

A G E N D A

JAMES CITY COUNTY BOARD OF DIRECTORS

READING FILE

July 22, 2008

FOR YOUR INFORMATION

1. Preliminary Official Statement, Dated August 7, 2008
For Agenda Item E-1, Bond Resolution – Project Development Agreement
2. Blacklined Preliminary Official Statement, Dated August 7, 2008
For Agenda Item E-1, Bond Resolution – Project Development Agreement
3. Notice of Sale, James City Service Authority, \$28,500,000*, Water and Sewer System Revenue Bonds, Series 2008
For Agenda Item E-1, Bond Resolution – Project Development Agreement

072208bodrf_age

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 7, 2008

**NEW ISSUE--BOOK-ENTRY ONLY
[INSURED]**

**Ratings: Moody's: ___
Standard & Poor's: ___
(see "CREDIT RATINGS")**

Assuming compliance with certain covenants and subject to the qualifications described in "TAX EXEMPTION," in the opinion of Bond Counsel, under current law, interest on the Series 2008 Bonds (1) will be excluded from the gross income of their registered owners for federal income tax purposes, (2) will not be a specific item of tax preference for purposes of computing the federal alternative minimum income tax for individuals and corporations, and (3) will be exempt from Virginia income taxation. Such interest must be included in computing adjusted current earnings for purposes of determining a corporation's federal alternative minimum income tax and may be subject to other federal income tax consequences as described in "TAX EXEMPTION."

\$ _____
**James City Service Authority
(Virginia)**

Water and Sewer System Revenue Bonds, Series 2008

Dated: August __, 2008*

Due: January 15, as indicated below

The Series 2008 Bonds are issuable as registered bonds and will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be available to purchasers in denominations of \$5,000 and any integral multiple of \$5,000 only under the book-entry system maintained by DTC through brokers and dealers who are, or act through, DTC Participants. Purchasers will not receive delivery of the Series 2008 Bonds. See "DESCRIPTION OF THE SERIES 2008 BONDS - Book-Entry Only System."

The Series 2008 Bonds will accrue interest from their date of issuance, payable semi-annually on January 15 and July 15 in each year, commencing January 15, 2009. The principal of the Series 2008 Bonds, when due, is payable at the principal corporate trust office of U.S. Bank National Association, Richmond, Virginia, as Trustee, Registrar and Paying Agent for the Series 2008 Bonds.

The Series 2008 Bonds are subject to optional redemption as described in this Official Statement.

The Series 2008 Bonds are limited obligations of the Authority payable solely from the net revenues and other property pledged and assigned to the Trustee under the terms of the Indenture to secure payment of the Series 2008 Bonds. Neither the Commonwealth of Virginia nor any of its political subdivisions, including the Authority, is obligated to pay the principal of or premium, if any, or interest on the Series 2008 Bonds or other costs incident to them except from the revenues, money or property of the Authority pledged for such purpose. Neither the faith and credit nor the taxing power of the Commonwealth or any county, city, town or other subdivision of the Commonwealth is pledged to the payment of the principal of, premium, if any, or interest on the Series 2008 Bonds.

[The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____.]

[LOGO]

MATURITY SCHEDULE

<u>January 15</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>	<u>CUSIP</u>	<u>January 15</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>	<u>CUSIP</u>
2009	\$	%	%		2024	\$	%	%	
2010					2025				
2011					2026				
2012					2027				
2013					2028				
2014					2029				
2015					2030				
2016					2031				
2017					2032				
2018					2033				
2019					2034				
2020					2035				
2021					2036				
2022					2037				
2023					2038				

THIS OFFICIAL STATEMENT CONTAINS INFORMATION RELATED TO THE AUTHORITY'S FAILURE TO COMPLY WITH ITS PRIOR UNDERTAKING (AS HEREINAFTER DEFINED) UNDER RULE 15C2-12(B)(5) PROMULGATED BY THE SECURITIES AND EXCHANGE COMMISSION WITH RESPECT TO ITS ANNUAL DISCLOSURE FOR THE FISCAL YEARS 2004 THROUGH 2007. SEE THE SECTION HEREIN ENTITLED "CONTINUING DISCLOSURE UNDERTAKING."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2008 Bonds are offered for delivery when, as and if issued, subject to the approval of legality by Troutman Sanders LLP, Richmond, Virginia, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority by its

* Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to change, completion and amendment without notice. The Bonds may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

General Counsel, the County Attorney's Office of James City County, Williamsburg, Virginia. It is expected that the Series 2008 Bonds will be available for delivery through the facilities of DTC, New York, New York, on or about August __, 2008.
This Official Statement is dated August __, 2008.

James City Service Authority

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Robert H. Smith, Treasurer
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GENERAL COUNSEL

James City County Attorney's Office
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BOND COUNSEL

Troutman Sanders LLP

FINANCIAL ADVISOR

Davenport & Company LLC
Richmond, Virginia

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Goodman & Company **L.L.P.**
Newport News, Virginia

No dealer, salesman or any other person has been authorized by the Authority to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there will be no sale of the Series 2008 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of any of the Series 2008 Bonds. The information set forth in this Official Statement has been obtained from other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Authority, except as to information provided by it. The information and the expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made under it will, under any circumstances, create any implication that there has been no change in the affairs of the Authority [or the Insurer] since the date of this Official Statement or the earliest date as of which such information is given. Any statement in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. No representation is made that any such opinion or estimate will be realized.

THE SERIES 2008 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAS PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

[Other than with respect to information concerning the Insurer contained in "MUNICIPAL BOND INSURANCE" and "Appendix H - Form of Municipal Bond Insurance Policy" herein, none of the information in the Official Statement has been supplied or verified by the Insurer, and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Series 2008 Bonds or (iii) the tax-exempt status of interest on the Series 2008 Bonds.]

