PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 15, 2011

NEW ISSUE: Book-Entry Only | RATINGS: See "Ratings" herein

In the opinion of Co-Bond Counsel, under existing statutes, regulations and court decisions and as of the date of original issuance thereof, (i) interest on the Series 2011A Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference in determining "alternative minimum taxable income" for federal income tax purposes, although such interest is included in adjusted current earnings for purposes of determining the alternative minimum taxable income of a corporation, (ii) and the Series 2011A Notes are exempt from ad valorem taxation and the interest thereon is exempt from income taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "Tax Treatment" herein.

$226,340,000
LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT
Sewer and Drainage System Subordinated Bond Anticipation Notes
Series 2011A

Dated: Date of Delivery | Due: March 1, 2012
Interest Rate: ____% | Priced to Yield ____%

The Series 2011A Notes will be issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. Purchases of beneficial interests in the Series 2011A Notes will be made in book-entry form in denominations of $5,000 or integral multiples thereof. Except as otherwise provided herein, so long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2011A Notes, any references herein to the registered owners or owners shall mean Cede & Co., and shall not mean the actual purchasers (the "Beneficial Owners") of the Series 2011A Notes. Payments of principal and interest on the Series 2011A Notes will be made directly to DTC or its nominee, Cede & Co., by The Bank of New York Mellon Trust Company, N.A., Louisville, Kentucky (the "Paying Agent"), as Paying Agent for the Series 2011A Notes, so long as DTC or Cede & Co. is the registered owner of the Series 2011A Notes. Disbursements of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. See "The Series 2011A Notes - Book-Entry Only System" herein.

The Series 2011A Notes will bear interest at the rate per annum shown above, computed on the basis of a 360-day year and twelve 30-day months, accrued from the date of delivery. Principal of and interest on the Series 2011A Notes are payable at maturity.

The Series 2011A Notes are not subject to redemption prior to maturity.

THE SERIES 2011A NOTES ARE SPECIAL LIMITED REVENUE OBLIGATIONS OF THE DISTRICT. THE SERIES 2011A NOTES DO NOT CONSTITUTE AN OBLIGATION OR INDEBTEDNESS OF THE DISTRICT, THE LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT, OR THE COUNTY OF JEFFERSON, KENTUCKY WITHIN THE MEANING OF THE CONSTITUTION AND LAWS OF THE COMMONWEALTH OF KENTUCKY.

The Series 2011A Notes are offered when, as and if issued by the District and received by the Underwriters, subject to prior sale and to withdrawal or modification of the offer without notice and subject to the approval of legality by Wyatt, Tarrant & Combs, LLP, Louisville, Kentucky, and Zielke Law Firm, PLLC, Louisville, Kentucky, Co-Bond Counsel to the District. Certain legal matters will be passed upon for the District by its counsel, Zielke Law Firm, PLLC, Louisville, Kentucky. It is expected that the Series 2011A Notes will be available for delivery in New York, New York on or about March 2, 2011.

Dated: February _____, 2011

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OFFICIAL STATEMENT

$226,340,000
Louisville and Jefferson County Metropolitan Sewer District
Sewer and Drainage System Subordinated Bond Anticipation Notes
Series 2011A

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and appendices and documents incorporated by reference, is furnished in connection with the offering of $226,340,000 principal amount of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2011A (the "Series 2011A Notes") of the Louisville and Jefferson County Metropolitan Sewer District (the "District"). The Series 2011A Notes are being issued pursuant to the provisions of Chapters 65, 58 and 76 and Section 56.513 of the Kentucky Revised Statutes (collectively, the "Act") and a Subordinate Debt Resolution adopted by the District on April 26, 2010, as amended by a Subordinate Debt Sale Resolution adopted on January 24, 2011 (collectively, the "Note Resolution") to currently refund the District's outstanding Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2010A.

The Notes are secured by and payable solely from certain revenues and other property of the District pledged under the Note Resolution. The pledge is subordinate, however, to the pledge of such revenues and other property to certain bonds and other indebtedness previously or hereafter issued by the District. See "SECURITY FOR THE SERIES 2011A NOTES" and "PLAN OF FINANCING" herein.

This Official Statement contains descriptions of, among other matters, the Series 2011A Notes, the District and the Note Resolution. Such descriptions and information do not purport to be comprehensive or definitive. Definitions of certain words and terms used in this Official Statement are set forth herein or otherwise have the meaning ascribed to such terms in "APPENDIX A – Definitions of Certain Terms and Summary of Provisions of the Bond Resolution and Note Resolution". All references herein to the Note Resolution and all other documents related thereto are qualified in their entirety by reference to such documents, and references herein to the Series 2011A Notes are qualified in their entirety by reference to the form thereof included in the Note Resolution.

This Official Statement is intended for use in connection with only the initial offering of the Series 2011A Notes. The delivery of this Official Statement shall not under any circumstances create any implication that there has been no change in the affairs of the District since the date hereof.

THE SERIES 2011A NOTES

General

The Series 2011A Notes will be initially issued as fully registered notes without coupons in denominations of $5,000 or any integral multiple thereof. The Series 2011A Notes will bear interest at the rate per annum shown on the cover page hereof, computed on the basis of a 360-day year and twelve 30-day months, accrued from the date of delivery of the Series 2011A Notes. Principal of and interest on the Series 2011A Notes are payable at maturity.

As long as the Series 2011A Notes are registered in book-entry form, as described below, the principal of and interest on the Series 2011A Notes will be payable by wire transfer to DTC or its nominee or successor. If the Series 2011A Notes are no longer held in book-entry form for any of the reasons described below, the principal of and the interest on the Series 2011A Notes will be payable at the designated corporate trust office of the Paying Agent upon surrender of the Series 2011A Notes.

The Series 2011A Notes are <u>not</u> subject to redemption prior to maturity.

Book-Entry Only System

Unless otherwise noted, the following description of the procedures and recordkeeping with respect to beneficial ownership interests in the Series 2011A Notes, payment of the principal of and interest on the Series 2011A Notes to DTC Participants or Beneficial Owners (as defined herein) of the Series 2011A Notes, confirmation and transfer of beneficial ownership interests in the Series 2011A Notes and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Series 2011A Notes is based solely on information furnished by DTC to the District for inclusion herein. Accordingly, the District, the Paying Agent and the Underwriters do not and cannot make any representations concerning these matters.

When the Series 2011A Notes are issued, ownership interests will be available to purchasers only through a book-entry only system maintained by DTC. Beneficial ownership in the Series 2011A Notes may be acquired or transferred only through book entries made on the records of DTC and DTC Participants. If the Series 2011A Notes are taken out of the book-entry only system and delivered to Bondowners in physical form, as described below, the following discussion will not apply.

DTC will act as securities depository for the Series 2011A Notes. DTC is a limited-purpose trust company organized under the laws of the State of New York, 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 to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others, including without limitation, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2011A NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS, THE NOTEHOLDERS, OR THE REGISTERED OWNERS OF THE SERIES 2011A NOTES SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2011A NOTES. When reference is made to any action which is required or permitted to be taken by a Beneficial Owner, such reference shall only relate to action by such Beneficial Owner or those permitted to act (by statute, regulation, or otherwise) on behalf of such Beneficial Owner for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

The ownership of each fully registered Series 2011A Note will be registered in the name of Cede & Co., as nominee for DTC. The DTC Participants shall receive a credit balance in the records of DTC of their ownership interests. The ownership interest of each actual purchaser of each Series 2011A Note (the "Beneficial Owner") will be recorded through the records of the DTC Participant. Beneficial Owners will receive a written confirmation of their purchases providing details of the Series 2011A Notes acquired. Beneficial Owners will not receive certificates representing their ownership interest in the Series 2011A Notes other than upon the occurrence of certain events, as hereinafter described.

Principal of and interest on the Series 2011A Notes will be paid by the Paying Agent to DTC or its nominee, Cede & Co., as registered owner of the Series 2011A Notes, and then paid by DTC to the DTC Participants and thereafter paid by the DTC Participants and Indirect Participants to the Beneficial Owners when due. Upon receipt of moneys, DTC's current practice is to credit immediately the account of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the District, or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time.

THE DISTRICT AND THE PAYING AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE SERIES 2011A NOTES; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO NOTEHOLDERS UNDER THE NOTE RESOLUTION; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS NOTEOWNER.

DTC may determine to discontinue providing its services with respect to the Series 2011A Notes at any time by giving notice to the District and discharging its responsibilities with respect thereto under applicable law. In addition, the District may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners. If for either reason the book-entry only system as described herein is discontinued, Series 2011A Note certificates will be delivered as described in the Note Resolution and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Series 2011A Notes. Thereafter, Series 2011A Notes may be exchanged for an equal aggregate principal amount of Series 2011A Notes in authorized denominations upon surrender thereof at the principal office of the Paying Agent. For every such exchange of Series 2011A Notes, the District and the Paying Agent may make a charge sufficient to reimburse them for any tax, fee or other governmental charge required to be paid with respect to such exchange, but no other charge may be made to the Owner for any exchange of the Series 2011A Notes.

SECURITY FOR THE SERIES 2011A NOTES

The Series 2011A Notes are special and limited obligations of the District, payable solely from the Pledged Property. Certain of the Pledged Property has been pledged to secure the payment of the Prior Bonds and other indebtedness previously or hereafter issued by the District, and the pledge of the Pledged Property to the payment of the Series 2011A Notes is subordinate in all respects to such prior pledges. The Note Resolution defines Pledged Property to include the following property pending the application or expenditure thereof in accordance with the Bond Resolution or the Note Resolution:

(i) the proceeds of sale of the Series 2011A Notes pending their application pursuant to the Note Resolution;

(ii) the proceeds of sale of the bonds that the District expects to issue under the Bond Resolution if necessary to retire the Series 2011A Notes (see "PLAN OF FINANCING" herein);

(iii) all revenues, rates, fees, rents, charges and other operating income and receipts, as derived by or for the account of the District from or for the operation, use or services of the District's sewer, drainage or other facilities, including any additions or extensions thereto, determined in accordance with generally accepted accounting principles and the enterprise basis of accounting (collectively, the "Revenues");

(iv) all amounts, monies and securities on deposit or held in the Funds or Accounts established or provided for under the Bond Resolution or the Note Resolution except any fund created to hold amounts that must be rebated to the United States, subject to the application thereof to the uses and in the manner set forth in the Bond Resolution and the Note Resolution;

(v) such other amounts as may be pledged from time to time by the District as security for the payment of the Prior Bonds (as defined in APPENDIX A) or as security for the Series 2011A Notes; and

(vi) all proceeds of the foregoing.

The District adopted on December 7, 1992, a Sewer and Drainage System Revenue Bond Resolution, as amended on March 4, 1993, June 30, 1993, December 14, 1994, January 25, 1996, and February 24, 2003 (collectively, the "Bond Resolution"). The District has issued certain bonds pursuant to the Bond Resolution (the "Prior Bonds") and has pledged the Pledged Property (except for the proceeds of the notes issued under the Note Resolution) to the payment of such Prior Bonds. This pledge is superior to the pledge under the Note Resolution.

The District has heretofore issued its Sewer and Drainage System Revenue Bonds outstanding in the amounts shown below, each Series of which is superior to the pledge under the Note Resolution.

Series	Dated Date	Original Principal Amount	Amount Outstanding*
Series 1998A	March 1, 1998	$260,000,000	$149,295,000
Series 2001A	October 15, 2001	$300,000,000	$289,990,000
Series 2004A	January 15, 2004	$100,000,000	$100,000,000
Series 2005A	May 1, 2005	$64,740,000	$58,470,000
Series 2006A	May 1, 2006	$100,000,000	$96,705,000
Series 2007A	November 15, 2007	$61,125,000	$56,185,000
Series 2008A	May 1, 2008	$105,000,000	$104,265,000
Series 2009A	May 15, 2009	$76,275,000	$72,020,000
Series 2009B	August 15, 2009	$225,770,000	$213,165,000
Series 2009C	November 24, 2009	$180,000,000	$180,000,000
Series 2010A	November 30, 2010	$330,000,000	$330,000,000
	Total	$1,802,910,000	$1,650,095,000

* As of February 1, 2011

The District has authorized and may issue, prior to the retirement of the Series 2011A Notes, Additional Bonds in the approximate amount of $150 million for the purpose of refunding all or a portion of the Series 1998A Bonds and may authorize and issue, prior to the retirement of the Series 2011A Notes, Additional Bonds for the purpose of refunding other Bonds outstanding under the Bond Resolution.

No assurance can be given as to whether, when, and in what principal amount any such bonds will be issued. The issuance of any Additional Bonds, the principal amount thereof, and whether or not such Bonds are issued in one or more additional series will depend on, among other things, the District's assessment of market conditions at the time of issuance.

Bond Anticipation Notes

The District covenants in the Note Resolution that each series of Notes issued thereunder, including the Series 2011A Notes, is issued in anticipation of the issuance by the District, prior to the maturity of such Notes whether by acceleration, redemption, or otherwise, of Additional Bonds (within the meaning of the Bond Resolution) on a parity with the Bonds theretofore or thereafter issued under the Bond Resolution and pursuant to the Act. The District further covenants to do, in a timely fashion, any and all things necessary for the issuance of such

Additional Bonds on a parity with the Bonds then outstanding under the Bond Resolution, to the extent necessary to pay such Notes and to the extent permitted by law. To the extent that any Notes of a particular series issued under the Note Resolution are not paid from the Revenues of the District, such Notes shall be paid from the proceeds of such Additional Bonds (or from the proceeds of Notes issued under the Note Resolution to refinance Notes previously issued and outstanding under the Note Resolution).

SWAPS, SUBORDINATED DEBT, AND OTHER FINANCIAL INSTRUMENTS

The District has entered into interest rate swap agreements with several counterparties as part of the management of its outstanding debt. Generally, each interest rate swap agreement calls for periodic net payments from or to the District depending upon whether a specified market interest rate index is above or below a specified fixed rate or another specified market interest rate index during that period. Each such swap agreement allows the District, at its option, to terminate the agreement at any time. Upon any such termination, a termination payment is to be made, calculated based on the mark-to-market value of the swap agreement plus dealer's spread. The swap agreements provide that under certain circumstances the counterparty to the swap agreement (but not the District) may be required to post collateral, depending upon the credit rating of that counterparty, with the amount of collateral required based on the mark-to-market value of the swap. The interest rate swap agreements entered into by the District provide that the counterparties to the agreements must post collateral if their respective ratings fall below A+/A1. The agreements also provide for automatic termination if the District's unenhanced bond rating is downgraded below BBB/Baa. The District's obligations under all of its outstanding swap agreements are unsecured and subordinate to all Bonds issued and outstanding under the Bond Resolution. Certain provisions of the District's outstanding swap agreements are summarized below.

The Bond Resolution permits the District to issue Senior Subordinated Debt secured by Revenues of the System, subject to the prior and senior lien on such Revenues of all Bonds issued and outstanding under the Bond Resolution. The decision of the District from time to time whether to issue Senior Subordinated Debt or Bonds depends, among other things, upon its assessment of market conditions at the time of issuance.

The District has previously issued Senior Subordinated Debt to provide interim financing for capital projects. Each series of Senior Subordinated Debt previously issued has been retired from the proceeds of Bonds issued under the Bond Resolution.

The District has from time to time entered into agreements with various counterparties to provide for the investment of amounts in various funds established under the Bond Resolution. Generally such agreements provide for the investment of funds at a contractually fixed rate of return to the District during their respective terms and provisions for termination, at the option of the District, based on payment of a termination fee determined based on the mark-to-market value of the contract plus dealer's spread.

The District reserves the right to enter into, amend, and terminate any existing or future interest rate swap transactions or other agreements or derivative transactions, from time to time, as part of its overall debt, investment or general management strategy. See also

"APPENDIX A – Definitions of Certain Terms and Summary of Provisions of the Bond Resolution and Note Resolution".

Floating-to-Fixed Swap

In 2001, the District entered into a forward-starting interest rate swap (the "1999 Swap") pursuant to which beginning in November 2009 the District would pay a fixed rate of 4.4215% and receive 67% of the 30-day LIBOR index on a notional amount corresponding to the approximate amount needed to refund the District's Series 1999 Bonds. The District's original strategy in entering into the 1999 Swap was to "lock in" a fixed rate for the variable rate debt that could be issued in 2009 to refund the Series 1999 Bonds. In August 2009, the District decided instead to refund the Series 1999 Bonds with proceeds of its fixed-rate Series 2009B Bonds and its fixed rate Series 2009A Notes. The Series 2009A Notes have since been refunded by the fixed-rate Series 2010A Notes. In August 2009, the District reversed that portion of the 1999 Swap which corresponds in amount and amortization schedule to the portion of the Series 2009B Bonds used to refund the Series 1999 Bonds. The non-reversed portion of the 1999 Swap amortizes in amounts that correspond with the expected maturity structure of a future hypothetical bond issue the District may issue to permanently refinance the Series 2011A Notes. The District's expectation is that variable payments received under the non-reversed portion of the 1999 Swap will hedge future interest rate movements for any fixed-rate Bonds hereafter issued under the Bond Resolution (or any other fixed rate renewal notes hereafter issued under the Note Resolution) to refinance the Series 2011A Notes. As of February 1, 2011 the estimated mark-to-market value of the non-reversed portion of the 1999 Swap was approximately *negative* $53 million.

Basis Swaps

The District has entered into two basis swaps pursuant to which the District pays or will pay the Securities and Financial Markets Association Municipal Swap Index under each swap and receives or will receive under one of the swaps (the "2003 Basis Swap") 78.78% of the Three-Month LIBOR Index and under the other swap (the "2008 Basis Swap") 100.30% of the Three-Month LIBOR Index. Payments under the 2003 Basis Swap began in November 2003. Payments under the 2008 Basis Swap will begin in November 2011.

The District received $7,624, $333,170 and $137,955 in calendar years 2010, 2009 and 2008, respectively, under the 2003 Basis Swap. As of February 1, 2011, the estimated mark-to-market value of the 2003 Basis Swap was approximately *negative* $810,000 and the estimated mark-to-market value of the 2008 Basis Swap was approximately *positive* $21.3 million.

Reversed Swaps

In August 2009, the District entered into offsetting transactions with respect to several of its existing swaps. For its existing floating-to-fixed swaps, pursuant to which the District agreed to pay a fixed rate and receive a floating index rate, the reversal swap requires the District to pay a floating rate index and receive a fixed rate. The net result of the reversals is that the District pays the difference between the fixed rates over the original term of the contract (plus or minus any differential due to the different floating rate indices.) The estimated net payments on the reversed swaps are included under the heading "Subordinated Debt Service" in the table under “PLAN OF FINANCING - Debt Service Requirements”, below. The District’s strategy on entering into the reversals was to fix the cost of terminating the swaps, to avoid the need for immediate payment of the termination value of the swaps but to extend the payments of such termination value over the original term of the swaps, and to retain the flexibility to manage the District’s outstanding debt through modification of its outstanding swap agreements.

PLAN OF FINANCING

The District intends to use the proceeds of the Series 2011A Notes to pay and retire at the maturity thereof on May 26, 2011 the District’s outstanding Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2010A (the “Prior Notes”). The Prior Notes were issued to refund certain of the District’s outstanding Sewer and Drainage System Revenue Bonds, Series 1999A (the “Series 1999 Bonds”).

Proceeds of the Series 2011A Notes in the amount required to pay and retire the Prior Notes at their maturity will be deposited into an Escrow Fund established pursuant to a Refunding Escrow Agreement dated as of the date of original issuance of the Series 2011A Notes (the "Escrow Agreement") with the Paying Agent. In the event the District receives a premium bid at the competitive sale of the Series 2011A Notes, any such premium, together with any investment earnings thereon, will be applied by the Paying Agent (together with any additional amount provided by the District) to the redemption of the District’s outstanding Sewer and Drainage System Revenue Bonds, Series 1998A (the “1998A Bonds”) in the inverse order of maturity and within any maturity by lot.

The District intends to use the non-reversed portion of the 1999 Swap as a hedge for future interest rate movements for any bonds hereafter issued under the Bond Resolution to refinance the Series 2011A Notes (or any renewal notes hereafter issued under the Note Resolution to refinance the Series 2011A Notes). (See “SWAPS, SUBORDINATED DEBT, AND OTHER FINANCIAL INSTRUMENTS – Floating-to-Fixed Swap” herein.)

At such time as the District deems it to be in its best interest, the District expects to issue bonds under the Bond Resolution to pay and retire the Series 2011A Notes (or any renewal notes hereafter issued under the Note Resolution to refinance the Series 2011A Notes) at maturity.

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Estimated Sources and Uses of Funds

The estimated sources and uses of the proceeds of the Series 2011A Notes are summarized below:

Sources:

Par Amount of Series 2011A Notes	$__________
Original Issue Premium	__________
Total Sources	$__________

Uses:

Payment of Prior Notes	$__________
Costs of Issuance*	__________
Total Uses	$__________

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* Includes underwriter's discount, legal fees and expenses, printing costs, rating agency fees, fees and expenses of the Paying Agent, the Escrow Agent and the Financial Advisor, and miscellaneous costs.

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Debt Service Requirements

The following table indicates the estimated annual debt service requirements on the outstanding Bonds and Notes.

Period Ending	Existing Senior Lien Bond Debt Service	Direct Payments *	Subordinated Debt Service **	Net Total Debt Service
5/15/2011	$100,204,413	($7,075,994)	$9,979,498	$103,107,917
5/15/2012	$111,492,538	($10,986,150)	$15,183,543	$115,689,931
5/15/2013	$111,663,638	($10,986,150)	$15,012,743	$115,690,231
5/15/2014	$111,842,231	($10,986,150)	$14,834,211	$115,690,292
5/15/2015	$112,024,331	($10,986,150)	$14,648,520	$115,686,701
5/15/2016	$112,226,094	($10,986,150)	$14,453,959	$115,693,902
5/15/2017	$112,425,794	($10,986,150)	$14,250,717	$115,690,361
5/15/2018	$112,635,013	($10,986,150)	$14,038,452	$115,687,315
5/15/2019	$112,863,500	($10,986,150)	$13,816,465	$115,693,815
5/15/2020	$113,089,019	($10,986,150)	$13,584,561	$115,687,429
5/15/2021	$113,341,488	($10,986,150)	$13,336,170	$115,691,507
5/15/2022	$113,601,506	($10,986,150)	$13,076,472	$115,691,829
5/15/2023	$113,871,950	($10,986,150)	$12,804,695	$115,690,495
5/15/2024	$103,806,825	($10,986,150)	$22,180,957	$115,001,632
5/15/2025	$103,834,581	($10,986,150)	$21,800,702	$114,649,133
5/15/2026	$103,857,231	($10,986,150)	$21,415,452	$114,286,533
5/15/2027	$114,067,631	($10,986,150)	$11,183,977	$114,265,458
5/15/2028	$103,042,513	($10,220,525)	$20,678,930	$113,500,918
5/15/2029	$103,220,438	($10,220,525)	$20,090,063	$113,089,975
5/15/2030	$93,471,538	($10,220,525)	$29,391,550	$112,642,562
5/15/2031	$61,457,038	($10,220,525)	$61,355,441	$112,591,954
5/15/2032	$61,412,538	($10,220,525)	$58,878,790	$110,070,802
5/15/2033	$61,214,538	($10,220,525)	$56,440,103	$107,434,115
5/15/2034	$123,068,638	($10,220,525)		$112,848,113
5/15/2035	$123,070,388	($10,220,525)		$112,849,863
5/15/2036	$123,067,888	($10,220,525)		$112,847,363
5/15/2037	$123,066,638	($10,220,525)		$112,846,113
5/15/2038	$123,298,038	($10,220,525)		$113,077,513
5/15/2039	$116,476,500	($10,220,525)		$106,255,975
5/15/2040	$116,707,455	($8,393,859)		$108,313,596
5/15/2041	$113,032,500	($6,453,125)		$106,579,375
5/15/2042	$110,810,313	($4,383,859)		$106,426,453
5/15/2043	$108,502,500	($2,233,875)		$106,268,625
	$3,541,767,236	($326,965,413)	$502,435,971	$3,717,237,794

* Direct Payments consist of scheduled federal subsidy payments for Build America Bonds.

** Includes estimated net swap payments and interest on and projected amortization following future refinancing of the Series 2011A Notes, but excludes the maturing principal amount of the Series 2011A Notes.

THE NOTE RESOLUTION

A summary of certain provisions of the Note Resolution can be found in APPENDIX A attached hereto and incorporated herein by reference. Reference is made to the Note Resolution for a complete recital of its terms.

THE DISTRICT

General

The District was created and established pursuant to the Act, as a public body corporate, in 1946, in the interest of the public health and for the purpose of providing adequate sewer and drainage facilities. The District had complete jurisdiction, control, possession, and supervision of the then existing sewer and drainage system in the City, and with the power and authority, to operate, maintain, reconstruct, and improve said sewer and drainage system and construct any additions, betterments, and extensions thereto within the limits of the District area as defined in the Act. The District assumed jurisdiction over and administration of the then existing sewer and drainage system in the City on November 16, 1946, pursuant to Ordinance No. 90, Series 1946, passed by the Board of Aldermen of the City and approved by the Mayor thereof in accordance with the requirements of the Act.

Administration and Management of the District

The business, activities, and affairs of the District are managed, controlled, and conducted by a board (the "Board"), composed of eight members, not more than five of whom shall be affiliated with the same political party. The members are appointed by the Mayor subject to the approval of the Council of the Louisville/Jefferson County Metro Government. All appointments to the Board are made for three-year terms. The present members of the Board and the expiration dates of their respective terms are as follows:

Board Members	Term Expires
Mr. Arnold Celentano	July 31, 2013
Mr. Jerome L. Clark	July 31, 2012
Mr. Audwin A. Helton (Chairperson)	July 31, 2012
Mr. Martin Hoehler (Vice Chairperson)	July 31, 2011
Mr. Ben Richmond	August 31, 2011
Mr. Doyle M. Stacy	August 31, 2011
Mr. Charles E. Weiter	June 30, 2012
Ms. Beverly Wheatley	June 30, 2013

The Board has delegated and placed the conduct of the day-to-day business affairs of the District under the direction of an Executive Director supported by administrative, engineering, legal and business staffs. The District's executive staff currently consists of the following individuals:

Herbert J. Schardein..Executive Director and Secretary-Treasurer
Marion M. Gee..Director of Budget and Finance
Brian Bingham...Director of Regulatory Management Services
Mark Johnson..Engineering Director
Paula Purifoy .... Legal Counsel
Bruce R. Seigle .... Chief Information Officer
James J. Hunt .... Physical Assets Director
Saeed Assef ....Director of Infrastructure and Flood Protection
Alex Novak ....Operations Director
Dennis Thomasson...Emergency Response Director

The Corradino Group, Inc., Louisville, Kentucky (the "Consulting Engineers") has been retained by the District as its consulting engineering firm. The report of the Consulting Engineers is appended to this Official Statement as APPENDIX D.

Customer History

Five Year Wastewater Customer History. The District's wastewater sewer system customer history for the past five fiscal years is as follows:

Residential	**Number of Customers**	**Volume (million gallons)**	**Revenue (in thousands)**
FY 2006	203,965	13,911	$47,555
FY 2007	205,831	13,059	48,338
FY 2008	207,243	14,235	64,978
FY 2009	207,660	13,669	71,159
FY 2010	209,403	12,746	73,228
Commercial			
FY 2006	18,156	10,170	27,619
FY 2007	18,435	9,913	28,892
FY 2008	18,798	10,967	38,935
FY 2009	18,668	10,655	42,312
FY 2010	18,794	10,059	42,741
Industrial			
FY 2006	577	5,196	17,279
FY 2007	388	4,974	18,431
FY 2008	389	4,801	21,324
FY 2009	383	3,523	18,216
FY 2010	383	3,439	18,948

Source: Metropolitan Sewer District

The Drainage System

Under interlocal government agreement effective January 1, 1987, the District became the sole local authority for providing flood control and storm water drainage services in the Drainage Service Area. The District is responsible for the operation, maintenance, replacement, improvements and additions to existing flood control facilities and public storm water drainage facilities within the Drainage Service Area. The stormwater drainage system is comprised of various types of facilities to collect, convey, retain, and discharge stormwater runoff into sewers, rivers, streams, and creeks, which eventually drain into the Ohio River. These facilities include open channels, ditches, streams, ponds, pipes, culverts, conduits, bridge structures, detention basins, retention basins, pump stations, and other facilities.

In fiscal year 2010, the District had approximately 222,600 drainage service accounts and billed 510,756 equivalent service units (ESUs) at $5.35 per month which provided total annual drainage charge revenues of approximately $34.8 million.

By having a single authority responsible for drainage services and a dedicated source of revenue, the community benefits by having a more efficient, cost effective drainage service program. The District's consultants have developed a Storm Water Drainage Master Plan which, after public participation and approvals by local governments, will be used by the District for implementing improvements and extensions to the existing drainage facilities.

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THE SERVICE AREA

The combined area of the former City and the County ("Louisville Metro") is located in the north-central portion of the Commonwealth on the south bank of the Ohio River. Louisville Metro is the largest city in Kentucky and is the center of the Louisville Metropolitan Statistical Area (MSA) which includes, in addition to Louisville Metro, the counties of Bullitt, Oldham and Shelby, in Kentucky, and Clark, Floyd, and Harrison, in Indiana. The Louisville MSA has exhibited a nationally familiar pattern of population dispersion from its core city to the balance of Louisville Metro, and from Louisville Metro to the adjacent counties in Kentucky and Indiana.

Annual Population Estimates

	Louisville Metro[1]	Louisville MSA[2]
1970	695,000	991,801
1980	684,300	1,054,368
1990	665,200	1,058,425
2000	693,604	1,161,975
2009	721,594	1,258,577

(1) Source: Population Division, U.S. Census Bureau website: www.census.gov (Jefferson County, KY)
(2) Source: Population Division, U.S. Census Bureau website: www.census.gov (Louisville/Jefferson County, KY-IN)

Louisville Metro possesses a diverse economic base which has exhibited the national pattern of a shift away from manufacturing towards services. In 2007 the average per capita income in Louisville Metro as reported by the Bureau of Economic Analysis was $37,473.

Louisville Metro, Kentucky
Largest Private Employers, 2010

Employer	**Product**	**Approximate Number of Employees**
United Parcel Service Inc.	Air Cargo Transport and Distribution	20,125
Humana Inc.	Group Health Insurance/HMOs	9,400
Norton Healthcare, Inc.	Hospital and Healthcare Facilities	8,698
Jewish Hospital & St. Mary's Healthcare, Inc.	Hospital and Healthcare Facilities	5,782
The Kroger Company	Retail Grocer	5,692
Ford Motor Company	Vehicle Manufacturing	5,397

GE Appliances	Appliance Manufacturing	4,100
Baptist Healthcare System Inc.	Hospital and Healthcare Facilities	3,889
University of Louisville Hospital	Hospital and Healthcare Facilities	2,645
Kindred Healthcare Inc.	Hospital and Healthcare Facilities	2,224

Source: Business First, Louisville, Kentucky - publication date August 6, 2010

Approximately 64.8% of housing units in the County were owner occupied in 2008. The median market value of housing units in the Commonwealth Kentucky is approximately $116,800. 55.7% of housing units in Kentucky were built prior to 1980. Over 90% of adult workers in Kentucky drive to work with an average commuting time of 22.4 minutes. (Source: U.S. Census Bureau, 2007-2009 American Community Survey – 3 Year Estimate).

RATES AND CHARGES

Wastewater Service and Drainage Service Charges

The District derives its revenue for wastewater service and drainage service from the collection of rates, rentals and charges established in accordance with the provisions of the Act, for services rendered within the Service Area to customers served by the District's facilities. The District has no power to levy ad valorem taxes upon any property for any purpose whatsoever. Wastewater Service Rates, based on water consumed, are billed and collected by Louisville Water Company ("Louisville Water Company"), (a Kentucky corporation wholly owned as a public enterprise by the Louisville/Jefferson County Metro Government) for the District under terms of an agreement dated July 13, 1976. These rates are billed simultaneously with the water bill on a single statement payable in total for both wastewater and water service rendered, and are subject to a late penalty of 5%. In the event of nonpayment of any such wastewater rates, rentals, or charges for a period of more than 30 days after they become due and payable, Louisville Water Company is required by law to discontinue water service. See "LOUISVILLE WATER COMPANY."

Louisville Water Company bills and collects the District's wastewater service charges. The bills are rendered bimonthly except for larger industrial/commercial accounts which are billed monthly. Louisville Water Company also bills and collects all of the District's drainage charges as additions to the water/sewer billings.

The District wastewater service rates include a fixed service charge based on the size of the public water meter serving the property plus a charge for each 1,000 gallons of water consumed on the premises. Each customer has the option of installing private meters to record water usage which does not enter the sewers. Industrial and commercial customers may use this option to obtain credit for water which does not enter the sewers. Drainage service rates are charged based on measured impervious areas with one equivalent service unit assigned for each 2,500 square feet of impervious area (residential unit).

Out of a total of 225,909 wastewater customer accounts, approximately 23 accounts have no public water meter because they are residential accounts served by well water. Such accounts are charged a fixed charge.

Rate Making Process

To amend rates, the District follows the following procedures:

1. The Board of the District adopts and publishes a Preliminary Rate Resolution.

2. From date of publication, there is a 30-day period to receive comments. (Although not required, the District normally holds a public hearing during this period.)

3. Within 60 days of the publication, the Board of the District must adopt a Final Rate Resolution.

4. Before the new rate schedule becomes effective, the rates must be approved by the Council of the Louisville/Jefferson County Metro Government.

By the following provision within the District's approved rate ordinances, step 4 above is not required under the conditions described below as follows:

"Whenever MSD's net revenues are less than 1.10 times the debt service on MSD's outstanding revenue bonds for any consecutive six-month period, by order of the Board of MSD, a schedule of wastewater service charges shall be amended in order to maintain a 1.10 debt service coverage required by MSD's 1971 Bond Authorizing Resolution which was approved by the City of Louisville Ordinance Number 86, Series 1971; provided the aggregate of such adjustments for any twelve-month period shall not generate additional revenue from wastewater service charges in excess of 7%. The term "net revenues" is defined as gross revenue from wastewater service charges less operating expenses and debt payments other than debt service payments on MSD's outstanding revenue bonds."

This provision includes, by reference to "outstanding revenue bonds," all District debt service including the debt service on any future revenue bonds which the District may issue.

Rate History

The following table summarizes the District's revenue and rate adjustments since 1987. Additional revenues from the rate increases are approximate and assume constant water usage.

	Wastewater				**Stormwater**			
Date of Rate Increase	% Rate Increase		Annual Additional Revenue from Rate Increase		% Rate Increase		Annual Additional Revenue from Rate Increase	Estimated Revenue EPA Consent Decree Surcharge
1/1/87*					N/A	0	$8,165,000	
7/1/88	4.3%	(A)	$1,496,000					
1/1/91	6.5%	(A)	$2,731,000					
1/1/92	4.5%	(A)	$1,973,000					
12/1/92					57.1%	(A)	$4,879,000	
8/1/94	5.0%	(B)	$2,337,000					
8/1/95	7.0%	(B)	$3,516,000					
8/1/96	5.0%	(B)	$2,703,000		4.4%	(A)	$ 604,000	
8/1/97	5.0%	(B)	$2,772,000		4.5%	(A)	$ 663,000	
8/1/98	5.0%	(B)	$2,900,000		5.0%	(A)	$ 800,000	
8/1/99	5.0%	(B)	$3,150,000		5.0%	(A)	$ 850,000	
8/1/00	5.0%	(B)	$3,100,000		5.0%	(A)	$ 860,000	
8/1/01	5.0%	(B)	$3,313,000		5.0%	(A)	$ 921,000	
8/1/02	6.5%	(B)	$4,540,000		6.5%	(A)	$1,326,000	
8/1/03	6.5%	(B)	$5,012,659		6.5%	(A)	$1,407,505	
8/1/04	6.5%	(B)	$5,184,032		6.5%	(A)	$1,526,281	
8/1/05	6.5%	(B)	$5,655,634		6.5%	(A)	$1,671,724	
8/1/06	6.9%	(B)	$6,414,405		6.9%	(A)	$1,957,887	
8/15/07	0.0%		$0		0.0%		$0	$28,875,000(C)
8/1/08	6.5%	(B)	$8,017,688		6.5%	(A)	$2,015,401	
8/1/09	6.5%	(B)	$8,466,545		6.5%	(A)	$2,095,583	
8/1/10	6.5%	(B)	$8,683,175		6.5%	(A)	$2,246,123	

* Initial stormwater rate: $1.75 per equivalent service unit.

(A) Across-the-board adjustment of all rates.
(B) Composite yield of a variety of rate adjustments.
(C) Special surcharge of $6.95 per account per month (plus additional volume charges for some commercial and industrial customers). This surcharge produces revenues equal to approximately 33% of total wastewater charges in the year it was instituted.

Source: The District

HISTORIC AND PROJECTED REVENUES AND EXPENSES AND CAPITAL IMPROVEMENT PROGRAM

Certain historic revenues and expenses of the District for prior fiscal years and projected revenues and expenses of the District for the current and future fiscal years, with accompanying notes, are set forth in "Appendix D - Consulting Engineer's Report" attached hereto. The information on projected revenues and expenses may constitute a "forward looking statement" under federal securities laws. Actual revenues, expenses, or both could differ materially from those forecasted and there can be no assurance that such estimates of future results will be achieved. For example, there can be no assurance that the Council of the Louisville/Jefferson County Metro Government will approve one or more new rate schedules as described above, or that the Council may not from time to time consider amending the District's approved rate ordinances. In general, important factors that could cause actual results to differ materially from the revenues or expenses presently estimated include, but are not limited to, material changes in the size and composition of the District's service area, unanticipated changes in law or unanticipated material litigation, efficiency of operations and the capital construction and expenditure plans and results of the District.

The projections shown in "Appendix D – Consulting Engineer's Report" are based, among other things, on the District's Capital Improvement Plan in effect as of the date of such report. Except as specifically described herein, there can be no assurance that the District will not amend or revoke the Capital Improvement Program described in "Appendix D - Consulting Engineer's Report" or that the District will issue or support bonds or other funding for the Capital Improvement Program in its current form or as amended or any substitute therefor.

LOUISVILLE WATER COMPANY

Louisville Water Company was chartered by special act of the General Assembly of Kentucky, approved March 6, 1854. The City was given authority to purchase the property at any time and also to subscribe for stock of Louisville Water Company.

The City began purchasing stock in Louisville Water Company in 1857 and had acquired substantially all the 12,571 outstanding shares by 1870, leaving only 51 shares in the hands of individual stockholders, this stock having been originally issued as directors' qualifying shares. By April 1907, all of this stock had been acquired by the City.

The affairs of Louisville Water Company were conducted by directors elected by the stockholders until passage of an act, approved March 6, 1906, creating the Board of Water Works of the City, which since that time (initially as the City, and thereafter through its successor, the Louisville/Jefferson County Metro Government) has had the responsibility for management and control of Louisville Water Company.

Since substantially all customers of the District are also customers of Louisville Water Company and Louisville Water Company already has the facilities, meters, equipment, and administrative organization for the billing and collection of charges for water service, it has proven both expedient and economical that the billing and collection of wastewater and stormwater service charges be accomplished simultaneously with and added as designated items on the bill rendered the water consumer for charges covering water service. Those sewer users who are not consumers of the public water supply are billed directly by the District.

By an agreement dated June 17, 1947, Louisville Water Company initiated billing and collection procedures for the District and has continued to perform such services to the present under subsequent agreement, the last agreement being effective as of July 13, 1976 and amended November 24, 1986, to include drainage service charges.

The Agreement for Billing and Collection of Sewer Service Charges dated July 13, 1976, between the District and Louisville Water Company, as amended November 24, 1986, to include drainage service charges, provides for the above mentioned billing and includes the requirement that Louisville Water Company discontinue water service to those consumers whose wastewater or drainage service accounts remain unpaid thirty (30) days after the due date and to not re-establish such service until such time as all such service charges have been paid. This agreement can be terminated by either party upon 6 months written notice.

UNDERWRITING

___________________________________, as managers of a group of underwriters, submitted the successful bid at the public sale of the Series 2011A Notes on February 23, 2011, and have thereby agreed to purchase the Series 2011A Notes at an aggregate price of $____________ (which represents the face amount of the Series 2011A Notes, plus original issue premium of $_________, less underwriter's discount of $_______________ and to make a bona fide offering of the Series 2011A Notes to the public (excluding brokers, bond houses and other intermediaries) at the price or yield set forth on the cover page of this Official Statement.

FINANCIAL STATEMENTS

The financial statements of the District as of June 30, 2010 and for the year then ended, included in this Official Statement, have been audited by Crowe Horwath LLP, independent auditors, as stated in their report, and are included in APPENDIX B, which is an integral part of this Official Statement.

FINANCIAL ADVISOR

First American Municipals, Inc. New York, New York, has been engaged as Financial Advisor to the District. The Financial Advisor has been granted permission by the Board of the District to submit a bid for the purchase of the Series 2011A Notes at the competitive sale thereof.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization of the Series 2011A Notes are subject to the approval of Wyatt, Tarrant & Combs, LLP, Louisville, Kentucky, and Zielke Law Firm, PLLC, Louisville, Kentucky, Co-Bond Counsel. Signed copies of the approving legal opinion of Co-Bond Counsel, dated and speaking only as of the date of original delivery of the Series 2011A Notes, will be delivered to the Underwriters at the time of original delivery of the Series 2011A Notes. Certain legal matters will be passed upon for the Financial Advisor by

Gerald A. Neal & Associates LLC, Louisville, Kentucky, Counsel to the Financial Advisor. Certain legal matters will be passed upon for the District by Zielke Law Firm, PLLC, Louisville, Kentucky, Counsel to the District.

TAX TREATMENT

In the opinion of Wyatt, Tarrant & Combs, LLP and Zielke Law Firm, PLLC, Co-Bond Counsel, under existing law and as of the date of issuance of the Series 2011A Notes, interest on the Series 2011A Notes is excluded from gross income for federal income tax purposes.

Interest on the Bonds is not an item of tax preference in determining "alternative minimum taxable income" under the Internal Revenue Code (the "Code") but is includable in computing "adjusted current earnings" for purposes of determining the alternative minimum taxable income of a corporation.

For the purpose of rendering their opinion described above with respect to the Series 2011A Notes, Co-Bond Counsel will assume compliance by the District with the requirements of the Code that must be met subsequent to the issuance of the Series 2011A Notes, in order that interest thereon be and remain excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Series 2011A Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2011A Notes, . The District has covenanted in the Subordinate Debt Resolution and in other documents and certificates delivered in connection with the Series 2011A Notes to comply with such requirements.

The Code disallows as a deduction 100% of the interest expense incurred by banks (as defined in the Code), to the extent such interest expense is allocable to tax-exempt obligations acquired after August 7, 1986, including the Series 2011A Notes. The Series 2011A Notes do not qualify for any exception provided under the Code from this 100% disallowance rule.

For purposes of determining their taxable income under the Code, property and casualty insurance companies must reduce their losses incurred in any taxable year by an amount equal to 15% of the tax-exempt interest they receive or accrue during such taxable year, including interest on the Series 2011A Notes.

Interest on the Series 2011A Notes, as well as all other tax-exempt interest, may be included in determining a foreign corporation's effectively connected earnings and profits from a trade or business in the United States and thus subject to the branch profits tax imposed on foreign corporations under the Code.

Recipients of Social Security benefits must include tax-exempt interest income, including interest on the Series 2011A Notes, in computing their “modified adjusted gross income” for purposes of determining to what extent, if any, such benefits are includable in their gross income under the Code.

The Code requires gain on the sale or other disposition of tax-exempt obligations acquired after April 30, 1993, including the Series 2011A Notes, to be included in gross income as ordinary income, and not as capital gain, to the extent of accrued market discount. Accrued market discount in the case of tax-exempt obligations, such as the Series 2011A Notes, originally issued at a price equal to their principal amount is generally equal to the difference, if any, between such principal amount and the price at which the taxpayer purchased such obligations in the secondary market.

The Series 2011A Notes may be offered and sold to the public at a price in excess of the principal amount thereof payable at maturity. For federal income tax purposes, the excess of the cost to the holder of a Series 2011A Note over the amount payable at maturity constitutes amortizable bond premium. The holder of a Series 2011A Note will realize gain or loss upon the sale or other disposition of a Series 2011A Note equal to the difference between the amount realized and the adjusted basis of the Series 2011A Note determined by accounting for reductions due to the amortization of the bond premium during the holder's period of ownership. No deduction is allowable in respect of any amount of amortizable bond premium on the Series 2011A Notes.

Purchasers of the Series 2011A Notes should consult their own tax advisors for a further description of the federal income tax rules mentioned above and for an analysis of the effect on their individual tax situations of their ownership of and payments received with respect to the Series 2011A Notes.

In the opinion of Co-Bond Counsel, under the laws of the Commonwealth of Kentucky as presently enacted and construed, the Series 2011A Notes are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities.

RATINGS

Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings have assigned the ratings of "MIG 1", "SP-1+" and "F1+", respectively, to the Series 2011A Notes. The above ratings reflects only the views of the respective rating agencies and any desired explanation of the significance of such rating should be obtained from the respective rating agencies. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the respective rating agency if in its judgment circumstances so warrant. Any downward revision or withdrawal of any such rating could have an adverse effect on the market price of the Series 2011A Notes.

LITIGATION

The District has advised that there is no litigation or other legal proceeding pending or, to the knowledge of the District, threatened to restrain or enjoin the issuance, sale or delivery of the Series 2011A Notes or the implementation of the plan of financing described herein, or in any way contesting or affecting the validity of the Series 2011A Notes or the plan of financing described herein or any proceedings of the District taken with respect to the issuance or sale of the Series 2011A Notes, the pledge or application of any moneys or securities provided for the payment of the Series 2011A Notes or the existence or powers of the District insofar as they relate to the authorization, sale and issuance of the Bonds or such pledge or application of moneys and securities or the implementation of the plan of financing described herein.

The District has further advised that there is no litigation or other legal proceeding pending or, to the knowledge of the District, threatened which challenges the authority of the District to operate its sewer and drainage system or to collect revenues therefrom or which contests the creation, organization or existence of the District or the title of any of its Board members or executive staff to their respective offices.

On April 10, 2009 the United States District Court for the Western District of Kentucky, Louisville Division (the "Court"), entered an Amended Consent Decree, in Civil Action No.: 3:08-CV-00608-CRS (the "Amended Consent Decree"). The Amended Consent Decree amended, superseded and replaced the original Consent Decree entered by the Court on August 12, 2005 between the Commonwealth of Kentucky, the United States of America and the District. The Amended Consent Decree resolved all pending claims of violations of the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, and the Water Quality Act of 1987 (hereinafter "Clean Water Act" or "the Act") pursuant to 33 U.S.C. 1251 *et seq*. and the regulations promulgated thereunder.

By entering into the Amended Consent Decree the District neither admitted nor denied the alleged violations described therein but did acknowledge that sanitary sewer overflows and unauthorized discharges have occurred and the District accepted the obligations imposed under the Amended Consent Decree. To date, the District has complied with all submittals and reporting requirements contained in the Amended Consent Decree. A copy of the Amended Consent Decree is available at the offices of the District. The District intends to perform all Capital Improvement Programs and other requirements contained in the Amended Consent Decree. The cost of the capital improvements required to be completed under the Amended Consent Decree is currently estimated to be approximately $850 million of which approximately $182.9 million has been spent using proceeds of the District's Sewer and Drainage System Revenue Bonds, Series 2008 and 2009C. The Amended Consent Decree contains stipulated penalties for the District's failure to comply with provisions contained in the Amended Consent Decree. The District has agreed to make total expenditure under the original Consent Decree and the Amended Consent Decree for Supplemental Environmental Projects in an amount not less than $2,250,000.

The Final Sanitary Sewer Discharge Plan and the CSO Long Term Control Plan were submitted concurrently and certified on December 19, 2008, under the title of the Integrated Overflow Abatement Plan (IOAP). The IOAP was accepted by the Federal Court and incorporated by reference into the Amended Consent Decree by an Order signed February 12, 2010, that was entered into public record February 15, 2010.

On May 17, 2010, two individuals filed, pro se, in Jefferson Circuit Court, Louisville, Kentucky, a Complaint alleging that the District violated KRS 76.090 by implementing a revised rate schedule effective August 1, 2009 without required approvals. The District filed a Motion seeking to have the Circuit Court enter Judgment in the District's favor. On September 16, 2010, the Jefferson Circuit Court granted the District's Motion for Summary Judgment. The Judgment held that the District complied with all statutory notice and public disclosure requirements for its rate increase and dismissed with prejudice the Plaintiffs'

Complaint. The Plaintiffs filed a Notice of Appeal on October 15, 2010. The District and Zielke Law Firm, PLLC continue to believe that the Complaint is without merit and believe the appellate courts will uphold the Judgment entered in the District's favor.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District that resolution of these matters will not result in a material adverse effect on the operations, properties or financial condition of the District.

The District has further advised that there is no litigation or other legal proceeding (other than that relating to the Amended Consent Decree) pending or, to the knowledge of the District, threatened against or affecting the District or its Board wherein an unfavorable decision, ruling or finding would have a materially adverse effect on the operations, properties or financial condition of the District.

CONTINUING DISCLOSURE UNDERTAKING

The District is delivering a Continuing Disclosure Certificate, dated as of the date of original issuance of the Series 2011A Notes, to the underwriters of the Series 2011A Notes, in order to assist the underwriters in complying with the requirements of subsection (5) of section (b) of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"). The Continuing Disclosure Certificate is also delivered for the benefit of the registered owners from time to time of the Series 2011A Notes.

Except to the extent otherwise permitted pursuant to the Rule as it may be amended from time to time, the District undertakes in the Continuing Disclosure Certificate to provide:

A. To each Repository (as defined below) annual financial information for the District with respect to the fiscal year of the District ending June 30, 2011, and each fiscal year thereafter;

B. If not submitted as part of the annual financial information, then when and if available, to each Repository, audited financial statements for the District with respect to the fiscal year of the District ending June 30, 2011, and each fiscal year thereafter;

C. In a timely manner, to each Repository, notice of any of the following events with respect to the Series 2011A Notes. The "*Events*" are:

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue

(IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2011A Notes, or other material events affecting the tax status of the Series 2011A Notes

7. Modifications to the rights of security holders, if material

8. Note calls, if material, and tender offers

9. Defeasances

10. Release, substitution or sale of property securing repayment of the Series 2011A Notes, if material

11. Rating changes

12. Bankruptcy, insolvency, receivership or similar event of the obligated person

    NOTE: This event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

D. In a timely manner, to each Repository, notice of a failure of the District to provide required annual financial information, on or before any applicable date specified in the Continuing Disclosure Certificate.

"National Repository" means the Municipal Securities Rulemaking Board (http://emma.msrb.org).

"Repository" means National Repository and each State Repository.

"State Repository" shall mean any public or private repository or entity designated by the Commonwealth of Kentucky as a state repository for the purpose of the Rule and recognized as such by the Commission. As of the date hereof, there is no State Repository.

The Continuing Disclosure Certificate provides that annual financial information and notices of material events will be provided pursuant to the Continuing Disclosure Certificate with respect to the District. The Continuing Disclosure Certificate describes the following types of financial information and operating data to be provided as part of the annual financial information.

The Continuing Disclosure Certificate describes the accounting principles pursuant to which financial statements of the District will be prepared, and provides that the financial statements will be audited.

The Continuing Disclosure Certificate provides that the date by which the annual financial information for the preceding fiscal year of the District will be provided is each January 1. The annual financial information will be provided to each Repository, to the extent, if any, described above.

Notwithstanding the foregoing provisions, the Continuing Disclosure Certificate provides that the obligations of the District will be terminated, effective immediately if and when the District no longer remains an obligated person with respect to the Series 2011A Notes.

The Continuing Disclosure Certificate provides that any right to enforce it shall be limited to obtaining specific enforcement of the District's obligations thereunder. The Continuing Disclosure Certificate provides that failure by the District to comply with the Continuing Disclosure Certificate shall not be an event of default under the Series 2011A Notes or under the Bond Resolution.

The Continuing Disclosure Certificate provides that the District from time to time may elect (but is not contractually bound) to provide other periodic reports or financial information, or notice of the occurrence of other events, in addition to those described in the Continuing Disclosure Certificate.

The Continuing Disclosure Certificate further provides that there have been no instances since the effective date of the continuing disclosure requirements under the Rule in which the District has failed to comply, in all material respects, with any undertakings to provide continuing disclosure as contemplated by the Rule.

MISCELLANEOUS

The references to, and excerpts of, all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Series 2011A Notes, the security for the payment of the Series 2011A Notes, and the rights and obligations of holders thereof.

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of the Series 2011A Notes.

Co-Bond Counsel have not participated in the preparation of this Official Statement, except for confirming the accuracy of the description of certain laws and portions of certain documents contained herein (specifically, the information contained under the headings "The Series 2011A Notes," "Security for the Series 2011A Notes," and "Tax Treatment", and hereby disclaim any responsibility for the accuracy or completeness of any other information set forth in this Official Statement.

The Paying Agent has not participated in the preparation of this Official Statement, except for confirming the accuracy of any description of the Paying Agent contained herein, and hereby disclaim any responsibility for the accuracy or completeness of the information set forth in this Official Statement.

The execution and delivery of the Official Statement by the Chairperson of the Board of the District and its Executive Director and Secretary-Treasurer have been duly authorized by the Board of the District. This Official Statement, insofar as it contains information about the District, is deemed "final" by the District as of the date hereof for purposes of SEC Rule 15c2-12(b)(1), except for information permitted by the Rule to be excluded.

LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT

____

Chairperson of the Board

____

Executive Director and Secretary-Treasurer

APPENDIX A

DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF PROVISIONS OF THE BOND RESOLUTION AND NOTE RESOLUTION

DEFINITIONS OF CERTAIN TERMS
AND SUMMARY OF PROVISIONS OF THE BOND RESOLUTION AND NOTE RESOLUTION

The descriptions and summaries set forth herein are not intended to be comprehensive or definitive, and reference is made to the Bond Resolution and the Note Resolution for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to the Bond Resolution and Note Resolution. Copies of the Bond Resolution and Note Resolution are available from the District.

Definitions

"Account" means an Account established pursuant to the Bond Resolution, including the General Subaccount in the Note Account and the Subordinated Debt Subaccounts.

"Accountant" shall mean an independent, certified public accountant, or a firm of independent, certified public accountants, selected by the District.

"Accountant's Certificate" means a certificate of an independent certified public accountant or firm of accountants (who may be the accountant or firm which regularly audits the books of the District) selected by the District.

"Accreted Value" means, with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Capital Appreciation Bond (determined on the basis of the principal amount per $5,000 at maturity thereof) plus the amount assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce $5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bonds shall mean the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Accredited Values for such Valuation Dates.

"Accrued Aggregate Debt Service" for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of [i] interest on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month and [ii] Principal Installments due and unpaid and that portion of the Principal Installment for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month. The principal and interest portions of the Accreted Value and Appreciated Value of Capital Appreciation Bonds and Capital Appreciation and Income Bonds, respectively, becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal

Installments in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Bonds.

"Act" means Kentucky Revised Statutes Chapters 58, 65 and 76, including particularly Sections 76.055 et seq., inclusive, and Section 56.513, as the same may be from time to time amended, and successor provisions.

"Act of Bankruptcy" shall mean any of the following events:

(a) The District shall (1) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the District, or of all or a substantial part of the property of any of them, (2) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect) or (3) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(b) A proceeding or case shall be commenced, without the application or consent of the District, as the case may be, in any court of competent jurisdiction, seeking (l) the liquidation, reorganization, dissolution, winding-up, or the composition or adjustment of debts, of the District, (2) the appointment of a trustee, receiver, custodian, liquidator or the like of the District or of all or any substantial part of the assets of the District, or (3) similar relief in respect of the District under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect for a period of 30 days from the commencement of such proceeding or case.

"Additional Bonds" means Bonds authenticated and delivered upon original issuance pursuant to the Bond Resolution and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Bond Resolution.

"Affiliate" of any specified Person shall mean any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" when used with respect to any specified Person shall mean the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent Member" shall mean a member of, or participant in, the Securities Depository.

"Aggregate Debt Service" for any period means, as of any date of calculation and with respect to all Bonds, the sum of the amounts of Debt Service for such period.

"Aggregate Net Debt Service" for any period means, as of any date of calculation and with respect to all Bonds, the Aggregate Debt Service for such period, less any amounts available or expected to be available in the ordinary course for the payment of Debt Service during such period pursuant to the Resolution (including but not limited to interest or other income available or expected to be available for payment of Debt Service during such period from the Reserve Account).

"Annual Budget" means the budget adopted or in effect for a particular Fiscal Year as provided in the Resolution.

"Appreciated Value" means, with respect to any Capital Appreciation and Income Bond up to the Interest Commencement Date, an amount equal to the principal amount of such Capital Appreciation and Income Bond (determined on the basis of the principal amount per $5,000 at the Interest Commencement Date thereof) plus the amount, assuming semi-annual compounding of earnings which would be produced on the investment of such principal amount, beginning on the dated date of such Capital Appreciation and Income Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce $5,000 at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Capital Appreciation and Income Bond shall mean the amount set forth for such date in the Supplemental Resolution authorizing such Capital Appreciation Bonds and as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date and (2) the difference between the Appreciated Values for such Valuation Dates.

"Authorized District Representative" shall mean the Chairperson or Vice-Chairperson or Executive Director or Director of Finance or Secretary or Treasurer of the District or such Persons as, at the time, are designated to act in behalf of the District by written certificate furnished to the Paying Agent and the District, containing the specimen signature of each such Person and signed on behalf of the District.

"Authorized Denominations" shall mean $5,000 or any integral multiple thereof.

"Authorized Investments" shall mean any of the following securities, to the extent legal for investment of the District's funds: [a] Government Obligations and, to the extent from time to time permitted by law, [b] obligations of [i] Federal Home Loan Banks, senior debt obligations, [ii] Federal Home Loan Mortgage Corporation, participation certificates and senior debt obligations, [iii] Student Loan Marketing Association, senior debt obligations, [iv] Resolution Funding Corporation and [v] Federal National Mortgage Association mortgage-backed securities and senior debt obligations; [c] money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard and Poor's of AAAm-G, AAAm or AAm; [d] certificates of deposit or time deposits of any bank, any branch of any bank, trust company or national banking association or any savings and loan association; provided, however, that such certificates of deposit or time deposits shall be fully secured, to the extent not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, by Government Obligations in which the Note Registrar has a perfected first security interest, [e] investment agreements (for investment of moneys held in the Construction and Acquisition Fund) or other investments approved in writing by the Insurer, [f] commercial paper rated at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P, [g] bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies, [h] federal funds or banker acceptances with a maximum term of 1 year with a rating of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P, and [i] any repurchase agreement approved in writing by the Insurer or any repurchase agreement with a term not in excess of 30 days that is a legal investment for public funds under state law (as determined by a written legal opinion delivered to the District) and is with a primary dealer on the Federal Reserve reporting dealer list rated A or better by Moody's and S&P or any bank or trust company (including the Note Registrar) rated "A" or better by Moody's and S&P for Government Obligations or obligations described in [b] above in which the Note Registrar shall be given a first security interest and on which no third party shall have a lien. The underlying repurchase obligations must be valued weekly and marked to market at a current market price plus accrued interest of at least 104% (105% if the underlying securities are Federal National Mortgage Association Mortgage-backed securities and senior debt obligations) of the amount of the repurchase obligations of the bank or trust company. All obligations purchased must be transferred to the Note Registrar or a third party agent by physical delivery or by an entry made on the records of the issuer of such obligations. Any investment in a repurchase agreement shall be considered to mature on the date the obligor providing the repurchase agreement is obligated to repurchase the obligations. Any investment in obligations described in [a] and [b] above may be made in the form of an entry made on the records of the issuer of the particular obligation.

