OFFICIAL STATEMENT

NEW ISSUE: Book-Entry Only

Ratings:
Moody's: A2
Standard & Poor's: AA-
Fitch: A+
(See "Ratings" herein)

In the opinion of Co-Bond Counsel, under existing law and as of the date of issuance of the Current Bonds, interest on the Current Bonds is included in gross income for federal income tax purposes, and under the Constitution and laws of the Commonwealth of Kentucky, the Current Bonds are exempt from ad valorem taxation, and the interest thereon is exempt from income taxation, by said Commonwealth and all of its political subdivisions and taxing authorities. See "Tax Treatment" herein.

$180,000,000
LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
(Commonwealth of Kentucky)
Sewer and Drainage System Revenue Bonds, Series 2009C
(Federally Taxable – Build America Bonds – Direct Payment)

Dated: Date of Delivery

Due: May 15, as shown below

$180,000,000 5.98% Term Bonds Due May 15, 2040- Price 99.900 - CUSIP 546589 QW5

The Series 2009C Bonds (the "Current Bonds") 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 Current Bonds will be made in book-entry only form in denominations of $5,000 or integral multiples thereof. Purchasers of beneficial interests will not receive certificates representing their interests in the Current Bonds. Except as otherwise provided herein, so long as Cede & Co., as nominee of DTC, is the registered owner of the Current Bonds, 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 Current Bonds. Payments of principal, redemption price and interest with respect to the Current Bonds 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 Bond Registrar and Paying Agent for the Current Bonds, so long as DTC or Cede & Co. is the registered owner of the Current Bonds. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. See "Description of the Current Bonds — Book-Entry Only System" herein.

The Current Bonds are subject to redemption prior to maturity as described herein.

The Current Bonds are a special limited revenue obligation of the District. The Current Bonds do not constitute an obligation or indebtedness of the District, the Louisville/Jefferson County Metro Government, or of the County of Jefferson, Kentucky within the meaning of Constitutional and statutory limitations on indebtedness.

The Current Bonds 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. Certain legal matters will be passed upon for the Financial Advisor by its Counsel, Gerald A. Neal & Associates LLC, Louisville, Kentucky. It is expected that the Current Bonds in definitive form will be ready for delivery to the Underwriters in New York, New York on or about November 24, 2009.

Merrill Lynch & Co

Dated: November 18, 2009

(THIS PAGE INTENTIONALLY LEFT BLANK)

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, salesman or any other person has been authorized to give any information or to make any representations with respect to the Current Bonds, other than the information and representations contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Current Bonds by any person in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The information set forth herein has been obtained from the Louisville and Jefferson County Metropolitan Sewer District and other sources which are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation of, the Underwriters. This Official Statement is submitted in connection with the sale of the Current Bonds and may not be reproduced or be used, in whole or in part, for any other purpose. The information and expressions of opinion stated herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CURRENT BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT

CHAIRPERSON
Beverly Wheatley

CHAIRPERSON OF BUDGET COMMITTEE
Martin D. Hoehler

CHAIRPERSON OF THE AUDIT COMMITTEE
Marvin D. Stacy

EXECUTIVE DIRECTOR AND SECRETARY-TREASURER
Herbert J. Schardein

DIRECTOR OF FINANCE
Marion M. Gee

DIRECTOR OF REGULATORY MANAGEMENT SERVICES
Brian Bingham

ENGINEERING DIRECTOR
Mark Johnson

GENERAL COUNSEL
Paula Purifoy, Esq.

CHIEF INFORMATION OFFICER
Bruce R. Seigle

CO-BOND COUNSEL
Wyatt, Tarrant & Combs, LLP
Louisville, Kentucky
and
Zielke Law Firm, PLLC
Louisville, Kentucky

COUNSEL TO THE DISTRICT
Zielke Law Firm, PLLC
Louisville, Kentucky

CERTIFIED PUBLIC ACCOUNTANTS
Crowe Horwath LLP
Louisville, Kentucky

FINANCIAL ADVISOR
First American Municipals, Inc.
New York, New York

COUNSEL TO THE FINANCIAL ADVISOR
Gerald A. Neal & Associates LLC
Louisville, Kentucky

TABLE OF CONTENTS

Page

INTRODUCTION 1

PURPOSE 1

DESCRIPTION OF THE CURRENT BONDS 2
- General 2
- Make-Whole Optional Redemption 2
- Sinking Fund Redemption 3
- Extraordinary Optional Redemption 4
- Notice of Redemption 4
- Exchange and Transfer 4
- Defeasance 5
- Book-Entry Only System 5

BUILD AMERICA BONDS 7
- General Description 7
- Interest Subsidy Payment 7
- The Current Bonds as Build America Bonds 7

SECURITY AND SOURCE OF PAYMENT FOR THE CURRENT BONDS 8
- Subordinated Revenue Bond Anticipation Notes 9
- Pledged Property 9
- Rate Covenant 9
- Additional Bonds 10

FUNDS AND ACCOUNTS 11
- Construction and Acquisition Fund 11
- Flow of Funds 11
- Reserve Account 12
- Senior Subordinated Debt Fund 12
- Renewal and Replacement Account 13
- Investment of Funds 13

SWAPS, SUBORDINATED DEBT, AND OTHER FINANCIAL INSTRUMENTS 13

PLAN OF FINANCING 16
- Construction and Acquisition Fund 16
- Estimated Sources and Uses of Funds 16
- Debt Service Requirements 17

THE DISTRICT 17
- General 17
- Administration and Management of the District 18
- Customer History 19
- The Drainage System 19

THE SERVICE AREA 20

RATES AND CHARGES 21
Wastewater Service and Drainage Service Charges 21
Rate Making Process 21
Rate History 22

HISTORIC AND PROJECTED REVENUES AND EXPENSES AND CAPITAL IMPROVEMENT PROGRAM 23

LOUISVILLE WATER COMPANY 24

TAX TREATMENT 25

LITIGATION 25

APPROVAL OF LEGAL PROCEEDINGS 26

FINANCIAL STATEMENTS 27

UNDERWRITING 27

FINANCIAL ADVISOR 27

RATINGS 27

CONTINUING DISCLOSURE UNDERTAKING 27

MISCELLANEOUS 29

Appendices

Appendix A - Summary of Provisions of the Resolution A-1
Appendix B - Financial Statements as of June 30, 2009 and for the year then ended B-1
Appendix C - Form of Legal Opinion of Co-Bond Counsel C-1
Appendix D - Consulting Engineer's Report D-1

OFFICIAL STATEMENT
Relating to
$180,000,000
LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
(Commonwealth of Kentucky)
Sewer and Drainage System Revenue Bonds,
Series 2009C (Federally Taxable – Build America Bonds – Direct Payment)

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to set forth information concerning the Louisville and Jefferson County Metropolitan Sewer District (the "District" or the "Issuer"), and its sewer and drainage system (the "System"), in connection with the sale by the District of its Sewer and Drainage System Revenue Bonds, Series 2009C Bonds (the "Current Bonds"). 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 the District on December 7, 1992, as amended March 4, 1993, June 30, 1993, December 14, 1994, January 25, 1996, and February 24, 2003, and a Fifteenth Supplemental Sewer and Drainage System Revenue Bond Resolution adopted by the District on September 28, 2009 (collectively, the "Resolution"), to finance certain sewer and drainage projects. The Current Bonds will rank on a parity as to source of payment with Bonds previously issued and any Additional Bonds and Refunding Bonds (as such terms are defined in "Appendix A - Summary of Provisions of the Resolution") which may be issued from time to time pursuant to the Resolution.

INTRODUCTION

The District was created pursuant to the Act in 1946 to provide adequate sewer and drainage facilities and service in and around the City of Louisville, Kentucky (the "City") and within Jefferson County, Kentucky (the "County"). In 1987, the District became the sole local authority for providing flood control and storm water drainage services in a drainage service area which included the City of Louisville, many small incorporated areas, and portions of the unincorporated areas of the County (collectively hereinafter referred to as the "Drainage Service Area"). Substantially all the governmental and corporate functions of the City and the County merged effective January 6, 2003 into a single consolidated local government known as Louisville/Jefferson County Metro Government. The consolidated local government replaced and superseded the governments of the City and the County. The City no longer exists as an independent legal entity.

Descriptions of the Current Bonds, the System, the District, the Act and the Resolution are included in this Official Statement.

Any capitalized terms not otherwise defined in this Official Statement shall have the meaning ascribed to them in "Appendix A - Summary of Provisions of the Resolution."

PURPOSE

The Current Bonds are being issued to provide sufficient funds for sewer and drainage projects of the District approved for construction, including, but not limited to, the following projects which the District currently contemplates (provided the District retains the right, in all cases in its sole discretion, to substitute other approved sewer and drainage projects for those listed below-- the list below is provided only for informational purposes and affords no assurance the District will not choose, at any one time or from time to time, to reallocate funds from any one or more of such projects to other approved project(s) in the sole discretion of the District): [i] wastewater and drainage system expansion and improvements, [ii] improvements to wastewater treatment facilities, [iii] rehabilitation of combined sewer overflow system, [iv] improvements to flood control and drainage facilities, [v] drainage and District improvements, [vi] construction of collector sewers, [vii] construction and improvements of

detention basins; [viii] construction of interceptor sewers, [ix] combined sewer overflow abatement projects, [x] construction and improvements to force mains, [xi] repairs and improvements to District pumping stations, [xii] construction of regional storage facilities and [xiii] miscellaneous improvements and acquisition of equipment and mapping hardware and software (collectively, the "Current Project"). The Current Project is part of the District's overall Capital Improvement Program which is more fully described in "Appendix E - Consulting Engineer's Report".

For additional information with regard to the application of the proceeds of the Current Bonds, see "Plan of Financing" herein.

DESCRIPTION OF THE CURRENT BONDS

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Current Bonds. The Current Bonds will be initially issued in book-entry only form and the ownership of the Current Bonds will be registered in the name of Cede & Co., as nominee for DTC. Except as otherwise provided herein, so long as Cede & Co., as nominee of DTC, is the registered owner of the Current Bonds, any references herein to the registered owners or owners of the Current Bonds shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined herein) of the Current Bonds. Upon the discontinuance of the book-entry only system described herein under "Description of the Current Bonds — Book-Entry Only System," the provisions of the Resolution described in the following paragraph, among others, will be applicable to Beneficial Owners who become registered owners. Information regarding DTC and the book-entry only system described herein has been obtained from DTC.

The Current Bonds will be dated on original issuance as of their dated date, and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Current Bonds are issuable as fully registered bonds (initially in book-entry only form as described below in "Book Entry Only System") in denominations of $5,000 or integral multiples thereof. Interest will be payable on May 15, 2010, and semiannually thereafter on May 15 and November 15 of each year, by check of the Paying Agent mailed to such registered owner who shall appear as of the close of business on the fifteenth day (or if such day shall not be a business day, the preceding business day) of the calendar month next preceding such interest payment date on the registration books of the District maintained by the Bond Registrar, or if the registered owner shall be the registered owner of Bonds in the aggregate principal amount of $1,000,000 or more, by wire transfer, if the registered owner has requested payment in such manner at such wire address as shall have been furnished by the registered owner on or prior to the fifteenth day next preceding such interest payment date (or if such date shall not be a business day, the next succeeding business date). Principal and premium, if any, on the Current Bonds are payable to the registered owner thereof upon presentation and surrender at the corporate trust office in Louisville, Kentucky of The Bank of New York Mellon Trust Company, N.A., as Paying Agent for the Current Bonds.

Make-Whole Optional Redemption

The Current Bonds are issued as Build America Bonds (Direct Payment) and are subject to redemption prior to maturity at the option of the District in whole or in part on any date, on at least thirty (30) days' notice, at the Make-Whole Redemption Price plus interest accrued to the redemption date on the Current Bonds to be redeemed. The "Make-Whole Redemption Price" is the greater of:

(a) the principal amount of the Current Bonds to be redeemed; or

(b) the present value of the remaining scheduled payments of principal and interest on the Current Bonds to be redeemed as of the date on which such Current Bonds are to be redeemed (not including the interest accrued on such Current Bonds as of the redemption date), discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 25 basis points (0.25%).

The Make-Whole Redemption Price of any Current Bonds to be redeemed at the option of the District will be determined by an independent accounting firm, investment banking firm, financial advisor, or the Designated Investment Banker (as defined below) retained by the District at the District 's expense to calculate such redemption price. The Bond Registrar and the District may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm, financial advisor, or the Designated Investment Banker and will not be liable for such reliance.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the Current Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"Designated Investment Banker" means one of the Reference Treasury Dealers designated by the District. "Reference Treasury Dealer" means the original underwriters of the Current Bonds, their successors and other firms, as specified by the District from time to time, that are primary U.S. government securities dealers; provided, however, that if any such firm ceases to be such a primary treasury dealer, the District will substitute another primary treasury dealer for such firm.

Sinking Fund Redemption

The Current Bonds maturing on May 15, 2040 will also be subject to redemption, by operation of the Bond Fund, to satisfy sinking fund installments required by the Resolution, on May 15 in each of the years set forth below, at 100% of the principal amount of the Current Bonds so to be redeemed plus accrued interest, if any, to the redemption date, and such sinking fund installments will be sufficient to redeem the following principal amounts of such Current Bonds on such dates:

Year	Principal Amount
2039	$87,275,000
2040 (maturity)	92,725,000

In determining the amount of any sinking fund installment due on any date specified above, there shall be deducted the principal amount of any Current Bonds to which such sinking fund installment applies, where such Current Bonds have been (1) redeemed or purchased on a date more than 60 days preceding the date on which such installment is due, from amounts accumulated in the Debt Service Account with respect to such sinking fund installment or (2) purchased during the period from 40 to 60 days prior to the due date of the installment, from any amount (exclusive of amounts deposited from proceeds of Current Bonds) in the Debt Service Account. In addition, upon the redemption or purchase of the Current Bonds for which sinking fund installments have been established, unless otherwise provided by the District, each such sinking fund installment thereafter to become due (other than that next due) shall be credited with an amount which bears the same relation to the sinking fund installment to be

credited as the total principal amount of the Current Bonds purchased or redeemed bears to the total amount of sinking fund installments to be credited.

Extraordinary Optional Redemption

The Current Bonds are subject to extraordinary optional redemption at any time prior to their maturity at the option of the District, in whole or part, and if in part shall be selected on a *pro rata* basis within a maturity, upon the occurrence of an Extraordinary Event, at the Extraordinary Optional Redemption Price (as defined below) plus interest accrued to the redemption date on the Current Bonds to be redeemed. The "Extraordinary Optional Redemption Price" is the greater of (a) 100% of the principal amount of the Current Bonds to be redeemed or (b) the present value of the remaining scheduled payments of principal and interest on the Current Bonds to be redeemed as of the date on which such Current Bonds are to be redeemed (not including the interest accrued on such Current Bonds as of the redemption date), discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined above) plus 100 basis points (1.00%).

An "Extraordinary Event" will have occurred if the District determines that a material adverse change has occurred to Section 54AA or 6431 of the Internal Revenue Code (as such Sections were added by Section 1531 of the Recovery Act pertaining to "Build America Bonds") or there is any guidance published by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the District to satisfy the requirements to qualify to receive the 35% cash subsidy payments from the United States Treasury, pursuant to which the District's 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

The Extraordinary Optional Redemption Price of any Current Bonds to be redeemed at the option of the District will be determined by an independent accounting firm, investment banking firm, financial advisor, or the Designated Investment Banker retained by the District at the District's expense to calculate such redemption price. The Bond Registrar and the District may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm, financial advisor, or the Designated Investment Banker and will not be liable for such reliance.

Notice of Redemption

The Bond Registrar will give notice of redemption, identifying the Current Bonds (or portions thereof) to be redeemed, by mailing a copy of the redemption notice by first class mail not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond (or portion thereof) to be redeemed at the address shown on the registration books maintained by the Bond Registrar. Failure to give such notice by mail to any registered owner of the Current Bonds (or portion thereof) or any defect therein shall not affect the validity of any proceedings for the redemption of the Current Bonds (or portions thereof). All Current Bonds (or portions thereof) so called for redemption will cease to bear interest from and after the specified redemption date, provided funds for their redemption are on deposit at the place of payment at that time.

Exchange and Transfer

The registration of any Current Bond may be transferred only upon the books of the District kept by the Bond Registrar, by the owner thereof, in person or by his or her attorney duly authorized in writing, upon surrender of such Current Bond at the corporate trust office of the Bond Registrar accompanied by a written instrument of transfer satisfactory to the Bond Registrar and duly executed by the owner or by his or her duly authorized attorney. Any Bond may be exchanged at the corporate trust office of the Bond Registrar for new Current Bonds of any authorized denomination and of

the same aggregate principal amount and Series and maturity as the surrendered Current Bond. The Bond Registrar will not charge for any new bond issued upon any transfer or exchange, but may require the owner requesting such exchange to pay any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Neither the District nor the Bond Registrar is required (a) to exchange or transfer any Bond during the period commencing on the fifteenth day of the month preceding an interest payment date and ending on such interest payment date, or during the period commencing fifteen days prior to the date of any selection of Current Bonds to be redeemed and ending on the day after the mailing of the notice of redemption, or (b) to transfer or exchange any Current Bond called for redemption.

Defeasance

If the District pays or causes to be paid, or there is otherwise paid, to the owners of all outstanding Current Bonds or Current Bonds of a particular maturity or particular Current Bonds within a maturity, the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Current Bonds will cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the District to the owners of such Current Bonds will thereupon cease, terminate and become void and be discharged and satisfied.

Subject to the provisions of the Resolution, any outstanding Current Bonds will be deemed to have been paid within the meaning and with the effect expressed in the foregoing paragraph if (a) in the case of any Current Bonds to be redeemed on any date prior to their maturity, the District has instructed the Bond Registrar to mail a notice of redemption of such Current Bonds on said date, (b) there has been deposited with an escrow agent appointed for such purpose either money in an amount which will be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide money which, together with the money, if any deposited with the escrow agent at the same time, will be sufficient, to pay when due the principal or redemption price, if applicable, and interest due and to become due on such Current Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Current Bonds are not by their terms subject to redemption within the next succeeding 60 days, the District has given the Bond Registrar instructions in writing to mail a notice to the owners of such Current Bonds that the deposit required by (b) above has been made with the escrow agent and that such Current Bonds are deemed to have been paid in accordance with the Resolution, and stating the maturity or redemption date upon which money is expected to be available for the payment of the principal or redemption price, if applicable, on such Current Bonds. For a description of the types of Defeasance Obligations in which funds may be invested for purposes of clause (b) above, see “Appendix A -Summary of Provisions of the Resolution - Defeasance.”

Book-Entry Only System

Unless otherwise noted, the following description of the procedures and recordkeeping with respect to beneficial ownership interests in the Current Bonds, payment of interest and other payments on the Current Bonds to DTC Participants or Beneficial Owners (as defined herein) of the Current Bonds, confirmation and transfer of beneficial ownership interests in the Current Bonds and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Current Bonds 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 Current Bonds are issued, ownership interests will be available to purchasers only through a book-entry only system maintained by DTC. Beneficial ownership in the Current Bonds may be acquired or transferred only through book entries made on the records of DTC and DTC

Participants. If the Current Bonds 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 Current Bonds. 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 CURRENT BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS, THE BONDHOLDERS, OR THE REGISTERED OWNERS OF THE CURRENT BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CURRENT BONDS. 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 Current Bond 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 Current Bond (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 Current Bonds acquired. Beneficial Owners will not receive certificates representing their ownership interest in the Current Bonds other than upon the occurrence of certain events, as hereinafter described.

Principal and redemption price of, and interest payments on the Current Bonds will be paid by the Paying Agent to DTC or its nominee, Cede & Co., as registered owner of the Current Bonds, 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 CURRENT BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE RESOLUTION; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDOWNER.

DTC may determine to discontinue providing its services with respect to the Current Bonds 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, Current Bond certificates will be delivered as described in the Resolution and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered owner of the Current Bonds. Thereafter, Current Bonds may be exchanged for an equal aggregate principal amount of Bonds in authorized denominations upon surrender thereof at the principal office of the Paying Agent. For every such exchange of Current Bonds, 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 Current Bonds.

BUILD AMERICA BONDS

General Description

In February 2009, as part of the American Recovery and Reinvestment Act of 2009, Congress added Sections 54AA and 6431 to the Internal Revenue Code of 1986, as amended (the "Code") which permit state or local governments to obtain certain tax advantages when issuing taxable obligations that meet certain requirements of the Code and the related Treasury regulations. Such bonds are referred to as Build America Bonds. A Build America Bond is a qualified bond under Section 54AA(g) of the Code (a "Build America Bond") if it meets certain requirements of the Code and the related Treasury Regulations and the issuer has made an irrevocable election to have the special rule for qualified bonds apply. Interest on Build America Bonds is not excluded from gross income for purposes of the federal income tax, and beneficial owners of Build America Bonds will not receive any tax credits as a result of ownership of such Build America Bonds of the District, since the District will elect to receive the Direct Payments (as defined herein) when the Current Bonds are issued.

Interest Subsidy Payment

Under Section 6431 of the Code, an issuer of a Build America Bond may apply to receive payments directly from the Secretary of the United States Treasury (the "Secretary"). The amount of a direct payment is set in Section 6431 of the Code at thirty-five percent (35%) of the corresponding interest payable on the related Current Bonds on any interest payment date (the "Direct Payments"). To receive a Direct Payment, under currently existing procedures, the District will have to file a tax return (now designated as IRS Form 8038-CP) between 90 and 45 days prior to the corresponding bond interest payment date. The District should expect to receive the Direct Payment contemporaneously with the interest payment date with respect to the Build America Bond. Depending on the timing of the filing and other factors, the Direct Payment may be received before or after the corresponding interest payment date.

The Current Bonds as Build America Bonds

The District expects to make an irrevocable election to treat the Current Bonds as Build America Bonds. As a result, of such election, interest on the Current Bonds will be includable in gross income of the beneficial owners thereof for federal income tax purposes and the beneficial owners of the Current Bonds will not be entitled to any tax credits as a result of either ownership of the Current Bonds or receipt of any interest payments on the Current Bonds. Beneficial owners of the Current Bonds should consult their tax advisors with respect to the inclusion of interest on the Current Bonds in gross income for federal income tax purposes.

In the case of the Current Bonds, the District intends to apply for Direct Payments from the Secretary under the "Build America Program" pursuant to Section 6431 of the Code. Such payments,

if received by the District, will not constitute Pledged Revenues unless and until those payments are deposited in the Revenue Fund.

No assurances are provided that the District will receive the Direct Payment. The amount of any Direct Payment is subject to legislative changes by Congress. Direct Payments will only be paid if the Current Bonds are Build America Bonds. For the Current Bonds to be and remain Build America Bonds, the District must comply with certain covenants and the District must establish certain facts and expectations with respect to the Current Bonds, the use and investment of the proceeds thereof and the use of the property financed thereby. There are currently no procedures for requesting a Direct Payment after the 45th day prior to an interest payment date; therefore, if the District fails to file the necessary tax return in a timely fashion, it is possible that the District will never receive such Direct Payment. Also, the Direct Payments are subject to offset against certain amounts that may, for unrelated reasons, be owed by the District to the United States.

SECURITY AND SOURCE OF PAYMENT FOR THE CURRENT BONDS

The Current Bonds will rank on a parity as to source of payment with Bonds previously issued and any Additional Bonds and Refunding Bonds which may be issued from time to time pursuant to the Resolution (collectively, the "Bonds"). The Bonds are secured by and payable solely from pledged revenues derived from the collection of rates, rents and charges for the services rendered by the System as set forth in the Resolution. The Bonds do not constitute an indebtedness of the Louisville/Jefferson County Metro Government or the County.

The District has heretofore issued 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	$154,985,000
Series 2001A	October 15, 2001	$300,000,000	$291,890,000
Series 2004A	January 15, 2004	$100,000,000	$100,000,000
Series 2005A	May 1, 2005	$64,740,000	$60,090,000
Series 2006A	May 1, 2006	$100,000,000	$98,385,000
Series 2007A	November 15, 2007	$61,125,000	$57,995,000
Series 2008A	May 1, 2008	$105,000,000	$105,000,000
Series 2009A	May 15, 2009	$76,275,000	$76,275,000
Series 2009B	August 15, 2009	$225,770,000	$225,770,000
	Total	$1,292,910,000	$1,170,390,000

In addition to its authorization of the Current Bonds, the District has heretofore authorized pursuant to the Resolution the issuance of Additional Bonds thereunder in an aggregate principal amount not to exceed $206,667,478 for the purpose of refunding Series 1998A Bonds outstanding under the Indenture. No assurance can be given as to whether, when, and in what principal amount any such refunding bonds which have heretofore been authorized by the District will be issued, or whether, when, and in what principal amount any other Additional Bonds may hereafter be authorized and issued by the District. 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.

Subordinated Revenue Bond Anticipation Notes

On August 19, 2009 the District issued its Sewer and Drainage System Subordinated Revenue Notes, Series 2009A (the "Series 2009A Notes") for the purpose of refunding certain of the Series 1999A Bonds. The Series 2009A Notes were issued in the original principal amount of $226,340,000 and are currently outstanding in that same principal amount. The principal of and accrued interest on the Series 2009A Notes are payable at maturity on August 19, 2010. The Series 2009A Notes were issued in accordance with, among other things, [i] applicable provisions of Kentucky Revised Statutes Chapters 65, 58 and 76 and Section 56.513 and [ii] a Subordinated Debt Resolution (the "Subordinated Debt Resolution") adopted by the District on August 10, 2009.

The Series 2009A Notes (to the extent not paid from other sources) shall be paid from the proceeds of a revenue bond issue when such proceeds have been received and are available. The Series 2009A Notes are payable upon such terms as are described in the Subordinated Debt Resolution; provided, however, that the pledge created by the Series 2009A Notes, insofar as it relates to the revenues pledged under the Bond Resolution will be subject and subordinate in all respects to the priorities, liens and rights created by and existing under the Resolution for the security and source of payment and protection of all Bonds previously issued, the Current Bonds and any Additional Bonds and Refunding Bonds (as such terms are defined in "Appendix A - Summary of Provisions of the Resolution") which may be issued from time to time pursuant to the Resolution.

Pledged Property

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 by, the Pledged Property which is defined by the Resolution to be the proceeds of the sale of Bonds, all Revenues, all amounts on deposit in the Funds or Accounts established under the Resolution, such other amounts as may be pledged from time to time by the District as security for the payment of bonds, notes or other evidences of indebtedness authenticated and delivered pursuant to the Resolution, and all proceeds of the foregoing.

Rate Covenant

The District has covenanted pursuant to the Resolution to 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:

[1] an amount equal to 110% of the Aggregate Net Debt Service for such Fiscal Year; and

[2] 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

[3] all Operating Expenses for such Fiscal Year as estimated in the Annual Budget; and

[4] 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

[5] amounts necessary to pay and discharge all charges or liens payable out of the Available Revenues when due and enforceable.

"Available Revenues," as used only for purposes of the above rate covenant, means all revenues and other amounts received by the District and pledged as security for the payment of Bonds, but excludes any interest income which is capitalized pursuant to 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 or repair such as extraordinary maintenance, administrative and engineering expenses of the District which are necessary or incident to capital improvements for which debt has been issued and which may be paid from the proceeds of such debt. "Aggregate Net Debt Service" means Aggregate Debt Service, 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. The summary definitions above are not intended to be comprehensive or definitive, and reference is made to the Resolution and "Appendix A - Summary of Provisions of the Resolution" for more detail. The definitions above are qualified in their entirety by reference to the Resolution. For a table illustrating computation of historical debt service coverage results, using these terms as defined in the Resolution, see Table 5-3 of "Appendix D - Consulting Engineer's Report".

Additional Bonds

Additional Bonds may be issued on a parity with the Current Bonds to finance the Cost of Acquisition and Construction of Additional Facilities upon the satisfaction of certain conditions. Refunding Bonds may be issued to refund outstanding Bonds. 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. For additional information relating to Additional Bonds see "Appendix A - Summary of Provisions of the Resolution - Additional Bonds."