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SERIES 2008 BONDS, INCLUDING TRANSACTIONS (A) TO OVERALLOT IN ARRANGING THE SALES OF THE SERIES 2008 BONDS AND (B) TO MAKE PURCHASES AND SALES OF SERIES 2008 BONDS, FOR LONG OR SHORT ACCOUNT, ON A WHEN-ISSUED BASIS OR OTHERWISE, AT SUCH PRICES, IN SUCH AMOUNTS AND IN SUCH MANNER AS THE INITIAL PURCHASER MAY DETERMINE.

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OFFICIAL STATEMENT

JAMES CITY SERVICE AUTHORITY (VIRGINIA)

WATER AND SEWER SYSTEM REVENUE BONDS SERIES 2008

INTRODUCTION

The purpose of this Official Statement, including its cover and appendices, is to set forth information relating to the James City Service Authority (the "Authority"), its water and wastewater systems (collectively, the "System") and its Water and Sewer System Revenue Bonds, Series 2008, to be issued in the aggregate principal amount of \$ * (the "Series 2008 Bonds").

The Series 2008 Bonds are being issued pursuant to the Constitution and laws of the Commonwealth of Virginia, including the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2 of the Code of Virginia of 1950, as amended, and other applicable provisions of law (collectively, the "Act"). The Series 2008 Bonds are being issued under a Master Indenture of Trust, dated as of April 1, 2003 (the "Master Indenture"), between the Authority and U.S. Bank National Association, Richmond, Virginia, as Trustee (the "Trustee"), and the Second Supplemental Indenture of Trust, dated as of August 1, 2008 (the "Second Supplemental Indenture"), between the Authority and the Trustee. The Master Indenture as it has been previously supplemented and may be from time to time supplemented and amended is referred to as the "Indenture."

[The scheduled payment of the principal of and interest on the Series 2008 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by (t h e " I n s u r e r " o r " ") .]

Certain capitalized terms used in this Official Statement are defined in Appendix A, and a summary of certain provisions of the Indenture appears in Appendix B.

THE PROJECT

The Series 2008 Bonds are being issued to (1) finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source and (2) provide for the costs of issuing the Series 2008 Bonds, as well as the funding of any necessary reserves.

The Authority has entered into a Project Development Agreement for Long Term Water Supply, dated as of March 25, 2008 (the "Water Purchase Agreement"), with the City of Newport News, Virginia (the "City"). The Water Purchase Agreement provides for the Authority's purchase of a twenty percent (20%) share of the raw water safe yield (the "Safe Yield Share") of the King William Reservoir Project that is being undertaken by the City and which has been supported by the Authority. That twenty percent Safe Yield Share is the equivalent of four (4) million gallons per day of treated water measured as a yearly average. The Authority does have the right to receive up to five (5) million gallons per day of treated water without penalty under certain "non-drought" conditions. In payment for the Authority's Safe Yield Share, the Authority has agreed to pay \$50,000,000, or twenty percent (20%) of the anticipated cost of the King William Reservoir Project (determined as of the date of the Water Purchase Agreement), in two equal installments of \$25,000,000, one due no later January 1, 2009 and the other, which is subject to an inflation adjustment clause, due no later than June 30, 2019. The City has agreed that the Authority's receipt of the Safe Yield Share will be guaranteed from an alternate water source of the City if the King William

* Preliminary, subject to change

Reservoir Project is not completed. The Water Purchase Agreement expires on January 1, 2050, subject to automatic renewal for additional twenty-five year terms.

The Project is necessary to enable the Authority to meet its water demand projections of ten (10) million gallons per day in 2040. Currently, the Authority's groundwater withdrawal permit allows for an average daily withdrawal of 8.9 million gallons of water. When the groundwater permit expires in 2012, the Authority intends to seek its renewal at current levels.

SOURCES AND USES OF FUNDS

The proceeds received from the sale of the Series 2008 Bonds are expected to be applied as follows:

Sources of Funds:

Series 2008 Bond Proceeds.....	\$ _____
Reoffering Premium (Discount).....	_____
Interest Earnings'	_____
Total Sources of Funds	<u>\$ _____</u>

Uses of Funds:

Project Costs	\$ _____
Costs of Issuance (including Underwriter's discount[, bond insurance premium and surety premium]).....	_____
Total Uses of Funds	_____

Assumes an interest rate of _____ % and a draw schedule provided by the Authority.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

The Series 2008 Bonds will be issued under, and, together with any Additional Bonds and Parity Indebtedness, will be equally and ratably secured by, the Master Indenture. Currently, the only other bonds outstanding under the Master Indenture are the Authority's \$14,650,000 Water and Sewer System Revenue Bonds, Series 2003 (the "Series 2003 Bonds"). The Series 2008 Bonds will be limited obligations of the Authority payable (except to the extent payable from the proceeds of the Series 2008 Bonds or the income, if any, derived from the investment thereof) solely from the Net Revenues derived from the ownership or operation of the System, certain reserves and income from investments [and amounts payable under the municipal bond insurance policy issued by the Insurer. See "**MUNICIPAL BOND INSURANCE.**" If the Insurer fails to perform its obligations under such policy, the Authority is not required to provide additional or substitute credit enhancement.]

