agreement to Accept Terms and Conditions. Standard & Poor's assigns Public Finance ratings subject to the terms and conditions stated herein and in the rating letter. The issuer/obligor's use of a Standard & Poor's public finance rating constitutes agreement to comply in all respects with the terms and conditions contained herein and in the rating letter and acknowledges the issuer/obligor's understanding of the scope and limitations of the Standard & Poor's rating as stated herein and in the rating letter.

Fees and expenses. In consideration of our analytic review and issuance of the rating, the issuer/obligor agrees to pay Standard & Poor's a rating fee. Payment of the fee is not conditioned on Standard & Poor's issuance of any particular rating. In most cases an annual surveillance fee will be charged for so long as we maintain the rating. The issuer/obligor will reimburse Standard & Poor's for reasonable travel and legal expenses if such expenses are not included in the fee. Should the rating not be issued, the issuer/obligor agrees to compensate Standard & Poor's based on the time, effort, and charges incurred through the date upon which it is determined that the rating will not be issued.

Scope of Rating. The issuer/obligor understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the issuer/obligor's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the issuer/obligor will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the issuer/obligor or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the issuer/obligor, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

Publication. Standard & Poor's reserves the right to publish, disseminate, or license others to publish or disseminate the rating and the rationale for the rating unless the issuer/obligor specifically requests that the rating be assigned and maintained on a confidential basis. If a confidential rating subsequently becomes public through disclosure by the issuer/obligor or a third party other than Standard & Poor's, Standard & Poor's reserves the right to publish it. Standard & Poor's may publish explanations of Standard & Poor's ratings criteria from time to time and nothing in this Agreement shall be construed as limiting Standard & Poor's ability to modify or refine Standard & Poor's criteria at any time as Standard & Poor's deems appropriate.

Information to be Provided by the Issuer/obligor. The issuer/obligor shall meet with Standard & Poor's for an analytic review at any reasonable time Standard & Poor's requests. The issuer/obligor also agrees to provide Standard & Poor's promptly with all information relevant to the rating and surveillance of the rating including information on material changes to information previously supplied to Standard & Poor's. The rating may be affected by Standard & Poor's opinion of the accuracy, completeness, timeliness, and reliability of information received from the issuer/obligor or its agents. Standard & Poor's undertakes no duty of due diligence or independent verification of information provided by the issuer/obligor or its agents. Standard & Poor's reserves the right to withdraw the rating if the issuer/obligor or its agents fails to provide Standard & Poor's with accurate, complete, timely, or reliable information.

Standard & Poor's Not an Advisor, Fiduciary, or Expert. The issuer/obligor understands and agrees that Standard & Poor's is not acting as an investment, financial, or other advisor to the issuer/obligor and that the issuer/obligor should not and cannot rely upon the rating or any other information provided by Standard & Poor's as investment or financial advice. Nothing in this Agreement is intended to or should be construed as creating a fiduciary relationship between Standard & Poor's and the issuer/obligor or between Standard & Poor's and recipients of the rating. The issuer/obligor understands and agrees that Standard & Poor's has not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933.

Limitation on Damages. The issuer/obligor agrees that Standard & Poor's, its officers, directors, shareholders, and employees shall not be liable to the issuer/obligor or any other person for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising out of or relating to the rating or the related analytic services provided for in an aggregate amount in excess of the aggregate fees paid to Standard & Poor's for the rating, except for Standard & Poor's gross negligence or willful misconduct. In no event shall Standard & Poor's, its officers, directors, shareholders, or employees be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, legal fees, or losses (including, without limitation, lost profits and opportunity costs). In furtherance and not in limitation of the foregoing, Standard & Poor's will not be liable in respect of any decisions made by the issuer/obligor or any other person as a result of the issuance of the rating or the related analytic services provided by Standard & Poor's hereunder or based on anything that appears to be advice or recommendations. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence), or otherwise. The issuer/obligor acknowledges and agrees that Standard & Poor's does not waive any protections, privileges, or defenses it may have under law, including but not limited to, the First Amendment of the Constitution of the United States of America.