The Note Registrar, any Paying Agent, or other custodian of funds of the District, respectively, may trade with itself in the purchase and sale of securities for such investment and may charge its ordinary and customary fees for such trades, including cash sweep account fees. In the absence of any direction from the District, the Note Registrar, any Paying Agent, or other custodian of funds of the District, respectively, shall invest all funds in sweep accounts, money market funds and similar short-term investments, provided that all such investments shall constitute Authorized Investments.

"Authorized Newspaper" means The Bond Buyer or any other financial newspaper customarily published at least once a day for five days (other than legal holidays) in each calendar week, printed in the English language and of general circulation in the Borough of Manhattan, City and State of New York.

"Authorized Officer of the District" means any person authorized by the District to perform the act or sign the document in question.

"Board" means the Board of the District, or such board, commission or agency as may succeed to the duties and responsibilities of such Board.

"Bond" or "Bonds" means any bonds, notes or other evidences of indebtedness (other than Subordinated Debt), as the case may be, authenticated and delivered pursuant to the Resolution.

"Bond Counsel" means a nationally recognized municipal bond attorney or firm of municipal bond attorneys, acceptable to the District.

"Bond Fund" means the Bond Fund established in the Resolution.

"Bondholder" or "Holder of Bonds" or "Holder" means any person who shall be the registered owner of any Bond or Bonds. Notwithstanding this definition, with respect to any Bonds which are registered in Book-Entry Form, the Paying Agent shall be entitled to rely upon written instructions from a majority of the beneficial owners of the Bonds with reference to consent, if any, required from Bondholders under the Resolution.

"Bond Register" means the form or system or document in which the ownership of Bonds is recorded by the Bond Registrar.

"Bond Registrar" means any bank or trust company organized under the laws of any state of the United States of America or national banking association appointed by the District to perform the duties of Bond Registrar enumerated in the Resolution.

"Bond Resolution" shall mean the District's Sewer and Drainage System Revenue Bond Resolution as adopted on December 7, 1992, and amended on March 4, 1993, June 30, 1993, December 14, 1994, January 25, 1996 and February 24, 2003, as the same may be further amended and supplemented from time to time.

"Book-Entry Form" or "Book-Entry System" means, with respect to the Bonds, a form or system, as applicable, under which (i) the ownership of beneficial interests in Bonds and bond service charges may be transferred only through a book entry and (ii) physical Bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as Holder, with the physical Bond certificates in the custody of a Securities Depository.

"Business Day" means any day other than a Saturday, Sunday or legal holiday in the Commonwealth or a day on which either Bond Registrar, the Paying Agent or the District is legally authorized to close.

"Capital Appreciation Bonds" means any Bonds issued under the Resolution as to which interest is payable only at the maturity or prior redemption of such Bonds, as further described in the Resolution.

"Capital Appreciation and Income Bonds" means any Bonds issued under the Resolution as to which interest is deferred prior to the Interest Commencement Date, as further described in the Resolution.

"Chairperson" means the Chairperson of the District, or such Officer of the District as may succeed to the duties and responsibilities of the Chairperson.

"Closing Date" shall mean the date of the issuance and delivery of a series of Notes.

"Code" shall mean the Internal Revenue Code of 1986, as amended, as it applies to the Notes, including applicable regulations and revenue rulings thereunder.

"Commonwealth" means the Commonwealth of Kentucky.

"Construction and Acquisition Fund" means the Construction and Acquisition Fund established in the Resolution.

"Cost of Construction and Acquisition" means, with respect to a Project, the District's costs, expenses and liabilities paid or incurred or to be paid or incurred by the District in connection with the planning, engineering, designing, acquiring, constructing, installing and financing, of a Project and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, all costs relating to the acquisition, construction and installation of a Project and the cost of any demolitions or relocations necessary in connection therewith, any good faith or other similar payment or deposits required in connection with the purchase of a Project, the cost of acquisition by or for the District of real and personal property or any interests therein, and costs of the District incidental to such construction, acquisition or installation all costs relating to injury and damage claims relating to a Project, the cost of any indemnity or surety bonds and premiums on insurance, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal and financial advisory fees and expenses, interest and financing costs, including, without limitation, bank commitment, line of credit, and letter of credit fees, bond insurance and indemnity premiums, and any other means of providing credit enhancement or credit support, costs incurred in connection with interest rate exchanges, futures contracts or other similar financing arrangements, fees and expenses of the Fiduciaries, including reasonable fees and expenses of counsel to the Fiduciaries, administration and general overhead expense and costs of keeping accounts and making reports required by the Resolution prior to or in connection with the completion of construction of a Project, amounts, if any, required by the Resolution to be paid into the Bond Fund to provide, among other things, for interest accruing on Bonds and to provide for the Debt Service Reserve Requirement or to be paid into the Renewal and Replacement Account for any of the respective purposes thereof, payment when due (whether at the maturity of principal or the due date of interest or upon redemption or purchase) on any indebtedness of the District, including Bonds, notes and Subordinate Debt, incurred in respect of any of the foregoing, and working capital and reserves therefor, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with a Project and shall include reimbursements to the District for any of the above items theretofore paid by or on behalf of the District. It is intended that this definition of Cost of Construction and Acquisition be broadly construed to encompass all costs, expenses and liabilities of the District related to a Project which on the date of adoption of the Resolution or in the future shall be permitted to be funded with the proceeds of Bonds pursuant to the provisions of the laws of the Commonwealth.

"Credit Facility" means, a letter of credit, surety bond, loan agreement, standby purchase agreement or other credit agreement, facility or insurance or guaranty arrangement which has been rated not lower than "A" by Moody's or S&P's, or which is issued by an entity whose unsecured long term debt or claims paying ability is rated not lower than "A" by Moody's or S&P's, in either case, pursuant to which the District or another person is entitled to obtain funds to pay Bonds and interest thereon tendered to the District or a third party for payment, purchase or redemption in accordance with the Resolution.

"Debt Service" for any period means, as of any date of calculation and with respect to any Series, an amount equal to [i] the interest accruing during such period on Bonds of such Series plus [ii] the portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue periodically in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later). For Variable Interest Rate Bonds, the annual interest rate thereon and the resulting Debt Service shall be calculated by an Authorized Officer and evidenced by a certificate from such Authorized Officer of the District in accordance with the following procedure: for any Variable Interest Rate Bonds Outstanding on the date such certificate is delivered, an Authorized Officer of the District shall estimate the Debt Service on such Bonds upon reliance upon a written estimate of such Debt Service by the District's financial advisor which estimate shall include assumptions with respect to the interest rate or rates to be borne by such Bonds and the amounts and due dates of the Principal Installments for such Bonds; provided, however, that the interest rate or rates assumed to be borne by any Variable Interest Rate Bonds shall not be less than the interest rate borne by such Variable Interest Rate Bonds at the time that an Authorized Officer of the District delivers such certificate. The principal and interest portions of the Accreted Value and Appreciated Value of Capital Appreciation Bonds and Capital Appreciation and Income Bonds, respectively, becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Bonds.

"Debt Service Account" means the Debt Service Account of the Bond Fund.

"Debt Service Reserve Requirement" as of a particular date of computation means an amount, computed separately for each Series of Bonds, equal to the least of [i] ten percent (10%) of the face amount of such Series, [ii] one hundred percent (100%) of the maximum Aggregate Net Debt Service (as of the computation date) in the current or any future Fiscal Year and [iii] one hundred twenty-five percent (125%) of average Aggregate Net Debt Service (as of the computation date) in the current or any future Fiscal Year. For Variable Interest Rate Bonds, the Debt Service Reserve Requirement shall be the maximum permitted amount with interest calculated at the lesser of the 30-year Revenue Bond Index (published by The Bond Buyer no more than two weeks prior to the date of sale of such Variable Interest Rate Bonds) or the Maximum Interest Rate. If any Variable Interest Rate Bond shall be converted to a fixed rate Bond for the remainder of the term thereof, and as a result thereof a nominal deficiency shall be created in the Bond Fund, the Debt Service Reserve Requirement shall be adjusted so as to exclude the amount of such deficiency, but the Debt Service Reserve Requirement shall be increased in each Fiscal Year or portion thereof after the date of such conversion by an amount equal to one hundred percent (100%) of the nominal deficiency, until there is no longer a nominal deficiency.

"Default" shall mean any event which with the giving of notice or lapse of time, or both, would constitute an Event of Default.

"Defaulted Interest" shall have the meaning stated in Note Resolution.

"Defeasance Obligations" means (i) cash, (ii) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series — "SLGS"), (iii) direct obligations of the United States Treasury which have been stripped by the Treasury itself (CATS, TIGRS and similar securities), (iv) interest components of obligations of the Resolution Funding Corporation in book-entry form if such obligations have been stripped by request to the Federal Reserve Bank of New York, (v) pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P; however, if the issue is only rated by S&P, then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals, (vi) obligations issued by the following agencies which are backed by the full faith and credit of the United States: (a) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank (Eximbank), (b) certificates of beneficial ownership of the Farmers Home Administration, (c) obligations of the Federal Financing Bank, (d) participation certificates of the General Services Administration, (e) guaranteed Title XI financings of the U.S. Maritime Administration, (f) United States guaranteed New Community Debentures, (g) United States guaranteed public housing notes and bonds, and (h) project notes and local authority bonds of the U.S. Department of Housing and Urban Development, and (vii) any other investments approved in writing by the Insurer.

“District” means the Louisville and Jefferson County Metropolitan Sewer District, a public body corporate and political subdivision, created and established pursuant to the Act.

“District Certificate” shall mean a certificate signed by an Authorized District Representative and delivered to the Paying Agent.

“District Note” shall mean any Note registered in the name of the District or any beneficial ownership interest in the Notes held by the District.

“District Request”, “District Order” or “District Consent” shall mean, respectively, a written request, order or consent of the District, signed by an Authorized District Representative and delivered to the Paying Agent.

“District Resolution” shall mean a resolution or other appropriate enactment by the District certified by the Secretary or another Authorized District Representative to have been duly adopted by the District and to be in full force and effect on the date of such certification, and delivered to the Paying Agent.

“Eastern Time” shall mean the prevailing time in the City of Louisville, Kentucky.

“Eligible Moneys” shall mean (a) proceeds of the sale of Notes not sold to the District or an Affiliate of the District, (b) moneys deposited with the Paying Agent by the District (including proceeds of Notes sold to an Affiliate of the District) for the benefit of the Noteholders for more than 183 days during which no Act of Bankruptcy has occurred as evidenced by a certificate of the District, (c) moneys with respect to which the District delivers to the Paying Agent an Opinion of Counsel with nationally recognized expertise in bankruptcy acceptable to the Paying Agent that such payments will not constitute a voidable transfer or preference under and pursuant to Section 547 of the Federal Bankruptcy Code and (d) investment income on the foregoing types of money.

“Event of Default” shall have the meaning given to such term herein under the caption “Events of Default.”

"Extraordinary Services and Extraordinary Expenses" shall mean all reasonable services rendered and all reasonable expenses incurred by the Paying Agent under the Resolution other than Ordinary Services and Ordinary Expenses.

"Federal Reserve Bank" means any one of the central banks constituting the Federal Reserve System, created by the Federal Reserve Act of 1913, as amended, in order to regulate and aid the member banks in its respective Federal Reserve district.

"Fiduciary" or "Fiduciaries" means the Bond Registrar, the Paying Agents, or any or all of them, as may be appropriate or any bank, trust company, national banking association, savings and loan association, savings bank or other banking association selected by the District as a depositary of monies and securities held under the provisions of the Resolution, and may include the Bond Registrar.

"Fiscal Year" means each twelve (12) month period commencing on July 1 and ending on the succeeding June 30.

"Fitch" shall mean Fitch Ratings, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a municipal securities rating agency, Fitch shall be deemed to refer to any other nationally recognized municipal securities rating agency designated by the District.

"Fund" or "Funds" means, as the case may be, each or all of the Funds established in the Resolution.

"Government Obligations" when used with respect to Bonds shall mean (i) any direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal and interest on which are unconditionally guaranteed by the United States of America, and (ii) bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following federal agencies (including stripped obligations thereof if such obligations have been stripped by the issuing agency itself) provided such obligations are backed by the full faith and credit of the United States of America: [1] Farmer's Home Administration; [2] General Services Administration; [3] United States Maritime Administration - Guaranteed Title XI Financing; [4] Federal Financing Bank; [5] United States Department of Housing and Urban Development; [6] U.S. Export - Import Bank; [7] Federal Housing Administration Debentures, and [8] Government National Mortgage Association guaranteed mortgage-backed bonds and guaranteed pass-through obligations.

"Government Obligations" when used with respect to Notes shall mean, direct general obligations of, or obligations the prompt payment of the principal of and the interest on which are fully and unconditionally guaranteed by, the United States of America. In addition, investments having a maturity of seven days or less in a money market or other fund, which fund is rated by Moody's and S & P in the highest rating category, and investments of which fund are exclusively in Government Obligations, shall be considered investments in Government Obligations.

"Granting Clauses" means the granting clauses appearing at the beginning of the Resolution.

"Immediate Notice" shall mean notice (a) by telex, telecopier or telephone, or delivery by hand, (b) promptly followed by written notice by first class mail, postage prepaid, and (c) to such address or such telex, telecopier or telephone number as the Person receiving such notice shall have previously furnished to the Paying Agent in writing.

"Independent" when used with respect to any specified Person shall mean such a Person who (a) is in fact independent; (b) does not have any direct financial interest or any material indirect financial interest in the District or any Affiliate of the District, other than the payment to be received under a contract for services to be performed by such Person; and (c) is not connected with the District or any Affiliate of the District, as an official, officer, employee, promoter, underwriter, trustee, partner, subsidiary, director or Person performing similar functions.

"Interest Payment Date" shall mean the date or dates for the payment of interest on each series of Notes as provided in the applicable series of Notes.

"Insurer" means any nationally recognized company engaged in the business of insuring bonds which may from time to time insure the payment of the principal of and interest on all or a portion of the Bonds of any Series.

"Interest Commencement Date" means, with respect to any particular Capital Appreciation and Income Bond, the date specified in the Supplemental Resolution authorizing such Bonds, (which date must be prior to the maturity date for such Bonds) after which interest ceases to be deferred and compounds and the interest becomes currently payable.

"Investment Securities" means any of the following securities, to the extent legal for investment of the District's funds: [a] Government Obligations and, to the extent from time to time permitted by law, [b] obligations of [i] Federal Home Loan Banks, senior debt obligations, [ii] Federal Home Loan Mortgage Corporation, participation certificates and senior debt obligations, [iii] Student Loan Marketing Association, senior debt obligations, [iv] Resolution Funding Corporation and [v] Federal National Mortgage Association mortgage-backed securities and senior debt obligations; [c] money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard and Poor's of AAAm-G, AAAm or AAm; [d] certificates of deposit or time deposits of any bank, any branch of any bank, trust company or national banking association or any savings and loan association; provided, however, that such certificates of deposit or time deposits shall be fully secured, to the extent not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, by Government Obligations in which the Bond Registrar has a perfected first security interest, [e] investment agreements (for investment of moneys held in the Construction and Acquisition Fund) or other investments approved in writing by the Insurer, [f] commercial paper rated at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P, [g] bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies, [h] federal funds or banker acceptances with a maximum term of 1 year with a rating of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P, and [i] any repurchase agreement approved in writing by the Insurer or any repurchase agreement with a term not in excess of 30 days that is a legal investment for public funds under state law (as determined by a written legal opinion delivered to the District) and is with a primary dealer on the Federal Reserve reporting dealer list rated A or better by Moody's and S&P or any bank or trust company (including the Bond Registrar) rated "A" or better by Moody's and S & P for Government Obligations or obligations described in [b] above in which the Bond Registrar shall be given a first security interest and on which no third party shall have a lien. The underlying repurchase obligations must be valued weekly and marked to market at a current market price plus accrued interest of at least 104% (105% if the underlying securities are Federal National Mortgage Association Mortgage-backed securities and senior debt obligations) of the amount of the repurchase obligations of the bank or trust company. All obligations purchased must be transferred to the Bond Registrar or a third party agent by physical delivery or by an entry made on the records of the issuer of such obligations. Any investment in a repurchase agreement shall be considered to mature on the date the obligor providing the repurchase agreement is obligated to repurchase the obligations. Any investment in obligations described in [a] and [b] above may be made in the form of an entry made on the records of the issuer of the particular obligation.

The Bond Registrar, any Paying Agent, other Fiduciaries, or other custodian of funds of the District, respectively, may trade with itself in the purchase and sale of securities for such investment and may charge its ordinary and customary fees for such trades, including cash sweep account fees. In the absence of any direction from the District, the Bond Registrar, any Paying Agent, other Fiduciaries, or other custodian of funds of the District, respectively, shall invest all funds in sweep accounts, money market funds and similar short-term investments, provided that all such investments shall constitute Investment Securities.

"Maturity" when used with respect to any Note shall mean the date on which the principal of such Note becomes due and payable as therein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Maximum Interest Rate" means, with respect to any particular Variable Interest Rate Bond, an annual rate of interest, which shall be set forth in the Supplemental Resolution authorizing such Bond, that shall be the maximum rate of interest such Bond may at any time bear.

"Minimum Interest Rate" means, with respect to any particular Variable Interest Rate Bond, an annual rate of interest which may (but need not) be set forth in the Supplemental Resolution authorizing such Bond, that shall be the minimum rate of interest such Bond may at any time bear.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, if any.

"Month" means a calendar month.

"Net Revenues" for any period shall mean Revenues, less Operating Expenses for such period.

"Noteholder", "Owner", "owner", "Holder" or "holder" or any similar term, when used with reference to any of the Notes, shall mean any Person who shall be the registered owner on the records of the Note Registrar of any then Outstanding Notes.

“Notes” shall mean the District’s Subordinated Sewer and Drainage System Revenue Notes issued pursuant to the Note Resolution.

“Note Account” shall mean the fund created in Section 5.2 of the Note Resolution.

“Note Documents” shall mean the Note Resolution and the Notes.

“Note Register” shall have the meaning specified in Section 2.5 of the Note Resolution.

“Note Registrar” shall mean the Paying Agent in its capacity as bond registrar, appointed and serving in such capacity pursuant to the Note Resolution.

“Note Resolution” or “Subordinated Debt Resolution” shall mean the Subordinate Debt Resolution adopted by the District on April 26, 2010, as amended by the Subordinate Debt Sale Resolution adopted on January 24, 2011.

“Notice by Mail” or “notice” of any action or condition “by Mail” shall mean a written notice meeting the requirements of the Note Resolution mailed by first-class mail, postage prepaid, to the Holders of specified Notes at the addresses shown in the Note Register. If, because of the temporary or permanent suspension of mail service or for any other reason, it is impossible or impracticable to mail any such notice in the manner described, then such notification in lieu thereof as shall be made with the approval of the Paying Agent shall constitute a sufficient notice.

“Official Statement” shall mean the offering document for a series of Notes to be used by the Underwriter to offer such Notes, as from time to time amended.

“Operating Expenses” means the District’s reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation of the System, determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. Operating Expenses shall include, without limiting the generality of the foregoing, [i] expenses not annually recurring, [ii] administrative and engineering expenses (to the extent not paid or reimbursed as a Cost of Construction and Acquisition), payments to pension or retirement funds properly chargeable to the System, insurance premiums, fees and expenses of Paying Agents and legal expenses, [iii] interest on, redemption premium on, or principal of, Subordinated Debt, [iv] any other expenses required to be paid by the District under the provisions of the Resolution or by law and [v] amounts reasonably required to be set aside in reserves for operating items or expenses the payment of which is not then immediately required.

However, Operating Expenses do not include [i] reserves for extraordinary maintenance or repair, or any allowance for depreciation, or any deposits or transfers to the credit of the Bond Fund or the Renewal and Replacement Account, nor any amounts paid or required to be paid to the United States of America pursuant to the Resolution (except to the extent such rebate amounts must be paid from Revenues other than the investment income that generated the liability to the United States), [ii] non-capital Costs of Acquisition and Construction or other costs, to the extent composed of non-capital expenses, salaries, wages and fees that are necessary or incidental to capital improvements for which debt has been issued and which may be paid from proceeds of such debt or [iii] losses from the sale, abandonment, reclassification, revaluation or other disposition of properties of the System nor such property items, including taxes and fuel, which are capitalized pursuant to the then existing accounting practice of the District.

"Opinion of Counsel" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds (who may be counsel to the District) selected by the District.

"Option Bonds" means Bonds which by their terms may be tendered by and at the option of the Holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Holder thereof.

"Ordinary Services and Ordinary Expenses" shall mean those services normally rendered and those expenses normally incurred by a paying agent, bond registrar or trustee under instruments similar to the Note Resolution, including all costs of administering the optional redemption provisions contained in the Note Resolution including, but not limited to, reasonable attorneys' fees.

"Outstanding" when used with respect to Notes shall mean, as of the date of determination, all Notes theretofore authenticated and delivered under the Note Resolution, except:

Notes theretofore canceled by the Paying Agent or delivered to the Paying Agent for cancellation;

(a) Notes for whose payment or redemption money (which shall be Eligible Moneys to the extent, if any, provided in the Resolution) in the necessary amount has been theretofore deposited with the Paying Agent in trust for the Holders of such Notes, provided that, if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Resolution or provision therefor satisfactory to the Paying Agent has been made;

(b) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Resolution; provided, however, that in determining whether the Holders of the requisite principal amount of Notes Outstanding have given any request, demand, authorization, direction, notice, consent or waiver hereunder, District Notes shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Paying Agent shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes of which the Responsible Officer of the Paying Agent located at the Paying Agent's principal corporate trust office has actual knowledge are District Notes are disregarded; and

(c) For purposes of any consent, request, demand, authorization, direction, notice, waiver or other action to be taken by the Holders of all or a specified percentage of Outstanding Notes hereunder, all District Notes.

"Outstanding" when used with reference to Bonds, means, as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

[i] Bonds cancelled pursuant to the Resolution at or prior to such date;

[ii] Bonds (or portion of Bonds) for the payment or redemption of which monies, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such bonds (or portion of Bonds) are to be redeemed, notice of such redemption shall have been given or provision satisfactory to the District shall have been made for the giving of such notice as provided in the Resolution;

[iii] Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Resolution;

[iv] Bonds deemed to have been paid as provided in the Resolution; and

[v] Option Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the applicable adjustment or conversion date if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payment as provided in the Resolution.

"Paying Agent" means any bank or trust company organized under the laws of any state of the United States of America or any national banking association designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

"Payment of the Notes" shall mean the payment in full of principal of, premium, if any, and interest on the Notes or provisions for such payment sufficient to discharge the Note Resolution.

"Person" shall mean any natural person, corporation, limited liability company, joint venture, cooperative, partnership, trust or unincorporated organization, government or governmental body or agency, political subdivision or other legal entity, as in the context may be appropriate.

"Pledged Property" means and includes the following property, as and when received by or for the account of the District, in each case pending the application or expenditure thereof in accordance with the Resolution: [i] the proceeds of sale of Bonds, [ii] all Revenues, [iii] all amounts on deposit in the Funds or Accounts established under the Resolution, [iv] such other amounts as may be pledged from time to time by the District as security for the payment of Bonds and [v] all proceeds of the foregoing.

"Principal Installment" means, as of the date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, [i] the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established (including the principal amount of Option Bonds tendered for payment and not purchased), [ii] the Sinking Fund Installment due on a certain future date for Bonds of such

Series and [iii] if such future dates coincide, the sum of such principal amount and such Sinking Fund Installment.

"Prior Bonds" or "Senior Debt" shall mean any bonds, notes or other obligations issued on a parity as to security and sources of payment pursuant to the Bond Resolution.

"Project" means a capital project of the District to be financed or refinanced with the proceeds of any of the Notes, and with respect to the Series 2011A Notes shall mean the refunding of certain of the District's outstanding Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2010A.

"Rating Agency" shall mean Moody's, S&P and/or Fitch.

"Record Date" means a Regular Record Date or a Special Record Date.

"Redemption Date" when used with respect to any Note to be redeemed shall mean the date on which it is to be redeemed pursuant to the Resolution.

"Redemption Price" means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond.

"Redemption Price" when used with respect to any Note to be redeemed shall mean the price at which it is to be redeemed.

"Refunding Bonds" means all Bonds, whether issued in one or more Series or as part of a Series, authenticated and delivered on original issuance pursuant to the Resolution.

"Renewal and Replacement Account" means the account of that name which is maintained pursuant to the Resolution.

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

"Resolution" means the Sewer and Drainage System Revenue Bond Resolution of the District originally adopted on December 9, 1992 and amended and restated in its entirety on June 30, 1993, as from time to time amended or supplemented.

"Responsible Officer" when used with respect to the Paying Agent shall mean the chairman or vice-chairman of the board of directors, the chairman or vice-chairman of the executive committee of the board of directors, the president, any vice-president, any trust officer, or any other officer of the Paying Agent customarily performing functions similar to those performed by any of the above designated officers and who, in any event is located at the principal corporate trust office of the Paying Agent and shall also mean, with respect to a particular corporate trust matter any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject; with respect to any signature on or authentication of Notes by the Paying Agent, the term "Responsible Officer" shall also include any authorized signers of the Paying Agent.

"Revenue Fund" means the Revenue Fund which is maintained pursuant to the Resolution.

"Revenues" means all revenues, rates, fees, rents, charges and other operating income and receipts, as derived by or for the account of the District from or for the operation, use or services of the System, determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. Revenues shall include, without limiting the generality of the foregoing, [i] revenue from capital charges recovered or reimbursed to the District, capacity charges and service connection fees, [ii] acquisition surcharges and assessments levied by the District (regardless of whether any of the same are allocated or designated by the District for capital expenditures) and [iii] interest or other income received or to be received from any source, including but not limited to interest or other income received or to be received on any monies or securities held pursuant to the Resolution. Revenues shall not include customer deposits and contributions in aid of construction, except to the extent the same would constitute revenues or income in accordance with generally accepted accounting principles.

"S&P's" means Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, and its successors and their assigns, if any.

"Secretary-Treasurer" means the Secretary-Treasurer of the District, or such officer of the District as may succeed to the duties and responsibilities of the Secretary-Treasurer.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Securities Depository" means any securities depository that is 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, operating and maintaining, with its participants or otherwise, a Book-Entry System to record ownership of beneficial interests in bonds and bond service charges, and to effect transfers of bonds in Book-Entry Form, and means, initially, The Depository Trust Company (a limited purpose trust company), New York, New York.

"Securities Depository Nominee" means any nominee of a Securities Depository and shall initially mean Cede & Co., New York, New York, as nominee of The Depository Trust Company.

"Senior Debt" or "Prior Bonds" shall mean any bonds, notes or other obligations issued on a parity as to security and sources of payment pursuant to the Bond Resolution.

"Senior Subordinated Debt Fund" means the Senior Subordinated Debt Fund which is maintained pursuant to the Resolution.

"Series" means all of the Bonds authenticated and delivered on original issuance and identified pursuant to the Resolution or any Supplemental Resolution authorizing such Bonds as a separate Series of Bond, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Resolution, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

"Series 2011A Notes" shall mean the District's Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2011A issued pursuant to the Note Resolution.

"Sinking Fund Installment" means an amount so designated which is established pursuant to the Resolution.

"S&P" shall mean Standard & Poor's Ratings Group, a division of McGraw-Hill Financial Services Company, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a municipal securities rating agency, S&P shall be deemed to refer to any other nationally recognized municipal securities rating agency designated by the District.

"Stated Maturity" when used with respect to any Note or any installment of interest thereon shall mean the date specified in such Note as the fixed date on which principal of such Note or such installment of interest is due and payable.

"Subordinated Debt Subaccounts" shall have the meaning assigned to such term in Section 6.05 of the Note Resolution.

"Subordinated Debt" means indebtedness of the System which is subordinate to the Bonds issued under the Resolution including the Senior Subordinated Debt.

"Supplemental Resolution" means any resolution supplemental to or mandatory of this Resolution adopted by the District in accordance with the Resolution.

"System" means [i] the sewer facilities, drainage facilities and all appurtenant facilities or any other facilities owned, operated or controlled by the District from time to time, [ii] any Project and [iii] all improvements, additions, extensions and betterments to the foregoing which may be hereafter acquired by the District by any means whatsoever.

"Trust Funds" shall mean all of the funds and accounts held by the Paying Agent pursuant to Note Resolution, but otherwise excluding the Rebate Fund.

"Trust Moneys" shall have the meaning stated in the Note Resolution.

"Valuation Date" means with respect to any Capital Appreciation Bonds and Capital Appreciation and Income Bonds, the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values or Appreciated Values are assigned to the Capital Appreciation Bonds and Capital Appreciation and Income Bonds, as the case may be.

"Variable Interest Rate" means a variable interest rate to be borne by a Series of Bonds or any one or more maturities within a Series of Bonds.

"Variable Interest Rate Bonds" for any period means bonds which during such period bear a Variable Interest Rate, provided that Bonds the interest rate on which shall have been fixed for the remainder of the term thereof shall no longer be Variable Interest Rate Bonds.

"Vice-Chairperson" means the Vice-Chairperson of the District, or such officer of the District as may succeed to the duties and responsibilities of the Vice-Chairperson.

SUMMARY OF PROVISIONS OF THE BOND RESOLUTION

The Pledge Effected by the Resolution. The Bonds are special and limited obligations of the District payable, solely from and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Resolution, solely from the Pledged Property. There are by the Resolution pledged and assigned as security for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, the Pledged Property.

Establishment of Funds and Accounts. The Resolution establishes the following Funds and Accounts:

a. Construction and Acquisition Fund to be held by the District,

b. Revenue Fund to be held by the District,

c. Bond Fund to be held by the Paying Agent which shall consist of a Debt Service Account and a Reserve Account,

d. Renewal and Replacement Account to be held by the District, and

e. Senior Subordinated Debt Fund to be held by the District.

The District may, for accounting or allocation purposes, [i] establish one or more additional accounts or subaccounts within the Construction and Acquisition Account, the Revenue Fund, the Bond Fund or the Renewal and Replacement Account, or [ii] to the extent not expressly prohibited by other provisions hereof, commingle amounts between or among any or all of such Funds or Accounts, except the Senior Subordinated Debt Fund.

Construction and Acquisition Fund. There shall be paid into the Construction and Acquisition Fund the amounts required to be so paid by the provisions of the Resolution, and there may be paid into the Construction and Acquisition Fund, at the option of the District, any monies received by the District from any source, unless required to be otherwise applied as provided by the Resolution. Amounts in the Construction and Acquisition Fund shall be applied to pay the Cost of Construction and Acquisition in the manner provided in the Resolution and the Supplemental Resolution authorizing a Series of Bonds to finance the Cost and Acquisition of a Project.

There shall be established within the Construction and Acquisition Fund a separate account for a Project.

The proceeds of insurance, if any, maintained pursuant to the Resolution against physical loss of or damage to the System, or of contractors' performance bonds or other assurances of completion with respect thereof, or pertaining to the period of construction thereof, shall be paid into the appropriate separate account in the Construction and Acquisition Fund.

The Secretary-Treasurer of the District shall make payments from the Construction and Acquisition Fund, except payments and withdrawals pursuant to the Resolution as described in the next paragraph, in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Resolution. The Secretary-Treasurer or other Authorized Officer of the District shall maintain adequate records in respect of all payments made, including [a] the particular account established within the Construction and Acquisition Fund from which such payment is to be made, [b] the name and address of the person, firm or corporation to whom payment is due, [c] the amount to be paid and [d] the particular item of the Cost of Construction and Acquisition to be paid and that the cost or the obligation in the stated amount is a proper charge against the Construction and Acquisition Fund which has not been previously paid. The Secretary-Treasurer shall issue a check for each payment required by such requisition or shall by interbank transfer or other method arrange to make the payment required by such requisition.

Notwithstanding any of the provisions of the Resolution as described under this caption, except as provided below, to the extent that other monies are not available therefor, amounts in the Construction and Acquisition Fund shall be applied to the payment of Principal Installments of and interest on Bonds when due; provided, however, that proceeds (and investment earnings thereon) from the issuance by the District of Senior Subordinated Debt shall not be subject to the priority in favor of the Bonds created by the Resolution, but may instead be pledged by the District as security and a source of payment first for the Senior Subordinated Debt pursuant to the resolution or resolutions of the District authorizing such Senior Subordinated Debt, in which event such amounts shall be applied to the payment of debt service on the Senior Subordinated Debt when due to the extent that other monies are not available therefor, and shall not be used to pay debt service on any Bonds if there is any Senior Subordinated Debt which remains outstanding and unpaid.

An adequate record of the completion of construction of a Project financed in whole or in part by the issuance of Bonds shall be maintained by an Authorized Officer of the District. The balance in the separate account in the Construction and Acquisition Fund established therefor shall be transferred to the Reserve Account in the Bond Fund, if and to the extent necessary to make the amount of such Account equal to the Debt Service Reserve Requirement, and any excess amount shall be paid over or transferred to the District for deposit in the Revenue Fund.

<u>Application of Revenues</u>. All Revenues shall be promptly deposited by the District upon receipt thereof into the Revenue Fund.

There shall be withdrawn in each month the following amounts, for deposit as set forth below and in the order of priority set forth below.

> [i] To the Bond Fund, [i] for credit to the Debt Service Account, the amount, if any, required so that the balance in such Account shall equal the Accrued Aggregate Debt Service as of the last day of the then current month or, if interest or

principal are required to be paid to Holders of Bonds during the next succeeding month on a day other than the first day of such month, Accrued Aggregate Debt Service as of the day through and including which such interest or principal is required to be paid and [ii] for credit to the Reserve Account, the amount, if any, required for such Account, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account pursuant to the Resolution, to equal one-twelfth (1/12) of the difference between [a] the amount then in the Reserve Account immediately preceding such deposit and [b] the actual Debt Service Reserve Requirement as of the last day of the then current month; and

[ii] To the Senior Subordinated Debt Fund the amount, if any, required to pay the scheduled base and additional rental payments when due on the Senior Subordinated Debt and make deposits, if any, for reserves therefor, in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the Senior Subordinated Debt; and

[iii] Each month the District shall pay from the Revenue Fund such amounts as are necessary to meet Operating Expenses for such month; and

[iv] To the Renewal and Replacement Account, a sum equal to 1/12 of the amount, if any, provided in the Annual Budget to be deposited in the Renewal and Replacement Account during the then current Fiscal Year; provided that, if any such monthly allocation to the Renewal and Replacement Account shall be less than the required amount, the amount of the next succeeding monthly payment shall be increased by the amount of such deficiency.

The balance of monies remaining in the Revenue Fund after the above required payments have been made may be used by the District for any lawful purpose relating to the System; provided, however, that none of the remaining monies shall be used for any purpose other than those hereinabove specified unless all current payments and including all deficiencies in prior payments, if any, have been made in full and unless the District shall have complied fully with all the covenants and provisions of the Resolution.

So long as there shall be held in the Debt Service Account and the Reserve Account an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no transfers shall be required to be made to the Bond Fund; and provided further, that any deficiency in the Reserve Account, after giving effect to any surety bond, insurance policy or letter of credit deposited in such Account pursuant to the Resolution as described in the fourth paragraph under the caption "Bond Fund — Reserve Account" herein, other than a deficiency attributable to a withdrawal of amounts therefrom pursuant to the Resolution as described in the first paragraph under the caption "Bond Fund — Reserve Account" herein, shall be cured by depositing into the Reserve Account each month during the period commencing with the month following the month in which the determination of the deficiency was made an amount equal to one-twelfth (1/12th) of the deficiency, except that, if a new valuation of Investment Securities held in the Reserve Account is made pursuant to the Resolution during the period that such deposits are required, then the obligation of the District to make deposits during the balance of such period on the basis of the preceding valuation shall be discharged and the deposits, if any, required to be made for the balance of such period shall be determined under this proviso on the basis of the new valuation.

Bond Fund — Debt Service Account. The Paying Agent, from amounts deposited therein, shall pay out of the Debt Service Account, [i] on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date, [ii] no later than each Principal Installment due date, the amount required for the Principal Installment payable on such due date and [iii] no later than any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. In the case of Variable Interest Rate Bonds, the District shall furnish the Paying Agent with a certificate setting forth the amount to be paid on such Bonds on each interest payment date, such certificate shall be furnished on or prior to the appropriate Record Date with respect to any interest payment date. Such amounts shall be applied by the Paying Agents on or after the due dates thereof. The Paying Agent shall also pay out of the Debt Service Account, from amounts deposited therein, the accrued interest included in the purchase price of Bonds purchased for retirement.

Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment may be applied on or prior to the 40th day next preceding the due date of such Sinking Fund Installment, to [i] the purchase of Bonds of the Series and maturity for which such Sinking Fund Installment was established or [ii] the redemption at the applicable sinking fund Redemption Price of such Bonds, if then redeemable by their terms. All purchases of any Bonds pursuant to the Resolution as described in this paragraph shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the District shall proceed to call for redemption, by giving notice as provided in the Resolution, on such due date Bonds of the Series and maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The District shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment).

Unless otherwise provided by the District, upon any purchase or redemption pursuant to the Resolution of Bonds of any Series and maturity for which Sinking Fund Installments shall have been established, there shall be credited, in increments of $5,000 to the extent practicable, toward each succeeding Sinking Fund Installment thereafter to become due on Bonds, of the same series and maturity (other than the Sinking Fund Installment next coming due) an amount bearing the same ratio, to the Sinking Fund Installment, as the total principal amount of Bonds purchased or redeemed bears to the total principal amount of all the Sinking Fund Installments to be credited. The portion of any principal Sinking Fund Installment remaining after the deduction of any such amounts are credited toward the same shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Account and applied to the payment of interest on Bonds as provided in the Resolution or in accordance with certificates of the District delivered pursuant to the Resolution or, if the District shall modify or amend any such certificate by a subsequent certificate signed by an Authorized Officer of the District, then in accordance with the most recent amended certificate.

In the event of the refunding of any Bonds, the District may withdraw from the Debt Service Account in the Bond Fund all, or any portion of, the amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts with itself to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter Bonds being refunded shall be deemed to have been paid pursuant to the Resolution as described herein under the caption "Defeasance," and (b) the amount remaining in the Debt Service Account in the Bond Fund, after giving effect to the issuance of Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Account pursuant to the Resolution in the second paragraph under this caption. In the event of such refunding, the District may also withdraw from the Debt Service Account in the Bond Fund all, or any portion of, the amounts accumulated therein with respect to Debt Service on the Bonds being refunded and deposit such amounts in any fund or Account under the Resolution; provided, however, that such withdrawal shall not be made unless items (a) and (b) referred to hereinabove have been satisfied and provided, further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under the Resolution, as confirmed in writing to the Bond Registrar by the Secretary-Treasurer.

Bond Fund — Reserve Account. If five days prior to any interest or Principal Installment due date with respect to any Series of Bonds payment for such interest or Principal Installment in full has not been made or provided for, the District shall forthwith withdraw from the Reserve Account an amount not exceeding the amount required to provide or such payment in full and deposit such amount in the Debt Service Account for application to such payment.

Whenever the amount in the Reserve Account shall exceed the Debt Service Reserve Requirement, after giving effect to any surety bond, insurance policy or letter of credit deposited in such Account pursuant to the Resolution as described in the fourth paragraph under this caption, such excess shall be deposited in the Debt Service Account.

Whenever the amount in the Reserve Account (exclusive of any surety bond, letter of credit or insurance policy therein), together with the amount in the Debt Service Account is sufficient to pay in full all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Reserve Account shall be transferred to the Debt Service Account. Prior to said transfer, all investments held in the Reserve Account shall be liquidated to the extent necessary in order to provide for the timely payment of principal and interest (or Redemption Price) on the Bonds.

In lieu of the required transfers or deposits to the Reserve Account, the District may cause to be deposited into the Reserve Account a surety bond or an insurance policy for the benefit of the holders of the Bonds or a letter of credit in an amount equal to the difference between the Debt Service Reserve Requirement and the sums then on deposit in the Reserve Account, if any, after the deposit of such surety bond, insurance policy or letter or credit. Such difference may be withdrawn by the District and be deposited in the Revenue Fund. The surety bond, insurance policy or letter of credit shall be payable (upon the giving of notice as required thereunder) on any due date on which monies will be required to be withdrawn from the Reserve Account and applied to the payment of a Principal Installment of or interest on any Bonds and such withdrawal cannot be met by amounts on deposit in the Reserve Account. If a disbursement is made pursuant to a surety bond, an insurance policy or a letter of credit provided pursuant to this subsection, the District shall be obligated either (i) to reinstate the maximum limits of such surety bond, insurance policy or letter of credit or (ii) to deposit into the Reserve Account, funds in the amount of the disbursement made under such surety bond, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount in the Reserve Account equals the Debt Service Reserve Requirement. Any other provision under this caption to the contrary notwithstanding, for each particular Series of Bonds or portion thereof which is insured by an Insurer, the right of the District under the Resolution to cause a surety bond or an insurance policy to be deposited into the Reserve Account in lieu of the required transfers or deposits thereto shall be subject to the condition that the District obtain the prior written consent of the Insurer as to the structure and the issuer of such surety bond or insurance policy.

In the event of the refunding of any Bonds, the District may withdraw from the Reserve Account in the Bond Fund all, or any portion of, the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts with itself to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Resolution as described in the second paragraph under the caption "Defeasance" herein, and (b) the amount remaining in the Reserve Account in the Bond Fund, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the Debt Service Reserve Requirement.

If any withdrawals are made from the Reserve Account pursuant to the Resolution, the resulting deficiency, if any, shall be remedied by the application of monthly payments into the Reserve Account as set forth in the Resolution, or by transfers from the Renewal and Replacement Account or both, until the amount on deposit in the Reserve Account is equal to the Debt Service Reserve Requirement, whereupon such deposits shall be discontinued until such time, if any, that there is again a deficiency.

Renewal and Replacement Account. Monies to the credit of the Renewal and Replacement Account may be applied to the cost of major replacements, repairs, renewals, maintenance, betterments, improvements, reconstruction or extensions of the System or any part thereof as may be determined by the Board.

If at any time the monies in the Debt Service Account, the Reserve Account and the Revenue Fund shall be insufficient to pay the interest and Principal Installments becoming due on the Bonds, then the District shall transfer from the Renewal and Replacement Account for deposit in the Debt Service Account the amount necessary (or all the monies in said Fund if less than the amount necessary) to make up such deficiency.

Any balance of monies and securities in the Renewal and Replacement Account not required to meet a deficiency as set forth above or for any of the purposes for which the Renewal and Replacement Account was established, may, on direction of the District, be transferred from the Renewal and Replacement Account to the Reserve Account, if and to the extent necessary to make the amount in such Account equal to the Debt Service Reserve Requirement, and any balance may be deposited in the Debt Service Account or the Revenue Fund.

Senior Subordinated Debt Fund. Subject to the provisions of the Resolution described in the next paragraph, the District shall apply amounts in the Senior Subordinated Debt Fund to the payment of debt service or the scheduled base and additional rental payments when due on the Senior Subordinated Debt and make deposits, if any, for reserves therefor in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the Senior Subordinated Debt.

Notwithstanding any of the other provisions of the Resolution described under this caption, if at any time the amount on deposit in the Reserve Account shall be less than the Debt Service Reserve Requirement, the District shall forthwith transfer from the Senior Subordinated Debt Fund for deposit in the Reserve Account the amount necessary (or all moneys in said Senior Subordinated Debt Fund, if necessary) to make up such deficiency.

Amounts in the Senior Subordinated Debt Fund which the District at any time determines to be in excess of the requirements of such fund may, at the discretion of the District, be transferred to the Debt Service Account or the Renewal and Replacement Account.

Investments. In making any investment in any Investment Securities with monies in any Fund or Account established under the Resolution, the District may combine, to the extent permitted by law, or instruct such Fiduciary to combine, such monies with monies in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

Monies held in the Bond Fund, the Revenue Fund, the Renewal and Replacement Account, the Senior Subordinated Debt Fund and the Construction and Acquisition Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities, maturing not later than such times as shall be necessary to provide monies when needed for payments to be made from such Fund or Account. The Fiduciary, shall make all such investments of monies held by it in accordance with written instructions from time to time received from an Authorized Officer of the District.

Interest (net of that which represents a return of accrued interest) or gain realized on investments in such Funds and Accounts other than the Reserve Account of the Bond Fund, shall be paid into the Revenue Fund, provided that gain realized from the liquidation of an investment shall be governed by the provisions described below. Interest earned or gain realized on investments in the Reserve Account shall be transferred to the Debt Service Account, provided that gain realized from the liquidation of an investment shall be governed by the provisions of the Resolution as described in the first paragraph under the caption "Valuation and Sale of Investments" herein.

Nothing in the Resolution shall prevent any Investment Securities acquired as investments of or security for funds held under the Resolution from being issued or held in book-entry form on the books of the Department of the Treasury of the United States.

Nothing in the Resolution shall preclude any Fiduciary from investing or reinvesting monies through its respective trust department; provided, however, that the District may, in its discretion, direct that such monies be invested or reinvested in a manner other than through such respective trust department.

Valuation and Sale of Investments. Obligations purchased as an investment of monies in any Fund or Account created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund or Account. Any profit realized from the liquidation of such investment shall be credited to such Fund or Account, and any loss resulting from the liquidation of such investment shall be charged to the respective Fund or Account.

In computing the amount in any Fund or Account created under the provisions of the Resolution for any purpose provided in the Resolution, investments shall be valued at the then market price (as of the time of valuation) thereof. The accrued interest paid in connection with the purchase of an investment shall be included in the value thereof until interest on such investment is paid. Such computation shall be determined on June 30 and December 31 in each Fiscal Year and at such other times as the District shall determine.

Additional Bonds. One or more Series of Additional Bonds may be authenticated and delivered upon original issuance at any time or from time to time for the purpose of paying all or a portion of the Cost of Construction and Acquisition of a Project. The proceeds, including accrued interest, of the Additional Bonds of each Series shall be applied simultaneously with the delivery of such Bonds as provided in the Supplemental Resolution authorizing such Series. The conditions for the issuance of Additional Bonds to finance the Acquisition and Construction of Additional Facilities include a certificate of an Authorized Officer of the District setting forth (A) for any period of 12 consecutive calendar months within the 24 calendar months preceding the date of the authentication and delivery, the Net Revenues for such period, and (B) the Aggregate Net Debt Service during the same period for which Net Revenues are computed, with respect to all Series of Bonds which were then Outstanding (excluding from Aggregate Net Debt Service any Principal Installment or portion thereof which was paid from sources other than Net Revenues), and showing that the amount set forth in (A) is equal to or greater than 110% of the amount set forth in (B). The conditions for the issuance of Additional Bonds to finance the Acquisition and Construction of Additional Facilities include a certificate of an Authorized Officer of the District setting forth (A) for the last full Fiscal Year of 12 months (ending June 30) immediately preceding the date of the authentication and delivery, the Net Revenues for such period, or, at the option of the District, for the last 12 consecutive full calendar months immediately preceding the date of the authentication and delivery, the Net Revenues for such period, and (B) the estimated maximum Aggregate Net Debt Service in the current or any future Fiscal Year with respect to [i] all Series of Bonds which are then Outstanding and [ii] the Additional Bonds then proposed to be authenticated and delivered (and for this purpose all Series of Bonds Outstanding plus such proposed Additional Bonds shall be treated as a single Series; that is, the maximum Aggregate Net Debt Service shall be computed collectively with respect to all such Bonds, and not computed cumulatively or separately for each particular Series), and showing that the amount set forth in (A) is equal to or greater than 110% of the amount set forth in (B). For purposes of computing the amount set forth in (A), Net Revenues may be increased to reflect the following amounts: [i] any increases in the rates, fees, rents and other charges for services of the System made subsequent to the commencement of such period and prior to the date of such certificate, [ii] any estimated increases in Net Revenues caused by any Project or Projects having been placed into use and operation subsequent to the commencement of such period and prior to the date of such certificate, as if such Project or Projects had actually been placed into use and operation for the entire period chosen in (A) above and [iii] 75% of any estimated increases in Net Revenues which would have been derived from the operation of any Project or Projects with respect to which the Cost of Construction and Acquisition is to be paid from proceeds of the Additional Bonds proposed to be authenticated and delivered, as if such Project or Projects had actually been placed into use and operation for the entire period chosen in (A) above.

Refunding Bonds. One or more Series of Refunding Bonds may be issued at any time to refund [i] Outstanding Bonds of one or more Series or [ii] one or more maturities within a Series of any Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other monies available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts under the Resolution required by the provisions of the Supplemental Resolution authorizing such Bonds.

Refunding Bonds of each Series shall be authenticated and delivered by the Bond Registrar only upon satisfaction of the following conditions (in addition to the other documents required by the Resolution) of: [i] Instructions to the Bond Registrar, satisfactory to it, to give due notice of redemption, if applicable, of all the Bonds to be refunded on a redemption date or dates specified in such instructions, subject to the provisions of the Resolution described hereinafter under the caption "Defeasance"; [ii] if the Bonds to be refunded are not by their terms subject to redemption or will not be redeemed within the next succeeding 60 days, instructions to the escrow agent described in the Resolution, satisfactory to it, to mail the notice provided for in the Resolution described hereinafter under the caption "Defeasance" to the Holders of the Bonds being refunded; [iii] either (a) cash (including cash withdrawn and deposited pursuant to the Resolution as described herein under the captions "Bond Fund — Debt Service Account" and "Bond Fund — Reserve Account," respectively) in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which monies shall be held by the escrow agent described in the Resolution or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded or (b) Investment Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any monies, as shall be necessary to comply with the provisions of the Resolution as described herein under the caption "Defeasance", which Investment Securities and monies shall be held in trust and used only as provided in the Resolution described hereinafter under the caption "Defeasance"; and [iv] such further documents and monies as are required by the provisions of the Resolution or any Supplemental Resolution adopted pursuant to the Resolution.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds for the purposes of making deposits in such Funds and Accounts under the Resolution as shall be provided by the

Supplemental Resolution authorizing such Series of Refunding Bonds and shall be applied to the refunding purposes thereof in the manner provided in such Supplemental Resolution.

Subordinated Debt. The District may, at any time, or from time to time, issue debt or enter into a contract, lease, installment sale agreement or other instrument or lend credit to or guarantee debts, claims or other obligations of any person for any of its corporate purposes payable out of, and which may be secured by a pledge of, such amounts as may from time to time be available for the purpose of payment thereof; provided, however, that such pledge shall be, and shall be expressed to be, subordinate and junior in all respects to the pledge and lien created by the Resolution as security for the Bonds.

Creation of Liens; Sale and Lease of Property. The District shall not issue any bonds, notes, debentures or other evidences of indebtedness of similar nature, other than the Bonds, payable out of or secured by a pledge or assignment of the Pledged Property and shall not create or cause to be created any lien or charge on the Pledged Property; provided, however, that nothing contained in the Resolution shall prevent the District from issuing, if and to the extent permitted by law [i] evidences of indebtedness (a) payable out of monies in the Construction and Acquisition Fund as part of the Cost of Construction and Acquisition of the System or (b) payable out of, or secured by a pledge or assignment of, Revenues to be received on and after such date as the pledge of the Pledged Property provided in the Resolution shall be discharged and satisfied as provided in the Resolution or [ii] Subordinated Debt.

Facilities of the System shall not be sold, leased, mortgaged or otherwise disposed of, except as follows: A.The District may sell or exchange at any time and from time to time any property or facilities constituting part of the System, at such consideration as the District in its sole discretion deems reasonable or appropriate under all the circumstances, but only if it shall determine that ownership by the District of such property or facilities is not necessary or is not material for the purposes of the District in the operation of the System as a whole; or The District may lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the System, provided that any such lease, contract, license, arrangement, easement or right [i] does not materially impede the operation by the District or its agents of the System and [ii] does not materially impair or adversely affect the rights or security of the Bondholders under the Resolution.

Operation and Maintenance of System. The District shall at all times use its best efforts to operate or cause to be operated the System properly and in an efficient and economical manner, and shall use its best efforts to maintain, preserve and keep the same or cause the same to be so maintained, preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted. In rendering any report, certificate or opinion requested pursuant to the Resolution, an Authorized Officer of the District may rely upon information, certificates, opinions or reports required to be provided by others pursuant to the Resolution, and upon other sources which an Authorized Officer of the District considers reliable, and other considerations and assumptions as deemed appropriate by an Authorized Officer of the District.

Annual Budget. On or before the first day of each Fiscal Year commencing with the Fiscal Year beginning July 1, 1993, the District shall prepare and adopt an Annual Budget for operating purposes for the ensuing Fiscal Year and will furnish copies thereof to any holder of any Bond. Said Annual Budget shall set forth in reasonable detail the estimated Revenues and Operating Expenses and other anticipated expenditures relating to the System for such Fiscal Year. Following the end of each fiscal quarter and at such other times as the District shall determine, the District shall review its estimates set forth in the Annual Budget for such Fiscal Year, and if a material change has occurred in such estimates, the District also may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

Rents, Rates, Fees and Charges. The District shall fix, establish, maintain and collect rates, fees, rents and charges for services of the System, which, together with other "Available Revenues" (as hereinafter defined) are expected to produce Available Revenues which will be at least sufficient for each Fiscal Year to pay the sum of: [a] an amount equal to 110% of the Aggregate Net Debt Service for such Fiscal Year; and [b] the amount, if any, to be paid during such Fiscal Year into the Reserve Account in the Bond Fund (other than amounts required to be paid into such Account out of the proceeds of Bonds); and [c] all Operating Expenses for such Fiscal Year as estimated in the Annual Budget; and [d] to the extent not included in the foregoing, an amount equal to the debt service on the Senior Subordinated Debt, any other Subordinated Debt or other debt of the District for such Fiscal Year computed as of the beginning of such Fiscal Year; and [e] amounts necessary to pay and discharge all charges or liens payable out of the Available Revenues when due and enforceable.

For purposes of the preceding paragraph, "Available Revenues" means (i) revenues from all rates, rents and charges and other operating income derived or to be derived by the District from or for the operation, use or services of the System, (ii) any other amounts received from any other source by the District and pledged by the District as security for the payment of Bonds and (iii) interest received or to be received on any moneys or securities held pursuant to the Resolution and paid or required to be paid into the Revenue Fund or required to be retained in the Debt Service Account in the Bond Fund or transferred to the Debt Service Account in the Bond Fund. "Available Revenues" will exclude, however, any interest income which is capitalized pursuant to generally accepted accounting principles and the enterprise basis of accounting for governmental enterprises, as promulgated by the Governmental Accounting Standards Board, and governmental grants, in-kind contributions of assets and any assessments levied by the District to the extent that such grants, in-kind contributions and assessments are not recognized as operating revenues, other revenues or extraordinary gains pursuant to generally accepted accounting principles for governmental enterprises, as promulgated by the Governmental Accounting Standards Board. Nothing herein under this caption or in the definition of "Available Revenues" for purposes of the covenant described in the preceding paragraph, shall be construed so as to A.prohibit the District from taking into account interest earned on moneys or securities held under the Resolution, and other income available or expected to be available in the ordinary course for the payment of Debt Service pursuant to the Resolution, in calculating Aggregate Net Debt Service on the Bonds for any calculation period for purposes hereof or otherwise, nor prohibit the District from taking into account interest earned on moneys or securities held under any Resolution or indenture or similar document adopted or entered into in connection with an issuance of Subordinated Debt, and other income available or expected to be available in the ordinary course for the payment of debt service on

Subordinated Debt, in calculating debt service payable on Subordinated Debt for any calculation period for purposes hereof or otherwise.

Promptly upon [i] any material decrease in the Revenues anticipated to be produced by any rates, fees, rents or charges or any later review thereof, [ii] any material increase in expenses of operation of the System not contemplated at the time of adoption of the rates, fees, rents and charges then in effect or any later review thereof or [iii] any other material change in the circumstances which were contemplated at the time such rates, fees, rents and charges were most recently reviewed, but not less frequently than once every 12 months, the District shall review the rates, fees, rents and charges so established and shall promptly establish or revise such rates, fees, rents and charges as necessary to comply with the foregoing requirements, provided that such rates, fees, rents and charges shall in any event produce Revenues sufficient, together with other Revenues, if any, available therefor, to enable the District to comply with all its covenants under the Resolution.

In estimating Aggregate Debt Service or Aggregate Net Debt Service on any Variable Interest Rate Bonds for purposes of the first paragraph under this caption, the District shall be entitled to assume that such Variable Interest Rate Bonds will bear such interest rate or rates as the District shall determine; provided, however, that the interest rate or rates assumed shall not be less than the interest rate borne by such Variable Interest Rate Bonds at the time such estimate is made.

Maintenance of Insurance. The District shall provide protection for the System to the extent necessary to properly conduct the business of the System. Said protection may consist of insurance, self insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the System.

Application of Insurance Proceeds. In the event of any loss or damage to the System covered by insurance, the District will, with respect to each such loss, promptly repair, reconstruct or replace the parts of the System affected by such loss or damage to the extent necessary to the proper conduct of the operation of the business of the System, shall cause the proceeds of such insurance to be applied for that purpose to the extent required therefor, and pending such application shall hold the proceeds of any insurance policy covering such damage or loss in trust to be applied for that purpose to the extent required therefor. Any excess insurance proceeds received by the District shall be transferred to the Revenue Fund.

Accounts and Reports. The District shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the System and each Fund and Account established under the Resolution and which, together with all other books and papers of the District, including insurance policies, relating to the System, shall at all times be subject to the inspection of the Bondholders and the Holders of an aggregate of not less than ten percent (10%) in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

The District shall annually, within 180 days after the close of each Fiscal Year commencing with the Fiscal Year ending June 30, 1993, prepare an audit for such Fiscal Year, accompanied by a certificate of an Accountant relating to the System which shall include the following statements in reasonable detail: a statement of assets and liabilities as of the end of such Fiscal Year; and a statement of Revenues and Operating Expenses for such Fiscal Year. Such Certificate shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions on its part contained in the Resolution, and if so, the nature of such default.

The reports, statements and other documents required pursuant to any provisions of the Resolution shall be available for the inspection of Bondholders and shall be mailed to each Bondholder who shall file a written request therefor with the District. The District may charge for such reports, statements and other documents, a reasonable fee to cover reproduction, handling and postage.

<u>Tax Covenants Relating to the Internal Revenue Code</u>. The District shall do the following with respect to Bonds which, when initially issued, are the subject of an Opinion of Counsel to the effect that interest thereon is excluded from gross income for Federal income tax purposes pursuant to the Internal Revenue Code of 1986 or any successor thereto (the "Code"): [a] in order to maintain the exclusion of interest on the Bonds from gross income for Federal income tax purposes, and for no other purpose, the District shall comply with the Code; [b] in furtherance of the covenant contained in the preceding paragraph, the District shall make any and all payments required to be made to the United States Department of the Treasury in connection with the Bonds pursuant to Section 148(f) of the Internal Revenue Code; and [c] Notwithstanding any other provision of the Resolution to the contrary, so long as necessary in order to maintain the exclusion from gross income of interest on the Bonds for Federal income tax purposes, the covenants contained in this Section thereon, including any payment or defeasance thereof pursuant to the Resolution as described under the caption "Defeasance" herein.