Under the Indenture, the Authority pledges to the Trustee as security for the payment of the principal of and premium, if any, and interest on the Bonds and any Parity Indebtedness, all of the Net Revenues derived from the ownership and operation of the System and all amounts held under the Indenture in the Project Fund, the Bond Fund and the Debt Service Reserve Fund, subject only to the right of the Authority to use revenues for other purposes, as set forth in the Indenture; provided, however, that amounts in the Project Fund, the Bond Fund and the Debt Service Reserve Fund do not secure Parity Indebtedness.

The Indenture does not convey or mortgage the System. The Authority has covenanted, however, not to lease, sell, encumber or otherwise dispose of any part of the System except in the limited circumstances provided in the Indenture. See "**Particular Covenants**" in Appendix B.

The Series 2008 Bonds, the premium, if any, and the interest on them will not be deemed to constitute a pledge of the faith and credit of the Commonwealth of Virginia or any of its political subdivisions, including

the Authority and the County. Neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any county, city, town or other subdivision of the Commonwealth, including the Authority and the County, is pledged to the payment of the principal of, premium, if any, or interest on the Series 2008 Bonds. The issuance of the Series 2008 Bonds does not directly, indirectly or contingently obligate the Commonwealth or any county, city, town or other subdivision of the Commonwealth, including the County, to levy any taxes or to make any appropriation for the payment of the Series 2008 Bonds. The Authority has no taxing power.

Revenue Covenant

The Master Indenture provides that the Authority will establish, fix, charge, collect and revise the rates, fees and charges for the use of and for the services furnished by the System, so that in each Fiscal Year Net Revenues are not less than the sum of (A) 1.2 times Senior Debt Service for the Fiscal Year, (B) Subordinate Debt Service for the Fiscal Year, (C) any amount required to be deposited in the Debt Service Reserve Fund to satisfy the Debt Service Reserve Requirement and (D) any amounts required to be deposited in the Repair and Replacement Fund during the Fiscal Year. In the event the Replacement Reserve Requirement is increased or funds on deposit in the Repair and Replacement Fund are less than the Replacement Reserve Requirement, the Master Indenture requires the Authority to increase the balance in the Repair and Replacement Fund to the Replacement Reserve Requirement in approximately equal installments over a period not longer than sixty months.

If the Authority (a) as of the end of any Fiscal Year is not in compliance with the revenue covenant described above (the Revenue Covenant"), (b) fails for three consecutive months to make the deposits to the Interest Account and the Principal Account of the Bond Fund which are required by the Master Indenture, or (c) is required to transfer money from the Debt Service Reserve Fund to the Bond Fund because of a deficit in the Bond Fund and the amount so transferred is not replenished within thirty days, then the Authority will immediately request the Consulting Engineer to submit a written report and recommendations with respect to increases in the Authority's rates, fees and charges and improvements in the operations of and the services rendered by the System and the Authority's accounting and billing procedures necessary to bring the Authority into compliance. The report and recommendations will be filed with the Trustee and the Authority, in the case of an event described in clause (a) or (b) of the foregoing, within 120 days from the date of discovery of noncompliance with the Revenue Covenant and, in the case of an event described in clause (c) of the foregoing, within 150 days after the date of transfer from the Debt Service Reserve Fund.

If the Authority promptly revises its rates, fees, charges, operations and service in conformity with the report and recommendations of the Consulting Engineer and otherwise follows such recommendations to the extent permitted by law so that the Authority will when its actions become fully effective be in compliance with the Revenue Covenant, then any failure to meet the Revenue Covenant will not constitute an Event of Default under the Indenture; provided, however, that if at the end of any Fiscal Year, Net Revenues are less than the sum of (A) 1.0 times Senior Debt Service for the Fiscal Year, (B) Subordinate Debt Service for the Fiscal Year, (C) any amount required to be deposited in the Debt Service Reserve Fund to satisfy the Debt Service Reserve Requirement and (D) any amounts required to be deposited in the Repair and Replacement Fund during the Fiscal Year, then an Event of Default will be deemed to have occurred without notice or grace period. See "**THE AUTHORITY -- Rate Regulation.**"

Reserve Covenant

If Authority Reserves are less than 50 percent of Operating Revenues for the most recent Fiscal Year, then the Authority agrees that the Authority Reserves shall be used solely to (i) pay Operating Expenses, (ii) fund capital expenditures for the System, (iii) pay Bond Debt Service and Parity Debt Service and (iv) replenish the Debt Service Reserve Fund to satisfy the Debt Service Reserve Requirement.

Debt Service Reserve Fund

The Indenture requires the Authority to maintain in the Debt Service Reserve Fund an amount (the "Debt Service Reserve Requirement") equal to the least of (1) the maximum principal and interest due on the Bonds then outstanding in the Authority's then current or any future Fiscal Year, (2) 10% of the original proceeds (excluding accrued interest) of the Bonds, and (3) 125% of the average annual principal and interest due on the Bonds then outstanding in the Authority's then current and each future Fiscal Year. Upon the issuance of the Series 2008 Bonds, the amount of the Debt Service Reserve Requirement will be \$. Amounts in the Debt Service Reserve Fund do not secure Parity Indebtedness. See "Debt Service Reserve Fund" in Appendix B.

Additional Bonds and Parity Indebtedness

Additional Bonds and Parity Indebtedness may be issued by the Authority under the Indenture. See "Additional Bonds" and "Parity Indebtedness" in Appendix B.

Subordinate Debt

The Authority may issue Subordinate Debt secured by a pledge of Net Revenues that is expressly made subordinate to the pledge of Net Revenues securing the Bonds and any Parity Indebtedness or that is unsecured.

