



Moody's Investors Service

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New York, New York 10007

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FINANCE DEPT. DIRECTOR

March 7, 2003

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

Dear Mr. Hill:

We wish to inform you that on February 12, 2003, Moody's Rating Committee assigned a **Aa3** rating to the City of Lynchburg General Obligation Public Improvement Bonds, Series 2003A and Series 2003B.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating as well as any revisions or withdrawals thereof will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact the analyst assigned to this transaction, Patrick Mispagel at (212) 553-7463.

Sincerely,

Bill Leech
Vice President/Senior Credit Officer

BL:sat

cc: Mr. W. Frank Williams
Vice President
BB& T Capital Markets
1909 K Street, Northwest
Washington, DC 20006



Lynchburg (City of) VA

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Contacts

Patrick Mispagel	212-553-7463
Bill Leech	212-553-4132

FINANCE DEPT. DIRECTOR

Moody's Rating

Issue	Rating
General Obligation Public Improvement Bonds, Series 2003A	Aa3
Sale Amount \$16,745,000	
Expected Sale Date 02/10/03	
Rating Description General Obligation	
General Obligation Public Improvement Refunding Bonds, Series 2003B	Aa3
Sale Amount \$24,120,000	
Expected Sale Date 02/10/03	
Rating Description General Obligation	

MOODY'S ASSIGNS Aa3 RATING TO THE CITY OF LYNCHBURG'S (VA) \$16.745 MILLION GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS, SERIES 2003A AND \$24.12 MILLION GENERAL OBLIGATION PUBLIC IMPROVEMENT REFUNDING BONDS, SERIES 2003B

Aa3 AFFIRMATION AFFECTS \$161.7 MILLION OF PARITY DEBT, INCLUDING CURRENT ISSUE

Opinion

Moody Investors Service has assigned a Aa3 rating to the City of Lynchburg, Virginia's \$16.745 million General Obligation Public Improvement Bonds, Series 2003A and \$24.12 million General Obligation Public Improvement Refunding Bonds, Series 2003B. In addition, Moody's has affirmed the Aa3 rating on the city's \$161.7 million of previously issued parity debt, including the current issue. Both series are secured by the city's general obligation unlimited property tax pledge. The rating reflects the city's growing economic base, consistently solid financial performance, and moderate, but increasing, debt levels, with substantial enterprise support. Proceeds of the Series A bonds will finance a variety of projects, including schools, water and sewer. The Series B bonds will refund the city's Series 1993 and 1994 bonds without change to the current maturity structure for an estimated net present value savings of 5.53% and 5.36% of principal, respectively.

GROWING ECONOMIC BASE SUPPORTED BY NEW CAPITAL INVESTMENT

Moody's expects that the city's diverse economic base will continue to grow given ongoing

private investment encouraged through aggressive economic development efforts. A regional commercial center in western Virginia, Lynchburg has experienced healthy 5.0% average annual growth in assessed valuation over the last five years and its tax base now exceeds a sizeable \$3.47 billion. This reflects both the introduction of new industry and expansion of existing industries, including a Frito Lay (subsidiary of PepsiCo, Inc. - rated A1) food processing plant, the expansion of BWX Technologies (Nuclear Fuel), and the expansion of a healthcare facility, Centra Health (rated A1). These expansions are partly the result of the city's economic development initiatives, which are currently focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land and infrastructure and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants to the area. In addition to a number of other manufacturing firms, the city also contains a major medical center, several colleges, and a large regional shopping mall, as well as several big box retailers, all of which serve the surrounding areas. While the last census reported that Lynchburg's wealth indicators were below state norms, the strength of the local economy is reflected in a healthy full value per capita of over \$46,162.

HISTORY OF SOLID FINANCIAL PERFORMANCE CHARACTERIZED BY STABLE RESERVE LEVELS AND DIVERSE REVENUE STREAMS

Moody's expects the city's solid financial performance to continue, given consistently ample reserve levels and diverse revenue streams. This city has maintained healthy reserves despite a draw down of approximately \$5 million in fiscal 2001 for non-recurring capital expenditures. Lynchburg ended fiscal 2002 with a General Fund balance of \$22.58 million, which represents a strong 19.5% of General Fund revenues, and \$18 million, or almost 15.6%, undesignated. This figure reflects an increase of \$1.3 million due to healthy growth in property tax revenue. The city's policy is to maintain undesignated fund balance at a level of at least 7%, a figure it has exceeded for five years in a row. While state aid provides just under 40% of the city's operating revenues, this revenue goes straight to the school system, which accounts for 42% of the city's expenditures. The second largest source of revenues comes from property taxes, comprising just over 38% of operating revenues. City officials expect to end fiscal 2003 with a planned \$2.0 million draw on reserves to finance one-time capital expenditures.

WITH SUBSTANTIAL ENTERPRISE SUPPORT, DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE DESPITE ADDITIONAL PLANNED BORROWING

Moody's believes that the city's debt burden will remain moderate, despite significant additional borrowing plans, given rapid retirement of principal, ongoing growth in assessed valuation, and expected enterprise support of a significant portion of current and future long-term debt. Including the current issue, the city will have \$163.4 million of General Fund supported debt, leaving a debt burden of 3.9%, which is above average for comparably rated credits. Nonetheless, with more than three-quarters of principal scheduled to be repaid within 10 years, Moody's believes the city's growing tax base will adequately accommodate future borrowing needs. The city has a five-year capital plan in the amount of \$168.7 million, of which approximately \$133 million will be financed through the issuance of long-term debt over the next five years. A substantial portion of this will be issued to comply with the city's combined sewer overflow (CSO) special order requirements. In addition to the sizeable borrowing plans, the sewer system, although self-supporting, currently faces a number of other challenges, including growing expenditures and high rates, which are in danger of becoming uncompetitive. To address these challenges and meet the demands placed on the system by the capital plan, city management is taking proactive steps, including annual rate studies by outside consultants. Moody's expects operations will be sufficient to maintain the city's general obligation credit strength, given the system's history of stable financial operations and

strong management.

KEY STATISTICS

Population (2000): 65,269

Full Valuation: \$3.47 billion

Full Value Per Capita: \$46,162

Unemployment Rate (11/02): 5.0 %

Debt burden: 3.9 %

10-Year Payout: 67.6%

General Fund Balance (2002): \$22.58 million (19.5% of General Fund revenues)

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