<u>Events of Default</u>. Each of the following events (being those provided by Section 76.160 of the Kentucky Revised Statutes) is hereby declared an "event of default"; that is, if: [a] payment of the principal of any of the Bonds is not made on the date therein specified for payment thereof, nor within thirty (30) days thereafter, or payment of any installment of interest is not made on the date specified for such payment, nor within thirty (30) days thereafter, or [b] default shall be made in the due and punctual observance or performance of any of the covenants, conditions and agreements on the part of the District, in the Bonds or in the Resolution, or in any pertinent law contained, and such default shall continue for a period of thirty (30) days.

<u>Rights Arising Upon Occurrence of Event of Default</u>. That upon the happening of any event of default specified in the Resolution as described immediately above, the provisions of said Section 76.160 of Kentucky Revised Statutes shall become operative, and the holder or holders of twenty percent (20%) in principal amount or more of the Bonds then Outstanding pursuant to the Resolution may, by an instrument or instruments filed in the office of the County Clerk of Jefferson County, Kentucky, and approved or acknowledged in the same manner as a deed to be recorded, apply to a Judge in the Circuit Court of such County to appoint a trustee to represent all of the Bondholders. Upon such application, such Judge shall appoint a trustee and

such trustee may, and upon the written request of the holder or holders of twenty percent (20%) in principal amount or more of the Bonds Outstanding under the Resolution, shall, in his or its name, (a) by mandamus or other suit, action or proceeding at law, or in equity, including mandatory injunction, enforce all rights of the District to collect rates, rentals and other charges adequate to carry out any agreement as to, or pledge of, the revenues and income of the District, and to require the District and its officers to carry out any other agreement with the Bondholders and to perform its and their duties imposed by law; (b) bring suit upon the Bonds; (c) by action or suit in equity require the District to account as if it were the trustee of an express trust for the Bondholders; (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of Bondholders; (e) declare all Bonds due and payable; and (f) pursue any other rights or remedies available at law or in equity. For any Bonds registered in Book-Entry Form, notwithstanding the above definition of "Bondholder," the Paying Agent shall be entitled to rely upon written instructions from a majority of the beneficial owners of the Bonds with reference to consent, if any, required from Holders pursuant to the terms of the Resolution.

Any such trustee, whether or not all Bonds have been declared due and payable, shall be entitled as of right upon application to such Court to the appointment of a receiver, who may enter upon and take possession of the System, or any part or parts thereof, and operate and maintain the same, and collect and receive all rentals, rates, and other charges, and other revenues and income, of the District, thereafter arising therefrom, in the same manner as the District and its officers might do, and shall deposit all such monies in a separate account and apply the same in such manner as such Court shall direct. In any suit, action or proceeding, by the trustee, the fees, counsel fees and expenses of the trustee and of the receiver, if any, shall constitute disbursements taxable as costs. All costs and disbursements allowed by the Court shall be a first charge on any revenue and income derived from the System. Such trustee shall, in addition to the foregoing, have and possess all of the powers necessary or appropriate for the exercise of any functions specifically set forth herein or incident to the general representation of the Bondholders in the enforcement and protection of their rights.

Rights of Insurer. Any other provision of the Resolution to the contrary notwithstanding, and to the extent permitted by law (including the Act), for each particular Series of Bonds or portion thereof that is insured by an Insurer, the exercise by the court appointed trustee or the Bondholders of any rights, powers or privileges granted thereto in the Resolution shall require the written consent of the Insurer, if the Insurer is not then in breach or default of its obligations under its insurance policy.

Bond Registrar; Paying Agents. The Resolution permits the appointment by the District of a Bond Registrar and one or more Paying Agents. Any Paying Agent or Bond Registrar may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days written notice to the District and the other Paying Agents or Bond Registrars. Any Paying Agent or Bond Registrar may be removed at any time by an instrument filed with such Paying Agent or Bond Registrar and signed by an Authorized Officer of the District. Any successor Paying Agent or Bond Registrar shall be appointed by the District and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, having capital stock, surplus and undivided earnings aggregating at least $10,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

Amendments and Supplemental Resolutions. Any modification or amendment of the Resolution and of the rights and obligations of the District and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in the Resolution of [i] the Holders of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given and [ii] if less than all of the Series of Bonds then Outstanding are affected by the modification or amendment, the Holders of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption (including Sinking Fund Installments) or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereof without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purpose of this caption, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The District may in its sole discretion determine whether or not, in accordance with the foregoing powers of amendment, Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be binding and conclusive on the District and all Holders of Bonds.

For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the District may be adopted, which, when adopted, shall be fully effective in accordance with its terms: [1] to close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness; or [2] to add to the covenants and agreements of the District in the Resolution, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the resolutions as theretofore in effect; or [3] to add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect; or [4] to authorize Bonds of a Series; or [5] to authorize one or more series of Subordinated Debt; or [6] to authorize, in compliance with all applicable law, Bonds of each Series to be issued in the form of coupon Bonds; or [7] to authorize, in compliance with all applicable law, Bonds of each Series to be issued in the form of Bonds issued and held in book-entry form on the books of the District or any Fiduciary appointed for that purpose by the District; or [8] notwithstanding any other provisions of the Resolution, to authorize Bonds of a Series having terms and provisions different than the terms and provisions theretofore provided in the Resolution; or [9] to confirm, as further assurance, any pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Resolution of the Pledged Property and Credit Facilities or other agreements; or [10] to comply with the provisions of any federal or state securities law, including, without limitation, the Trust Indenture Act of 1939, as amended or comply with Section 103 of the Internal Revenue Code of 1986 or 1954, as applicable, as amended, or successor provisions; or [11] to modify any of the provisions of the Resolution in any other respect whatever, provided that [i] such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding and [ii] such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefore or in place thereof; or [12] to cure any ambiguity, defect or inconsistency provided that there is no material adverse impact on Bondholders.

<u>Consent of the Insurer When Consent of Bondholder Required; Notice</u>. The Insurer, and not the registered Holders thereof, shall be deemed to be the Holder of Bonds of any Series as to which it is the Insurer at all times for the purpose of giving any approval or consent to the execution and delivery of any Supplemental Resolution or any amendment, change or modification of the Resolution which, as specified in the Resolution, requires the written approval or consent of the Holders of at least a majority in aggregate principal amount of Bonds of such Series at the time Outstanding. In such cases where the consent of the Insurer shall be necessary pursuant to the Resolution for the execution of a particular amendment, the District shall be required to send a copy of such amendment to S&P's. In addition, in such cases where the consent of the Insurer shall not be necessary pursuant to the Resolution for the execution of a particular amendment, the District shall provide the Insurer with written notice of such amendment prior to or within a reasonable time after the execution thereof.

<u>Defeasance</u>. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated in the Bonds and in the Resolution, then the pledge of the Pledged Property and all covenants, agreements and other obligations of the District to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or interest installments, or portions thereof, for the payment or redemption of which monies shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the District of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Resolution. Subject to the provisions of the Resolution, any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Resolution if the following conditions are met: (a) if any of such Bonds are to be redeemed on any date prior to their maturity, the District shall have instructed the Bond Registrar to mail as provided in the Resolution notice of redemption of such Bonds (other than Bonds which have been purchased or otherwise acquired by the District and delivered to the Bond Registrar as hereinafter provided prior to the mailing of notice of redemption), (b) there shall have been deposited with an escrow agent either cash (including amounts, if any, withdrawn and deposited pursuant to the Resolution as described herein under the captions "Bond Fund--Debt Service Account" and "Bond Fund--Reserve Account") in an amount which shall be sufficient, or Defeasance Obligations (including any Defeasance Obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States) the principal of and the interest on which when due will provide cash which, together with any other cash on deposit with the escrow agent, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on the Bonds on or prior to the redemption date or maturity date thereof, as the case may be and (c) if the Bonds are not by their terms subject to redemption within the next succeeding 60 days, the District shall have instructed the Bond Registrar to mail a notice to the Holders of such Bonds to be paid or redeemed, that the deposit required by (b) above has been made and that the Bonds are deemed to have been paid in accordance with this Section and stating the maturity or redemption date upon which monies are expected to be available for the payment.

Such escrow agent shall, as and to the extent necessary, apply amounts held by it pursuant to this Section to the retirement of Bonds in amounts equal to the unsatisfied balances (determined as provided in the Resolution as described herein under the caption "Bond Fund--Debt Service Account") of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution. The escrow agent shall, if so directed by the District prior to the maturity or redemption date, as applicable, of Bonds deemed to have been paid in accordance with the provisions of the Resolution described under this caption, apply cash, redeem or sell Defeasance Obligations so deposited with such escrow agent and apply the proceeds thereof, together with any cash on deposit with the escrow agent, to the purchase of such Bonds (and the Bond Registrar shall immediately thereafter cancel all such Bonds so purchased and delivered to it); provided, however, that the cash and Defeasance Obligations remaining on deposit with such escrow agent after the purchase and cancellation shall be sufficient to pay when due the principal or Redemption Price, as applicable, and interest due or to become due on all remaining Bonds in respect of which such cash and Defeasance Obligations are being held by such escrow agent on or prior to the redemption date or maturity date thereof, as the case may be. Except as otherwise provided in the Resolution, neither Defeasance Obligations nor cash deposited with such escrow agent pursuant to the Resolution nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, as applicable, and interest on the Bonds with respect to which such cash and Defeasance Obligations have been deposited. Any excess cash received from such principal or interest payments on such Defeasance Obligations shall be paid over to the District as received by such escrow agent, free and clear of any trust, lien or pledge.

Notwithstanding any of the provisions of the Resolution regarding Defeasance, no forward supply contract shall constitute a "Defeasance Obligation" or otherwise be used to refund all or any portion of Bonds which are insured as to the payment of principal and interest by an Insurer, without first obtaining the prior written consent of such Insurer.

SUMMARY OF PROVISIONS OF THE NOTE RESOLUTION

The following is a brief summary of certain provisions of the District's Subordinated Debt Resolution adopted by the District on April 26, 2010 (the "Resolution" or the "Subordinated Debt Resolution") and used in this Official Statement. The summary does not purport to be comprehensive or definitive. All references herein to the Resolution are qualified in their entirety by reference to such Resolution, a copy of which is available for review prior to the issuance and delivery of the 2011A Notes, at the office of the District and thereafter at the office of the Paying Agent. All references to 2011A Notes are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the Resolution.

General Covenants of the District

Payment of Notes. The District shall promptly pay when due the principal or purchase price of (whether at maturity, upon acceleration, call for redemption or purchase or otherwise) and premium, if any, and interest on each series of Notes at the places, on the dates and in the manner provided the Resolution and in such Notes according to the true intent and meaning thereof; provided, however, that such obligations are not general obligations of the District but are limited obligations payable solely from the revenues and receipts described in the Granting Clauses to the Resolution and the other Pledged Property, all of which are specifically pledged to such purposes in the manner and to the extent provided the Resolution. The Notes and interest thereon shall not be deemed to constitute a debt or a pledge of the faith and credit of the State or any political subdivision thereof, including the District. Neither the State nor any political subdivision thereof, including the District shall be obligated to pay the principal of or interest on the Notes or other costs incident thereto except from the revenues and receipts pledged therefor, and neither the faith and credit nor the taxing power of the State or any political subdivision thereof, including the District is pledged to the payment of the principal of or interest on the Notes or other costs incident thereto.

Covenants and Representations of District. The District shall observe and perform all covenants, conditions and agreements on its part contained in the Resolution, in every Note executed, authenticated and delivered hereunder and in all of its proceedings pertaining thereto. The District represents (a) that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Notes and to execute the Resolution; to execute the Note Purchase Agreement; and to pledge the revenues, receipts and funds in the manner and to the extent set forth in the Resolution; (b) that all action on its part for the issuance of the Notes and the execution and delivery of the Resolution has been duly and effectively taken; and (c) that the Notes in the hands of the Holders thereof are and will be valid and enforceable obligations of the District according to the terms thereof except as limited by bankruptcy laws and usual equity principles.

Further Assurances. The District shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such supplemental resolutions and such further acts, instruments and transfers as the Paying Agent may reasonably require for the better assuring, transferring, conveying, pledging and assigning to the Paying Agent of all the rights assigned by the Resolution and the revenues and receipts pledged to the payment of the principal of, premium, if any, and interest on the Notes. The District shall cooperate with the Paying Agent and the Noteholders in protecting the rights and security of the Noteholders.

Inspection of Books and Project. All books and documents in the District's possession relating to each Project and the revenues derived therefrom shall at all times be open to inspection by such agents as the Paying Agent or the Holders of 25% in aggregate principal amount of Notes then Outstanding may from time to time designate.

Priority of Notes. The District warrants and covenants that the lien created under the Resolution with respect to any series of Notes shall be superior in priority to all revenue debt of the District, except for the Senior Debt.

Prohibited Activities. The District shall not knowingly engage in any activities or take any action that might result in (a) the income of the District derived from each Project becoming taxable to it, (b) any Note becoming an "arbitrage bond" within the meaning of Section 148 of the Code and the regulations and rulings thereunder, or (c) any interest on the Notes otherwise becoming includable in the gross income of the recipients thereof under the federal income tax laws or becoming taxable under the laws of the State.

Anticipation of Issuance of Bonds. The District covenants that each series of Notes issued under the Resolution is issued in anticipation of the issuance by the District, prior to the maturity of such Notes whether by acceleration, redemption, or otherwise, of Additional Bonds (within the meaning of the Bond Resolution) on a parity with the Senior Debt under the Bond Resolution and pursuant to the Act. The District further covenants to, in a timely fashion, do any and all things necessary for the issuance of such Additional Bonds on a parity with the Senior Debt, to the extent necessary to pay such Notes and to the extent permitted by law. To the extent that any Notes of a particular series issued hereunder are not paid from the Revenues of the District as described in the Resolution, including the proceeds of the Project for which such Notes were issued, such Notes shall be paid from the proceeds of such Senior Debt.

Tax Covenants. The District covenants that within the meaning of Section 141 of the Code, [i] less than 10% of the proceeds of the Notes of any series, if any, will be applied for any private business use, and the payment of principal of or interest on less than 10% of the amount of the Notes of any series, if any, will be secured directly or indirectly by any interest in property used for a private business use, or payments in respect of such property, or will be derived from payments in respect of such property; [ii] at least 90% of the proceeds of the Notes of any series will be applied for a governmental use of the District; [iii] any private business use of the Project will be related to such governmental use of the District and will not be unrelated or disproportionate; and [iv] none of the proceeds of the Notes of any series will be used, directly or indirectly, to make or finance loans to private Persons; and the District covenants further that the Notes of any series will not be federally guaranteed within the meaning of Section 149(b) of the Code.

Application of Funds

"Trust Moneys" Defined. All moneys received by the Paying Agent to be held and applied under the Resolution, or required to be paid to the Paying Agent and whose disposition is not elsewhere in the Resolution otherwise specifically provided for, including but not limited to the investment income of all Trust Funds held by the Paying Agent under the Resolution (all such moneys pending the expenditure thereof, including but not limited to the proceeds of Notes deposited in the Subordinated Debt Subaccounts of the Construction and Acquisition Fund and investment income thereon pending the expenditures thereof, and all proceeds of any such moneys pending the expenditure of such proceeds, being defined as the "Trust Moneys") shall be held by the Paying Agent as a part of the Pledged Property, and, upon the exercise by the Paying Agent of any remedy specified in the Resolution, such Trust Moneys shall be applied in accordance with the Resolution, except to the extent that the Paying Agent is holding in trust moneys and/or Government Obligations for the payment of any specified Notes which are no longer deemed to be Outstanding under the provisions of the Resolution, which moneys and/or Government Obligations shall be applied only as provided in said Article. Prior to the exercise of any such remedy, all or any part of the Trust Moneys shall be held, invested, withdrawn, paid or applied by the Paying Agent, from time to time.

Note Account.

(a) A special trust fund is established under the Resolution with the Paying Agent and designated as the "Note Account." The Note Account constitutes a part of the Senior Subordinated Debt Fund of the District pursuant to the Bond Resolution, but is maintained as a separate special trust fund. Established within the Note Account is a General Subaccount.

There shall be credited to the General Subaccount in the Note Account, as and when received,

(i) each payment received by the Paying Agent under and pursuant to any of the provisions of the Resolution which is required, or which is accompanied by directions that such payment is, to be credited to the Note Account; and

(ii) all income derived from the investment of amounts described in clause (i) as realized.

(b) The Paying Agent shall disburse, from time to time, sufficient moneys from the Note Account as specified below to pay the principal of, premium if any, and the interest on, the Notes as the same become due and payable.

(c) Funds for the payment of the principal of, premium, if any, and interest on the Notes shall be derived from the following sources:

(1) Funds for the payment of the principal of and premium, if any, on the Notes, at Maturity, shall be disbursed by the Paying Agent from the Note Account in the order of priority indicated below:

(i) Eligible Moneys in the General Subaccount in the Note Account; and

(ii) all other amounts in the General Subaccount in the Note Account which were received by the Paying Agent under and pursuant to the Resolution from the District or from any other Person or Fund, and amounts derived from the investment of such amounts.

(2) Funds for the payment of interest on the Notes shall be derived from the following sources in the order of priority indicated below and in each case applied to interest on Notes:

(i) Eligible Moneys in the General Subaccount in the Note Account; and

(ii) all other amounts in the General Subaccount in the Note Account which were received by the Paying Agent under and pursuant to the Resolution from the

District or from any other Person or Fund, and amounts derived from the investment of such amounts.

(d) Upon the occurrence of an Event of Default described in clauses (d) of Section 8.1, the Paying Agent shall pay, to the extent moneys are available, to the Noteholders, in accordance with the provisions of Section 2.2 of the Resolution, in payment of the principal of and interest on the Notes, an amount equal to the principal of and interest on the Notes due upon the date of acceleration of the Notes as provided in Section 8.2 of the Resolution and to the extent of such payment, the obligations of the District under the Resolution and the Notes shall be deemed to have been satisfied.

(e) If any Note shall not be presented for payment at Maturity, provided moneys sufficient to pay such Note shall have been made available to the Paying Agent and are held in the Note Account for the benefit of the Holder thereof, all liability of the District to the Holder thereof for the payment of such Note shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Paying Agent to hold such moneys in the Note Account, without liability to the Holder for interest thereon, for the benefit of the Holder of such Note, who shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on the part of such Holder hereunder or on, or with respect to, such Note.

(f) All moneys paid over to the Paying Agent for the account of the Note Account shall be held in trust by the Paying Agent for the benefit of the Holders of the Notes as each is entitled to be paid therefrom.

(g) Any moneys remaining in the Note Account after any Interest Payment Date and after Payment of the Notes, and payment of the fees, charges and expenses of the Paying Agent which have accrued and which will accrue and all other items required to be paid hereunder, shall be paid to the District.

Payment Into Construction and Acquisition Fund; Use of Proceeds. The proceeds of sale of each series of Notes shall be deposited in a separate subaccount in the Construction and Acquisition Fund (collectively, the "Subordinated Debt Subaccounts"), each of the Subordinated Debt Subaccounts to be designated in a manner which will distinguish it from all other subaccounts of the Construction and Acquisition Fund and to consist of Pledged Property on which the holders of such series of Notes shall have a first lien. The District shall use such proceeds of the Notes only to pay costs of a Project with respect to which at the time of use the District reasonably intends to issue Additional Bonds on a parity with the Prior Bonds to permanently finance the Project.

Trust Moneys; Reports. All Trust Moneys shall be trust funds and shall not be subject to lien or attachment of any creditor of the District or the Paying Agent. Such Trust Moneys shall be held in trust and applied in accordance with the provisions of the Resolution. The Paying Agent shall furnish to the District on at least a semi-annual basis a statement of the moneys (including all investment activity) in each Trust Fund.

Arbitrage. The District covenants and agrees that it will commit knowingly no act that would cause any Notes of any series to be "arbitrage bonds" within the meaning of Section 148(a) of the Code (including the applicable regulations thereunder). The Paying Agent covenants that it will comply with any instructions of the District regarding investment or other use of proceeds of the Notes so as to prevent the Notes from becoming "arbitrage bonds" but shall otherwise have no other liability or obligations with respect to preventing the Notes from becoming "arbitrage bonds." The Paying Agent shall file a copy of any applicable Opinion of Bond Counsel received by it with the District.

Rebate Requirements. The District covenants and agrees to comply with any requirements to rebate moneys to the United States of America as may be required by law. Moneys in any rebate fund established for this purpose, including investment earnings thereon, if any, shall not be subject to the pledge of the Resolution and shall not constitute part of any of the Funds and Accounts held under the Resolution for the benefit and security of the Noteholders.

Investments

Investments. Moneys held in any Accounts hereunder (other than Eligible Moneys) shall be invested and reinvested in Authorized Investments maturing or subject to redemption at the option of the Holder as needed as directed by the District in writing, or if orally, promptly confirmed in writing, or in such other manner as is acceptable to the Paying Agent. Eligible Moneys held in any Accounts hereunder shall be invested in Government Obligations maturing as needed as directed by the District in writing, or if orally, promptly confirmed in writing, or in such other manner as is acceptable to the Paying Agent. All such investments shall be held by or under the control of the Paying Agent except as may be otherwise permitted or authorized in the Resolution, and shall be deemed at all times a part of the fund or account in which the moneys so invested were originally held and the interest accruing thereon and any profit realized therefrom shall be credited to and held in such fund or account and any loss resulting therefrom shall be charged to such fund or account. The Paying Agent is directed to sell and convert to cash a sufficient amount of such investments in any fund whenever the cash held in such fund is insufficient for the purposes thereof. Moneys held in the Subordinated Debt Subaccounts shall not be invested except as otherwise permitted in the Resolution or in the Bond Resolution for amounts on deposit in the Construction and Acquisition Fund.

Limitation of Liability.

(a) The Paying Agent shall not be responsible for any losses on investments or from the redemption, sale or maturity of any such investments made in accordance with the Resolution, and the District specifically holds the Paying Agent harmless and agrees to indemnify the Paying Agent for any claim resulting from any losses on investments made in accordance with the District's instructions.

(b) Notwithstanding any provision of the Resolution to the contrary, unless otherwise specifically agreed in a separate written agreement, the Paying Agent shall not be liable or responsible for any calculation or determination which may be required in connection with, or for the purpose of complying with, Section 148 of the Code, or any successor statute or any regulation, ruling or other judicial or administrative interpretation thereof, including, without limitation, the calculation of amounts required to be paid to the United States of America or the determination of the maximum amount which may be invested in nonpurpose obligations having a yield higher than the yield on the Notes, or the determination as to whether any investments are permissible under Section 148 of the Code, and the Paying Agent shall not be liable or responsible for monitoring the compliance by the District with any of the requirements of Section 148 of the Code or any judicial or administrative interpretation thereof; it being acknowledged and agreed that the sole obligation of the Paying Agent in this regard shall be to hold and invest monies received by it pursuant to the terms of the Resolution and in each case pursuant to the instructions of the District.

Discharge of Lien

Discharge of Lien and Security Interests. If the District shall pay or cause to be paid in full the principal of and the interest on any series of Notes or if the District has deposited or caused to be deposited with the Paying Agent in trust cash and/or Government Obligations, which do not permit the redemption thereof at the option of the issuer thereof, the principal of, premium, if any, and interest on which when due (or upon the redemption thereof at the option of the Holder), will, without reinvestment, provide cash which, together with the cash, if any, deposited with the Paying Agent at the same time, shall be sufficient to pay and discharge the entire indebtedness on such series of Notes as the same become due not theretofore canceled by the Paying Agent or delivered to the Paying Agent for cancellation, for principal and interest (and premium, if any) which have become due and payable, or to the Maturity thereof or earlier Redemption Date and (a) has paid or made arrangements satisfactory with the Paying Agent to pay, all fees and expenses (including, without limitation, counsel's fees and expenses) of the Paying Agent respecting such series of Notes which have accrued or which the Paying Agent estimates will accrue prior to the final payment of such series of Notes in full, (b) has furnished to the Paying Agent an Opinion of Bond Counsel to the effect that the deposit of such cash and Government Obligations is in compliance with the provisions of the Resolution, will not adversely affect the exclusion of interest on such Notes from gross income for purposes of Federal income taxation and that payments to the owners of such Notes will not constitute a voidable transfer or preference under and pursuant to the Federal Bankruptcy Code as then in effect in the event of a bankruptcy proceeding thereunder by or against the District, and (c) has made arrangements satisfactory to the Paying Agent for the giving of notice of redemption, if any, then the lien of the Resolution, these presents and the security interests in the Resolution with respect to such series of Notes shall cease, determine and be void. Upon the discharge of the lien of the Resolution with respect to the applicable series of Notes, these presents and the security interests therein ceasing, determining and being void as provided in the preceding sentence, the Paying Agent shall, upon receipt of evidence satisfactory to it that all conditions precedent to the satisfaction and discharge of the Resolution with respect to such Notes have been complied with, cancel and discharge the Resolution with respect to such Notes and the security interests therein, execute and deliver to the District such instruments in writing as shall be required to cancel and discharge the Resolution with respect to such Notes and the security interests therein and apply any moneys and investments held in the Note Account with respect to such Notes in accordance with Sections 5.2, provided that all moneys then held in the Note Account for the purpose of paying such Notes of the applicable series which have not yet been presented for payment shall be held thereafter in trust solely for the Holders of such Notes pending the payment thereof to such Holders. If such Notes will not be redeemed in whole within 60 days of such discharge, the Paying Agent shall promptly give notice of such discharge, to all Noteholders of such Notes in the manner described in Section 3.6(a) for the giving of notices of redemption. If the lien and security interests of the Resolution with respect to all series of Notes are discharged, the Resolution, at the request of the District, shall be discharged and canceled.

Discharge of the Resolution. Notwithstanding the fact that the lien of the Resolution upon the Pledged Property may have been discharged and canceled with respect to a series of Notes, the Resolution and the rights granted and duties imposed by the Resolution, to the extent not inconsistent with the fact that the lien upon the Pledged Property may have been discharged and canceled with respect to one or more series of Notes, shall nevertheless continue and subsist until the principal of, premium, if any, and the interest on, all of the Notes shall have actually been paid in full, all amounts owed by the District to the Paying Agent shall have been paid in full, and the Paying Agent shall have applied amounts in the Note Account and all funds theretofore held by the Paying Agent for payment of any Notes not theretofore presented for payment or purchase, as the case may be, which funds shall be held in trust solely for the Holders of such Notes pending their application in accordance herewith, until such funds have been applied in accordance herewith.

Default Provisions and Remedies

Events of Default. Each of the following events is defined as and declared to be and to constitute an "Event of Default" hereunder with respect to the Notes of a particular series:

(a) default in the due and punctual payment of any interest on any Note when the same shall become due and payable; or

(b) default in the due and punctual payment of the principal of or premium on any Note at its maturity or upon mandatory redemption; or

(c) the declaration of an Event of Default hereunder with regard to the Notes of any series; or

(d) the failure of the District to observe and perform any of the covenants, conditions, agreements, or provisions contained in the Resolution, or in the Notes, on the part of the District to be observed or performed and the continuation thereof for thirty days after written notice, specifying such default and requiring the same to be remedied, is given to the District by the Paying Agent.

Acceleration. Upon the occurrence of any Event of Default described in subsection (a), (b) or (c) of Section 8.1 of the Resolution, the Paying Agent may or the Holders of more than fifty percent (50%) in aggregate principal amount of the Outstanding Notes of the particular series shall, and, upon the occurrence and continuance of an Event of Default described in subsection (d) of Section 8.1 of the Resolution, the Paying Agent shall by notice in writing delivered to the District declare the principal of all the Notes immediately due and payable as of the fifth Business Day following such date, whereupon the same shall become immediately due and payable. Upon any such acceleration, the Notes and the interest thereon shall forthwith be paid in accordance with the Resolution. Upon any declaration of acceleration hereunder, the Paying Agent shall immediately declare the payments required to be made by the District hereunder to be immediately due and payable.

Other Remedies. Upon the occurrence of an Event of Default, the Paying Agent shall have the power to proceed with any right or remedy available at law or in equity or by statute, as it may deem best, including any suit, action or special proceeding in equity or at law for the collection of amounts due and to become due hereunder and under the Notes or the performance of any covenant or agreement contained in the Resolution or for the enforcement of any proper legal or equitable remedy as the Paying Agent shall deem most effectual to protect the rights aforesaid, insofar as such may be authorized by law.

No delay or omission to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right and remedy may be exercised from time to time and as often as may be deemed expedient.

No waiver of any Event of Default hereunder, whether by the Paying Agent or by the Noteholders, shall extend to or affect any subsequent or other Event of Default, or impair any rights or remedies consequent thereon.

Rights of Noteholders. Upon the occurrence of an Event of Default and if requested so to do by the Holders of more than fifty percent (50%) in aggregate principal amount of the Notes then Outstanding and if indemnified, the Paying Agent shall be obligated to exercise such one or more of the rights and remedies conferred by the Resolution as the Paying Agent, being advised by Counsel, shall deem most expedient in the interests of the Noteholders.

Right of Noteholders to Direct Proceedings. Except in the case of an Event of Default under Section 8.1(d) of the Resolution, the Holders of more than fifty percent (50%) in aggregate principal amount of the Notes then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Paying Agent, to direct (as between such Noteholders and the Paying Agent) the time, method and place of conducting all proceedings otherwise permitted to be taken in connection with the enforcement of the terms and conditions of the Resolution, or for the appointment of a receiver or any other proceedings, provided the Paying Agent is indemnified.

Application of Moneys. All moneys received by the Paying Agent pursuant to any right given or remedy or action taken under the provisions of the Resolution shall, after payment of all fees and expenses of the Paying Agent, including, without limitation, the costs and expenses of the proceedings resulting in the collection of such other moneys and of the related expenses, liabilities and advances incurred or made by the Paying Agent, be deposited in the General Subaccount in the Note Account. All such other moneys shall be applied by the Paying Agent as follows:

(a) Unless the principal of all the Notes shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST - to the payment to the Persons entitled thereto of all installments of interest then due on the Outstanding Notes (other than District Notes), in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment of such installment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege;

SECOND - to the payment to the Persons entitled thereto of the unpaid principal of any of the Outstanding Notes which shall have become due (other than District Notes), in the order of their due dates, with interest on such Notes at the rate last borne by the Notes from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full the principal which became due on such Notes on any particular date, together with such interest, then to the payment thereof ratably, according to the amount of principal due on such date, to the Persons entitled thereto, without any discrimination or privilege;

THIRD -to the payment of the principal of and interest on the District Notes in the same order of priority as specified in the first and second clauses.

(b) If the principal of all the Notes shall have become due or shall have been declared due and payable, all such moneys shall be applied FIRST, to the payment of the principal and the interest then due and unpaid on the Outstanding Notes (other than District Notes), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Note over any other such Note, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege, and SECOND to the payment of the principal of and interest on the District Notes in the same manner as specified in this first clause.

(c) If the principal of all such Notes shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Resolution, in the event that the principal of all the Notes shall later become due or be declared due and payable.

Such moneys shall be applied at such times, and from time to time, as the Paying Agent shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Paying Agent shall apply such funds, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable or unless the principal of all of the Notes has been declared immediately due and payable, in which case application shall be made immediately) upon which such application is to be made and upon such date interest on the amount of principal to be paid on such dates shall cease to accrue provided that such amount of principal is in fact paid on such date. The Paying Agent shall give such notice to the Holders of the Notes as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment from such moneys to the Holder of any Notes until such Note shall be presented to the Paying Agent.

Whenever all Notes and the interest thereon have been paid in full and all expenses and charges of the Paying Agent have been paid, any balance remaining in the Note Account shall be disposed of in the manner provided in the Resolution.

<u>Rights and Remedies Vested in Paying Agent</u>. All rights of action and remedies (including the right to file proofs of claim) hereunder or under any of the Notes may be enforced

by the Paying Agent without the possession of any of the Notes or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Paying Agent shall be brought in its name as Paying Agent without the necessity of joining as plaintiffs or defendants any Holders of the Notes, and any recovery of judgment shall be for the equal benefit of the Holders of the Notes.

Rights and Remedies of Noteholders. No Holder of any Note shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Resolution, for the execution of any trust or for the appointment of a receiver or to enforce any other right or remedy under the Resolution unless (a) a Default has occurred of which the Paying Agent has been notified as provided in subsection (e) of Section 9.1 of the Resolution, or of which by said subsection it is deemed to have notice, (b) such Default shall have become an Event of Default and the Holders of more than fifty percent (50%) in aggregate principal amount of Notes then Outstanding shall have made written request to the Paying Agent and shall have offered reasonable opportunity to the Paying Agent either to proceed to exercise the powers in the Resolution before granted or to institute such action, suit or proceeding in its own name, and (c) such Noteholders have offered to the Paying Agent indemnity and the Paying Agent shall thereafter fail or refuse to exercise the powers in the Resolution before granted, or to institute such action, suit or proceeding in its own name. Such notification, request and offer of indemnity are at the option of the Paying Agent to be conditions precedent to the execution of the powers and trusts, and to any action or cause of action for the enforcement of the Resolution, or for the appointment of a receiver or for any other right or remedy under the Resolution; it being understood and intended that no one or more Holders of the Notes shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Resolution by its, his or their action or to enforce any right or remedy, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Resolution and for the benefit, first, of the Holders of all Notes other than District Notes and, second, of the Holders of District Notes. Nothing in the Resolution shall, however, affect or impair the right of any Noteholder to enforce the payment of the principal and redemption or purchase price of, and interest on, any Note at and after the date such payment is due, or the obligation of the District or the Paying Agent to pay the principal and redemption or purchase price of, and interest on, each of the Notes to the respective Holders thereof at the time, place, from the source and in the manner expressed in the Notes.

Termination of Proceedings. If the Paying Agent shall have proceeded to enforce any right or remedy hereunder by any action at law or in equity, by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Paying Agent, then and in every such case the District, the Paying Agent and the Noteholders shall be restored to their former positions and rights hereunder, respectively, with respect to the Pledged Property, and all rights, remedies and powers of the Paying Agent and the Noteholders, respectively, shall continue as if no such proceedings had been taken.

Waivers of Events of Default.

(a) The Paying Agent shall waive any Event of Default hereunder and its consequences upon the written request of the Holders of more than fifty percent (50%) in aggregate principal amount of all Notes then Outstanding, provided, however, that except as permitted in subsection (b) below (relating to the rescission and annulment of declarations of acceleration of the Notes), there shall not be waived:

(1) any Event of Default pertaining to the payment of the principal or redemption or purchase price of any Note at its Maturity or Redemption Date; or

(2) any Event of Default pertaining to the payment when due of the interest on any Note unless prior to such waiver, all arrears of interest and all principal or redemption or purchase price payments in respect of which such Event of Default shall have occurred, with interest thereon (to the extent permitted by law) for the period from the occurrence of such Event of Default until paid in full at a rate per annum equal to the interest rate payable on the Notes from time to time during such period in accordance with the terms of the Notes, and all expenses of the Paying Agent in connection with such Event of Default, shall have been paid or provided for, and in case of any such waiver, or in case any proceeding taken by the Paying Agent on account of any such Event of Default shall have been discontinued or abandoned or for any reason, or shall have been determined adversely to the Paying Agent, then and in every such case the District, the Paying Agent and the Noteholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to or affect any subsequent or other Event of Default, or impair any rights or remedies consequent thereon.

The Paying Agent shall not have any discretion to waive any Event of Default hereunder and its consequences except in the manner and subject to the terms expressed above or in subsection (b) below.

(b) If a declaration of acceleration is made then and in every such case, the Paying Agent shall upon the written request of the Holders of more than fifty percent (50%) in principal amount of such Notes then Outstanding rescind and annul such declaration, and the consequences thereof, provided that at the time such declaration is rescinded and annulled:

(1) no judgment or decree has been entered for the payment of any moneys due pursuant to the Notes;

(2) all arrears of interest on all of the Notes and all other sums payable under the Notes (except as to principal of, and interest on, the Notes which have become due and payable by reason of such declaration) shall have been duly paid; and

(3) each and every Event of Default hereunder shall have been waived pursuant to the preceding paragraph or otherwise made good or cured;

and, provided further, that no such rescission and annulment shall extend to or affect any subsequent or other Event of Default or impair any rights or remedies consequent thereon. The Paying Agent shall not have any discretion to rescind and annul any declaration of acceleration and its consequences except in the manner and subject to the terms expressed in the Resolution.

Supplemental Resolutions

Supplemental Resolutions Not Requiring Consent of Noteholders. The District may adopt, effective upon filing of a copy thereof certified by the District with the Paying Agent and without the consent of, or notice to, any of the Noteholders, one or more supplemental resolutions for any one or more of the following purposes, provided that in the opinion of the District the change effected thereby is not to the prejudice of the interests of the Paying Agent or the Noteholders:

(a) to cure any ambiguity or formal defect or omission in the Resolution or between the terms and provisions of any other instrument or document executed in connection herewith or with the issuance of the Notes;

(b) to grant to or confer upon the Noteholders, the Paying Agent or for the benefit of the Noteholders or the Paying Agent any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Noteholders or the Paying Agent;

(c) to subject to the lien and pledge of the Resolution, additional payments, revenues, properties or collateral including a lien, mortgage or security interest in a Project;

(d) to modify, amend or supplement the Resolution or any supplemental resolution in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar Federal statute hereafter in effect or to permit the qualification of the Notes for sale under the securities laws of any of the states of the United States of America or the Securities Act of 1933, and, if it so determines, to add to any supplemental resolution such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939, as amended, or similar Federal statute;

(e) to evidence the appointment of a Co-Paying Agent or the succession of a new Paying Agent;

(f) to effect any other supplement to the Resolution which, in the judgment of the District, will not adversely affect the interests of the Noteholders; or

(g) to modify or supplement the Resolution in such manner as may be necessary, in the Opinion of Bond Counsel, to comply fully with all applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service.

Supplemental Resolutions Requiring Consent of Noteholders.

(a) Exclusive of supplemental resolutions, and not otherwise, the Holders of not less than two-thirds (2/3) in aggregate principal amount of the Notes Outstanding shall have the right, from time to time, to consent to and approve the adoption by the District of such other supplemental resolution or resolutions as shall be deemed necessary and desirable by the District for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Resolution or in any supplemental resolution; provided, however, that nothing in this Section contained shall permit, or be construed as permitting, (l) an extension of the maturity date on which the principal of or the interest on any Note is, or is to become, due and payable, (2) a reduction in the principal amount of any Note, premium, if any, or interest rate on any of the Notes, (3) the creation of a lien ranking prior to or on a parity with the lien of the Resolution on the property conveyed pursuant to the Resolution or the deprivation of such lien, (4) a privilege or priority of any Note or Notes over any other Note or Notes, (5) the elimination of any mandatory redemption or mandatory purchase of Notes, extension of the due date for the purchase of Notes or call for mandatory redemption or the reduction of the purchase price or Redemption Price for the Notes or (6) a reduction in the aggregate principal amount of the Notes required for consent to such supplemental resolution without the consent of all Noteholders.

(b) If the District shall notify in writing the Paying Agent of the desire of the District to adopt any such supplemental resolution for any of the purposes of this Section, the Paying Agent shall, upon being satisfactorily indemnified with respect to expenses, cause written notice of the proposed adoption of such supplemental resolution together with a copy of such proposed supplemental resolution to be given by first class mail, postage prepaid, to the Holders of the Notes at their addresses shown on the Paying Agent's books of registration. If, within 60 days following the mailing of such notice or such longer period as shall be prescribed by the District and specified in such notice, the Holders of not less than two-thirds (2/3) in aggregate principal amount of the Notes Outstanding shall have consented to and approved the adoption of such supplemental resolution as provided in the Resolution, no Holder of any Note shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the District from adopting the same or the District or the Paying Agent from taking any action pursuant to the provisions thereof. Upon the adoption of any such supplemental resolution as in this section permitted and provided, and effective upon filing of a copy thereof certified by the District with the Paying Agent, and subject to Section 10.4 of the Resolution, the Resolution shall be modified and amended in accordance therewith.

(c) The Resolution may not be amended, changed or modified except by the execution and delivery of a supplemental resolution entered into in accordance with the provisions of Article X of the Resolution.

APPENDIX B

FINANCIAL STATEMENTS AS OF JUNE 30, 2010 AND FOR THE YEAR THEN ENDED

FOR THE FISCAL YEAR
ENDED JUNE 30, 2010

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

MSD
Metropolitan Sewer District
Louisville, Kentucky USA

A Component Unit Of The Louisville KY Metro Government

LOUISVILLE AND JEFFERSON COUNTY, KY
METROPOLITAN SEWER DISTRICT (MSD)

A COMPONENT UNIT OF THE LOUISVILLE KY METRO GOVERNMENT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Prepared by the Division of Budget and Finance
Marion Gee, Director

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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INTRODUCTORY SECTION

MSD
Metropolitan Sewer District

Louisville and Jefferson County Metropolitan Sewer District
700 West Liberty
Street
Louisville Kentucky 40203-1911
502-540-6000
www.msdlouky.org

October 26, 2010

Customers, Investors and Board
Louisville and Jefferson County Metropolitan Sewer District

Ladies and Gentlemen:

The Comprehensive Annual Financial Report ("CAFR") of the Louisville and Jefferson County, Kentucky, Metropolitan Sewer District ("MSD") for the fiscal year ended June 30, 2010 ("2010") is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with MSD. To provide a reasonable basis for making these representations, the management of MSD has established a comprehensive internal control framework that is designed to both protect its assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of MSD's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, MSD's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of MSD's knowledge and belief, the accompanying data is accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of MSD. All disclosures necessary to enable the reader to understand MSD's financial activities have been included. We encourage readers to review the narrative introduction, overview, and analysis found in Management's Discussion and Analysis (MD&A) along with the footnotes that accompany the financial statements.

Profile of MSD

MSD was created in 1946 as a public body corporate and subdivision of the Commonwealth of Kentucky ("the Commonwealth"). MSD has complete control, possession and supervision of the sewer and drainage systems within the majority of Louisville Metro, which now comprises all of Jefferson County, Kentucky. Chapter 76 of the Kentucky Revised Statutes authorizes MSD to construct additions, betterments, and extensions within its service area and to recover the cost of its services in accordance with rate schedules adopted by its Board.

MSD is considered a component unit of the Louisville-Jefferson County Metro government ("Louisville Metro government"). The Louisville Metro Mayor appoints, with the approval of the Louisville Metro Council, the members to MSD's governing Board. The Board, which has statutory authority to enter into contracts and agreements for the management, regulation and financing of MSD, manages its business and activities. The Board has full statutory responsibility for approving and revising MSD's budgets, for financing deficits and for disposition of surplus funds. MSD has no special financial relationship with the Louisville Metro government; however effective July 1, 2006 MSD began providing free sewer and drainage services to the Metro government. The value of these services in 2010 was $3.3 million.

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within Jefferson County which, with a 2009 population of approximately 722,000, is Kentucky's largest and the center of the seven Kentucky and Indiana counties which comprise the Louisville metropolitan area ("Greater Louisville"). The employment count (not seasonally adjusted) for the Louisville Metropolitan Statistical Area (MSA) decreased in June 2010 to 579,095; a decrease of 4,799 from the June 2009 level of 583,894. The June 2010 unemployment rate for the Louisville MSA was 10.3% compared to a national average of 9.6% and a state average of 10.0% for this same time period.

During FY 2010, construction continued on a 22,000 seat arena that will host University of Louisville basketball, major concerts, and other events. The KFC Yum! Center officially opened on October 10, 2010. Two of Louisville's largest employers, Ford Motor Company and General Electric, announced plans to expand their workforce. In June 2010, Ford announced that production of the Ford Escape would be moved to the Louisville Assembly Plant from Missouri. The plant is being retooled to accommodate the production of smaller vehicles. General Electric announced plans to add an additional 300 jobs at its Louisville Appliance Park to meet the expected demand for its energy efficient appliances.

During 2009, Louisville's reputation as a great place to live and to conduct business continued to flourish. Business Facilities ranked Louisville as having the 7th lowest cost of living among all major cities in its "Top 10 Metro" rankings in the July/August 2010 issue. It also named Louisville as one of the top 10 major cities for "Economic Growth Potential". In addition, Louisville was named one of the "Most Livable U.S. Cities for Workers" by WomenCo.com and one of the "Cities to Watch" in the Smarter Cities environmental survey. America's Promise Alliance, the nation's largest partnership organization dedicated to youth and children, named Louisville one of the nation's "100 Best Communities for Young People."

During 2010, MSD continued to benefit from a diversified customer base. Fifty-two percent (52%) of its service charge revenue came from residential customers with the remaining forty-eight percent (48%) coming from commercial and industrial customers. During 2010, sewer accounts increased by 1,869 or 0.8% to 228,580.

Despite the national real estate slump, demand for Louisville residential properties continued to remain steady in 2009. Forbes magazine ranked Louisville as the second best housing market in the United States. Construction permitting within Louisville Metro is projected to also remain steady in calendar year 2010. According to Business First magazine, residential permit filings are on pace to reach 1,643 which would be 21 short of the total in 2009. However, commercial permit filings are on pace to hit 564, which would be nearly 10 percent more than the total of 512 in 2009. Building permitting is a key barometer of MSD's prospects for long-term growth and the main contributor to its system development revenue. In FY 2010, revenue from system development charges amounted to .4% of total operating revenues and it was .5% of the total in FY 2009. This source of revenue is extremely sensitive to changes in the economic climate which affect homebuilding.

Major Initiatives

Project WIN goes Green

In order to meet the requirements of the consent decree that MSD signed with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the U.S. Environmental Protection Agency (EPA) in 2005 to address sanitary and combined sewer overflows; Project WIN – or Waterway Improvements Now – was created. Project WIN is a comprehensive sewer improvement plan and it includes the implementation of sewer improvement projects to minimize the impact of combined sewer overflows, eliminate sanitary sewer overflows, and rehabilitate the community's aging sewer system. In addition, it also involves keeping the public informed of potential health risks, financial impacts, and construction project activity. Project WIN is estimated to cost approximately $850 million over a twenty-year period. In April 2009, MSD entered into an amended consent decree to address sanitary sewer overflows and unauthorized discharges from MSD's sanitary sewer system, combined sewer system, water quality treatment centers, and discharges from MSD's combined sewer overflow locations identified in the Kentucky Pollutant Discharge Elimination System permit for the Morris Forman Water Quality Treatment Center.

During the fourth quarter of 2008, MSD submitted detailed plans to the KEPPC and the EPA outlining the capital improvement program designed to minimize and/or abate overflows. In September 2009, MSD received preliminary approval to proceed with the projects identified in the plans. These plans call for MSD to invest in both "green" and traditional concrete infrastructure, which will work to increase the amount of stormwater absorbed into the ground thus reducing the amount of sewage overflow into area streams. As part of its consent decree, MSD committed to implementing Green Infrastructure demonstration projects at 19 locations within the Louisville Metro area during the next two calendar years. The Integrated Overflow Abatement Plan (IOAP) requires that 12 of the projects be finished in calendar year 2010. A study summarizing the business case value of green initiatives was developed as part of the IOAP to implement projects in the combined sewer area. It assigned a value per unit of installed green practice to MSD, which is based on the reduction of overflows, decreased plant flows and the "right sizing" of IOAP gray projects. Planned green infrastructure projects will be evaluated for determining the total benefit received by MSD and the community based on the size of various technologies used. MSD believes that green infrastructure projects will be as effective as traditional concrete or "gray" infrastructure projects but they can be constructed at a lower cost.

MSD Operations among the Nation's Best

The National Association of Clean Water Agencies (NACWA) awarded 2009 Gold and Silver Peak Performance Awards to MSD's 21 treatment centers. This extraordinary achievement surpassed the combination of 19 Gold and Silver Awards with which MSD facilities were honored in 2008. Fourteen MSD treatment centers earned 2009 Gold Awards, which reflect 100 percent compliance for a full year with the National Pollutant Discharge Elimination System (NPDES) permits. Seven facilities won consistent-compliance Silver Awards, which represent five or fewer NPDES permit violations within a year.

In addition to the recognition by NACWA, the Kentucky-Tennessee Water Environment Association honored 20 MSD water quality treatment centers with the Operational Excellence Award for 2009. The award represents one or fewer National Pollutant Discharge Elimination System permit violations for a calendar year.

Factors Affecting Financial Condition

Cash and Investment Management

Cash temporarily idle during the year was invested in insured certificates of deposit, repurchase agreements and obligations of the U.S. Treasury. MSD's investment policy is to minimize credit and market risks, while maintaining a competitive yield on its portfolio. Accordingly, deposits either were insured by federal depository insurance or collateralized.

Gross investment income in 2010 was $36.0 million compared to gross earnings of $25.6 million in 2009. The additional investment income is due to an increase in the amount of funds available for investment as a result of bond issues and increased revenue funds.

Gross 2010 interest expense of $85.6 million represented a 5.63% cost of funds on average outstanding indebtedness of $1.52 billion, which compares with gross interest expense of $72.8 million, representing a 5.11% cost of funds on average 2009 debt of $1.42 billion. Gross interest expense does not include rebates from the federal government of interest paid relating to Build America Bonds which amounted to $2.3 million FY 2010. No rebates were received in FY 2009.

Risk Management, Insurance, and Employee Benefits

MSD maintains a comprehensive risk management program, utilizing third-party and self-insurance. Basic workers compensation is self-insured, while excess coverage is provided through third-party insurance. MSD participates in the Louisville Area Governmental Self-Insurance Trust (LAGIT), a pooled municipal self-insurance program, for comprehensive general and automobile liability and property coverage. All other risks (including public employees and blanket bond, life and accidental death and dismemberment, long-term disability, travel accident and group medical/dental) are insured by third parties. MSD self-insures employees' short-term disability in lieu of compensated sick leave.

MSD employees participate in the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit plan administered by the Kentucky Retirement System. MSD contributed 16.16% of participating employees' compensation in 2010 and 13.50% in 2009, which amounted to $5.6 and $4.7 million in 2010 and 2009, respectively. Employees currently are required to contribute 5% of their compensation which totaled $1.8 million in 2010 and $1.7 million in 2009.

Other Information

Independent Audit

MSD is required by law and its Revenue Bond Resolution to undergo an annual audit by independent certified public accountants. A joint venture of Crowe Horwath, LLP and Janice Porter, CPA, was selected by the MSD Board to conduct the 2010 audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of MSD for the fiscal year ended June 30, 2010 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that MSD's financial statements for the fiscal year ended June 30, 2010 are fairly presented in conformity with GAAP. The auditors' opinion and report on the basic financial statements is included in the Financial section of this report.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MSD for the twentieth consecutive time for its CAFR for the year ended June 30, 2009. In order to be awarded a Certificate of Achievement, MSD published an easily readable and efficiently organized CAFR. The report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. MSD believes that its current CAFR continues to meet the Certificate of Achievement Program's requirements and will submit the current report to GFOA to determine its eligibility for another Certificate.

I wish to take this opportunity to thank the MSD Board and Executive Director Herbert J. Schardein, Jr., for their continued support and fiscally responsible management of MSD's financial resources.

I also express my deepest appreciation to the staff of MSD's Budget and Finance Division. This report could not have been completed in a timely manner without your commitment and dedication.

Respectfully submitted,

Marion M. Gee

Marion M. Gee

Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Louisville and Jefferson County Metropolitan Sewer District Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

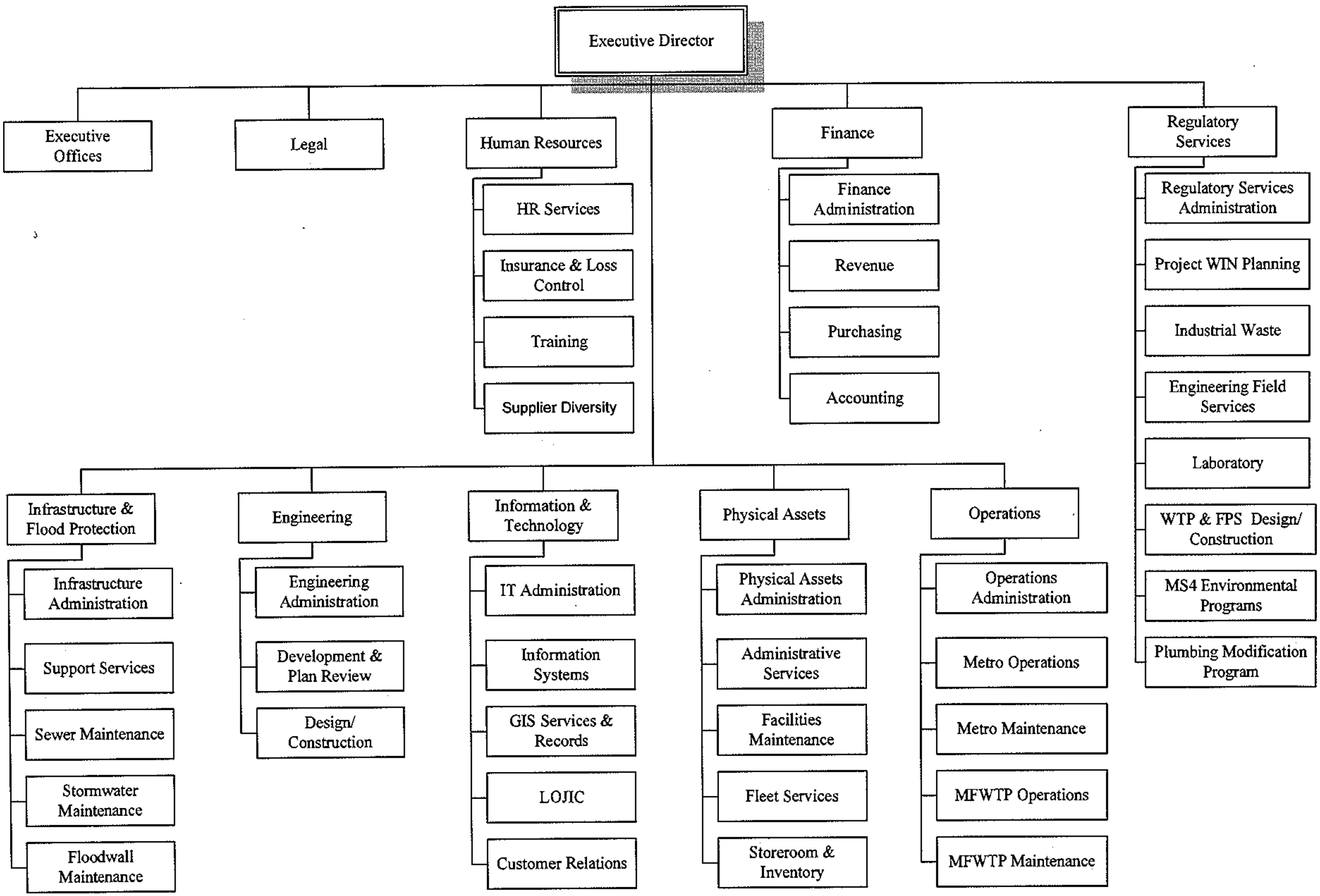
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

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

President

Executive Director

Louisville and Jefferson County Metropolitan Sewer District Organization Chart



MSD BOARD

Audwin A. Helton, Chairperson

Martin D. Hoehler, Vice Chairperson

Arnold J. Celentano
Jerome L. Clark
Benjamin K. Richmond

Marvin D. Stacy
Charles E. Weiter
Beverly A. Wheatley

Herbert J. Schardein, Jr., Secretary/Treasurer

PRINCIPAL OFFICERS

Herbert J. Schardein, Jr., Executive Director
Co-Human Resources Director

Mark Johnson, Director
Engineering

James Hunt, Director
Physical Assets

Paula Purifoy
Legal Counsel
Co-Human Resources Director

Bruce Seigle, Director
Information Technology

Alex Novak, Director
Operations

W. Brian Bingham, Director
Regulatory Management Services

Saeed Assef, Director
Infrastructure & Flood Protection

Dennis Thomasson, Director
Emergency Response & Metro Operations

Marion Gee, Director
Finance

FINANCIAL OFFICERS

Marion Gee, Chief Financial Officer

Maria Mullaney
Controller

Renee Thomas
Purchasing Manager

Sharon Dawson
Revenue Manager

Kim Decker
Budget Administrator

Jenni Schelling
Internal Auditor

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Louisville and Jefferson County Metropolitan Sewer District
Louisville, Kentucky

We have audited the accompanying financial statements of the Louisville and Jefferson County Metropolitan Sewer District, a component unit of the Louisville-Jefferson County Metro Government, as of June 30, 2010 and 2009 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Louisville and Jefferson County Metropolitan Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville and Jefferson County Metropolitan Sewer District, as of June 30, 2010 and 2009, and the changes in its net assets 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 1, item R to the financial statements, the Louisville and Jefferson County Metropolitan Sewer District restated its July 1, 2008 net asset balances to properly account for the fair value of derivative instruments in accordance with accounting principles generally accepted in the United States of America and to properly classify net assets. This change was required for adoption of GASB 53 as of June 30, 2010.

The Management's Discussion and Analysis on pages 12 through 19 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Louisville and Jefferson County Metropolitan Sewer District taken as a whole. The information presented in the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 25, 2010

MSD
Metropolitan Sewer District

Louisville and Jefferson County Metropolitan Sewer District
700 West Liberty Street
Louisville Kentucky 40203-1911
502-540-6000
www.msdlouky.org

Management's Discussion and Analysis

As management of the Louisville and Jefferson County Metropolitan Sewer District (MSD), we offer readers of MSD's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- MSD's net assets decreased by $64.3 million (-11.5%) as a result of this year's operations and implementation of GASB Statement No. 53.
- Operating revenues increased by $4.0 million (2.4%) to $171.6 million.
- Operating expenses excluding depreciation increased by $1.2 million (1.8%).
- Non-operating revenues (investment income) increased by $10.5 million (41.0%) and non-operating expenses (including changes due to the implementation of GASB Statement No. 53) increased by $77.3 million (106.3%).

Overview of the Financial Statements

This annual report consists of three parts: Introductory Section, Financial Section, and Supplementary Information. The Financial Section includes notes that provide additional information relating to MSD's financial condition. Readers are encouraged to read the notes to better understand the financial statements.

Required Financial Statements

The Statement of Net Assets

The Statement of Net Assets includes all of MSD's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of MSD and assessing the liquidity and financial flexibility of the organization.

The Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets identifies the revenues generated and expenses incurred during the fiscal year. This statement helps the user to assess the profitability of MSD during the time period for which the statement relates.

The Statement of Cash Flows

The Statement of Cash Flows provides information relating to MSD's cash receipts and cash expenditures during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Information

MSD's net assets decreased by $64.3 million in FY 2010 to $492.8 million. This change in net assets was due to a $78.4 million decline in the fair value of various swap agreements. MSD implemented GASB Statement No. 53 during FY 2010 which required changes in swap values to be reported in its financial statements which in turn impacted MSD's net assets.

MSD's total assets increased by approximately $345.7 million in 2010. This increase was the result of proceeds that were received from a $180 million Build America bond issue as well as a $226.3 million bond anticipation note issue. In addition, this increase can be attributed to a $61.2 million increase in plant, lines, and other facilities which was driven by increased construction activity.