[MUNICIPAL BOND INSURANCE]

Set forth below is a brief summary of certain information concerning the Insurer, and the principal terms of its municipal bond insurance policy for the Series 2008 Bonds, which has been supplied to the Authority by the Insurer. No representation is made by the Authority or the Initial Purchaser as to the accuracy or adequacy of that information or as to the absence of material adverse changes in that information subsequent to the date of this Official Statement. The following discussion does not purport to be complete and is qualified in its entirety by reference to such policy, a specimen of which is attached as Appendix H.

Bond Insurance Policy

Concurrently with the issuance of the Series 2008 Bonds, _____ (the "Insurer" or " _____ ") will issue its Municipal Bond Insurance Policy for the Series 2008 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2008 Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

[Description of Insurer]

The Policy does not protect investors against changes in the market value of the Series 2008 Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Insurer makes no representation regarding the Series 2008 Bonds or the advisability of investing in the Series 2008 Bonds. The Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Insurer has provided to the Authority the information presented under this Section for inclusion herein.]

BONDHOLDERS' REMEDIES IN EVENT OF DEFAULT

In case of an Event of Default under the Indenture (see "Events of Default" and "Remedies; Rights of Bondholders" in Appendix B), the Trustee may, and upon the request of the holders of 25% in aggregate principal amount of Bonds then outstanding and upon indemnification as provided in the Indenture will, proceed to protect and enforce its rights and the rights of the holders of the Series 2008 Bonds by declaring the entire unpaid principal of and interest on the Series 2008 Bonds due and payable or by instituting a mandamus or other suit, action or proceeding at law or in equity, including any action for specific performance of any agreement contained in the

Indenture. The mandamus remedy, however, may be impracticable and difficult to enforce. Furthermore, the right to enforce payment of the Series 2008 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies.

[The Series 2008 Bonds may not be declared due and payable as a result of an Event of Default without the prior written consent of the Insurer.]

Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") permits "municipalities," if insolvent or otherwise unable to pay their debts as they become due, to file a voluntary petition for the adjustment of debts, provided that such municipality is "specifically authorized, in its capacity as a municipality or by name, to be a debtor...." Bankruptcy Code, Section 109(c)(2). Current Virginia statutes do not expressly authorize the Authority or municipalities generally to file under Chapter 9. Chapter 9 does not authorize the filing of involuntary petitions against entities such as the Authority.

Bankruptcy proceedings by the Authority could have adverse effects on holders of Series 2008 Bonds, including (1) delay in the enforcement of their remedies, (2) subordination of their claims to claims of those supplying goods and services to the Authority after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings, and (3) imposition without their consent of a plan of reorganization reducing or delaying payment of the Series 2008 Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any plan of reorganization not accepted by at least a majority of any class of creditors such as the holders of the Series 2008 Bonds, such class of creditors will have the benefit of their original claim or the "indubitable equivalent" thereof, although such "equivalent" may not provide for payment of the Series 2008 Bonds in full. The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation.

DESCRIPTION OF THE SERIES 2008 BONDS

General

The Series 2008 Bonds will bear interest at the rate or rates and will mature on the dates and in the amounts shown on the cover of this Official Statement.

The Series 2008 Bonds will be dated their date of issuance, and will bear interest from that date. Interest on all Series 2008 Bonds will be payable semi-annually on January 15 and July 15 of each year, with the first interest payment to be due on January 15, 2009.

The Series 2008 Bonds are issuable only as fully registered bonds and are issuable in the denomination of \$5,000, or any integral multiple of \$5,000. The Authority has engaged U.S. Bank National Association, Richmond, Virginia, to act as Trustee and Paying Agent for the Series 2008 Bonds.

Book-Entry Only System

The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2008 Bonds, payments of principal of and premium, if any, and interest on the Series 2008 Bonds to DTC, its nominee, Participants, as defined below, or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Series 2008 Bonds and other bond-related transactions by and among DTC, Participants and Beneficial Owners is based solely on information furnished by DTC.

DTC will act as securities depository for the Series 2008 Bonds. The Series 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Series 2008 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, 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 pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants (together, the "Participants") are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008 Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2008 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008 Bonds, such as redemptions, defaults and proposed amendments to the Series 2008 Bonds or the Master Indenture. For example, Beneficial Owners of Series 2008 Bonds may wish to ascertain that the nominee holding the Series 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices will be sent to DTC. If less than all of the Series 2008 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus

Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of, premium, if any, and interest payments on the Series 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest to Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee or the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2008 Bond certificates are required to be prepared, executed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, either a successor securities depository will be selected by the Authority or Series 2008 Bond certificates will be prepared, executed and delivered.

The foregoing information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Neither the Authority nor the Trustee has any responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by DTC to the Direct Participants or by any Direct or Indirect Participant to any Beneficial Owner of any amount due with respect to the principal of, premium, if any, and interest on the Series 2008 Bonds; (c) the delivery or timeliness of delivery by DTC to any Direct Participant or by any Direct or Indirect Participant to any Beneficial Owner of any notice which is required or permitted under the terms of the Bond Resolution, Master Indenture or Second Supplemental Indenture to be given to Bondholders; or (d) any other action taken by DTC, or its nominee, Cede & Co., as Bondholder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Series 2008 Bonds, as nominee of DTC, references in this Official Statement to the Holders or Owners of the Series 2008 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners and Cede & Co. will be treated as the only Bondholder of the Series 2008 Bonds for all purposes under the Bond Resolution, Master Indenture and Second Supplemental Indenture.

The Authority may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Series 2008 Bonds, without the consent of Beneficial Owners or Bondholders.

Optional Redemption

The Series 2008 Bonds maturing on and after January 15, 2019 are subject to optional redemption before maturity by the Authority at any time on or after January 15, 2018, from any money available for such purpose, in whole or in part in increments of \$5,000 or any integral multiple of \$5,000, upon payment of a redemption price equal to 100% of the principal amount of the Series 2008 Bonds to be redeemed, together with accrued interest to the date fixed for redemption.