FUNDS AND ACCOUNTS

The Resolution establishes the following Funds and Accounts which, other than the Bond Fund which is held by the Paying Agent, will be held by the District: (1) Construction and Acquisition Fund; (2) Revenue Fund; (3) Bond Fund, consisting of a Debt Service Account and a Reserve Account; (4) Senior Subordinated Debt Fund; and (5) Renewal and Replacement Account.

Construction and Acquisition Fund

Proceeds of the Current Bonds will be deposited in the Construction and Acquisition Fund. The Resolution provides that the amounts, if any, required by the Resolution will be paid into the Construction and Acquisition Fund and, at the option of the District, any moneys received by the District from any source, unless required to be otherwise applied as provided by the Resolution, may also be paid into this Fund. Amounts in the Construction and Acquisition Fund will be applied to pay the Cost of Construction and Acquisition in the manner provided in the Resolution.

To the extent other moneys are not available therefor, amounts in the Construction and Acquisition Fund will be applied to the payment of Principal Installments of and interest on Bonds when due.

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 then be transferred to the Reserve Account in the Bond Fund, if and to the extent necessary to make the amount of such Fund 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. For additional information relating to the Construction and Acquisition Fund see "Appendix A - Summary of Provisions of the Resolution - Construction and Acquisition Fund."

Flow of Funds

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.

[1] 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

[2] To the Senior Subordinated Debt Fund the amount, if any, required to pay scheduled base and additional rentals when due on the Senior Subordinated Debt and reserves therefor, in accordance with the resolution or other debt instrument authorizing the Senior Subordinated Debt; and

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

[4] 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 moneys 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. The District has covenanted not to make any expenditures from Revenues prior to making the payments out of Revenues required to be made by the Resolution as provided above.

Reserve Account

Amounts in the Reserve Account in the Bond Fund are to be applied to make up any deficiencies in the Debt Service Account in the Bond Fund. The Debt Service Reserve Requirement is defined in the Resolution as the least of [i] ten percent (10%) of the face amount of all Bonds issued under the Resolution, [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, any resulting deficiency in the Reserve Account shall be satisfied by an additional deposit or deposits into the Reserve Account so that the amount on deposit therein equals the Debt Service Reserve Requirement by the end of the Fiscal Year during which such conversion occurs.

The District's obligations to maintain the Debt Service Reserve Requirement may be satisfied by depositing therein a surety bond, insurance policy or letter of credit. See "Appendix A - Summary of Provisions of the Resolution - Bond Fund — Reserve Account" for further information regarding the Reserve Account.

Senior Subordinated Debt Fund

Amounts in the Senior Subordinated Debt Fund are to be applied to the payment of the amounts required to pay scheduled base and additional rentals when due on the Senior Subordinated Debt and make deposits, if any, for reserves therefor. Amounts in the Senior Subordinated Debt Fund shall also be applied to make up any deficiencies in the Debt Service Account or the Reserve Account. See "Appendix A - Summary of Provisions of the Resolution - Senior Subordinated Debt Fund" for additional information regarding the Senior Subordinated Debt Fund.

Renewal and Replacement Account

Moneys 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 moneys 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 moneys in said Fund if less than the amount necessary) to make up such deficiency. See "Appendix A - Summary of Provisions of the Resolution - Renewal and Replacement Account" for additional information regarding the Renewal and Replacement Account.

For additional information relating to the application of Revenues, see "Appendix A - Summary of Provisions of the Resolution."

Investment of Funds

Moneys held in the Bond Fund, the Revenue Fund, the Senior Subordinated Debt Fund, the Renewal and Replacement Account, and the Construction and Acquisition Fund are required to be invested and reinvested to the fullest extent practicable in Investment Securities, maturing not later than such times as will be necessary to provide moneys when needed for payments to be made from such Fund or Account. The Fiduciaries shall make investments of moneys held by them in accordance with written instructions from time to time received from an Authorized Officer of the District. See "Appendix A - Summary of Provisions of the Resolution - Investments" for additional information regarding the investment of funds.

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 a 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 Resolution. Certain provisions of the District's outstanding swap agreements are summarized below.

The 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 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 Resolution. As stated above under the caption "Security and Source

of Payment for the Current Bonds--Subordinate Bond Anticipation Notes", the District expects to issue its Series 2009A Notes which will be subordinate in security and source of payment to all Bonds issued and outstanding under Resolution. The Series 2009A Notes will be on a parity with the District's obligations under all of its outstanding swap agreements, which as stated above are unsecured and subordinate to all Bonds issued and outstanding under the 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 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 -- Summary of Provisions of the Resolution".

Floating-to-Fixed Swap for Series 2009 Notes

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 fixed-rate, short-term Series 2009A 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 2009A 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 Bonds hereafter issued under the Bond Resolution (or renewal notes hereafter issued under the Note Resolution) to refinance the Series 2009A Notes. As of October 30, 2009, the estimated mark-to-market value of the non-reversed portion of the 1999 Swap was approximately *negative* $56.6 million.

Basis Swaps

The District has entered into two basis swaps pursuant to which the District will pay the Securities and Financial Markets Association Municipal Swap Index under each swap and 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 with payments on the 2008 Basis Swap beginning in November 2011.

The District received $137,955 and $932,487 in calendar years 2008 and 2007, respectively, and expects to receive approximately $300,000 in calendar year 2009, under the 2003 Basis Swap As of October 30, 2009, the estimated mark-to-market value of the 2003 Basis Swap was approximately *negative* $500,000 and the estimated mark-to-market value of the 2008 Basis Swap was approximately *positive* $23.4 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 sum of the present values of the net payments on the reversals is approximately equal to the termination costs of the original swaps. 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.

[Remainder of page left blank intentionally]

PLAN OF FINANCING

The Current Bonds are being issued to provide funds which, together with interest earned thereon, will be applied to [i] pay the costs of the Current Project as described herein, [ii] fund the Reserve Account in the amount of the Debt Service Reserve Requirement for the Current Bonds and [iii] pay the costs of issuance of the Current Bonds, including the premium for the Insurer's Policy with respect to the Current Bonds.

Construction and Acquisition Fund

The portion of the proceeds of the Current Bonds described below under "Estimated Sources and Uses of Funds" is expected to be deposited in the Construction and Acquisition Fund for application towards the costs of sewer and drainage projects of the District approved for construction.

Estimated Sources and Uses of Funds

The estimated sources and uses of the proceeds of the Current Bonds are summarized below:

Sources:	
Par Amount of Bonds	$180,000,000
Original Issue Discount	($180,000)
Total Sources	$179,820,000
Uses[1]:	
Deposit to Construction and Acquisition Fund	$159,858,550
Reserve Account	$17,982,000
Costs of Issuance [2]	$600,650
Underwriter's Discount	$1,378,800
Total Uses	$179,820,000

(1) Estimated, subject to change.

(2) Includes legal fees and expenses, printing costs, rating agency fees, fees and expenses of the Paying Agent and the Financial Advisor, and miscellaneous costs.

Debt Service Requirements

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

Bond Year Ending	Current Bond Interest	Current Bond Principal	Current Bond Debt Service	Existing Bond Debt Service	Total Bond Debt Service	Subordinated Debt Service*	Direct Payments	Net Total Debt Service
2010	$5,112,900	$0	$5,112,900	$79,274,463	$84,387,363	$12,226,710	($1,789,515)	$94,824,557
2011	$10,764,000	$0	$10,764,000	$80,271,788	$91,035,788	$15,296,996	($3,767,400)	$102,565,384
2012	$10,764,000	$0	$10,764,000	$80,388,038	$91,152,038	$15,183,543	($3,767,400)	$102,568,181
2013	$10,764,000	$0	$10,764,000	$80,559,138	$91,323,138	$15,012,743	($3,767,400)	$102,568,481
2014	$10,764,000	$0	$10,764,000	$80,737,731	$91,501,731	$14,834,211	($3,767,400)	$102,568,542
2015	$10,764,000	$0	$10,764,000	$80,919,831	$91,683,831	$14,648,520	($3,767,400)	$102,564,951
2016	$10,764,000	$0	$10,764,000	$81,121,594	$91,885,594	$14,453,959	($3,767,400)	$102,572,152
2017	$10,764,000	$0	$10,764,000	$81,321,294	$92,085,294	$14,250,717	($3,767,400)	$102,568,611
2018	$10,764,000	$0	$10,764,000	$81,530,513	$92,294,513	$14,038,452	($3,767,400)	$102,565,565
2019	$10,764,000	$0	$10,764,000	$81,759,000	$92,523,000	$13,816,465	($3,767,400)	$102,572,065
2020	$10,764,000	$0	$10,764,000	$81,984,519	$92,748,519	$13,584,561	($3,767,400)	$102,565,679
2021	$10,764,000	$0	$10,764,000	$82,236,988	$93,000,988	$13,336,170	($3,767,400)	$102,569,757
2022	$10,764,000	$0	$10,764,000	$82,497,006	$93,261,006	$13,076,472	($3,767,400)	$102,570,079
2023	$10,764,000	$0	$10,764,000	$82,767,450	$93,531,450	$12,804,695	($3,767,400)	$102,568,745
2024	$10,764,000	$0	$10,764,000	$72,702,325	$83,466,325	$22,180,957	($3,767,400)	$101,879,882
2025	$10,764,000	$0	$10,764,000	$72,730,081	$83,494,081	$21,800,702	($3,767,400)	$101,527,383
2026	$10,764,000	$0	$10,764,000	$72,752,731	$83,516,731	$21,415,452	($3,767,400)	$101,164,783
2027	$10,764,000	$0	$10,764,000	$47,963,131	$58,727,131	$21,003,977	($3,767,400)	$75,963,708
2028	$10,764,000	$0	$10,764,000	$74,125,513	$84,889,513	$20,556,180	($3,767,400)	$101,678,293
2029	$10,764,000	$0	$10,764,000	$74,303,438	$85,067,438	$19,967,313	($3,767,400)	$101,267,350
2030	$10,764,000	$0	$10,764,000	$70,244,538	$81,008,538	$19,448,800	($3,767,400)	$96,689,937
2031	$10,764,000	$0	$10,764,000	$32,255,538	$43,019,538	$61,355,441	($3,767,400)	$100,607,579
2032	$10,764,000	$0	$10,764,000	$32,211,038	$42,975,038	$58,878,790	($3,767,400)	$98,086,427
2033	$10,764,000	$0	$10,764,000	$32,013,038	$42,777,038	$56,440,103	($3,767,400)	$95,449,740
2034	$10,764,000	$0	$10,764,000	$93,867,138	$104,631,138	$0	($3,767,400)	$100,863,738
2035	$10,764,000	$0	$10,764,000	$93,868,888	$104,632,888	$0	($3,767,400)	$100,865,488
2036	$10,764,000	$0	$10,764,000	$93,866,388	$104,630,388	$0	($3,767,400)	$100,862,988
2037	$10,764,000	$0	$10,764,000	$93,865,138	$104,629,138	$0	($3,767,400)	$100,861,738
2038	$10,764,000	$0	$10,764,000	$94,096,538	$104,860,538	$0	($3,767,400)	$101,093,138
2039	$10,764,000	$87,275,000	$98,039,000	$0	$98,039,000	$0	($3,767,400)	$94,271,600
2040	$5,544,955	$92,725,000	$98,269,955	$0	$98,269,955	$0	($1,940,734)	$96,329,221
Totals:	$322,813,855	$180,000,000	$502,813,855	$2,188,234,806	$2,691,048,661	$519,611,928	($112,984,849)	$3,097,675,740

* Includes estimated net swap payments and the interest on, and the projected principal amortization following future refinancing of, the Series 2009A Notes. Does not include the principal of the Series 2009A Notes payable at maturity.

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. Charles E. Weiter	June 30, 2012
Ms. Beverly Wheatley (Chairperson)	June 30, 2010
Mr. Arnold Celentano	July 31, 2010
Mr. Jerome L. Clark	July 31, 2012
Mr. Ben Richmond	August 31, 2011
Mr. Martin Hoehler	July 31, 2011
Mr. Doyle M. Stacy	August 31, 2011
Mr. Audwin A. Helton (Vice Chairperson)	July 31, 2012

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
Jerry Ferguson.....Human Resources Director
Saeed Assef ..... Senior Manager, 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 2005	202,145	13,554	$43,320
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
Commercial			
FY 2005	17,869	9,901	25,274
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
Industrial			
FY 2005	585	5,561	17,142
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

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 2009, the District had approximately 214,000 drainage service accounts and billed 534,938 equivalent service units (ESUs) at $5.35 per month which provided total annual drainage charge revenues of approximately $32.3 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.

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	1,165,038
2008	713,877	1,244,636

[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, 2009

Employer	Product	Approximate Number of Employees
United Parcel Service Inc.	Air Cargo Transport and Distribution	20,513
Humana Inc.	Group Health Insurance/HMOs	10,096
Norton Healthcare, Inc.	Hospital and Healthcare Facilities	8,142
Jewish Hospital & St. Mary's Healthcare, Inc.	Hospital and Healthcare Facilities	6,500
Ford Motor Company	Vehicle Manufacturing	5,624
The Kroger Company	Retail Grocer	5,263
GE Appliances	Appliance Manufacturing	4,000
Wal-Mart Stores Inc.	Retailer	3,608
Baptist Healthcare System Inc.	Hospital and Healthcare Facilities	3,305

University of Louisville Hospital	Hospital and Healthcare Facilities	2,573

Source: Business First, Louisville, Kentucky - publication date August 7, 2009

Approximately 66.5% of housing units in the County were owner occupied in 2006. The median market value of housing units in the Commonwealth Kentucky is approximately $109,700. 58.2% 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 22.3 minutes. (Source: U.S. Census Bureau, 2005-2007 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 the Current Bonds and 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.

[Remainder of page left blank intentionally]

	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	

* 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. The District is preparing a Long Term Control Plan and Sanitary Sewer Discharge Plan to address sanitary and combined sewer overflows and unauthorized discharges in conjunction with the EPA Amended Consent Decree hereinafter described (see "LITIGATION" herein). While the District's existing Capital Improvement Plan includes projects that will alleviate sanitary and combined sewer overflows and unauthorized discharges, the District expects that its Capital Improvement Plan will be amended and higher capital spending required upon final adoption of the Long Term Control Plan and Sanitary Sewer Discharge Plan.

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.

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 Current Bonds, interest on the Current Bonds is included in gross income for federal income tax purposes.

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

The Current Bonds were offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity over the issue price of the Current Bonds. The issue price of a Current Bond is the initial offering price to the public set forth on the cover page of this Official Statement, assuming that a substantial amount of the Current Bonds are sold to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at such price pursuant to the initial public offering.

For Federal income tax purposes, OID accrues to the holder of a Current Bond on a daily basis over the period to maturity based on the constant interest rate method, compounded semiannually. With respect to a Current Bond purchased at the issue price pursuant to the initial public offering, the portion of OID that accrues during the period the initial holder owns the Current Bond (i) is includable in gross income for federal income tax and (ii) is added to the holder's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of the Current Bond.

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 Current Bonds or the implementation of the plan of financing described herein, or in any way contesting or affecting the validity of the Current Bonds or the plan of financing described herein or any proceedings of the District 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 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 estimated to be approximately $800 million. 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 pay an additional civil penalty in the amount of $230,000 as well as 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.

On December 12, 2008 the District submitted to the Court the District's Integrated Overflow Abatement Plan (IOAP). The IOAP is the District's long-term plan to control combined sewer overflows and to eliminate sanitary sewer overflows and other unauthorized discharges from the District's sewerage system. The U.S. Environmental Protection Agency and the Commonwealth of Kentucky have recommended that the Court approve the IOAP pursuant to the Amended Consent Decree. Final joint approval may require additional revisions to the IOAP in response to public comment and the approval thereof by the Court. The IOAP will then be incorporated into the Amended Consent Decree as an enforceable requirement.

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.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization of the Current Bonds 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 Current Bonds, will be delivered to the Underwriters at the time of original delivery of the Current Bonds. 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.

The references herein to the Act, the Resolution, and other statutes and documents and certain provisions thereof do not purport to be complete and reference is made to the Act, the Resolution and such other statutes and documents, which are on file at the offices of the District, for full and complete statements of such provisions.

FINANCIAL STATEMENTS

The financial statements of the District as of June 30, 2009 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.

UNDERWRITING

Merrill Lynch & Co. submitted the successful bid at the public sale of the Current Bonds on November 18, 2009, and have thereby agreed to purchase the Current Bonds at an aggregate price of 99.90% and to make a bona fide offering of the Current Bonds to the public (excluding brokers, bond houses and other intermediaries) at the price set forth on the cover page of this Official Statement.

FINANCIAL ADVISOR

First American Municipals, Inc. New York, New York, has been engaged as Financial Advisor to the District.

RATINGS

Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings have assigned the ratings of "A2", "AA-" and "A+", respectively, to the Current Bonds. Certain information may have been submitted to the rating agencies which is not included in this Official Statement. Such ratings reflect only the respective views of such rating agencies and any desired explanation of the significance of such ratings should be obtained from the rating agencies. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Any downward revision or withdrawal of any such ratings could have an adverse effect on the market price of the Current Bonds.

CONTINUING DISCLOSURE UNDERTAKING

The District is delivering a Continuing Disclosure Certificate, dated as of the date of original issuance of the Current Bonds, to the underwriters of the Current Bonds, 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 Current Bonds.

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, 2010, 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, 2010, and each fiscal year thereafter;

C. In a timely manner, to each Repository, notice of any of the following events with respect to the Current Bonds, if material:

[1] Principal and interest payment delinquencies;

[2] Non-payment related defaults;

[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 or events affecting the tax-exempt status of the Current Bonds;

[7] Modifications to rights of Current Bondholders;

[8] Current Bond calls;

[9] Defeasances;

[10] Releases, substitutions or sales of property securing repayment of the Current Bonds; and

[11] Rating changes.

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. Any references to headings and appendices below are to the Official Statement for the Current Bonds, except where otherwise noted:

E. The information and data described under the heading, "THE DISTRICT," including the subheading "The Drainage System."

F. The information and data described under the heading, "RATES AND CHARGES."

G. The information and data described under the heading, "SECURITY AND SOURCE OF PAYMENT FOR THE CURRENT BONDS."

H. The information and data described under the heading, "HISTORIC AND PROJECTED REVENUES AND EXPENSES AND CAPITAL IMPROVEMENT PROGRAM."

I. The information and data described under the heading, "THE SERVICE AREA."

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 Current Bonds.

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 Current Bonds or under the 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 Chairperson of the Board of the District and its Executive Director and Director of Finance will deliver a certificate on behalf of the District, simultaneously with the issuance of the Current Bonds, to the effect that as of the date of issuance of the Current Bonds, and after due inquiry of responsible officers, employees, agents and contractors of the District, the Official Statement did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein, in the light of the circumstances under which there were made, not misleading; and there has been no material adverse change in the financial condition of the District from the date of the sale of the Current Bonds to and including the date of issuance of the Current Bonds.

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 Current Bonds, the security and source of payment for the Current Bonds, and the rights and obligations of holders thereof.

Any statements made in this Official Statement involving matters of opinion or of estimates, 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 orally or in writing is to be construed as a contract with the holders of the Current Bonds.

THE BOND REGISTRAR HAVE NOT PARTICIPATED IN THE PREPARATION OF THIS OFFICIAL STATEMENT EXCEPT FOR CONFIRMING THE ACCURACY OF THE REFERENCES TO THE BOND REGISTRAR 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.

LOUISVILLE AND JEFFERSON COUNTY
METROPOLITAN SEWER DISTRICT

_/s/ Beverly Wheatley_____
Chairperson of the Board

_/s/ Herbert J. Schardein_____
Executive Director and Secretary-Treasurer

APPENDIX A

SUMMARY OF PROVISIONS OF THE RESOLUTION

(THIS PAGE INTENTIONALLY LEFT BLANK)

SUMMARY OF PROVISIONS OF THE RESOLUTION

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

Definitions

"Account" means an Account established pursuant to the Resolution.

"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 Chapter 76, including particularly Sections 76.055 et seq., inclusive, as the same may be from time to time amended, and successor provisions.

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

"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 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.

"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.

"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.

"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.

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

"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.

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

"Government Obligations" means (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.

"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.

"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.

"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.

"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.

"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.

"Project" means any project directly or indirectly related to the facilities provided or to be provided by the District which is to be included as part of the System and is permitted by the Act, and any modification or substitution of such facilities by the District.

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

"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.

"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.

"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 Subordinated Debt" means any debt of the District subordinated to the Bonds and payable from the Senior Subordinated Debt Fund, including without limitation, such Notes of the District as may be issued pursuant to the Subordinate Debt Resolution of the District adopted on June 30, 1993, as the same may be amended from time to time.

"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.

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

"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.

<u>The Pledge Effected by the Resolution</u>. 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.

Application of Revenues. 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.

Tax Covenants Relating to the Internal Revenue Code. 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.

Events of Default. 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.

Rights Arising Upon Occurrence of Event of Default. 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.

Consent of the Insurer When Consent of Bondholder Required; Notice. 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.

Defeasance. 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

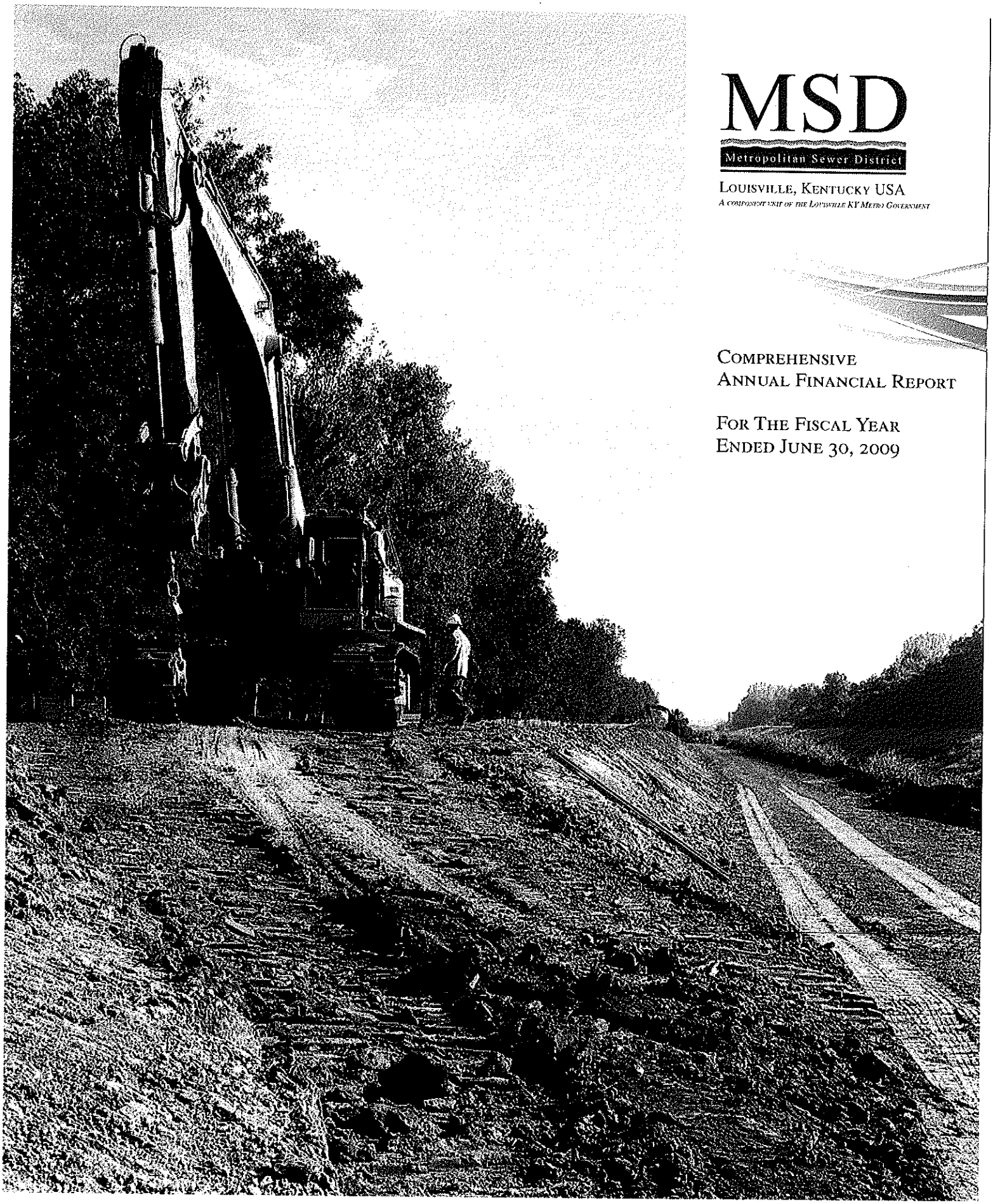
such escrow agent on or prior to the redemption date or maturity date thereof, as the case may be. Except as otherwise provided in the Resolution, neither Defeasance Obligations nor cash deposited with such escrow agent pursuant to the Resolution nor principal or interest payments on any such Defeasance 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.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

FINANCIAL STATEMENTS AS OF JUNE 30, 2009 AND FOR THE YEAR THEN ENDED



MSD

Metropolitan Sewer District

LOUISVILLE, KENTUCKY USA

A COMPONENT UNIT OF THE LOUISVILLE KY METRO GOVERNMENT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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, 2009

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, 2009

TABLE OF CONTENTS

	Page No.
INTRODUCTORY SECTION	
Letter of Transmittal	1-6
GFOA Certificate of Achievement for Excellence in Financial Reporting	7
Organizational Chart	8
List of Board Members and Principal Officials	9
FINANCIAL SECTION	
Independent Auditors' Report	10-11
Management Discussion and Analysis	12-18
Basic Financial Statements	
Comparative Statement of Net Assets	19
Comparative Statements of Revenues, Expenses and Changes in Net Assets	20
Comparative Statement of Cash Flows	21 - 22
Notes to the Comparative Financial Statements	23 - 48
STATISTICAL SECTION	
Schedules of Debt Service Coverage	49
Ten Years Comparative Statement of Net Assets	50 – 51
Ten Years Comparative Statements of Revenues, Expenses, and Changes in Net Assets	52
Ten Years Comparative Statements of Cash Flow	53

LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009
(CONTINUED)

TABLE OF CONTENTS

	Page No.
Ten Years Comparative Summaries of Operating Revenue	54
Ten Years Comparative Summaries of Service and Administrative Costs	55
Ten Years Comparative Schedules of Plant, Lines, and Other Facilities	56
Wastewater Treatment Plant Capacity	57
Employers of One Thousand or more in Greater Louisville	58
Population Trend	59
Top Ten Customers	60

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

November 8, 2009

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, 2009 ("2009") 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 now 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 2009 was $3.1 million.

Economic Condition and Outlook

MSD's sanitary sewer and drainage service areas lie within Jefferson County which, with a 2008 population of approximately 714,000, 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 2009 to 578,251; a decrease of 24,833 from the June 2008 level of 603,084. The June 2009 unemployment rate for the Louisville MSA was 10.6% compared to a national average of 9.5% and a state average of 10.9% for this same time period.

During FY 2009, construction continued on a 22,000 seat arena that will host University of Louisville basketball, major concerts, and other events. Despite the national real estate slump, demand for downtown Louisville residential and commercial properties continued to remain high. Approximately $420 million is being invested in luxury condominiums, loft apartments, office space and retail space. In 2007, an announcement was made that additional retail and residential establishments would be developed in the 3rd Street corridor that is adjacent to the Fourth Street Live entertainment district. A national development firm has been hired and planning is underway that will allow this project to come to fruition.