Table 1
Condensed Statement of Net Assets
(000's)

	FY 2010	Restated FY 2009	Dollar Change	Percent Change	FY 2008
Unrestricted Current Assets	$ 46,202	$ 53,342	$ (7,140)	-13.4%	$ 46,675
Restricted Current Assets	453,803	97,291	356,512	366.4%	132,501
Noncurrent Assets	1,912,731	1,916,360	(3,629)	-0.2%	1,848,851
Total Assets	2,412,736	2,066,993	345,743	16.7%	2,028,027
Current Liabilities	11,141	11,035	106	1.0%	10,548
Current Liab. from Restr. Assets	506,480	42,461	464,019	1092.8%	39,311
Noncurrent Liabilities	1,402,319	1,456,410	(54,091)	-3.7%	1,427,649
Total Liabilities	1,919,940	1,509,906	410,034	27.2%	1,477,508
Invested in Capital Assets, net	450,754	470,445	(19,691)	-4.2%	478,833
Restricted Assets, net	455,899	100,225	355,674	354.9%	135,537
Unrestricted	(413,857)	(13,583)	(400,274)	2946.9%	(63,851)
Total Net Assets	492,796	557,087	(64,291)	-11.5%	550,519
Total Liabilities and Net Assets	$ 2,412,736	$ 2,066,993	$ 345,743	16.7%	$ 2,028,027

Total liabilities increased by $410.0 million in 2010. This increase was due to the issuance of a bond anticipation note ($226.3 million) in May 2010 that was used to retire the bond anticipation note issued in August 2009. In addition, MSD also issued $180 million of Build America bonds to fund capital improvements.

Results of Operations

Revenues

Total Operating Revenues as of June 30, 2010 were $171.6 million compared to $167.6 million for the same period last year, an increase of $4.0 million or 2.4%. This increase in operating revenues was primarily driven by a board approved rate increase of 6.5% on wastewater and stormwater fees that was enacted on August 1, 2009. During FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amounted to $3.3 million in FY 2010 and $3.1 million in FY 2009.

Wastewater Service Charges totaled $133.8 million as of June 30, 2010. This represents an increase of $3.2 million or 2.4% from a year ago. Free wastewater services provided to the Louisville Metro Government amounted to $2.8 million during FY 2010 and $2.6 million during FY 2009. The majority of MSD's wastewater customers are billed based on the amount of water used. Since substantially all of MSD's customers are also customers of the Louisville Water Company, this charge is billed and collected by the Louisville Water Company on behalf of MSD.

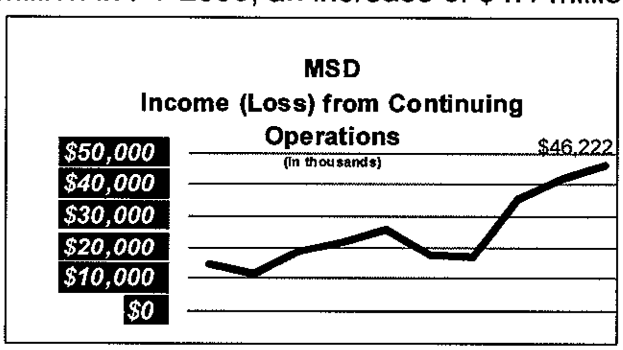
Stormwater service charges were $34.8 million as of June 30, 2010. This represents an increase of $2.4 million or 7.5% from the same period one year ago. This increase is net of the $477,600 of free stormwater services provided during FY 2010 and $422,400 during FY 2009 to the Louisville Metro Government.

Other operating income was $1.6 million less than the amount recorded in FY 2009. This decrease was due to approximately $1.5 million that was recorded in FY 2009 for reimbursement of expenses incurred due to natural disasters. In addition, capacity charges decreased by $256,000. This revenue source is driven by construction activity which within the community at large remained stagnant in FY 2010.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Assets (000's)

	FY 2010	FY 2009	Dollar Change	Percent Change	FY 2008
Service Charges	$ 168,610	$ 163,004	$ 5,606	3.4%	$ 156,889
Other Operating Income	2,980	4,552	(1,572)	-34.5%	4,394
Total Operating Revenues	171,590	167,556	4,034	2.4%	161,283
Investment Income	36,045	25,568	10,477	41.0%	4,895
Total Revenues	207,635	193,124	14,511	7.5%	166,178
Depreciation & Amortization Expense	55,417	56,727	(1,310)	-2.3%	55,363
Other Operating Expenses	69,951	68,742	1,209	1.8%	70,457
Nonoperating Expenses	71,673	72,776	(1,103)	-1.5%	56,388
Decrease upon hedge termination	58,556	-	58,556		
Change in Fair Value - Swaps	19,889	-	19,889		-
Total Expenses	275,486	198,245	77,241	39.0%	182,208
Net income (loss) before contributions	(67,851)	(5,121)	(62,730)	1225.0%	(16,030)
Contributions	3,560	11,689	(8,129)	-69.5%	15,175
Change in net assets	(64,291)	6,568	(70,859)	-1078.9%	(855)
Beginning Net Assets	557,087	550,519	6,568	1.2%	551,374
Ending Net Assets	$ 492,796	$ 557,087	$ (64,291)	-11.5%	$ 550,519

MSD recorded a net operating income of $46.2 million compared to $42.1 million in FY 2009, an increase of $4.1 million or 9.8%. Increases in service charges of $5.6 million from FY 2009 levels resulted in this change. In FY 2010, net cash provided by operating activities decreased slightly from $99.9 million in FY 2009 to $99.2 million in FY 2010.



Expenses

Table 3 shows the composition of gross service and administrative costs by major classification of expense for the last three fiscal years. These costs are reported net of capitalized overhead and reimbursed expenses of $31.5 million in

FY 2010 and $26.8 million in FY 2009 in the Statement of Revenues, Expenses, and Changes in Net Assets. Gross service and administrative costs increased by $5.9 million in FY 2010 from FY 2009 levels. Labor cost increased by $3.6 million of which the majority of this change was due to increases in salary and wages ($1.5 million), medical insurance ($567,000), and retirement contributions ($950,000). Increases in electricity expenses of $1.8 million which was partially offset by a decline in natural gas expenses of $885,000 was the primary driver for the $1.1 million increase in utilities. In addition, bad debt expenses increased by $834,000 which lead to additional billing and collection expenses in FY 2010.

Table 3
Gross Service and Administration Costs
(000's)

	2010		2009		Variance	%	2008
Service and administrative costs:							
Labor	$ 52,945	52%	$ 49,354	52%	$ 3,591	7.3%	$ 49,431
Utilities	11,879	12%	10,818	11%	1,061	9.8%	12,989
Materials and supplies	9,031	9%	8,742	9%	289	3.3%	8,707
Professional services	2,363	2%	2,730	3%	(367)	-13.4%	3,126
Maintenance and repairs	8,847	9%	9,675	10%	(828)	-8.6%	8,926
Billing and collections	4,461	4%	3,623	4%	838	23.1%	5,318
Chemicals	4,781	5%	4,372	5%	409	9.4%	3,805
Fuel	1,318	1%	1,315	1%	3	0.2%	1,344
Biosolids disposal	2,186	2%	2,063	2%	123	6.0%	1,661
All other	3,638	4%	2,817	3%	821	29.1%	2,800
Gross service and admin. costs	$ 101,449	100%	$ 95,509	100%	$ 5,940	6.2%	$ 98,107

Depreciation and Amortization

Depreciation and amortization expense of $55.4 million was $1.3 million less than the FY 2009 amount. This expense is expected to increase in future years as MSD adds additional capital assets to its wastewater and stormwater systems.

Capital Assets, Short-term and Long-term Debt

MSD's total gross capital assets increased by $158.0 million in FY 2010. Major additions include the completion of $91.9 million of sewer line installations and $27.3 million of stormwater drainage facilities. Readers are encouraged to review the Comparative Schedules of Plant, Lines, and Other Facilities that are contained in the statistical section of the CAFR for additional information regarding changes to capital assets. Also, readers should review Note 5 to the financial statements which provides additional information relating to MSD's capital assets.

In August 2009, MSD issued $226.3 million of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2009A. The proceeds of the notes were used to refund and refinance on a short-term basis certain of the District's outstanding Sewer and Drainage System Revenue Bonds, Series 1999A and a portion of its 1997A and 1998A Revenue Bonds until the District issues long-term debt to provide permanent financing for such refunding.

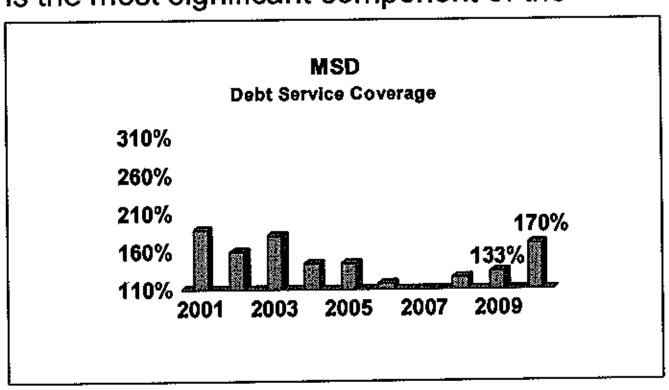
In May 2010, MSD issued $226.3 million of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2010A. The proceeds of the notes were used to refinance the 2009A Notes at a lower interest cost to MSD. The 2009A Notes were paid off on August 19, 2010.

In August 2009, MSD issued $225.8 million of revenue bonds to current refund a portion of its Series 1997A, 1999A, 2003A, and 2003B bond issues.

In November 2009, MSD issued $180 million in Build America Bonds to finance its capital program. Build America Bonds allow the issuer to receive a subsidy equal to 35% of future interest payments from the federal government. As of June 30, 2010, approximately $133.9 million of these bond proceeds remained. The remaining funds are expected to be used for additional expansions to the wastewater and drainage systems, plant expansions, flood protection systems, and other wastewater and stormwater projects. Note 7 to the financial statements provides readers with a comparative schedule of long-term debt outstanding at June 30, 2010 and June 30, 2009.

Net interest expense totaled $71.7 million in FY 2010 and $72.8 million in FY 2009; a decrease of $1.1 million. This decrease occurred because of debt refundings in FY 2010 (see Note 7 to the financial statements) and capitalized interest expense that was recorded in FY 2010 but not in FY 2009.

Although net operating income is the most significant component of the factors which go into determining MSD's debt service coverage, other sources, including investment income and current period payments of property owner assessments also are included in "available revenues" and "net revenues" for purposes of demonstrating MSD's performance under the several debt service ratio tests of the 1993 Sewer and

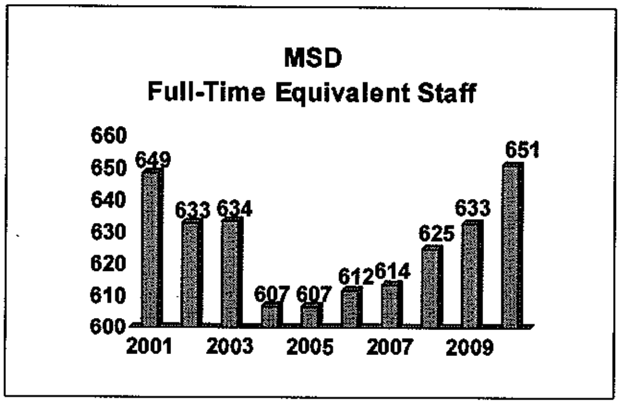


Drainage System Revenue Bond Resolution (the Resolution).

The 1993 Resolution and its supplements require MSD to provide "available revenues", as defined in the Resolution, sufficient to pay 110% of each year's "aggregate net debt service" on Revenue Bonds and 100% of "operating expenses". "Available revenues," as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of bonds issued pursuant to the Resolution, but exclude any interest income which is capitalized in accordance with generally accepted accounting principles. "Operating expenses" include all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. "Operating expenses" do not include reserves for extraordinary maintenance and repair, or administrative and engineering expenses of MSD which are necessary or incidental to capital improvements for which debt has been issued and which may be paid from proceeds of such debt. "Aggregate net debt service" is aggregate debt service on all bonds issued pursuant to the Resolution, excluding (i) interest expense which, in accordance with generally accepted accounting principles, is capitalized and which may be paid from the proceeds of debt and (ii) other amounts, if any, available or expected to be available in the ordinary course for payment of debt service. MSD's debt service coverage, calculated on the foregoing basis, was 170% in 2010 and 133% in 2009.

MSD is not allowed to include depreciation expense in the formula authorized by the Louisville Metro Government to calculate allowable rate increases. The applicable rate ordinances allow MSD to increase rates to maintain the 100% revenue coverage of service and administrative costs and 110% coverage of aggregate net principal and interest requirements on Revenue Bonds that MSD covenants in the Revenue Bond Resolution. However, the straight-line depreciation of plant, lines and other facilities substantially exceeds scheduled principal amortization on the Revenue Bonds.

Other Information



MSD's employee count, including vacant positions, increased to 651 in 2010 compared to 633 full-time equivalent positions in 2009. Labor cost was 52% of gross service and administrative costs in 2010 and 2009.

Other Significant Matters

In April 2009, MSD agreed to enter into an Amended Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the U.S. Environmental Protection Agency (EPA). The agreement calls for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. The cost of the projects has yet to be determined but the preliminary estimate is $850 million over the next two decades. MSD has submitted plans to finance the projects through additional bonds and future rate increases. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree (see Note 12 to the financial statements).

Requests For Additional Information

This report is intended to provide readers with a general overview of MSD's finances and to provide information regarding the receipts and uses of funds. If you need clarification regarding a statement(s) made in the report or need additional information, please contact the Louisville and Jefferson County Metropolitan Sewer District, 700 West Liberty Street, Louisville Kentucky 40203. You can also submit a request for additional information via MSD's website at www.msdlouky.org.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS
(in thousands)

	June 30, 2010	Restated June 30, 2009
Assets		
Current Assets:		
Unrestricted cash and cash equivalents	$ 24,700	$ 22,552
Unrestricted investments	100	7,733
Restricted cash and cash equivalents	58,923	35,988
Restricted investments	394,880	61,303
Accounts receivable, less allowance for doubtful accounts of $342 (2010), $414 (2009)	15,779	18,065
Inventories	3,110	3,027
Accrued interest receivable	1,140	102
Prepaid expenses and other current assets	1,373	1,863
Total current assets	500,005	150,633
Noncurrent assets:		
Long-term assessment receivables	22,527	25,146
Unamortized debt discount & expense	12,192	15,921
Deferred outflow on hedging interest rate swaps		58,556
Plant, lines and other facilities, net	1,878,012	1,816,737
Total noncurrent assets	1,912,731	1,916,360
Total assets	$ 2,412,736	$ 2,066,993
Liabilities		
Current liabilities:		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	$ 11,141	$ 11,035
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor's retainages of $1,307 (2010), $352 (2009)	13,692	7,735
Accrued interest payable	14,701	8,143
Refundable deposits	1,622	3,478
Bond Anticipation Notes	452,680	-
Current maturities of bonds payable	23,785	23,105
Total current liabilities	517,621	53,496
Non-current liabilities:		
Other liabilities	1,630	2,114
Deferred debits and credits	13,301	14,463
Unamortized debt premium	25,449	10,835
Interest rate swaps	78,446	58,556
Bonds payable, net of loss on refunding	1,283,493	1,370,442
Total non-current liabilities	1,402,319	1,456,410
Total liabilities	$ 1,919,940	$ 1,509,906
Net Assets		
Invested in plant, lines and other facilities, net of related debt	$ 450,754	$ 470,445
Restricted for payment of bond principal and interest	455,899	100,225
Unrestricted	(413,857)	(13,583)
Total net assets	$ 492,796	$ 557,087
Total Liabilities and Net Assets	$ 2,412,736	$ 2,066,993

The accompanying notes to the financial statements are an integral part of this statement.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended June 30, 2010	Year Ended June 30, 2009
Operating revenues:		
Service charges	$ 168,610	$ 163,004
Other operating income	2,980	4,552
Total operating revenues	171,590	167,556
Operating expenses:		
Service and administrative costs	69,951	68,678
Loss on disposal of assets	-	64
Depreciation and amortization	55,417	56,727
Total operating expenses	125,368	125,469
Income from operations	46,222	42,087
Non-operating revenue (expenses):		
Investment income	36,045	25,568
Interest expense - Bonds	(69,949)	(69,893)
Interest expense - Swaps	(8,815)	(2,883)
Interest expense - Other	(6,819)	-
Capitalized Interest	13,910	-
Decrease upon hedge termination	(58,556)	-
Change in Fair Value - Swaps	(19,889)	-
Total non-operating revenue (expenses) - net	(114,073)	(47,208)
Net income (loss) before contributions	(67,851)	(5,121)
Contributions		
Property owner assessments	(545)	2,239
All other	4,105	9,450
Increase (decrease) in net assets	(64,291)	6,568
Net assets, beginning of year	557,087	550,519
Net assets, end of year	$ 492,796	$ 557,087

The accompanying notes to the financial statements are an integral part of this statement.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended June 30, 2010	Restated Year Ended June 30, 2009
Cash flows from operating activies:		
Cash received from customers	$ 171,641	$ 166,123
Cash paid to suppliers	(35,107)	(30,573)
Cash paid to employees	(37,319)	(35,724)
Net cash provided by operating activities	99,215	99,826
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	405,770	76,275
Proceeds from bond anticipation notes	452,680	-
BAB refund	2,260	-
Assessments receivable	2,998	557
Interest income - assessments	1,588	1,471
Unamortized loss on refundings	(3,764)	1,277
Amortization of loss on refunding	(1,341)	(1,277)
Principal paid on revenue bonds	(488,275)	(95,045)
Interest paid on revenue bonds	(70,192)	(69,063)
Acquisition and construction of capital assets	(78,880)	(63,815)
Retainage payable	955	(466)
Acquisition of non-operating property	(484)	(261)
Net cash (used in) capital and related financing activities	223,315	(150,347)
Cash flows from investing activities:		
Restricted Investments	(333,577)	(34,101)
Unrestricted Investments	7,633	6,646
Income on investments	37,519	24,936
Interest expense - Swap agreements	(8,832)	(4,166)
Unamortized premium on forward delivery agreement	(190)	(77)
Net cash (used in) provided by investing activities	(297,447)	(6,762)
Net increase (decrease) in cash and cash equivalents	25,083	(57,283)
Cash and cash equivalents beginning of year	58,540	115,823
Cash and cash equivalents, end of year	$ 83,623	$ 58,540

The accompanying notes to the financial statements are an integral part of this statement.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
(CONTINUED)
(in thousands)

	Year Ended June 30, 2010	Restated Year Ended June 30, 2009
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	$ 46,221	$ 42,087
Depreciation & Amortization	55,417	56,727
Loss from retired assets	-	64
Capital expense over/under applied	(2,988)	(856)
Accounts receivable	1,906	(702)
Inventories	(83)	(6)
Deferred charges (prepaids)	490	(479)
Accounts payable	(751)	2,945
Customer deposits	(1,856)	(731)
Accrued liabilities	859	777
Net cash provided by operating activities	$ 99,215	$ 99,826
Non-cash capital financing and investing activities:		
Contribution of plant, lines and other facilities by developers and property owners	$ 3,560	$ 11,689
Increase in accounts payable incurred for construction	$ 5,002	$ 2,484
Increase in fair value of investments	$ 557	$ 83
(Increase) decrease in interest rate swap deferred revenue	$ 972	$ 972
Change in Fair value - swap agreements	$ 19,889	$ 18,874
Decrease upon hedge termination	$ 58,556	$ -

The accompanying notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Louisville and Jefferson County Metropolitan Sewer District (MSD) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, MSD has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." MSD has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

These financial statements follow the provisions of GASB Statement No. 34, "Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments" and related standards. These new standards provided for changes in terminology; recognition of contributions in the Statement of Revenues, Expenses and Changes in Net Assets; including a management discussion and analysis as supplementary information; and other changes. The significant MSD accounting policies are described hereinafter.

A. <u>Reporting Entity</u>

MSD is a public body corporate, and political subdivision of the Commonwealth of Kentucky. MSD was created in 1946 pursuant to Chapter 76 of the Kentucky Revised Statutes, in the interest of the public health and for the purpose of providing adequate sewer and drainage facilities in the urbanized area of the Louisville Metropolitan Area. Pursuant to Chapter 76, MSD is governed by a Board which consists of eight members who are appointed by the Mayor of the Louisville Metro government, subject to approval of the Louisville Metro Council. Not more than five Board members may be of the same political party. However, there is not a continuing supervisory relationship exercised by the Louisville Metro government over MSD with respect to MSD's statutory public functions.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

A. **Reporting Entity** - (Continued)

Chapter 76 authorizes MSD to provide sewer and drainage facilities and services. MSD is further authorized by the statute to establish and collect service charges and to budget therefrom for operations and maintenance, capital outlays and debt service on obligations it is authorized by the statute to incur. No special financing relationship exists between the Louisville Metro government and MSD, nor is the Louisville Metro government empowered by law or custom to approve MSD operating or capital budgets; nor are they responsible for financing deficits or disposing of surplus funds.

MSD has complete control, possession and supervision of the sewer and drainage system in large portions of Jefferson County, and has statutory authority to construct additions, betterments and extensions within its service area. Additionally, MSD has statutory responsibility for approval of the design and proper construction of sewer and drainage facilities within the County's boundaries. There are cities within the County that, by statute, have the option of using MSD sewer services on a contractual basis. Third and fourth class cities also have the option of obtaining drainage services from MSD.

The enterprise business and activities of MSD are managed by its Board, which has statutory authority to elect officers, enact by-laws and enter into agreements and contracts for the management and regulation of MSD's affairs.

MSD's revenue is derived from sewer and drainage service charges which are collected from residential, commercial and industrial customers. MSD controls the collection of all revenue, disbursement of payables and title to all sewer and drainage assets. Sewer service charges are distributed among customer classes on the basis of actual costs incurred to collect and treat wastewater. Drainage service charges are distributed among customer classes on the basis of actual costs of drainage services per equivalent unit of impervious surface. Changes in MSD's service charges are implemented by MSD's Board, but no change in the service charge schedule is final within the Louisville Metro area until approval by the Louisville Metro Council. However, the statute provides that such approval may not be arbitrarily withheld and that the schedule shall be sufficient to provide revenues for the operation and maintenance of the system and for debt service. By ordinance, the Louisville Metro Government has provided that MSD's Board may amend its service charge schedule to maintain a debt service ratio of 1.10 for MSD's sewer and drainage revenue bonds, and that

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

A. Reporting Entity - (Continued)

such amendments will be effective within the Metropolitan area when adopted by MSD's Board, so long as the amended rates do not generate additional revenue from service charges in excess of 7% during the twelve months succeeding the period in which the deficiency was identified.

Chapter 76 permits MSD to finance sewer and drainage system construction, acquisition and other capital improvements through the issuance of its revenue bonds and with the proceeds of governmental grants, property owner contributions in aid of construction and bonds and loans for which pledge of repayment is subordinated to the pledge of revenues given by MSD for the security of its revenue bond holders. MSD indebtedness does not constitute indebtedness of the Louisville Metro government or the Commonwealth, but the Louisville Metro government must authorize by ordinance the issuance by MSD of revenue bonds to finance projects within the Metropolitan area.

B. Basis of Accounting

The sewer and drainage system owned and operated by MSD is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the system are included on the statement of net assets. Total net assets are segregated into amounts invested in plant, lines and other facilities, net of related debt, restricted for payment of bond principal and interest and unrestricted. Operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. MSD utilizes the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded at the time the liability is incurred.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, MSD includes repurchase agreements and other investments, except restricted assets, with an original maturity of three months or less in cash and cash equivalents.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

D. Investment Securities

Investments are stated at fair value. Investment income consists of interest income and the change in fair value of investments.

E. Operating/Non-Operating Revenues, Expenses & Receivables

Operating revenues are those revenues that are generated directly from the primary activity of MSD. These revenues are wastewater and stormwater service charges. The Louisville Water Company is responsible for billing and collection of these charges on a monthly basis. Operating expenses are expenses incurred through the activities of operating and maintaining MSD facilities.

Non-operating revenues and expenses are comprised of investment and financing earnings and costs, changes in the fair value of investment derivatives, as well as contributions from outside sources.

MSD's practice is to use revenue from operations to finance construction then reimburse from net assets restricted for construction as they are needed.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances are considered past due 30 days from the invoice date. Management provides an allowance for probable uncollectible amounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

Assessment receivables represent amounts billed to residents to have sewer lines installed in their neighborhood. Assessment receivables are considered past due once the balance is 90 days in arrears. Management considers all amounts collectible on the basis that liens are placed on properties at the time of assessment.

(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

F. Inventories

Inventories are stated at the lower of cost (principally weighted average cost) or market, and consist of supplies and parts used in the operation of MSD's treatment plants and for the maintenance of automobiles, sewers and other related equipment.

G. Contributed Capital and Construction Grants

Construction and acquisition of sewer and drainage plant, lines and other facilities are financed in part by governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the estimated portion of construction costs incurred for which grants are expected to be paid to MSD by the governmental grantor. These amounts are recorded as a receivable and revenues from contributions at the time the related expenditures are incurred. The revenues from contributions are part of the change in net assets.

H. Plant, Lines and Other Facilities

Plant, lines and other facilities are recorded at historical cost or, if contributed, at fair value as determined by engineering estimates on the date the contribution is received. Capital assets are defined by MSD as assets with an initial, individual cost of more than $20 or renewal and replacement cost of a component of existing assets with a cost of more than $20. It is MSD's policy to depreciate the costs of these assets over their estimated useful lives on a straight line basis.

Estimated useful lives on depreciable assets are as follows:

Buildings and other structures	30 - 50 years
Land improvements	10 - 30 years
Miscellaneous machinery	10 - 20 years
Vehicles	6 - 12 years
Equipment, heavy	15 - 30 years
Equipment, light	5 - 15 years
Sewer lines and major drainage Channels	80 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

H. Plant, Lines and Other Facilities – (Continued)

Costs incurred for capital construction and acquisition are carried in construction in progress until disposition or completion of the related projects. The major components of construction in progress are sewer lines, wastewater treatment and stormwater facilities. Costs relating to projects not pursued are expensed, while costs relating to completed projects are capitalized as plant, lines and other facilities.

I. Capitalized Interest

Interest capitalized on projects funded from bond proceeds is recorded as the difference between the interest cost of the borrowing less interest earned on undisbursed invested proceeds during the construction period. Interest is not capitalized on project costs that are reimbursed by contributions of capital from government, property owners and developers.

J. Impairment of Capital Assets

In accordance with GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" management evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment of approval of laws or regulations or other changes in environmental factors, technology changes or evidence of obsolescence, changes in the manor of duration of use of a capital asset, and construction stoppage. 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. No impairment losses were recognized in the years ended June 30, 2010 and 2009.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

K. Bonds Payable

Bonds payable are recorded at the principal amount outstanding, net of any applicable premium or discount.

Refunding: Bonds outstanding which have been refunded and economically defeased are not included in long-term debt. The related assets are not included in investments. The loss on refunding, which is the difference between the reacquisition price and the net carrying amount of the old debt, is deferred and amortized as a component of interest expense over the average remaining life of the old debt. The unamortized loss on refunding is reported as a deduction from the new debt liability.

Derivatives: MSD enters into interest rate swap agreements to modify interest rates on outstanding debt. MSD records the net interest expenditures resulting from these agreements and amortizes gains/losses resulting from the termination of these agreements until the original termination date of the agreement. Derivative instruments are reported at fair value. Changes in fair value of investment derivative instruments are reported in non-operating revenue (expenses) on the Statement of Revenues, Expenses and Changes in Net Assets.

Issue Cost: Bond issue cost are deferred and amortized over the life of the respective bond issue using the straight-line method, which approximates the effective interest method.

Original Issue Discount: Original issue discounts on bonds are amortized using the straight-line method, which approximates the effective interest method, over the lives of the bonds to which they relate.

L. Compensated Absences

Vacation and personal pay benefits are accrued as vested by MSD employees.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

M. Allocation of Overhead

MSD allocates overhead costs to its core business processes which are: operations and maintenance (service and administrative costs); design, construction and acquisition of plant lines and other facilities; and subsidiary business enterprises.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates 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.

O. Income Tax Status

MSD is exempt from federal income tax under the Internal Revenue Code as a political subdivision of the state of Kentucky.

P. Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to those used in 2010.

Q. Adoption of Accounting Policies

In June 2007, the GASB issued Statement No. 51 Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009. GASB 51 establishes accounting and financial reporting requirements for intangible assets. MSD adopted GASB 51 on July 1, 2009 with no material impact on the June 30, 2010 financial statements or disclosures.

(in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Q. Adoption of Accounting Policies – (Continued)

In June 2008, the GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, which is effective for years beginning after June 15, 2009. GASB 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments. MSD adopted GASB 53 on July 1, 2009 and reported retroactively. See Item R regarding adoption of this policy.

R. Restatement of Prior Period Net Assets

During fiscal year 2010, MSD adopted GASB Statement No. 53 regarding accounting and financial reporting for derivative instruments. This change in accounting principle requires that the changes in fair value of derivatives be reported in the financial statements of state and local governments. To comply with this requirement, MSD booked the cumulative change in fair value of these instruments as of July 1, 2008, of $39,682, as an adjustment to FY 2009 Statement of Net Assets, and the change during FY 2009 of $18,874 as a change to FY 2009 Statement of Net Assets.

The June 30, 2009 Statement of Net Assets has been restated as follows:

Statement of Net Assets	As Previously Reported FY 2009	Effect of Reclassification	Changes	FY 2009 As Restated
Deferred outflow on hedging interest rate swaps	$ -	$ -	$ 58,556	$ 58,556
Total noncurrent assets	$ 1,872,547	$ (14,743)	$ 58,556	$ 1,916,360
Total Assets	$ 2,023,180	$ (14,743)	$ 58,556	$ 2,066,993
Interest Rate Swaps	$ -	$ -	$ 58,556	$ 58,556
Total Non-current Liabilities	$ 1,412,597	$ (14,743)	$ 58,556	$ 1,456,410
Total Liabilities	$ 1,466,093	$ (14,743)	$ 58,556	$ 1,509,906

(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS

A comparative statement of cash, cash equivalents and investments held in MSD's portfolio follows:

June 30, 2010

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	$ 27,864	0.37	Aaa
U.S. Treasury Obligations	328,311	15.86	Aaa
U.S. Treasury Bills	19,791	0.01	Aaa
Municipal Bonds	38,269	27.37	Aa
Money Market Funds	52,393	0.09	Aaa
Repurchase Agreement	17,911		
Certificate of Deposit	100		
Total fair market value of cash equivalents and investments	484,639	13.43	
Accrued interest from cash equivalents and investments	1,140		
Checks issued against cash on deposit	(6,036)		
Total cash, cash equivalents and investments	$ 479,743		

June 30, 2009

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	$ 27,870	0.37	Aaa
U.S. Treasury Obligations	15,486	6.70	Aaa
U.S. Treasury Bills	5,446	0.03	Aaa
Municipal Bonds	12,501	28.56	Aa
Money Market Funds	51,217	0.12	Aaa
Repurchase Agreement	15,260		
Certificate of Deposit	100		
Total fair market value of cash equivalents and investments	127,880	4.24	
Accrued interest from cash equivalents and investments	102		
Checks issued against cash on deposit	(304)		
Total cash, cash equivalents and investments	$ 127,678		

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

Chapter 76 of the Kentucky Revised Statutes authorizes MSD to invest in obligations of the United States and its agencies and instrumentalities; bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities; interest bearing deposit accounts in financial institutions chartered in the Commonwealth of Kentucky and insured by an agency of the United States up to the amount thus insured and in larger amounts, provided such financial institutions pledge as security obligations of the United States having such value as may be satisfactory to MSD. MSD bond resolutions and covenants contain similar restrictions.

Concentration of Credit Risk:

MSD's Investment Policy requires that investments be divided to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. Section 2.0 of the Investment Policy outlines the permitted investments and identifies the limitations placed on the types of investments to minimize the risk.

Interest Rate Risk:

The Policy also requires that all investments have the highest category of ratings by the nationally recognized rating agencies. The credit ratings are shown in the preceding table. Where applicable, all of the above investments have such ratings. The weighted average maturity in years represents the interest rate risk for MSD.

Custodial Credit Risk:

This is the risk that, in the event of the failure of the counterparty, MSD would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The collateral provided by financial institutions is considered adequate to cover all balances in excess of limits set forth by the Federal Deposit Insurance Corporation. All of MSD's investments are held by MSD or in the name of MSD by a Trustee.

Foreign Currency Risk:

This risk relates to any potential adverse effects on the fair value of an investment from changes in exchange rates. MSD did not hold any foreign currency as of June 30, 2010 and 2009.

(in thousands)

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

Investments are made based upon prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. With this strategy, investments would be expected to reach maturity with limited realized gains or losses. If the yield of the portfolio can be improved upon by the sale of an investment, prior to its maturity, with the reinvestment of the proceeds, then this provision is also allowed.

A reconciliation of cash, cash equivalents and investments as shown on the Comparative Statement of Net Assets for MSD is as follows:

	June 30, 2010	June 30, 2009
Cash and cash equivalents - unrestricted	$ 24,700	$ 22,552
Investments - unrestricted	100	7,733
Cash and cash equivalents - restricted	58,923	35,988
Investments - restricted	396,020	61,405
	$ 479,743	$ 127,678

NOTE 3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

MSD's revenue bond resolution provides that MSD shall maintain in a Debt Service Reserve Account a balance equal to the maximum annual aggregate gross principal and interest due on all outstanding revenue bonds; or, in lieu of cash and investments in that amount, a letter of credit or policy of bond insurance payable in that amount. Resolutions adopted in connection with the issuance of MSD First Mortgage Bonds, and of subdistrict sewer revenue bonds and municipal improvement assessment bonds whose obligation MSD has assumed, also provide for the maintenance of debt service reserve accounts.

Cash, cash equivalents and investments segregated as accounts restricted for authorized construction include proceeds from issuance of MSD bonds

(in thousands)

NOTE 3. RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS - (CONTINUED)

Cash, cash equivalents and investments segregated and restricted are as follows:

	June 30, 2010	June 30, 2009
Payment of bond / BAN principal and interest and Reserves	$ 332,090	$ 52,188
Authorized construction	121,713	45,103
Total restricted cash, cash equivalents and investments	$ 453,803	$ 97,291

(in thousands)

NOTE 4. SCHEDULE OF NET ASSETS

A comparative schedule of net assets follows:

	June 30, 2010	June 30, 2009
Net assets invested in plant, lines and other facilities:		
Plant, lines and other facilities net of depreciation	$ 1,878,012	$ 1,816,737
Outstanding debt that applies to plant, lines and other facilities	(1,552,125)	(1,408,290)
Unamortized Discount / (Premium)	3,154	16,895
Unspent bond proceeds	121,713	45,103
Invested in plant, lines and other facilities, net	450,754	470,445
Restricted Net Assets:		
Funds held in bank	466,004	104,887
Reimbursements due from Construction	(12,201)	(7,596)
Unamortized Discount / (Premium)	2,096	2,934
Net assets, restricted	455,899	100,225
Unrestricted Net Assets	(413,857)	(13,583)
Total net assets	$ 492,796	$ 557,087

(in thousands)

NOTE 5. PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years 2010 and 2009 follows:

Year ended June 30, 2010

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Capital assets:				
Sewer lines	$ 1,042,742	$ 91,895	$ -	$ 1,134,637
Wastewater treatment facilities	459,238	11,289	-	470,527
Stormwater drainage facilities	400,118	27,313	-	427,431
Pumping and lift stations	69,301	1,342	-	70,643
Administrative facilities	45,561	-	-	45,561
Maintenance facilities	7,827	-	-	7,827
Machinery and equipment	74,975	20,455	(2,190)	93,240
Capitalized interest	214,644	7,920	-	222,564
Total capital assets	2,314,406	160,214	(2,190)	2,472,430
Less accumulated depreciation:				
Sewer lines	(197,155)	(13,794)	-	(210,949)
Wastewater treatment facilities	(226,683)	(19,787)	-	(246,470)
Stormwater drainage facilities	(93,750)	(5,561)	-	(99,311)
Pumping and lift stations	(28,870)	(3,132)	-	(32,002)
Administrative facilities	(25,977)	(1,105)	-	(27,082)
Maintenance facilities	(4,337)	(296)	-	(4,633)
Machinery and equipment	(59,167)	(7,303)	2,190	(64,280)
Capitalized interest	(44,441)	(5,384)	-	(49,825)
Total accumulated depreciation	(680,380)	(56,362)	2,190	(734,552)
Construction in progress	182,711	91,270	(133,847)	140,134
	$ 1,816,737	$ 195,122	$ (133,847)	$ 1,878,012

(in thousands)

NOTE 5. PLANT, LINES AND OTHER FACILITIES - (CONTINUED)

Year ended June 30, 2009

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Capital assets:				
Sewer lines	$ 1,022,859	$ 19,883	$ -	$ 1,042,742
Wastewater treatment facilities	456,955	2,454	(171)	459,238
Stormwater drainage facilities	390,699	9,419	-	400,118
Pumping and lift stations	66,990	2,311	-	69,301
Administrative facilities	45,561	-	-	45,561
Maintenance facilities	7,833	-	(6)	7,827
Machinery and equipment	75,872	3,051	(3,948)	74,975
Capitalized interest	214,644	-	-	214,644
Total capital assets	2,281,413	37,118	(4,125)	2,314,406
Less accumulated depreciation:				
Sewer lines	(184,337)	(12,821)	3	(197,155)
Wastewater treatment facilities	(206,821)	(19,975)	113	(226,683)
Stormwater drainage facilities	(87,846)	(5,904)	-	(93,750)
Pumping and lift stations	(25,752)	(3,118)	-	(28,870)
Administrative facilities	(23,884)	(2,093)	-	(25,977)
Maintenance facilities	(4,013)	(324)	-	(4,337)
Machinery and equipment	(56,568)	(6,543)	3,944	(59,167)
Capitalized interest	(39,075)	(5,366)	-	(44,441)
Total accumulated depreciation	(628,296)	(56,144)	4,060	(680,380)
Construction in progress	136,695	77,424	(31,408)	182,711
	$ 1,789,812	$ 58,398	$ (31,473)	$ 1,816,737

(in thousands)

NOTE 6. CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized and net interest expense reported in non-operating revenues in 2010 and 2009 follows:

Year ended June 30, 2010	Capitalized	Included in Non-Operations	Total
Investment earnings	$ 5,990	$ 36,045	$ 42,035
Interest cost	(13,910)	(71,673)	(85,583)
Net interest	$ (7,920)	$ (35,628)	$ (43,548)

Year ended June 30, 2009	Capitalized	Included in Non-Operations	Total
Investment earnings	$ -	$ 25,568	$ 25,568
Interest cost	-	(72,776)	(72,776)
Net interest	$ -	$ (47,208)	$ (47,208)

(in thousands)

NOTE 7. LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2010 and June 30, 2009, follows:

	Original Issue Amt	Interest Rates	Final Payment In	Outstanding As Of: June 30, 2010	Outstanding As Of: June 30, 2009
REVENUE BONDS					
1997 Sewer and Drainage System Revenue Bonds Series 1997A	$ 51,245	5.25% - 6.00%	2027	$ -	$ 24,815
1998 Sewer and Drainage System Revenue Bonds Series 1998A	260,000	4.25% - 9.00%	2030	154,985	159,135
1999 Sewer and Drainage System Revenue Bonds Series 1999A	300,000	5.25% - 6.50%	2033	-	285,060
2001 Sewer and Drainage System Revenue Bonds Series 2001A	300,000	5.00% - 5.50%	2036	289,990	291,890
2003 Sewer and Drainage System Revenue Bonds Series 2003A and 2003B	191,000	Variable Rate	2023	-	149,645
2004 Sewer and Drainage System Revenue Bonds Series 2004A	100,000	5.00% - 5.25%	2038	100,000	100,000
2005 Sewer and Drainage System Revenue Bonds Series 2005A	64,740	3.00% - 5.00%	2026	58,470	60,090
2006 Sewer and Drainage System Revenue Bonds Series 2006A	100,000	4.00% - 5.00%	2038	96,705	98,385
2007 Sewer and Drainage System Revenue Bonds Series 2007A	61,125	4.00% - 5.00%	2025	56,185	57,995
2008 Sewer and Drainage System Revenue Bonds Series 2008A	105,000	4.00% - 5.00%	2038	104,265	105,000
2009A Sewer and Drainage System Revenue Bonds Series 2009A	76,275	5.00%	2022	72,020	76,275
2009B Sewer and Drainage System Revenue Bonds Series 2009B	225,770	2.00% - 5.00%	2023	213,165	-
2009C Sewer and Drainage System Revenue Bonds Series 2009C	180,000	5.98%	2040	180,000	-
Total Long-Term Debt				**1,325,785**	**1,408,290**
Less: Current Maturities				(23,785)	(23,105)
Less: Unamortized Loss on Refunding				(18,507)	(14,743)
Total Long-Term Debt, net				**$ 1,283,493**	**$ 1,370,442**

(in thousands)

NOTE 7. LONG-TERM DEBT - (CONTINUED)

A schedule of future debt service requirements after June 30, 2010 follows:

	Revenue Bonds		
	Principal	Interest	Total
Year Ending June 30,			
2011	$ 23,785	$ 67,251	$ 91,036
2012	24,840	66,312	91,152
2013	26,120	65,203	91,323
2014	27,480	64,022	91,502
2015	29,035	62,649	91,684
2016-2020	171,730	289,807	461,537
2021-2025	204,420	242,334	446,754
2026-2030	198,350	194,859	393,209
2031-2035	183,235	154,801	338,036
2036-2040	436,790	73,639	510,429
	$ 1,325,785	$ 1,280,877	$ 2,606,662

A comparative summary of current and long-term revenue bond activity for the years ended June 30, 2010 and June 30, 2009 follows:

	June 30, 2010	June 30, 2009
Revenue Bonds - beginning of year	$ 1,393,547	$ 1,411,040
Bonds issued	405,770	76,275
Principal paid on bonds, net of loss on refunding	(28,369)	(19,978)
Bonds refunded	(463,670)	(73,790)
Revenue Bonds - end of year	$ 1,307,278	$ 1,393,547

Amortization of loss on prior refunds totaled $1,341 and $1,277 for the years ended June 30, 2010 and 2009, respectively.

NOTE 7. LONG-TERM DEBT - (CONTINUED)

MSD long-term debt is issued to provide sufficient funding for sewer and drainage projects approved for construction. MSD has arbitrage calculations performed as needed by an independent third party to comply with federal regulations. A summary of significant debt transactions follows:

New Debt Transactions:

On August 15, 2009, MSD issued $225,770 of Sewer and Drainage System Revenue Bonds, Series 2009B. The proceeds of the bonds, net of issuance cost, were used to currently refund MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 1997A, 1999A, 2003A and 2003B, and to refund a portion of the outstanding Revenue Bonds, Series 1998A. The net proceeds of the refunding issue were placed in an irrevocable escrow account and used to purchase U.S. Government securities. The U. S. Government securities, together with interest earned thereon and the beginning cash deposit provided amounts sufficient for future payment of interest and principal on the refundable issues. The refunding was completed to reduce debt service payments over the next 24 years and it resulted in a present value savings of $20,700.

On November 18, 2009 MSD issued $180,000 of Sewer and Drainage System Revenue Bonds "Build America Bonds" (BAB), Series 2009C. The proceeds of the bonds are being used to fund sewer and drainage projects for construction. MSD may apply to receive interest subsidy payments of 35% of the corresponding interest payable on the current BAB on any interest payment date. MSD received a refund of interest payments made in the amount of $2,260 from the federal government. As of June 30, 2010 approximately $133.9 million of these bond proceeds remained unspent.

Debt Service

A debt ratio covenant has been established under the 1993 Sewer and Drainage System Revenue Bond Resolution. MSD was in compliance with the ratio covenant as of June 30, 2010 and 2009.

NOTE 7. LONG-TERM DEBT - (CONTINUED)

Swap Terminations:

MSD enters into swaps and other derivative contracts to lock in long term rates in advance of issuing long term debt; to create and manage variable rate exposure in its debt portfolio, and to take advantage of market opportunities that hedge embedded interest rate and tax regulation risk that exists on its balance sheet.

Upon a termination of a swap, any termination receipt or payment is amortized into income or expense until the original expiration date of that swap. Any unamortized portion of the receipt or payment is recorded as a deferred debit or credit in long term liabilities. MSD has three swap agreement terminations with outstanding balances accreting to non-operating revenue as follows:

On January 24, 2001, MSD terminated a nineteen-year interest rate swap agreement for $100,000 of its fixed-rate 1999 Series Sewer and Drainage Revenue Bonds. The termination of this swap agreement resulted in the receipt of a payment in the amount of $7,935. This payment will be amortized annually into income until 2019, the original termination date on the agreement. The amortized portion is recorded as a reduction of long-term debt.

In April 2006, MSD entered into a swap agreement with Deutsche Bank AG for an initial notional amount of $171,405 which provided that beginning May 15, 2006, a net payment will be made based on MSD paying 78.78% of the 3-month LIBOR Index on the notional amount and receiving 73.45% of the 5-year LIBOR Index on the notional amount. On January 23, 2008, MSD terminated this swap agreement and received a termination payment of $4,170 that will be amortized until 2023, the original termination date of the agreement. The amortized portion is recorded as a reduction of long-term debt.

(in thousands)

NOTE 7. LONG-TERM DEBT - (CONTINUED)

Swap Terminations – (Continued)

On January 25, 2008, MSD terminated a twenty-seven year Floating to Floating (Basis) Interest Rate Swap agreement with a notional amount of $282,165. MSD entered into this agreement with Morgan Stanley in April 2006 and paid 67% of the 1-Month LIBOR index and received 62.2% of the 5-Year LIBOR Index. The termination of this Swap agreement resulted in the receipt of a payment in the amount of $5,756. This payment will be amortized annually into income until 2033, the original termination date of the agreement. The amortized portion is recorded as a reduction of long-term debt.

Derivatives:

On June 30, 2010 MSD had the following investment derivative instruments outstanding:

Item	Counter-Party	Initial Notional Amount	Current Notional Amount	Effective Date	Termination Date	MSD Payment Terms	MSD Receipt Terms	Fair Value	Change in Fair Value
A	Wells Fargo	$ 225,732	$ 225,732	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	$ (64,380)	$ (15,681)
B	Bank of America	56,433	56,433	11/15/2009	5/15/2033	4.4215%	67% of 30-day LIBOR	(16,093)	(3,922)
C	Deutsche Bank	103,673	93,407	5/15/2003	5/15/2023	4.075%	SIFMA	(10,967)	(3,415)
D	Bank of America	64,869	48,119	5/15/2003	5/15/2023	4.075%	SIFMA	(5,649)	(1,759)
E	Deutsche Bank	149,465	141,525	8/15/2009	5/15/2023	SIFMA	2.78%	4,187	4,187
F	Wells Fargo	50,376	50,376	11/15/2009	5/15/2023	SIFMA	2.9235%	2,026	2,026
G	Deutsche Bank	12,594	12,594	11/15/2009	5/15/2023	SIFMA	2.924%	507	507
H	Morgan Stanley	190,790	141,525	5/15/2003	5/15/2023	SIFMA	78.78% of 3-month LIBOR	(1,419)	663
I	Dautsche Bank	281,745	281,745	11/15/2011	5/15/2033	SIFMA	100.30% of 3-month LIBOR	13,343	(2,495)
Total		$ 1,135,677	$ 1,051,456					$ (78,445)	$ (19,889)

LIBOR = London Interbank Offering Rate
SIFMA = Securities Industry and Financial Markets Association (formerly the Bond Market Assocation (BMA) Municipal Bond Index)

NOTE 7. LONG-TERM DEBT - (CONTINUED)

Derivatives - (Continued)

MSD originally entered into interest rate swaps as a hedging derivative instrument. The interest rate swaps were found to be ineffective as of June 30, 2010, based on evaluation and consideration of consistent critical terms and quantitative methods. The total of investment derivatives are reported as interest rate swaps on the statement of net assets. All changes in fair value of the derivatives are recorded as a separate component of non-operating revenue (expense). MSD's outstanding swaps as of June 30, 2009 were found to be effective hedging derivative instruments, and as such, the deferred outflows of $18,874 for the change in fair value of the hedging derivative instruments are reported in the Statement of Net Assets. Upon termination of the effectiveness of the derivative instruments, the deferred outflows were expensed to non-operating revenue. MSD's outstanding swaps consist of three types: Floating-to-Fixed swaps (A, B, C, and D), Swap Reversals (E, F, and G) and Basis Swaps (H and I).

Floating-to-Fixed swaps are structured so that the notional amount of the swap decreases over time corresponding to the maturity and sinking fund schedule of the actual or expected bond issue being hedged. The Floating-to-Fixed Swaps have been done on a forward basis with the swap payments starting at a future date when MSD anticipates refunding outstanding debt, which can be issued as variable rate bonds or short term notes. In 2001, MSD entered into two swaps (A and B) for a synthetic advance refunding of its Series 1999 A Bonds. In 2002, MSD entered into two swaps (C and D) for a synthetic advance refunding of its Series 1993 Bonds, and subsequently issued variable rate Series 2003 Bonds to complete the refunding.

In August 2009, MSD issued Bond Anticipation Notes to refund the portion of its Series 1999 Bonds maturing from 2024 to 2033 and issued fixed rate Series 2009B Bonds to refund its variable rate Series 2003 Bonds and that portion of its Series 1999 Bonds maturing in 2023 and earlier years. In conjunction with these refundings, MSD entered into three reversal swaps (E, F, and G) to eliminate the hedge for the portion of the refunded bonds retired with proceeds of long term, fixed rate bonds. One reversal swap (E) has offsetting payment/receipt terms with those on two outstanding swaps (C and D) so that MSD is required to make a net payment of 1.295% (4.075% minus 2.78%) on the same declining notional amounts. The other two reversal swaps (F and G) offset the portion corresponding to the declining notional amounts in 2009 through and including 2023 of outstanding swaps (A and B), so that MSD is required to make a net payment of 1.4975% (4.4215% minus

NOTE 7. LONG-TERM DEBT - (CONTINUED)

Derivatives - (Continued)

2.924%), plus or minus the difference between 67% of 30 day LIBOR and SIFMA, on those declining notional amounts of that portion of those two swaps.

The non-reversed portions of the floating-to-fixed swaps (A and B) provide a hedge against future higher rates on any long term debt or renewal bond anticipation notes used to refinance MSD's Bond Anticipation Note.

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk:

MSD has implemented steps to safeguard it against the risks associated with the aforementioned swap transactions. If the counter-party does not maintain A1/A+ ratings from Moody's and Standard and Poor's, the swaps contain provisions that require them to be marked to market weekly with monthly statements sent to MSD and the value will be collateralized with U.S. Treasury and Agency securities with the securities held by a tri-party custodian approved by MSD. All costs of collateralization will be borne by the downgraded party who must post the collateral. In addition, the April 2001 (E&F) and October 2002 (A&B) swaps were awarded to multiple firms to further mitigate the credit risk associated with the transactions.

The credit ratings for the counter-parties are as follows:

	Moody's Rating	Standard and Poor's
Bank of America	Aa3	A+
Deutsche Bank	Aa3	A+
Morgan Stanley	A2	A
Wells Fargo	Aa2	AA

NOTE 7. LONG-TERM DEBT - (CONTINUED)

Credit Risk – (Continued)

The agreements also provide for automatic termination if MSD's unenhanced bond rating is downgraded below BBB/Baa. MSD's obligations under all of its outstanding swap agreements are unsecured and subordinate to all bonds issued and outstanding.

Basis Risk:

The aforementioned swap transactions also expose MSD to basis risk, the risk that arises when variable interest rates on a derivative and an associated bond are based on different indexes. The payment terms of the October 2002 (E&F) and March 2003 (D) swaps coincide with the 2003 variable rate bond issue that was executed to refinance the Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B. The positive and negative fair values of the swap agreements were provided by a third-party financial advisor. The net swap payments made in FY 2010 and FY 2009 were $8,815 and $2,883; respectively.

NOTE 8. SHORT TERM DEBT

On August 19, 2009, MSD issued $226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2009A Notes. The proceeds of the notes were used to refund and refinance on a short-term basis certain of the District's outstanding Sewer and Drainage System Revenue Bonds, Series 1999A and a portion of its 1997A and 1998A Revenue Bonds until the District issues long-term debt to provide permanent financing for such refunding. The 2009A Notes were paid off on August 19, 2010.

On May 26, 2010, MSD issued $226,340 of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2010A Notes. The proceeds of the notes were used to refinance the 2009A Notes at a lower interest cost to MSD. The 2010A Notes mature on May 26, 2011.

(in thousands)

NOTE 8. SHORT TERM DEBT – (CONTINUED)

A comparative summary of short term debt for the years ended June 30, 2010 and June 30, 2009 follows:

	June 30, 2010	June 30, 2009
Short term debt - beginning of year	$ -	$ -
Debt issued	452,680	-
Principal paid on debt	-	-
Debt refunded	-	-
Short term debt - end of year	$ 452,680	$ -

NOTE 9. RETIREMENT PLAN AND POSTRETIREMENT BENEFITS

Plan Description: MSD contributes to the County Employees Retirement System (CERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Funding Policy: Plan members are required to contribute 5% of creditable compensation and MSD is required to contribute at an actuarially determined rate. The employer contribution rates for the years ending June 30, 2010; 2009; and 2008 were 16.16%, 13.50%, and 16.17% respectively, of participating employees' compensation.

NOTE 9. RETIREMENT PLAN AND POSTRETIREMENT BENEFITS – (CONTINUED)

The contribution requirements of plan members and MSD are established and may be amended by the CERS Board of Trustees. MSD's contributions to the CERS for the years ending June 30, 2010, 2009, and 2008 were $5,628; $4,677; and $5,482; respectively, equal to the required contributions for each year.

Healthcare Plan: The Kentucky Retirement Systems Insurance Fund ("Fund") was established to provide hospital and medical insurance for members receiving benefits from CERS, the Kentucky Employees Retirement System and the State Police Retirement System. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2009, insurance premiums withheld from benefit payments for members of CERS were $27,594.

NOTE 10. RISK MANAGEMENT

MSD is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to MSD's employees. These risks are provided for through various programs.

MSD participates in the Louisville Area Governmental Self-Insurance Trust (the Trust). The Trust, which is certified by the Kentucky Department of Insurance to practice as a "group liability self-insurance trust," was created on January 1, 1987. Trust members currently include the Louisville Metro Government, six smaller cities, and six government agencies. The Trust was formed to provide better risk protection and lower cost liability insurance by sharing the risk with all of its members.

MSD's payments to the Trust are reflected on the financial statements as an expense. The Trust provides, after a $300 deductible, various liability coverages up to $5,000 per occurrence. Excess insurance may provide an additional $2,000 of coverage, above the Trust $5 million, to MSD. The amount of coverage available to MSD could be limited by the total assets of the Trust. For fiscal year 2010, MSD has had no claims paid from the Trust's assets.

(in thousands)

NOTE 10. RISK MANAGEMENT – (CONTINUED)

MSD has chosen to self-insure the basic worker's compensation. Claims administration is handled by a third party administrator and includes claims monitoring, check issuance, settlement negotiations and loss control services. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. A separate insurance policy provides coverage in excess of $300 for catastrophic injury claims by an employee or several employees as a result of a single occurrence.

A comparative schedule of changes in liabilities for worker's compensation claims follows:

	June 30, 2010	June 30, 2009
Liability - beginning of year	$ 1,433	$ 1,749
Claims and changes in estimates	732	558
Payments	(825)	(874)
Liability - end of year	$ 1,340	$ 1,433

MSD joined the Louisville Area Governmental General Insurance Trust (Property Self-Insurance Trust) in September 2002. The Property Self-Insurance Trust was created to provide lower cost to participants and broader coverage for property risks. MSD is responsible for covered property damage up to $100, except for flood and vehicle collision coverage; which have separate deductibles. The Property Self-Insurance Trust provides coverage for the next $900. An excess insurance policy with a third party carrier covers claims in excess of $1 million.

MSD has had two settled liability claims and one property claim that exceeded the liability coverage in the past three fiscal years. There have been no changes in MSD's self-insurance coverage from prior year.

NOTE 11. DEFERRED COMPENSATION

MSD offers its employees deferred compensation plans created in accordance with Internal Revenue Service Code Sections 401(k) and 457. These plans, available to all MSD employees, permit them to defer the payment of a portion of their salary until future years. Participation in these plans is voluntary and MSD makes no contributions to these plans on behalf of the employee. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts of compensation deferred, including the investments and earnings thereon, vest with the employee and are not subject to the claims of MSD's general creditors.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Forward Purchase Agreements

MSD previously entered into forward purchase agreements to invest the debt service account of its bond fund at specified times in the future at fixed interest rates. MSD entered into these agreements in order to receive a guaranteed interest rate and lock in current long-term investment rates for the investment of its debt service payments. In December 2007 and January 2008, MSD terminated these agreements and received a net payment of $1,466 that will be amortized over the original life of the agreements.

Sale of Sewer Assessments

MSD has entered into agreements to sell sanitary sewer assessments to a local bank. These assessments reflect the portion of the cost that residents pay to have sewer lines installed in their neighborhood. Residents are given the opportunity to pay the assessment in full or to finance it over a twenty-year period at 7% interest per annum. The original agreement called for the bank to accept up to $25 million of outstanding assessments and for MSD to receive 104% of the face value of the assessments. The subsequent agreement allows an additional $5 million of assessments to be sold to the bank at face value. These agreements give the bank the option to place the assessments back to MSD if the payments of the property owner are ninety days in arrears or the property owner does not respond to the bank's demand for payment within a ninety day period after the issuance of the assessment. Sales to the bank are net of any subsequent repurchases of warrants by MSD. The unpaid principal balance of loans held by the bank at June 30, 2010 and 2009 was $5,499 and $6,262 respectively.

NOTE 12. COMMITMENTS AND CONTINGENCIES - (CONTINUED)

EPA Consent Decree

In April 2005, MSD agreed to enter into a Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet and the U.S. Environmental Protection Agency (EPA). The Consent Decree calls for MSD to submit a final Long-Term Control Plan (LTCP) to the Cabinet/EPA for review and joint approval by December 31, 2008, which was completed. The final LTCP includes schedules, deadlines, and timetables for projects to be completed by December 31, 2020. In addition, a Sanitary Sewer Discharge Plan (SSDP) was due by December 31, 2008, which was completed. The SSDP includes schedules and deadlines for capital projects to be completed by the end of 2024. The cost of the projects is estimated to be $850,000.

Also, MSD agreed to pay a civil penalty to the Commonwealth of Kentucky in the amount of one million dollars ($1,000) to resolve the violations alleged in the Cabinet's and EPA's complaints up through the date of entry of the Consent Decree. The agreement also calls for MSD to perform supplemental environmental projects (SEPS) at an amount of not less than $2,250. MSD neither admitted nor denied the alleged violations but acknowledged that discharges occurred and accepted the obligations imposed in the Consent Decree. The Consent Decree, as negotiated, was entered by the U.S. District Court Judge on August 12, 2005. In April 2009, MSD agreed to enter into an Amended Consent Decree with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet (KEPPC) and the EPA. The agreement calls for MSD to design and implement projects within specified deadlines that will eliminate sewer overflows in its service area. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree.

The enforcement actions initiated by the EPA are not unique in the wastewater treatment industry. Several wastewater utilities have signed, or are in the process of signing, Consent Decrees. In the opinion of MSD, the resolution of any violations will not result in material adverse affect on the operation, property or finances of MSD.

NOTE 12. COMMITMENTS AND CONTINGENCIES - (CONTINUED)

Other Matters

MSD is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the MSD's management that resolution of these matters will not have a material adverse effect on the financial condition of MSD.

The value of construction contracts signed, where work has not yet been performed at June 30, 2010, amounted to $126,032, and was $16,883 at June 30, 2009.

NOTE 13. SUBSEQUENT EVENTS

On July 12, 2010, MSD's Board adopted the Sixteenth Supplemental Sewer and Drainage System Revenue Bond Resolution approving the issuance of $330,000 in bonds. MSD intends to issue the bonds in November 2010.

In August 2010, MSD elected to refund a portion of the 1998A bond series by making a payment of $5,690.