* Preliminary, subject to change

Notice of Redemption

Notice of redemption will be mailed by the Trustee to Cede & Co., as the registered owner of the Series 2008 Bonds at least 30 and not more than 60 days before the redemption date. Failure to mail any such notice or any defect in it will not affect the validity of the proceedings for redemption of any Series 2008 Bond with respect to which no failure or defect has occurred. The Authority shall not be responsible for sending notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Series 2008 Bonds. If no qualified securities depository is the registered owner of the Series 2008 Bonds, notice of redemption shall be sent to the registered owners of the Series 2008 Bonds. During the period that DTC or the DTC nominee is the registered owner of the Series 2008 Bonds, the Authority will not be responsible for sending notices of redemption to Beneficial Owners of the Series 2008 Bonds. See "**DESCRIPTION OF THE SERIES 2008 BONDS - Book-Entry Only System.**" All Series 2008 Bonds called for redemption will cease to bear interest on the specified redemption date.

At the direction of the Authority, the Trustee may give a notice of redemption prior to a deposit of redemption moneys if such notice states that the redemption is to be funded with the proceeds of a refunding bond issue and is conditioned on the deposit of such proceeds. Provided that moneys are deposited on or before the redemption date, such notice shall be effective when given. If such proceeds are not available on the redemption date, such Series 2008 Bonds will continue to bear interest until paid at the same rate they would have borne had they not been called for redemption. On presentation and surrender of the Series 2008 Bonds called for redemption at the place or places of payment, such Series 2008 Bonds shall be paid and redeemed.

Selection of Series 2008 Bonds for Redemption

If less than all of the Series 2008 Bonds are called for optional redemption, the maturities to be called will be as directed by the Authority in such manner as the Authority determines to be in its best interest. If less than all of any maturity of the Series 2008 Bonds is called for redemption, the Series 2008 Bonds within each maturity to be redeemed will be selected by the Paying Agent in a manner in which the Paying Agent determines to be appropriate and fair.

Effect of Redemption

After the date on which any Series 2008 Bonds have been called for redemption and sufficient sums for their payment on the redemption date are held by the Paying Agent, interest on such Series 2008 Bonds will cease to accrue and the registered owners of such Series 2008 Bonds will be entitled to look only to the Paying Agent for payment.

BOND DEBT SERVICE REQUIREMENTS

The following table sets forth the annual Bond Debt Service for the Series 2008 Bonds and the Series 2003 Bonds.

Fiscal Years Ended June 30	Series 2008 Bonds		Series 2003 Bonds		Total Debt Service	
	Principal	Interest	Principal	Interest		
2009	\$	\$	\$	905,000.00	\$479,431.26	\$
2010				935,000.00	450,018.76	
2011				965,000.00	419,631.26	
2012				1,000,000.00	383,443.76	
2013				1,035,000.00	345,943.76	
2014				1,080,000.00	304,543.76	

On January 22, 2008, James C. Icenhour, Jr. and Mary K. Jones were elected to serve through December 31, 2008 as Chairman and Vice Chairman, respectively, of the Authority.

The day-to-day activities are conducted by a staff of approximately 90 full-time employees and 2 part-time employees.

Larry M. Foster is General Manager of the Authority. Mr. Foster joined the Authority in 1990. He received a Bachelor of Administration degree in Public Administration from Appalachian State University in 1976.

Robert H. Smith is Treasurer and Assistant General Manager of the Authority. Mr. Smith joined the Authority in 1988. He received a Bachelor of Science degree from Eastern Kentucky State University in 1961 and a Master of Business Administration from Syracuse University in 1976. Prior to working for the Authority, Mr. Smith served as an officer in the U.S. Army for 28 years.

Sanford B. Wanner is Secretary of the Authority and also serves as County Administrator for the County. Mr. Wanner received a Bachelor of Science degree in education from The College of New Jersey in 1958 and a Master of Science in Administration from George Washington University in 1978. Mr. Wanner has served as County Administrator since 1995. Prior to that, Mr. Wanner served five years as the General Manager of the Authority and served five years as the Assistant County Administrator.

Michael D. Vergakis, P.E., is Chief Engineer for water. Mr. Vergakis joined the Authority in 2002. He received his Bachelor of Science degree in Civil Engineering Technology from University of Arkansas in 1982. Mr. Vergakis is a registered Professional Engineer in the Commonwealth of Virginia. Mr. Vergakis has worked for several engineering firms and various corporations.

Danny W. Poe, P.E., is Chief Engineer for sewer. Mr. Poe joined the Authority in 1998. He received his Bachelor of Science degree in Civil Engineering Technology from Bluefield State College in 1979. Mr. Poe is a registered Professional Engineer in the Commonwealth of Virginia. Prior to accepting employment with the Authority, Mr. Poe worked for Buchart Horn, Inc., an engineering firm, for 14 years.