During 2008, Louisville continued to enhance its reputation as a great place to live and to conduct business. In 2008, the U.S. Conference of Mayors named Louisville as the "most livable" large city in the United States. Louisville topped a list of more than 200 applicants for the award. In addition, Louisville came in at No. 11 in a 2008 bizjournals.com study ranking affordable places to live and BestLife Magazine ranked Louisville in the top 25 "Best Places to Raise a Family." In addition, Expansion Management Magazine recently ranked Louisville among the top 25 cities in the nation as a desirable location for business expansion. It also ranked #9 on the list of Top 20 hot headquarters cities for the 21st century by Business Facilities. Entrepreneur Magazine deemed Louisville to be the best city for small business growth and ranked it 15th for best cities for entrepreneurship.

During 2009, MSD continued to benefit from a diversified customer base. Fifty-one percent (51%) of its service charge revenue came from residential customers with the remaining forty-nine percent (49%) coming from commercial and industrial customers. During 2009, sewer accounts increased by 281 or 0.1% from 2008. This stagnant growth can be attributed to reduction in residential and commercial construction.

Residential construction permitting within Jefferson County has remained steady since 1999, averaging approximately 3,100 units per year from 1999 through 2008. During the calendar year ended 2008, approximately 1,900 residential building permits were issued. This decrease can be attributed to a downturn in the local and national economy. Building permitting is a key barometer of MSD's prospects for long-term growth and the main contributor to its system development revenue. In 2009, revenue from system development charges amounted to .5% of total revenues and it was 1.6% of the total in 2008. This source of revenue is extremely sensitive to changes in the economic climate which affect homebuilding.

Major Initiatives

Project WIN – Waterway Improvements Now

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. MSD established a Wet Weather Stakeholder Group to ensure that the plans would reflect community interests in accordance with the Consent Decree. The group volunteered more than 100 hours of time through a series of meetings that spanned over two years.

Project WIN is estimated to cost approximately $843 million over a twenty-year period. 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. 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. In September 2009, MSD received preliminary approval to proceed with the projects identified in the plans.

Natural Disasters Test MSD and the Community

In September 2008, Louisville was hit by a wind storm that was caused by the remnants of Hurricane Ike. Hurricane-force wind gusts felled countless trees and power lines. The storm left over 250,000 residents and businesses without power for more than a week. In January 2009, an ice storm impacted the Louisville area and resulted in the second largest power outage in the state's history leaving more than 300,000 residents throughout the state without power and closing schools and roads for several days. In August 2009, Louisville faced a third natural disaster in less than a year as more than 7 inches of rain fell in a little more than an hour resulting in flash flooding that severely damaged homes and businesses in the southern and western part of the city.

MSD staff worked countless hours during these events to ensure that customer needs were addressed. All three events were declared federal disasters. MSD submitted claims for reimbursements in excess of $1.5 million to the Federal Emergency Management Agency (FEMA). Thus far, MSD has received approximately $358,000 for reimbursements relating to these events and is currently working with FEMA to receive the remaining amount.

MSD Proceeds with Upgrades to Flood Protection and Flood Control Systems

One of MSD's core business functions is flood protection. The aftermath of Hurricane Katrina directed the nation's attention to its aging flood protection systems. Flood protection and control has always been a high priority with MSD. During 2008, MSD moved forward with its plans to invest more than $150 million over the next 15 years to upgrade its pumping stations, rehabilitate its floodwall gates, and repair its floodwalls. During FY 2009, MSD was awarded federal stimulus funding in the amount of $5 million to rehabilitate its Western Flood Pumping Station. This facility provides flood protection for more than 135,000 residents in western Louisville. The total cost of the project will be approximately $17 million and it is expected to be completed by February 2010.

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 2009 was $25.6 million compared to gross earnings of $6.1 million in 2008. 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 2009 interest expense of $72.8 million represented a 5.11% cost of funds on average outstanding indebtedness of $1.42 billion, which compares with gross interest expense of $66.9 million, representing a 4.96% cost of funds on average 2008 debt of $1.35 billion.

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 automobile physical damage, 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 13.50% of participating employees' compensation in 2009 and 16.17% in 2008, which amounted to $4.7 and $5.5 million in 2009 and 2008, respectively. Employees currently are required to contribute 5% of their compensation which totaled $1.7 million in 2009 and $1.8 million in 2008.

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 2009 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, 2009 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, 2009 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 nineteenth consecutive time for its CAFR for the year ended June 30, 2008. 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 support and prudent 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

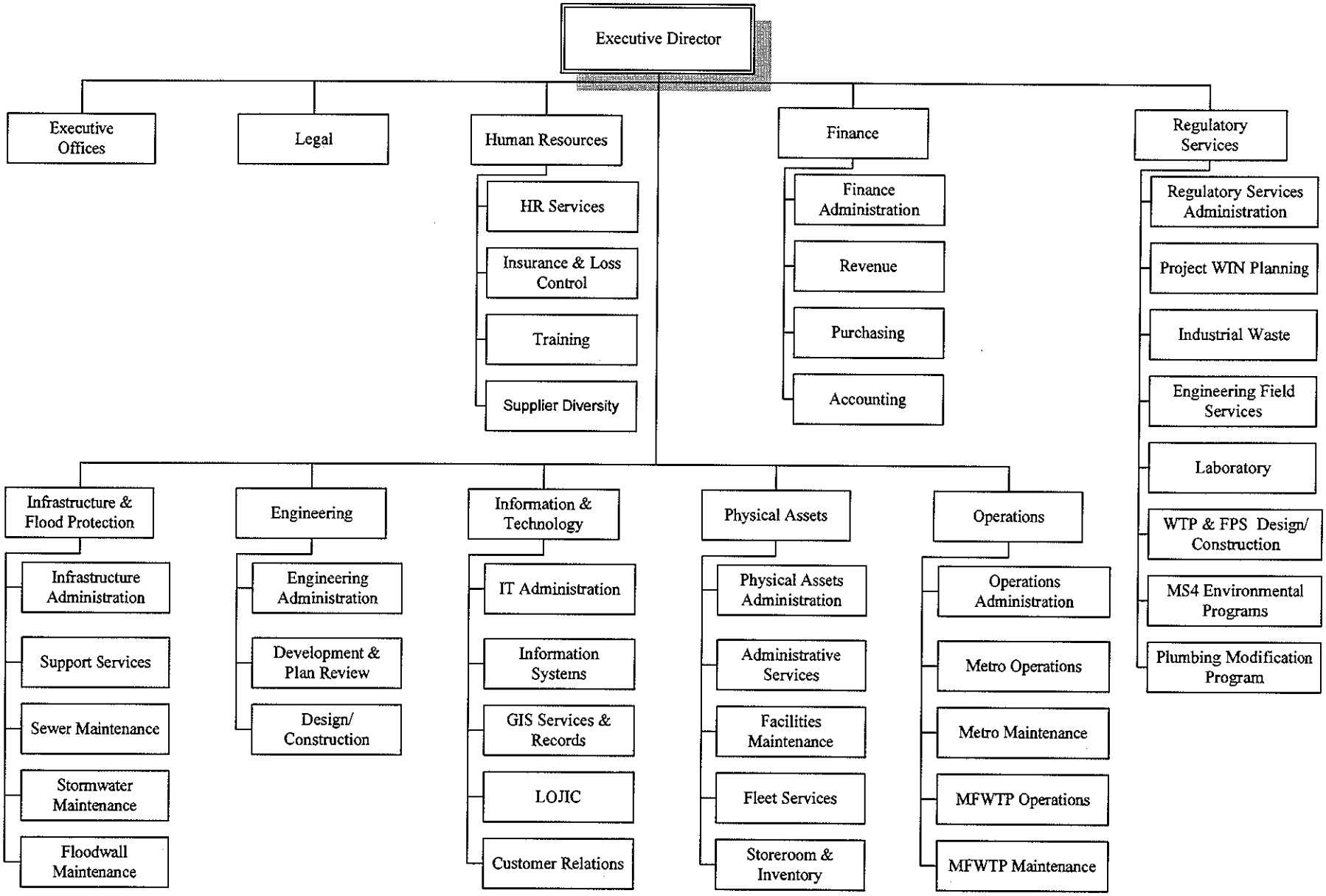
For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008

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.

President

Executive Director

Louisville and Jefferson County Metropolitan Sewer District Organization Chart



MSD BOARD

Beverly A. Wheatley, Chairperson

Audwin A. Helton, Vice Chairperson

Benjamin K. Richmond
Jerome L. Clark
Charles E. Weiter

Martin D. Hoehler
Marvin D. Stacy
Arnold J. Celentano

Herbert J. Schardein, Jr., Secretary/Treasurer

PRINCIPAL OFFICERS

Herbert J. Schardein, Jr., Executive Director

Mark Johnson, Director
Engineering

James Hunt, Director
Physical Assets

Jerry Ferguson, Director
Human Resources

Bruce Seigle, Director
Information Technology

Paula Purifoy
Legal Counsel

W. Brian Bingham, Director
Regulatory Management Services

Saeed Assef, Director
Infrastructure & Flood Protection

Marion Gee, Director
Budget and Finance

Alex Novak, Director
Operations

Dennis Thomasson, Director
Emergency Response & Metro Operations

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

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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 and for the year ended June 30, 2009, 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 audit. The financial statements of Louisville and Jefferson County Metropolitan Sewer District as of June 30, 2008, were audited by other auditors whose report dated October 21, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 audit provides 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 12 through 18 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 basic financial statements of the Louisville and Jefferson County Metropolitan Sewer District. 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 26, 2009 on our consideration of the Louisville and Jefferson County Metropolitan Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
October 26, 2009

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, 2009. 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 increased by $6.6 million (1.2%) as a result of this year's operations.
- Operating revenues increased by $6.3 million (3.9%) to $167.6 million.
- Operating expenses excluding depreciation decreased by $1.7 million (2.4%).
- Non-operating revenues (investment income) increased by $20.7 million (422.3%) and non-operating expenses increased by $16.4 million (29.1%).

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.

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 increased by $6.6 million in FY 2009 to $557.1 million. In the early 1990's, less than 30% of MSD's capitalization was in the form of long-term debt. In 1997, for the first time, long-term debt exceeded 50% of MSD's capital structure. This change in capitalization can be attributed to the aggressive capital construction plan that MSD initiated in order to eliminate small neighborhood sewer treatment plants and septic tanks and to expand and rehabilitate its drainage and sewer infrastructure. At June 30, 2009, total long-term liabilities represented 69.8% of MSD's capitalization.

MSD's total assets increased by approximately $4.8 million in 2009. This overall increase can be attributed primarily to an increase in plant, lines, and other facilities of $26.9 million and a decrease in current assets of $28.5 million.

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

	FY 2009	FY 2008	Dollar Change	Percent Change	FY 2007
Unrestricted Current Assets	$ 53,342	$ 46,675	$ 6,667	14.3%	$ 46,517
Restricted Current Assets	97,291	132,501	(35,210)	-26.6%	76,934
Noncurrent Assets	1,872,547	1,848,851	23,696	1.3%	1,793,305
Total Assets	2,023,180	2,028,027	(4,847)	-0.2%	1,916,756
Current Liabilities	11,035	10,548	487	4.6%	16,639
Current Liab. from Restr. Assets	42,461	39,311	3,150	8.0%	33,253
Noncurrent Liabilities	1,412,597	1,427,649	(15,052)	-1.1%	1,315,490
Total Liabilities	1,466,093	1,477,508	(11,415)	-0.8%	1,365,382
Invested in Capital Assets, net	470,445	478,833	(8,388)	-1.8%	479,305
Restricted Assets, net	100,225	135,537	(35,312)	-26.1%	7,034
Unrestricted	(13,583)	(63,851)	50,268	-78.7%	65,035
Total Net Assets	557,087	550,519	6,568	1.2%	551,374
Total Liabilities and Net Assets	$ 2,023,180	$ 2,028,027	$ (4,847)	-0.2%	$ 1,916,756

Total liabilities decreased by $11.4 million in 2009. This decrease was due to a drop in long-term bonds payable by $20.6 million.

Capital Assets and Long-term Debt

MSD's net investment in plant, lines, and other facilities increased by $26.9 million in FY 2009. Major additions include the completion of $19.9 million of sewer line installations and $9.4 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 May 2009, MSD issued $76.3 million of revenue bonds to current refund a portion of its Series 1998A bond issue.

In May 2008, MSD issued $105 million in revenue bonds to finance its capital program. As of June 30, 2009, approximately $52.7 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, 2009 and June 30, 2008.

Results of Operations

Total Operating Revenues as of June 30, 2009 were $167.6 million compared to $161.3 million for the same period last year, an increase of $6.3 million or 3.9%. This increase in operating revenues was primarily driven by a rate increase of 6.5% on wastewater and stormwater fees that was enacted on August 1, 2008. During FY 2007, MSD began offering free wastewater and stormwater service to the Louisville Metro Government. This free service amounted to $3.1 million in FY 2009 and $2.2 million in FY 2008.

Wastewater Service Charges totaled $130.7 million as of June 30, 2009. This represents an increase of $4.9 million or 3.9% from a year ago. Free wastewater services provided to the Louisville Metro Government amounted to $2.6 million during the fiscal year. 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 $32.3 million as of June 30, 2009. This represents an increase of $1.2 million or 4.0% from the same period one year ago. This increase is net of the $442,400 of free stormwater services provided to the Louisville Metro Government.

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

	FY 2009	FY 2008	Dollar Change	Percent Change	FY 2007
Service Charges	$ 163,004	$ 156,889	$ 6,115	3.9%	$ 126,490
Other Operating Income	4,552	4,394	158	3.6%	5,956
Total Operating Revenues	167,556	161,283	6,273	3.9%	132,446
Investment Income	25,568	4,895	20,673	422.3%	4,670
Total Revenues	193,124	166,178	26,946	16.2%	137,116
Depreciation Expense	56,727	55,363	1,364	2.5%	52,177
Other Operating Expenses	68,742	70,457	(1,715)	-2.4%	63,479
Nonoperating Expenses	72,776	56,388	16,388	29.1%	56,408
Total Expenses	198,245	182,208	16,037	8.8%	172,064
Net income (loss) before contributions	(5,121)	(16,030)	10,909	-68.1%	(34,948)
Contributions	11,689	15,175	(3,486)	-23.0%	16,859
Change in net assets	6,568	(855)	7,423	-868.2%	(18,089)
Beginning Net Assets	550,519	551,374	(855)	-0.2%	569,463
Ending Net Assets	$ 557,087	$ 550,519	$ 6,568	1.2%	$ 551,374

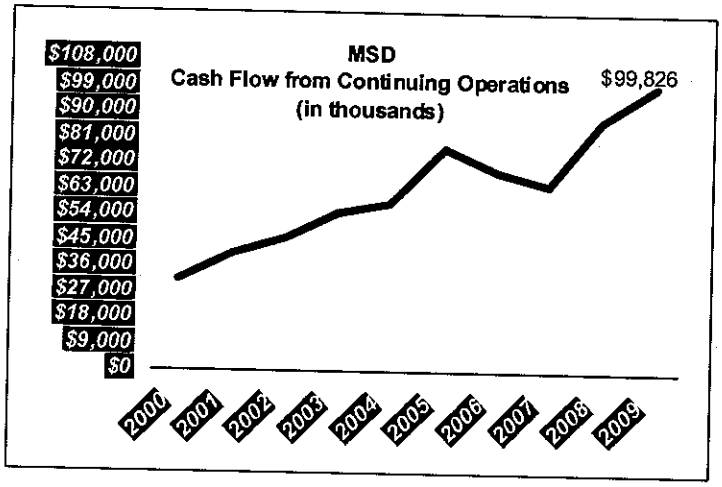
Other operating income was $158,000 more than the amount recorded in FY 2008. This slight increase was driven by the sale of miscellaneous surplus property and income from a new inflow and infiltration fee.

Table 3 shows the composition of gross service and administrative costs by major classification of expense for the last three fiscal years. Gross service and administrative costs decreased by $2.6 million in FY 2009 from FY 2008 levels. Decreases in utility expenses ($2.2 million) and billing and collection expenses ($1.7 million) lead to this overall decrease. The decrease in utility expenses was driven by decreases in electricity and natural gas costs of $823,000 and $1,579,000; respectively. Natural gas costs dropped due to a decline in commodity prices but also as a result of a project initiated by MSD's Operations Division at the Morris Forman Wastewater Treatment Plant. A project was constructed to capture methane gas that is released as a result of the wastewater treatment process. The methane gas was used to produce dried biosolid pellets in lieu of the natural gas that MSD would normally purchase from a broker. Billing and collection expenses decreased due to a change in the allowance for doubtful accounts balance.

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

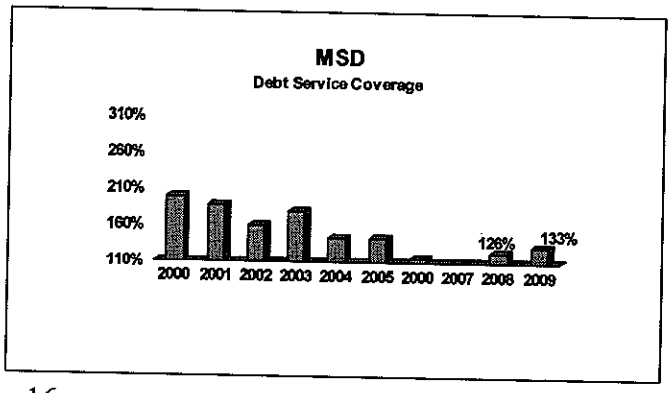
	2009		2008		Variance	%	2007
Service and administrative costs:							
Labor	$ 49,354	52%	$ 49,431	50%	$ (77)	-0.2%	$ 47,079
Utilities	10,818	11%	12,989	13%	(2,171)	-16.7%	10,976
Materials and supplies	8,742	9%	8,707	9%	35	0.4%	8,197
Professional services	2,730	3%	3,126	3%	(396)	-12.7%	2,797
Maintenance and repairs	9,675	10%	8,926	9%	749	8.4%	8,035
Billing and collections	3,623	4%	5,318	6%	(1,695)	-31.9%	2,889
Chemicals	4,372	5%	3,805	4%	567	14.9%	3,585
Fuel	1,315	1%	1,344	1%	(29)	-2.2%	1,240
Biosolids disposal	2,063	2%	1,661	2%	402	24.2%	1,412
All other	2,817	3%	2,800	3%	17	0.6%	3,947
Gross service and admin. costs	**$ 95,509**	**100%**	**$ 98,107**	**101%**	**$ (2,598)**	**-2.6%**	**$ 90,157**

Depreciation expense of $56.7 million was $1.4 million more than the FY 2008 amount. This increase in depreciation is consistent with the growth in Capital Assets that MSD has experienced.



In FY 2009, net cash provided by operating activities increased by $12.5 million primarily due to an increase of $6.6 million in cash received from customers and a decrease of $6.6 million in cash paid to suppliers.

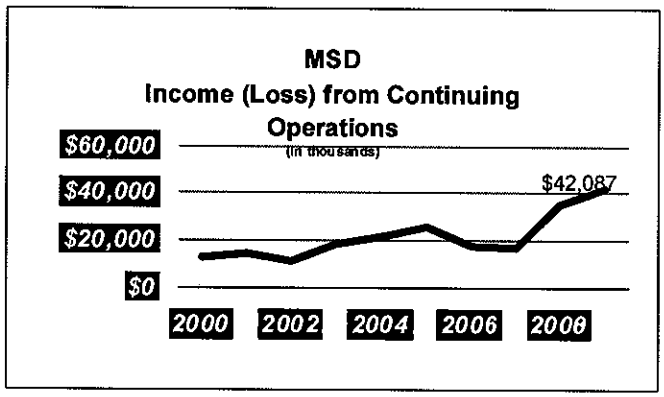
Although net operating income is the most significant component of the factors which go into determining MSD's debt service coverage, other sources, including investment income and current period payments of property owner assessments also are included in "available revenues" and "net revenues" for purposes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



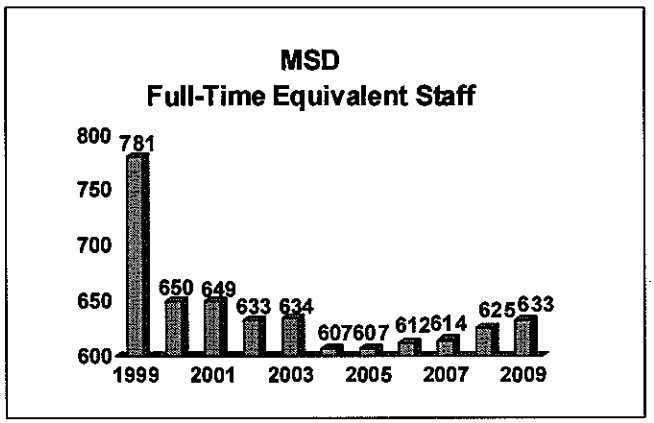
Drainage System Revenue Bond Resolution.

The 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 (in FY 2009, all of MSD's outstanding debt), 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 133% in 2009 and 126% in 2008.

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.



MSD recorded a net operating income of $42.1 million compared to $35.5 million in FY 2008, an increase of $6,624,000 or 18.7%. Increases in service charges of $6.1 million from FY 2008 levels resulted in this change.



MSD's employee count increased slightly to 633 in 2009 compared to 625 full-time equivalent positions in 2008. Labor cost was 52% and 50% of service and administrative costs in 2009 and 2008; respectively.

Net interest expense totaled $72,776,000 in FY 2009 and $56,388,000 in FY 2008; an increase of $16,388,000. This increase occurred because no interest charges were capitalized in FY 2009; however, $10.5 million of interest charges were capitalized in FY 2008.

Other Significant Matters

In August 2009, MSD refinanced its outstanding Sewer and Drainage System Revenue Bonds, Series 1997A, 1999A, 2003A, and 2003B. A fixed rate bond issue in the amount of $225,770,000 and bond anticipation notes in the amount of $226,430,000 were used to refinance the aforementioned bond series. Readers are encouraged to review Note 12 for additional information regarding this debt refinancing.

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. To date, MSD has complied with all submittals and reports requirements contained in the Amended Consent Decree.

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, 2009	June 30, 2008
Assets		
Current Assets:		
Unrestricted cash and cash equivalents	$ 22,552	$ 10,524
Unrestricted investments	7,733	14,379
Restricted cash and cash equivalents	35,988	105,299
Restricted investments	61,303	27,202
Accounts receivable, less allowance for doubtful accounts of $414 (2009), $1,568 (2008)	18,065	16,732
Inventories	3,027	3,020
Accrued interest receivable	102	636
Prepaid expenses and other current assets	1,863	1,384
Total current assets	150,633	179,176
Noncurrent assets:		
Long-term assessment receivables	25,146	26,334
Unamortized debt discount & expense	30,664	32,705
Plant, lines and other facilities, net	1,816,737	1,789,812
Total noncurrent assets	1,872,547	1,848,851
Total assets	2,023,180	2,028,027
Liabilities		
Current liabilities:		
Current liabilities (payable from unrestricted assets):		
Accounts payable and accrued expenses	11,035	10,548
Current liabilities (payable from restricted assets):		
Accounts payable and accrued expenses, includes contractor's retainages of $352 (2009), $818 (2008)	7,735	5,250
Accrued interest	8,143	8,597
Refundable deposits	3,478	4,209
Current maturities of bonds payable	23,105	21,255
Total current liabilities	53,496	49,859
Non-current liabilities:		
Other liabilities	2,114	2,375
Deferred debits	14,463	15,512
Unamortized debt premium	10,835	3,957
Bonds payable, net	1,385,185	1,405,805
Total non-current liabilities	1,412,597	1,427,649
Total liabilities	1,466,093	1,477,508
Net Assets		
Invested in plant, lines and other facilities, net of related debt	470,445	478,833
Restricted for payment of bond principal and interest	100,225	135,537
Unrestricted	(13,583)	(63,851)
Total net assets	$ 557,087	$ 550,519

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, 2009	Year Ended June 30, 2008
Operating revenues:		
Service charges	$ 163,004	$ 156,889
Other operating income	4,552	4,394
Total operating revenues	167,556	161,283
Operating expenses:		
Service and administrative costs	69,534	70,335
Capital expenses over/under applied	(856)	-
Loss on disposal of assets	64	122
Depreciation and amortization	56,727	55,363
Total operating expenses	125,469	125,820
Income from operations	42,087	35,463
Non-operating revenue (expenses):		
Investment income	25,568	4,895
Interest expense	(72,776)	(56,388)
Total non-operating revenue (expenses) - net	(47,208)	(51,493)
Net income (loss) before contributions	(5,121)	(16,030)
Contributions		
Property owner assessments	2,239	164
All other	9,450	15,011
Increase (decrease) in net assets	6,568	(855)
Net assets, beginning of year	550,519	551,374
Net assets, end of year	$ 557,087	$ 550,519

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, 2009	June 30, 2008
Cash flows from operating activies:		
Cash received from customers	$ 166,123	$ 159,539
Cash paid to suppliers	(30,573)	(37,186)
Cash paid to employees	(35,724)	(35,041)
Net cash provided by operating activities	99,826	87,312
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue bonds	76,275	166,125
Capital contributed by governments, property owners & developers	11,689	15,175
Assessments receivable	557	2,702
Interest income - assessments	1,471	1,405
Unamortized loss on refundings	-	2,504
Principal paid on revenue bonds	(95,045)	(84,350)
Interest paid on revenue bonds	(73,229)	(69,145)
Acquisition and construction of capital assets	(75,504)	(83,548)
Retainage payable	(466)	430
Acquisition of non-operating property	(261)	(257)
Net cash (used in) capital and related financing activities	(154,513)	(48,959)
Cash flows from investing activities:		
Restricted Investments	(34,101)	45,656
Unrestricted Investments	6,646	10,555
Income on investments	24,936	4,889
Unamortized premium on forward delivery agreement	(77)	1,399
Unamortized gain on termination of swap agreements	-	9,926
Net cash (used in) provided by investing activities	(2,596)	72,425
Net increase (decrease) in cash and cash equivalents	(57,283)	110,778
Cash and cash equivalents beginning of year	115,823	5,045
Cash and cash equivalents, end of year	$ 58,540	$ 115,823

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, 2009	June 30, 2008
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	$ 42,087	$ 35,463
Depreciation	56,144	54,822
Amortization	583	541
Loss from retired assets	64	122
Capital expense over/under applied	(856)	-
Accounts receivable	(702)	(1,622)
Inventories	(6)	71
Deferred charges (prepaids)	(479)	(203)
Accounts payable	2,945	(2,762)
Customer deposits	(731)	(121)
Accrued liabilities	777	1,001
Net cash provided by operating activities	$ 99,826	$ 87,312
Non-cash capital financing activities:		
Contribution of plant, lines and other facilities by developers and property owners	$ 11,689	$ 15,175
Increase in accounts payable incurred for construction	$ 2,484	$ 1,011
Decrease in fair value of investments	$ 83	$ (478)
(Increase) decrease in interest rate swap deferred revenue	$ 972	$ (9,202)

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 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. Reporting Entity

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)

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 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)

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 seven percent 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 with an original maturity of three months or less in cash and cash equivalents.

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

D. Investments

Investments are reported at fair value based on quoted market value. Investment income consists of interest income and the change in fair value of investments.

E. Operating Revenues and 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.

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.

F. Inventories

Inventories are stated at the lower of cost (principally 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.

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

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

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.

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

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. 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, 2009 and 2008.

K. Bonds Payable

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.

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

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. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2009 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2009. Management has performed their analysis through October 26, 2009.

Q. Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to those used in 2009. These reclassifications did not affect total net assets or change in net assets of the 2008 financial statements.

NOTE 2. DEPOSITS AND INVESTMENTS

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

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		

June 30, 2008

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
U.S. Agency Discount Notes	$ 36,118	0.15	Aaa
U.S. Treasury Obligations	2,633	0.13	Aaa
Corporate Bonds	25	0.02	Aaa
Municipal Bonds	25	0.02	Aaa
Money Market Funds	112,907	0.08	Aaa
Repurchase Agreement	8,012		
Certificate of Deposit	101		
Total fair market value of cash equivalents and investments	159,821	0.10	
Accrued interest from cash equivalents and investments	636		
Checks issued against cash on deposit	(2,417)		
Total cash, cash equivalents and investments	$ 158,040		

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. 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.