Term. This Agreement shall terminate when the ratings are withdrawn. Notwithstanding the foregoing, the paragraphs above, "Standard & Poor's Not an Advisor, Fiduciary, or Expert" and "Limitation on Damages", shall survive the termination of this Agreement or any withdrawal of a rating.

Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

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PUBLIC FINANCE

Lynchburg, Virginia

Credit Profile		
US$33.8 mil GO bnds ser 2007 due 07/15/2027		
Long Term Rating	AA/Stable	New
Lynchburg		
Long Term Rating	AA/Stable	Affirmed

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RatingsDirect
Publication Date
July 10, 2007

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Lynchburg, Va.'s series 2007 $33.8 million GO bonds. The 'AA' rating on the city's existing GO bonds was also affirmed. The outlook is stable.

The rating reflects the city's:

- Growing and diversifying local economy, with stable employers, that remains the service center for a four-county region;
- Steady tax base growth, with regular expansions of commercial and industrial base;
- Favorable financial position due to strong financial management, stable reserves, and comprehensive adopted fiscal and debt policies; and
- Low debt burden, although future capital needs are sizable.

An offsetting factor is the city's below-average wealth and income indicators.

The 2007 bonds are GOs of the city, secured by Lynchburg's full faith and credit pledge. Approximately $17 million of bond proceeds will be used for general fund projects, the largest being in transportation and public buildings. The remainder of the issue is taking out short-term BANs that the city had previously issued for water and sewer system improvements.

Lynchburg (population 68,758) is located in central Virginia, approximately 120 miles west of Richmond (rated 'AA'), the state capitol. The 50-square-mile city has long served as the employment and retail base of the four county region in which it is situated. This broader

Lynchburg MSA economy, with a population of about 228,600, continues to experience steady growth and diversification. Education and health services is the leading employment sector (23% of total), followed by manufacturing and trade, transportation and utilities, each accounting for 19% of the workforce. Within the city, employment growth and development has been driven by health services, higher education, engineering, and retail services. Centra Health Systems is the city's largest employer with over 4,400 employees. Centra owns both Virginia Baptist (317 beds) and Lynchburg General (270 beds). The latter is undergoing a $69 million, five-story, 108 bed addition and construction on a 75,000 square-foot regional outpatient cancer treatment center. BWX Technologies, a producer of highly enriched uranium employing 2,265, and Areva NP North America, an engineering firm that specializes in nuclear power plants that employs 1,600 people, are headquartered in the city. Per capita retail sales are 80% above the U.S. average. The city's Route 29 (Wards Road) corridor remains the retail hub for the region. The growth in these sectors has contributed to steady employment expansion, ameliorating the effects of the Ericson Electronics closure in 2000 which drove up unemployment. Unemployment figures in the city have declined steadily, and were 3.6% in 2006, which was above the Commonwealth average (3%) but well below the U.S. (4.6%).

The city's tax base also continues to experience steady expansion. Total assessed values reached $4.5 billion in fiscal 2007, or an average $64,912 per capita. Over the past five years, average annual growth has been 5.5%; over the past 10 years 4.8%. Lynchburg is experiencing new residential growth downtown, with over 100 units being developed out of former mill buildings. The city's projection for the fiscal 2008 tax base is $4.9 billion. Despite the gains by the local economy, wealth and income measures remain below average and constrain the rating. In 2006, median household effective buying income (EBI) was 70% of the Commonwealth and 77% of the U.S. Per capita EBI figures are slightly better but still below average. These wealth numbers may be understated somewhat, given the number of colleges (5) and students within Lynchburg.