The Authority has executed an Annual Services Contract with six engineering firms for general engineering consultant services. This contract was awarded in 2007 and may be renewed for two (2) additional years one year at a time. The firms included are as follows:

AES Consulting Services	Virginia Beach, Virginia
Landmark Design Group	Virginia Beach, Virginia
O'Brien & Gere	Virginia Beach, Virginia
Rammel, Klepper & Kaul	Richmond, Virginia
Timmons Group	Newport News, Virginia
URS Corporation	
Williamsburg, Virginia	

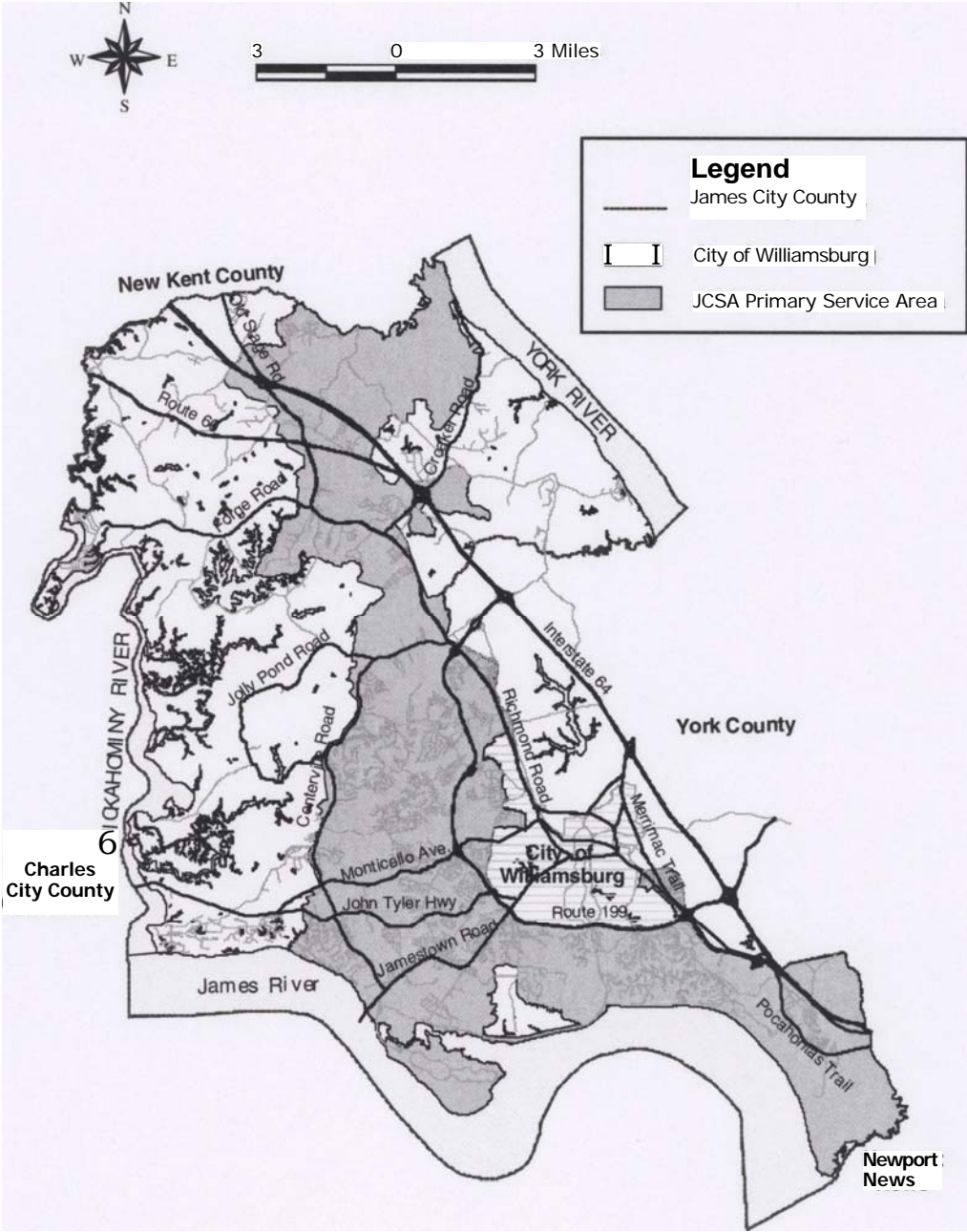
Note: This 2007 contract may be renewed for two (2) additional years, one year at a time.

The Authority receives organizational staff support for accounting, human resources, data processing, purchasing, vehicle maintenance, administrative buildings and grounds maintenance and legal support from the County staff. These services are paid for by the Authority.

Service Area

The Board of Directors has authorized water and sewer operations for the Authority within the Primary Service Area (PSA) which includes approximately 73 square miles of the County. The demand for the Authority's services has been focused in primarily in the southeastern area of the PSA where most of the County's growth is anticipated. The Authority also provides water and/or sewer service to limited sections of York County and the City of Williamsburg with the concurrence of the appropriate governing bodies.

James City Service Authority (JCSA) Service Area Map



Existing Facilities and Resources

The Authority's water system includes the central water system with 10 water production facilities and 6 independent water production facilities that are located outside the PSA. There are approximately 329 miles of water transmission and distribution lines throughout the entire system. The water system facilities supply approximately 4.9 million gallons of water per day to approximately 18,300 water customers.

The Authority's sewer system includes 74 pump stations with approximately 370 miles of sewer collection lines. The sewer system facilities collect and move approximately 4.6 million gallons of sewage per day for approximately 18,500 sewer customers. The Authority has no sewage treatment facilities. Sewage treatment for areas served by the Authority, as well as for other Hampton Roads communities, is provided by the Hampton Roads Sanitation District.

Service Contracts

The Authority purchases potable water from the City of Newport News (the "City"), pursuant to a Project Development Agreement for Long Term Water Supply dated March 25, 2008 (the "Water Purchase Agreement"). See "**THE PROJECT**." The Water Purchase Agreement provides the Authority with a supply of water to meet a portion of the Authority's water requirements at a cost based upon a water-rate formula which is included in the Water Purchase Agreement. A water transmission main owned and operated by the City traverses the southern portion of the Authority's service area. The Authority obtains its water supply through master meter connection to this transmission main. The Water Purchase Agreement provides for a rate formula to determine the Authority's payment obligations to the City. The rate formula is applied monthly for billing purposes based upon meter readings. The City forwards monthly bills to the Authority, and the Authority remits payments to the City monthly.