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. The Policy also requires that all investments have the highest category of ratings by the nationally recognized rating agencies. Where applicable, all of the above investments have such ratings. Custodial credit risk 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.

NOTE 2. DEPOSITS AND INVESTMENTS - (CONTINUED)

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

	June 30	
	2009	2008
Cash and cash equivalents - unrestricted	$ 22,654	$ 11,160
Investments - unrestricted	7,733	14,379
Cash and cash equivalents - restricted	35,988	105,299
Investments - restricted	61,303	27,202
	$ 127,678	$ 158,040

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.

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

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

	June 30	
	2009	2008
Payment of bond principal and interest & Reserves	$ 52,188	$ 42,133
Authorized construction	45,103	90,368
Total restricted cash, cash equivalents and investments	$ 97,291	$ 132,501

NOTE 4. SCHEDULE OF NET ASSETS

A comparative schedule of net assets follows:

	June 30	
	2009	2008
Net assets invested in plant, lines and other facilities		
Plant, lines and other facilities net of depreciation	$ 1,816,737	$ 1,789,812
Outstanding debt that applies to plant, lines and other facilities	(1,408,290)	(1,427,060)
Unamortized Premium/Discount	16,895	25,713
Unspent bond proceeds	45,103	90,368
Invested in plant, lines and other facilities, net	470,445	478,833
Funds held in bank	104,887	136,997
Reimbursements due from Construction	(7,596)	(4,496)
Unamortized debt discount & expense	2,934	3,036
Net assets, restricted	100,225	135,537
Unrestricted	(13,583)	(63,851)
Total net assets	$ 557,087	$ 550,519

NOTE 5. PLANT, LINES AND OTHER FACILITIES

A comparative schedule of plant, lines and other facilities for the years 2009 and 2008 follows:

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

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

Year ended June 30, 2008

	Beginning Balance	Additions	Retirements / Reclassifications	Ending Balance
Capital assets:				
Sewer lines	$ 963,799	$ 59,161	$ (101)	$ 1,022,859
Wastewater treatment facilities	422,483	34,472	-	456,955
Stormwater drainage facilities	366,745	23,955	(1)	390,699
Pumping and lift stations	60,877	6,113	-	66,990
Administrative facilities	45,347	214	-	45,561
Maintenance facilities	7,313	520	-	7,833
Machinery and equipment	62,525	13,347	-	75,872
Capitalized interest	205,304	9,340	-	214,644
Total capital assets	2,134,393	147,122	(102)	2,281,413
Less accumulated depreciation:				
Sewer lines	(171,959)	(12,385)	7	(184,337)
Wastewater treatment facilities	(187,136)	(19,685)	-	(206,821)
Stormwater drainage facilities	(82,160)	(5,686)	-	(87,846)
Pumping and lift stations	(22,913)	(2,839)	-	(25,752)
Administrative facilities	(21,011)	(2,873)	-	(23,884)
Maintenance facilities	(3,667)	(346)	-	(4,013)
Machinery and equipment	(50,712)	(5,856)	-	(56,568)
Capitalized interest	(33,923)	(5,152)	-	(39,075)
Total accumulated depreciation	(573,481)	(54,822)	7	(628,296)
Construction in progress	193,420	70,387	(127,112)	136,695
	$ 1,754,332	$ 162,687	$ (127,207)	$ 1,789,812

NOTE 6. CAPITALIZED INTEREST

A comparative schedule of net interest cost capitalized in 2009 and 2008 follows:

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

Year ended June 30, 2008	Capitalized	Operations	Total
Investment earnings	$ 1,190	$ 4,895	$ 6,085
Interest cost	(10,530)	(56,388)	(66,918)
Net	$ (9,340)	$ (51,493)	$ (60,833)

NOTE 7. LONG-TERM DEBT

A comparative schedule of long-term debt outstanding at June 30, 2009 and June 30, 2008, follows:

	Interest Rates	Final Payment In	Outstanding As Of June 30 2009	Outstanding As Of June 30 2008
REVENUE BONDS				
1997 Sewer and Drainage System Revenue Bonds Series 1997A	5.25% - 6.00%	2027	$ 24,815	$ 24,815
1998 Sewer and Drainage System Revenue Bonds Series 1998A	4.25% - 9.00%	2030	159,135	236,940
1999 Sewer and Drainage System Revenue Bonds Series 1999A	5.25% - 6.50%	2033	285,060	288,030
2001 Sewer and Drainage System Revenue Bonds Series 2001A	5.00% - 5.50%	2036	291,890	293,705
2003 Sewer and Drainage System Revenue Bonds Series 2003A and 2003B	Variable Rate	2023	149,645	157,265
2004 Sewer and Drainage System Revenue Bonds Series 2004A	5.00% - 5.25%	2038	100,000	100,000
2005 Sewer and Drainage System Revenue Bonds Series 2005A	3.00% - 5.00%	2026	60,090	61,640
2006 Sewer and Drainage System Revenue Bonds Series 2006A	4.00% - 5.00%	2038	98,385	100,000
2007 Sewer and Drainage System Revenue Bonds Series 2007A	4.00% - 5.00%	2025	57,995	59,665
2008 Sewer and Drainage System Revenue Bonds Series 2008A	4.00% - 5.00%	2038	105,000	105,000
2009 Sewer and Drainage System Revenue Bonds Series 2009A	5.00%	2022	76,275	-
			1,408,290	**1,427,060**
Less current maturities			(23,105)	(21,255)
Total - MSD Long-Term Debt			**$ 1,385,185**	**$ 1,405,805**

NOTE 7. LONG-TERM DEBT (CONTINUED)

A schedule of future debt service requirements after June 30, 2009 follows:

	Revenue Bonds		
	Principal	Interest	Total
Year Ending June 30,			
2010	$ 23,105	$ 71,323	$ 94,428
2011	24,135	70,278	94,413
2012	25,255	69,150	94,405
2013	26,440	67,955	94,395
2014	27,715	66,669	94,384
2015-2019	159,745	311,878	471,623
2020-2024	201,365	269,066	470,431
2025-2029	255,730	213,610	469,340
2030-2034	330,460	138,875	469,335
2035-2039	334,340	41,357	375,697
	$ 1,408,290	$ 1,320,161	$ 2,728,451

A comparative summary of long-term debt activity for the years ended June 30, 2009 and June 30, 2008 follows:

	June 30	
	2009	2008
Long term debt - beginning of year	$ 1,427,060	$ 1,345,285
Bonds issued	76,275	166,125
Principal paid on bonds	(21,255)	(22,450)
Bonds refunded	(73,790)	(61,900)
Long term debt - end of year	$ 1,408,290	$ 1,427,060

Amortization of loss on prior refunds totaled $1,277 and $1,336 for the years ended June 30, 2009 and 2008, respectively.

NOTE 7. LONG-TERM DEBT (CONTINUED)

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 unamortized portion is recorded as deferred debits in long-term liabilities.

In April 2001, MSD entered into two forward interest rate swap agreements with an aggregate notional amount of $282,165. Under these agreements, MSD will be the fixed rate payer on the swap and the swap-counter parties, Wells Fargo Bank and Bank of America, will be the floating rate payers. MSD will pay a fixed rate of 4.4215% and will receive 67% of the 30-day London InterBank Offered Rate (LIBOR) Index. The forward start date begins November 15, 2009 and terminates on May 15, 2033. MSD initiated the swaps to synthetically convert a portion of its floating rate debt expected to be issued November 15, 2009 for the refinancing of its Sewer and Drainage System Revenue Bonds, Series 1999A, to a fixed rate. MSD reserved the right to terminate the swap agreements at any time at the then current market value. This may result in MSD making or receiving a termination payment. This swap transaction exposes MSD to tax event risk due to the possibility that municipal bonds could be taxable when MSD needs to issue debt. In addition, there is a risk (market-access risk) that MSD will not be able to enter credit markets in November 2009 thus the expected cost savings may not be realized. The negative fair value of these swaps for the years ending June 30, 2009 and 2008 was $(60,869) and $(34,253) respectively.

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 unamortized portion is recorded as deferred debits in long-term liabilities.

NOTE 7. LONG-TERM DEBT (CONTINUED)

In October 2002, MSD entered into two Floating to Fixed (Synthetic Fixed) Forward Starting Interest Rate Swap Agreements with an aggregate notional amount of $190,790. MSD executed these agreements to synthetically convert a portion of its floating rate debt that was issued on May 15, 2003 for the refinancing of its Sewer and Drainage System Revenue Bonds, Series 1993, 1993A, and 1993B, to a fixed rate. MSD pays a fixed rate of 4.075% and receives from the counterparties, Deutsche Bank AG and Bank of America, a floating rate equivalent to the Securities Industry and Financial Markets Association Index (formerly the Bond Market Association (BMA) Municipal Bond Index). MSD reserves the exclusive right to terminate these swap agreements at any time at the then current market value. These agreements took effect on May 15, 2003 and terminates on May 15, 2023. The negative fair value of these swaps for the years ending June 30, 2009 and 2008 was $(11,443) and $(6,907) respectively.

In March 2003, MSD entered into a swap agreement with Morgan Stanley Capital Services, Inc. for a notional amount of $190,790 that in essence changed the terms of the October 2002 agreement. The terms of this agreement call for MSD to receive 78.78% of the 3-month LIBOR Index and to pay the Securities Industry and Financial Markets Association (SIFMA) Index. MSD reserves the exclusive right to terminate the swap agreement at any time at the then current market value. This agreement took effect on May 15, 2003 and terminates on May 15, 2023. The fair value of this swap for the years ending June 30, 2009 and 2008 was $(2,082) and $1,479 respectively.

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 unamortized portion is recorded as deferred debits in long-term liabilities.

In November 2008, MSD entered into a swap agreement with Deutsche Bank AG for an initial notional amount of $281,745 which provides that beginning November 15, 2011, a net payment will be made based on MSD

NOTE 7. LONG-TERM DEBT (CONTINUED)

paying the SIFMA Index on the notional amount and receiving 100.30% of the Three Month LIBOR Index on the notional amount. The notional amount of this 1999 Basis Swap declines in the same amounts as the notional amount of the 1999 Swap. MSD reserves the exclusive right to terminate the swap agreement, at any time, at the then current market value. The fair positive value of this swap for the year ending June 30, 2009 was $15,838.

On May 15, 2009, MSD issued $76,275 of Sewer and Drainage System Revenue Bonds, Series 2009A. The proceeds of the bonds, net of issuance cost, were used to advance refund $76,490 of outstanding Series 1998A Bonds. The net proceeds of $73,790 from 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 will provide amounts sufficient for future payment of interest and principal on the refundable issue. As a result of the refunding, the bonds are considered defeased and the liability for those bonds are not included in the 2009 financial statements of MSD.

MSD completed the advance refunding to reduce its total debt service payments over the next 21 years by $2,096. The bond issue resulted in an economic gain of $9,049 due to the debt service savings and the funding of a debt service reserve in the amount of $8,439. Subsequent to year end, on September 1, 2009, $76,490 of the Series 1998A Bonds were repaid on behalf of MSD by the escrow agent.

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 and October 2002 swaps were awarded to multiple firms to further mitigate the credit risk associated with the transactions.

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 and March 2003 swaps coincide with the 2003 variable rate

NOTE 7. LONG-TERM DEBT (CONTINUED)

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 2009 and FY 2008 were $2,883 and $1,319; respectively.

NOTE 8. 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, 2009; 2008; and 2007 were 13.50%, 16.17%, and 13.19% respectively, of participating employees' compensation.

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, 2009, 2008, and 2007 were $4,677; $5,482; and $4,221; 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, 2008, insurance premiums withheld from benefit payments for members of CERS were $25,810.

NOTE 9. 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 permitted by the Commonwealth of Kentucky to practice as a "group 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, liability coverage up to $7,000 per occurrence. The amount of coverage available to MSD could be limited by the total assets of the Trust. At June 30, 2009, MSD has no claims that are payable from the Trust's assets.

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	
	2009	2008
Liability - beginning of year	$ 1,749	$ 1,913
Claims and changes in estimates	558	808
Payments	(874)	(972)
Liability - end of year	$ 1,433	$ 1,749

NOTE 9. RISK MANAGEMENT (CONTINUED)

MSD joined the Louisville Area Governmental General Insurance Trust (Property Insurance Trust) in September 2002. The Property Insurance Trust was created to provide lower cost to participants for property insurance. MSD is responsible for property damage up to $100. The Property Insurance Trust provides coverage for the next $900 and a reinsurance plan with a third party carrier covers claims in excess of $1 million.

MSD has had no settled claim that has exceeded the above coverages, in any of the past three fiscal years. There have been no changes in MSD's self-insurance coverage from prior year.

NOTE 10. 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 11. 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

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2009 and 2008 was $6,262 and $7,464 respectively.

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. 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 has been 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 has been 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 $843,000.

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

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(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. 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.

IRS Inquiry

In 1998, MSD purchased with the proceeds of its Sewer and Drainage System Revenue Bonds, Series 1997B, United States Treasury obligations for an escrow fund for certain defeased bonds, and at the same time, purchased a put option that allowed it to sell those obligations for an agreed-upon period of time to a counterparty. In 2003, MSD became aware that the Internal Revenue Service (the "IRS") was scrutinizing similar transactions and encouraging issuers who had engaged in such transactions to contact the IRS under the IRS's voluntary compliance agreement program ("VCAP"). While MSD believed it had complied in all respects with applicable provisions of the tax laws, it contacted the IRS promptly with a request for a VCAP settlement. During FY 2007, MSD entered into a closing agreement with the IRS. The agreement provided that the holders of the 1997B bonds are not required to include any interest on the bonds in gross income for federal income tax purposes and no income is required to be recognized by any holder of the bonds as a result of the closing agreement or any payments made pursuant to the agreement. The closing agreement required MSD to redeem $2,800 of the bonds on November 15, 2007 using funds other than proceeds of tax-exempt bonds. MSD complied with this requirement in FY 2008.

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.

NOTE 11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The value of construction contracts signed, where work has not yet been performed at June 30, 2009, amounted to $16,883, and was $20,569 at June 30, 2008.

NOTE 12. SUBSEQUENT EVENTS

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, will be used to currently refund certain of the District's outstanding Sewer and Drainage System Revenue Bonds, Series 1997A, 1999A, 2003A and 2003B. 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 will provide amounts sufficient for future payment of interest and principal on the refundable issues.

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 will be 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 2001 MSD entered into two forward-starting interest rate swap agreements with the intention to use swaps to "lock in" a fixed rate on the variable rate debt which the District had expected it might issue in 2009 to refinance the Series 1999 Bonds. Rather than issuing any such variable rate debt in 2009, the District has decided instead to issue the fixed rate Series 2009B Bonds and the fixed rate Series 2009A Notes. The portion of the Series 1999 Bonds maturing in 2010 through and including 2023 will be refunded with a portion of the proceeds of the Series 2009B Bonds. The portion of the 1999 Bonds maturing in 2024 and thereafter will be refunded with proceeds of the Series 2009A Notes. Concurrently with the issuance of the Series 2009B Bonds and the Series 2009A Notes, the District reversed that portion of the notional amount of the two forward-starting interest rate swaps mentioned above that is subject to amortization in the years 2023 and earlier.

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**

Debt Capacity 49

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

Financial Trends 52

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

Revenue Capacity 54

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

Operating Information 55

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.

Demographic and Economic Information 58

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)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Revenues:										
Service charges	$ 163,004	$ 156,889	$ 126,490	$ 122,643	$ 113,561	$ 103,571	$ 99,546	$ 90,255	$ 87,641	$ 85,162
Other operating income	4,552	4,394	5,966	7,122	9,288	7,216	6,696	5,713	6,013	6,569
Assessments	4,387	2,251	8,237	6,796	10,731	12,064	27,290	14,020	12,558	7,539
Investment income	25,568	6,085	8,417	5,558	14,503	23,916	9,377	11,610	14,363	11,748
Less: capitalized investment income		(1,190)	(3,747)	(1,594)	(6,245)	(18,201)	(5,087)	(6,428)	(10,146)	(9,625)
Total revenues	197,511	168,429	145,363	140,525	141,838	128,566	137,822	115,170	110,429	101,393
Operating expenses:										
Service and administrative costs	93,935	96,845	89,194	86,433	78,835	74,972	77,829	74,734	74,417	74,823
Less: capitalized project costs	(24,401)	(26,510)	(25,715)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)	(19,822)
Total operating expenses	69,534	70,335	63,479	61,046	53,549	51,301	52,045	50,727	51,799	55,001
Net Revenues	127,977	98,094	81,884	79,479	88,289	77,265	85,777	64,443	58,630	46,392
Aggregate debt service:										
Current maturities of long-term debt	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559	6,210
Interest expense	72,776	66,918	70,548	66,162	72,395	65,370	64,797	61,220	50,950	44,363
Less: capitalized interest expense		(10,530)	(14,140)	(15,758)	(26,603)	(26,940)	(30,490)	(32,891)	(29,352)	(27,242)
Aggregate net debt service	95,881	77,643	74,598	67,654	61,477	53,733	47,399	40,005	31,157	23,331
Debt service coverage ratio	133%	126%	110%	117%	144%	144%	181%	161%	188%	199%

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)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Assets										
Current Assets:										
Unrestricted cash and cash equivalents	$ 22,552	$ 10,524	$ 1,912	$ 17,198	$ 28,732	$ 20,572	$ 15,072	$ 11,920	$ 23,408	$ 7,515
Unrestricted investments	7,733	14,379	24,935	18,645	7,163	56	9,176	1,006	217	302
Restricted cash and cash equivalents	35,988	105,299	3,133	24	65,423	110,942	117,226	216,890	67,500	230,198
Restricted investments	61,303	27,202	73,801	134,850	33,934	74,112	51,220	52,400	25,457	24,872
Accounts receivable	18,065	16,732	15,398	17,401	13,716	14,136	12,904	12,233	13,235	11,610
Recovery of insured loss receivable				-	-	-	-	-	-	453
Inventories	3,027	3,020	3,091	2,874	3,090	2,685	2,676	2,466	2,530	2,372
Prepaid expenses and other current assets	1,965	2,020	1,181	1,359	803	796	667	394	154	288
Total Current Assets	150,633	179,176	123,451	192,351	152,861	223,299	208,941	297,309	132,501	277,610
Long-term Receivables	25,146	26,334	28,749	27,778	29,712	27,964	30,327	37,538	26,723	17,415
Deferred Debits	30,664	32,705	-	-	-	-	-	-	-	-
Plant, Lines and Other Facilities:										
Completed projects	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	1,066,648
Less: Accumulated depreciation	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)	(361,016)	(334,249)
	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	732,399
Construction in progress	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570	433,324	377,506
Net Plant, Lines and Other Facilities	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	1,109,905
Total Assets	$ 2,023,180	$ 2,028,027	$ 1,916,756	$ 1,953,853	$ 1,877,529	$ 1,871,262	$ 1,772,186	$ 1,771,711	$ 1,430,742	$ 1,404,930

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Liabilities and Net Assets										
Liabilities:										
Current Liabilities (Payable from Current Assets):										
Accounts payable and accrued expenses	$ 11,035	$ 10,548	$ 16,639	$ 22,619	$ 17,781	$ 9,671	$ 9,492	$ 7,969	$ 7,912	$ 7,285
Early retirement incentive plan payable	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities (Payable from Current Assets)	11,035	10,548	16,639	22,619	17,781	9,671	9,492	7,969	7,912	7,285
Current Liabilities (Payable from Restricted Assets):										
Accounts payable and accrued expenses	7,735	5,250	4,239	1,072	5,863	11,846	17,588	16,231	14,942	10,945
Accrued interest	8,143	8,597	10,824	10,456	9,768	9,916	9,454	10,922	8,444	8,478
Current maturities of bonds payable	23,105	21,255	18,190	17,250	15,685	15,303	13,092	11,676	9,559	6,210
Refundable Deposits	3,478	4,209								
Total Current Liabilities (Payable from Restricted Assets)	42,461	39,311	33,253	28,778	31,316	37,065	40,134	38,829	32,945	25,633
Non-current liabilities:										
Bonds payable	1,385,185	1,405,805	1,307,236	1,324,006	1,240,966	1,256,228	1,170,141	1,184,993	895,973	904,839
Other long-term liabilities	27,412	21,844	8,254	8,987	9,191	6,495	6,917	7,338	7,759	-
Total Long-Term Debt	1,412,597	1,427,649	1,315,490	1,332,993	1,250,157	1,262,723	1,177,058	1,192,331	903,732	904,839
Deferred Compensation	-	-	-	-	-	-	-	-	-	-
Total Liabilities	1,466,093	1,477,508	1,365,382	1,384,390	1,299,254	1,309,459	1,226,684	1,239,129	944,589	937,757
Net Assets:										
Invested in plant, lines, & other facilities, net of related debt	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	100,225	135,537	7,034	8,927	14,133	17,850	18,884	35,482	10,810	
Unrestricted	(13,583)	(63,851)	65,035	70,563	66,828	53,495	49,769	46,134	46,655	
Total Net Assets	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153	
Total Liabilities and Net Assets	2,023,180	2,028,027	1,916,756	1,953,853	1,877,529	1,871,262	1,772,186	1,771,711	1,430,742	
Equity:										
Contributed Capital	-		-	-	-	-	-	-	-	345,994
Retained Earnings:										
Reserved for paymant of bond principal and interest	-		-	-	-	-	-	-	-	12,129
Unreserved	-		-	-	-	-	-	-	-	109,050
Total Retained Earnings	-		-	-	-	-	-	-	-	121,179
Total Equity	-		-	-	-	-	-	-	-	467,173
Total Liabilities and Equity	$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,404,930

Note: FY 2001 - 2010 statements are presented in accordance with GASB 34

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating revenue:										
Wastewater service charges	$ 130,661	$ 125,782	$ 96,594	$ 93,907	$ 87,653	$ 79,933	$ 77,778	$ 69,856	$ 68,228	$ 66,637
Stormwater service charges	32,343	31,107	29,896	28,736	25,908	23,638	21,768	20,399	19,413	18,525
Other operating income	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713	6,013	6,569
Total operating revenue	167,556	161,283	132,446	129,765	122,849	110,787	106,242	95,968	93,654	91,731
Operating expenses:										
Service and administrative costs	93,935	96,845	90,157	86,433	78,835	74,972	77,829	74,734	74,417	74,823
Capitalization/recovery of cost	(24,401)	(26,510)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,007)	(22,618)	(19,822)
Capitalized Overhead (over) under applied	(856)	-								
Depreciation and amortization	56,727	55,363	52,177	51,174	43,161	37,718	35,401	34,131	27,448	24,266
Loss on disposal of assets	64	122								
Total operating expenses	125,469	125,820	115,656	112,220	96,710	89,019	87,446	84,858	79,247	79,267
Income (loss) from operations	42,087	35,463	16,790	17,545	26,139	21,768	18,796	11,110	14,407	12,464
Non-operating revenue (expense):										
Investment income	25,568	4,895	4,670	3,964	8,259	5,715	4,290	5,182	4,217	2,123
Interest expense	(72,776)	(56,388)	(56,408)	(50,404)	(45,792)	(38,495)	(34,307)	(28,330)	(21,598)	(17,121)
Early retirement incentive plan expenses	-	-	-	-	-	-	-	-	-	-
Contributed capital	-	-	-	-	-	-	-	-	-	20,236
Total non-operating revenue (expenses) - net	(47,208)	(51,493)	(51,738)	(46,440)	(37,533)	(32,780)	(30,017)	(23,148)	(17,381)	5,238
Net loss before contributions	(5,121)	(16,030)	(34,948)	(28,895)	(11,394)	(11,012)	(11,221)	(12,038)	(2,974)	
Contributions										
Property owner assessments	2,239	164	7,634	4,862	12,478	9,701	20,079	24,786	21,865	
All other	9,450	15,011	9,225	15,221	15,388	17,612	4,062	33,681	89	
Increase (decrease) in net assets	6,568	(855)	(18,089)	(8,812)	16,472	16,301	12,920	46,429	18,980	
Net assets, beginning of year	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153	467,173	
Net assets, end of year	557,087	550,519	551,374	569,463	578,275	561,803	545,502	532,582	486,153	
Net income (loss)	-		-	-	-	-	-	-	-	17,702
Beginning equity	-		-	-	-	-	-	-	-	449,471
Ending equity	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 467,173

Note: FY 2001 - 2009 statements are presented in accordance with GASB 34

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Cash flows from operating activities:											
Cash received from customers	166,123	159,539	134,160	125,918	123,269	109,938	105,571	96,970	92,029		
Cash paid to suppliers and employees	(66,297)	(72,227)	(69,536)	(56,548)	(45,851)	(51,643)	(51,005)	(50,846)	(51,196)		
Income/(loss) from operations										$ 12,464	$ 8,990
Depreciation										24,266	30,497
Change in operating assets and liabilities:											
Decrease (increase) in accounts receivable										(3,535)	139
Decrease (increase) in inventories										(34)	861
Decrease (increase) in prepaid expenses										18	422
Increase (decrease) in accounts payable										(1,902)	(434)
Net cash provided by operating activities	99,826	87,312	64,624	69,370	77,418	58,295	54,566	46,124	40,833	31,277	40,475
Cash flows from non-capital financing activities:											
Early retirement incentive plan	-	-	-	-	-	-	-	-	-	(8,392)	(1,722)
Cash flows from capital and related financing activities:											
Proceeds from issuance of long-term debt	76,275	166,125	-	100,000	64,740	100,000	191,000	300,000	-	300,000	-
Defeasance of bonds and other long-term debt		-	-	-	-	-	-	-	-	-	-
Capital contributed by governments, property owners and developers	11,689	15,174	16,861	1,460	2,838	4,031	948	864	2,313	6,282	3,769
Refunding of long-term bonds	-	-	-	-	(65,600)	-	(185,230)				
Assessments receivable	557	2,703	(645)	-	-	-	-	-	-	-	-
Interest income - assessments	1,471	1,405	1,670								
Unamortized loss on refundings	-	2,504									
Principal paid on revenue bonds	(95,045)	(84,350)	(17,250)	(16,815)	(14,020)	(11,702)	(19,206)	(8,863)	(6,210)	(5,909)	(5,654)
Interest paid on revenue bonds	(73,229)	(69,145)	(70,180)	(65,474)	(26,751)	(26,478)	(31,958)	(30,408)	(50,986)	(40,668)	(36,245)
Acquisition and construction of capital assets	(75,504)	(83,548)	(65,669)	(67,035)	(109,200)	(126,365)	(127,057)	(164,959)	(165,857)	(150,809)	(118,808)
Retainage payable	(466)	430	(33)								
Acquisition of non-operating property	(261)	(257)	(258)								
Recovery of insured loss	-	-	-	-	-	-	-	-	453	488	6,087
Net cash (used in) provided from capital and related financing activities	(154,513)	(48,959)	(135,504)	(47,864)	(147,993)	(60,514)	(171,503)	96,634	(220,287)	109,384	(150,851)
Cash flows from investing activities:											
Restricted Investments	(34,101)	45,656									
Unrestricted Investments	6,646	10,555									
Assessment principal payments	-	-	-	8,621	10,301	12,792	27,495	13,997	10,897	6,174	1,831
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)	(49,820)	(32,249)
Proceeds from sale and maturities of investment securities	-	-	137,908	177,341	110,070	329,655	63,592	48,160	65,093	49,871	39,384
Income received on investments	24,936	4,889	7,642	5,551	14,155	29,592	9,623	11,388	14,818	10,461	10,273
Unamortized premium on forward delivery agreement	(77)	1,399									
Unamortized gain on termination of swap agreements	-	9,926									
Net cash (used in) provided from investing activities	(2,596)	72,425	72,750	(112,485)	33,216	1,435	20,425	(4,856)	32,649	16,686	19,239
Net increase (decrease) in cash and cash equivalents	(57,283)	110,778	1,870	(90,979)	(37,359)	(784)	(96,512)	137,902	(146,805)	148,955	(92,859)
Cash and cash equivalents, beginning of year	115,823	5,045	3,176	94,155	131,514	132,298	228,810	90,908	237,713	88,758	181,617
Cash and cash equivalents, end of year	$ 58,540	$ 115,823	$ 5,045	$ 3,176	$ 94,155	$ 131,514	$ 132,298	$ 228,810	$ 90,908	$ 237,713	$ 88,758

Note: FY 2001 - FY 2009 statements are prepared utilizing the direct method. Please see the cash flow statement in the financial section for the reconciliation of operating income to net cash provided by operating activities.