The city's financial position remains strong due, in part, to its strong financial management policies and stable reserve levels. The city has followed fiscal and debt policies since 1999, which has contributed to a trend of stable reserve levels. Fiscal 2006 undesignated general fund balance closed with a balance of $26 million, equal to 18% of total general fund revenues of $145.8 million. This was $11.4 million more than the city council adopted fund balance policy target of 10%, the fifth consecutive year in which undesignated reserves were above that level. Total unreserved fund balance in fiscal 2006 was larger at $35.9 million or 24% of expenditures, due to a large $10 million operating surplus. The large positive variance in 2006 was caused, in part, by a change in property tax collections of personal property taxes from one-time per year to two-times per year, accounting for $6 million in one-time revenues in fiscal 2006. The city budgeted this amount for capital projects in fiscal 2007.

According to the city, fiscal 2007 is projected to close with a general fund undesignated fund balance of $19 million, equal to 13% of general fund revenues (projected at $144.7 million). The city's revenue structure is diverse. Aside from property taxes, which are the city's largest single revenue source, Lynchburg relies on local sales taxes ($13 million in 2006), business license taxes ($7.2 million), and meals and lodging taxes ($10.9 million). The fiscal 2008 adopted budget totals $151.9 million, up 8.6% over 2007. The budget includes property tax revenues up $5.8 million or 10% over fiscal 2007's, pay-as-you-go capital projects of $4.7 million, 12 new public safety positions, and a $250,000 appropriation for OPEB reserve fund.

The city's overall debt burden remains at a moderate $1,580 per capita, or 4% of market value. In fiscal 2006, debt service carrying charges were moderate at 7% of general fund expenditures. However, amortization of debt is faster than average, with 65% of principal retired within 10 years. Future capital needs are large but manageable. The city uses a six-year capital improvement plan to manage its capital needs. The 2008-2012 capital improvement plan (CIP) totals $300.8 million. Of that amount, $71 million is outlined for transportation needs; $61.6 million for schools $61.6 million; and $100 million for sewer system improvements. For funding, the city is expecting $99 million of these projects to be tax-supported bonded, plus $78 million in revenue bonds. The city also faces challenges in its sewer operations, which it continues to address. Since 1989, the city has faced a state order to address a combined sewer overflow (CSO) problem. The ongoing project requires the complete separation of storm water and sewer systems. Estimated work for the remainder of the combined sewer overflow separation in 2007 dollars is $309 million over the next 20-25 years.

Outlook

The stable outlook reflects the expectation that the city will continue to experience solid new growth and development, maintaining its position as the employment and retail center for the region in the Commonwealth. In terms of operations, Standard & Poor's expects the city's financial operations to remain favorable and stable, with structural budget balance and reserves consistent with adopted provisions. Debt needs are expected to remain steady, as the city addresses its infrastructure needs. The city's debt burden is expected to remain manageable and within current guidelines.

Financial Management Assessment: 'Strong'

Lynchburg's fiscal and debt practices are based on a series of comprehensive policies adopted by the city in 1999 and strengthened in recent years as part of a regular review process. These management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that practices are strong, well embedded, and likely sustainable.

- The city uses analysis of five-year historical trend analysis, state and federal estimates and data projections, and economic forecasts to annually develop its revenue and expenditure assumptions.
- Budgets are monitored through formal processes. Revenue and expenditures are tracked daily and reported to the council on a monthly basis based on adopted policy. In mid-March, the city's financial management team makes formal recommendations for budget adjustments, based on budget-to-actual results, to the city council.
- A six-year CIP serves as the basis for annual capital appropriations and debt financing requirements, a plan that is updated annually with identified funding sources
- The city has comprehensive formal debt management policies that it adheres to in planning and addressing its capital needs. These include a policy that limits the city's debt service-to-budget to 10% of budgeted general expenditures, a limit on total debt to 4.5% of full market value, principal amortization targets of 60% retirement in 10 years, and pay-as-you-go appropriations as percent of the city's annual CIP of at least 10%.
- The city has its own investment policy that is reviewed annually, with regularly quarterly reporting to the city manager and city council.
- The city recently adjusted and strengthened its long-adopted reserve policy. The policy calls for a level of general fund undesignated fund balance to be maintained at 10% of operating revenues.