Rate Regulation

The Authority's Board of Directors has sole power to set rates, subject to a statutory requirement for a public hearing.

Economic Condition and Outlook

The County has a strong, diverse, and growing economic base. The County is located near the Cities of Hampton, Newport News and Williamsburg, and York County. Major employers within • commuting distance include Anheuser-Busch, Owens Brockway, Ball Metal, Newport News Shipbuilding, Langley Air Force Base, Fort Eustis, Fort Monroe, the Colonial Williamsburg Foundation, and the National Aeronautics and Space Administration. The County's population grew 38.0 percent from 1990 to 2000 while the Commonwealth of Virginia's population increased only 15.7 percent during the same time period. Several new retail clusters are breaking ground or are under construction, and will provide continued growth in the commercial sector over the next several years.

While a fast-growing population and expanding commercial base enhance the economic outlook for the Authority, they also continue to increase demand for its services. The Authority currently has groundwater permits for its central system to withdraw 8.9 million gallons per day to support its residential and commercial customers. With the current rate of growth, it is estimated that this amount of water will meet the County's needs through 2013. As noted above under the heading "**THE PROJECT**," the Project will enable the Authority to meet its long-term water demand. Water conservation is also an important component of meeting the future water needs. The Authority has initiated the "Let's be Water Smart" program, which is a partnership with local businesses involved in the landscape industry. The partnership promotes the importance of using water wisely.

In Fiscal Year 2005, the Authority completed the first phase of a 5.0 million gallon per day groundwater treatment facility which has reverse osmosis technology to treat water from the Potomac Aquifer. The first phase of the project is capable of treating 2.5 mgd. The second phase was completed in Fiscal Year 2007 providing full capacity of 5.0 mgd. The facility, along with other water production facilities, is projected to meet the Authority's water needs through 2013. The cost of this project was approximately \$20 million. Additionally, the Authority is nearing the completion of two 1.25 million gallon water storage tanks that will enhance flows and pressures during peak demands in the water system.

A significant number of the Authority's sanitary sewer pumping stations are beginning to show signs of deterioration due to their age. A systematic plan has been developed to analyze and determine what upgrade and rehabilitative measures are required to extend their life and meet the demands of increased usage. Projected growth within the County's PSA will impact existing infrastructure. Existing pump stations and force mains will have to be upgraded or replaced to accommodate future planned developments.

In Fiscal Year 2008, the Authority will begin the rehabilitation of the Powhatan Sewer Interceptor, the Authority's largest gravity sewer line. The line was installed in the 1970's using what are now known to be inferior materials. The estimated costs for all phases are \$7.0 million.

The Hampton Roads region is participating in discussions with the U.S. Environmental Protection Agency and the Virginia Department of Environmental Quality ("DEQ") regarding sewer system overflows. In June 2007, the Board of Directors authorized the General Manager to sign a Consent Order with DEQ to establish milestones and a time line to increase its efforts in reducing infiltration and inflow of extraneous water into the sewer system. This will be an expensive effort and long-term, which will compliment the Authority's on-going efforts to reduce infiltration and inflow of extraneous water and, in turn, minimize sewer system overflows.

The Authority has completed implementation of a Supervisory Control and Data Acquisition (SCADA) System, which will enable the Authority to maintain and control water and wastewater facility operations during normal conditions and emergencies while compiling historical data. SCADA is a highly reliable system that takes advantage of modern computer technologies, which are highly efficient and cost effective. SCADA was installed for monitoring all water system facilities and sewer pump stations. SCADA systems provide water and sewer utilities a tool to improve both their reliability and quality of service.

Historical Information Regarding the System

General. The following table summarizes the historical average daily flows.

Summary of Historical Flows (MGD)

Year	Water Produced		Wastewater Average Day
	Average Day	Avg. Day in Month of Maximum Flow	
1998	3.3	4.1 (August)	3.6
1999	3.5	4.3 (August)	3.8
2000	3.8	4.8 (July)	3.9
2001	4.3	4.8 (August)	3.9
2002	4.2	6.1 (June)	4.2
2003	3.9	4.5 (July)	4.1
2004	4.2	5.2 (May)	4.0
2005	4.7	6.0 (July)	4.0
2006	4.8	6.4 (August)	4.4
2007	4.9	6.5 (June)	4.6

Source: James City Service Authority

The Authority's ten largest customers collectively consume 8.4% of the water sold by the Authority. The Authority's single largest customer, Eastern State Hospital, a state owned hospital, consumed approximately 1.3% of the water sold in Fiscal Year 2007.

The following tables include the ten largest customers of the Authority and their total water and wastewater service charges and usage in Fiscal Year 2007.

Customer	FY 2007 Total Service Charges
Eastern State Hospital.....	\$105,635
Owens-Brockway.....	62,747
Country Village	54,917
Patriot's Colony.....	53,814
Windy Hill Trailer	36,547
Williamsburg - James City County Public Schools	36,021
Oxford-James.....	30,713
Rolling Meadows.....	30,074
Platinum Management	29,489
Williamsburg-Oxford.....	29,288
Total.....	<u>\$469,245</u>

Customer	FY 2007 Total Usage (Gallons)
Eastern State Hospital.....	35,211,500
Owens-Brockway.....	20,915,820
Country Village	18,305,804
Patriot's Colony.....	17,937,960
Windy Hill Trailer	12,182,492
Williamsburg - James City County Public Schools	12,007,050
Oxford-James.....	10,237,800
Rolling Meadows.....	10,024,650
Platinum Management	9,828,650
Williamsburg-Oxford.....	9,762,650
Total.....	<u>156,414,376</u>

The following table summarizes the historical number of connections to the System.