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Service charges:										
Wastewater service charges:										
Residential	$ 71,159	$ 64,978	$ 48,338	$ 47,555	$ 43,320	$ 39,394	$ 37,730	$ 33,106	$ 31,469	$ 31,785
Commercial	42,312	38,935	28,892	27,619	25,274	23,761	23,071	21,220	20,339	20,412
Industrial	18,216	21,324	18,431	17,279	17,142	15,182	15,380	13,992	14,935	14,845
Bulk dumpers	-	-	-	-	-	-	-	-	-	17
Other - net	1,601	2,382	1,993	1,454	1,917	1,597	1,597	1,538	1,485	(422)
Free Sewer to Metro Government	(2,627)	(1,837)	(1,060)							
Total wastewater service charges	130,661	125,782	96,594	93,907	87,653	79,934	77,778	69,856	68,228	66,637
Stormwater service charges:										
Residential	12,709	12,198	11,617	11,205	10,304	9,223	8,657	8,134	7,865	7,398
Commercial	18,012	17,276	16,741	15,683	13,854	12,735	11,533	10,765	10,052	9,579
Industrial	2,064	1,988	1,930	1,848	1,750	1,679	1,578	1,500	1,496	1,548
Free Drainage to Metro Government	(442)	(355)	(392)							
Total stormwater service charges	32,343	31,107	29,896	28,736	25,908	23,637	21,768	20,399	19,413	18,525
Total service charges	163,004	156,889	126,490	122,643	113,561	103,571	99,546	90,255	87,641	85,162
Other operating income:										
Capacity charges	820	2,521	2,538	4,772	6,925	5,176	4,272	2,549	3,754	4,373
Connection fees	47	172	146	220	411	601	675	1,458	927	839
Regional facilities fees	-	-	(11)	357	513	301	374	354	276	324
Reserve capacity charges	28	37	5	22	40	18	1	58	13	23
Wastewater miscellaneous	3,599	1,606	3,220	1,693	1,342	1,062	1,344	1,244	994	967
Stormwater miscellaneous	58	58	58	58	57	58	30	50	49	43
Total other operating income	4,552	4,394	5,956	7,122	9,288	7,216	6,696	5,713	6,013	6,569
Total operating revenue	$ 167,556	$ 161,283	$ 132,446	$ 129,765	$ 122,849	$ 110,787	$ 106,242	$ 95,968	$ 93,654	$ 91,731

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Service and administrative costs:										
Labor	$ 49,354	$ 49,431	$ 47,079	$ 42,287	$ 40,948	$ 40,206	$ 40,947	$ 40,068	$ 39,185	$ 40,049
Utilities	10,818	12,989	10,976	12,518	10,119	8,870	7,967	6,979	7,984	7,017
Materials and supplies	8,742	8,707	8,197	7,745	6,625	7,237	7,479	7,043	8,400	8,730
Professional services	2,730	3,126	2,797	2,543	2,698	2,530	3,821	4,543	4,425	4,185
Maintenance and repairs	9,675	8,926	8,035	7,762	5,874	4,976	5,672	4,660	4,056	4,212
Billing and collections	3,623	5,319	2,889	3,869	3,371	3,209	2,812	3,164	3,628	3,578
Chemicals and fuel	5,687	5,148	4,825	5,088	4,099	3,828	3,701	3,536	2,825	2,403
Biosolids disposal	2,063	1,661	1,412	1,554	1,451	1,359	1,442	2,438	1,584	1,565
All other	2,817	2,800	3,947	3,067	3,650	2,757	3,988	3,081	3,163	3,084
Adjustment for encumbrances	-	-	-	-	-	-	-	-	-	-
Gross service and administrative costs	95,509	98,107	90,157	86,433	78,835	74,972	77,829	75,512	75,250	74,823
Less: Recovery of cost										
Capitalized project cost	(24,401)	(26,510)	(25,715)	(24,450)	(24,419)	(23,158)	(25,302)	(24,007)	(22,620)	(19,000)
Revenue recoveries	(1,574)	(1,262)	(963)	(937)	(867)	(513)	(482)	(778)	(831)	(822)
FEMA flooding cost recoveries										
Recovery of cost	(25,975)	(27,772)	(26,678)	(25,387)	(25,286)	(23,671)	(25,784)	(24,785)	(23,451)	(19,822)
Net service and administrative costs	$ 69,534	$ 70,335	$ 63,479	$ 61,046	$ 53,549	$ 51,301	$ 52,045	$ 50,727	$ 51,799	$ 55,001

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

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Completed Projects										
Sewer lines	$ 1,042,742	$ 1,022,859	$ 963,798	$ 915,527	$ 819,349	$ 762,241	$ 694,851	$ 619,077	$ 527,412	$ 452,743
Wastewater treatment facilities	459,238	456,955	422,483	418,997	389,747	273,187	262,073	242,549	214,818	207,124
Stormwater drainage facilities	400,118	390,699	366,745	337,039	308,282	288,277	278,739	265,294	236,526	217,427
Pumping and lift stations	69,301	66,990	60,877	55,407	51,389	46,752	42,620	39,454	32,315	29,834
Administrative facilities	45,561	45,561	45,347	45,347	45,239	30,724	22,859	20,867	20,479	18,973
Maintenance facilities	7,827	7,833	7,313	7,470	7,395	4,785	4,048	4,048	3,359	3,210
Machinery, equipment and other	74,975	75,872	62,526	58,613	56,749	47,815	47,703	46,653	40,744	32,986
Capitalized interest and issuance cost	214,644	214,644	220,690	211,362	196,725	178,557	173,717	153,556	123,557	104,351
Total Completed Projects	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	1,066,648
Less accumulated depreciation	(680,380)	(628,296)	(578,643)	(527,799)	(477,624)	(436,162)	(398,727)	(366,204)	(361,016)	(334,249)
Total Completed projects - net	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	732,399
Construction in progress										
Sewer lines	124,576	91,560	83,613	161,586	175,694	202,021	189,116	199,910	187,546	140,901
Wastewater treatment facilities	14,417	12,974	23,232	19,964	61,790	153,019	140,498	131,681	145,196	104,789
Stormwater drainage facilities	29,481	22,319	25,717	16,812	27,107	24,880	17,904	19,861	38,823	38,750
Pumping and lift stations	3,813	3,171	2,833	2,550	9,333	8,561	8,283	9,150	10,645	11,362
Administrative facilities	3,178	3,209	10,064	10,000	21,337	31,880	48,836	49,898	50,374	43,233
Maintenance facilities	-	-	-	-	-	-	-	-	740	1,066
Machinery, equipment and other	7,246	3,462	47,961	849	2,444	3,462	398	1,070	-	37,405
Total Construction in progress	182,711	136,695	193,420	211,761	297,705	423,823	405,035	411,570	433,324	377,506
Total Net Plant, Lines and Other Facilities	$ 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	$ 1,109,905

LOUISVILLE AND JEFFERSON COUNTY, KENTUCKY
METROPOLITAN SEWER DISTRICT
WASTEWATER TREATMENT PLANT CAPACITY
2008

Plant	Design Capacity MGD	Avg Daily Flow MGD	Eventual Capacity MGD	Customer Base Residential	Commercial	Industrial	Total	Year Built	Treatment Process
Morris Forman	120.0	91.3	120.0	121,742	13,696	346	135,784	1958	Secondary added in 1972.
Derek R. Guthrie*	30.0	23.5	30.0	54,911	3,083	18	58,012	1986	Secondary
Jeffersontown	4.0	3.5	4.0	6,709	907	14	7,630	1956	Secondary
Hite Creek	6.0	3.8	8.0	6,791	482	5	7,278	1970	Tertiary: sand filter
Cedar Creek	7.5	3.6	7.5	7,155	158	-	7,313	1995	Tertiary: sand filter
Floyd's Fork	3.3	1.9	9.8	4,385	104	-	4,489	2001	Tertiary: sand filter
15 Small Treatment Plants	2.7	2.0	-	6,000	205	-	6,205	Most 1970s	Various: developer-built package plants
Total Treatment System	173.5	129.6	179.3	207,693	18,635	383	226,711		

* - Formerly known as the West County WTP

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

	2008 Rank		2007 Rank		2006 Rank		2005 Rank		2004 Rank		2003 Rank		2002 Rank		Type of business
United Parcel Service, Inc.	1	20,513	1	20,560	1	20,674	1	18,398	1	17,543	1	17,206	1	20,424	P Air cargo transport and distribution
Jefferson County, KY Public Schools	2	13,326	2	13,917	2	13,593	2	13,281	2	13,235	2	13,420	2	14,329	G Primary and secondary education
Humana, Inc.	3	10,096	3	9,854	3	8,775	5	7,458	6	5,850	11	4,889	11	4,785	P Group health insurance/HMOs
Norton Healthcare (formerly Alliant Health)	4	8,142	4	7,978	4	7,690	4	7,783	4	8,525	4	7,850	12	7,575	N Hospital and health care facilities
Jewish Hospital & St. Mary's Healthcare Inc.	5	6,500	5	6,203	6	6,229	7	5,907	7	5,405	6	5,450	7	5,467	N Hospital and health care facilities
University of Louisville	6	6,135	7	5,866	7	5,763	8	5,563	8	5,236	10	4,943	9	5,133	G Higher education
Louiville-Jefferson County Metro Government*	7	5,811	8	5,639	8	5,698	6	5,993	5	5,893	5	5,744	10	5,995	G City/County Government
Ford Motor Company	8	5,624	6	5,929	5	7,586	3	8,745	3	8,972	3	9,303	11	9,807	P Vehicle manufacturing
Kroger Company	9	5,263	10	4,784	10	4,644	9	5,177	11	4,827	8	4,960	10	5,045	P Retail grocer
Commonwealth of Kentucky	10	4,253	11	4,498	11	4,535	11	4,700	10	4,952	9	4,952	8	5,329	G General purpose government
General Electric Company	11	4,000	9	5,000	9	5,000	10	5,000	9	5,000	7	5,200	6	5,800	P Appliance manufacturing
Baptist Healthcare System	12	3,305	12	3,069	12	3,536	12	3,140	12	3,179	15	2,308	15	2,204	N Hospital and health care facilities
U.S. Federal Government	13	2,985	13	2,853	14	2,822	13	2,826	13	2,041	13	2,806	13	2,949	G General purpose government
U.S. Postal Service	14	2,628	14	2,651	15	2,653	14	2,674	14	2,902	12	2,872	12	3,137	G Mail distribution
University Hospital	15	2,573	16	2,314	16	2,417	17	2,346	19	1,972	18	2,115	19	2,006	N Nonprofit healthcare
U.S. Bureau of the Census	16	2,491	17	2,248	22	1,638	20	1,810	22	1,672					G General purpose government
Roman Catholic Archdiocese of Louisville	17	2,343	15	2,351	17	2,348	15	2,437	15	2,680	14	2,468	14	2,485	N Religious, educational, social services
Kindred Healthcare (Formerly Vencor Inc.)	18	2,153	19	2,079	13	3,033	16	2,349	18	2,342	20	1,957	20	1,952	P Long-term health care, facilities
Yum! Brands Inc. (formerly Tricon)	19	2,076	18	2,243	18	2,219	16	2,123	18	2,195	16	2,194	17	2,170	P Food service provider
EON	20	1,902													P Gas & Electric Utility
AT&T (Formerly BellSouth)	21	1,700	22	1,680	24	1,561	25	1,476	28	1,423	25	1,438	27	1,395	P Telecommunications
Horseshoe Southern IN (formerly Ceasars)	22	1,697	21	1,858	19	1,895	19	1,942	20	1,918	19	1,968	16	2,076	P Gaming and entertainment resort
Publishers Printing Company	23	1,600	20	1,860	21	1,689	21	1,702	23	1,633	23	1,595	24	1,600	P Trade, professional, special printing
Bullitt County Public Schools	24	1,591	24	1,589	20	1,700	26	1,473	29	1,378					G Primary and secondary education
Oldham County, KY Board of Education	25	1,586	25	1,519	28	1,448	28	1,407	31	1,320	30	1,250	30	1,238	G Primary and secondary education
Papa John's International Inc.	26	1,530	28	1,460	36	1,130									P Quick-service restaurants
Greater Clark County, IN School Corp.	27	1,409	27	1,491	23	1,600	22	1,598	24	1,509	24	1,459	26	1,438	G Primary and secondary education
New Albany/Floyd County, IN School Corp.	28	1,390	30	1,400	32	1,400	36	1,215	34	1,209	31	1,213	32	1,200	G Primary and secondary education
Anthem, Inc.	29	1,358	31	1,361	29	1,438	23	1,575	21	1,687	21	1,744	21	1,725	P Health insurance sales and services
Swift & Co.	30	1,350	32	1,350	35	1,251	34	1,250	38	1,151	33	1,151	34	1,151	P Hog slaughtering and pork processing
SHPS	31	1,349	36	1,209	37	1,200	30	1,315	30	1,336	27	1,315			P Benefits administration
Floyd Memorial Hospital & Health Services	32	1,336	33	1,316	30	1,409	29	1,337	27	1,412	37	1,113	29	1,249	P Hospital and health services provider
Rescare Inc.	33	1,314													P Health & human services
Clark Memorial Hospital	34	1,270	38	1,175	40	1,060	39	1,098	28	1,411	28	1,358	38	1,015	N Hospital and health services provider
Securitas Security Services USA Inc.	35	1,150													P Security Services
Seven Counties Services	36	1,118	40	1,110	39	1,100	37	1,137	36	1,159	35	1,132	39	1,005	N Health care provider
Brown-Forman Corp.	37	1,081	35	1,256	34	1,317	33	1,264	39	1,075	34	1,145	25	1,584	P Distilled spirits manufacturing
		135,930		131,730		132,051		127,499		124,940		118,518		123,267	

P=for-profit organization N=not-for-profit organization G=governmental organization
Source: *Business First*, Louisville, KY

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

GREATER LOUISVILLE, KENTUCKY/INDIANA
POPULATION TREND
1970-2020

	1970	Census 1980	1990	2000	Estimated 2008	Projected 2020
City of Louisville	361,700	298,500	269,200	256,231		270,000
Jefferson County, KY (outside City)	334,500	385,800	396,000	437,373		462,000
Subtotal Jefferson County, KY	696,200	684,300	665,200	693,604	714,000	732,000
Clark County, IN	76,200	88,900	87,900	96,472	106,673	106,600
Floyd County, IN	55,600	61,400	64,600	70,823	73,780	92,800
Bullitt County, KY	26,500	43,500	47,800	61,236	75,028	68,900
Oldham County, KY	14,700	27,900	33,600	46,178	56,874	65,500
Harrison County, IN	20,500	27,400	30,000	34,325	37,067	46,700
Scott County, IN	17,200	20,400	21,000	22,960	23,627	40,400
Total Greater Louisville	906,900	953,800	950,100	1,025,598	1,087,049	1,152,900

Note: City of Louisville & Jefferson County formed a merged government in January 2003.

Source: "Greater Louisville Forecasts of Jobs, Population and Income: 1995-2020"
Cornerstone 2020 & U.S. Census Bureau

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

Rank	Customer Name	FY '09 Wastewater Billed	Percent Total Wastewater Revenue	Customer Name	FY '01 Wastewater Billed	Percent Total Wastewater Revenue
1	Solae LLC*	$ 3,587,525	2.75%	Protein Technologies	$ 1,848,000	2.71%
2	Opta Foods	$ 1,844,420	1.41%	E.I. Dupont	$ 1,535,437	2.25%
3	Oxy Vinyls	$ 1,613,729	1.24%	Swift & Company	$ 1,068,293	1.57%
4	Jefferson Co. Bd. of Educ	$ 1,479,333	1.13%	Oxy Vinyls	$ 998,618	1.46%
5	Swift & Company	$ 1,446,466	1.11%	Ford Motor Co.	$ 934,068	1.37%
6	Brown Forman Corp.	$ 1,255,240	0.96%	Opta Food	$ 750,000	1.10%
7	Heaven Hill Distilleries	$ 920,383	0.70%	Jefferson Co. Bd. of Educ.	$ 626,709	0.92%
8	Lou. Metro Housing Auth.	$ 898,620	0.69%	Louisville Mun. Housing	$ 541,479	0.79%
9	Ford Motor Co.	$ 772,181	0.59%	Rohm & Haas	$ 536,701	0.79%
10	General Electric	$ 683,240	0.52%	General Electric	$ 464,768	0.68%
	Total	**$ 14,501,137**	**11.10%**	**Total**	**$ 9,304,073**	**13.64%**

Total FY '09 Wastewater Revenue: $130,661,000

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

Rank	Customer Name	FY '09 Stormwater Billed	Percent Total Stormwater Revenue	Customer Name	FY '01 Stormwater Billed	Percent Total Stormwater Revenue
1	Regional Airport Authority	$ 863,155	2.67%	Regional Airport Authority	$ 265,009	1.37%
2	United Parcel Service	$ 473,714	1.46%	United Parcel Service	$ 234,484	1.21%
3	Jefferson Co. Bd. of Educ.	$ 299,985	0.93%	Jefferson Co. Bd. of Educ.	$ 192,397	0.99%
4	Ford Motor Company	$ 290,007	0.90%	Ford Motor Company	$ 164,945	0.85%
5	Churchill Downs	$ 166,418	0.51%	University of Louisville	$ 109,536	0.56%
6	KY State Fair Board	$ 152,203	0.47%	Churchill Downs	$ 108,570	0.56%
7	Norfolk Southern Corp.	$ 143,899	0.44%	Trammell Crow Co.	$ 91,683	0.47%
8	Louisville Gas & Electric	$ 142,942	0.44%	KY State Fair Board	$ 86,690	0.45%
9	LIT Industrial Limited	$ 139,652	0.43%	Norfolk Southern Corp.	$ 82,503	0.42%
10	Oxmoor Center	$ 132,650	0.41%	Seaboard Systems, Inc.	$ 78,141	0.40%
	Total	**$ 2,804,625**	**8.67%**	**Total**	**$ 1,413,958**	**7.28%**

Total FY '09 Stormwater Revenue: $32,343,000

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

Note: MSD switched billing systems in FY '01 thus this fiscal year was used to compare billings against FY '09

* Solae LLC was formerly known as Protein Technologies
** LIT Industrial Limited was formerly known as Trammell Crow Co.

APPENDIX C

FORM OF LEGAL OPINION OF CO-BOND COUNSEL

_____, 2009

Louisville and Jefferson County
Metropolitan Sewer District
700 West Liberty Street
Louisville, Kentucky

Re: $180,000,000 Louisville and Jefferson County Metropolitan Sewer District (Commonwealth of Kentucky) Sewer and Drainage System Revenue Bonds, Series 2009C

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 above-referenced Series 2009C Bonds in the aggregate principal amount of $180,000,000 (the "Current Bonds").

The Current Bonds are being issued pursuant to the provisions of [i] Chapter 76 of the Kentucky Revised Statutes, as amended (the "Act"), [ii] a Sewer and Drainage System Revenue Bond Resolution of the District adopted on December 7, 1992, as amended and supplemented (the "Bond Resolution") and [iii] a Fifteenth Supplemental Sewer and Drainage System Bond Resolution adopted by the District on September 28, 2008 (the "Fifteenth Supplemental Resolution") in order to finance certain sewer and drainage system projects.

The Current Bonds are dated on their original issuance as of November __, 2009, mature or are subject to redemption through sinking fund installments on May 15 in each of the years and in the amounts, are subject on certain dates to redemption at the option of the District prior to maturity, and bear interest payable on May 15 and November 15 of each year commencing May 15, 2010, at the respective rates per annum, as have been established by the District pursuant to the Fifteenth Supplemental Resolution.

The Current Bonds and the interest thereon do not constitute a general obligation or indebtedness of the District, the Louisville/Jefferson County Metro Government (the "Metro Government"), the County of Jefferson, Kentucky (the "County") or the Commonwealth within the meaning of the Constitution and laws of the Commonwealth and are not a charge against the general credit or any taxing power of the District, the Metro Government, the County, the Commonwealth or any other political subdivision of the Commonwealth, but are a limited obligation of the District secured solely by and payable solely from the gross revenues derived from the collection of rates, rentals and charges for the services rendered by the District's sewer and drainage system.

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 on 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 and the due adoption by the Board of the District of the Bond Resolution and the Fifteenth Supplemental Resolution. As to certain questions of fact, we have relied on statements and certifications of certain officers, employees and agents of the District and other public officials. Terms which are capitalized and not defined herein are defined in the Bond Resolution and the Fifteenth Supplemental Resolution.

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, with the right and power under the Act to adopt the Bond Resolution and the Fifteenth Supplemental Resolution.

2. The Bond Resolution and the Fifteenth Supplemental Resolution have been duly and lawfully adopted by the Board of the District.

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

4. The Current Bonds have been duly and validly authorized, executed and delivered by the District in accordance with law and the Bond Resolution and are the valid and binding special limited obligations of the District as provided in the Bond Resolution, enforceable in accordance with their terms and entitled to the benefit and security of the Bond Resolution, the Fifteenth Supplemental Resolution and the Act as amended to the date hereof.

5. Under the laws of the Commonwealth as presently enacted and construed, the Current Bonds 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 on existing laws, regulations and judicial decisions, the interest on the Current Bonds will be included in gross income for federal income tax purposes.

7. The Bond Resolution creates the valid pledge which it purports to create of the Pledged Property, subject to the provisions of the Bond Resolution permitting the application thereof for the purposes and on the conditions set forth in the Bond Resolution.

Except as provided in paragraphs 5 and 6 above, we express no opinion regarding any federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, or otherwise arising with respect to, the Current Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Current Bonds, the Bond Resolution, the Fifteenth Supplemental 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 Current Bonds. 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

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX D

CONSULTING ENGINEER'S REPORT

15210566.4

LOUISVILLE & JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT

SEWER AND DRAINAGE SYSTEM REVENUE BONDS, SERIES 2009C

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 10, 2009

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 2009C 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 2009C Revenue Bonds. Corradino concludes that the issuance of the proposed Series 2009C 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 2009C 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.

CORRADINO

November 9, 2009

Members of the Board
Louisville and Jefferson County
Metropolitan Sewer District
700 West Liberty Street
Louisville, KY 40203

Re: Engineer's Report Summary
Proposed Series 2009C Sewer and Drainage System Revenue Bonds

Dear Members of the Board:

This letter summarizes our findings and conclusions pertaining to the proposed Series 2009C 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 sewer and drainage projects of MSD 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
WWW.CORRADINO.COM

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, stormwater, 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, supercedes 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 comprehensively 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 six percent in FY 2010, approximately four percent annually in FYs 2011 through 2013, and by six percent in FY 2014. Increased labor and utility costs are anticipated to be the largest components of the increase in operating expenses in 2010. This is due, in part, to the need to add staff to address the operations and maintenance requirements of the Consent Decree.

Revenues from wastewater service charges are projected to increase by 6.5 percent in FY 2010, then by 6.9 percent in FY 2011 through FY 2014. Revenues for the current planning period are also affected by changes in the customer base. An annual increase of approximately 1,000 customers is projected for FY 2011 through FY 2014.

Storm water revenues are projected to increase by 6.5 percent in FY 2010, then by 6.9 percent annually from FY 2011 through FY 2014. This increase is projected from estimated increases in storm water rates.

Total revenues are projected to decrease by 6.5 percent in 2010 and then increase by 6.6 to 6.9 percent in FYs 2011 through 2014. The decrease in 2010 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 wastewater treatment plants (WTP), many pump stations, and thousands of individual on-site disposal systems. MSD provides sanitary sewer, stormwater drainage and flood protection services to over 200,000 customer accounts. Each year, MSD will add approximately 1,000 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 2010 – FY 2014) are to be generated from Project D.R.I 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 D.R.I. – in January 2003. A total of 381 projects were completed in the first Phase.

The second phase of Project DRI (DRI2 Projects) started in June 2005, with over 90 percent of planned improvements completed or underway. A third phase of Project DRI (DRI3 Projects) is currently underway.

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 148 percent from FY 2010 through FY 2014. 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

Ram Vuddagiri, Ph.D., P.E.
Sr. Project Manager

I:\Projects\3980\Bonds 2009C report.doc

TABLE OF CONTENTS

Page

1. Introduction 1

2. Historical and Funding Background 2
   - 2.1 Authorizing Legislation 2
   - 2.2 Prior Bond Issues 3
   - 2.3 Purpose of Series 2009C Revenue Bonds 5

3. MSD Service Areas 6
   - 3.1 General Area Wide Description 6
     - 3.1.1 The Economy 8
   - 3.2 Demographic Data 11
     - 3.2.1 Population 12
     - 3.2.2 Employment 18
     - 3.2.3 Conclusion 19
   - 3.3 Industry and Manufacturing Base 21
   - 3.4 System Description and Service Area 22
     - 3.4.1 Water Quality Treatment Centers Description 24
       - 3.4.1.1 Regulatory Framework 24
       - 3.4.1.2 Size and Extent of Water Quality Treatment Systems 24
     - 3.4.2 Storm Water Drainage System 28
       - 3.4.2.1 Regulatory Framework 28
       - 3.4.2.2 Size and Extent of Storm Water Drainage System 29
   - 3.5 Potential Service Areas 31
     - 3.5.1 Wastewater Services 31
     - 3.5.2 Storm Water Drainage Services 32

4. Capital Improvement Program 34
   - 4.1 Capital Improvement Projects 34
   - 4.2 MSD's Five-year Capital Plan 35
   - 4.3 Capital Improvement Planning 35
     - 4.3.1 Amended Consent Decree 36
       - 4.3.1.1 Early Action Plan 37
       - 4.3.1.2 Discharge Abatement Plans 43
       - 4.3.1.3 Reporting Requirement 51
       - 4.3.1.4 Civil Penalties and Supplemental Environmental Projects 52
     - 4.3.2 Engineering Sanitary Projects 54
       - 4.3.2.1 Engineering Sanitary – Consent Decree Projects 54
       - 4.3.2.2 Engineering Sanitary – Integrated Overflow Abatement Projects 54

TABLE OF CONTENTS (continued)

Page

4.3.3 Regulatory Services Sanitary Projects 54
4.3.3.1 Regulatory Services Sanitary – Consent Decree Projects 55
4.3.3.2 Regulatory Services Sanitary – Initial Overflow Abatements Projects 55
4.3.4 Infrastructure and Flood Protection Sanitary Projects 55
4.3.5 Operations – Operations Sanitary 56
4.3.6 General/Miscellaneous 56
4.3.7 LOJIC 56
4.3.8 Equipment 56
4.3.9 Drainage 57
4.3.9.1 Engineering Drainage 57
4.3.9.2 Regulatory Services Drainage 58
4.3.9.3 Infrastructure and Flood Protection Drainage Projects 58

5. Financial Structure 60
5.1 Bond Resolution 60
5.2 The 2009 MSD CIP Financing Plan 60
5.3 MSD Revenues 61
5.4 Projected Revenue/Expense Position 63

6. Findings and Conclusions 74
6.1 Assumptions and Projections 74
6.2 Financial Capability of MSD 75
6.3 Certification of Net Revenues 75
6.4 Absence of Material Litigation 76
6.5 Merits of the Capital Improvement Program 77
6.6 Future Revenue and Expense Position 77
6.6.1 Operations and Maintenance Expenses 77
6.6.2 Debt Service 78
6.6.3 New Revenue Generation Sources 78

I:\Projects\3980\Bonds 2009C report.doc

LIST OF TABLES

Table Page

3-1 Existing and Projected Population, Jefferson County 12
3-2 Existing and Projected Population, Jefferson County, Oldham County, and Bullitt County 14
3-3 Population – Third and Fourth Class Cities, Jefferson County – 1990, 2000 & 2007 15
3-4 Existing and Projected Households, Jefferson County 16
3-5 Jefferson County Residential Building Permits – 1999 to 2008 18
3-6 Jobs by Market Area, Jefferson County 19
3-7 Major Wastewater Customers 21
3-8 Major Storm Water Drainage Customers 22
3-9 MSD Services Rendered 22
3-10 Wastewater Treatment Plant System Treatment Capacity 28

4-1 Projected Capital Expenses, MSD Five-year Capital Improvement Plan 35

5-1 Sources of Funds, 2009 through 2013, MSD Five-year Capital Improvement Plan .. 61
5-2 Annual Rate and Revenue Increase 62
5-3 Actual and Projected Revenues and Expenses 64

LIST OF FIGURES

Figure Page

3-1 Location Map - MSD Sewershed Boundaries and Major Water Quality Treatment Centers 7
3-2 Change in Population 2000 to 2020 13
3-3 Change in Households 2000 to 2020 17
3-4 Change in Employment 2000 to 2020 20
3-5 Location Map - MSD Wastewater Service Area 23
3-6 Location Map - MSD Stormwater Service Area 33

4-1 Completed Consent Decree Projects 40
4-2 Completed D.R.I. Phase 1 & 2 Project 59

5-1 Annual Change in MSD Customers 63
5-2 Available Revenues 71
5-3 Operating Expenses 72
5-4 Annual Contractual Capital Project Design/Construction Expenses 73
5-5 Debt Service Coverage 73

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 2009C 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, and a Fifteenth Supplemental Sewer and Drainage System Revenue Bond Resolution adopted by MSD on September 28, 2009 (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 or 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 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 1993 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 Bond Resolution

MSD has heretofore issued 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	$154,985,000
Series 2001A	October 15, 2001	$300,000,000	$291,890,000
Series 2004A	January 15, 2004	$100,000,000	$100,000,000
Series 2005A	May 1, 2005	$64,740,000	$60,090,000
Series 2006A	May 1, 2006	$100,000,000	$98,385,000
Series 2007A	November 15, 2007	$61,125,000	$57,995,000
Series 2008A	May 1, 2008	$105,000,000	$105,000,000
Series 2009A	May 15, 2009	$76,275,000	$76,275,000
Series 2009B	August 15, 2009	$225,770,000	$225,770,000
	Total	$1,292,910,000	$1,170,390,000

* As of November 16, 2009, after taking into account the redemptions scheduled to occur on that date.