On August 1, 2010, MSD's rates for wastewater and stormwater charges increased by 6.5%.

STATISTICAL SECTION

This section of the Louisville & Jefferson County Metropolitan Sewer District's (MSD) Comprehensive Annual Financial Report presents detailed information as a supplement to the information presented in the financial statements and note disclosures to assist readers in assessing MSD's overall financial health.

Contents **Page**

This schedule presents information to help readers assess MSD's debt burden and MSD's ability to issue additional debt in the future.

These schedules contain trend information to help readers understand how MSD's financial performance and position have changed over time. The information presented includes changes in net assets, an analysis of revenues and expenses and a comparative statement of cash flows

This schedule contains information to help readers assess MSD's most significant revenue source.

These schedules contain service and infrastructure data to help the reader understand how the information in MSD's financial report relates to the services that it provides.

These schedules offer demographic and economic indicators to help readers understand the environment within which MSD operates.

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SCHEDULES OF DEBT SERVICE COVERAGE
YEARS ENDED JUNE 30
($ in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues:										
Service charges	$ 168,610	$ 163,004	$ 156,889	$ 126,490	$ 122,643	$ 113,561	$ 103,571	$ 99,546	$ 90,255	$ 87,641
Other operating income	2,980	4,552	4,394	5,966	7,122	9,288	7,216	6,696	5,713	6,013
Assessments	7,093	4,387	2,251	8,237	6,796	10,731	12,064	27,290	14,020	12,558
Investment income	36,045	25,568	6,085	8,417	5,558	14,503	23,916	9,377	11,610	14,363
Less: capitalized investment income	(5,990)		(1,190)	(3,747)	(1,594)	(6,245)	(18,201)	(5,087)	(6,428)	(10,146)
Total revenues	208,738	197,511	168,429	145,363	140,525	141,838	128,566	137,822	115,170	110,429
Operating expenses:										
Service and administrative costs	101,068	93,935	96,845	89,194	86,433	78,835	74,972	77,829	74,734	74,417
Less: capitalized project costs	(28,129)	(24,401)	(26,510)	(25,715)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)
Total operating expenses	72,939	69,534	70,335	63,479	61,046	53,549	51,301	52,045	50,727	51,799
Net Revenues	135,799	127,977	98,094	81,884	79,479	88,289	77,265	85,777	64,443	58,630
Aggregate debt service:										
Current maturities of long-term debt	23,785	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559
Interest expense	69,949	72,776	66,918	70,548	66,162	72,395	65,370	64,797	61,220	50,950
Less: capitalized interest expense	(13,910)		(10,530)	(14,140)	(15,758)	(26,603)	(26,940)	(30,490)	(32,891)	(29,352)
Aggregate net debt service	79,824	95,881	77,643	74,598	67,654	61,477	53,733	47,399	40,005	31,157
Debt service coverage ratio	170%	133%	126%	110%	117%	144%	144%	181%	161%	188%

This table has been prepared using the definitions of revenue, expense and debt service contained in MSD's 1993 Sewer & Drainage System Revenue Bond Resolution. Accordingly, for years prior to 1994, certain reclassifications have been made which result in coverage ratios which differ from those reported under the 1989 and 1971 Bond Resolutions.

The 1993 Resolution and its supplements require MSD to provide "Available Revenues", as defined in the Resolution, sufficient to pay 110% of each fiscal year's "Aggregate Net Debt Service" on Revenue Bonds and 100% of "Operating Expenses". "Available Revenues", as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of Bonds issued pursuant to the Resolution, but excludes any interest income which is capitalized in accordance with generally accepted accounting principles. "Operating Expenses" includes all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation determined in accordance with generally accepted accounting principles and the enterprise basis of accounting. "Operating Expenses" does not include reserves for extraordinary maintenance and repair, nor does it include administrative and engineering expenses of MSD which are necessary or incidental to capital improvements for which debt has been issued and which may be paid from the proceeds of such debt. "Aggregate Net Debt Service" is aggregate current principal and interest requirements on all Bonds issued pursuant to the Resolution, excluding (i) interest expense, which in accordance with generally accepted accounting principles, is capitalized and which may be paid from the proceeds of debt, and (ii) other amounts, if any, available, or expected to become available in the ordinary course for payment of principal and interest, and not included in "Available Revenues".

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS -- ASSETS
JUNE 30
(in thousands)

	2010	Restated 2009	2008	2007	2006	2005	2004	2003	2002	2001
Assets										
Current Assets:										
Unrestricted cash and cash equivalents	$ 24,700	$ 22,552	$ 10,524	$ 1,912	$ 17,198	$ 28,732	$ 20,572	$ 15,072	$ 11,920	$ 23,408
Unrestricted investments	100	7,733	14,379	24,935	18,645	7,163	56	9,176	1,006	217
Restricted cash and cash equivalents	58,923	35,988	105,299	3,133	24	65,423	110,942	117,226	216,890	67,500
Restricted investments	394,880	61,303	27,202	73,801	134,850	33,934	74,112	51,220	52,400	25,457
Accounts receivable	15,779	18,065	16,732	15,398	17,401	13,716	14,136	12,904	12,233	13,235
Recovery of insured loss receivable	-				-	-	-	-	-	-
Inventories	3,110	3,027	3,020	3,091	2,874	3,090	2,685	2,676	2,466	2,530
Prepaid expenses and other current assets	2,513	1,965	2,020	1,181	1,359	803	796	667	394	154
Total Current Assets	500,005	150,633	179,176	123,451	192,351	152,861	223,299	208,941	297,309	132,501
Long-term Receivables	22,527	25,146	26,334	28,749	27,778	29,712	27,964	30,327	37,538	26,723
Deferred Debits	12,192	74,477	32,705	-	-	-	-	-	-	-
Plant, Lines and Other Facilities:										
Completed projects	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338	1,526,610	1,391,498	1,199,210
Less: Accumulated depreciation	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)	(361,016)
	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176	1,127,883	1,025,294	838,194
Construction in progress	140,134	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570	433,324
Net Plant, Lines and Other Facilities	1,878,012	1,816,737	1,789,812	1,764,556	1,733,724	1,694,956	1,619,999	1,532,918	1,436,864	1,271,518
Total Assets	$ 2,412,736	$ 2,066,993	$ 2,028,027	$ 1,916,756	$ 1,953,853	$ 1,877,529	$ 1,871,262	$ 1,772,186	$ 1,771,711	$ 1,430,742

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS – LIABILITIES AND NET ASSETS
JUNE 30
(in thousands)

		Restated								
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Liabilities and Net Assets										
Liabilities:										
Current Liabilities (Payable from Current Assets):										
Accounts payable and accrued expenses	$ 11,141	$ 11,035	$ 10,548	$ 16,639	$ 22,619	$ 17,781	$ 9,671	$ 9,492	$ 7,969	$ 7,912
Total Current Liabilities (Payable from Current Assets)	11,141	11,035	10,548	16,639	22,619	17,781	9,671	9,492	7,969	7,912
Current Liabilities (Payable from Restricted Assets):										
Accounts payable and accrued expenses	13,692	7,735	5,250	4,239	1,072	5,863	11,846	17,588	16,231	14,942
Accrued interest	14,701	8,143	8,597	10,824	10,456	9,768	9,916	9,454	10,922	8,444
Bond Anticipation Notes	452,680									
Current maturities of bonds payable	23,785	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559
Refundable Deposits	1,622	3,478	4,209							
Total Current Liabilities (Payable from Restricted Assets)	506,480	42,461	39,311	33,253	28,778	31,316	37,065	40,134	38,829	32,945
Non-current liabilities:										
Bonds payable	1,283,493	1,370,442	1,405,805	1,307,236	1,324,006	1,240,966	1,256,228	1,170,141	1,184,993	895,973
Other long-term liabilities	118,826	85,968	21,844	8,254	8,987	9,191	6,495	6,917	7,338	7,759
Total Long-Term Debt	1,402,319	1,456,410	1,427,649	1,315,490	1,332,993	1,250,157	1,262,723	1,177,058	1,192,331	903,732
Deferred Compensation	-	-	-	-	-	-	-	-	-	-
Total Liabilities	1,919,940	1,509,906	1,477,508	1,365,382	1,384,390	1,299,254	1,309,459	1,226,684	1,239,129	944,589
Net Assets:										
Invested in plant, lines, & other facilities, net of related debt	450,754	470,445	478,833	479,305	489,973	497,314	490,458	476,849	450,966	428,688
Restricted for payment of bond principal & interest	455,899	100,225	135,537	7,034	8,927	14,133	17,850	18,884	35,482	10,810
Unrestricted	(413,857)	(13,583)	(63,851)	65,035	70,563	66,828	53,495	49,769	46,134	46,655
Total Net Assets	492,796	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153
Total Liabilities and Net Assets	2,412,736	2,066,993	2,028,027	1,916,756	1,953,853	1,877,529	1,871,262	1,772,186	1,771,711	1,430,742

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Operating revenue:										
Wastewater service charges	$ 133,853	$ 130,661	$ 125,782	$ 96,594	$ 93,907	$ 87,653	$ 79,933	$ 77,778	$ 69,856	$ 68,228
Stormwater service charges	34,757	32,343	31,107	29,896	28,736	25,908	23,638	21,768	20,399	19,413
Other operating income	2,980	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713	6,013
Total operating revenue	171,590	167,556	161,283	132,446	129,765	122,849	110,787	106,242	95,968	93,654
Operating expenses:										
Service and administrative costs	101,068	93,935	96,845	90,157	86,433	78,835	74,972	77,829	74,734	74,417
Capitalization/recovery of cost	(28,129)	(24,401)	(26,510)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)
Capitalized Overhead (over) under applied	(2,988)	(856)	-	-	-	-	-	-	-	-
Depreciation and amortization	55,417	56,727	55,363	52,177	51,174	43,161	37,718	35,401	34,131	27,448
Loss on disposal of assets	-	64	122	-	-	-	-	-	-	-
Total operating expenses	125,368	125,469	125,820	115,656	112,220	96,710	89,019	87,446	84,858	79,247
Income (loss) from operations	46,222	42,087	35,463	16,790	17,545	26,139	21,768	18,796	11,110	14,407
Non-operating revenue (expense):										
Investment Income	36,045	25,568	4,895	4,670	3,964	8,259	5,715	4,290	5,182	4,217
Interest expense - bonds	(69,949)	(69,893)	(56,388)	(56,408)	(50,404)	(45,792)	(38,495)	(34,307)	(28,330)	(21,598)
Interest expense - swaps	(8,815)	(2,883)	-	-	-	-	-	-	-	-
Interest expense - other	(6,819)	-	-	-	-	-	-	-	-	-
Capitalized Interest	13,910	-	-	-	-	-	-	-	-	-
Decrease upon hedge termination	(58,556)									
Change in Fair Values - Swaps	(19,889)	-	-	-	-	-	-	-	-	-
Total non-operating revenue (expenses) - net	(114,073)	(47,208)	(51,493)	(51,738)	(46,440)	(37,533)	(32,780)	(30,017)	(23,148)	(17,381)
Net loss before contributions	(67,851)	(5,121)	(16,030)	(34,948)	(28,895)	(11,394)	(11,012)	(11,221)	(12,038)	(2,974)
Contributions										
Property owner assessments	(545)	2,239	164	7,634	4,862	12,478	9,701	20,079	24,786	21,865
All other	4,105	9,450	15,011	9,225	15,221	15,388	17,612	4,062	33,681	89
Increase (decrease) in net assets	(64,291)	6,568	(855)	(18,089)	(8,812)	16,472	16,301	12,920	46,429	18,980
Net assets, beginning of year	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153	467,173
Net assets, end of year	492,796	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Cash flows from operating activities:										
Cash received from customers	171,641	166,123	159,539	134,160	125,918	123,269	109,938	105,571	96,970	92,029
Cash paid to suppliers and employees	(72,426)	(66,297)	(72,227)	(69,536)	(56,548)	(45,851)	(51,643)	(51,005)	(50,846)	(51,196)
Net cash provided by operating activities	99,215	99,826	87,312	64,624	69,370	77,418	58,295	54,566	46,124	40,833
Cash flows from capital and related financing activities:										
Proceeds from issuance of revenue bonds	405,770	76,275	166,125	-	100,000	64,740	100,000	191,000	300,000	-
Proceeds from bond anticipation notes	452,680	-	-	-	-	-	-	-	-	-
Capital contributed by governments, property owners & developers	3,560	11,689	15,174	16,861	1,460	2,838	4,031	948	864	2,313
Build America Bond Interest Income	2,260									
Refunding of long-term bonds	-	-	-	-	-	(65,600)	-	(185,230)		
Assessments receivable	2,998	557	2,703	(645)	-	-	-	-	-	-
Interest income - assessments	1,588	1,471	1,405	1,670	-	-	-	-	-	-
Amortization of loss on refundings	(3,764)	1,277	2,504	-	-	-	-	-	-	-
Unamortized loss on refundings	(1,341)	(1,277)		-	-	-	-	-	-	-
Principal paid on revenue bonds	(488,275)	(95,045)	(84,350)	(17,250)	(16,815)	(14,020)	(11,702)	(19,206)	(8,863)	(6,210)
Interest paid on revenue bonds	(70,192)	(69,063)	(69,145)	(70,180)	(65,474)	(26,751)	(26,478)	(31,958)	(30,408)	(50,986)
Acquisition and construction of capital assets	(82,440)	(75,504)	(83,548)	(65,669)	(67,035)	(109,200)	(126,365)	(127,057)	(164,959)	(165,857)
Retainage payable	955	(466)	430	(33)	-	-	-	-	-	-
Acquisition of non-operating property	(484)	(261)	(257)	(258)	-	-	-	-	-	-
Recovery of insured loss	-	-	-	-	-	-	-	-	-	453
Net cash (used in) provided from capital and related financing activities	223,315	(150,347)	(48,959)	(135,504)	(47,864)	(147,993)	(60,514)	(171,503)	96,634	(220,287)
Cash flows from investing activities:										
Restricted Investments	(333,577)	(34,101)	45,656	-	-	-	-	-	-	-
Unrestricted Investments	7,633	6,646	10,555	-	-	-	-	-	-	-
Assessment principal payments	-	-	-	-	8,621	10,301	12,792	27,495	13,997	10,897
Interest received on termination of swap agreement	-	-	-	-	-	(421)	(422)	(421)	(421)	7,759
Purchase of investment securities	-	-	-	(72,800)	(303,998)	(100,889)	(370,182)	(79,864)	(77,980)	(65,918)
Proceeds from sale and maturities of investment securities	-	-	-	137,908	177,341	110,070	329,655	63,592	48,160	65,093
Income received on investments	37,519	24,936	4,889	7,642	5,551	14,155	29,592	9,623	11,388	14,818
Interest expense - Swap agreements	(8,832)	(4,166)	-	-	-	-	-	-	-	-
Unamortized premium on forward delivery agreement	(190)	(77)	1,399	-	-	-	-	-	-	-
Unamortized gain on termination of swap agreements	-	-	9,926	-	-	-	-	-	-	-
Net cash (used in) provided from investing activities	(297,447)	(6,762)	72,425	72,750	(112,485)	33,216	1,435	20,425	(4,856)	32,649
Net increase (decrease) in cash and cash equivalents	25,083	(57,283)	110,778	1,870	(90,979)	(37,359)	(784)	(96,512)	137,902	(146,805)
Cash and cash equivalents, beginning of year	58,540	115,823	5,045	3,176	94,155	131,514	132,298	228,810	90,908	237,713
Cash and cash equivalents, end of year	$ 83,623	$ 58,540	$ 115,823	$ 5,045	$ 3,176	$ 94,155	$ 131,514	$ 132,298	$ 228,810	$ 90,908

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SUMMARIES OF OPERATING REVENUE
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Service charges:										
Wastewater service charges:										
Residential	$ 73,228	$ 71,159	$ 64,978	$ 48,338	$ 47,555	$ 43,320	$ 39,394	$ 37,730	$ 33,106	$ 31,469
Commercial	42,741	42,312	38,935	28,892	27,619	25,274	23,761	23,071	21,220	20,339
Industrial	18,948	18,216	21,324	18,431	17,279	17,142	15,182	15,380	13,992	14,935
Bulk dumpers	-	-	-	-	-	-	-	-	-	-
Other - net	1,756	1,601	2,382	1,993	1,454	1,917	1,597	1,597	1,538	1,485
Free Sewer to Metro Government	(2,820)	(2,627)	(1,837)	(1,060)						
Total wastewater service charges	133,853	130,661	125,782	96,594	93,907	87,653	79,934	77,778	69,856	68,228
Stormwater service charges:										
Residential	13,613	12,709	12,198	11,617	11,205	10,304	9,223	8,657	8,134	7,865
Commercial	19,433	18,012	17,276	16,741	15,683	13,854	12,735	11,533	10,765	10,052
Industrial	2,189	2,064	1,988	1,930	1,848	1,750	1,679	1,578	1,500	1,496
Free Drainage to Metro Government	(478)	(442)	(355)	(392)						
Total stormwater service charges	34,757	32,343	31,107	29,896	28,736	25,908	23,637	21,768	20,399	19,413
Total service charges	168,610	163,004	156,889	126,490	122,643	113,561	103,571	99,546	90,255	87,641
Other operating income:										
Capacity charges	564	820	2,521	2,538	4,772	6,925	5,176	4,272	2,549	3,754
Connection fees	68	47	172	146	220	411	601	675	1,458	927
Regional facilities fees	-	-	-	(11)	357	513	301	374	354	276
Reserve capacity charges	11	28	37	5	22	40	18	1	58	13
Wastewater miscellaneous	2,279	3,599	1,606	3,220	1,693	1,342	1,062	1,344	1,244	994
Stormwater miscellaneous	58	58	58	58	58	57	58	30	50	49
Total other operating income	2,980	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713	6,013
Total operating revenue	$ 171,590	$ 167,556	$ 161,283	$ 132,446	$ 129,765	$ 122,849	$ 110,787	$ 106,242	$ 95,968	$ 93,654

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SUMMARIES OF SERVICE AND ADMINISTRATIVE COSTS
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Service and administrative costs:										
Labor	$ 52,945	$ 49,354	$ 49,431	$ 47,079	$ 42,287	$ 40,948	$ 40,206	$ 40,947	$ 40,068	$ 39,185
Utilities	11,879	10,818	12,989	10,976	12,518	10,119	8,870	7,967	6,979	7,984
Materials and supplies	9,031	8,742	8,707	8,197	7,745	6,625	7,237	7,479	7,043	8,400
Professional services	2,363	2,730	3,126	2,797	2,543	2,698	2,530	3,821	4,543	4,425
Maintenance and repairs	8,847	9,675	8,926	8,035	7,762	5,874	4,976	5,672	4,660	4,056
Billing and collections	4,461	3,623	5,319	2,889	3,869	3,371	3,209	2,812	3,164	3,628
Chemicals and fuel	6,099	5,687	5,148	4,825	5,088	4,099	3,828	3,701	3,536	2,825
Biosolids disposal	2,186	2,063	1,661	1,412	1,554	1,451	1,359	1,442	2,438	1,584
All other	3,638	2,817	2,800	3,947	3,067	3,650	2,757	3,988	3,081	3,163
Adjustment for encumbrances	-	-	-	-	-	-	-	-	-	-
Gross service and administrative costs	101,449	95,509	98,107	90,157	86,433	78,835	74,972	77,829	75,512	75,250
Less: Recovery of cost										
Capitalized project cost	(28,129)	(24,401)	(26,510)	(25,715)	(24,450)	(24,419)	(23,158)	(25,302)	(24,007)	(22,620)
Revenue recoveries	(381)	(1,574)	(1,262)	(963)	(937)	(867)	(513)	(482)	(778)	(831)
Recovery of cost	(28,510)	(25,975)	(27,772)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,785)	(23,451)
Net service and administrative costs	$ 72,939	$ 69,534	$ 70,335	$ 63,479	$ 61,046	$ 53,549	$ 51,301	$ 52,045	$ 50,727	$ 51,799

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
COMPARATIVE SCHEDULES OF PLANT, LINES AND OTHER FACILITIES
YEARS ENDED JUNE 30
(in thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Completed Projects										
Sewer lines	$ 1,134,637	$ 1,042,742	$ 1,022,859	$ 963,798	$ 915,527	$ 819,349	$ 762,241	$ 694,851	$ 619,077	$ 527,412
Wastewater treatment facilities	469,645	459,238	456,955	422,483	418,997	389,747	273,187	262,073	242,549	214,818
Stormwater drainage facilities	427,431	400,118	390,699	366,745	337,039	308,282	288,277	278,739	265,294	236,526
Pumping and lift stations	70,644	69,301	66,990	60,877	55,407	51,389	46,752	42,620	39,454	32,315
Administrative facilities	45,561	45,561	45,561	45,347	45,347	45,239	30,724	22,859	20,867	20,479
Maintenance facilities	7,827	7,827	7,833	7,313	7,470	7,395	4,785	4,048	4,048	3,359
Machinery, equipment and other	94,122	74,975	75,872	62,526	58,613	56,749	47,815	47,703	46,653	40,744
Capitalized interest and issuance cost	222,563	214,644	214,644	220,690	211,362	196,725	178,557	173,717	153,556	123,557
Total Completed Projects	2,472,430	2,314,406	2,281,413	2,149,779	2,049,762	1,874,875	1,632,338	1,526,610	1,391,498	1,199,210
Less accumulated depreciation	(734,552)	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)	(361,016)
Total Completed projects - net	1,737,878	1,634,026	1,653,117	1,571,136	1,521,963	1,397,251	1,196,176	1,127,883	1,025,294	838,194
Total Construction in progress	140,134	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570	433,324
Total Net Plant, Lines and Other Facilities	$ 1,878,012	$ 1,816,737	$ 1,789,812	$ 1,764,556	$ 1,733,724	$ 1,694,956	$ 1,619,999	$ 1,532,918	$ 1,436,864	$ 1,271,518

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
WASTEWATER TREATMENT PLANT CAPACITY
2010

Plant	Design Capacity MGD	Avg Daily Flow MGD	Eventual Capacity MGD	Customer Base Residential	Customer Base Commercial	Customer Base Industrial	Total	Year Built	Treatment Process
Morris Forman	120.0	100.4	120.0	122,243	13,729	348	136,320	1958	Secondary added in 1972.
Derek R. Guthrie*	30.0	26.5	30.0	55,558	3,158	16	58,732	1986	Secondary
Jeffersontown	4.0	3.5	4.0	6,735	917	14	7,666	1956	Secondary
Hite Creek	6.0	3.1	8.0	7,065	490	5	7,560	1970	Tertiary: sand filter
Cedar Creek	7.5	5.1	7.5	7,388	170	-	7,558	1995	Tertiary: sand filter
Floyd's Fork	3.3	2.7	9.8	4,523	112	-	4,635	2001	Tertiary: sand filter
15 Small Treatment Plants	2.7	2.0	-	5,891	218	-	6,109	Most 1970s	Various: developer-built package plants
Total Treatment System	173.5	143.3	179.3	209,403	18,794	383	228,580		

* - Formerly known as the West County WTP

Source: MSD Engineering Department

GREATER LOUISVILLE, KENTUCKY/INDIANA
EMPLOYERS OF 1,000 EMPLOYEES OR MORE

	2009 Rank		2008 Renk		2007 Rank		2006 Rank		2005 Rank		2004 Rank		2003 Rank			Type of business
United Parcel Service, Inc.	1	20,125	1	20,513	1	20,560	1	20,674	1	18,398	1	17,543	1	17,206	P	Air cergo transport and distribution
Jefferson County, KY Public Schools	2	13,964	2	13,326	2	13,917	2	13,593	2	13,281	2	13,235	2	13,420	G	Primary and secondary education
Humana, Inc.	3	9,400	3	10,096	3	9,854	3	8,775	5	7,458	6	5,850	11	4,889	P	Group health insurance/HMOs
Norton Healthcare (formerly Alliant Health)	4	8,698	4	8,142	4	7,978	4	7,690	4	7,783	4	8,525	4	7,850	N	Hospital and health care facilities
University of Louisville	5	6,352	6	6,135	7	5,866	7	5,763	8	5,563	8	5,238	10	4,943	G	Higher education
Jewish Hospital & St. Mary's Healthcare Inc.	6	5,782	5	6,500	5	6,203	6	6,229	7	5,907	7	5,405	6	5,450	N	Hospital and health cere facilities
Louisville-Jefferson County Metro Government*	7	5,765	7	5,811	8	5,639	8	5,698	6	5,993	5	5,893	5	5,744	G	City/County Government
Kroger Company	8	5,692	9	5,263	10	4,784	10	4,644	9	5,177	11	4,827	8	4,960	P	Retail grocer
Ford Motor Company	9	5,397	8	5,624	6	5,929	5	7,586	3	8,745	3	8,972	3	9,303	P	Vehicle manufacturing
Commonwealth of Kentucky	10	4,361	10	4,253	11	4,498	11	4,535	11	4,700	10	4,952	9	4,952	G	General purpose government
General Electric Company	11	4,100	11	4,000	9	5,000	9	5,000	10	5,000	9	5,000	7	5,200	P	Appliance manufacturing
Baptist Healthcare System	12	3,889	12	3,305	12	3,089	12	3,536	12	3,140	12	3,179	15	2,308	N	Hospital and health care facilities
U.S. Federal Government	13	3,575	13	2,985	13	2,853	14	2,822	13	2,826	13	2,941	13	2,806	G	General purpose government
U.S. Bureau of the Census	14	3,106	16	2,491	17	2,248	22	1,638	20	1,810	22	1,672			G	General purpose government
University Hospital	15	2,645	15	2,573	16	2,314	16	2,417	17	2,346	19	1,972	18	2,115	N	Nonprofit healthcare
Kindred Healthcare (Formerly Vencor Inc.)	16	2,224	18	2,153	19	2,079	13	3,033	16	2,349	16	2,342	20	1,957	P	Long-term health care, facilities
Roman Catholic Archdiocese of Louisville	17	2,142	17	2,343	15	2,351	17	2,348	15	2,437	15	2,680	14	2,468	N	Religious, educational, social services
U.S. Postal Service	18	1,991	14	2,626	14	2,651	15	2,653	14	2,674	14	2,902	12	2,872	G	Mail distribution
EQN	19	1,976	20	1,902											P	Gas & Electric Utility
Manna Inc.	20	1,830													P	Food service provider
Yum! Brands Inc. (formerly Tricon)	21	1,757	19	2,076	18	2,243	18	2,219	18	2,123	18	2,195	16	2,194	P	Food service provider
AT&T (Formerly BellSouth)	22	1,700	21	1,700	22	1,680	24	1,561	25	1,476	26	1,423	25	1,438	P	Telecommunications
Papa John's International Inc.	23	1,602	26	1,530	28	1,480	38	1,130							P	Quick-service restaurants
Robley Rex VA Medical Center	24	1,596													N	Hospital and health care facilities
Bullitt County Public Schools	25	1,591	24	1,591	24	1,589	20	1,700	26	1,473	29	1,376			G	Primary and secondary education
Horseshoe Southern IN (formerly Caesars')	26	1,540	22	1,697	21	1,858	19	1,895	19	1,942	20	1,918	19	1,968	P	Gaming and entertainment resort
Publishers Printing Company	27	1,500	23	1,600	20	1,860	21	1,689	21	1,702	23	1,633	23	1,595	P	Trade, professional, special printing
Oldham County, KY Board of Education	28	1,500	25	1,568	25	1,519	28	1,448	28	1,407	31	1,320	30	1,250	G	Primary and secondary education
Floyd Memorial Hospital & Health Services	29	1,473	32	1,338	33	1,316	30	1,409	29	1,337	27	1,412	37	1,113	P	Hospital and health services provider
Greater Clark County, IN School Corp.	30	1,395	27	1,409	27	1,491	23	1,600	22	1,598	24	1,509	24	1,459	G	Primary and secondary education
New Albany/Floyd County, IN School Corp.	31	1,390	28	1,390	30	1,400	32	1,400	36	1,215	34	1,209	31	1,213	G	Primary and secondary education
Lowe's Cos. Inc.	32	1,358													P	Home Improvement Retailer
Swift & Co.	33	1,350	30	1,350	32	1,350	35	1,251	34	1,250	38	1,151	33	1,151	P	Hog slaughtering and pork processing
Insight Communications	34	1,340													P	Telecommunications
Rescare Inc.	35	1,314	33	1,314											P	Health & human services
Anthem, Inc.	36	1,276	29	1,358	31	1,381	29	1,438	23	1,575	21	1,687	21	1,744	P	Health insurance sales and services
Brown-Forman Corp.	37	1,240	37	1,081	35	1,256	34	1,317	33	1,264	39	1,075	34	1,145	P	Distilled spirits manufacturing
SHPS	38	1,225	31	1,349	38	1,209	37	1,200	30	1,315	30	1,336	27	1,315	P	Benefits administration
Clark Memorial Hospital	39	1,225	34	1,270	38	1,175	40	1,060	39	1,098	28	1,411	26	1,358	N	Hospital and health services provider
Seven Counties Services	40	1,187	36	1,118	40	1,110	39	1,100	37	1,137	36	1,159	35	1,132	N	Health care provider
Securitas Security Services USA Inc.	41	1,150	35	1,150											P	Security Services
Shelby County Public Schools	42	1,071													G	Primery and secondary education
		143,794		135,930		131,730		132,051		127,499		124,940		118,518		

P=for-profit organization N=not-for-profit organization G=governmental organization

Source: Business First of Louisville, KY

*The City of Louisville & Jefferson County Governments merged in January 2003.

Louisville/Jefferson County Government
Principal Employers
Current Year and Nine Years Ago

Employer	Employees	2009 Rank	Percentage of Total Employment	Employer	Employees	2000 Rank	Percentage of Total Employment
United Parcel Service, Inc.	20,125	1	3.48%	United Parcel Service, Inc.	16,338	1	2.72%
Jefferson County, KY Public Schools	13,964	2	2.41%	Jefferson County, KY Public Schools	13,467	2	2.25%
Humana, Inc.	9,400	3	1.62%	Ford Motor Company	9,832	3	1.64%
Norton Healthcare (formerly Alliant Health)	8,698	4	1.50%	General Electric Company	7,446	4	1.24%
University of Louisville	6,352	5	1.10%	Norton Healthcare (formerly Alliant Health)	5,877	5	0.98%
Jewish Hospital & St. Mary's Healthcare Inc.	5,782	6	1.00%	Commonwealth of Kentucky	5,405	6	0.90%
Louiville-Jefferson County Metro Government*	5,765	7	1.00%	Jewish Hospital & St. Mary's Healthcare Inc.	4,995	7	0.83%
Kroger Company	5,692	8	0.98%	University of Louisville	4,898	8	0.82%
Ford Motor Company	5,397	9	0.93%	Kroger Company	4,700	9	0.78%
Commonwealth of Kentucky	4,361	10	0.75%	Humana, Inc.	4,665	10	0.78%
Total	85,536		14.77%		77,623		12.95%
Total Employment	579,095				599,600		

Source: Business First of Louisville
Buruea of Labor Statistics

Ratio of Outstanding Debt and Misc. Demographic Information
Last Eight Fiscal Years
(dollar amounts in thousands)

Fiscal Year	Revenue Bond	Bond Anticipation Notes	Total Debt	Population	Personal Income	Percentage of Personal Income	Unemployment Rate
2003	$ 1,183,233	$ -	$ 1,183,233	695,843	$ 23,791,641	4.97%	5.20%
2004	1,271,531	-	1,271,531	698,059	24,184,881	5.26%	5.10%
2005	1,256,651	-	1,256,651	698,903	25,470,269	4.93%	5.70%
2006	1,341,256	-	1,341,256	699,827	25,949,674	5.17%	5.70%
2007	1,325,426	-	1,325,426	701,500	27,122,740	4.89%	5.00%
2008	1,427,060	-	1,427,060	709,264	29,497,015	4.84%	6.40%
2009	1,393,547	-	1,393,547	713,877	31,274,740	4.46%	10.60%
2010	1,307,278	452,680	1,759,958	721,594*	Not Available	N/A	10.30%

* - Estimate

Source: U.S. Census Bureau and Workforce Kentucky Website (www.workforcekentucky.ky.gov)
Source: Workforce Kentucky Website (www.workforcekentucky.ky.gov)
Source: Bureau of Economic Analysis website (www.bea.gov)

Note: Data is presented since the merger of the Louisville and Jefferson County governments in 2003

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
TOP 10 WASTEWATER AND STORMWATER CUSTOMERS

Rank	Customer Name	FY '10 Wastewater Billed	Percent Total Wastewater Revenue	Customer Name	FY '01 Wastewater Billed	Percent Total Wastewater Revenue
1	Solae LLC*	$ 3,583,835	2.68%	Protein Technologies	$ 1,848,000	2.71%
2	Opta Foods	$ 1,937,885	1.45%	E.I. Dupont	$ 1,535,437	2.25%
3	Oxy Vinyls	$ 1,666,230	1.24%	Swift & Company	$ 1,068,293	1.57%
4	Jefferson Co. Bd. of Educ	$ 1,531,702	1.14%	Oxy Vinyls	$ 998,618	1.46%
5	Brown Forman Corp.	$ 1,228,625	0.92%	Ford Motor Co.	$ 934,068	1.37%
6	Heaven Hill Distilleries	$ 1,207,513	0.90%	Opta Food	$ 750,000	1.10%
7	Swift & Company	$ 1,157,736	0.86%	Jefferson Co. Bd. of Educ.	$ 626,709	0.92%
8	Lou. Metro Housing Auth.	$ 972,227	0.73%	Louisville Mun. Housing	$ 541,479	0.79%
9	General Electric	$ 950,706	0.71%	Rohm & Haas	$ 536,701	0.79%
10	Ford Motor Co.	$ 865,050	0.65%	General Electric	$ 464,768	0.68%
	Total	**$ 15,101,509**	**11.28%**	**Total**	**$ 9,304,073**	**13.64%**

Total FY '10 Wastewater Revenue: $133,853,000

Total FY '01 Wastewater Revenue: $68,288,000

Rank	Customer Name	FY '10 Stormwater Billed	Percent Total Stormwater Revenue	Customer Name	FY '01 Stormwater Billed	Percent Total Stormwater Revenue
1	Regional Airport Authority	$ 910,813	2.62%	Regional Airport Authority	$ 265,009	1.37%
2	United Parcel Service	$ 676,173	1.95%	United Parcel Service	$ 234,484	1.21%
3	Jefferson Co. Bd. of Educ.	$ 319,617	0.92%	Jefferson Co. Bd. of Educ.	$ 192,397	0.99%
4	Ford Motor Company	$ 309,789	0.89%	Ford Motor Company	$ 164,945	0.85%
5	Churchill Downs	$ 178,493	0.51%	University of Louisville	$ 109,536	0.56%
6	KY State Fair Board	$ 162,588	0.47%	Churchill Downs	$ 108,570	0.56%
7	Norfolk Southern Corp.	$ 150,677	0.43%	Trammell Crow Co.	$ 91,683	0.47%
8	LIT Industrial Limited	$ 149,178	0.43%	KY State Fair Board	$ 86,690	0.45%
9	Louisville Gas & Electric	$ 148,516	0.43%	Norfolk Southern Corp.	$ 82,503	0.42%
10	U of L Belknap Campus	$ 140,145	0.40%	Seaboard Systems, Inc.	$ 78,141	0.40%
	Total	**$ 3,145,989**	**9.05%**	**Total**	**$ 1,413,958**	**7.28%**

Total FY '10 Stormwater Revenue: $34,757,000

Total FY '01 Stormwater Revenue: $19,413,000

FOR THE FISCAL YEAR
ENDED JUNE 30, 2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

MSD
Metropolitan Sewer District

Louisville, Kentucky USA

A Component Unit Of The Louisville KY Metro Government

____

APPENDIX C

____

FORM OF LEGAL OPINION OF CO-BOND COUNSEL

________________, 2011

Louisville and Jefferson County
Metropolitan Sewer District
Louisville, Kentucky

The Bank of New York Mellon Trust Company, N.A.
Louisville, Kentucky

RE: $________________________ Louisville and Jefferson County Metropolitan Sewer District, Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2011A

Ladies and Gentlemen:

As Co-Bond Counsel with Zielke Law Firm, PLLC, Louisville, Kentucky, we have examined a copy of the transcript of proceedings relating to the original issuance by the Louisville and Jefferson County Metropolitan Sewer District (the "District"), a public body corporate and political subdivision of the Commonwealth of Kentucky (the "Commonwealth"), of the District's $___________________ aggregate principal amount of Sewer and Drainage System Subordinated Bond Anticipation Notes, Series 2011A (the "Notes"). The proceeds of the Notes will be used to currently refund the District's outstanding Sewer and Drainage System Bond Anticipation Notes, Series 2010A.

The Notes are being issued pursuant to [i] applicable provisions of Chapters 58, 65 and 76 and Section 56.513 of the Kentucky Revised Statutes, as amended (the "Act"), [ii] the Subordinated Debt Resolution adopted by the Board of the District on April 26, 2010, as amended by a Subordinate Debt Sale Resolution adopted on January 24, 2011 (collectively, the "Resolution"), and [iii] the Sewer and Drainage System Revenue Bond Resolution adopted by the Board of the District on December 7, 1992, as amended on March 4, 1993, June 30, 1993, December 14, 1994, January 25, 1996, and February 24, 2003 (the "Bond Resolution"). Capitalized terms that are used but not defined herein are defined in the Resolution or the Bond Resolution.

The Notes and the interest thereon do not constitute a general obligation or indebtedness of the District, the Louisville/Jefferson County Metro Government ("Metro Government"), the County of Jefferson, Kentucky (the "County") or the Commonwealth within the meaning of any applicable debt-limiting provisions of the Constitution and laws of the Commonwealth and are not a charge against the general credit or taxing power of Metro

Government, the County, the Commonwealth or any other political subdivision of the Commonwealth.

The Notes are special and limited obligations of the District secured solely by and payable solely from the property and revenue pledged in the Resolution (collectively, the "Pledged Property"). The pledge of the Pledged Property securing the Notes is subordinate, however, to the District's pledge of its property and revenue securing the Prior Bonds, as such terms are defined in the Resolution and the Bond Resolution.

In our capacity as Co-Bond Counsel we have examined such documents and matters and conducted such research as we have deemed necessary to enable us to express the opinions set forth below. We have also relied upon an opinion dated as of even date herewith of Zielke Law Firm, PLLC, Louisville, Kentucky, as Counsel to the District, with respect to the valid creation, organization and existence of the District, the due adoption, by the Board of the District, of the Resolution and the Bond Resolution. As to certain questions of fact, we have relied upon statements and certifications of certain of the officers, officials, directors, employees and agents of the District and other public officials.

In rendering our opinions set forth below, we have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies. We have assumed that parties other than the District had the requisite power and authority to enter into and perform all obligations of all documents to which they are parties. We have assumed the due authorization by all requisite action, and the execution and delivery by such other parties of such documents, and the validity and binding effect thereof on such other parties. We have relied for purposes of the opinions set forth below on the representations and warranties made in such documents by all parties thereto.

Based on the foregoing, and in reliance thereon, and on the basis of our examination of such other matters of fact and questions of law as we have deemed relevant in the circumstances, it is our opinion that:

1. The District is a public body corporate and political subdivision of the Commonwealth, validly existing under the provisions of the Constitution and laws of the Commonwealth, including the Act.

2. The Resolution and the Bond Resolution have been duly adopted by the Board of the District and are in full force and effect.

3. The Resolution and the Bond Resolution are the valid and binding special limited obligations of the District enforceable in accordance with their respective terms.

4. The Notes have been duly executed and delivered by the District and are the valid and binding special limited obligations of the District, enforceable in accordance with their terms and entitled to the benefit and security of the Resolution and the Bond Resolution.

5. Under the laws of the Commonwealth as presently enacted and construed, the Notes are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by the Commonwealth and all of its political subdivisions and taxing authorities.

6. Based upon existing laws, regulations and judicial decisions, and assuming the correctness and accuracy of certain representations and warranties of the District made in connection with the original issuance of the Notes, interest on the Notes is excluded from gross income for federal income tax purposes. Interest on the Notes is not an item of tax preference in determining "alternative minimum taxable income" under the Internal Revenue Code of 1986, as amended (the "Code"). However, interest on the Notes is includable in computing "adjusted current earnings" for purposes of determining the alternative minimum taxable income of a corporation under the Code.

The opinion set forth in Paragraph 6 above is subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be and remain excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Notes to be included in gross income retroactive to the date of issuance of the Notes. The District has covenanted in the Resolution and the Bond Resolution to comply with such requirements.

The foregoing opinions are qualified to the extent that the enforceability of the Notes, the Resolution and the Bond Resolution, including the rights and remedies thereunder, may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws heretofore or hereafter enacted relating to or affecting the enforcement of creditors' rights or remedies. We also express no opinion as to the availability of equitable rights or remedies.

We are not expressing an opinion on the investment quality of the Notes. We are members of the Bar of the Commonwealth and do not purport to be experts on the laws of any jurisdiction other than the Commonwealth and the United States of America, and we express no opinion as to the laws of any jurisdiction other than those specified. Our opinion relates solely to the questions set out herein and does not consider other questions of law.

Yours truly,

WYATT, TARRANT & COMBS, LLP

APPENDIX D

CONSULTING ENGINEER'S REPORT

15220569.6

LOUISVILLE & JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT

SEWER AND DRAINAGE SYSTEM REVENUE BONDS, SERIES 2010A

ENGINEER'S REPORT

PREPARED FOR:

LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT

PREPARED BY:

THE CORRADINO GROUP
FIRST TRUST CENTRE
200 SOUTH FIFTH STREET/SUITE 300 NORTH
LOUISVILLE, KENTUCKY 40202

NOVEMBER 1, 2010

THE PROGRAM

Since 1992, The Corradino Group (Corradino) (the Engineering Consultant) has closely and continuously monitored the Capital Improvement Program (CIP), operations, and financial structure of the Louisville/Jefferson County Metropolitan Sewer District (MSD). Corradino has prepared all of the Engineer's Reports for MSD Sewer and Drainage System Revenue Bond issues since 1993. This report presents the findings and conclusions of Corradino pertaining to MSD's proposed Series 2010A Sewer and Drainage System Revenue Bonds. Corradino has reviewed, studied, evaluated, and presented findings and conclusions relative to the following aspects of MSD: (1) historical perspective; (2) Capital Improvement Program; (3) financial structure; (4) the financial capability of MSD to implement the CIP; and (5) the purpose and need for the Series 2010A Revenue Bonds. Corradino concludes that the issuance of the proposed Series 2010A Revenue Bonds is financially feasible and desirable, sound from an engineering and operations perspective, and necessary and desirable for the system's growth.

THE ENGINEERING CONSULTANT

The Corradino Group (Corradino), founded in 1971, is a national engineering and planning professional service practice with offices in Louisville (KY), Indianapolis and Evansville (IN), Detroit (MI), and Miami, Ft. Lauderdale, and West Palm Beach (FL). Corradino is the Engineering Consultant for the MSD Series 2010A Sewer and Drainage System Revenue Bonds. Corradino was the Engineering Consultant for MSD's $54 million 1993-97 Drainage Improvement Program and the Engineering Consultant for schedule and cost control for MSD's $450 million Wastewater and Operations Capital Improvement Program. In Louisville, Corradino also serves as program manager for the $800+ million Louisville Airport Improvement Program (LAIP) since its inception in 1988.

The Corradino Group has also served as General Planning Consultant for the $4.5 billion Los Angeles Metrorail System and the completion of the $1.1 billion Miami Rapid Transit System. Corradino has served as engineering consultant in the planning, development, and construction of billions of dollars worth of infrastructure projects built throughout the United States.

November 1, 2010

Members of the Board
Louisville and Jefferson County
Metropolitan Sewer District
700 W. Liberty St.
Louisville, KY 40203

Re: Engineer's Report Summary
Proposed Series 2010A Sewer and Drainage System Revenue Bonds

Dear Members of the Board:

This letter summarizes our findings and conclusions pertaining to the proposed Series 2010A Sewer and Drainage System Revenue Bonds (the "Current Bonds") of the Louisville and Jefferson County Metropolitan Sewer District (MSD).

FINANCING OBJECTIVES

MSD has from its inception in 1946 promulgated a schedule of rates, rentals, and charges in order to finance the maintenance, repair, rebuilding, and extension of its wastewater and storm water conveyance and treatment facilities. From time to time, it has been necessary for MSD to issue revenue bonds and other long-term debt for additions, betterments, improvements, and extensions of the existing wastewater and storm water facilities to comply with state and federal water quality standards and for the protection of the public's general health, safety, and welfare. The purpose of the Current Bonds being issued is to provide sufficient funds for MSD's sewer and drainage projects that have been approved for construction.

BASED ON REASONABLE ASSUMPTIONS

Certain assumptions and projections were made relative to the financial and engineering issues that were reviewed and evaluated in the preparation of this report. The assumptions and projections were necessary in order to review, evaluate, and estimate the engineering merits of the proposed Capital Improvement Program (CIP), proposed capital improvement projects, and the financial implications of their implementation over the next five years. These assumptions and projections have also been reviewed and evaluated. The assumptions and projections made with regard to reviewing and evaluating the financial and engineering issues associated with the Current Bonds were determined to be reasonable and in accordance with accepted engineering practice.

FIRST TRUST CENTRE • SUITE 300 NORTH
200 SOUTH FIFTH STREET • LOUISVILLE, KY 40202
TEL 502.587.7221 • 800.880.8241
FAX 502.587.2636
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CONSENT DECREE

In August 2005, MSD entered into a Consent Decree (CD) with the Kentucky Department of Environmental Protection, the U.S. Department of Justice, and the U.S. Environmental Protection Agency. The CD is a 19-year program that requires Louisville to minimize combined sewer overflows and eliminate sanitary sewer overflows, while rehabilitating Louisville's aging sewer system.

As a means of proactively meeting the requirements of the CD, MSD launched a new initiative called Project WIN or Waterway Improvements Now. Project WIN presents planned upgrades which will allow MSD to comply with Clean Water Act regulations and also address problems with combined and sanitary sewer overflows. Included in Project WIN is a revised public outreach program aimed at updating the public on MSD's primary business functions with emphasis on wastewater, storm water, and flood protection. This public outreach has been presented to more than 230 community groups. A portion of the presentation includes information related to the CD, including potential program direction and anticipated costs.

MSD has also developed and provided internal and external training related to the CD to its employees and consultants. Associated with the CD are compliance programs and schedules for achieving specific objectives. MSD is meeting all of the reporting requirements of the CD in a timely manner.

MSD adopted a surcharge to help fund the CD projects in August 2007. The acceptance of this surcharge by Louisville Metro and by MSD's customer base reflects the success of MSD's public outreach program. The community has accepted the need for the projects and the need to fund those projects.

AMENDED CONSENT DECREE

The Amended Consent Decree, entered by the court in April 2009, incorporates, amends, supersedes and replaces the original Consent Decree entered in August 2005, requires MSD to undertake action necessary to achieve compliance with its Kentucky Pollution Discharge Elimination System (KPDES) permits, eliminate prohibited bypasses, conduct comprehensive monitoring and reporting with respect to its sewer operations, and pay an additional civil penalty in the amount of $230,000. The Amended Consent Decree also requires MSD to undertake a stream restoration project as a Supplemental Environmental Project.

OPERATIONS AND MAINTENANCE EXPENSES AND REVENUE GROWTH

Total operating expenses are projected to increase by four percent annually in FYs 2011 through 2015. Increased labor and utility costs are anticipated to be the largest components of the increase in operating expenses in 2011.

Revenues from wastewater service charges are projected to increase by 5.0 percent in FYs 2011 through 2013, then by 6.0 percent in FY 2014 and FY 2015. Revenues for the current planning period are also affected by changes in the customer base. An annual increase of approximately 1,700 customers is projected for FY 2011 through FY 2015.

Storm water revenues are projected to increase by 6.9 percent in FYs 2011 through 2015. This increase is projected from estimated increases in storm water rates.

Total available revenues are projected to decrease by 4.3 percent in 2011 and then increase by 5.3 to 6.0 percent in FYs 2012 through 2015. The decrease in 2011 is due primarily to a decrease in investment income.

MSD'S CAPITAL IMPROVEMENT PROGRAM

The MSD CIP is a result of MSD's careful planning, characterized by watershed-based action plans to upgrade, improve, and allow for the controlled expansion of the wastewater and storm water drainage systems to serve existing and future developing areas in Louisville Metro.

Corradino has reviewed the implementation of the action plans that form the conceptual basis of the current and future CIP. The action plans and their implementation are consistent with standard engineering practice for Capital Improvement Program planning and implementation. The goal of MSD to create a comprehensive capital facilities development strategy is supported by these plans. MSD has demonstrated its commitment to implement the proposed CIPs in a timely manner in accordance with schedules that it has developed.

Specific strategies for extending wastewater services to developing portions of Louisville Metro have been identified. Strategies for implementing storm water action plans to alleviate storm drainage problems within Louisville Metro have been identified. MSD has also identified operational plans to deal with the Morris Forman water quality treatment center; the regional water quality treatment center; pump station operations and maintenance; the old combined sewers and combined sewer overflows; sanitary sewer overflows; and the administrative functions of MSD, such as building renovations and energy conservation.

Project WIN – Waterway Improvements Now

In order to meet the requirements of the CD that MSD entered into with the Commonwealth of Kentucky's Environmental and Public Protection Cabinet and the U.S. Environmental Protection Agency (EPA) in 2005 and as amended in April 2009 to address sanitary and combined sewer overflows, Project WIN – or Waterway Improvements Now – was created. Project WIN is a comprehensive sewer improvement plan and it will include the implementation of sewer improvement projects to minimize the impact of combined sewer overflows, eliminate sanitary sewer overflows, and rehabilitate the community's aging sewer system.

Project WIN is estimated to cost approximately $843 million over a 20-year period.

Wastewater Projects

Other wastewater projects not related to the Amended Consent Decree that are part of the CIP will eliminate several small water quality treatment centers (WQTCs), many pump stations, and thousands of individual on-site disposal systems. MSD provides sanitary sewer, storm water drainage and flood protection services to over 200,000 customer accounts. Each year, MSD will add approximately 1,700 customers.

MSD's Capital Improvements Program includes, among others, the following capital projects:

- Sanitary trunk sewers;
- Neighborhood collector sewer systems;
- Combined and sanitary sewer overflow abatement;
- Treatment plant upgrades; and,
- Surface drainage improvements.

Storm Water Drainage Projects

The storm water drainage projects that are part of the CIP are the continuing results of the 1988 Storm water Drainage Improvement Master Plan at MSD, the implementation of the 1993-1997 Drainage Improvement Program, the implementation of the Drainage Request Action Plan (DRAP), the Neighborhood Drainage Programs, and Project DRI (Drainage Response Initiative). Projects for the five-year CIP (FY 2011 – FY 2015) are to be generated from Project DRI and neighborhood drainage programs that are part of the Infrastructure and Flood Protection Division's responsibility. Project DRI was developed from customer service requests and MSD's historical knowledge base.

Flood Pumping Stations

In order to maintain the integrity of the flood pumping stations along the Ohio River, MSD has been upgrading the western flood wall, improving the electrical system and replacing flood gates.

Additionally, MSD is in the process of upgrading and/or replacing some of the major pumping stations along the Ohio River.

In April 2009, it was announced that MSD and Louisville Metro would receive $5 million of federal stimulus funds to rebuild the Western Flood Pumping Station. MSD will contribute an additional $12 million to this project that is estimated to create approximately 150 jobs and provide flood protection to 135,000 residents.

MSD LEADERSHIP

The community and MSD have both experienced changes in leadership since the beginning of 2003. On January 6, 2003, the governmental and corporate functions vested in the former city of Louisville and in Jefferson County were consolidated. The result is a consolidated local government, Louisville/Jefferson County Metro Government. The Metro Mayor is Jerry E. Abramson, who served as Mayor of the city of Louisville for 13 years, from January 1986 through 1998. In addition, MSD Executive Director, Herbert J. Schardein, was appointed in January 2003. Mr. Schardein has been employed by MSD for over 20 years. He and Mayor Abramson have worked closely together during their years together at the city of Louisville and MSD.

An example of the close working relationship and the complementary management philosophies of Mayor Abramson and Mr. Schardein was the announcement by the two leaders of the $67 million community plan for meeting drainage challenges – Project DRI – in January 2003. This plan initiated a 30-month program to review customer service requests, develop solutions, and allocate resources to achieve the solutions in a streamlined manner. Phase 1 of Project DRI identified 380 of the worst drainage problems in the Louisville Metro area. Phase 1 of Project DRI was completed in FY 2006 and Phase 2 ended during FY 2007. During 2008, plans for Phase 3 of Project DRI were announced which called for an additional investment of $25 million over 30 months, beginning in January 2008. Phase 3 projects of Project DRI are ongoing and are expected to be completed by early 2011. A fourth phase of Project DRI is expected to begin after the completion of Phase 3 and will include $3.5 million per year in neighborhood drainage projects over the next three years.

Under Mr. Schardein's direction, MSD is proceeding in a business-like manner. Continuing during the five-year planning period and beyond, Mr. Schardein will maintain MSD's focus on its core business – the delivery of sanitary sewer, storm water drainage, and flood protection services.

CONCLUSION

The issuance of the Current Bonds is financially feasible and desirable, sound from an engineering and operations perspective, and necessary to allow the system to serve properly the existing and growing service areas in an efficient and proper manner.

On the basis of previous studies, investigations, and our analysis, it can be concluded that the financial capability of MSD remains strong. The Revenue Bond Resolution, pursuant to which the Current Bonds are being issued as additional bonds, permits better utilization of existing capital funds and supports more efficient timing and utilization of financing for CIP projects than the previous 1989 Revenue Bond Resolution. It is our opinion that the financial restructuring accomplished through prior borrowing of funds pursuant to the Sewer and Drainage System Revenue Bond Resolution has enhanced MSD's ability to implement its wastewater infrastructure projects, neighborhood assessment and collector sewer projects, storm water drainage projects, water quality treatment centers projects, equipment replacement/enhancement programs, and the combined sewer rehabilitation and CSO abatement programs.

As a result of MSD’s financial restructuring and ongoing financial strategies, MSD projects an average debt service coverage ratio of 146 percent from FY 2011 through FY 2015, excluding subordinated debt, and 126 percent when subordinated debt is included. For comparative purposes, the minimum debt service coverage is 110 percent under the 1993 Bond Resolution.

MSD has an established customer base that is supporting current wastewater and storm water utility rates and charges, which are still comparatively low, even with the Consent Decree Surcharge. As MSD continues to grow, it should continue to benefit from economies of scale, tending to reduce unit operating costs.

Sincerely yours,

Joseph C. Corradino, P.E.
Principal and CEO

Joel Morrill, P.E.
Project Manager

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1. INTRODUCTION

The Louisville and Jefferson County Metropolitan Sewer District (MSD) retained The Corradino Group (Corradino) to monitor, review, study, evaluate, and report on engineering and related financial issues concerning the wastewater and storm water drainage systems (collectively, the "System") operated by MSD in Jefferson County, Kentucky (Louisville Metro). This report is prepared in conjunction with MSD's proposed Series 2010A Sewer and Drainage System Revenue Bonds (the "Current Bonds"). This report is intended for inclusion in the Official Statement for the Current Bonds as Appendix D – Consulting Engineer's Report.

The Current Bonds are being issued pursuant to the provisions of Chapter 76 of the Kentucky Revised Statutes, as amended (the "Act"), a Revenue Bond Resolution adopted by MSD on December 7, 1992, as amended March 4, 1993, June 30, 1993, December 14, 1994, January 25, 1996, and February 24, 2003, and a Thirteenth Supplemental Sewer and Drainage System Revenue Bond Resolution adopted by MSD on October 8, 2007, a Fourteenth Supplemental Sewer and Drainage System Revenue Bond Resolution adopted by MSD on August 25, 2008, a Fifteenth Supplemental Sewer and Drainage System Revenue Bond Resolution adopted by MSD on September 28, 2009, and a Sixteenth Supplemental Sewer and Drainage System Revenue Bond Resolution adopted by MSD on July 12, 2010 (collectively, the "Bond Resolution"), to provide sufficient funds for sewer and drainage projects of the MSD approved for construction

In the next four sections, this report reviews the following subjects:

- Historical and funding background;
- MSD service areas;
- Capital Improvement Program (CIP); and,
- Financial structure.

In the final section, the report presents Corradino's findings and conclusions regarding the financial capability of MSD to implement its Capital Improvement Program (CIP) and the engineering soundness of that program.

2. HISTORICAL AND FUNDING BACKGROUND

2.1 AUTHORIZING LEGISLATION

The earliest sewers in the Louisville area were constructed around 1850, with the initial combined storm and sanitary sewers being constructed around 1860. In 1946, MSD was formed (1) to take over the operation and maintenance of the existing city of Louisville sewer and drainage system and (2) to expand the system throughout the county.

MSD is the public agency empowered to provide wastewater and storm water drainage services throughout Louisville Metro. An eight-member board, appointed by the Metro Mayor subject to the approval of the Metro Council, governs MSD. MSD was established in 1946 to provide wastewater and storm water drainage services for the city of Louisville and Jefferson County in accordance with state enabling legislation. Kentucky Revised Statutes (KRS) Section 76.010, allowing the creation of MSD, states:

> "In the interest of public health and for the purpose of providing adequate sewer and drainage facilities in and around each city of the first and second class and in each county containing such city, there may be created and established a joint metropolitan sewer district under the provisions of KRS 76.010 to 76.210 as herein described, to be known by and under the name of (name of city of the first or second class) and (name of county) Metropolitan Sewer District, which district under that name shall be a public body corporate and political subdivision, with power to adopt, use and alter at its pleasure a corporate seal, sue and be sued, contract and be contracted with, and in other ways to act as a natural person within the purview of KRS 76.010 to 76.210 (ENACT ACTS 1946, Ch. 104 Section 1; 1968, Ch. 152 Section 50)."

In addition, in 1986, an Agreement of Interlocal Cooperation ("Agreement") between MSD, the city of Louisville, and Jefferson County was signed to improve and enhance flood control and storm water drainage services in the city of Louisville and Jefferson County. The Agreement transferred all drainage and flood control facilities and property to the custodianship of MSD and clearly mandated MSD to be the responsible agency for providing flood and storm water drainage services. The Agreement supplemented, where needed, the powers MSD already possessed pursuant to the provisions of KRS Chapter 76. MSD also has entered into separate, similar agreements with the third-class and some of the fourth-class cities in Jefferson County to provide drainage services and charge the same rates being charged to the owners of real property within MSD's Drainage Service Area. These agreements were necessary because KRS 76.172 does not allow MSD to unilaterally annex into MSD's Drainage Service Area cities of the fourth class or higher.

2.2 PRIOR BOND ISSUES

From its inception, MSD has maintained a schedule of rates, rentals, and charges in order to produce revenue sufficient to finance the operation, maintenance, repair, and expansion of the system. Revenue bonds were issued in 1949, 1952, 1954, 1956, 1960, and 1965 pursuant to a 1949 Revenue Bond Resolution in order to provide capital for system expansion. Under a 1971 Revenue Bond Resolution, bonds were issued in order to finance water quality treatment plant improvements. Two series of bonds were issued in 1989 under a 1989 Revenue Bond Resolution to refund issues outstanding under the 1949 and 1971 Resolutions and to finance both sewer system expansion and drainage improvements.

The Bond Resolution, pursuant to which the Current Bonds are being issued as additional bonds, permits better utilization of existing capital funds and supports more efficient timing and utilization of financing for CIP projects than the previous 1989 Bond Resolution

MSD has heretofore issued under the Bond Resolution its Sewer and Drainage System Revenue Bonds outstanding in the amounts shown below, each Series of which will rank on a parity as to source of payment with the Current Bonds.