The purpose of the Bond Resolution was to provide MSD needed flexibility for funding capital projects associated with wastewater and storm water drainage services. The Series 1993 Bonds were directed toward: (1) achieving level debt service over the remaining 26 years on outstanding MSD debt and (2) creating one new Revenue Bond Resolution for all outstanding MSD 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 Refunded 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.

2.3 PURPOSE OF SERIES 2009C REVENUE BONDS

The Series 2009C bonds are being issued to provide sufficient funds for sewer and drainage projects of MSD approved for construction.

3. MSD SERVICE AREAS

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 encompasses the former city of Louisville, the 83 suburban cities in Jefferson County, and the former unincorporated portion of Jefferson County.

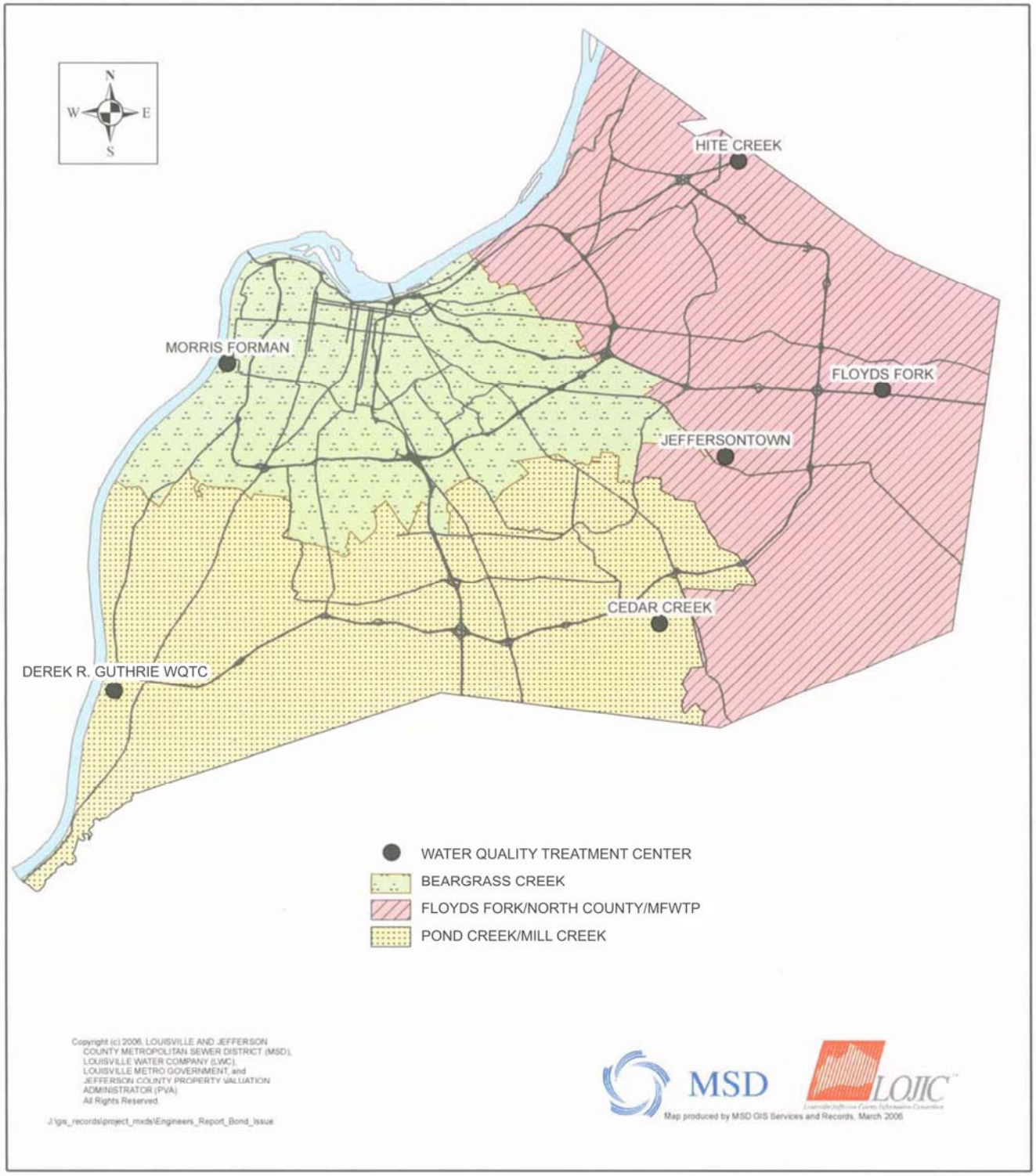
Louisville Metro is located in the north-central portion of the Commonwealth of Kentucky. It is bordered on the north and west by the Ohio River, to the east by Oldham, Shelby, and Spencer Counties, to the south by Bullitt County, and to the most southwesterly corner by Hardin County.

For purposes of organization and authorization of governmental powers, the Commonwealth of Kentucky classifies cities and towns according to population. Jefferson County includes 83 smaller cities and towns 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 cities of Shively and Prospect are the only third-class cities in the county. There are nine fourth-class cities in the county: Anchorage, Douglass Hills, Graymoor-Devondale, Hurstbourne, Jeffersontown, 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 treatment plants, four medium-size regional treatment plants, and several scattered small-to-intermediate treatment facilities serve Louisville Metro. Figure 3-1 shows the locations of MSD's six principal wastewater treatment plants. Other privately owned treatment plants 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 the county. The city of Crestwood, a part of Oldham County, also 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 allowed existing vacant lands in the northeastern, eastern and southern portions of Louisville Metro to become more accessible. 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, 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 is currently taking place. Current expansion plans call for the addition of three aircraft load/unload "wings" to the hub which will be followed by the installation of a high-speed conveyor and computer control system. It is anticipated that this work will be complete in 2010. The plan will increase Worldport by 1.1 million square feet to 5.1 million square feet.

Louisville International Airport is currently ranked ninth 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 2008.

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 the 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.

As with other large metropolitan areas across the country, Louisville will receive stimulus funds aimed at increasing local employment while reinforcing the community's infrastructure. It was announced that Louisville will receive $138 million to fund projects under the American Recovery and Reinvestment Act. In February 2009, Mayor Jerry Abramson established a group of government, education and community leaders to help ensure that stimulus package and job creation efforts are successful in Louisville. This "Louisville At Work" team will help prioritize projects that will be funded by the American Recovery and Reinvestment Act. A website has been established to allow the public to track local projects and see how the funds are being distributed.

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:

Design work on the $2.46 billion **Ohio River Bridges Project** has begun. The project includes a rebuilding of Spaghetti Junction, a new downtown bridge, and an eastern bridge and new roads.

The third phase in the development of the **Waterfront Park** Master Plan is underway. This phase involves the former Big 4 railroad bridge, which will be converted to a pedestrian link between Louisville and Southern Indiana. Included in Phase 3 are lawn areas, a swing garden, walking paths, picnic areas, play areas and a Lincoln Memorial. It is anticipated that all Phase 3 work, with the exception of the Big 4 Pedestrian Bridge, will be complete by the end of 2009.

As noted previously, **UPS** is a major asset to the Louisville economy. In recent years, 94 companies have moved to Louisville because of proximity to UPS' Worldport and Supply Chain Solutions attracting 13,860 jobs with an annual payroll of nearly $500 million. UPS itself is Louisville's largest private employer with nearly 21,000 employees.

In April 2008, Mayor Jerry Abramson dedicated the first section of the 100-mile Louisville Loop trail. The 23-mile section includes the Riverwalk and the new Levee Trail and cost $3.8 million to construct. The Louisville Loop is part of the **City of Parks** initiative that will add 4,000 acres of parkland to the city.

A site on the Ohio River has been prepared and construction is progressing on a new downtown arena. The arena will be a multipurpose venue with the primary tenants being the University of Louisville men's and women's basketball teams. The **Louisville Arena Authority** estimates the cost of the project at $238 million. The arena will have a major economic impact to the downtown area with anticipated events being held at the facility 115 days out of the year. The anticipated opening date is in November 2010. With completion of the facility over two years off, the first major sports event has already been booked. Louisville will host the NCAA Division I Women's Volleyball National Championship December 13 through 15, 2012, at the arena.

Louisville came in at No. 11 in a 2008 bizjournals.com study ranking affordable places to live. Louisville was one of the least expensive markets in which to own a home out of 50 metropolitan areas. Also in 2008, BestLife Magazine ranked Louisville in the top 25 "Best Places to Raise a Family."

The first projects to use federal stimulus funding were announced in March 2009 and will create an estimated 330 jobs. Included in the first group of projects are $17.6 million in Transit Authority of River City (**TARC)** funding which will create 250 jobs. A key project is a LEED-certified maintenance facility along with the purchase of 10 hybrid buses.

During 2008, sporting events brought a considerable number of visitors to Louisville. These included the **Ryder Cup** which was viewed by 600 million people worldwide and a second **Ford Ironman Competition**. In addition, the **Breeders Cup** will return to **Churchill Downs** in 2010.

Also during 2008, Louisville achieved several best in America rankings. These included:

- America's Most Livable Large City, U.S. Conference of Mayors;
- One of America's Most Improved Cities for Cycling, Bicycling Magazine;
- West Main Street was named one of America's 10 Greatest Streets, American Planning Association; and,
- One of America's Best Towns, Outside Magazine.

Louisville continued to solidify its position as a convention city with the announcement that the Future Farmers of America (**FFA**) Convention would return to Louisville starting in 2013. The FFA Convention is one of the largest in the nation attracting 55,000 people with an economic impact of $40 million. Tourism in Louisville had a $1.4 billion economic impact in 2008.

Two Louisville companies made the 2008 Fortune 500 list. They were **Humana** at number 110 and **Yum Brands Inc.** at number 262. Louisville-based **Kindred Healthcare Inc.** and **Brown-Forman Corp.** made the Fortune 1000 list at numbers 518 and 823, respectively.

In March 2009, a second round of federal stimulus projects was announced. These projects will create 1,300 jobs through the building of new walking paths, sidewalks and bike lanes across Louisville. The projects will cost $14.7 million and include extending the walking and biking path through Seneca Park, bike lanes along a portion of Taylorsville Road, and $7.4 million worth of new sidewalks in various neighborhoods.

In April 2009, it was announced that MSD and Louisville Metro would receive $5 million in 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.

Louisville Metro Parks Department continues to add family-friendly amenities to the community. Four new spraygrounds and five improved swimming pools were available for summer 2009. The city spent $2.35 million on building new facilities or improving existing aquatic facilities.

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 34,000 (1.6 percent) households 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 an 8.0 percent increase from 2000 to 2020. This is compared with an increase of just 1.9 percent (13,000) in population over the same period. This is the result of a decline in the persons per household from 2.36 persons in 2000 to an expected 2.27 persons in 2020.

The second of these growth factors, population, as stated, 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 will be in Jefferson County.

As stated, 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, can compete.

3.2.1 Population

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

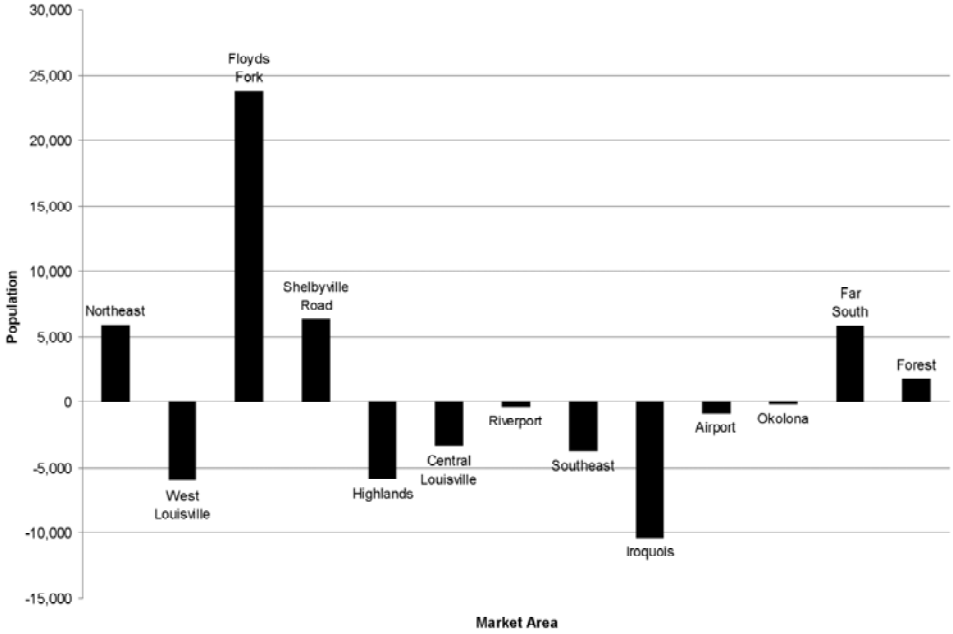
Market Areas*	2000	2012	2020	Change 2000-2020	
				Amount	Percent
Northeast	52,250	54,857	58,174	5,924	10.18
West Louisville	64,741	60,316	58,797	-5,944	-10.10
Floyds Fork	17,912	31,751	41,611	23,699	56.95
Shelbyville Road	60,805	63,179	67,131	6,326	9.42
Highlands	91,631	85,788	85,803	-5,828	-6.79
Central 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). 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.

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 the existing and projected population in 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, per KIPDA, of 28 percent between 1990 and 2000 and an additional increase of 26.8 percent projected by KIPDA by 2020.

However, more recent 2008 population estimates published by the U.S. Census Bureau estimate the July 1, 2008, population of Jefferson County at 713,877, Oldham County at 56,874, and Bullitt County at 75,028. All of these exceed the KIPDA projections for 2012. In addition, population projections developed in April of 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 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 14.3 percent in 2007.

Except for the city of Jeffersontown, the third and fourth class cities have all shown growth from 2000 to 2007. Anchorage experienced the highest rate of growth at 31 percent.

TABLE 3-3
POPULATION – THIRD AND FOURTH CLASS CITIES
JEFFERSON COUNTY
1990, 2000 & 2007

	1990	2000	2007	Percent Change (2000-2007)
Anchorage	2,082	2,264	2,996	31.0
Douglass Hills	5,549	5,178	5,810	12.2
Graymoor and Devondale	2,911	2,925	3,089	5.6
Hurstbourne	4,420	3,884	4,420	13.8
Jeffersontown	23,221	26,633	26,152	-1.8
Lyndon	8,037	9,369	10,862	15.9
Middletown	5,016	5,744	6,728	17.1
Prospect	2,788	4,657	5,429	16.6
St. Matthews	15,800	15,852	18,170	14.6
St. Regis Park	1,756	1,520	1,611	6.0
Shively	15,535	15,157	16,089	6.1
Total	**87,115**	**93,723**	**101,326**	**8.7**

Source: U.S. Bureau of the Census

Households

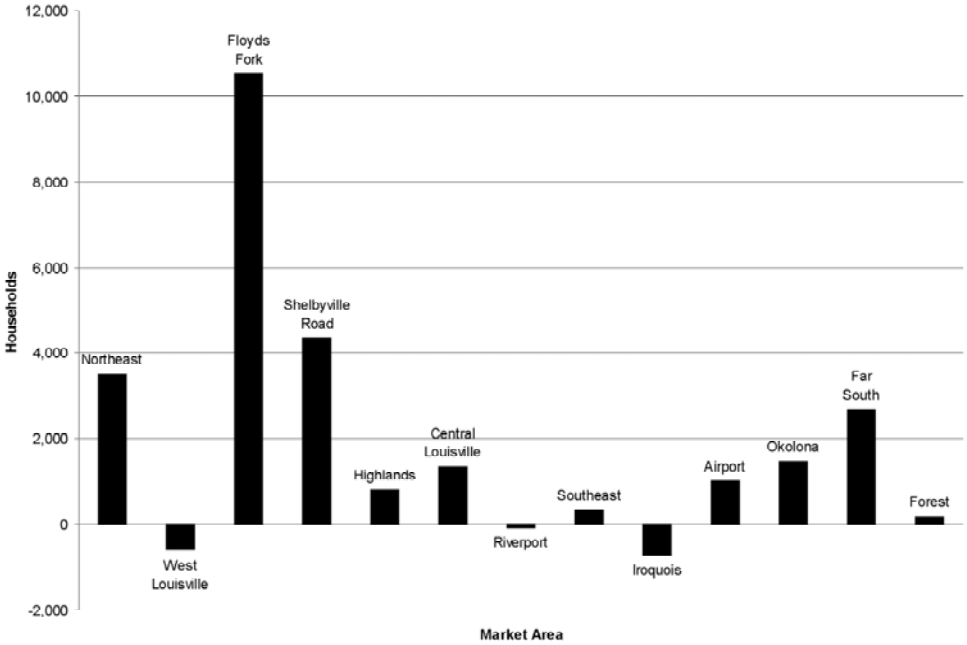
Along with increases in population comes an increase in the number of households. Although Jefferson County population is only expected to increase by approximately 1.9 percent from 2000 through 2020, the projected growth in number of households is anticipated to reach 8 percent. This follows national 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 1999 through 2008, building permits were issued for 3,143 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
1999 TO 2008

Year	Units
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
1999	4,015

Source: U.S. Bureau of the Census, Manufacturing and Construction Statistics Division.

3.2.2 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

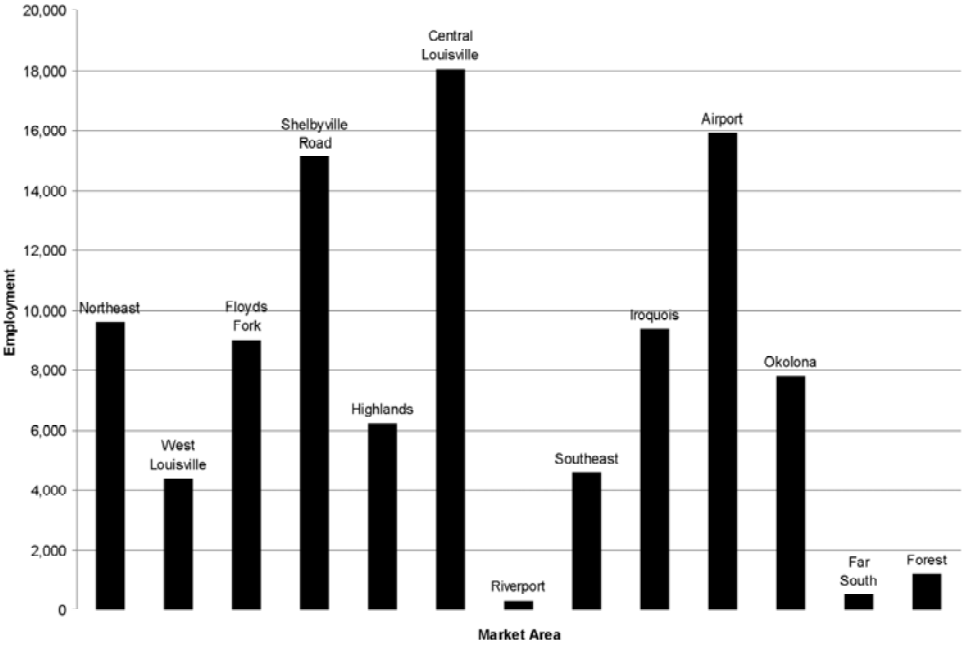
Market Areas*	2000	2012	2020	Change 2000-2020	
				Amount	Percent
Northeast	11,495	17,299	21,055	9,560	45.40
West Louisville	31,616	35,819	35,997	4,381	12.17
Floyds Fork	10,049	14,885	19,052	9,003	47.25
Shelbyville Road	43,340	51,887	58,434	15,094	25.83
Highlands	70,343	71,781	76,560	6,217	8.12
Central 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

3.2.3 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. The County's population is projected to increase by 1.9 percent in the next two decades 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 establishments using MSD's wastewater services. The list shows the revenue contribution of each establishment and percentages of MSD's total wastewater services revenues for the 2009 Fiscal Year. Approximately 11.1 percent of MSD's wastewater service revenues were received from these top ten establishments.

TABLE 3-7
MAJOR WASTEWATER CUSTOMERS

	Customer Name	FY '09 Wastewater Amount Billed	Percent Total Wastewater Revenue
1	Solae LLC	$ 3,587,525	2.75
2	Opta Foods	1,844,420	1.41
3	Oxy Vinyls	1,613,729	1.24
4	Jefferson County Board of Education	1,479,333	1.13
5	Swift & Company	1,446,466	1.11
6	Brown-Forman Corp	1,255,240	0.96
7	Heaven Hill Distilleries	920,383	0.70
8	Louisville Metro Housing Authority	898,620	0.69
9	Ford Motor Co.	772,181	0.59
10	General Electric	683,240	0.52
	TOTAL`	$ 14,501,137	11.10

Source: MSD

Total FY 2009 Sewer Revenue = $130,661,000

Table 3-8 is a list ranking the top ten establishments using MSD's storm water drainage service in FY 2009. The list shows the revenue contribution of each establishment and percentage of MSD's total drainage service revenues for the 2009 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 '08 Drainage Amount Billed	Percent Total Stormwater Revenue
1	Regional Airport Authority	$ 863,155	2.67
2	United Parcel Service	473,714	1.46
3	Jefferson County Board of Education	299,985	0.93
4	Ford Motor Company	290,007	0.90
5	Churchill Downs	166,418	0.51
6	Kentucky State Fair Board	152,203	0.47
7	Norfolk Southern Corp.	143,899	0.44
8	Louisville Gas & Electric	142,942	0.44
9	LIT Industrial Limited	139,652	0.43
10	Oxmoor Center	132,650	0.41
	TOTAL	$ 2,804,625	8.67

Source: MSD

Total FY 2009 Drainage Revenue = $32,343,000

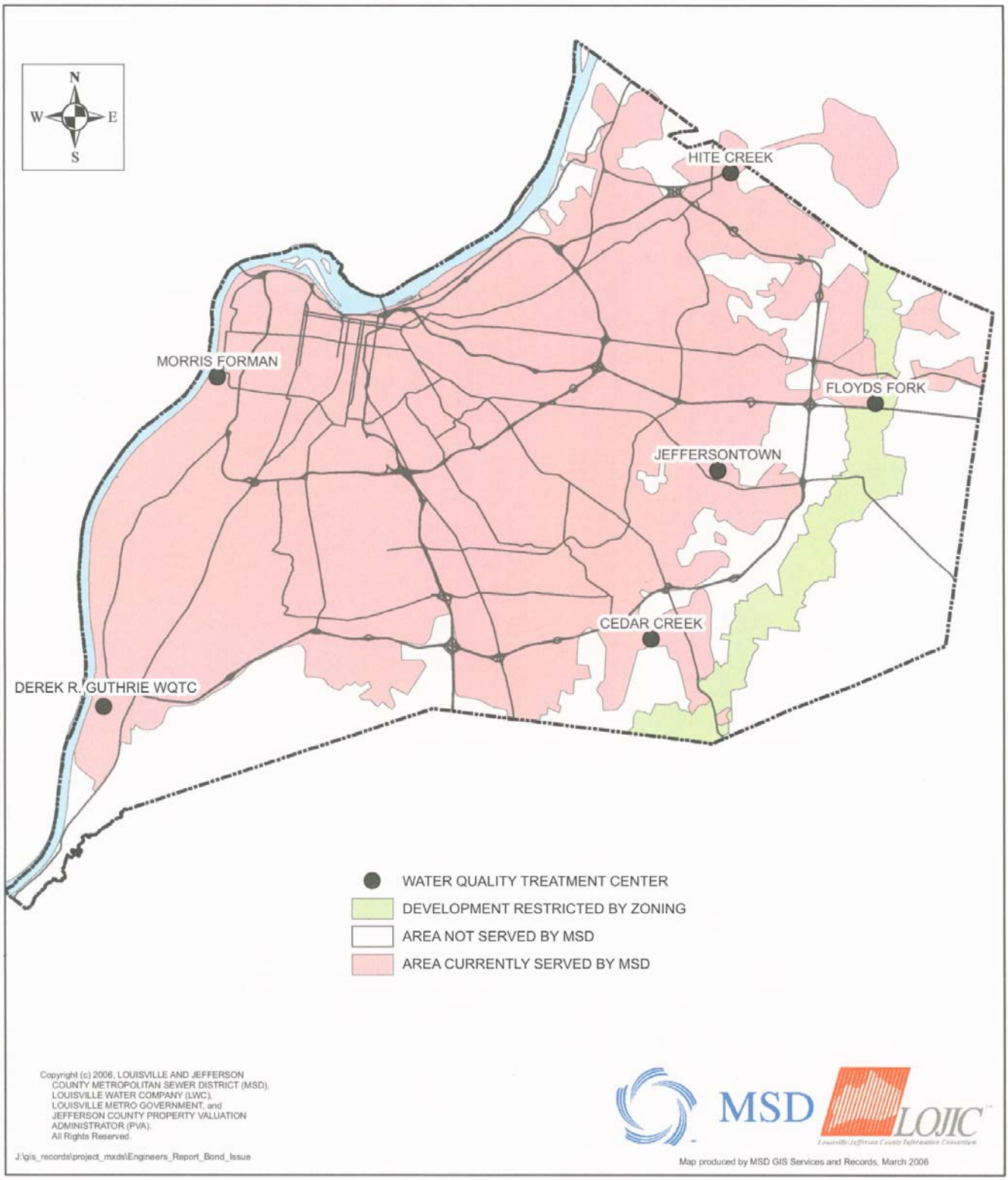
3.4 SYSTEM DESCRIPTION AND SERVICE AREA

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 226,711 wastewater customers. Areas receiving wastewater services are shown on Figure 3-5. Table 3-9 is a list of services currently provided to 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 Public Protection 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 Systems

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, 12 major interceptor pump stations, 263 wastewater pumping stations, and 15 small-to-intermediate (less than 0.6 MGD capacity) wastewater treatment plants 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 wastewater treatment plants. The flows currently treated by these package plants will be routed to one of MSD's six 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 that treated organic matter and bacteria. The MFWTC provides preliminary treatment consisting of screening and grit removal, primary treatment for the removal of solids and floatables, and is designed for bio-

roughing 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 that 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 108.7 MGD

The Morris Forman service area is the largest sewershed in the MSD collection system. The collection system contains approximately 1000 miles of separate sanitary sewer pipe. The majority of the landuse 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 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.

Derek R. Guthrie Water Quality Treatment Center (DGWQTC)

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 21.8 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 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 2 percent solids is hauled by truck to the Morris Forman WQTC where processing of the waste sludge to dry pellet fertilizer is completed.

The landuse consists primarily of single-family residential areas with a small amount of multi-family 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 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 3.6 MGD.

The Jeffersontown Service Area is centrally located at Taylorsville Road and Watterson Trail in central Jefferson County. The landuse 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.

Cedar Creek Water Quality Treatment Center (CCWQTC)

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 operational 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 3.3 MGD.

Floyds Fork Water Quality Treatment Center (FFWQTC)

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 WQTC 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, 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.

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 1.6 MGD, Floyds Fork is 1.2 MGD, and Cedar Creek is 3.2 MGD. The total additional available capacity for these existing water quality treatment centers is approximately 6.0 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 8.8 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 (2008)	Eventual Capacity MGD
Morris Forman	120.0	107.9	120.0
Derek R. Guthrie(1)	30.0	26.8	30.0
Hite Creek(2)	6.0	4.4	8.0
Jeffersontown	4.0	4.3	4.0
Cedar Creek	7.5	4.3	7.5
Floyds Fork(3)	3.3	2.1	9.8
15 Small Treatment Centers	2.7	2.3	--
Total Treatment Centers	**173.35**	**152.1**	**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: the

Kentucky Transportation Cabinet (Highways) and 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 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, 15 pump stations (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 significant amount of trees. The flood protection system consists of earthen levees, concrete walls, 15 pumping stations, 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 their 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 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 allocates resources to achieve the solutions in a streamlined manner. The first phase of Project DRI (DRI1 projects) identified 380 worst drainage problems in Louisville Metro area. This DRI1 Projects were completed in FY 2006 and DRI2 Projects ended during FY 2007. Since January 2003, MSD has invested over $100 million to complete approximately 700 neighborhood

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.

3.5 POTENTIAL SERVICE AREAS

3.5.1 Wastewater Services

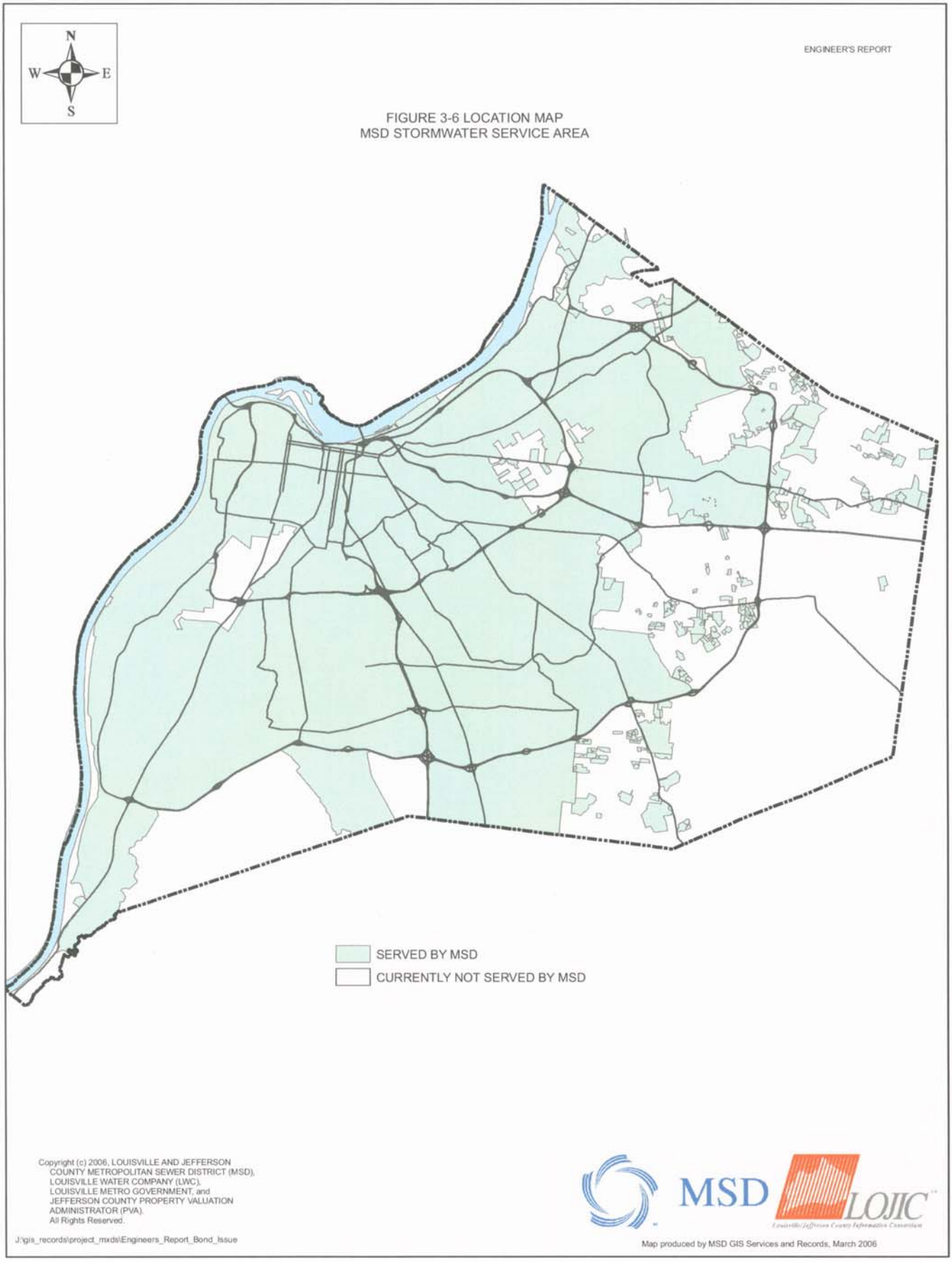
The expansion of the MSD Wastewater Service Area and customer base is accomplished in two basic ways: (1) by constructing large regional interceptor sewers, pump stations, and force main facilities to eliminate individual on-site disposal systems and small wastewater treatment plants and to provide service to developing areas; and (2) by the acquisition and/or transfer of ownership of private wastewater treatment plants which are outside the current contiguous Wastewater Service Area boundary. MSD has expanded wastewater 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 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 except for four of the third and fourth class cities (refer to Table 3-9) that provide their own storm water services. 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 213,706 drainage accounts for a total of 516,268 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.


N
W
E
S
ENGINEER'S REPORT
FIGURE 3-6 LOCATION MAP
MSD STORMWATER SERVICE AREA
SERVED BY MSD
CURRENTLY NOT SERVED BY MSD
Copyright (c) 2006, LOUISVILLE AND JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT (MSD), LOUISVILLE WATER COMPANY (LWC), LOUISVILLE METRO GOVERNMENT, and JEFFERSON COUNTY PROPERTY VALUATION ADMINISTRATOR (PVA). All Rights Reserved.
J:\gis_records\project_mxds\Engineers_Report_Bond_Issue
MSD
LOJIC
Map produced by MSD GIS Services and Records, March 2006

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 project bonds 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 1993 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 1993 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 (2010-2014). 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;
- Upgrade wastewater treatment facilities to improve performance, per Amended Consent Decree;
- Elimination of small Wastewater Treatment Plants, per Amended Consent Decree;
- Improvements to flood control and drainage facilities;
- Drainage and other MSD improvements;
- Construction of collector sewers;
- Construction and improvements of detention basins;
- Construction of interceptor sewers;
- Construction and improvements to force mains;
- Repairs and improvements to pumping stations;
- Construction of regional storage facilities; 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 2010 through FY 2014 have an estimated aggregate cost of $703.0 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 2010 - FY 2014
Total Sanitary	$679,067
Total Drainage	$23,935
TOTAL FIVE-YEAR CAPITAL IMPROVEMENT PLAN	$703,002

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 areas include 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 $843 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 the 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, stormwater, 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 the 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 wastewater treatment plant 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 (hereinafter the Cabinet)/EPA reviewed and jointly approved. The Early Action Plan included the following components:

Nine Minimum Controls Compliance

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 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 will further reduce 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 completed as of May 1, 2007.

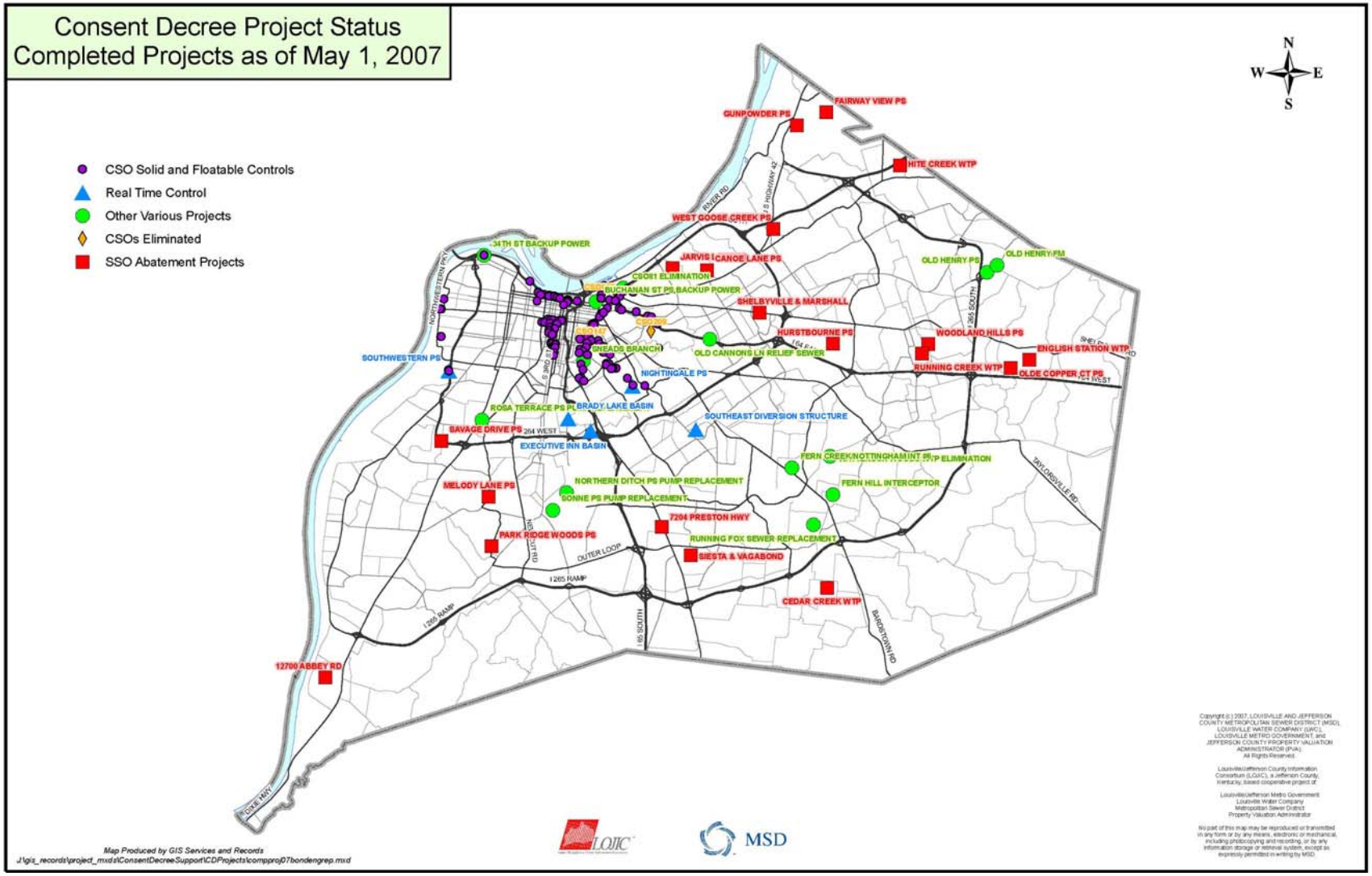
Other initiatives adopted by MSD in the wake of the CD include:

Real Time Control: This allows MSD operations staff to route and store stormwater 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 stormwater runoff was stored and treated after the passing of the storms. Phases I & II of Real Time Control have recently 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 program 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 Louisville and Jefferson County Metropolitan Sewer District 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 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,
- Training 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 located 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 fifteen (15) days of receiving the Cabinet/EPA approval.

The following activities were performed during the April through June 2009 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.

Interim Sanitary Sewer Discharge Plan (SSDP)

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 in September 2007.
The following activities were performed during the April through June 2009 reporting period and will continue into the next reporting period.

- Beechwood Village Sanitary Sewer Replacement;
- Sinking Fork Relief Sewer;
- Southeast Diversion Structure and Interceptor;
- 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 discharges 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 submitted to the KDEP and EPA in September 2006.

With the completion of the CSO #206 Separation project, 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).

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 sewerage systems. 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: (a) reductions in the peak levels of bacteria in the Ohio River and Beargrass Creek; and (b) 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:

- CSO Benefits: 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.
- SSO Benefits: The plan will result in the 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.
- Integration with Other Water Quality Programs: MSD anticipates coordinating IOAP implementation with water quality improvement initiatives of Louisville Metro Government and other public and private entities.

Values-Based Performance Evaluation Framework: 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.

Final CSO Long-Term Control Plan (LTCP)

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, it history of CSS operations, characteristics of CSS, development of control alternatives, and final recommended programs and projects.

The following activities were performed during the April through June 2009 reporting period and will continue into the next reporting period.

Green Demonstration Projects:

- MSD Main Office Parking Lot Bioswales;
- Seventh and Cedar Green Parking Lot;
- Second and Broadway Green Parking Lot;
- Third and Ormsby Bioflitration Swales;
- Sixth and Muhammad Ali Green Parking Lot;
- Sixth and Broadway Rain Garden;
- Seventeenth and W Hill Permeable Alley;
- Seventh and Market Permeable Alley;
- Campbell and Main Permeable Alley;
- Twelfth and Jefferson Green Street; and,
- 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; and,
- Paddy's Run Wet Weather Treatment Facility.

Flood Pump Station Projects:

- 34th Street Flood Pump Station; and,
- 4th Street Flood Pump Station.

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, WWTPs, 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 April through June 2009 reporting period and will continue into the next reporting period:

- Running Fox Pump Station Elimination – Cedar Creek Area;
- Floydsburg Road I&I Investigation and Rehabilitation – Hite Creek Area;
- Ashburton Pump Station Improvements and Diversion – Floyds Fork Area;
- Raintree and Marian Court Phase I - Pump Station Elimination – Jeffersontown Area;
- Upper Middle Fork #1 – Buechel Basin – Beargrass Creek Middle Fork Area;
- Hurstbourne I&I Investigation and Rehabilitation - Beargrass Creek Middle Fork Area;
- Beargrass Interceptor Rehabilitation Phase 2 – Southeast Diversion Area;
- Charleswood Interceptor #23 Project – Pond Creek Area;

- Avanti Pump Station Elimination – Pond Creek Area;
- Government Center Pump Station Elimination – Pond Creek Area;
- Melwood Pump Station and Force Main – Ohio River Force Main Area;
- Prospect #1 – WQTC Elimination - Ohio River Force Main Area (elimination of treatment facilities in Prospect area);
- East Rockford Lane Pump Station Relocation – Mill Creek Area;
- Shively Interceptor – Mill Creek Area;
- Camp Taylor #1 SSES – Combined Sewer Systems Area;
- Camp Taylor #2 Sewer Replacement - Combined Sewer Systems Area; and,
- Sonne Pump Station I&I Investigation and Rehabilitation - Combined Sewer Systems Area.

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 will also be 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 shall also evaluate the cause of any effluent limit violation occurring at the WQTC within the last three years. The CPE was submitted by the MSD within the time frame noted above.

- 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 is required to identify 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 shall also include expeditious implementation and completion schedules not extending past December 31, 2015 for either of the above suggested alternatives. The CCP was submitted by the MSD within the 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 Program 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. Training on the Process Control Program was completed March 12, 2009, and at that time the Process Control Program was submitted. The Process Control Program entered the initial implementation phase immediately thereafter.

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 shall also evaluate the cause of any effluent limit violation occurring at the WQTC within the last three years.

Composite Correction Plan (CCP): MSD is 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 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 shall also 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.

The CPE projects for the Jeffersontown WQTC are scheduled to start in the next reporting period.

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 shall 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 shall 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, WTPs, and the discharges from MSD's CSO locations identified in the MFWTP KPDES permit.

- Planned Activities: Describes the anticipated projects and activities that are scheduled to be performed for continued compliance with the CD.

Thirteen quarterly reports have been submitted to date including the following:

- 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; and,
- Quarterly Report #15 July 30, 2009.

The reports are in general conformance with the structure mentioned 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, 2005, through June 30, 2006. 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 MFWTP 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 Annual Reports submitted to the Cabinet and EPA includes the following:

- First Annual Report dated December 31, 2006;
- Second Annual Report dated December 21, 2007; and,
- Third Annual Report dated December 18, 2008.

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 stormwater 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 Environmental 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 Engineering Sanitary Projects

There are approximately 153 projects currently listed under this category. A breakdown of these projects is a follows:

- Projects currently in progress – 5;
- Projects in the Bidding Phase/Awaiting Bids/Awarded – 2;
- Projects currently Under Design – 5;
- Projects currently Under Construction – 9;
- Easement Acquisitions – 3; and,
- Projects Awaiting Start – 129.

The projected budget for these projects for the next five years is $249,756,000.

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

The CSO #206 Areas 13, 14 &15 are currently under construction.

The Approved Project Budget for these Consent Decree Projects is $831,000.

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 69 different projects. A breakdown of these projects is as follows:

- Projects currently Under Design – 8;
- Projects Under Construction 2;
- Project in the Bidding Phase/Awaiting Bids/Awarded – 2;
- Projects currently under Progress – 0;
- Easement Acquisitions – 4; and,
- Projects Awaiting Start – 53.

The projected budget for these projects for the next five years is $223,499,000.

4.3.3 Regulatory Services Sanitary Projects

There are approximately 138 projects currently listed under this category. A breakdown of these projects is a follows:

- Projects currently in progress – 27;
- Projects in the Bidding Phase/Awaiting Bids/Awarded – 4;
- Projects currently Under Design – 9;

- Projects currently Under Construction – 14;
- Easement Acquisitions – 0;
- Projects Awaiting Start – 80; and,
- Projects in Planning Stages – 4.

The projected budget for these projects for the next five years is $379,188,000.

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 111 Consent Decree related projects under the Regulatory Services Sanitary Projects. A breakdown of these projects is as follows:

- Project currently in progress – 4;
- Projects Under Construction – 3; and,
- Projects Awaiting Start – 104.

The projected budget for these projects over the next three years is $51,707,000.

4.3.3.2 Regulatory Services Sanitary – Integrated Overflow Abatement Projects

Initial Overflow Abatement Projects list identifies 102 different projects. A breakdown of these projects is as follows:

- Projects currently Under Design – 3; and,
- Projects Awaiting Start – 99.

The projected budget for these projects for the next five years is $238,387,000.

4.3.4 <u>Infrastructure and Flood Protection Sanitary Projects</u>

There are 20 projects listed in this category. A breakdown of these projects includes:

- Projects currently in progress – 1;
- Projects currently Under Design – 1;
- Projects Under Construction – 5;
- Easement Acquisitions – 3; and,
- Projects Awaiting Start – 10.

The projected budget for these projects for the next five years is $8,494,000.

4.3.5 Operations – Operations Sanitary

A total of 30 projects are listed in under Operations Sanitary. A breakdown of these projects includes:

- Projects currently in progress – 7;
- Projects currently under design – 1;
- Projects under construction – 3;
- Projects Awarder/Bidding phase – 1; and,
- Projects Awaiting Start – 18.

The projected budget for these projects for the next five years is $18,897,000.

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 35 project listed under this category. A breakdown of these projects is as follows:

- Projects currently in progress – 17;
- Projects in planning stages – 1;
- Projects Awaiting Start – 16; and,
- Projects under design – 1.

The projected budget for these projects for the next five years is $3,917,000.

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 12 projects listed in this category with the following breakdown:

- Projects currently in progress – 4; and,
- Projects Awaiting Start – 8.

The projected budget for these projects for the next five years is $1,204,000.

4.3.8 Equipment

Capital Equipment buys trucks and equipment used in the maintenance of MSD's infrastructure. 30 projects are listed in this category with the following break down:

- Projects currently under progress – 6; and,
- Projects Awaiting Start – 24.

The projected budget for these projects for the next five years is $17,609,000.

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, 15 pumping stations (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.

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, 15 pumping stations, 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 D.R.I (Drainage Response Initiative) to review customer service requests, develop solutions, and allocate resources to achieve the solutions in a streamlined manner. Phase I of Project D.R.I. identified 380 of the worst drainage problems in the Louisville Metro area. Phase I of Project D.R.I. was completed in FY 2006, and Phase II ended during FY 2007. During 2008, plans for Phase III of Project DRI were announced and are ongoing.

4.3.9.1 Engineering Drainage

A third Phase of Project DRI (DRI3 Projects) called for an additional investment of $25 million over 30 months, beginning in January 2008.

Besides the DRI projects, there are 43 other engineering drainage projects under the following categories:

- Projects currently under design – 2;
- Projects under construction – 1; and,
- Projects Awaiting Start – 40.

The projected budget for these projects for the next five years is $12,146,000.

4.3.9.2 Regulatory Services Drainage

There are 19 Regulatory Services Drainage projects listed under the following categories:

- Projects currently under design – 1;
- Projects Awarded/Bidding phase – 1;
- Projects under construction – 1; and,
- Projects Awaiting Start – 16.

The projected budget for these projects for the next five years is $934,000.

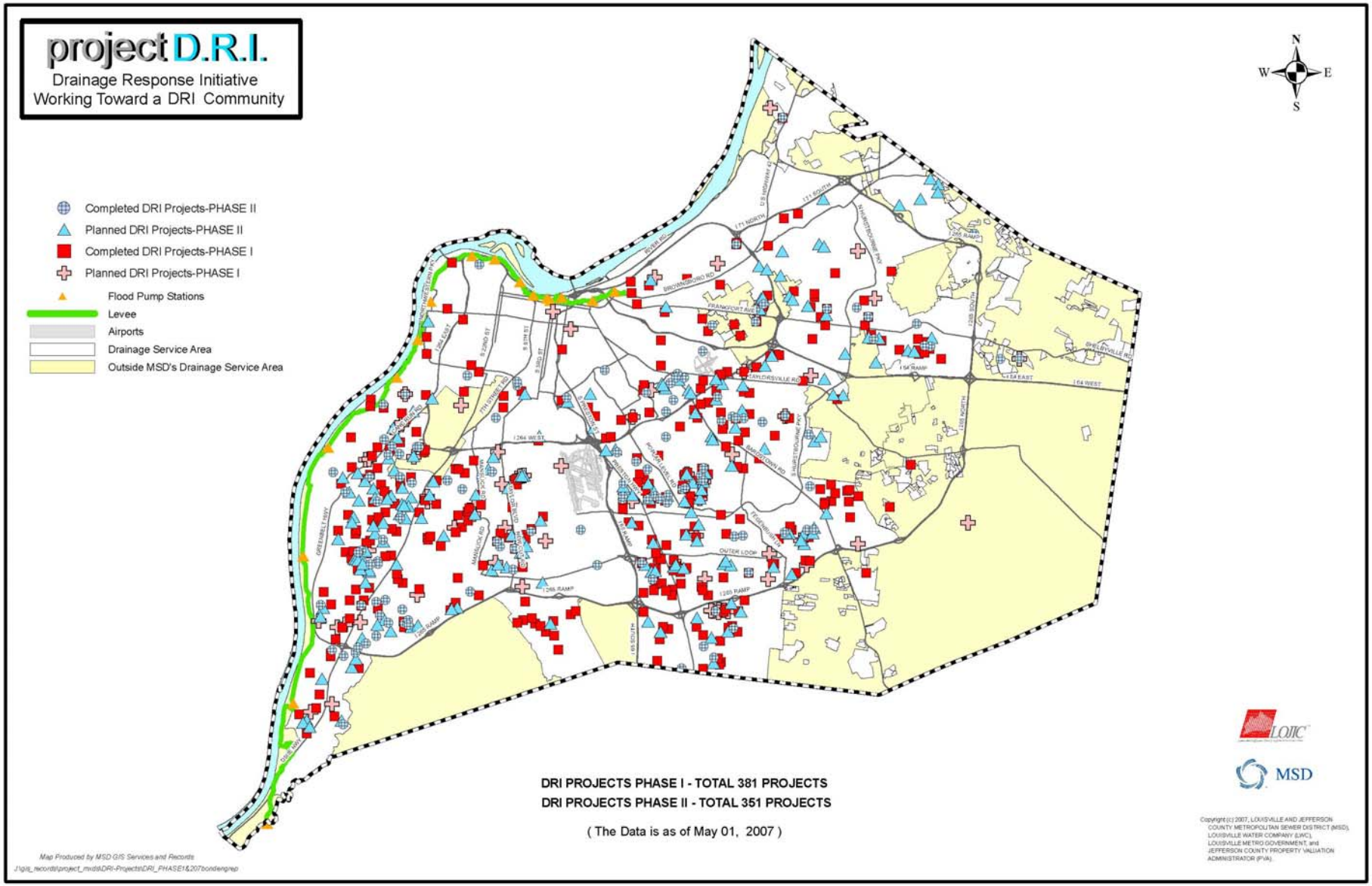
4.3.9.3 Infrastructure and Flood Protection Drainage Projects

There are 94 Infrastructure and Flood Protection Drainage Projects listed under the following categories:

- Projects currently under design – 5;
- Projects Awarded/Bidding phase – 2;
- Projects under construction – 4;
- Projects Awaiting Start – 82; and,
- Projects in Progress – 1.

The projected budget for these projects for the next five years is shown to be $10,844,000.

FIGURE 4-2
COMPLETED D.R.I. 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 $20.4 million with an average of $130.9 million in net available revenues in its Revenue Fund during the five-year planning period, 2010 through 2014. During the five-year planning period, MSD will reduce its working capital from $20.5 million in the beginning of FY 2010 to $20.4 million at the end of FY 2014. 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 2009 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 $475.2 million of projects identified as having first priority in the next five years, among other things.

As of June 30, 2010, MSD will have capital funds available in the amount of $47.1 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
2009 THROUGH 2013
MSD FIVE-YEAR CAPITAL IMPROVEMENT PLAN
(In Thousands)

Funding Source	Projected Funding Budget
Proceeds from Bond Issues	$ 706,265
From Contributed Capital	6,300
MSD Available Revenues	211,652
Capitalized Interest and Issuance Costs	(49,071)
Working Capital	100
TOTAL FIVE-YEAR CIP FUNDING SOURCES	$ 875,246

MSD's comprehensive plan is for financing the CIP projects in annual increments averaging $95.0 million of gross capital project design/construction expense and $26.7 million of MSD capital project management expenses. The projects are sourced from an average of $201.7 million in net financing proceeds and $43.6 million in annual available net revenue and contributed capital.

5.3 MSD REVENUES

Approximately 83 percent of MSD's revenues in FY 2009 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 95 percent by FY 2014.

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 2009.