Series	Dated Date	Original Principal Amount	Amount Outstanding *
Series 1998A	March 1, 1998	$260,000,000	$149,295,000
Series 2001A	October 15, 2001	$300,000,000	$289,990,000
Series 2004A	January 15, 2004	$100,000,000	$100,000,000
Series 2005A	May 1, 2005	$64,740,000	$58,470,000
Series 2006A	May 1, 2006	$100,000,000	$96,705,000
Series 2007A	November 15, 2007	$61,125,000	$56,185,000
Series 2008A	May 1, 2008	$105,000,000	$104,265,000
Series 2009A	May 15, 2009	$76,275,000	$72,020,000
Series 2009B	August 15, 2009	$225,770,000	$213,165,000
Series 2009C	November 18, 2009	$180,000,000	$180,000,000
		Total	$1,320,095,000

* As of November 1, 2010

The purpose of the Bond Resolution was to create one new revenue bond resolution which would provide MSD needed flexibility for funding capital projects associated with wastewater and storm water drainage services. The Series 1993 Bonds were structured to achieve level debt service over the remaining 26 years of MSD's outstanding debt. MSD had approximately $158.3 million in bonds and other long-term debt outstanding at the time of issuance of the Series 1993 Bonds. MSD was intent on creating a unified planning, financing, development, and management framework to promote more efficient and effective use of its capital and operating funds. Consolidating all existing non-operating funds created one "Construction and Acquisition Fund". One "Revenue Fund" was created to receive all MSD revenue and income. The fully insured 1993 Revenue Bonds were given the ratings of "AAA" by Moody's Investors Service and "AAA" by Standard & Poor's Corporation.

The purpose of the Series 1997A Revenue Bonds was to provide funds which, together with interest earned thereon, were to be applied to defease/refund notes, pay costs of construction of a portion of MSD's projects approved for construction, fund the Reserve Account in the amount of the debt service reserve requirement for the bonds, and pay the costs of issuance of the Bonds.

The purpose of the 1998A Revenue Bonds was to provide funds which, together with interest earned thereon, were to be applied to defease MSD's Sewer and Drainage System Subordinated Revenue Notes, Series 1997A, in the principal amount of $70,000,000 and to fund sewer and drainage projects of MSD approved for construction.

The purpose of the 1999A Revenue Bonds was to provide funds which, together with interest earned thereon, were to be applied to fund sewer and drainage projects of MSD approved for construction, fund a portion of the debt reserve requirement and the costs of issuing the bonds.

The purpose of the 2001A Revenue Bonds was to provide funds which, together with interest earned thereon, were to be applied to fund sewer and drainage projects of MSD approved for construction, fund a portion of the debt reserve requirement and the costs of issuing the bonds.

The purpose of the 2003A and B Revenue Bonds was to refund all of the District's outstanding Sewer Revenue Bonds Series 1993, Sewer Revenue Bonds Series 1993A, and Sewer Revenue Bonds Series 1993B.

The purpose of the 2004A Revenue Bonds was to provide funds which, together with interest earned thereon, were to be applied to fund MSD's Sewer and Drainage Capital Improvement Program.

The purpose of the 2005A Revenue Bonds was to refund all outstanding Sewer and Drainage System Revenue Bonds, Series 1996A and to advance refund certain of the Sewer and Drainage System Revenue Bonds, Series 1997A.

The purpose of the 2006A Revenue Bonds was to finance the acquisition and construction of capital improvement projects.

The purpose of the 2007A Bonds was to refund certain of MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 1997B.

The purpose of the 2008A Revenue Bonds was to finance MSD's Capital Improvement Program.

The purpose of the 2009A Revenue Bonds was to refund a portion of MSD's outstanding sewer and drainage system revenue bonds, Series 1998A.

The purpose of the 2009B Revenue Bonds was to refund certain of MSD's outstanding Sewer and Drainage System Revenue Bonds, Series 1999A, Series 2003A, and Series 2003B.

The Series 2009C bonds were issued to provide sufficient funds for sewer and drainage projects of MSD approved for construction.

2.3 PURPOSE OF SERIES 2010A REVENUE BONDS

The Series 2010A bonds are being issued to fund obligations contained in MSD's Amended Consent Decree in addition to other initiatives including Project DRI, the Western Flood Pumping Station rehabilitation, water quality treatment center modifications, sewer assessments, and capital equipment purchases, and to fund a debt service reserve account in an amount not to exceed $30 million.

3. MSD SERVICE AREA

3.1 GENERAL AREA WIDE DESCRIPTION

On January 6, 2003, the governmental and corporate functions vested in the former city of Louisville and in Jefferson County were consolidated. The result is a consolidated local government, Louisville/Jefferson County Metro Government. Louisville Metro Government is the 16th largest U.S. city. Louisville Metro Government's jurisdiction encompasses the former city of Louisville, the 83 suburban cities in Jefferson County, and the former unincorporated portion of Jefferson County.

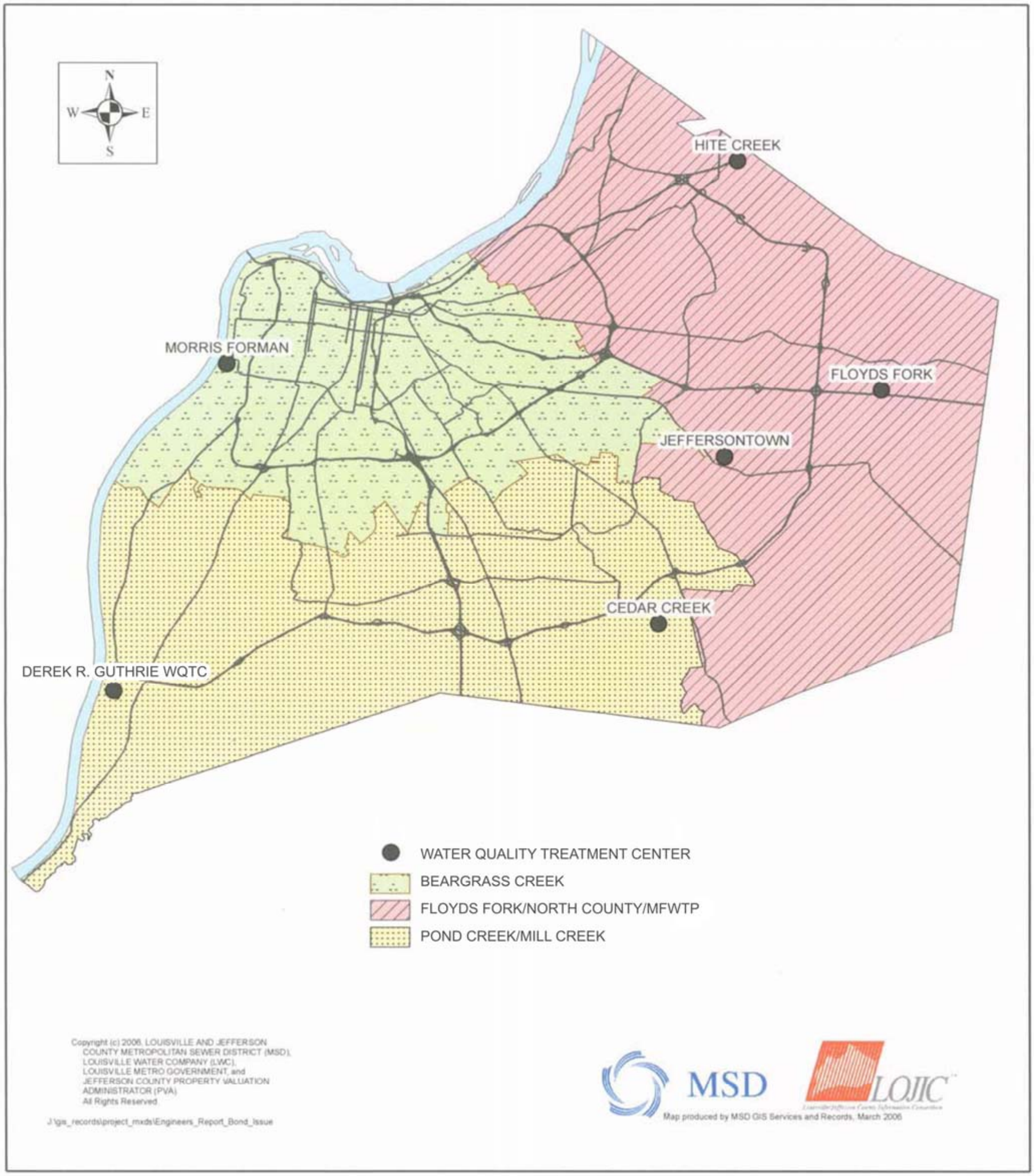
Louisville Metro is located in the north-central portion of the Commonwealth of Kentucky. It is bordered on the north and west by the Ohio River, to the east by Oldham, Shelby, and Spencer counties, to the south by Bullitt County, and to the most southwesterly corner by Hardin County.

For purposes of organization and authorization of governmental powers, the Commonwealth of Kentucky classifies cities according to population. Jefferson County includes 83 smaller cities classified as third-, fourth-, fifth-, and sixth-class cities. The third- and fourth-class cities receive MSD storm water drainage services only by Agreements of Interlocal Cooperation. All cities in Jefferson County can receive wastewater services and can be served by MSD according to state statute. The city of Jeffersontown (reclassified from a third-class city in 2000) is the only second-class city, and the cities of Shively and Prospect are the only third-class cities in the county. There are eight fourth-class cities in the county: Anchorage, Douglass Hills, Graymoor-Devondale, Hurstbourne, Lyndon, Middletown, St. Matthews, and St. Regis Park.

Louisville Metro encompasses a total area of approximately 375 square miles. It is topographically divided into 11 major watersheds which convey storm water runoff and natural surface water via manmade facilities, natural channels, or a combination of both, that eventually drain into the Ohio River. The area that formerly was the city of Louisville forms the single largest component of MSD's Service Area. MSD has formerly divided Louisville Metro into geographical service areas: Morris Forman, Beargrass/City, Mill Creek/Pond Creek, and North County/Floyds Fork. Each service area contains multiple watersheds. Two large regional water quality treatment centers, four medium-size regional water quality treatment centers, and several scattered small-to-intermediate water quality treatment facilities serve Louisville Metro. Figure 3-1 shows the locations of MSD's six principal water quality treatment plants. Other privately owned water quality treatment centers and individual systems exist in Louisville Metro and are not included in MSD's Service Area.

Most of Oldham County drains into the Harrods Creek and Floyds Fork watersheds in Jefferson County and is therefore of interest to MSD. The Oldham County Action Plan Update (1997) allows for partnership in providing sewer services to that county. MSD and Oldham County have executed an interlocal agreement that allows MSD to partner with Oldham County in providing sanitary sewer service to a portion of Oldham County. The city of Crestwood, in Oldham County, has an interlocal agreement with MSD whereby MSD operates and maintains and plans for the expansion of the city of Crestwood sewer system. MSD continues to study regional opportunities in Shelby, Bullitt, and Hardin counties in Kentucky and in Southern Indiana.

Figure 3-1
Location Map
MSD Sewershed Boundaries
and Major Water Quality Treatment Centers



The floodways and floodplains of the Ohio River and several major streams have affected development of Louisville Metro. Development also has been influenced by the topography of outlying areas surrounding the former city of Louisville. These areas have slopes with ranges from 12 percent to 20 percent and greater that restrict various types of development. A northwest to southeast ridge generally bisects the county geologically. Areas west of the ridge exhibit predominantly poorly draining alluvial type soils. Areas to the east are shallow layers of well-draining soils on limestone and dolomite rock layers. These conditions increase the cost of local development related to additional structural, sanitary systems (pump stations), and drainage considerations, but do not preclude development from occurring.

The other local aspect impacting growth and development of Louisville Metro is related to the major transportation corridors. The major regional development corridors are associated with the prevalent interstate highway system. The Gene Snyder Freeway has increased access to vacant lands in the northeastern, eastern and southern portions of Louisville Metro. The Gene Snyder Freeway corridor offers the greatest potential for development within Louisville Metro – a process that is ongoing.

3.1.1 The Economy

The Louisville area experienced significant economic prosperity during the 1990s. Louisville's growth was driven primarily by the manufacturing and service sectors. In the 1990s, Louisville saw major investments at the two Ford Motor plants and at General Electric's Appliance Park. Other notable developments in the 1990s included an expanded airport, several new industrial parks, an expanded convention center, a new football stadium, a large riverboat casino in nearby Harrison County, Indiana, a new minor league baseball stadium, a revived downtown, a redeveloped riverfront, and a thriving real estate market.

While the national trend of economic expansion has stalled, local economic investment continues, but at a slower pace than in previous years. Investment in the service sector is still ongoing. The service sector includes healthcare, insurance, restaurants, and the like, and the distribution industry, which may be the single most important economic growth industry in Louisville Metro today and for the foreseeable future. The most notable local example is United Parcel Service (UPS). UPS completed a $1.1 billion, automated sorting facility, UPS Worldport, at Louisville International Airport in September 2002. Worldport is UPS's all points, worldwide sorting facility for express mail packages. Continued UPS expansion of Worldport for an additional $1+ billion was recently completed in May 2010. This expansion included the addition of three aircraft load/unload "wings" to the hub, followed by the installation of a high-speed conveyor and computer control system and increased Worldport by 1.2 million square feet to 5.1 million square feet.

Louisville International Airport is currently ranked seventh worldwide and third in the United States in airfreight volume. The local transportation infrastructure and distribution network continues to attract other businesses to the area. The airport handled 4.3 billion pounds of cargo, freight and mail in 2009.

Louisville Metro continues to preserve a considerable amount of the area's manufacturing sector while continually making advances in expanding the region's service sector. Ford Motor Company has committed to retooling its Louisville Assembly Plant to build smaller vehicles and will also keep the Kentucky Truck Plant open by shifting the assembly of the Ford Expedition and Lincoln Navigator to that facility. According to U.S. Census Bureau data, Louisville has a greater share of professional and technical jobs than other competing cities in the region such as Indianapolis and Memphis. These jobs are better paying knowledge-based jobs and typically help replace manufacturing jobs that are on the decline nationally. Since 2000, Louisville has added more professional positions and at a faster rate than nine peer cities in the Southeast and Midwest. These peer cities include Nashville, Indianapolis, Cincinnati and Columbus.

Regardless of the recent economic downturn, there has still been development and a number of notable accomplishments in Louisville Metro. The following are examples of recent and continuing local development activities and accomplishments:

General Electric (GE) recently announced that the company would invest $194 million and create 300 new jobs at Appliance Park in Louisville as part of a program to establish four U.S.-based centers of design and manufacturing excellence and as part of an effort to create "green" jobs by 2014. This comes after two previous GE announcements in 2010 regarding additional investment and job creation at Appliance Park. The most recent announcement includes investing $600 million in its Appliance Park facility in Louisville to produce energy-efficient washers and dryers. It is anticipated that this investment will create 430 new manufacturing and engineering jobs in Louisville starting in 2012. This comes after an announcement by GE that they are moving the production of energy-efficient water heaters to Louisville from China with production to commence in mid-2011 and increasing employment by 400 at Appliance Park.

As noted previously, UPS is a major asset to the Louisville economy. In recent years, 193 companies have moved to Louisville because of proximity to UPS's Worldport and Supply Chain Solutions facility attracting 19,466 jobs with an annual payroll of nearly $686 million. UPS itself is Louisville's largest private employer with nearly 21,000 employees.

The University of Louisville has developed plans to redevelop the former Kentucky Trailer property located adjacent to the J.B. Speed School of Engineering as the University of Louisville Research Park. This $1.1 billion plan calls for nine research and development buildings and five incubator and research support offices. It is estimated that the Research Park will generate $1.4 billion in state and local taxes revenue over 30 years.

In September 2010, developers broke ground on a $55 million apartment and retail complex at Third and Cardinal Boulevard, the former Masterson's restaurant building. This new development adjacent to the University of Louisville will include living space for 373 students and an assortment of restaurants and retail stores. The project involves construction of two four-story structures with underground parking along with the renovation of four smaller existing apartment buildings on the site.

According to the U.S. Census Bureau's 2006-2008 American Community Survey, Louisville had the ninth-shortest average commute time among metropolitan areas with greater than one million residents. The average commute time was 22.9 minutes. This compared with Cincinnati which had the twelfth shortest commute at 23.75 minutes and Indianapolis at fifteenth with 23.93 minutes.

As reported by Fortune Magazine in April 2010, Louisville was home to three Fortune 500 companies. These were insurance provider Humana which appeared at number 73 on the list; Yum!, the parent company of KFC, Pizza Hut, Taco Bell, Long John Silver's and A&W Restaurants at 216; and hospital operator Kindred Healthcare at number 477 on the list.

Business Facilities magazine has ranked Louisville as having the seventh lowest cost of living among all major cities in its "Top 10 Metro" rankings. It also names Louisville as one of the top ten major cities for economic growth potential. The rankings are an assessment of the growth potential for each location's strategic initiatives and are indicators of locations that are ready to thrive in the new economy.

The Louisville Free Public Library's main branch has recovered from flooding that occurred in August 2009. Damages to the facility and its holdings totaled nearly $8 million. Rather than just repair the damage, the Library took the opportunity to move ahead with $12 million worth of renovation plans and improvements. The grand re-opening was held in May 2010 with additional renovations to be completed by the end of 2010.

In August 2010, Governor Steve Beshear and Mayor Jerry Abramson announced a $10 million commitment to The Parklands of Floyds Fork, a project to create a new system of public parks covering approximately 4,000 acres of the Floyds Fork watershed in Jefferson County. The funds that will be committed over a five-year period are from the federal Transportation Enhancement program.

Louisville's new downtown arena, the KFC Yum! Center, officially opened October 10, 2010. The arena cost $238 million to build and will be home to the University of Louisville's men's and women's basketball teams. The basketball teams will be the arena's main tenant and have priority over scheduling from October through March. The arena will be available for other events such as concerts and conventions, several of which are already booked; an Eagles concert was the first paying event on October 16, 2010.

In June 2010, the Louisville Zoo opened a new seal and sea lion habitat, a part of the $29 million Glacier Run Village started in 2008. It is anticipated that the polar bear habitat will open in the spring of 2011. A recent study by the University of Louisville economics department concluded that the annual spending by zoo visitors would rise from $27 million annually to $33 million in 2010, the first full year that the completed Glacier Run will be open.

In June, Ford Motor Co. announced that production of the Ford Escape will be moved to the Louisville Assembly Plant, from Missouri. The plant will be retooled to accommodate the production of smaller vehicles. Currently, the Louisville Assembly Plant produces the Ford Explorer.

3.2 DEMOGRAPHIC DATA

There are three key demographic variables which must be used as indicators of the vitality of the Louisville Metro economy with regard to services of the Metropolitan Sewer District. The first two are households and population. Of these two, households is somewhat more important since each household generates a certain amount of water and sewer usage that is to some degree independent of the number of persons in the household. This includes such uses as cooking, laundering, and dishwashing, among others. Between 1990 and 2000, there was a gain of 22,900 households (8.7 percent) in Jefferson County. Much of this gain was in the eastern and southern parts of the county. For the decade 2000 to 2010, it is projected that there will be a gain of an additional 11,000 households, and the following decade (2010 to 2020) should see an increase of an additional 14,000 households. This household gain reflects a projected 8.0 percent increase from 2000 to 2020. This is compared with a projected increase of just 1.9 percent (13,000) in population over the same period and is the result of a projected decline in persons per household from 2.36 persons in 2000 to 2.27 persons in 2020.

As stated, the second of these growth factors, population is projected to show an increase of about 13,000 persons between 2000 and 2020. Most of this increase will take place in the northeast, east, and southeast parts of the county. There is, of course, also a direct relationship between the number of persons and sewer revenues.

The third important demographic factor is the number of jobs. In this respect, Jefferson County continues to have job growth. Even though much of the population growth which necessarily follows jobs will occur in counties surrounding Jefferson, a significant number of the actual job sites are anticipated to be in Jefferson County.

The key to much of this job growth is the presence of United Parcel Service at Louisville International Airport. As UPS continues its remarkable expansion in Louisville to the point where it is Kentucky's largest private employer, with nearly 21,000 jobs, the area is continuing to attract businesses which find it advantageous to locate close to the nation's largest package carrier. As the nation's economy continues to demand just-in-time delivery of products and overnight response to orders for high-value capital goods and repairs, the benefits of being able to drop off a product at the UPS hub at Louisville International Airport at 10:00 p.m. and expect delivery virtually any place in the nation less than 12 hours later is an advantage with which only Memphis, Tennessee, (the headquarters and central hub of Federal Express) can compete.

3.2.1 <u>Population</u>

During the 20 years from 1970 to 1990, Jefferson County was characterized by relatively flat population figures. Those flat population figures, however, masked a growth in the number of households and a strong growth in the number of jobs in the county. Population increased from 1990 to 2000 and is projected to grow moderately through 2020.

The population of Jefferson County as of the 2000 Census and projections through the year 2020 are shown in Table 3-1. The Kentuckiana Regional Planning and Development Agency (KIPDA) developed the projections for the region's federal air quality conformity process and for use in the regional transportation model. These projections were performed for the years

2012 and 2020. The projections were done by Traffic Analysis Zone (TAZ) and aggregated to the market areas developed in Cornerstone 2020, the Comprehensive Plan for Louisville and Jefferson County. As shown in Table 3-1, the population of Jefferson County is expected to increase 13,254 by the year 2020. This is a 1.9 percent increase in population over the 2000 Census counts.

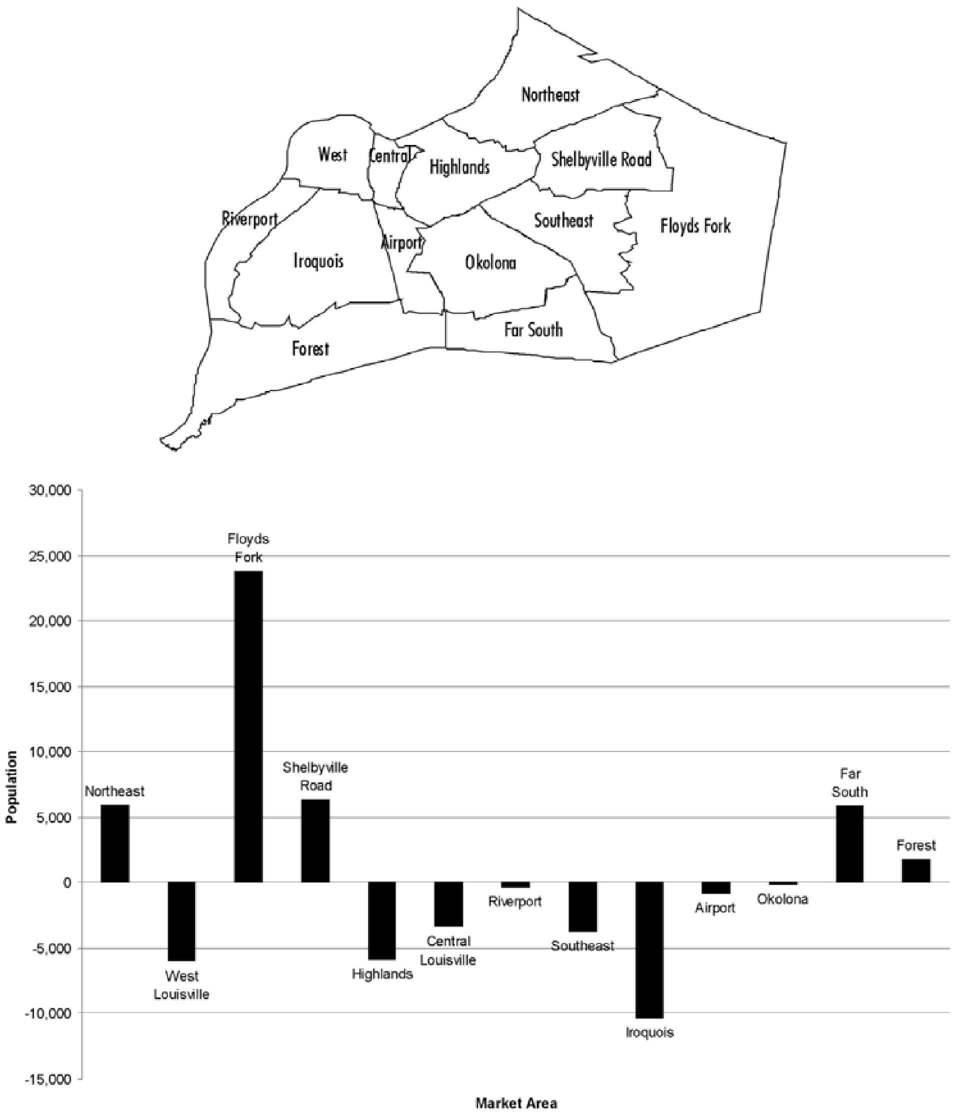
Table 3-1
Existing and Projected Population
Jefferson County

Market Areas*	2000	2012	2020	Change 2000-2020 Amount	Change 2000-2020 Percent
Northeast	52,250	54,857	58,174	5,924	10.18
West Louisville	64,741	60,316	58,797	-5,944	-10.10
Floyds Fork	17,912	31,751	41,611	23,699	56.95
Shelbyville Road	60,805	63,179	67,131	6,326	9.42
Highlands	91,631	85,788	85,803	-5,828	-6.79
Central Louisville	31,682	27,841	28,404	-3,278	-11.54
Riverport	11,824	11,587	11,530	-294	-2.55
Southeast	77,427	73,536	73,723	-3,704	-5.02
Iroquois	144,396	136,486	134,108	-10,288	-7.67
Airport	4,638	4,320	3,872	-766	-19.78
Okolona	81,480	80,128	81,331	-149	-0.18
Far South	23,481	26,509	29,289	5,808	19.83
Forest	31,337	32,001	33,085	1,748	5.28
County Totals	693,604	688,299	706,858	13,254	1.88

* See Figure 3-2
Source: KIPDA

The overall population trend for Jefferson County masks the shift of population, population growth, and increase in population density in eastern Jefferson County. Figure 3-2 graphically displays the population growth projected in each of Cornerstone 2020's market areas. Population in the county will continue to shift east and south. The greatest rate of growth is expected in the Floyds Fork market area (23,700), followed by Shelbyville Road (6,300), Northeast (5,900), Far South (5,800), and Forest (1,700) areas. The Airport area is expected to lose about 20 percent of its population over the 2000 to 2020 period. The Iroquois area is and will remain the most populated market area in the county with a 2020 population of 134,000 persons, although it is expected to incur a population loss of 10,200 during the period.

Figure 3-2
Change in Population
2000 to 2020



Over the past decades, areas of large population growth are suburban, moderate to high income, and white-collar areas, and areas of decline reflect the natural life cycle (e.g., older, more densely populated, blue collar areas of the western and southwestern parts of the county). The Airport area has also experienced a decline in population due to noise-related relocation efforts. All of the population projections reflect an anticipated dispersion to surrounding counties within the metropolitan area due to the increased convenience of transportation to newly developing areas.

Table 3-2 details KIPDA's 2000 U.S. Census population and projected population in Jefferson and adjacent counties. The population of Oldham County increased by 37.4 percent from 1990 to 2000 and is projected by KIPDA to increase by an additional 22.2 percent by 2020. Bullitt County has experienced a large rate of population growth with an increase in population, according to KIPDA, of 28 percent between 1990 and 2000 and an additional increase of 26.8 percent projected by KIPDA by 2020.

However, more recent 2009 population estimates published by the U.S. Census Bureau estimate the July 1, 2009, population of Jefferson County at 721,594, Oldham County at 58,095, and Bullitt County at 75,653. All of these exceed the KIPDA projections for 2012. In addition, population projections developed in April 2009 by the Kentucky State Data Center provide a more optimistic picture of population growth for 2020 for the three counties. The State Data Center population projection for 2020 for Jefferson County is 744,311; for Oldham County, 93,755; and for Bullitt County, 95,777.

Table 3-2
Existing and Projected Population
Jefferson County, Oldham County, and Bullitt County

	2000	2012	2020	2000 to 2020 Percent Change
Jefferson County	693,604	688,299	706,858	1.88
Oldham County	46,178	52,055	59,336	22.18
Bullitt County	61,236	74,051	83,650	26.79

Source: KIPDA

State law permits MSD to extend its service area to surrounding counties by interlocal agreement. MSD has entered into an interlocal agreement with the city of Crestwood in Oldham County.

Jefferson County is also home to eleven second-, third-, and fourth-class cities (Table 3-3). The population of the eleven third- and fourth-class cities was about 13.5 percent of the county total in 2000 and grew to 14.5 percent in 2009.

Except for the city of Jeffersontown, the second-, third-, and fourth-class cities have all shown growth from 2000 to 2009. Anchorage experienced the highest rate of growth at nearly 46 percent.

Table 3-3
Population – Second-, Third-, and Fourth-Class Cities
Jefferson County
1990, 2000, and 2009

	1990 Census	2000 Census	2009 Census Estimate	Percent Change (2000-2009)
Anchorage	2,082	2,264	3,299	45.7
Douglass Hills	5,549	5,178	6,110	18.0
Graymoor-Devondale	2,911	2,925	3,130	7.0
Hurstbourne	4,420	3,884	4,435	14.2
Jeffersontown	23,221	26,633	26,442	-0.7
Lyndon	8,037	9,369	11,213	19.7
Middletown	5,016	5,744	7,172	24.9
Prospect	2,788	4,657	5,683	22.0
St. Matthews	15,800	15,852	18,750	18.3
St. Regis Park	1,756	1,520	1,672	10.0
Shively	15,535	15,157	16,458	8.6
Total	**87,115**	**93,183**	**104,364**	**12.0**

Source: U.S. Bureau of the Census

3.2.2 Households

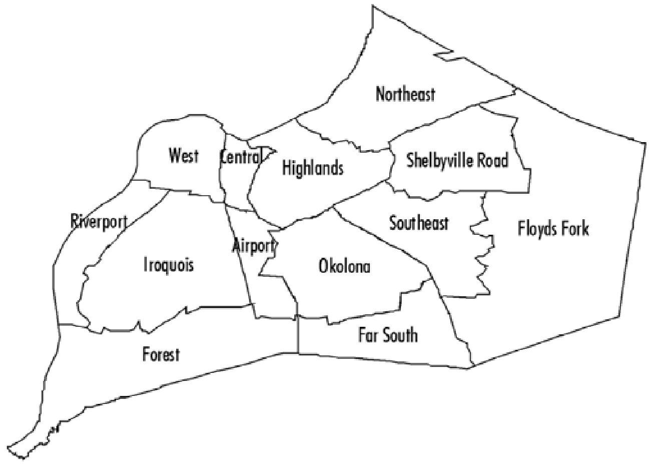
Along with increases in population comes an increase in the number of households. Although Jefferson County population is expected to increase by only approximately 1.9 percent from 2000 through 2020, the projected growth in number of households is anticipated to reach 8 percent. This follows national trends of a decreasing number of persons per household associated with aging of the population, changes in living arrangements and family composition, and a declining fertility rate. The average Jefferson County household size in 2000 was 2.36 persons. It is expected to drop to 2.27 persons by 2020. Table 3-4 shows the number of households in each of Cornerstone 2020's market areas. The major growth areas for households are similar to the major growth areas for population. These include Floyds Fork (10,500), Shelbyville Road (4,300), the Northeast (3,500), the Far South (2,700), and Okolona (1,500). Figure 3-3 shows the projected change in households from 2000 to 2020.

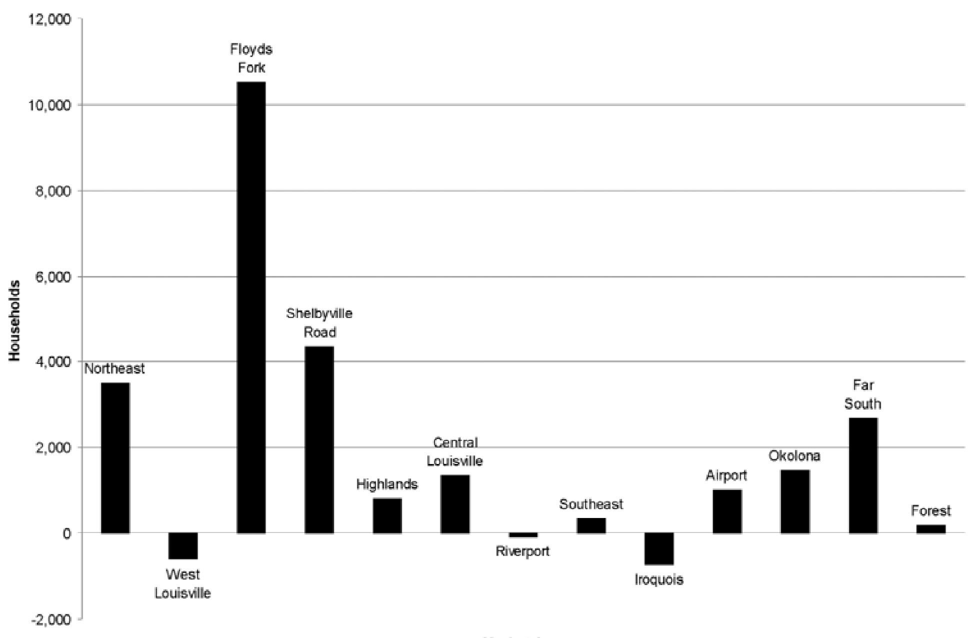
Table 3-4
Existing and Projected Households
Jefferson County

Market Areas*	2000	2012	2020	Change 2000-2020	
				Amount	Percent
Northeast	20,355	22,120	23,854	3,499	14.67
West Louisville	24.448	23,879	23,861	-587	-2.46
Floyds Fork	6,401	12,488	12,901	10,500	62.13
Shelbyville Road	26,084	28,250	30,429	4,345	14.28
Highlands	43,358	43,281	44,156	798	1.81
Central Louisville	15,172	15,721	16,523	1,351	8.18
Riverport	4,651	4,579	4,576	-75	-1.64
Southeast	31,858	31,558	32,190	332	1.03
Iroquois	59,415	58,375	58,710	-705	-1.20
Airport	609	1,741	1,624	1,015	62.50
Okolona	33,158	33,568	34,619	1,461	4.22
Far South	8,585	10,090	11,257	2,672	23.74
Forest	12,921	12,441	13,114	193	1.47
County Totals	287,015	298,091	311,814	24,799	7.95

* See Figure 3-3
Source: KIPDA

Figure 3-3
Change in Households
2000 to 2020





On average, for the ten-year period from 2000 through 2009, building permits were issued for 2,829 residential units annually. Building permit activity (shown in Table 3-5) remained strong through 2004 and then began to slow down as did residential building activity nationally. Residential building activity increased slightly in 2007 and then decreased again in 2008 with the downturn in the local and national economy.

Table 3-5
Jefferson County
Residential Building Permits
2000 to 2009

Year	Units
2009	877
2008	1,872
2007	2,861
2006	2,075
2005	2,400
2004	3,886
2003	3,995
2002	3,510
2001	3,016
2000	3,800

Source: U.S. Bureau of the Census, Manufacturing and Construction Statistics Division.

3.2.3 Employment

Table 3-6 details existing and projected jobs by the Cornerstone 2020 market areas for the period 2000 to 2020. As shown in Table 3-6, Jefferson County employment is expected to increase by almost 102,000 jobs, 16.6 percent, from 2000 to 2020. All 14 market areas in Jefferson County (shown in Figure 3-4) are expected to have an increase in jobs from 2000 to 2020. The Floyds Fork and Northeast market areas are expected to see the largest percentage increases in job growth over the twenty-year period. From 2000 to 2020, the number of jobs in the Floyds Fork area is expected to increase by over 47 percent, an increase of 9,000 jobs, while the number of jobs in the Northeast area is expected to increase by over 45 percent, an increase of 9,500 jobs. Continued commercial development of the land east of Blankenbaker Lane will generate thousands of retail, service, and distribution jobs in the Floyds Fork area. The Central Louisville area is expected to experience the largest increase in the number of jobs, 18,000 over the 20-year period. The Airport and the Shelbyville Road market areas are also expected to see large increases in the number of new jobs.

Table 3-6
Jobs by Market Area
Jefferson County

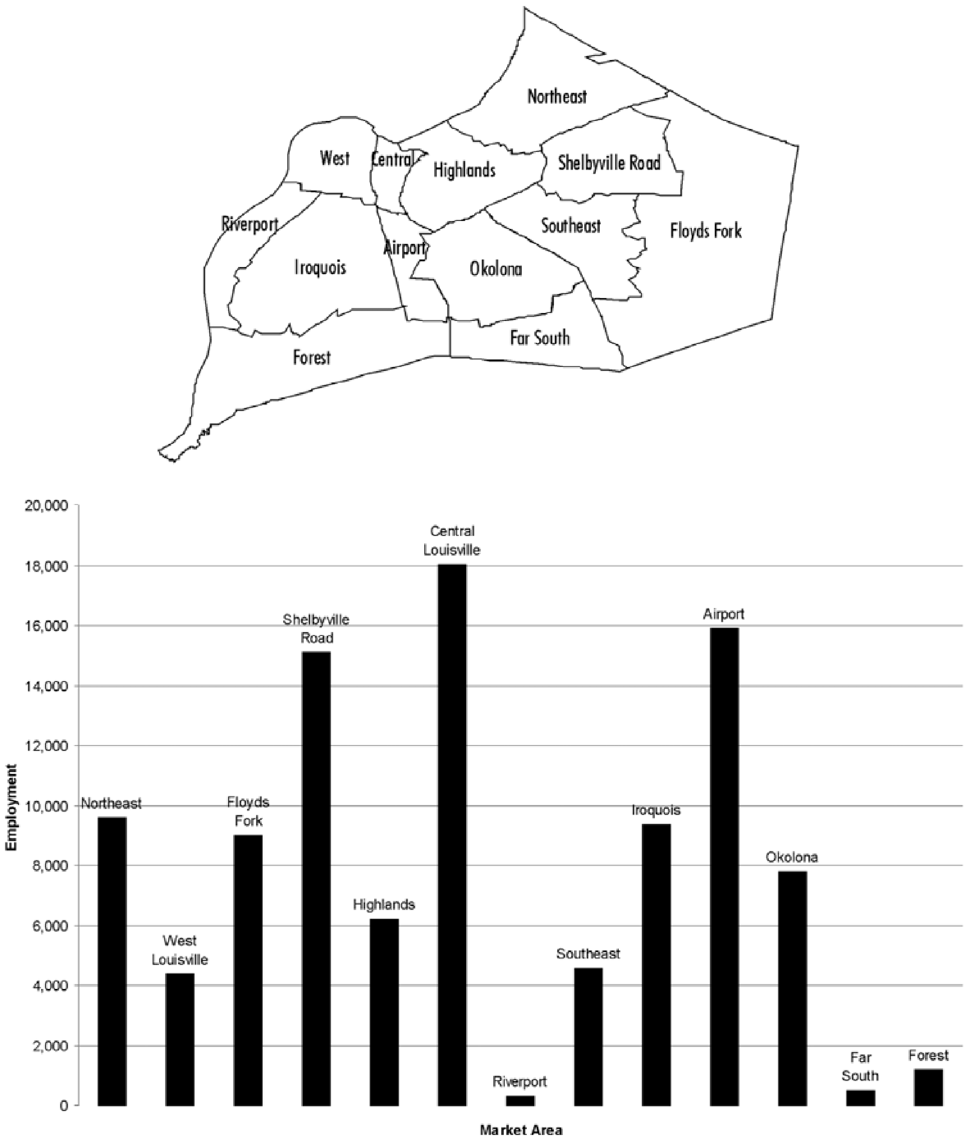
Market Areas*	2000	2012	2020	Change 2000-2020 Amount	Change 2000-2020 Percent
Northeast	11,495	17,299	21,055	9,560	45.40
West Louisville	31,616	35,819	35,997	4,381	12.17
Floyds Fork	10,049	14,885	19,052	9,003	47.25
Shelbyville Road	43,340	51,887	58,434	15,094	25.83
Highlands	70,343	71,781	76,560	6,217	8.12
Central Louisville	146,764	158,291	164,788	18,024	10.94
Riverport	13,121	11,617	13,422	301	2.24
Southeast	33,968	35,814	38,521	4,553	11.82
Iroquois	48,363	54,662	57,712	9,349	16.20
Airport	28,542	38,191	44,430	15,888	35.76
Okolona	65,707	70,165	73,487	7,780	10.59
Far South	2,642	2,856	3,132	490	15.64
Forest	7,412	7,883	8,572	1,160	13.53
County Totals	513,362	571,150	615,162	101,800	16.55

* See Figure 3-4
Source: KIPDA

3.2.4 Conclusion

Although the population of the city of Louisville declined from 1970 to 1990, growth in population, housing, and employment occurred between 1990 and 2000 in Jefferson County and is projected to continue through 2020 in Louisville Metro. By 2020, the County's population is projected to increase by 1.9 percent from 2000 with growth in population in the east and south, and particularly the northeast, of Jefferson County. There is also strong growth in population in neighboring Oldham and Bullitt counties. Further, the balance of Jefferson County outside of the area of the former city of Louisville has and will continue to show steady growth in households.

Figure 3-4
Change in Employment
2000 to 2020



3.3 INDUSTRY AND MANUFACTURING BASE

The community employment base has successfully transitioned from a dominant manufacturing component to a balanced economy with a strong service component and a successfully diversified economic base over the past 20 years. Growth in the white collar and professional services industry continues to exceed overall employment growth, and remaining manufacturing jobs tend to be highly skilled and well paid.

The composition of industrial and manufacturing establishments in Jefferson County includes several large nationally-based companies. Table 3-7 is a list of the top ten entities using MSD's wastewater services. The list shows the revenue contribution of each entity and percentages of MSD's total wastewater services revenues for the 2010 Fiscal Year. Approximately 11.28 percent of MSD's wastewater service revenues were received from these top ten establishments.

Table 3-7
Major Wastewater Customers

	Customer Name	FY '10 Wastewater Amount Billed	Percent Total Wastewater Revenue
1	Solae LLC	$ 3,583,835	2.68
2	Opta Foods	1,937,885	1.45
3	Oxy Vinyls	1,666,230	1.24
4	Jefferson County Board of Education	1,531,702	1.14
5	Brown-Forman Corporation	1,228,625	0.92
6	Heaven Hill Distilleries	1,207,513	0.90
7	Swift & Company	1,157,736	0.86
8	Louisville Metro Housing Authority	972,227	0.73
9	General Electric	950,706	0.71
10	Ford Motor Company	865,050	0.65
	TOTAL`	$ 15,101,509	11.28

Source: MSD Total FY 2010 Sewer Revenue = $133,853,000

Table 3-8 is a list ranking the top ten entities using MSD's storm water drainage service in FY 2010. The list shows the revenue contribution of each entity and percentage of MSD's total drainage service revenues for the 2010 Fiscal Year. Approximately nine percent of MSD's storm water drainage revenues were received from these customers.

Table 3-8
Major Storm Water Drainage Customers

	Customer Name	FY '10 Drainage Amount Billed	Percent Total Storm Water Revenue
1	Regional Airport Authority	$ 910,813	2.62
2	United Parcel Service	676,173	1.95
3	Jefferson County Board of Education	319,617	0.92
4	Ford Motor Company	309,780	0.89
5	Churchill Downs	178,493	0.51
6	Kentucky State Fair Board	162,588	0.47
7	Norfolk Southern Corporation	150,677	0.43
8	LIT Industrial Limited	149,178	0.43
9	Louisville Gas & Electric	148,516	0.43
10	U of L Belknap Campus	140,145	0.40
	TOTAL	$ 3,145,989	9.05

Source: MSD Total FY 2010 Drainage Revenue = $34,757,000

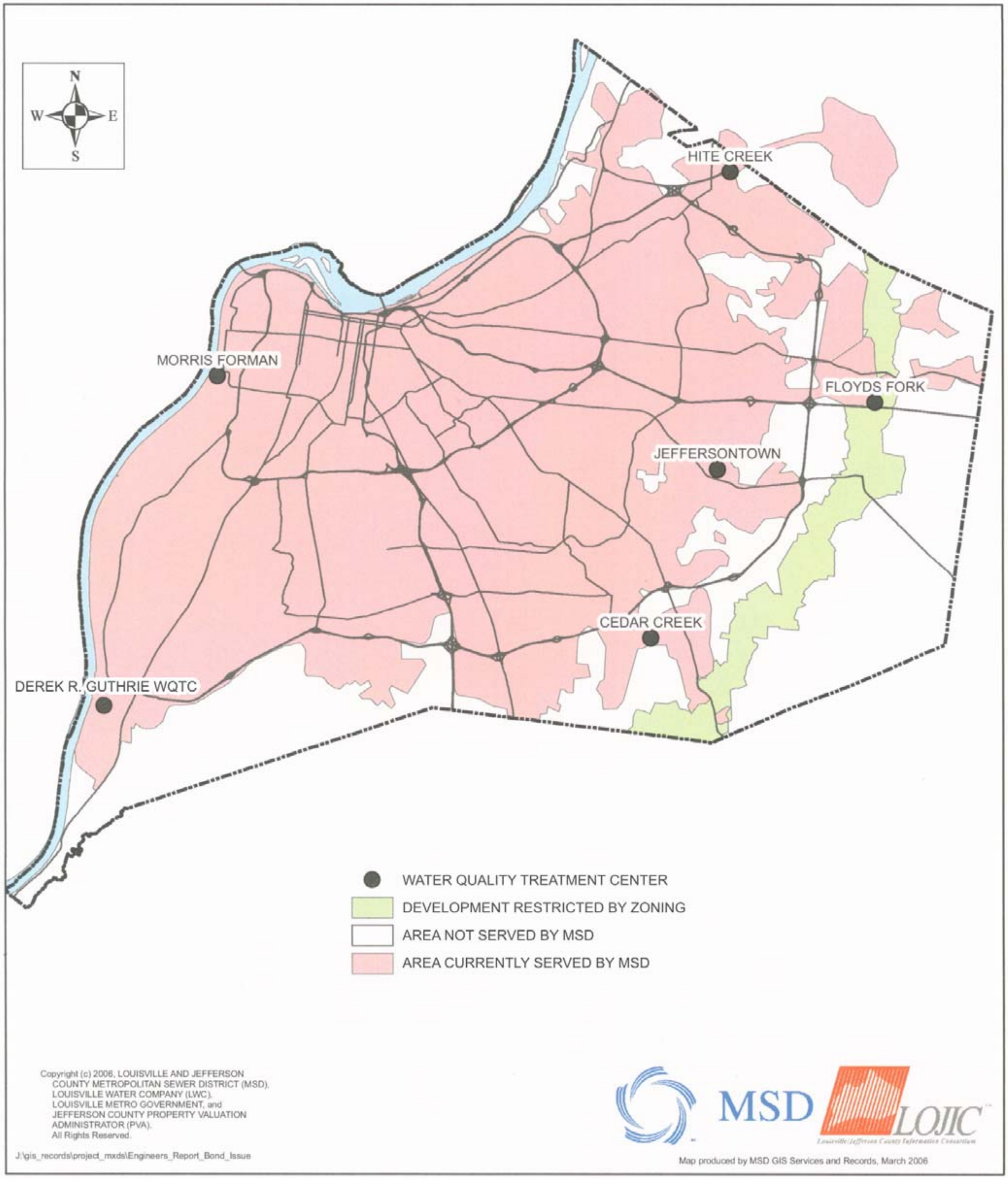
3.4 SYSTEM DESCRIPTION AND SERVICE AREA

MSD is empowered to provide wastewater and storm water drainage (including flood protection) services within Jefferson County. The Wastewater Service Area includes approximately 272 square miles of Jefferson County, and MSD serves approximately 228,580 wastewater customers. Areas receiving wastewater services are shown on Figure 3-5. Table 3-9 is a list of services currently provided to second-, third-, and fourth-class cities per separate agreements with MSD.

Table 3-9
MSD Services Rendered

City	Wastewater	Storm Water
Anchorage	Yes	No
Douglass Hills	Yes	Yes
Graymoor-Devondale	Yes	Yes
Hurstbourne	Yes	Yes
Jeffersontown	Yes	No
Lyndon	Yes	Yes
Middletown	Yes	Yes
Prospect	Yes	Yes
St. Matthews	Yes	No
St. Regis Park	Yes	Yes
Shively	Yes	No

Figure 3-5
Location Map
MSD Wastewater Service Area



3.4.1 Water Quality Treatment Centers Description

3.4.1.1 Regulatory Framework

MSD's wastewater facilities and services are regulated and monitored by the following agencies: the Commonwealth of Kentucky Environmental and Public Protection Cabinet (the Cabinet); the United States Environmental Protection Agency (EPA); the Ohio River Valley Water Sanitation Commission (ORSANCO); and the Louisville Metro Health Department. Requirements of the EPA and the Cabinet are issued in the form of a facility permit.

3.4.1.2 Size and Extent of Water Quality Treatment System

The MSD Wastewater System consists of six major Water Quality Treatment Centers (WQTCs), approximately 600 miles of combined sewers (sewers which transport both storm water runoff and sewage), approximately 3,200 miles of wastewater interceptor and collector sewers, 283 wastewater pumping stations, and 15 small-to-intermediate (less than 0.6 MGD capacity) water quality treatment centers operated by MSD.

The combined sewers generally exist within the boundaries of the former city of Louisville in the downtown and Beargrass Creek areas. Many of the smaller, older combined sewers are inadequately sized for today's storm water runoff flows. Others will become inadequate in the future, both from exceeding their capacity and deterioration of physical condition due to old age. MSD's separate wastewater sewers have adequate dry weather capacity because a conservative approach has been used in designing these systems. Although most of these sewers are usually in better condition because of their relatively younger age, MSD has identified sanitary sewer overflows resulting from wet weather conditions in parts of its separate wastewater system. The combined sewer and the sanitary sewer overflow issues are currently being addressed as a part of the Amended Consent Decree MSD has entered into with the Kentucky Department for Environmental Protection (KDEP), the EPA, and the Department of Justice.

The WQTCs, wastewater interceptors, and the pump and lift stations have sufficient capacity to meet the immediate needs of the Wastewater Service Area. MSD has a planned Capital Improvement Program to meet the future needs of the Wastewater Service Area. This plan includes the removal of several small-to-intermediate capacity water quality treatment centers. The flows currently treated by these package plants will be routed to one of MSD's six water quality treatment facilities. Currently, the two large WQTCs are the Morris Forman WQTC and the Derek R. Guthrie WQTC. The medium-size WQTCs are the Hite Creek WQTC, the Jeffersontown WQTC, the Floyds Fork WQTC, and the Cedar Creek WQTC. A brief description of these larger and medium WQTCs follows:

Morris Forman Water Quality Treatment Center (MFWQTC)

This treatment facility is in an industrial area in the western portion of the county near the southwestern corner of the former city of Louisville. This plant began operations in May 1958 and was upgraded in the mid-1970s to a secondary level treatment process that treated organic matter and bacteria. The MFWQTC provides preliminary treatment consisting of screening and grit removal, primary treatment for the removal of solids and floatables, and is designed for bioroughing prior to secondary activated sludge treatment using high purity oxygen for the removal of the remaining organic and solids pollutants for the entire combined sewered area and a large portion of the separate sewered area in the eastern portion of the county. Final effluent is chlorinated then dechlorinated prior to discharge to the Ohio River. The MFWQTC provides solids treatment for all MSD treatment facilities; it includes a solids handling facility that came on line in 2002. The plant has a design capacity of 120 MGD and treats an annual average daily flow of 100.4 MGD.

The Morris Forman service area is the largest sewershed in the MSD collection system. The collection system contains approximately 1,000 miles of separate sanitary sewer pipe. The majority of the land use in the service area is residential, with some smaller areas of commercial, industrial, and parks. There are a total of 118 pump/lift stations in the sewershed area.

This facility, in addition to reducing the need for disposal of bio-solids in the landfill, produces approximately 75 tons per day of dry pellet ("Louisville Green") fertilizer that is sold publicly for additional MSD revenue and reduced landfill costs. In 2005, MFWQTC processed approximately 27,798 dry tons of pellet bio-solids. Of those solids, 46 percent went to beneficial reuse, and the remainder was disposed of in the landfill. In 2006, approximately 87 percent of solids produced went to beneficial reuse, with that quantity increasing to more than 90 percent in 2008. In 2009, almost 26,000 dry tons of Louisville Green were produced and distributed for beneficial reuse. No marketable pellets were sent to the landfill in 2009.

<u>Derek R. Guthrie Water Quality Treatment Center (DGWQTC</u>)

The DGWQTC (formerly known as the West County Wastewater Treatment Plant) was designed as a 15 MGD preliminary and activated sludge treatment facility. There are no primary sedimentation facilities or sludge processing facilities at the DGWQTC. In April 1999, the plant's capacity was expanded to 19.5 MGD.

The raw influent wastewater flows through three coarse bar screens to the influent pump station. Four pumps lift the raw wastewater to an aerated grit chamber. From the grit chamber, flow through the remainder of the plant is by gravity. The secondary treatment facilities have the capacity to operate in a complete mix mode, utilizing two of the aeration basins. The wastewater flows from the aeration basins to three final settling tanks. Final settling tank effluent flows to chlorine contact basins for disinfection. Following chlorination/dechlorination, final effluent flows to the Ohio River. All solids generated at the DGWQTC are pumped to the MFWQTC for processing.

This plant primarily serves single-family residential customers, commercial, and vacant or undeveloped land. The collection system contains approximately 850 miles of sewer pipe and 68 pump/lift stations.

As the service area and population has grown, treatment capacity has been added to increase the present design capacity to 30 MGD, and the plant currently treats an average daily flow of 26.5 MGD.

Hite Creek Water Quality Treatment Center (HCWQTC)

The HCWQTC plant is located in northeastern Louisville Metro along I-71. The plant was originally built in 1970 and rated at 2.2 MGD and later expanded to its present capacity of 4.4 MGD. The plant was primarily built to provide service to the then newly constructed Ford Motor Company Kentucky Truck Plant and the surrounding suburbs in eastern Jefferson County. The plant effluent passes through grit removal and bar screening prior to settling in primary clarifiers. The secondary treatment is an advanced process, which is designed to perform nitrification. There are two rapid sand filters and two mixed media filters, which provide tertiary treatment. Disinfection is accomplished using ultraviolet light. The effluent travels over a reoxygenation ladder prior to discharge into Hite Creek. Hite Creek is considered to be a “no-flow” stream by the Kentucky Division of Water. It is a tributary of Harrods Creek discharging into the Ohio River.

The facility operates aerobic digesters for processing of the secondary waste sludge treatment. The digested liquid sludge of approximately two percent solids is hauled by truck to the Morris Forman WQTC where processing of the waste sludge to dry pellet fertilizer is completed.

The land use consists primarily of single-family residential areas with a small amount of multi-family residential areas, commercial lots, vacant or undeveloped land, and the Ford Motor Company Kentucky Truck Plant. The collection system contains approximately 120 miles of sewer pipe and 35 lift/pump stations

Two expansions have occurred at the treatment plant, along with various upgrades, to increase the present design capacity to 6 MGD. The average daily flow at this plant is 3.1 MGD. The Ford Motor Company Kentucky Truck Plant contributes approximately 1 MGD to the treatment facility.

Jeffersontown Water Quality Treatment Center (JTWQTC)

This treatment facility is located in eastern Louisville Metro in the city of Jeffersontown, Kentucky. The plant was acquired by MSD from the city of Jeffersontown in September 1990. The JTWQTC is a single stage activated sludge treatment plant with two parallel treatment trains. Influent is received through a common bar screen and grit chamber and then split among the “new” plant (2/3 of flow) and the “old” plant. Design flow for the combined facility is 4.0 MGD. Secondary clarifier effluent from the two treatment trains is mixed in a post aeration basin, disinfected using ultra-violet light, and discharged to Chenoweth Run Creek. Chenoweth Run, considered to be a “no-flow” stream by the Kentucky Division of Water, is a tributary of Floyds Fork.

Settled secondary sludge is sent to aerobic digesters. The aerobic digesters are tanks which were formerly anaerobic digesters. The waste activated sludge is hauled by truck to the Morris Forman WQTC where processing of the waste sludge to dry pellet fertilizer is completed. The WQTC currently treats an average daily flow of 3.5 MGD.

The Jeffersontown Service Area is centrally located at Taylorsville Road and Watterson Trail in central Jefferson County. The land use consists primarily of single-family residential and industrial with a small amount of commercial and vacant or undeveloped land. The collection system contains approximately 112 miles of sewer pipe and 27 pump/lift stations in the service area.

<u>Cedar Creek Water Quality Treatment Center (CCWQTC)</u>

This treatment facility is located in the southeastern part of Louisville Metro south of I-265 and west of Bardstown Road on Cedar Creek. The plant was constructed in 1995, and originally rated at 2.2 MGD, to provide sanitary sewer service to the Cedar Creek Watershed and a small portion of the Floyds Fork Watershed. The plant eliminated existing neighborhood package plants, which had a history of operation problems. The construction of the CCWQTC has greatly improved the water quality in the area.

CCWQTC facilities include raw sewage pumping, a manually cleaned coarse bar screen, two mechanically cleaned base screens, grit removal basin and grit separator, concentric channel oxidation ditch, two circular final clarifiers, traveling bridge sand filters, ultraviolet light disinfection, post aeration, return/waste sludge pumping, and aerobic sludge holding basin. Processing of waste sludge is completed at the MFWQTC.

The land use consists primarily of single-family residential with a small amount of multi-family, commercial, industrial, and vacant or undeveloped land. The collection system consists of approximately 125 miles of sewer pipe and 28 pump/lift stations in the service area.

The CCWQTC was expanded to 7.5 MGD in 2003. The plant currently treats an average daily flow of 5.1 MGD.

<u>Floyds Fork Water Quality Treatment Center (FFWQTC)</u>

The FFWQTC is located along Floyds Fork creek, north of I-64 in eastern Louisville Metro. The plant began accepting flow in early 2001. This facility will allow MSD to eliminate existing, neighborhood package plants that have a history of operation problems as the infrastructure is expanded in the area east, west, and north of the plant. The initial plants eliminated with the opening of the Floyds Fork plant include Copperfield, Kirkham Trace, and Cross Creek.

The FFWQTC is designed to receive an average daily flow of 3.25 MGD that is expandable to 9.8 MGD, with a process design similar to the Cedar Creek WQTC. Plant facilities treat wastewater to a tertiary-level standard, meaning at least 95 percent of its major pollutants are removed before being discharged into Floyds Fork creek, a tributary to the Salt River. Processing of waste biosolids into Louisville Green pellets is completed at the MFWQTC.

The land use consists primarily of single-family residential with a small amount of multi-family residential, commercial, industrial, and vacant or undeveloped land. The collection system consists of approximately 98 miles of sewer pipe and 20 pump/lift stations in the service area. The average daily flow at this plant is 2.7 MGD.

Treatment Capacity Summary

Based on the annual average daily flows for each of the six existing WQTCs, additional wastewater flows can be accommodated at all six WQTCs (not including the 15 small treatment centers) without the need for additional equipment or physical plant expansion. The available capacity for additional flows at Hite Creek is 2.9 MGD, Floyds Fork is 0.6 MGD, and Cedar Creek is 2.4 MGD. The total additional available capacity for these existing water quality treatment centers is approximately 5.9 MGD. This will be sufficient average daily flow capacity to provide service to approximately 24,000 additional residential customers on the east side of Louisville Metro in the next five years, based on MSD design criteria. The expanded capacity of the Derek R. Guthrie WQTC and the proposed expansion of the Hite Creek WQTC to 8.0 MGD, and the recently permitted increase to 120.0 MGD for the Morris Forman WQTC will add daily flow capacity for service to approximately 97,000 additional residential customers throughout Louisville Metro in the next five years and beyond. Table 3-10 is a list of the large to medium treatment plants showing treatment capacity.

Table 3-10
Waste Quality Treatment Centers
Treatment Capacity

Water Quality Treatment Center	Design Capacity MGD	Avg. Daily Flow MGD FY 2010	Eventual Capacity MGD
Morris Forman	120.0	100.4	120.0
Derek R. Guthrie(1)	30.0	26.5	30.0
Hite Creek(2)	6.0	3.1	8.0
Jeffersontown	4.0	3.5	4.0
Cedar Creek	7.5	5.1	7.5
Floyds Fork(3)	3.3	2.7	9.8
15 Small Treatment Centers	2.7	2.0	--
Total Treatment Centers	**173.5**	**143.3**	**179.3**

Notes:
(1) Facility expanded from 19.5 to 30.0 MGD.
(2) Facility expanded from 4.4 to 6.0 MGD.
(3) Facility Plan in progress to expand from 3.3 to 9.8 MGD.
Source: MSD

3.4.2 Storm Water Drainage System

3.4.2.1 Regulatory Framework

The Kentucky Pollutant Discharge Elimination System (KPDES) Branch of the KDEP, Division of Water (DOW), is the regulatory authority for the system-wide municipal storm water discharge permit for Louisville Metro. The DOW oversees and regulates MSD's program to comply with its system-wide permit and to manage storm water quality in Louisville Metro. The permit applies not only to MSD as the permittee but also to designated co-permittees: Louisville Metro Government, including those cities that do not participate in MSD's drainage service:

Shively, Anchorage, St. Matthews, and Jeffersontown. Also, MSD must adhere to rules and regulations relating to water quality, as promulgated by EPA. Plans for drainage improvements must be coordinated with the U.S. Army Corps of Engineers if they affect waters of the United States and the Federal Emergency Management Agency (FEMA) as a part of the Federal Insurance Agency (FIA). All floodplain regulations must meet FEMA requirements as administered by the FIA. Furthermore, the U.S. Army Corps of Engineers has inspection responsibilities relating to the Ohio River Flood Protection Works, which MSD is responsible for maintaining and operating.

Permit requirements for water quality management of storm water runoff will demand an increase in the level of service associated with drainage. This situation will affect both the existing service area and any proposed expansion area. The immediate effects of the permit requirements will be initiation or enhancement of nonstructural programs and approaches to storm water quality control. Eventually, though, programs involving structural changes and solutions will require implementation.

3.4.2.2 Size and Extent of Storm Water Drainage System

MSD's storm water drainage system is comprised of various types of facilities to collect, convey, retain, and discharge storm water runoff into sewers, rivers, streams, and creeks that eventually drain into the Ohio River. These facilities include approximately 1,500 miles of major and secondary drainage channels, 16 pump stations, including the Riverfront station (used in connection with the Ohio River flood protection wall), and six combined storm water/wastewater major pumping stations. Other associated drainage facilities include: ditches, culverts, conduits, ponds, detention basins, and retention basins. Essentially, all facilities within the Drainage Service Area are operated and maintained by MSD by virtue of the consolidation of drainage services in accordance with the Agreements for Interlocal Cooperation, effective January 1, 1987, established between MSD, the city of Louisville, Jefferson County, and several third- and fourth-class cities (identified earlier, Table 3-9).

Included in MSD's responsibility is operation and maintenance of the approximately 30-mile long Ohio River flood protection system. Seventeen miles of the flood protection system were built between 1947 and 1956, and a 13-mile extension of the flood protection system was completed to the southwestern border of Jefferson County in the 1980s. The flood wall joints are being repaired as a part of maintenance effort, which also includes removal of a significant amount of trees. The flood protection system consists of earthen levees, concrete walls, 16 pumping stations (including the Riverfront station), 185 street closures, and drainage control gate closures that protect Louisville Metro. Prior to the Interlocal Cooperation Agreement, the responsibility for the flood protection system belonged to the city of Louisville and the Corps of Engineers. The U.S. Army Corps of Engineers provided operation and maintenance and annual inspections of the southwest Jefferson County flood protection system that was partially funded by Jefferson County. The Corps of Engineers continues to conduct periodic inspections.

With the preparation of the *Storm Water Drainage Master Plan* and the *Watershed Master Plan*, adopted in 1988, MSD started to develop specific strategies for managing and improving drainage facilities in all of the designated natural watersheds in the county. This program continues today with refinement of procedures developed for GIS-based master planning. As revised master plans are produced for all watersheds, drainage and floodplain conditions can be taken into account as development plans are reviewed. MSD verified floodplain elevations throughout the county during the flood of March 1997. Well-planned drainage systems in newly developing areas will minimize the impact on drainage systems in established neighborhoods. This will keep maintenance and repair costs down, and the entire community will benefit.

MSD also publishes a *Design Manual* to provide a consistent set of standards for the design and construction of drainage facilities. Comments from MSD, engineering consultants, and other entities were reviewed and incorporated into an updated *Design Manual* completed in 1996. A companion document, *Standard Drawings*, was published in 1997. Updates are made on a regular basis to the *Standard Drawings* document. Currently, all of the updates are provided through the MSD website. MSD also issues a *Project Checklist Binder* and in 2000 implemented an Erosion Prevention and Sediment Control Ordinance. Finally, construction inspection by MSD helps ensure facilities are built as designed.

MSD initiated the 1993-1997 Drainage Improvement Program to provide for the planning, design, and construction of more than 200 storm water drainage projects over a five-year period. A comprehensive plan for the 200 projects was developed in December 1992 by MSD's Consulting Engineer (The Corradino Group) and was presented to and approved by the MSD Board, city of Louisville Board of Aldermen, and Jefferson County Fiscal Court in early 1993. MSD then moved aggressively to implement the 1993-1997 Drainage Improvement Program to completion in 1998. MSD and Corradino aggressively monitored the program for budgets and schedules.

MSD initiated a Drainage Review Action Plan (DRAP) in 1996 to initiate action on all outstanding customer service requests relative to drainage. The DRAP program was initiated to address each customer request by initial review, field investigations, and evaluation by MSD's Customer Response Team (CRT).

MSD is also well into a comprehensive program to implement specific strategies relative to the Storm Water Drainage Master Plan. The objective of MSD's watershed pilot studies was to integrate basin wide storm water planning, floodplain delineation, standard design criteria, water quality planning, and storm water facility maintenance. These concepts are being applied to other watersheds in a systematic manner.

MSD's management approach, utilizing the results of the Drainage Basin Pilot Studies, has provided a means for MSD to evaluate drainage issues on a regional and neighborhood basis in order to ascertain how proposed land use and system modifications will impact the drainage system without exacerbating the frequency of flooding.

In January 2003, MSD and Mayor Jerry Abramson outlined a plan to tackle Louisville's most pressing drainage problems. This plan initiated a 30-month program – dubbed Project DRI (Drainage Response Initiative) – to review customer service requests, develop solutions, and allocate resources to achieve the solutions in a streamlined manner. The first phase of Project DRI identified 380 worst drainage problems (DRI1 projects) in the Louisville Metro area. These DRI1 Projects were completed in FY 2006, and DRI2 Projects were completed during FY 2007. Since January 2003, MSD has invested over $140 million to complete Project DRI neighborhood drainage projects. In addition, this investment allowed MSD to complete in excess of 16,000 construction work orders related to drainage issues throughout its service area. During 2008, plans for a third phase of Project DRI (DRI3 Projects) were announced. These plans called for an additional investment of $25 million over 30 months, beginning in January 2008 and this phase is currently underway and is expected to be completed by early 2011. A fourth phase of Project DRI (DRI4 Projects) is expected to begin after the completion of the DRI3 Projects and will include $3.5 million per year in neighborhood drainage projects over the next three years.

3.5 POTENTIAL SERVICE AREAS

3.5.1 Wastewater Services

The expansion of the MSD Wastewater Service Area and customer base is accomplished in two basic ways: (1) by constructing large regional interceptor sewers, pump stations, and force main facilities to eliminate individual on-site disposal systems and small water quality treatment centers and to provide service to developing areas; and (2) by the acquisition and/or transfer of ownership of private water quality treatment centers which are outside the current contiguous Wastewater Service Area boundary. MSD has expanded water quality service to portions of adjacent Oldham County through interlocal agreements that resulted from the Oldham County Action Plan.

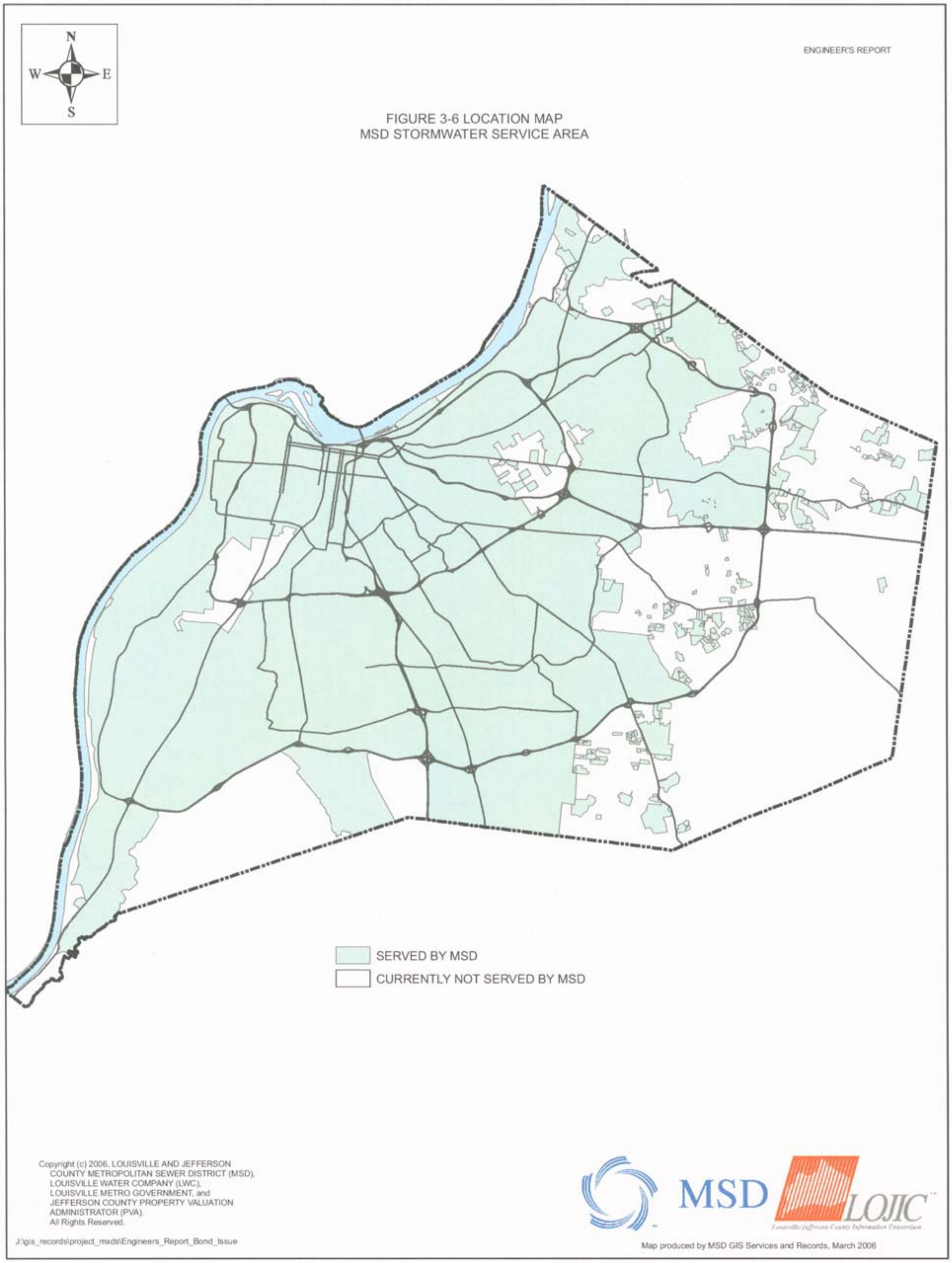
Expansion projects to extend interceptor sewers into previously unserved areas are administered by the MSD Neighborhood Collector Sewer Projects. These watershed programs support the construction of local collector sewers or direct connection of adjacent property owners to the regional interceptor sewers or pump station and force main facilities. In accordance with KRS 76.090 and 76.172, MSD recovers a significant portion of its cost of constructing neighborhood collector systems through property owner assessments, which constitute real property liens, superior to all others, and which run with the land. MSD's policy is to meet with each neighborhood group of property owners to present the planned improvements and estimated assessment costs for proposed neighborhood assessment projects in the respective areas. Each neighborhood then is allowed to vote on the proposal. To date, MSD has been very successful in obtaining neighborhood approvals.

MSD instituted a policy to negotiate and execute agreements with individuals and/or entities (developers) whereby developers may construct and pay for regional sanitary sewer facilities that serve the developer's property and other property located within a region (sewershed) determined by MSD. The developer submits and receives approval from MSD on plans for the proposed regional sanitary sewer facilities and is required to transfer right, title, and interest in the facilities to MSD. When other properties within the sewershed are developed, MSD will collect Recapture Fees and, after retaining a reasonable administrative fee, remit the balance of the Recapture Fees to the developer in accordance with the terms of the agreements. This will result in MSD's expanding its sanitary sewer facilities to areas that were previously considered cost prohibitive. The net result will be an increase in customer base without initial construction costs being borne by MSD. Currently, MSD has five outstanding agreements with developers.

3.5.2 Storm Water Drainage Services

Storm water drainage services currently are provided essentially to all developed areas in Louisville Metro including some of the third- and fourth-class cities (refer to Table 3-9). MSD bills for storm water using equivalent service units (ESUs). The ESU is defined by MSD as measured impervious areas with one equivalent service unit assigned for each 2,500 square feet of impervious area (an average residential unit). MSD currently bills 222,600 drainage accounts for a total of 510,756 ESUs. The greatest potential for expansion of the Drainage Service Area is through agreements with the four non-participating cities and by the addition of newly developed areas. The storm water service area is shown on Figure 3-6.

Figure 3-6
Location Map
MSD Storm Water Service Area



4. CAPITAL IMPROVEMENT PROGRAM

4.1 CAPITAL IMPROVEMENT PROJECTS

The MSD Capital Improvement Program (CIP) responds to MSD's charge to improve and expand wastewater and storm water drainage services to the developed and future developing areas in Louisville Metro. The CIP is implemented through the Capital Planning Process that consists of the Capital Plan, the Capital Budget, and the Implementation Plan. The CIP extends beyond the planning period of the Current Bonds. Additional capital needs will be funded from future bond issues and from increases to the MSD rate structure and user fees. Implementation of improvement projects identified within the framework of the CIP has been accomplished through proceeds from past revenue bond issues, bond anticipation notes, loans, and other long-term debt. The Bond Resolution permits MSD significant latitude in responding to internal financial (i.e., cash flow) conditions, community needs, and external influences (i.e., regulatory guidelines and emergency situations). The Current Bonds and prior bond issues under the Bond Resolution continue MSD's CIP financing process.

MSD has identified more than 1,000 projects, including action plans, facility plans, planning studies, projects related to the Amended Consent Decree, and general services watershed programs in the CIP. The majority of these projects or programs are in the CIP for implementation over the next five years (2011-2015). The Amended Consent Decree is a 19-year program that requires Louisville to minimize combined sewer overflows and eliminate sanitary sewer overflows, while rehabilitating Louisville's aging sewer system. The capital planning process includes compliance with the Amended Consent Decree.

The general description of the projects/programs includes:

- Combined sewer overflow abatement projects, per the Amended Consent Decree;
- Sanitary sewer overflow abatement projects, per the Amended Consent Decree;
- Wastewater and drainage system expansion and improvements;
- Water quality treatment centers upgrades to improve performance, per the Amended Consent Decree;
- Small water quality treatment centers elimination , per the Amended Consent Decree;
- Improvements to flood control and drainage facilities;
- Drainage and other MSD improvements;
- Collector sewers construction;
- Detention basins construction and improvements;
- Interceptor sewers construction;
- Force mains construction and improvements;
- Pumping stations repairs and improvements;
- Regional storage facilities construction; and,
- Miscellaneous improvements and acquisition of equipment and mapping hardware and software.

4.2 MSD'S FIVE-YEAR CAPITAL PLAN

MSD's capital financing and implementation horizon is a rolling five-year period. Five-year capital plan projects identified for design and construction for FY 2011 through FY 2015 have an estimated aggregate cost of $638.7 million. Some projects will be implemented over periods beyond the five-year planning period.

Table 4-1 presents MSD's current five-year CIP, with projected capital outlays.

Table 4-1
Projected Capital Expenses
MSD Five-year Capital Improvement Plan
(In Thousands)

Investment Category	Projected Capital Investments Budget FY 2011-FY 2015
Total Sanitary	$594,343
Total Drainage	$44,379
TOTAL FIVE-YEAR CAPITAL IMPROVEMENT PLAN	$638,722

Source: MSD

4.3 CAPITAL IMPROVEMENT PLANNING

MSD has initiated and refined a comprehensive capital planning process to meet the needs of the community and constraints on its fiscal capacity. MSD's Capital Improvement Plan has consolidated initial action plans into service areas that include the action plans as a planning basis. These action plans generally consist of wastewater expansion action plans, storm water action plans, and operations action plans. The capital planning process produces in essence MSD's overall master plan for the future from the physical infrastructure perspective.

A drainage study is MSD's way of thoroughly reviewing the drainage facilities and problems throughout a large area, generally one-half square mile, so that MSD can determine what can be done to improve the area's drainage service. MSD evaluates the problems and identifies the most effective way of addressing the drainage service requests.

A Watershed Master Plan is a drainage study over an entire watershed. The major watersheds in MSD's service area are Cedar Creek, Floyds Fork, Goose Creek, Harrods Creek, Mill Creek, Middle Fork Beargrass Creek, Muddy Fork Beargrass Creek, Pennsylvania Run, Pond Creek, South Fork Beargrass Creek, and the Ohio River.

Capital Construction Projects are generally large drainage improvement projects that require detailed engineering and other resources to create, install, or significantly improve drainage systems. They are currently planned five years in advance.

There are eight wastewater expansion action plans in Jefferson County: North County, Pond Creek, Mill Creek, Floyds Fork, Jeffersontown, Cedar Creek, West County WTP, and Morris Forman. In addition, there are two action plans outside Jefferson County: Oldham County and North Central Bullitt County.

The service area includes ongoing wastewater expansion action plans, wastewater projects, Amended Consent Decree projects, and drainage projects.

4.3.1 Amended Consent Decree

On April 10, 2009, the United States District Court for the Western District of Kentucky, Louisville Division (the "Court"), entered an Amended Consent Decree, in Civil Action No. 3:08-CV-00608-CRS (the "Amended Consent Decree"). The Amended Consent Decree amended, superseded, and replaced the original Consent Decree entered by the Court on August 12, 2005, between the Commonwealth of Kentucky, the United States of America, and MSD. The Amended Consent Decree resolved all pending claims of violations of the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, and the Water Quality Act of 1987 (hereinafter "Clean Water Act" or "the Act") pursuant to 33 U.S.C. 1251 et seq. and the Regulations promulgated pursuant thereto. To date, MSD has complied with all submittals and reporting requirements contained in the Amended Consent Decree. MSD is planning on performing all Capital Improvement Programs and other requirements contained in the Amended Consent Decree. The cost of the projects required to be completed under the Amended Consent Decree is estimated to be approximately $850 million.

The Amended Consent Decree addresses Sanitary Sewer Overflows (SSOs) and unauthorized discharges from MSD's sanitary sewer system (SSS), combined sewer system (CSS), water quality treatment centers, and discharges from MSD's Combined Sewer Overflow (CSO) locations identified in the Kentucky Pollutant Discharge Elimination System (KPDES) for the Morris Forman Water Quality Treatment Center. The Amended Consent Decree outlines the compliance program and schedules for achieving specific objectives. The process requires efforts that include, but are not limited to, characterizations, modeling, assessments, engineering design studies, implementation and compliance measures, and construction projects that will adequately insure MSD's compliance with permit conditions under applicable law.

For the purposes of this Engineer's Report, except where specifically noted otherwise, the term "Consent Decree" (CD) will be understood to also mean the Amended Consent Decree (ACD).

MSD has implemented measures to date to achieve compliance under its KPDES permits, including abatement of many SSOs and establishing controls on certain CSOs. The ACD includes lists of those items completed and additional projects planned for the near future.

A directorship-level position that reports directly to MSD's Executive Director and the MSD Board was created and filled as required by the CD. Additionally, the Director was required to organize a Wet Weather Team regarding CSOs, SSOs, and Unauthorized Discharges; establish communications, coordination, and control procedures for team members and other participants; and identify and schedule tasks and associated resource needs.

The Director has assembled a Wet Weather team that includes all entities that have a stake in the program outcome and is sufficiently multidisciplinary to address the myriad of engineering, economic, environmental, and institutional issues that will be raised during the implementation of the remedial measures under the CD.

To address the challenges of improving water quality and proactively meeting the requirements of the original CD, MSD has embarked on a comprehensive sewer improvement program to eliminate major sources of water pollution throughout Louisville Metro. The new initiative includes planned upgrades which allow the community to comply with Clean Water Act regulation. Project WIN (Waterways Improvements Now) was designed to address problems with combined and sanitary sewer overflows.

MSD has developed and provided internal and external training related to the original CD to its employees and consultants. A revised public outreach program aimed at updating the public on MSD's primary business functions with emphasis on wastewater, storm water, and flood protection has been presented to more than 230 community groups. A portion of the presentation includes information related to the CD, including potential program direction and anticipated costs.

Even before project WIN was initiated, MSD had taken steps to improve its aging sewer system. A preventive maintenance program was established to identify and correct portions of the sewer system that require repetitive inspection, cleaning, and repair.

In 2006, MSD's Preventive Maintenance Division completed thousands of work orders including television inspection of sewers, sewer flushing and lining, root cutting, grease removal, CSO inspection and cleaning, as well as pumping station and water quality treatment centers maintenance.

Some of the Compliance Program and Schedules under the original Consent Decree and the Amended Consent Decree include:

4.3.1.1 Early Action Plan

In accordance with the original CD, MSD prepared and submitted an Early Action Plan which the Kentucky Natural Resources and Environmental Protection Cabinet (Cabinet)/EPA reviewed and jointly approved. The Early Action Plan included the following components:

<u>Nine Minimum Controls Compliance</u>

The Early Action Plan contained documentation demonstrating the status of MSD's compliance with the Nine Minimum Controls (NMC) requirements within the combined sewer systems as set forth in the CSO Control Policy.

NMC's are technology-based activities designed to reduce CSOs and their effects on water quality, do not require significant engineering studies or major construction, and can be implemented in a relatively short period. Furthermore, minimum controls are not temporary measures and are considered part of long-term efforts to control CSOs.

Consistent with the NMC's objectives to minimize the impact of CSOs through a reduction of the frequency, duration, or pollutant loading that is associated with overflows, MSD also characterized the sewersheds to determine the location of CSO points, estimated frequency of overflows under specific rainfall and runoff conditions, and the estimated duration of such overflows. To accomplish this characterization, MSD has modeled the CSS area under a wide variety of precipitation conditions, performed many field investigations and surveys, reviewed current Louisville/Jefferson County Information Consortium (LOJIC) information and aerial photography, performed water body inspections, and reviewed previously available information. The characterization of the system provided data about the site-specific nature of CSOs in Louisville and Jefferson County which led to the development of alternatives and choices for NMCs.

MSD prepared a report to document its compliance status and proposed activities in accordance with the "Guidance for Nine Minimum Controls". The report was submitted to the KDEP and EPA in September 2006. The NMC Compliance portion of the Early Action Plan was approved by the Cabinet/EPA on February 22, 2007.

Capital Improvement Project List

The Early Action Plan includes a list that identified projects that have been completed by MSD prior to the implementation of the Sanitary Sewer Discharge Plan (SSDP) or Long Term Control Plan (LTCP). The following is a partial list of projects that have been certified as complete by MSD.

- Solid and floatable controls have been installed at 15 combined sewer overflow sites to capture trash and other debris that would otherwise reach local waterways.

- Two CSOs (CSO #209, CSO #87) have been eliminated through sewer separation projects, and potential discharges from the combined sewer system at these locations have also been eliminated.

- The elimination of a third CSO (CSO #147) was completed in August 2007. The project included disconnection of downspouts in the Swan Street area to allow closure of this overflow point.

- The Beechwood Village inflow and infiltration elimination pilot project has relined 18,000 feet of public and private sewer line to eliminate the infiltration of groundwater into the sanitary sewer system.

- The Old Cannons Lane Sanitary Sewer Relief project eliminated a sanitary sewer overflow (SSO) in the Beargrass Creek watershed.

- The Northern Ditch Pump Replacement Project modernized and upgraded capacity at a cost of $1.3 million to help prevent system surcharging and flooding.

- The Gunpowder and Canoe Lane Pumping Stations system improvement projects have been completed and greatly reduced long-standing overflows at these locations.

- Phase 2 of the Real Time Control system reduces the frequency of CSO discharge and overflow volumes from many locations. The initial implementation phase was completed in August 2006.

- Backup power generators have been installed at the 34th Street and Buchanan Street pumping stations to ensure continuous operation during a power failure, thereby eliminating the potential for CSO discharge at these pumping stations.

Figure 4-1 shows the Consent Decree projects.

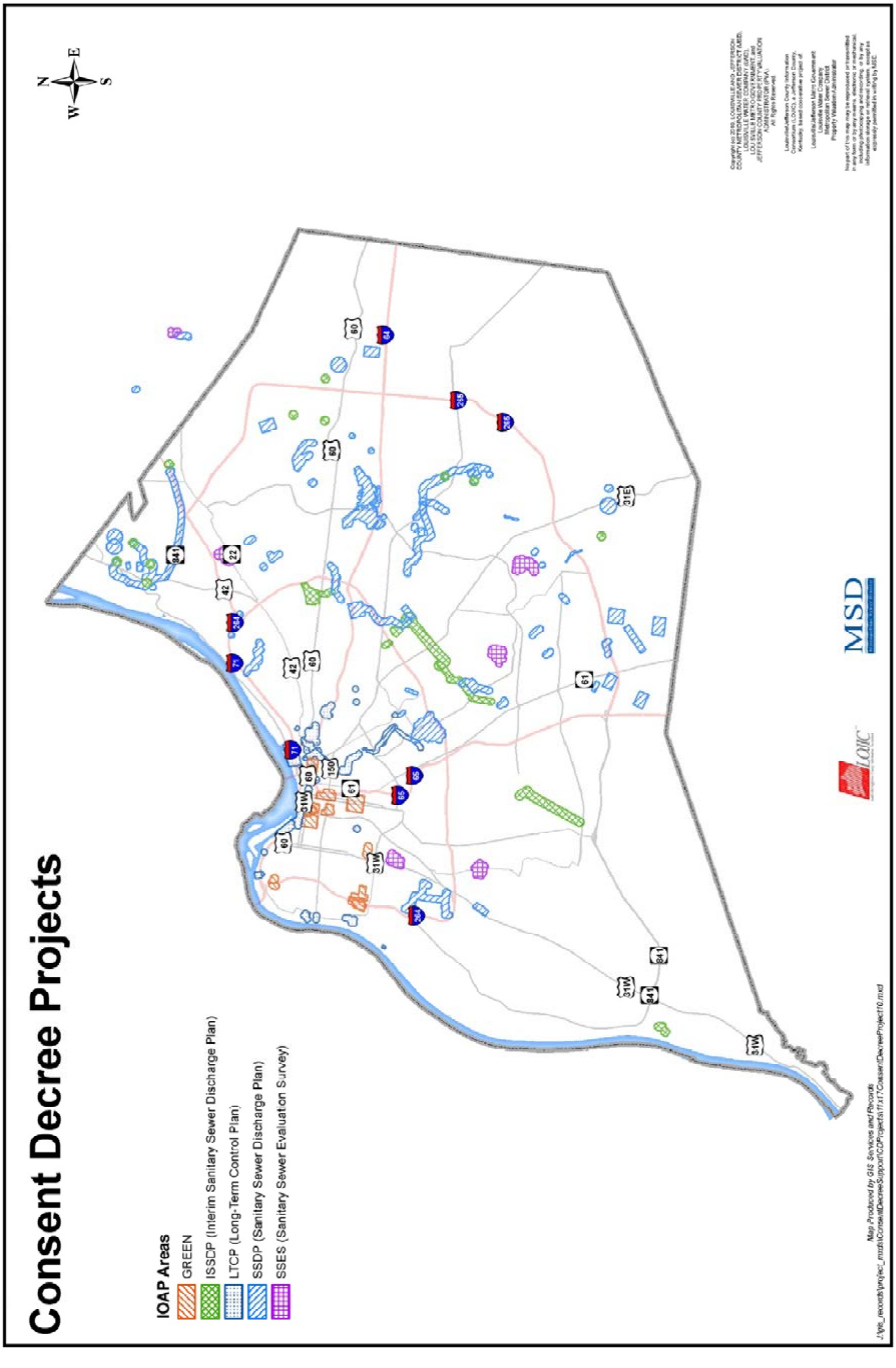
Initiatives adopted by MSD in the wake of the CD include:

Real Time Control: This allows MSD operations staff to route and store storm water runoff throughout hundreds of miles of combined sewer pipes using an automated reporting and gate control system. During intense storm events, the runoff can be diverted and stored within the combined sewer system to decrease the frequency of overflows. In 2006, the first year MSD used Real Time Control, more than 600,000,000 gallons of storm water runoff was stored and treated after the passing of the storms. Phases I & II of Real Time Control have been completed and Phase III is currently underway.

Public education and outreach is a primary goal of Project WIN. Educating the public about potential health risks associated with sewer overflows and MSD's efforts to eliminate or reduce the overflow volume is the key to the program's success.

MSD has installed signs near and downstream of sewer overflow locations, produced annual mailings to inform residents within the combined sewer system, developed door hangers for homeowners at risk for sewer backups and overflows, distributed a letter and bill insert to all customers providing information on MSD's wet weather program and new initiatives, and developed overflow alert messages for television and radio broadcasts.

Figure 4-1
Completed Consent Decree Projects



Capacity, Management, Operation and Maintenance (CMOM) Programs

The original CD required that the Early Action Plan include a CMOM Programs Self Assessment of MSD's combined and separate sewer collection system and transmissions system.

The overall goal of the CMOM Self Assessment Report is to determine if there are MSD programs or program activities that should be recommended for improvement to enhance service or compliance performance and to recommend specific actions and implementation schedules to complete the recommended improvements. A specific goal of the CMOM report is that MSD meets the requirements of the negotiated original CD.

To ensure that the CMOM Self Assessment process is dealing with the programs and activities that have the most impact on SSOs and unauthorized discharges, MSD conducted an evaluation of SSOs and unauthorized discharge causes for the time period of January 2001 through March 2006.

The MSD self assessment was conducted in an approach that exceeded the requirements of the Consent Decree. MSD's organizational programs were assessed against the EPA guidance program outlines. The staged process resulted in an overall assessment of MSD's programs and activities. The report provided MSD with a planning tool for identifying programs and activities that are performing well and those that can be improved. It served as a basis for action on a number of immediate action items and to identify further the road map for continued improvement.

The self assessment process revealed that MSD had many activities that were performed well and did not need improvement. The process also revealed program areas and activities that needed improvement. Implementation of some of these improvements was integrated with the formalization of the Sanitary Sewer Discharge Plan, the Long Term Control Plan, and the integrated Wet Weather Plan.

The CMOM report was completed and submitted to the KDEP and EPA in May 2006. This document was approved by the Cabinet/EPA on August 21, 2006.

MSD has completed the implementation of the recommendations from the CMOM Self Assessment report. The activities were performed using a combination of in-house resources and consultants.

Sewer Overflow Response Protocol (SORP)

The Early Action Plan includes a SORP in compliance with 401 KAR 5:015. The purpose of the SORP is to provide guidance to MSD personnel regarding response, mitigation, public notification, and reporting of overflows, including unauthorized discharges

A SORP plan was developed that details how MSD will accomplish the following:

- Respond to, clean up, and/or minimize the impacts of overflows, including unauthorized discharges;
- Document and report to the Division of Water (DOW) and EPA the location, volume, cause and impact of overflows, including unauthorized discharges;
- Provide notification to potentially impacted members of the public; and,
- Train all MSD staff and maintenance crews how to react to overflow events.

Potential overflows are communicated through notification by others, system alarms, and field reconnaissance reports. MSD field personnel are trained to inspect for and report overflows during day-to-day activities. MSD also utilizes a Supervisory Control and Data Acquisition (SCADA) system to identify possible overflows in the system. Some locations are in extremely remote areas that are very difficult to access, and/or considerations of employee safety prevent regular, frequent, or continuous monitoring by personnel. MSD response personnel are provided portable laptop computers with wireless modems that allow access to SCADA to observe conditions at pump stations and other facilities virtually anywhere a cellular signal is available.

MSD Customer Relations Call Center (CRCC) personnel are trained to answer questions from the public wanting to report an overflow or request additional information about the overflow abatement programs. Calls received from customers are entered into MSD's Hansen software system as Customer Service Requests (CSR). Hansen software products are used to monitor a variety of municipal functions, one of these being the tracking of customer service information. CRCC personnel are trained to provide prompt, accurate, and current information regarding overflows and to quickly dispatch service personnel to investigate and address situations. Calls are processed and routed to the appropriate department based on the nature and severity of the problem conveyed by the customer.

Procedures describing the process used to enter CSRs into Hansen and other pertinent information is detailed in the SORP report submitted to the Cabinet and EPA in May 2006. The SORP was approved by the Cabinet/EPA on August 21, 2006, and MSD began to implement the SORP within 15 days of receiving the Cabinet/EPA approval.

The following activities were performed during the July 1, 2009, through June 30, 2010, reporting period.

- Overflow Management and Field Documentation;
- Public Notification and Communication;
- Regulatory Reporting and Data Management;
- Staff Training and Communication; and,
- Annual SORP review.

4.3.1.2 Discharge Abatement Plans

A sanitary sewer discharge plan (SSDP), designed to eliminate unauthorized discharges in the sanitary sewer systems, and an updated Long Term Control Plan (LTCP) were required to be submitted to the Cabinet and EPA under the original CD.

<u>Interim Sanitary Sewer Discharge Plan (SSDP)</u>

The interim SSDP was to include a plan for eliminating targeted unauthorized discharges in MSD's wastewater collection system. Specifically, the plan called for accomplishing the following objectives:

- Eliminate the use of pumps in the Beechwood Village Area;
- Eliminate the use of pumps in the Hikes Point Area;
- Eliminate the Highgate Springs Pump Station; and,
- Eliminate the constructed overflow at the Southeast Diversion Structure.

MSD has developed an integrated design concept to eliminate the targeted unauthorized discharges for these locations as outlined in the CD. The interim SSDP details the history of the problem areas and presents final solutions for eliminating the unauthorized discharges. The solution elements include the following:

- Reconstruction of the Beechwood Village sanitary sewer system;
- Elimination of a flow restriction in the Sinking Fork Interceptor;
- Decommissioning of the Highgate Springs Pump Station;
- Increased conveyance between the Southeast Diversion Structure and the Northern Ditch Interceptor;
- Diversion of wet weather flows from the Northern Ditch Interceptor to the Pond Creek Interceptor; and,
- Flow equalization and high-rate secondary treatment facilities at the Derek R. Guthrie Water Quality Treatment Center.

The report also includes preliminary capital costs and an implementation schedule. The capital cost to implement the interim SSDP is approximately $200 million. MSD must implement the corrective measures necessary for remediating the unauthorized discharges in the Beechwood Village area and at the Southeast Diversion Structure by December 31, 2011. Similarly, the unauthorized discharges at Hikes Point and Highgate Springs Pump Station must be eliminated by December 31, 2013. The proposed implementation schedule included in the report conforms with these schedules.

The interim SSDP described above was submitted to the KDEP and EPA on September 30, 2007. Comments were received on January 8, 2008. MSD resubmitted the revised interim SSDP on March 7, 2008, and received an approval letter for the interim SSDP on July 24, 2008.

The following activities were performed during the July 1, 2009, through June 30, 2010, reporting period and will continue into the next reporting period.

- Beechwood Village Sanitary Sewer Replacement-West;
- Beechwood Village Sanitary Sewer Replacement-East;
- Sinking Fork Relief Sewer;
- Southeast Interceptor Relief Sewer;
- Hikes Lane Interceptor and Highgate Springs Pump Station;
- Northern Ditch Diversion Interceptor;
- Derek R. Guthrie WQTC Wet Weather Equalization and Treatment Project; and,
- Performance improvements for ISSDP Elements.

Interim Long Term Control Plan (LTCP)

The interim LTCP includes the past history of MSD's CSO control efforts and demonstrates MSD's efforts to date to achieve compliance with the following goals:

- Ensure that if CSOs occur, they are only as a result of wet weather (including activities to address those discharges resulting from compliance with the requirements of the United States Army Corps of Engineers (USACE) Ohio River Flood Protection System Pumping Operations Manual dated 1954 and revised 1988);
- Bring all wet weather CSO discharge points into compliance with the technology-based and water quality-based requirements of the Clean Water Act;
- Minimize the impacts of CSOs on water quality, aquatic life, and human health; and,
- Bring stakeholders into the planning, prioritization, and project selection process.

The interim LTCP, as required by the CD, was initially submitted to the KDEP and EPA on February 10, 2006. MSD received an approval letter dated February 22, 2007, for the interim LTCP.

The proposed improvements identified in the interim LTCP were to be accomplished by December 31, 2008. All activities required under the interim CSO Long Term Control Plan have been completed.

Integrated Overflow Abatement Plan (IOAP)

The Final Sanitary Sewer Discharge Plan and the CSO Long Term Control Plan were submitted and certified on December 19, 2008, concurrently, under the title of the Integrated Overflow Abatement Plan (IOAP). In response to questions from EPA and KDEP, MSD revised and clarified portions of the IOAP and resubmitted all three volumes with a revision date of June 19, 2009. The Final IOAP was submitted with a date of September 30, 2009. Approval was received on October 23, 2009.

The IOAP is a major part of MSD's response to the Consent Decree and is the federally enforceable action plan for sewer overflow abatement. The scope of the IOAP is limited to commitments that directly relate to MSD programs and activities to address CSO and SSO issues. The IOAP is a long term plan to control CSOs and eliminate sanitary sewer overflows (SSOs) and other unauthorized discharges from the MSD's sewer system. The IOAP is expected to improve water quality in both Beargrass Creek and the Ohio River through and downstream of Jefferson County. The expected water quality benefits of the IOAP include: (1) reductions in the peak levels of bacteria in the Ohio River and Beargrass Creek; and (2) a substantial (greater than 95 percent) reduction in the amount of time that CSOs may cause bacteria levels to exceed water quality standards.

The IOAP specifically addresses the following:

- <u>CSO Benefits</u>: A 96 percent capture and treatment of wet weather CSOs during an average year, which equates to an 85 percent reduction in CSO volume compared to the conditions in 2008.
- <u>SSO Benefits</u>: Elimination of an average of 145 SSO events per year. In terms of water quality, this equates to elimination of 100 tons of 5-day biochemical oxygen demand (BOD5) and approximately 200 tons of suspended solids annually.
- <u>Integration with Other Water Quality Programs</u>: Coordinating IOAP implementation with water quality improvement initiatives of Louisville Metro Government and other public and private entities.

<u>Values-Based Performance Evaluation Framework</u>: In accordance with the Consent Decree, MSD established a Wet Weather Team (WWT) comprised of a broad range of community stake holders, MSD staff, and consultants. Through a series of meeting over two years, the WWT developed a values-based performance evaluation framework to use in evaluating, selecting, and prioritizing alternative approaches to overflow abatement. Using the structured decision-making process as framed by the WWT, MSD developed and evaluated overflow abatement control options for the IOAP centered on managing risks to these community values. Projects were analyzed by technical teams in terms of benefits (quantified using the anticipated reduction in risks to the community values) and costs (quantified as total capital and operational costs).

Components of the IOAP include the following:

- Green Infrastructure Program;
- Source Control and Gray Solutions;
- Control of Private Sources of Infiltration/Inflow (I/I);
- Public Information, Education, and Involvement Program;
- Post-Construction Compliance Monitoring;
- Future Development Considerations; and,
- IOAP Funding Plan.

MSD has developed the IOAP in conformance with the Consent Decree, the CSO Control Policy, and other applicable regulations.

<u>Final CSO Long-Term Control Plan (LTCP)</u>

Volume 2 of the IOAP is the Final CSO LTCP. Volume 2 presents the proposed plan for compliance in reducing wet weather CSO frequency and volume to levels required by the 1972 Clean Water Act (CWA) and the 1994 CSO control policy. The Final CSO LTCP, when implemented, will accomplish the following objectives:

- Provide that if CSOs occur, they are only the result of wet weather events;
- Perform modifications to the Ohio River Flood Protection System Infrastructure to provide that discharges only occur during wet weather events;
- Bring wet weather CSO discharge points into compliance with the technology-based and water-quality based requirements of the CWA; and,
- Minimize the impacts of wet weather CSOs on water quality, aquatic biota, and human health.

The Final CSO LTCP details the history of problem areas and presents solutions to bring the combined sewer system into compliance. The Final LTCP is organized to present a comprehensive overview of MSD, its history of CSS operations, characteristics of CSS, development of control alternatives, and final recommended programs and projects.

The following activities were performed during the July 1, 2009, through June 30, 2010, reporting period and will continue into the next reporting period.

<u>Green Demonstration Projects</u>:

- MSD Main Office Parking Lot Bioswales;
- Seventh and Cedar Green Parking Lot;
- Second and Broadway Green Parking Lot;
- Third and Ormsby Biofiltration Swales;
- Sixth and Martin Luther King (MLK) (formerly Sixth and Muhammad Ali) Parking Lot;
- Housing Authority Green Roof at 801 Vine Street (formerly Sixth and Broadway Rain Garden);
- W. Gaulbert and W. Hill (formerly Seventeenth and W. Hill) Permeable Alley;
- 2300 Block of Congress Street (formerly Seventh and Market) Permeable Alley;
- Billy Goat Strut (formerly Campbell and Main) Permeable Alley;
- Fourth Street (formerly Twelfth and Jefferson) Green Street;
- I-264 Off-ramp Dry Well;
- I-264 On-ramp Dry Well;
- I-264 and Gibson Dry Well;
- Russell Lee Drive Dry Well;
- JFK Montessori Area Dry Well; and,
- Remaining Two Additional Rain Garden Projects.

Gray Infrastructure Projects:

- Logan Street Basin;
- CSO #108 Dam Modification;
- CSO #206 Downspout Disconnections;
- I-64 and Grinstead Drive Storage Basin;
- Paddy's Run Wet Weather Treatment Facility;
- Adams Street Storage Basin;
- Story Avenue and Main Street Storage Basin;
- CSO #123 Downspout Disconnection;
- CSO #058 Sewer Separation; and,
- CSO #140 Sewer Separation.

Flood Pump Station Projects:

- 34th Street Flood Pump Station DWO Elimination;
- 4th Street Flood Pump Station DWO Elimination;
- 27th Street Flood Pump Station DWO Elimination; and,
- Shawnee Flood Pump Station DWO Elimination.

Final Sanitary Sewer Discharge Plan (SSDP)

Volume 3 of the IOAP is the Final Sanitary Sewer Discharge Plan (SSDP). Volume 3 contains the long-term projects, including schedules, milestones, and deadlines as required by the Consent Decree. The Final SSDP also includes the results of an evaluation of WWTP peak flow treatment capacity.

The following plans and programs are used in developing the Final SSDP:

- Updated Sanitary Sewer Overflow Program;
- Capacity, Management, Operations and Maintenance Programs;
- Sewer Overflow Response Protocol; and,
- Interim Sanitary Sewer Discharge Plan.

Also included in the plan is an extensive analysis of MSD's SSO areas, flow monitoring, WQTCs, and modeling process. This is followed by the approach for developing alternative solutions to SSOs, and the process to evaluate both the costs and benefits of each alternative. The MSD Benefit-Cost Value, as described earlier under IOAP, was used to consistently calculate benefits for all solution alternatives. The final projects selected to address SSOs include a mixture of source control (including I/I reduction efforts), wet weather storage, system diversion, and conveyance/transport. The Final SSDP project alternatives are designed to be built around MSD's existing infrastructure and draw on synergistic benefits from other MSD projects.

Finally, the success of the Final SSDP in meeting the CD compliance requirements are proposed to be measured incrementally as the plan is implemented and also at plan completion in December 2024. The four performance goals to be tracked under the Final SSDP include:

- No wet weather capacity related SSOs from the system within the selected level of protection;
- No wet weather capacity related system surcharges causing basement back-ups within the selected level of protection and within the pre-remediation zone of influence;
- Secondary treatment of all flow within the selected level of protection; and,
- Project flow monitoring performed and documented.

The following activities were performed during the July 1, 2009, through June 30, 2010, reporting period and will continue into the next reporting period:

Cedar Creek Area
- Running Fox Pump Station Elimination; and,
- Little Cedar Creek Interceptor Improvements.

Hite Creek Area
- Meadow Stream Pump Station In-line Storage Project;
- Floydsburg Road Pump Station I&I Investigation and Rehabilitation; and,
- Kavanaugh Road Pump Station Improvements Project.

Floyds Fork Area
- Ashburton Pump Station Improvements and Diversion;
- Eden Care Pump Station SSO Investigations; and,
- Woodland Hills Pump Station Diversion.

Jeffersontown Area
- Raintree and Marian Court Phase 1 – Pump Station Eliminations; and,
- Jeffersontown WQTC Elimination.

Beargrass Creek Middle Fork Area
- Upper Middle Fork #1 – Buechel Basin; and,
- Hurstbourne I&I Investigation and Rehabilitation.

Southeastern Diversion Area
- Beargrass Interceptor Rehabilitation Phase 2; and,
- Parkview Estates I&I Investigation and Rehabilitation.

Pond Creek Area
- Charleswood Interceptor #23 Project/Cooper Chapel Road Widening;
- Avanti Pump Station Elimination;
- Government Center Pump Station Elimination;
- Lantana Pump Station Investigation and Rehabilitation;
- Edsel Pump Station I&I Investigation and Rehabilitation; and,
- Lea Ann Way System Improvements.

Ohio River Force Main Area

- Mellwood System 1 – Mellwood Pump Station and Force Main;
- Prospect #1 – WQTC Elimination;
- Derington Court Pump Station I&I Investigation and Rehabilitation; and,
- Leland Road SSO Investigation.

Mill Creek Area

- East Rockford Lane Pump Station Relocation; and,
- Shively Interceptor.

Combined Sewer System Area

- Camp Taylor #1 System Improvements;
- Camp Taylor #2 Sewer Replacement;
- Sonne Pump Station I&I Investigation and Rehabilitation; and,
- Hazelwood Pump Station I&I Investigation and Rehabilitation.

Small WQTCs

- Lake Forest Pump Station SSO Investigation;
- Riding Ridge PS Improvements;
- Gunpowder Pump Station In-line Storage Project;
- Fox Harbor In-line Storage Project; and,
- Fairway View Pump Station Improvements Project.

Jeffersontown Water Quality Treatment Center

MSD will be required to eliminate prohibited bypasses at the Jeffersontown WQTC using the following protocol:

- Process Controls Program: MSD is required to implement a Process Controls Program to minimize the frequency, duration and volume of any bypass at the Jeffersontown WQTC through proper management, operation, and maintenance control. The Consent Decree identifies the measures required to successfully implement the program and submit to Cabinet/EPA for review and approval by October 31, 2008. This submittal was made by the MSD within the required time frame.

- Comprehensive Performance Evaluation (CPE): A Comprehensive Performance Evaluation for the Jeffersontown WQTC was required to be submitted to the Cabinet/EPA as a part of the Final SSDP by December 31, 2008. The purpose of the CPE is to identify any flow and/or loading rate restricted treatment process unit(s) at the Jeffersontown WQTC which limit the plant's ability to comply with the KPDES permit requirements, including those necessary to provide the required application of Secondary Treatment to all flows into the WQTC. The CPE also evaluated the cause of any effluent limit violation occurring at the WQTC within the last three years. The CPE was submitted by MSD within the required time frame .

- Composite Correction Plan (CCP): A Composite Correction Plan for the Jeffersontown WQTC was required to be submitted to the Cabinet/EPA as a part of the Final SSDP by December 31, 2008. The CCP identifies appropriate alternatives for both the complete elimination of the Jeffersontown WQTC and long term upgrades to the Jeffersontown WQTC should elimination not be practical or achievable. The CCP also included expeditious implementation and completion schedules not extending past December 31, 2015, for either of the above-suggested alternatives. The CCP was submitted by MSD within required time frame.

- Service Connections: As a part of the CD, no new service connections were to be allowed within the Jeffersontown WQTC sewershed after May 13, 2008. Any new connections approved prior to the lodging of the Consent Decree would be allowed, provided they are consistent with MSD's System Capacity Assurance Program, or if an equal or greater amount of flow from an existing sewer service connection was eliminated prior to allowance of the new connection.

MSD submitted a JWQTC Process Control Plan on October 31, 2008, as required by paragraph 26.a of the Amended Consent Decree. MSD received comments on December 12, 2008, and resubmitted the plan January 16, 2009, and again on February 20, 2009. MSD received conditional approval of this document from EPA on April 1, 2009, pending finalization of the Amended Consent Decree that was under consideration by the Federal Court at the time the Process Control Plan was submitted. The Process Control Plan was accepted by the Federal Court and incorporated by reference into the Amended Consent Decree by an Order signed February 12, 2010, that was entered into the public record February 15, 2010.

Following the initial 30 days of operation, an evaluation of the initial implementation was conducted and a review memo issued May 15, 2009. The review determined that no changes were required in the basic process control strategy, but upgrades to computer systems at the WQTC and the establishment of automated data links between the Process Control Spreadsheet and the Laboratory Information Management System (LIMS) were recommended. A similar link with the PI data management system was also recommended. Pending completion of the automated data links, a parallel manual calculation of process control parameters will continue, to ensure that manual data entry time demands do not interfere with effective process control protocols being followed at the WQTC.

Comprehensive Performance Evaluation; Comprehensive Correction Plan & Elimination Plan for Certain WQTCs

Comprehensive Performance Evaluation (CPE): As a part of the CD, MSD is to prepare a CPE for the Cabinet/EPA review and approval for the following WQTCs:

- Lake Forest WQTC;
- Timberlake WQTC; and,
- WQTCs receiving flow from Jeffersontown WQTC (excluding dry weather flow sent to MFWQTC and wet weather flow sent to DGWQTC).

The purpose of the CPE is to identify any flow and/or loading rate restricted treatment process unit(s) at the WQTC which limit the plant's ability to comply with the KPDES permit requirements, including those necessary to provide the required application of Secondary Treatment to all flows into the WQTC. The CPE also evaluates the cause of any effluent limit violation occurring at the WQTC within the last three years.

Composite Correction Plan (CCP): MSD is required to prepare and submit for the Cabinet/EPA approval a Composite Correction Plan for each of the WQTCs identified above. The purpose of the CCP is to identify alternatives for the elimination of the WQTC or specific remedial actions, including capital improvements and other upgrades to the WQTC to address the problems in the CPE plan, except for the Timberlake WQTC. For the Timberlake WQTC, the CCP shall only include a plan for complete elimination of the WQTC. The CCP shall also include expeditious implementation and completion schedules not extending past December 31, 2015.

Elimination Plan: MSD is required to prepare and submit for the Cabinet/EPA review and approval an Elimination Plan for the complete elimination of the following WQTCs:

- Hunting Creek North WQTC;
- Hunting Creek South WQTC;
- Shadow Wood WQTC; and,
- Ken Carla WQTC.

The Elimination Plan is also to include expeditious implementation and completion schedules not extending past December 31, 2015.

In accordance with paragraphs 26.b and 26.c of the Amended Consent Decree, MSD submitted the required Comprehensive Performance Evaluations and Composite Correction Plans as part of the IOAP on December 19, 2008. Based on comments MSD received from EPA/KDEP, these plans were re-submitted as part of the IOAP Volume 1 on June 19, 2009. Oral approval of the CPEs was received on September 23, 2009. The CPEs and CCPs were accepted by the Federal Court and incorporated by reference into the Amended Consent Decree by an Order signed February 12, 2010, that was entered into the public record February 15, 2010.

Type 1 and Type 2 activities required in the approved CPEs occurred between July 1, 2009, and June 30, 2010, at the following WQTCs:

- Jeffersontown WQTC;
- Lake Forest WQTC;
- Cedar Creek WQTC;
- Hite Creek WQTC;
- Timberlake WQTC;
- North Hunting Creek WQTC;
- South Hunting Creek WQTC;
- Starview WQTC;
- Berrytown WQTC;
- Ken Carla WQTC; and,
- Chenoweth Hills WQTC.

Monitoring Recordkeeping and Reporting at WQTCs

Continuous Flow Monitoring: As a part of the Amended Consent Decree, MSD is to provide continuous flow monitoring at its WQTCs where required by its KPDES permits and to maintain records of such flow monitoring for a minimum of three years.

Bypass Monitoring: MSD is to report in the quarterly reports submitted to the EPA and the Cabinet all Bypasses at MSD's WQTCs prohibited pursuant to the Code of Federal Regulations (CFR). In addition, MSD is required to comply with the advance notice requirements of any anticipated Bypass and with the 24-hour notice requirements of unanticipated Bypass.

Effluent Sampling: MSD is required to sample the effluent at the Jeffersontown WWTP seven days a week for the parameters listed in the current KPDES permit in accordance with the sample type and location indicated in the permit. MSD is to maintain all documentation regarding these sampling events for a minimum period of three years.

Siphon Monitoring and Inspection: Beginning July 1, 2008, MSD began to electronically monitor the water surface elevation in the siphon head box upstream of the headworks of the Jeffersontown WQTC. Based on a given elevation within the siphon head box indicating that SSO is likely to occur, MSD is to inspect the siphon head box and manholes on the gravity interceptor within 2,000 feet of the headworks of the Jeffersontown WQTC. When theses inspections identify an SSO, the occurrence is to be reported and documented in accordance with the approved SORP.

4.3.1.3 Reporting Requirement

Quarterly Reports

MSD is required to submit a quarterly report that describes its progress in complying with the Consent Decree, including a description of projects and activities, reductions in volumes and in the number of occurrences of unauthorized discharges, anticipated projects for the upcoming quarter, and other pertinent information.

The reports are structured as follows:

- Significant Accomplishments: Summarizes the high-level milestones achieved during the quarter and other important information.
- Current Activities Review: Describes the project scope, schedule, and status for past projects and activities that demonstrates the efforts conducted to comply with the CD.
- Performance Review: Gives an accounting of the current quarter and the cumulative reductions in volume and in the number of occurrences of unauthorized discharges from the SSS, CSS, WQTCs, and the discharges from MSD's CSO locations identified in the MFWQTC KPDES permit.
- Planned Activities: Describes the anticipated projects and activities that are scheduled to be performed for continued compliance with the CD.

The following quarterly reports have been submitted to date:

- Quarterly Report #1 January 31, 2006;
- Quarterly Report #2 April 28, 2006;
- Quarterly Report #3 July 28, 2006;
- Quarterly Report #4 October 30, 2006;
- Quarterly Report #5 January 30, 2007;
- Quarterly Report #6 April 30, 2007;
- Quarterly Report #7 July 30, 2007;
- Quarterly Report #8 October 30, 2007;
- Quarterly Report #9 January 30, 2008;
- Quarterly Report #10 April 30, 2008;
- Quarterly Report #11 July 30, 2008;
- Quarterly Report #12 October 30, 2008;
- Quarterly Report #13 January 30, 2009;
- Quarterly Report #14 April 30, 2009;
- Quarterly Report #15 July 30, 2009;
- Quarterly Report #16 October 30, 2009;
- Quarterly Report #17 January 30, 2010;
- Quarterly Report #18 April 30, 2010; and,
- Quarterly Report #19 July 30, 2010.

The reports are in conformance with the structure outlined above, and each of the reports has a comprehensive overview of the program elements, issues, and accomplishments relating to the CD.

Annual Reports

MSD is required to submit an annual report for its previous fiscal year with a summary CMOM Programs implementation pursuant to the CD, including a comparison of actual performance with any performance measures that have been established.

The report is structured to include the following sections:

- Program Activities Performed During the Reporting Period: This section describes the scope, schedule, and status of projects and other activities during the reporting period of July 1 through June 30 of the following year. The projects and activities described are those that demonstrate the efforts conducted to comply with the CD.

- Performance Overview: This section provides an accounting of the number of occurrences of overflows, including unauthorized discharges from the separate sanitary sewer and combined sanitary sewer systems, and the estimated volumes of each. A discussion of the probable reductions in both unauthorized discharge points and the discharges from MSD's CSO locations identified in the MFWQTC KPDES permit that are expected to result from MSD's projects and activities during the period is also included in this section.

- Program Activities for the Next Reporting Period: This section describes the anticipated projects and activities that are scheduled to be performed during the next reporting period for continued compliance with the CD.

- CMOM Program Implementation: This section describes the CMOM-specific projects and programmatic initiatives active during the reporting period, as well as those to be performed during the next reporting period.

The following Annual Reports have been submitted to the Cabinet and EPA:

- First Annual Report dated December 31, 2006;
- Second Annual Report dated December 21, 2007;
- Third Annual Report dated December 18, 2008;
- Fourth Annual Report dated December 22, 2009.

4.3.1.4 Civil Penalties and Supplemental Environmental Projects

The ACD contains stipulated penalties for MSD's failure to comply with provisions contained in the ACD, and MSD has agreed to the payment of an additional civil penalty in the amount of $230,000, as well as making total expenditure under the original CD and the ACD for Supplemental Environmental Projects in an amount not less than $2,250,000.

As a part of this program for supplemental environmental projects, MSD is installing rain barrels, rain gardens, riparian buffers, and sustainable landscapes and is implementing environmental programs in conjunction with schools and neighborhood communities.

Examples of Supplemental Environmental Projects

- Riparian Buffer - $75,000
  - $15,000 University of Louisville, Biology Dept., Research on groundwater movement through riparian systems.
  - $35,000 Olmsted Conservancy Woodlands Restoration Project, partnering with MSD for storm water management.
  - $25,000 Metro Parks for Grinstead/Lexington Road Riparian Buffer, revegetation along Beargrass Creek.

- Watershed Education - $250,000
  - $50,000 Jefferson County Soil Conservation, for elementary school watershed education.
  - $150,000 Living Lands & Waters, for month-long Clean Sweeps and workshops.
  - $50,000 Metro Parks, for Louisville and Jefferson County Environment Trust monitoring of conservation easements.

- Sustainable Landscapes - $100,000
  - $45,000 Youthbuild, for Summer 2007 E-Corps Program.
  - $30,000 Active Louisville, for Robert Wood Johnson grant support for nutrition education and Farmers Markets for Portland and Liberty Green neighborhoods.
  - $25,000 Farm Literacy program at Oxmoor Farm.

- Environmental Certification - $50,000

- Outdoor Classrooms - $70,000
  - $65,000 Farnsley Middle School RESTORE Program.
  - $5,000 Kennedy Montessori School Outdoor Classroom.

- K&I Pedestrian Bridge Restoration
  - $100,000 Waterfront Development Corporation for K&I bridge restoration.

- PRIDE Kentucky
  - $200,000 These funds were submitted to the state of KY for its use.