The Consent Decree Surcharge generated nearly $28.9 million during FY 2008. MSD conducted a public outreach campaign to educate customers on what the Consent Decree was and 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

[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.

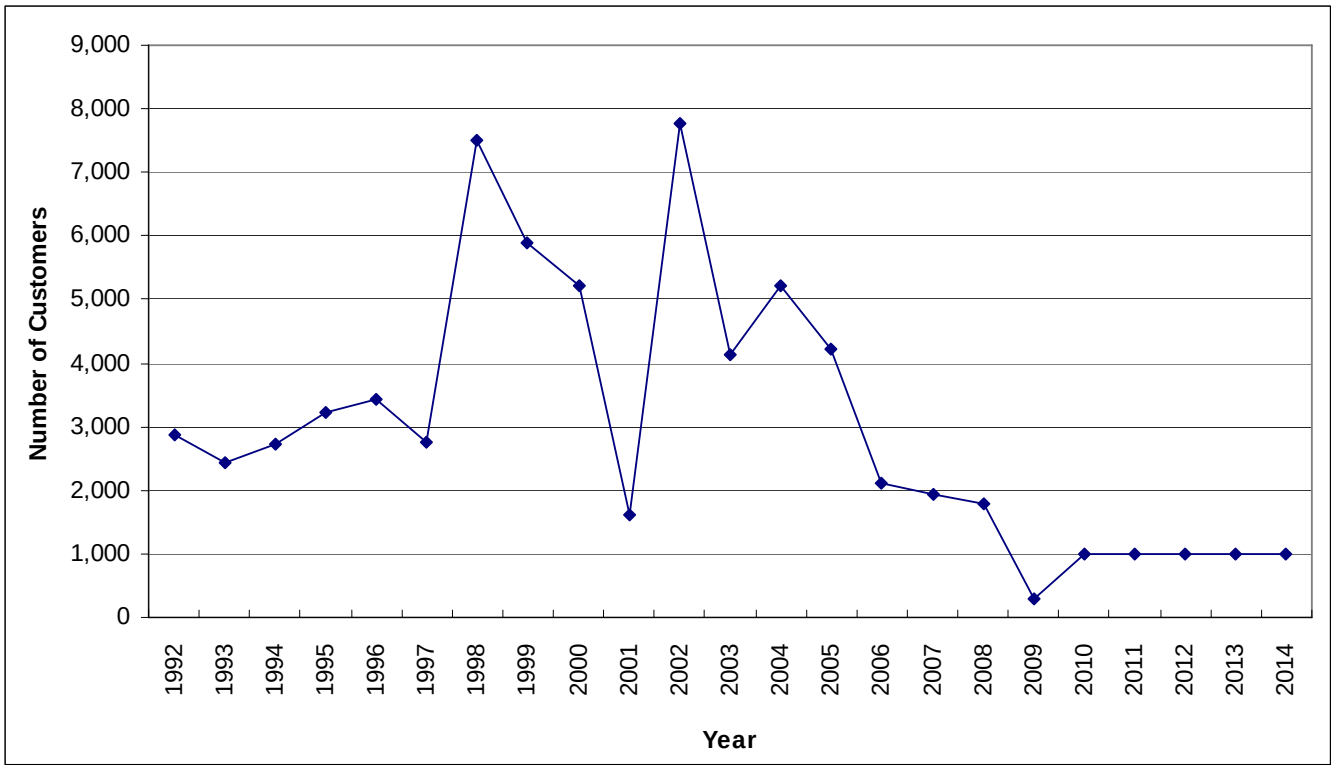
Source: MSD

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 1,000 annually from FY 2010 to FY 2014. The actual annual change in MSD customers from FY 1999 to FY 2009 and the estimated increase from FY 2010 to FY 2014 can be seen in Figure 5-1. Total customers increased in 2009 by 281.

FIGURE 5-1
ANNUAL CHANGE IN MSD CUSTOMERS



MSD customers are actual through year 2009 and projected for years 2010 to 2014.

A projected increase is expected to result in a total of approximately 5,000 new wastewater customers (mostly residential customers) for the five-year planning period FY 2010 through FY 2014. 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 2014, together with actual data for the five years ending June 30, 2009. 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 2005 through 2009 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 2010 budget and 2005 through 2009 financial reports as a basis for projection, the five fiscal years, 2010 through 2014, were estimated using the following assumption:

- Estimated aggregate net debt service on MSD long-term debt ranges from $75.4 million in fiscal year 2010 to $96.7 million in fiscal year 2014.

TABLE 5-3
Louisville/Jefferson County, Kentucky, Metropolitan Sewer District
Sewer and Drainage System Revenue Bonds, Series 2009C
Actual and Projected Revenues and Expenses[1]
($ in thousands)

		FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected
AVAILABLE REVENUES:											
Rates, Fees, Rentals and Charges:	(2)										
Wastewater service charges		87,653	93,907	96,594	125,782	130,661	139,154	148,756	159,020	169,992	181,722
Stormwater service charges		25,908	28,736	29,896	31,107	32,343	34,445	36,822	39,363	42,079	44,982
Total Rates, Fees, Rentals and Charges		113,561	122,643	126,490	156,889	163,004	173,599	185,578	198,382	212,071	226,704
Other Available Revenues:	(3)										
Other operating income		9,288	7,122	5,966	4,394	4,552	3,500	4,000	4,500	5,000	5,500
Current assessment payments		10,731	6,796	8,237	2,251	4,387	3,400	3,400	3,400	3,400	3,000
Investment income		14,503	5,558	8,417	6,085	25,568	7,667	8,000	7,500	7,000	7,000
Less: capitalized investment income		(6,245)	(1,594)	(3,747)	(1,190)	-	(3,450)	(3,600)	(3,375)	(3,150)	(3,150)
Total Other Available Revenues		28,277	17,882	18,873	11,540	34,507	11,117	11,800	12,025	12,250	12,350
TOTAL AVAILABLE REVENUES		**141,838**	**140,525**	**145,363**	**168,429**	**197,511**	**184,716**	**197,378**	**210,407**	**224,321**	**239,054**
DEBT SERVICE FROM AVAILABLE REVENUES											
Current maturities of long-term debt		15,685	17,250	18,190	21,255	23,105	24,605	23,785	24,840	26,120	27,480
Interest expense		72,395	66,162	70,548	66,918	72,776	60,444	70,512	79,198	83,589	82,408
Less: Capitalized interest expense		(26,603)	(15,758)	(14,140)	(10,530)	-	(9,671)	(11,282)	(12,672)	(13,374)	(13,185)
AGGREGATE NET DEBT SERVICE	(4)	**61,477**	**67,654**	**74,598**	**77,643**	**95,881**	**75,378**	**83,015**	**91,366**	**96,335**	**96,703**
110% OF AGGREGATE NET DEBT SERVICE	(5)	**67,625**	**74,419**	**82,058**	**85,407**	**105,469**	**82,916**	**91,317**	**100,503**	**105,968**	**106,373**
OPERATING EXPENSES:	(6)										
Labor		27,814	29,866	33,150	35,439	35,931	37,009	38,119	39,263	40,441	41,654
Utilities		6,873	8,841	7,728	9,312	7,876	9,509	9,973	10,466	10,979	11,985
Materials and supplies		4,500	5,470	5,771	6,242	6,364	6,678	7,004	7,350	7,710	8,416
Professional services		1,833	1,796	1,969	2,241	1,988	1,930	2,025	2,125	2,229	2,433
Maintenance and repairs		3,990	5,482	5,657	6,399	7,044	7,455	7,819	8,205	8,607	9,395
Billing and collections		2,290	2,733	2,034	3,813	2,638	2,968	3,113	3,266	3,426	3,740
Chemicals and fuel		2,784	3,594	3,397	3,691	4,140	4,512	4,732	4,966	5,209	5,686
Biosolids and grit disposal		986	1,098	994	1,191	1,502	1,507	1,580	1,658	1,739	1,898
All other operating expenses		2,479	2,166	2,779	2,007	2,051	2,273	2,384	2,502	2,624	2,864
TOTAL OPERATING EXPENSES		**53,549**	**61,046**	**63,479**	**70,335**	**69,534**	**73,841**	**76,749**	**79,801**	**82,964**	**88,072**

TABLE 5-3 (continued)
Louisville/Jefferson County, Kentucky, Metropolitan Sewer District
Sewer and Drainage System Revenue Bonds, Series 2009C
Actual and Projected Revenues and Expenses[1]
($ in thousands)

		FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected
SOURCES (USES) OF WORKING CAPITAL:	(7)										
From current year available revenues		26,812	11,825	7,286	20,451	32,096	35,497	37,613	39,240	45,022	54,279
Contributed capital		2,838	2,397	1,204	15,011	9,450	1,200	1,200	1,200	1,200	1,500
Proceeds from bonds and notes		68,485	102,153	-	166,125	76,275	658,310	150,000	200,000		
Decrease(increase) in debt service reserves		-	-	-	(4,064)	(8,439)	(42,458)	-	-		
Defeasance/retirement of debt		(67,561)	-	-	(61,900)	(76,490)	(460,970)	-	-		
Contractual capital project design/construction		(36,097)	(23,627)	(37,378)	(54,152)	(57,425)	(124,450)	(154,112)	(88,989)	(52,105)	(55,552)
MSD capital project management		(24,419)	(25,387)	(26,678)	(26,510)	(24,401)	(25,133)	(25,887)	(26,664)	(27,464)	(28,287)
Net capitalized interest		(20,358)	(14,164)	(10,393)	(9,340)	-	(6,221)	(7,682)	(9,297)	(10,224)	(10,035)
Underwriters' discounts and issuance costs		(926)	(1,227)	-	(1,927)	(704)	(1,412)	(1,800)	(2,400)		
LOJIC enterprise investment		(155)	(464)	(333)	(176)	(445)	(128)	(537)	(538)	-	-
Subordinated Debt		-	-	-	-	-	(7,650)	(14,307)	(14,194)	(14,023)	(13,844)
Increase(decrease) in working capital		(51,381)	51,506	(66,292)	43,518	(50,083)	26,586	(15,512)	98,359	(57,594)	(51,939)
BEGINNING WORKING CAPITAL		**93,219**	**41,838**	**93,344**	**27,052**	**70,570**	**20,487**	**47,073**	**31,561**	**129,920**	**72,327**
ENDING WORKING CAPITAL		**$ 41,838**	**$ 93,344**	**$ 27,052**	**$ 70,570**	**$ 20,487**	**$ 47,073**	**$ 31,561**	**$ 129,920**	**$ 72,327**	**$ 20,387**
NET REVENUES	(8)	**88,289**	**79,479**	**81,884**	**98,094**	**127,977**	**110,875**	**120,628**	**130,607**	**141,357**	**150,982**
DEBT SERVICE COVERAGE RATIO (Excludes Subordinated Debt)	(9)	**144%**	**117%**	**110%**	**126%**	**133%**	**147%**	**145%**	**143%**	**147%**	**147%**
DEBT SERVICE COVERAGE RATIO (Includes Subordinated Debt)		**--**	**--**	**--**	**--**	**--**	**134%**	**124%**	**124%**	**128%**	**137%**

TABLE 5-3 (continued)
Louisville/Jefferson County, Kentucky, Metropolitan Sewer District
Sewer and Drainage System Revenue Bonds, Series 2009C
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 September 28, 2009, pursuant to which the *Series 2009C 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 stormwater drainage and flood protection, as reported in MSD's general purpose financial statements.

For fiscal years prior to FY 2010, 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, stormwater 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 2010, the figures in Table 5-3 are actuals.

For FY 2010, revenue from these sources is projected at $3.5 million and is projected to increase by $500,000 annually through 2014. 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 2010, the figures in Table 5-3 are actuals. For FY 2010 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, 2014, MSD projects revenue of $16.6 million from existing and future assessment projects.

For fiscal years prior to FY 2010, *investment income* figures (gross and net) are actuals and identical to those reported in MSD's general purpose financial statements. For FY 2010 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 2010 are actual figures and are identical to those reported in MSD's general purpose financial statements. For FY 2010 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 2010. For FY 2010 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 2005 through FY 2009 are actuals and are identical to the figures reported in MSD's general purpose financial statements. For FY 2010, expenses are projected to increase by six percent. For FY 2011 through FY 2013, expenses are projected to increase by four percent, then by six percent in 2014. Table 5-3 projects changes in operating costs based on assumed underlying annual inflation of five percent for all categories, except labor, for FY 2011 through 2013 and by nine percent for FY 2014. Labor, the largest expense, is projected to increase by three percent annually for FYs 2010 through 2014.

(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 2010 and the projected figures for subsequent years represent principally construction of new lines by developers.

Proceeds from bonds and notes for fiscal years 2005 through 2009 are actuals. Prior to FY 2006 represent gross proceeds from Bonds and *Senior Subordinated Revenue Notes* issued during those years. Table 5-3 projects issues in FY 2010 of $658.3 million, $150 million in FY 2011 and $200 million in FY 2012. Of the $658.3 million in FY 2010, $461 million will be used to refund existing bonds.

In the *Defeasance/retirement of debt* Category, approximately $461 million will be used to refund outstanding Series 1999A, 2003A and 2003B bonds.

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 2005 through FY 2009, projected from MSD's Board-approved five-year capital budget for FY 2010 through FY 2014) 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 stormwater 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 2010. For FY 2010 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.

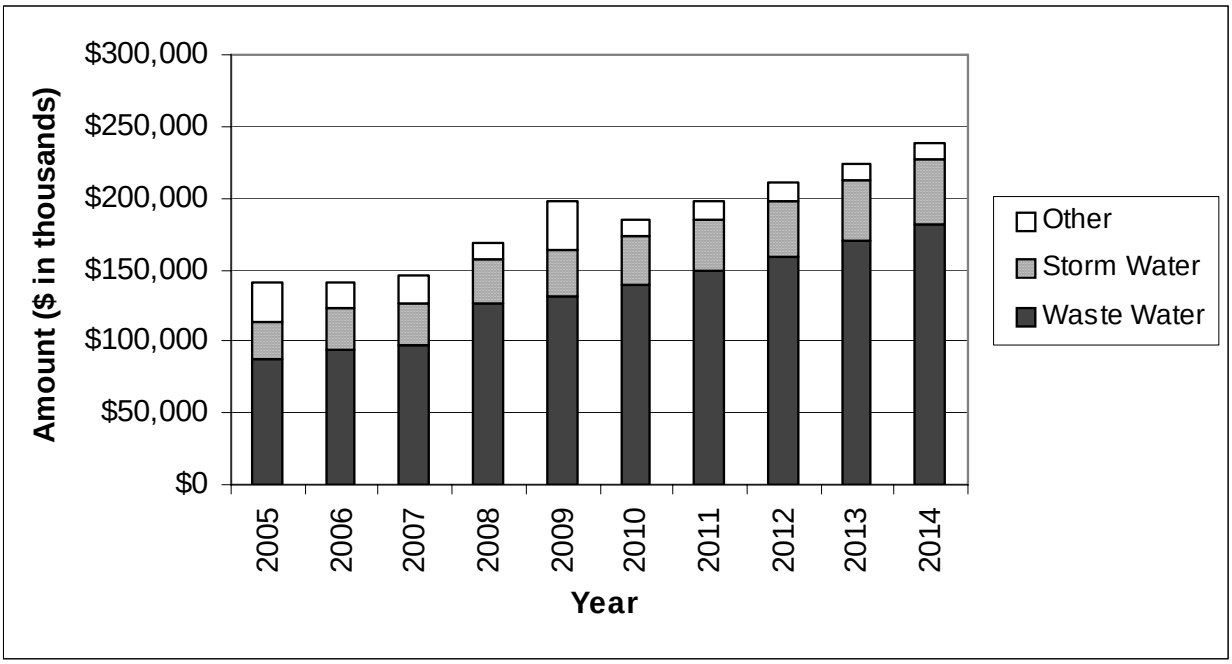
MSD's Co-Bond Counsel Wyatt, Tarrant & Combs, LLP and Zielke Law Firm, PLLC; MSD's Consulting Engineer, The Corradino Group; and MSD's financial advisor, First American Municipals Inc. all have reviewed the following computation and its supporting computations and all concur that MSD may issue the Current 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, 2009	$127,977,000
Adjustments to Net Revenues at 100%	
Annualization of rate increase approved after July 1, 2009	$10,562,127
Increases in customer base from projects substantially completed with funds other than proceeds of the Current Bonds	$1,884,600
Revenue increases to be effective no later than fiscal year beginning July 1, 2013, approved by MSD Board with 5-year budget adopted June 30, 2009	$50,056,828
Annual revenue from assessments of projects substantially completed with proceeds from prior issues	$3,805,378
Total adjustments to Net Revenues at 100%	$66,308,933
Adjustments to Net Revenues at 75%	
Increases in customer base from projects to be completed with proceeds of current Bonds	$376,920
Total adjustments to Net Revenues at 75%	$376,920
Total adjustments to Net Revenues	$66,685,853
Net Revenues Applicable to Determine Coverage of Maximum Aggregate Net Debt Service	$194,662,863
110% of Maximum Aggregate Net Debt Service on Revenue Bonds Issued and Outstanding under the Resolution, including the Current Bonds (101,409,038 X 1.1)	$111,549,942

- Revenues from wastewater and stormwater service charges are expected to increase by 6.5 percent in FY 2010, and by 6.9 percent in FY 2011 through FY 2014. This results in an increase in total revenues from rates, fees, rentals, and charges from $173.6 million in FY 2010 to $226.7 million in FY 2014. Other operating income is expected to decrease by $1.1 million in FY 2010, and increase by $500,000 annually from FY 2011 through 2014. Figure 5-2 shows the actual (FY 2005 through FY 2009) and projected (FY 2010 through FY 2014) available revenues.

FIGURE 5-2
AVAILABLE REVENUES

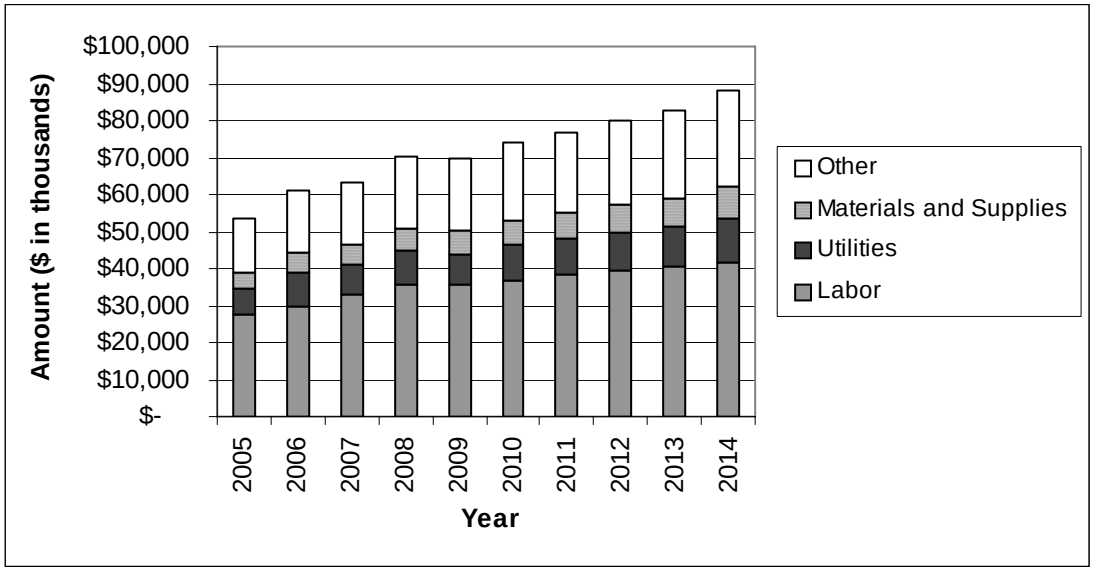


MSD's Available Revenues are actual through 2009, and projected for years 2010 to 2014.

- Labor costs are expected to increase by 3.0 percent annually FY 2010 through 2014. Other operating expenses are expected to increase by 10.8 percent in 2010, five percent annually from FY 2011 through FY 2013, and then by 9.2 percent in FY 2014. Figure 5-3 shows the actual (FY 2005 through FY 2009) and projected (FY 2010 through FY 2014) operating expenses.

- Working capital is expected to decrease from nearly $20.5 million in FY 2010 to $20.4 million in FY 2014.

FIGURE 5-3
OPERATING EXPENSES



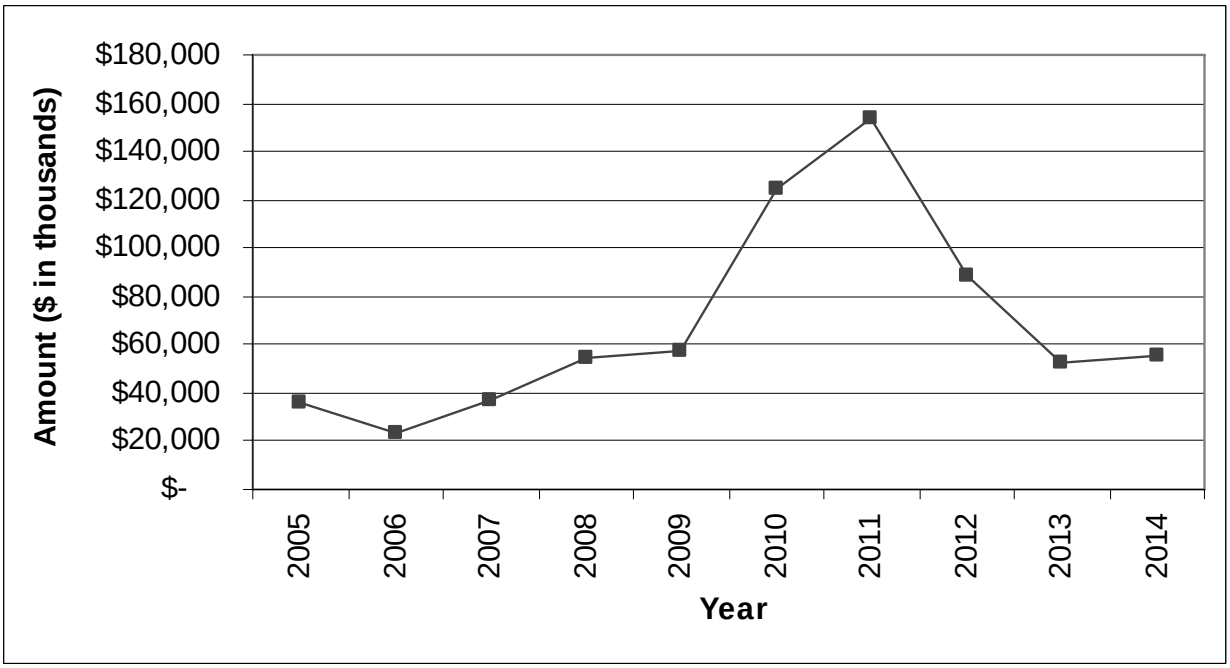
MSD's Operating Expenses are actual through 2009, and projected for years 2010 to 2014.

- Capital Improvement Project (CIP) cost is expected to increase from $124.5 million in FY 2010 to $154.1 million in FY 2011, then drop to $89.0 million in 2012, then to $52.1 million in FY 2013 and increase to $55.6 million in 2014. Figure 5-4 shows the actual (FY 2005 through 2009) and projected (FY 2010 through FY 2014) CIP expenses. During the five-year planning period (FY 2010 through FY 2014), MSD projects $475.2 million in gross capital project design and construction.

Based on these assumptions, the net revenues are projected to increase from $110.9 million in FY 2010 to $151.0 million in FY 2014.

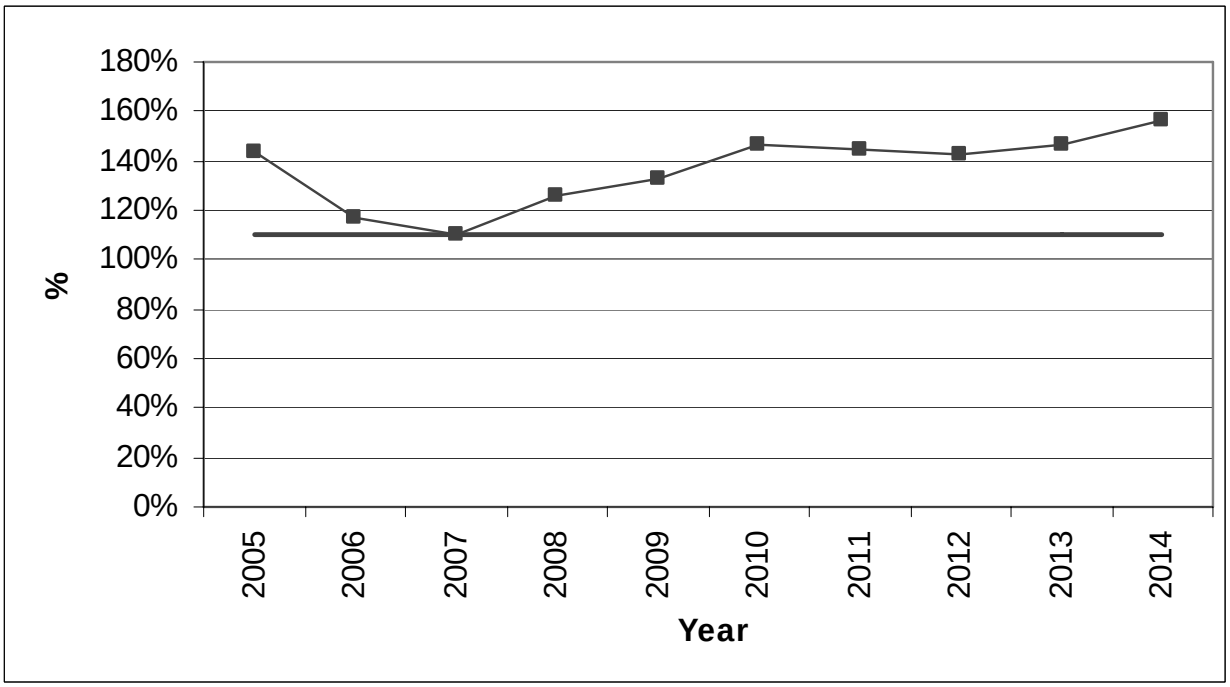
During the five-year planning period, MSD will meet the required 110 percent (shown as horizontal line in Figure 5-5) debt service coverage under the MSD 1993 Bond Resolution. Figure 5-5 shows the actual, estimated, and projected debt service coverage.

FIGURE 5-4
ANNUAL CONTRACTUAL CAPITAL PROJECT
DESIGN/CONSTRUCTION EXPENSES



MSD's annual CIP Expenses are actual through 2009, and projected for years 2010 to 2014.

FIGURE 5-5
DEBT SERVICE COVERAGE



Debt service coverage is actual through year 2009, and projected for the years 2010 to 2014.

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 2010 through 2014.[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.

In entering into the Amended Consent Decree, MSD 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 plans 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 $843,000,000. 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 submitted its Integrated Overflow Abatement Plan (IOAP) on December 12, 2008, and received EPA and Kentucky's recommendation for approval by the Court pursuant to the Amended Consent Decree. The IOAP is MSD's long-term plan to control combined sewer overflows and eliminate sanitary sewer overflows and other unauthorized discharges from MSD's sewerage system. Final joint approval may require additional revisions to the IOAP in response to public comment and to obtain Court approval. Thereafter, the IOAP will be incorporated into the Amended Consent Decree as an enforceable requirement.

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 D.R.I. 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 Operations and Maintenance Expenses

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 6.2 percent in FY 2010, by 4.0 percent in FYs 2011 through 2013, and by 6.2 percent in 2014 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 2010 through 2014. MSD is projecting an annual average debt service coverage of approximately 148 percent for FY 2010 through FY 2014, excluding subordinated debt and 129 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 1,000 customers annually to MSD's system, during the five-year period FY 2010 through FY 2014. Stormwater revenue increases are projected primarily from service area expansion and expansion of impervious surfaces within MSD's service area.