4.3.2 <u>Engineering Sanitary Projects</u>

There are approximately 146 projects currently listed under this category in the FY 2011 five-year CIP.

The projected budget for these projects for the next five years is $263,435,000.

The budgets noted above for the Engineering Sanitary Projects include projects required under the Amended Consent Decree and the Initial Overflow Abatement program.

4.3.2.1 Engineering Sanitary - Consent Decree Projects

There are no projects listed in this category in the FY 2011-2015 five-year CIP.

4.3.2.2 Engineering Sanitary - Integrated Overflow Abatement Projects

The Final Sanitary Sewer Discharge Projects and the Final Long Term Control Projects combined and termed as the Initial Overflow Abatement Projects identifies 61 different projects.

The projected budget for these projects for the next five years is $208,591,000.

4.3.3 <u>Regulatory Services Sanitary Projects</u>

There are approximately 109 projects currently listed under this category.

The projected budget for these projects for the next five years is $302,575,000.

The budgets noted above for the Regulatory Services Sanitary Projects include projects required under the Amended Consent Decree and the Initial Overflow Abatement program.

4.3.3.1 Regulatory Services Sanitary – Consent Decree Projects

There are 118 Consent Decree related projects under the Regulatory Services Sanitary Projects.

The projected budget for these projects over the next three years is $45,805,000.

4.3.3.2 Regulatory Services Sanitary – Integrated Overflow Abatement Projects

Initial Overflow Abatement Projects list identifies 124 different projects under the Regulatory Services Sanitary Projects.

The projected budget for these projects for the next five years is $212,346,000.

4.3.4 Infrastructure and Flood Protection Sanitary Projects

There are 22 projects listed in this category.

The projected budget for these projects for the next five years is $6,751,000.

4.3.5 Operations – Operations Sanitary

A total of 25 projects are listed under Operations Sanitary.

The projected budget for these projects for the next five years is $1,994,000.

4.3.6 General/Miscellaneous

The general/miscellaneous area includes the services of the Construction Team to implement compliance enforcement of the Erosion Prevention and Sediment Control Ordinance passed in 2000, Ohio River Greenway Levee Trail, Central Maintenance Facility, energy conservation project, odor control projects, strategic manhole flow monitoring, technical services engineering and testing support, and underground storage tank management.

There are 27 project listed under this category.

The projected budget for these projects for the next five years is $3,640,000.

4.3.7 LOJIC

Projects in this category include measurement of impervious areas; aerial photography and imagery updates; plan review and permitting; and, base mapping updates. There are 10 projects listed in this category.

The projected budget for these projects for the next five years is $1,311,000.

4.3.8 Equipment

Capital Equipment projects are for the purchase of trucks and equipment used in the maintenance of MSD's infrastructure. 40 projects are listed in this category.

The projected budget for these projects for the next five years is $ 13,399,000.

4.3.9 Drainage

MSD's storm water drainage system is comprised of various types of facilities to collect, convey, retain, and discharge storm water runoff into sewers, rivers, streams, and creeks that eventually drain into the Ohio River. These facilities include approximately 1,500 miles of major and secondary drainage channels, 16 pumping stations, including the Riverfront station (used in connection with the Ohio River flood protection wall), and six combined storm water/wastewater major pumping stations. Other associated drainage facilities include: ditches, culverts, conduits, ponds, detention basins, and retention basins. Essentially, all facilities within the Drainage Service Area are operated and maintained by MSD by virtue of the consolidation of drainage services in accordance with the Agreements for Interlocal Cooperation, effective January 1, 1987, established between MSD, the city of Louisville, Jefferson County, and several third- and fourth-class cities (identified earlier, Table 3-9).

Included in MSD's responsibility is operation and maintenance of the approximately 30-mile long Ohio River flood protection system. Seventeen miles of the flood protection system were built between 1947 and 1956, and a 13-mile extension of the flood protection system was completed to the southwestern border of Jefferson County in the 1980s. The flood protection system consists of earthen levees, concrete walls, 16 pumping stations (including the Riverfront Station), 185 street closures, and drainage control gate closures that protect Louisville Metro.

In January 2003, MSD and Mayor Jerry Abramson outlined a plan to tackle Louisville's most pressing drainage problems. This plan initiated a 30-month program – dubbed Project DRI (Drainage Response Initiative) – to review customer service requests, develop solutions, and allocate resources to achieve the solutions in a streamlined manner. Phase 1 of Project DRI identified 380 of the worst drainage problems in the Louisville Metro area. Phase 1 of Project DRI was completed in FY 2006, and Phase 2 ended during FY 2007. During 2008, plans for Phase 3 of Project DRI were announced which called for an additional investment of $25 million over 30 months, beginning in January 2008. Phase 3 projects of Project DRI are ongoing and are expected to be completed by early 2011. A fourth phase of Project DRI is expected to begin after the completion of Phase 3 and will include $3.5 million per year in neighborhood drainage projects over the next three years.

4.3.9.1 Engineering Drainage

Besides the DRI projects, there are 47 other engineering drainage projects listed in this category.

The projected budget for these projects for the next five years is $4,380,000.

4.3.9.2 Regulatory Services Drainage

There are 22 Regulatory Services Drainage projects listed in this category.

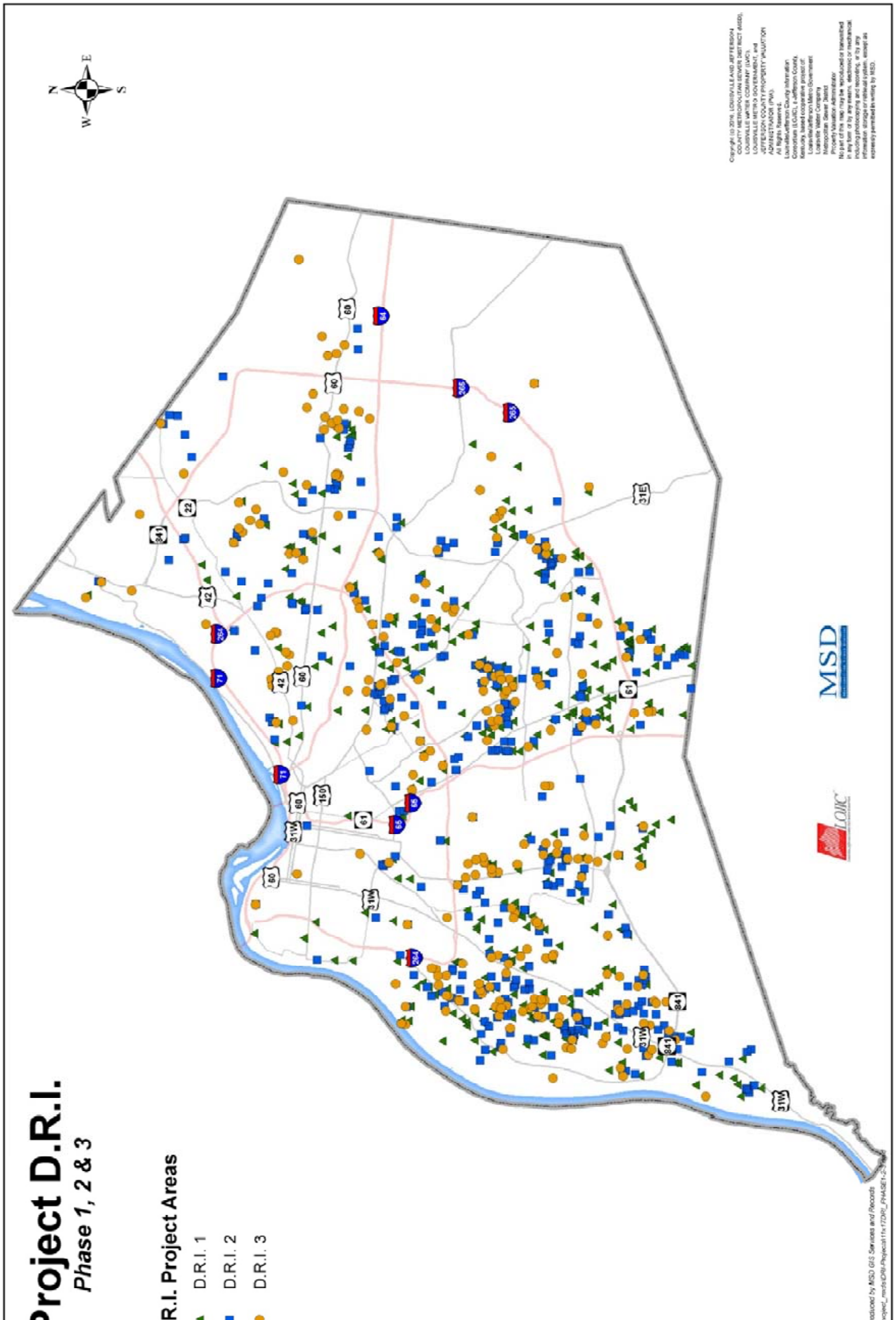
The projected budget for these projects for the next five years is $257,000.

4.3.9.3 Infrastructure and Flood Protection Drainage Projects

There are 87 Infrastructure and Flood Protection Drainage Projects listed in this category.

The projected budget for these projects for the next five years is shown to be $8,300,000.

Figure 4-2
Completed DRI Phase 1 & 2 Project



5. FINANCIAL STRUCTURE

5.1 BOND RESOLUTION

Under the 1993 Bond Resolution, MSD moved to consolidate its numerous operating, capital, and debt service funds into three on-going funds: the Revenue Fund, which receives and disposes of all MSD revenues; the Bond Fund which consists of debt service and debt service reserve accounts; and the Construction & Acquisition Fund which receives all construction bond proceeds, contributed capital, and MSD net income designated by its Board for capital construction. The Revenue Fund provides 110 percent debt service coverage on all outstanding MSD revenue bonds, provides for operation and maintenance of the System, and provides a supplemental source of funds to the C&A Fund for renewal and replacement of capital assets. This structure greatly facilitates the flow of funds to capital investment. MSD anticipates that it will maintain a minimum working capital balance of approximately $45.9 million with an average of $141.8 million in net available revenues in its Revenue Fund during the five-year planning period 2011 through 2015. During the five-year planning period, MSD will reduce its working capital from $369.2 million in the beginning of FY 2011 to $45.9 million at the end of FY 2015. This reduction will be used to partly fund the five-year CIP. The issuance of the previous bond issues under the 1993 Bond Resolution provided MSD with a 30-year level debt service structure for all MSD long-term debt.

5.2 THE 2010 MSD CIP FINANCING PLAN

Chapter 76 of the Kentucky Revised Statutes charters MSD to expand its sewer and drainage system to a potential customer base that includes all of the residents of Louisville Metro.

Chapter 76 provides MSD with four basic means by which to finance its CIP. First, it permits MSD to generate net revenues from service charges and other operating income with which to fund renewal, replacement, and new construction and acquisition. Second, Chapter 76 permits MSD to pledge all or a portion of revenues of the system to provide coverage, including excess coverage, of debt service on bonds issued and loans negotiated by MSD. (Louisville Metro Government has facilitated the exercise of this statutory authority by permitting MSD to increase its revenue by up to 7 percent annually, by unilaterally increasing base service charge rates, in order to maintain 110 percent debt service coverage on MSD's revenue bonds prospectively). Third, Chapter 76 permits MSD to accept capital contributed by governments (monetary grants), property owners, and developers (usually in-kind). Fourth, Chapter 76 permits MSD to assess property owners for all or a portion of costs incurred by MSD to construct collector systems serving their properties. The sources of funds referred to in Table 5-1 will be available to construct $487.9 million of projects identified as having first priority in the next five years, among other things.

As of June 30, 2011, MSD will have capital funds available in the amount of $142.9 million to partially finance the long-term CIP. It is reasonable to assume that the balance of the CIP projects will be financed through net revenues, available funds, contributed capital, and financing proceeds from future bond issues. Projected sources of funds for the five-year period are presented in Table 5-1.

Table 5-1
Sources of Funds
FY 2011 through 2015
MSD Five-year Capital Improvement Plan
(In Thousands)

Funding Source	Projected Funding Budget
From Bond Issues	$ 410,000
From Contributed Capital	6,600
Available Revenues	224,434
Capitalized Interest and Issuance Costs	(51,212)
Working Capital	352,980
TOTAL FIVE-YEAR CIP FUNDING SOURCES	$ 942,802

MSD's comprehensive plan is for financing the CIP projects in annual increments averaging $97.6 million of gross capital project design/construction expense and $31.9 million of MSD capital project management expenses. The projects are sourced from an average of $82.0 million in net financing proceeds and $46.2 million in annual available net revenue and contributed capital.

5.3 MSD REVENUES

Approximately 81 percent of MSD's total available revenues in FY 2010 were derived from wastewater and storm water service charges, which are collected from residential, commercial and industrial customers. This percentage is expected to increase to nearly 90 percent by FY 2015.

One of MSD's principal customer service goals is to provide service at reasonable rates, with predictable annual increases in rates. MSD is permitted to increase revenue by seven percent annually from service charge rate increases alone. To finance projects associated with the Consent Decree, a Consent Decree Surcharge was introduced in August 2007. Table 5-2 presents an overview of rate increases from 1987 to 2010.

The Consent Decree Surcharge generated nearly $28.9 million during FY 2008. MSD conducted a public outreach campaign to educate customers on the Consent Decree and to explain the need for the surcharge. The public and the Louisville Metro Council have reacted favorably to the surcharge and have been active participants in prioritizing how the funds will be spent.

Table 5-2
Annual Rate and Revenue Increase

	Wastewater			Storm Water		
Date of Rate Increase	**% Rate Increase**		**Annual Additional Revenue From Rate Increase**	**% Rate Increase**		**Annual Additional Revenue From Rate Increase**
1/1/87				N/A	[1]	$8,165,000
7/1/88	4.3%	(A)	$1,496,000			
1/1/91	6.5%	(A)	$2,731,000			
1/1/92	4.5%	(A)	$1,973,000			
12/1/92				57.1%	(A)	$4,879,000
8/1/94	5.0%	(B)	$2,337,000			
8/1/95	7.0%	(B)	$3,516,000			
8/1/96	5.0%	(B)	$2,703,000	4.4%	(A)	$604,000
8/1/97	5.0%	(B)	$2,772,000	4.5%	(A)	$663,000
8/1/98	5.0%	(B)	$2,900,000	5.0%	(A)	$800,000
8/1/99	5.0%	(B)	$3,150,000	5.0%	(A)	$850,000
8/1/00	5.0%	(B)	$3,101,000	5.0%	(A)	$861,000
8/1/01	5.0%	(B)	$3,314,000	5.0%	(A)	$921,000
8/1/02	6.5%	(B)	$4,540,000	6.5%	(A)	$1,326,000
8/1/03	6.5%	(B)	$5,012,659	6.5%	(A)	$1,407,505
8/1/04	6.5%	(B)	$5,184,032	6.5%	(A)	$1,526,281
8/1/05	6.5%	(B)	$5,655,634	6.5%	(A)	$1,671,724
8/1/06	6.9%	(B)	$6,414,405	6.9%	(A)	$1,957,887
8/15/07			$28,875,000[2]			
8/1/08	6.5%	(B)	$8,017,688	6.5%	(A)	$2,015,401
8/1/09	6.5%	(B)	$8,466,545	6.5%	(A)	$2,095,583
8/1/10	6.5%	(B)	$8,683,175	6.5%	(A)	$2,246,123

[1] Initial storm water rate: $1.75 per equivalent service unit.
[2] MSD adopted a surcharge to help fund the EPA Consent Decree effective August 15, 2007. Residential customers will pay $6.95 per month and Commercial & Industrial customers will pay the greater of $6.95 per month or a volume charge ranging from $.49 to $.93 per thousand gallons of water used or sewage discharged depending on their billing classification. This amount does not reflect a full year of surcharge collections. It only reflects the amount collected from August 15, 2007, through the end of FY 2008.
(A) Across-the-board adjustment of all rates.
(B) Composite yield of a variety of rate adjustments.

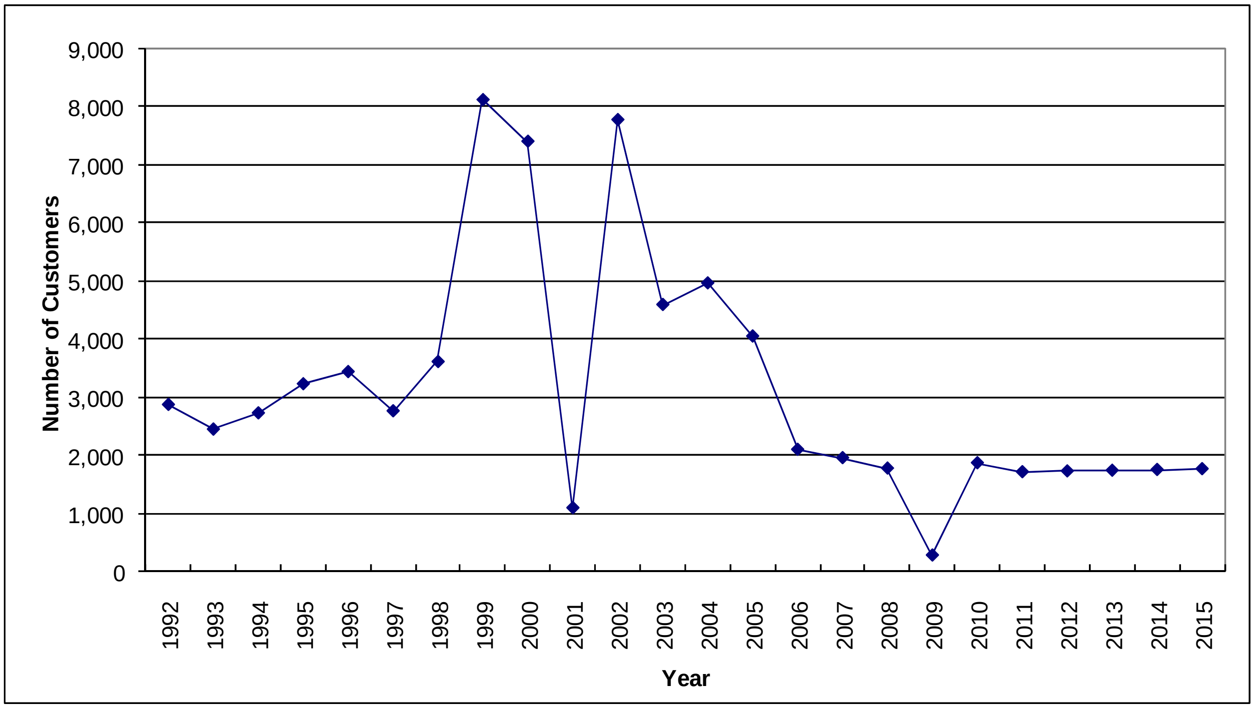
Source: MSD

Customer Increase

The controlled upgrading and expansion of MSD's combined system of services will increase the number of customers. Therefore, there will be an increase in the amount of revenues collected from service fees and other rates and rentals associated with wastewater and storm water drainage services.

MSD is projecting the number of wastewater customers to increase by approximately .79 percent annually from FY 2011 to FY 2015. The actual annual change in MSD customers from FY 1999 to FY 2010 and the estimated increase from FY 2011 to FY 2015 can be seen in Figure 5-1. Total customers increased in FY 2010 by 1,869.

Figure 5-1
Annual Change in MSD Customers



MSD customers are actual through year 2010 and projected for years 2011 to 2015.

The projected increase is expected to result in a total of approximately 8,700 new wastewater customers (mostly residential customers) for the five-year planning period FY 2011 through FY 2015. Storm water revenue increases are projected primarily from service area expansion and expansion of impervious surfaces within MSD's service area.

5.4 PROJECTED REVENUE/EXPENSE POSITION

Table 5-3 presents a financial projection of MSD sewer and drainage system operations through FY 2015, together with actual data for the five years ending June 30, 2010. All operating results are stated on a basis consistent with the definitions and other provisions of the 1993 Revenue Bond Resolution. Actual operating results for the fiscal years 2006 through 2010 are based on MSD's audited financial statements. The MSD projections and estimates are deemed by Corradino to be reasonably based on industry standards and in accordance with accepted engineering practice. Using the fiscal year 2011 budget and 2006 through 2010 financial reports as a basis for projection, the five fiscal years, 2011 through 2015, were estimated using the following assumption:

- Estimated aggregate net debt service on MSD long-term debt ranges from $89.1 million in fiscal year 2011 to $100.8 million in fiscal year 2015.

Table 5-3
Louisville/Jefferson County, Kentucky, Metropolitan Sewer District
Sewer and Drainage System Revenue Bonds, Series 2010A
Actual and Projected Revenues and Expenses[1]
($ in thousands)

	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected	FY 2015 Projected
AVAILABLE REVENUES: (2)										
Rates, Fees, Rentals and Charges:										
Wastewater service charges	93,907	96,594	125,782	130,661	133,853	140,546	147,573	154,952	164,249	174,104
Stormwater service charges	28,736	29,896	31,107	32,343	34,757	37,155	39,719	42,460	45,389	48,521
Total Rates, Fees, Rentals and Charges	122,643	126,490	156,889	163,004	168,610	177,701	187,292	197,411	209,638	222,625
Other Available Revenues: (3)										
Other operating income	7,122	5,966	4,394	4,552	2,980	4,000	4,500	5,000	5,500	5,500
Current assessment payments	6,796	8,237	2,251	4,387	7,093	4,000	4,000	4,000	4,000	4,000
BAB interest reimbursement	-	-	-	-	2,260	7,442	10,067	10,991	11,651	11,651
Investment income	5,558	8,417	6,085	25,568	33,785	12,000	10,500	10,500	10,500	9,500
Less: capitalized investment income	(1,594)	(3,747)	(1,190)	-	(5,990)	(5,400)	(4,725)	(4,725)	(4,725)	(4,275)
Total Other Available Revenues	17,882	18,873	11,540	34,507	40,128	22,042	24,342	25,766	26,926	26,376
TOTAL AVAILABLE REVENUES	**140,525**	**145,363**	**168,429**	**197,511**	**208,738**	**199,743**	**211,634**	**223,177**	**236,564**	**249,001**
DEBT SERVICE FROM AVAILABLE REVENUES										
Current maturities of long-term debt	17,250	18,190	21,255	23,105	23,785	23,785	24,840	26,120	27,480	29,035
Interest expense	66,162	70,548	66,918	72,776	69,949	77,751	84,312	86,203	86,822	85,449
Less: Capitalized interest expense	(15,758)	(14,140)	(10,530)	-	(13,910)	(12,440)	(13,490)	(13,792)	(13,892)	(13,672)
AGGREGATE NET DEBT SERVICE (4)	**67,654**	**74,598**	**77,643**	**95,881**	**79,824**	**89,096**	**95,662**	**98,531**	**100,410**	**100,812**
110% OF AGGREGATE NET DEBT SERVICE (5)	**74,419**	**82,058**	**85,407**	**105,469**	**87,806**	**98,005**	**105,228**	**108,384**	**110,452**	**110,893**
OPERATING EXPENSES: (6)										
Labor	29,866	33,150	35,439	35,931	38,066	39,779	41,569	43,440	45,394	47,437
Utilities	8,841	7,728	9,312	7,876	8,541	8,968	9,416	9,887	10,382	10,901
Materials and supplies	5,470	5,771	6,242	6,364	6,493	6,688	6,888	7,095	7,308	7,527
Professional services	1,796	1,969	2,241	1,988	1,699	1,750	1,802	1,857	1,912	1,970
Maintenance and repairs	5,482	5,657	6,399	7,044	6,361	6,552	6,748	6,951	7,159	7,374
Billing and collections	2,733	2,034	3,813	2,638	3,207	3,303	3,402	3,504	3,610	3,718
Chemicals and fuel	3,594	3,397	3,691	4,140	4,385	4,517	4,652	4,792	4,935	5,083
Biosolids and grit disposal	1,098	994	1,191	1,502	1,572	1,619	1,668	1,718	1,769	1,822
All other operating expenses	2,166	2,779	2,007	2,051	2,616	2,694	2,775	2,859	2,944	3,033
TOTAL OPERATING EXPENSES	**61,046**	**63,479**	**70,335**	**69,534**	**72,939**	**75,870**	**78,922**	**82,102**	**85,414**	**88,865**

Table 5-3 (continued)
Louisville/Jefferson County, Kentucky, Metropolitan Sewer District
Sewer and Drainage System Revenue Bonds, Series 2010A
Actual and Projected Revenues and Expenses[1]
($ in thousands)

	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected	FY 2015 Projected
SOURCES (USES) OF WORKING CAPITAL: (7)										
From current year available revenues	11,825	7,286	20,451	32,096	55,975	34,777	37,050	42,545	50,739	59,324
Contributed capital	2,397	1,204	1,266	1,574	381	1,200	1,200	1,200	1,500	1,500
Proceeds from bonds and notes	102,153	-	166,125	84,590	882,502	556,340	-	80,000	-	-
Decrease(increase) in debt service reserves	-	-	(4,064)	(8,439)	(42,440)	(30,000)	-	(8,000)	-	-
Defeasance/retirement of debt	-	-	(61,900)	(75,447)	(463,670)	(452,680)	-	-	-	-
KIA Deposit	-	-	-	-	-	-	-	-	-	-
Contractual capital project design/construction	(23,163)	(37,378)	(39,141)	(47,741)	(69,866)	(216,840)	(134,781)	(66,999)	(52,127)	(17,138)
MSD capital project management	(25,387)	(26,678)	(26,510)	(24,401)	(28,129)	(29,310)	(30,541)	(31,824)	(33,161)	(34,554)
Net capitalized interest	(14,164)	(10,393)	(9,340)	-	(7,920)	(7,040)	(8,765)	(9,067)	(9,167)	(9,397)
Underwriters' discounts and issuance costs	(1,227)	-	(1,927)	(704)	(6,948)	(7,176)	-	(960)	-	-
LOJIC enterprise investment	(464)	(333)	(176)	(679)	(95)	(437)	(437)	-	-	(312)
Increase(decrease) in working capital	51,970	(66,292)	44,784	(39,151)	319,790	(151,167)	(136,275)	6,894	(42,215)	(577)
BEGINNING WORKING CAPITAL	**58,102**	**110,072**	**43,780**	**88,564**	**49,413**	**369,203**	**218,036**	**81,761**	**88,656**	**46,441**
ENDING WORKING CAPITAL	**$ 110,072**	**$ 43,780**	**$ 88,564**	**$ 49,413**	**$ 369,203**	**$ 218,036**	**$ 81,761**	**$ 88,656**	**$ 46,441**	**$ 45,863**
NET REVENUES	**79,479**	**81,884**	**98,094**	**127,977**	**135,799**	**123,873**	**132,712**	**141,075**	**151,150**	**160,136**
DEBT SERVICE COVERAGE RATIO (a)	**117%**	**110%**	**126%**	**133%**	**170%**	**139%**	**139%**	**143%**	**151%**	**159%**
DEBT SERVICE COVERAGE RATIO (b)					**143%**	**119%**	**120%**	**124%**	**131%**	**139%**

(a) - Excludes Subordinated Debt
(b) - Includes Subordinated Debt

Table 5-3 (continued)
Louisville/Jefferson County, Kentucky, Metropolitan Sewer District
Sewer and Drainage System Revenue Bonds, Series 2010A
Actual and Projected Revenues and Expenses

Notes

(1)

The classification of Revenues and Expenses follows the definitions contained in MSD's *1993 Sewer and Drainage System Revenue Bond Resolution* and its supplements (collectively, *"the Resolution"*), including the *Fifteenth Supplemental Sewer and Drainage System Revenue Bond Resolution*, adopted by MSD on July 12, 2010, pursuant to which the *Series 2010A Sewer and Drainage System Revenue Bonds* ("the Current Bonds") are being offered. This classification varies in certain material respects from the classifications that would be applied following *generally accepted accounting principles for governmental enterprises ("GAAP")*, as well as from those prescribed in MSD's earlier (1989, 1971 and 1949) Revenue Bond Resolutions.

The Resolution requires MSD to provide *Available Revenues*, as defined in the Resolution, sufficient to pay 110 percent of each fiscal year's *Aggregate Net Debt Service* on Revenue Bonds and 100 percent of *Operating Expenses*.

Available Revenues, as used only for purposes of the Resolution, means all revenues and other amounts received by MSD and pledged as security for payment of Bonds issued pursuant to the Resolution, but excludes any interest income that is capitalized in accordance with GAAP. Available Revenues include, therefore, but should be distinguished from service charges and other operating income (collectively, "operating revenues"), and investment income, as reported in MSD's general purpose financial statements. Most notably, Available Revenues also include property owner assessments and assessment installments which become due during any reporting period.

Operating Expenses include all reasonable, ordinary, usual or necessary current expenses of maintenance, repair and operation of the *System* determined in accordance with GAAP, but exclude reserves for extraordinary maintenance and repair (if any), and do not include administrative and engineering expenses of MSD which are necessary or incident to capital improvements for which debt may be issued pursuant to the Resolution, and which, pursuant to the Resolution, may be paid from the proceeds of such debt as *Costs of Construction and Acquisition*. Operating Expenses are, therefore, identical to service and administrative costs, as reported in MSD's general purpose financial statements, but do not include depreciation, which is a component of operating expenses in those statements.

Aggregate Net Debt Service is aggregate current principal and interest requirements on all Bonds issued pursuant to the Resolution, excluding [i] interest expense which in accordance with GAAP is capitalized and which may be paid from the proceeds of debt issued pursuant to the Resolution as a Cost of Construction and Acquisition, and [ii] other amounts, if any, available, or expected to become available in the ordinary course, for payment of principal and interest and not included in Available Revenues. Thus, the interest expense component of Aggregate Net Debt Service is identical to interest expense as reported in MSD's general purpose statements of revenue, expense and net assets.

(2)

Rates, Fees, Rents and Charges, as defined in the Resolution are identical to MSD's *service charges* for the conveyance and treatment of wastewater and for storm water drainage and flood protection, as reported in MSD's general purpose financial statements.

For fiscal years prior to FY 2011, the figures in Table 5-3 are actuals.

(3)

Other Available Revenues include other operating income and investment income as reported in MSD's general purpose financial statements, and property owner assessments and assessment installments which become due during any reported period.

Other operating income consists largely of system development charges: wastewater capacity charges, sewer connection fees, storm water regional facilities fees and LOJIC product sales. The category also includes miscellaneous fines and charges for service incidental to MSD's primary mission and biosolid pellet sales. Biosolid pellet sales began in 2006. For fiscal years prior to FY 2011, the figures in Table 5-3 are actuals.

For FY 2011, revenue from these sources is projected at $4.0 million and is projected to increase by $500,000 annually through 2014 and remain constant in 2015. These projections reflect MSD's recent experience and the likelihood under current MSD policy that a number of these fees and charges will be adjusted to reflect the system value added from MSD's investment in increased System capacity. MSD considers the Table 5-3 projection of this category a low-to-middle case conservative forecast, given the other economic and policy assumptions underlying the overall projection.

Assessments are levied by MSD pursuant to the provisions of Chapter 76 of the Kentucky Revised Statutes, which authorizes MSD to issue apportionment warrants which evidence the allocation of liability for collector project costs among benefited property owners, and are negotiable. Property owners may repay MSD in lump sum or in equal monthly installments over 20 years at seven percent interest. Assessments are booked, at the face value of apportionment warrants issued by MSD, as contributed capital in MSD's general purpose financial statements. (Effective in FY 2002, GASB Statement 34 requires all contributed capital to be recorded as revenue, and MSD's financial statements reflect this change.) However, because a significant portion of the assessments is a long-term receivable (in MSD's recent experience, about 40 percent of property owners pay in full within two years of the assessment), MSD records only that portion of assessments, together with accrued interest, becoming due within any reported period as Available Revenues.

For fiscal years prior to FY 2011, the figures in Table 5-3 are actuals. For FY 2011 and subsequent fiscal years, assessments have been projected in accordance with MSD's current project delivery schedule and MSD's experience that approximately 60 percent of assessed property owners will elect MSD's installment payment plan. For the five-year period ending June 30, 2015, MSD projects revenue of $4.0 million annually from existing and future assessment projects.

For fiscal years prior to FY 2011, *investment income* figures (gross and net) are actuals and identical to those reported in MSD's general purpose financial statements. For FY 2011 and subsequent fiscal years, investment income is projected as the product of projected average balances of cash and investments (reserved for authorized construction and unreserved).

(4)

Aggregate Net Debt Service components – current maturities of long-term debt, interest expense and capitalized interest expense – for fiscal years prior to FY 2011 are actual figures and are identical to those reported in MSD's general purpose financial statements. For FY 2011 and subsequent fiscal years both current maturities of long-term debt and interest expense include scheduled payments on Bonds previously issued pursuant to the Resolution, scheduled payments on the Current Bonds and payments to be scheduled on *Additional Bonds* (at the same yield) projected to be issued during FY 2011. For FY 2011 and subsequent fiscal years, capitalized interest expense is projected as the product of expected average balances of construction in progress and of cash and investments reserved for authorized construction.

(5)

Pursuant to Article 7 Section 7.11 A. of the Resolution, MSD covenants to "fix, establish, maintain and collect rates, fees, rents and charges for services of the System, which together with other Available Revenues are expected to produce Available Revenues which will be at least sufficient for each Fiscal Year to pay the sum of: [1] an amount equal to 110 percent of the principal of and interest coming due on Prior Lien Bonds and 110 percent of the Aggregate Net Debt Service for such Fiscal Year...." Table 5-3 exhibits compliance with this covenant requirement for each of the ten actual and projected fiscal years.

(6)

Operating Expenses for FY 2006 through FY 2010 are actuals and are identical to the figures reported in MSD's general purpose financial statements. For FY 2011 through FY 2015, expenses are projected to increase by four percent. Table 5-3 projects changes in operating costs based on assumed underlying annual inflation of three percent for all categories, except labor and utilities. Labor, the largest expense, is projected to increase by 4.5 percent annually for FYs 2011 through 2015, while utilities are expected to increase by 5.0 percent annually over the same period.

(7)

For purposes of Table 5-3, the *Sources (Uses) of Working Capital* analysis provides an accounting of funds held by MSD which, while remaining subject to the pledge effected by the Resolution in Article 5 Section 5.1 for the benefit of Bondholders, are available pursuant to the Resolution to pay Costs of Construction and Acquisition.

Contributed capital consists of cash or in-kind contributions in aid of construction and acquisition from governments, property owners and developers, but excludes assessments. Both the actual figures for years prior to FY 2011 and the projected figures for subsequent years represent principally construction of new lines by developers.

Proceeds from bonds and notes for fiscal years 2006 through 2010 are actuals. Table 5-3 projects issues in FY 2011 of $556.3 million and $80 million in FY 2013.

In the *Defeasance/retirement of debt* Category, approximately $452.7 million will be used to refund the 2009 Bond Anticipation Note (BAN) and the 2010 BAN in FY 2011.

The categories *contractual capital project design/construction, MSD capital project management, net capitalized interest*, and *underwriters' discount and issuance cost* represent collectively the amount (actual for FY 2006 through FY 2010, projected from MSD's Board-approved five-year capital budget for FY 2011 through FY 2015) of Costs of Construction and Acquisition incurred by MSD for the planning, management, design and construction of improvements and betterments of its sewage collection and treatment and storm water drainage and flood control facilities.

(8)

Net Revenues is the amount by which Revenues exceed Operating Expenses. Actual Net Revenues are presented for fiscal years preceding FY 2011. For FY 2011 and subsequent fiscal years, Net Revenues are the projected results of operations as measured by the definitions of the Resolution.

(9)

Debt service coverage is the ratio, expressed as a percentage, of Net Revenues to Aggregate Net Debt Service.

Debt service coverage is computed in order to determine MSD's ability to deliver the certificate of its Authorized Officer prior to the authentication and delivery of Additional Bonds pursuant to the provisions of Article 2, Section 2.2 A [6] and[7], and Section 2.6 of the Resolution (collectively, the *Additional Bonds Test*). As used only for this purpose, debt service coverage is measured by subtracting Operating Expenses from Revenues before determining debt service coverage. For all other purposes of the Resolution (including MSD's covenants concerning the establishment and amendment of rates, fees, rents and charges) 110 percent of Aggregate Net Debt Service is subtracted first from Available Revenues to determine net revenues available for other purposes of MSD. Pursuant to these covenants, MSD's budgetary and financial management policies require that, for any period, Revenues available after subtraction of 110 percent coverage of Aggregate Net Debt Service (and 100 percent of Senior Subordinated Debt Service), are the net revenues available for Operating Expenses. There are two debt service coverage ratios presented in Table 5-3, one excluding subordinated debt and one including subordinated debt.

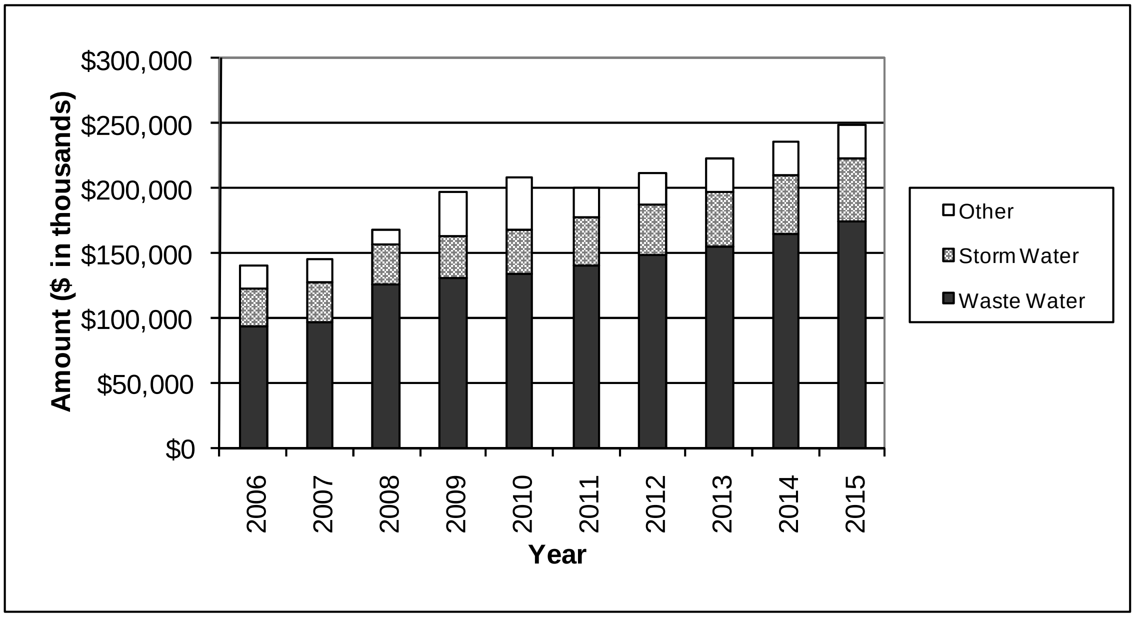
MSD's Co-Bond Counsel Wyatt, Tarrant & Combs, LLP and Zielke Law Firm, PLLC; MSD's Consulting Engineer, The Corradino Group; and MSD's financial advisor, First American Municipals Inc. all have reviewed the following computation and its supporting computations and all concur that MSD may issue the Current Bonds and deliver the certificates required by Article 2 Sections 2.2 A [6] and [7] of the Resolution.

Additional Bonds Test

Net Revenues for Fiscal Year Ended June 30, 2010	$ 135,799,000
Adjustments to Net Revenues at 100%	
Annualization of rate increase approved after July 1, 2010	10,929,298
Increases in customer base from projects substantially completed with funds other than proceeds of the Current Bonds	2,006,400
Revenue increases to be effective no later than fiscal year beginning July 1, 2014, approved by MSD Board with 5-year budget adopted June 30, 2010	51,298,201
Annual revenue from assessments of projects substantially completed with proceeds from prior issues	5,752,800
Total adjustments to Net Revenues at 100%	69,986,699
Adjustments to Net Revenues at 75%	
Increases in customer base from projects to be completed with proceeds of current Bonds	401,280
Total adjustments to Net Revenues at 75%	401,280
Total adjustments to Net Revenues	70,387,979
Net Revenues Applicable to Determine Coverage of Maximum Aggregate Net Debt Service	206,186,979
110% of Maximum Aggregate Net Debt Service on Revenue Bonds Issued and Outstanding under the Resolution, including the Current Bonds (122,560,538 X 1.1)	$ 134,816,592

- Revenues from wastewater and storm water service charges are expected to increase by 5.4 percent in FY 2010 through 2013, and by 6.2 percent in FY 2014 and FY 2015. This results in an increase in total revenues from rates, fees, rentals, and charges from $177.8 million in FY 2011 to $222.6 million in FY 2015. Other operating income is expected to increase by $1.0 million in FY 2011, and increase by $500,000 annually from FY 2012 through 2014 and remain the same in FY 2015. Figure 5-2 shows the actual (FY 2006 through FY 2010) and projected (FY 2011 through FY 2015) available revenues.

Figure 5-2
Available Revenues

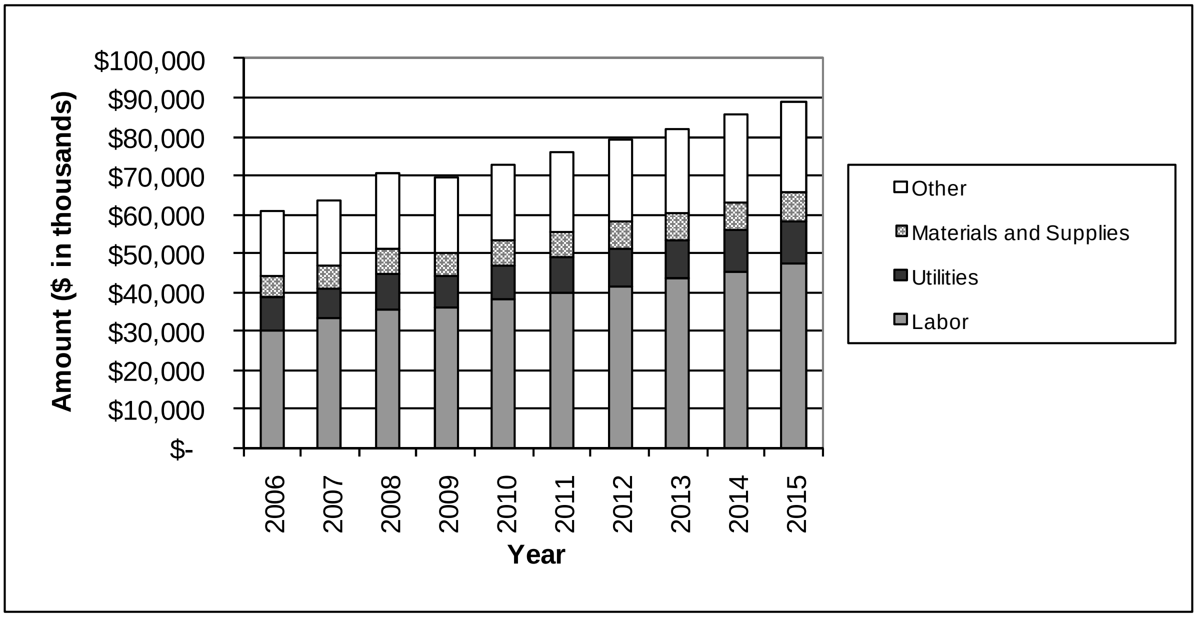


MSD's available revenues are actual through 2010, and projected for years 2011 to 2015.

- Labor costs are expected to increase by 4.5 percent annually FY 2011 through 2015. Other operating expenses are expected to increase by 3.0 percent annually in FY 2011 through 2015. Figure 5-3 shows the actual (FY 2006 through FY 2010) and projected (FY 2011 through FY 2015) operating expenses.

- Working capital is expected to decrease from nearly $369.2 million in FY 2011 to $45.9 million in FY 2015.

Figure 5-3
Operating Expenses



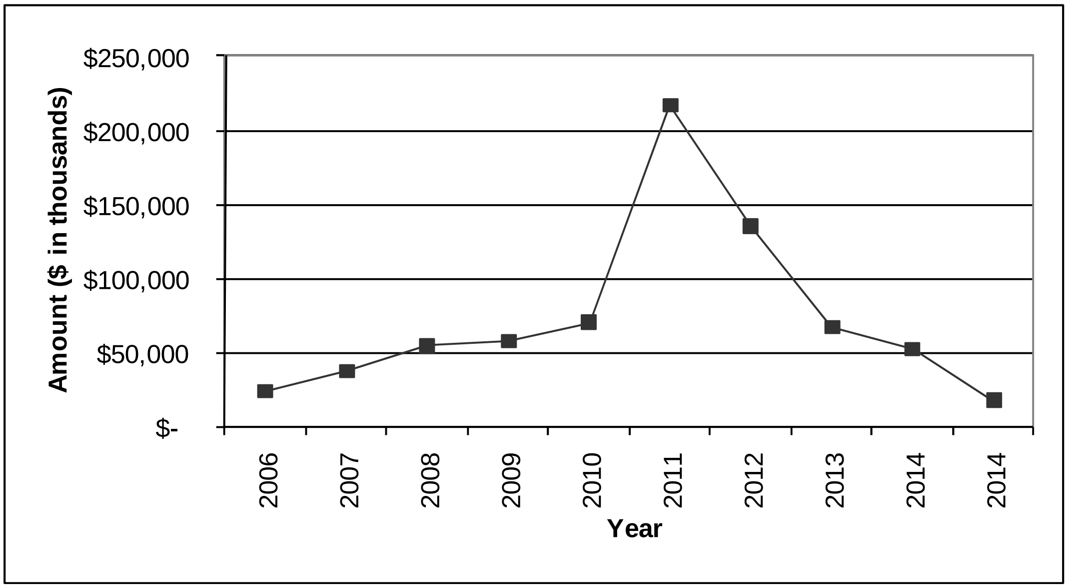
MSD's operating expenses are actual through 2010, and projected for years 2011 to 2015.

- Capital Improvement Project (CIP) cost is expected to decrease from $216.8 million in FY 2011 to $17.1 million in 2015. Figure 5-4 shows the actual (FY 2006 through 2010) and projected (FY 2011 through FY 2015) CIP expenses. During the five-year planning period (FY 2011 through FY 2015), MSD projects $487.9 million in gross capital project design and construction.

Based on these assumptions, the net revenues are projected to increase from $123.9 million in FY 2011 to $160.1 million in FY 2015.

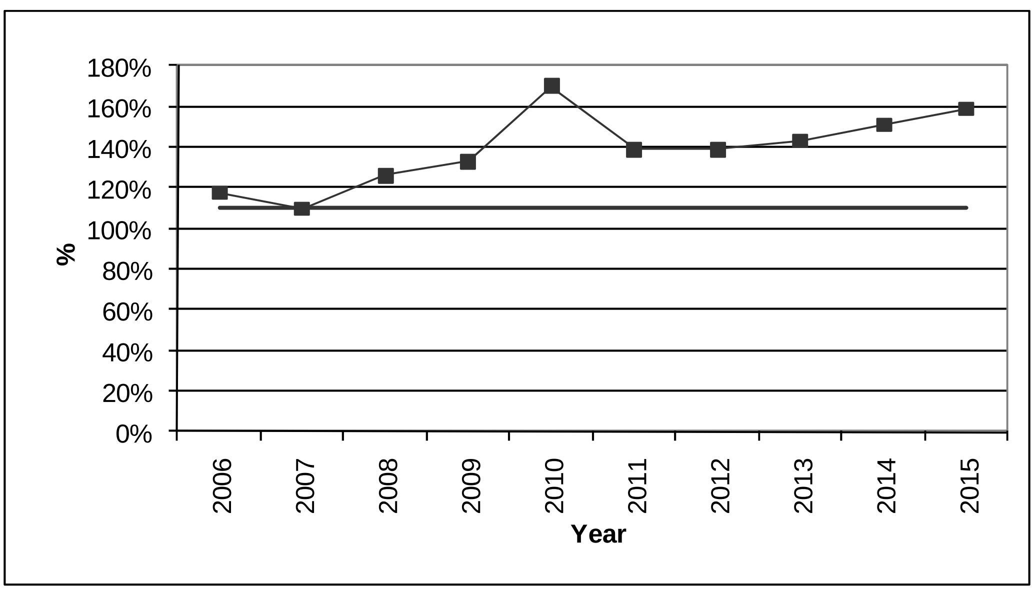
During the five-year planning period, MSD will meet the required 110 percent (shown as horizontal line in Figure 5-5) debt service coverage under the MSD 1993 Bond Resolution. Figure 5-5 shows the actual, estimated, and projected debt service coverage.

Figure 5-4
Annual Contractual Capital Project Design/Construction Expenses



MSD's annual CIP Expenses are actual through 2010, and projected for years 2011 to 2015.

Figure 5-5
Debt Service Coverage



Debt service coverage is actual through year 2010, and projected for the years 2011 to 2015.

6. FINDINGS AND CONCLUSIONS

6.1 ASSUMPTIONS AND PROJECTIONS

Certain assumptions and projections were made relative to the financial and engineering issues reviewed and evaluated in the preparation of this report. The assumptions and projections were necessary in order to review, evaluate, and estimate the engineering merits of MSD's CIP, management of the CIP, proposed capital improvement projects, and the financial implications of implementation of CIP projects over the next five years. These assumptions and projections have also been reviewed and evaluated. The assumptions and projections made with regard to reviewing and evaluating the financial and engineering issues associated with the Current Bonds were determined to be reasonable and in accordance with accepted engineering practice.

The assumptions and projections are dependent upon future events and conditions, which may differ from those assumed. To the extent that future conditions differ from those assumed herein, the actual results may vary from those forecast. Actual revenues, expenses, or both could differ materially from those forecasted, and there can be no assurance that such estimates of future results will be achieved. Important factors that could cause actual results to differ materially from the revenues or expenses presently estimated include, but are not limited to, material changes in the size and composition of MSD’s service area, unanticipated changes in law or unanticipated material litigation, efficiency of operations, and the capital construction and expenditure plans and results of MSD. The potential variance of the actual from the forecast results would not significantly affect the overall validity of this assessment of financial and engineering feasibility for two reasons. First, MSD can substitute additional (or other) revenue-producing wastewater and storm water drainage capital improvement projects if constraints arise with any of the proposed projects intended for implementation in the next five years. Second, the MSD ratemaking process can be utilized to increase service charge and fee revenues to meet financial requirements. MSD’s relatively low level of charges and fees allows a considerable margin of policy elasticity for raising fees.

The principal assumptions and projections incorporated in this review are as noted below:

- MSD will realize an annual increase in wastewater service charge revenues due to population and activity increase in its service area (including private development and industrial expansion), planned annual rate increases, expansion of its service areas through construction of proposed wastewater facilities in the expansion action areas, continuation of the sanitary sewer assessment and collector projects program, and acquisition of small private treatment plants.

- MSD will realize an annual increase in storm water service revenues due to population growth, planned annual rate increases, household and dwelling unit growth, increase in the measured impervious surface area in the service area, and expansion of its service area. Storm water rates will be increased annually to fund additional capital drainage projects.

- MSD's ongoing strategic planning process, action plan implementation, improved management, program and project scheduling and tracking, continued implementation of computerized project scheduling, tracking, and management systems, citizen involvement with programs and projects, and outside management reviews of operations should provide appropriate monitoring of MSD's operating expenses and capital project scheduling and costs.

- MSD will realize an offset in operating expenses through decommissioning of small wastewater treatment plants, more thorough use of automated plant process controls, increased use of remote monitoring of wastewater pump stations, reduction of operating costs, and a continuing gradual reduction of consultant fees.

- MSD is authorized to implement annual seven percent increases in its primary rates to meet expected increases in operating expenses, material costs, and capital improvement requirements.

6.2 FINANCIAL CAPABILITY OF MSD

On the basis of previous studies, investigations, and our analysis, it can be concluded that the financial position of MSD continues to remain strong. It is our opinion that MSD can successfully undertake the financial obligations attendant with implementation of its five-year CIP, including wastewater and storm water drainage capital improvement projects. This conclusion is based on the current service charge rate structure and projections.

MSD has an established customer base that currently is supporting the costs of providing wastewater and storm water drainage services. Because our analysis was based on conservative growth estimates, it is reasonable to assume MSD's financial position may become even stronger than projected. As MSD continues to grow, it should benefit from economies of scale, which will tend to reduce unit-operating costs.

6.3 CERTIFICATION OF NET REVENUES

Given MSD's service charge and fee system, its ability to increase service charges and fees, its authority to operate and expand wastewater and storm water drainage services throughout Louisville Metro, and its projected revenue and expense position, there should be adequate net revenues to meet Current Bond debt service and operating obligations in Fiscal Years 2011 through 2015.[1] Assuming implementation of future rate increases, as planned, to meet increases in operating expenses and material costs and capital improvement requirements, net revenues will be equal to or greater than 110 percent of the Aggregate Net Debt Service for each such fiscal year.

[1] By Louisville Ordinance No. 86, Series 1971, "Net Revenues" is defined as "gross revenues [or total income] from service charges less operating expenses and debt payments other than debt service payments on MSD's outstanding revenue bonds."

6.4 ABSENCE OF MATERIAL LITIGATION

MSD has advised that there is no litigation or other legal proceeding pending or, to the knowledge of MSD, threatened to restrain or enjoin the issuance, sale or delivery of the Current Bonds or the implementation of the financing program, or in any way contesting or affecting the validity of the Current Bonds or the financing program or any proceedings of MSD taken with respect to the issuance or sale of the Current Bonds, the pledge or application of any moneys or securities provided for the payment of the Current Bonds or the existence or powers of MSD insofar as they relate to the authorization, sale and issuance of the Bonds or such pledge or application of moneys and securities or the implementation of the financing program.

MSD has further advised that there is no litigation or other legal proceeding pending or, to the knowledge of MSD, threatened which challenges the authority of MSD to operate its sewer and drainage system or to collect revenues therefrom or which contests the creation, organization or existence of MSD or the title of any of its Board members or executive staff to their respective offices.

On April 10, 2009, the United States District Court for the Western District of Kentucky, Louisville Division (the "Court"), entered an Amended Consent Decree, in Civil Action No.: 3:08-CV-00608-CRS (the "Amended Consent Decree"). The Amended Consent Decree amended, superseded and replaced the original Consent Decree entered by the Court on August 12, 2005, between the Commonwealth of Kentucky, the United States of America and MSD. The Amended Consent Decree resolved all pending claims of violations of the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, and the Water Quality Act of 1987 (hereinafter "Clean Water Act" or "the Act") pursuant to 33 U.S.C. 1251 et seq. and the Regulations promulgated pursuant thereto.

By entering into the Amended Consent Decree, MSD neither admitted nor denied the alleged violations described therein but did acknowledge that sanitary sewer overflows and unauthorized discharges have occurred and accepted the obligations imposed under the Amended Consent Decree. To date, MSD has complied with all submittals and reporting requirements contained in the Amended Consent Decree. A copy of the Amended Consent Decree is available at the offices of MSD. MSD intends to perform all Capital Improvement Programs and other requirements contained in the Amended Consent Decree. The cost of projects required to be completed under the Amended Consent Decree is estimated to be approximately $850 million of which approximately $103.5 million has been spent using proceeds of MSD's Sewer and Drainage System Revenue Bonds Series 2008 and 2009C. The Amended Consent Decree contains stipulated penalties for MSD's failure to comply with provisions contained in the Amended Consent Decree and has provided for the payment of an additional civil penalty in the amount of $230,000, as well as making total expenditure under the original Consent Decree and the Amended Consent Decree for Supplemental Environmental Projects in an amount not less than $2,250,000.

MSD's Final Sanitary Sewer Discharge Plan and the CSO Long Term Control Plan were submitted concurrently and certified on December 19, 2008, under the title of the Integrated Overflow Abatement Plan (IOAP). The IOAP was accepted by the Federal Court and incorporated by reference into the Amended Consent Decree by an Order signed February 12, 2010, that was entered into public record February 15, 2010.

On May 17, 2010, two individuals filed, pro se, in Jefferson Circuit Court, Louisville, Kentucky, a Complaint alleging that MSD violated KRS 76.090 by implementing a revised rate schedule effective August 1, 2009, without required approvals. MSD filed a Motion seeking to have the Circuit Court enter Judgment in MSD's favor. On September 16, 2010, the Jefferson Circuit Court granted MSD's Motion for Summary Judgment. The Judgment held that MSD complied with all statutory notice and public disclosure requirements for its rate increase and dismissed with prejudice the Plaintiffs' Complaint. The Plaintiffs filed a Notice of Appeal on October 15, 2010. MSD and Zielke Law Firm, PLLC continue to believe that the Complaint is without merit and believe the appellate courts will uphold the Judgment entered in MSD's favor.

MSD has also advised that it is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of MSD that resolution of these matters will not result in a material adverse effect on the operations, properties, or financial condition of MSD.

MSD has further advised that there is no other litigation or other legal proceeding pending or, to the knowledge of MSD, threatened against or affecting MSD or its Board wherein an unfavorable decision, ruling, or finding would have a materially adverse effect on the operations, properties, or financial condition of MSD.

6.5 MERITS OF THE CAPITAL IMPROVEMENT PROGRAM

The proposed wastewater and storm water drainage system capital improvement projects included in the MSD CIP are needed to: (1) upgrade and improve services provided by existing facilities; and (2) accommodate growth into developed but unserviced areas. MSD is moving forward with implementation of capital drainage projects for Project DRI. MSD is also moving forward with implementation of sanitary sewer system capital projects consistent with the original Consent Decree and the Amended Consent Decree.

MSD has improved the efficiencies in cost and customer support through integration of capital projects planning, design, construction inspection, and administration for all wastewater and drainage projects. The existing combined sewer rehabilitation, I/I program, and combined sewer overflow (CSO) abatement program projects are to be implemented to improve the existing sewer infrastructure in existing wastewater service areas. The wastewater capital projects to be implemented are important to enhancement of water quality.

6.6 FUTURE REVENUE AND EXPENSE POSITION

6.6.1 <u>Operations and Maintenance Expenses</u>

Revenues from wastewater and storm water drainage services operated and maintained by MSD are conservatively projected to be adequate to cover expected operations and maintenance costs, payments required for projected outstanding debt service, and the normal renewals and replacements required throughout the System.

Total operating expenses are projected to increase by approximately 4.0 percent annually in FYs 2011 through 2015 for combined wastewater and storm water drainage services. This projection anticipates: (1) inflationary effects on operation and maintenance costs; (2) service area growth; and (3) cost saving through annual productivity gains in operations and services. Because of the rate-making procedures under which MSD operates, it is assumed that MSD will implement rate increases, as required, to meet higher than estimated inflation rates or other related service costs which may exceed revenues and impact the Debt Service Coverage Ratio.

6.6.2 Debt Service

The issuance of the Current Bonds is considered to be financially feasible; sound from an engineering and operations perspective; and, necessary to allow the System to properly serve the existing and future service areas in an efficient and proper manner. Assuming implementation of future rate increases, as required, to meet increases in operating expenses in response to higher than expected inflationary wage and material cost impacts and/or capital improvement requirements, net revenues will be equal to or greater than 110 percent of the Aggregate Net Debt Service for each of the Fiscal Years 2011 through 2015. MSD is projecting an annual average debt service coverage of approximately 146 percent for FY 2011 through FY 2015, excluding subordinated debt and 126 percent when subordinated debt is included.

6.6.3 New Revenue Generation Sources

The generation of new revenue sources will occur as a result of implementing the MSD CIP. Wastewater service projects will increase the customer base by approximately 1,700 customers annually to MSD's system, during the five-year period FY 2011 through FY 2015. Storm water revenue increases are projected primarily from service area expansion and expansion of impervious surfaces within MSD's service area.