Year	Summary of Historical Connections		
	Water	Average ERCs'	Sewer
1998	10,025	13,202	11,440
1999	10,973	14,020	12,008
2000	12,540	15,191	13,985
2001	13,460	17,121	14,538
2002	14,158	16,631	15,249
2003	14,761	15,600	15,902
2004	15,657	16,800	16,605
2005	16,531	18,800	17,357
2006	17,552	19,200	17,982
2007	18,283	20,400	18,426

Equivalent Residential Connections (ERCs) are determined based upon the rated capacity of a water meter (e.g., the average amount of water which can flow through such meter on a continuous basis) as compared to the rated capacity for a typical "5/8" residential water meter.

Source: James City Service Authority

Service Charges. Operating revenues are derived from the rates charged for water and wastewater service provided by the System. The average quarterly bill for a residential customer is shown below:

Historical Summary of Quarterly Continuing
Service Charges for Residential Water Service¹

Year	Basic Charge	Rate per 1000 Gals. ²	Quarterly Total	% Increase
1998	None	\$2.50 - 2.60 - 3.60	\$53.10	0.0%
1999	None	2.50 - 2.60 - 4.60	53.10	0.0
2000	None	2.50 - 2.60 - 4.60	53.10	0.0
2001	None	2.30 - 2.60 - 6.00	50.10	-1.9
2002	None	2.30 - 2.60 - 6.00	50.10	0.0
2003	None	2.30 - 2.60 - 6.00	50.10	0.0
2004	None	2.30 - 2.60 - 7.45	50.10	0.0
2005	None	2.30 - 2.71 - 7.60	50.76	1.3
2006	None	2.30 - 2.71 - 7.60	50.76	0.0
2007	None	2.50 - 3.00 - 8.50	55.50	9.3
2008	None	2.50 - 3.00 - 8.50	55.50	0.0

Source: James City Service Authority
Assumes 21,000 gallons average quarterly use.

²

Inverted Block Rate structure:

Block based on 0 to 15,000 gallons used per quarter.

^{2^a} Block based on 15,000 to 25,000 gallons used per quarter, which changed to 15,000 to 30,000 gallons used per quarter commencing in FY 2005.

^{3^a} Block based on over 25,000 gallons used per quarter, which changed to 30,000 gallons used per quarter commencing in FY 2005.

Historical Summary of Quarterly Continuing
Service Charges for Residential Wastewater Service

Year	Basic Charge	Rate per 1000 Gals.	Quarterly Total	% Increase
1998	None	\$2.30	\$48.30	0.0%
1999	None	2.30	48.30	0.0
2000	None	2.30	48.30	0.0
2001	None	2.30	48.30	0.0
2002	None	2.30	48.30	0.0
2003	None	2.30	48.30	0.0
2004	None	2.50	52.50	8.7
2005	None	2.70	56.70	8.0
2006	None	2.70	56.70	0.0
2007	None	2.80	58.80	3.7
2008	None	2.80	58.80	0.0

Source: James City Service Authority
Assumes 21,000 gallons average quarterly use.

Average water and sewer bills for water and sewer customers for jurisdictions near the County are shown in the following tables, which also show the Authority's charges for comparative purposes.

Comparison of Area Water Bills
Annual Consumption 80,000 Gallons as of June 2008

<u>Virginia Jurisdiction</u>	<u>Water Service</u>
City of Williamsburg	\$264
York County	220
City of Norfolk	406
City of Newport News	350
City of Virginia Beach	353
James City Service Authority	210

Comparison of Area Sewer Bills
Annual Consumption 80,000 Gallons as of June 2008

<u>Virginia Jurisdiction</u>	<u>Water Service</u>
City of Hampton	\$114
City of Newport News	164
City of Williamsburg	114
City of Virginia Beach	213
City of Norfolk	297
York County	240
James City Service Authority	224

Source: James City Service Authority

System Facilities Charges. A system facilities charge for water service is assessed for each new separate service connection. The purpose of the charge is to defray in part the cost of providing major supply, transmission main, booster pumping and distribution facilities. A similar system facilities charge for sewer service is assessed for each new separate service connection. The current charge for a residential 5/8 inch meter is \$300 per bathroom fixture and has been in effect since 1997. The sewer service connection is also based on the size of the water meter.

Historical Summary of Availability Charges
for a Typical Residential Connection

Year	Water	Wastewater	Total
1998	\$2,400	\$2,400	\$4,800
1999	2,400	2,400	4,800
2000	2,400	2,400	4,800
2001	2,400	2,400	4,800
2002	2,400	2,400	4,800
2003	2,400	2,400	4,800
2004	2,400	2,400	4,800
2005	2,400	2,400	4,800
2006	2,400	2,400	4,800
2007	2,400	2,400	4,800
2008	4,000	2,400	6,400

Source: James City Service Authority

Water and wastewater availability charges for jurisdictions near James City County are shown in the following table, which also shows the Authority's charges for comparative purposes.

Comparative Water and Wastewater System Availability Charges
for Residential Connections as of June 2008

Virginia Jurisdiction	Water Availability Charge	Wastewater Availability Charge	Total Availability Charge
York County	\$2,850	\$3,300	\$6,150
James City Service Authority	4,000	2,400	6,400
City of Newport News	2,010	2,750	4,760
City of Williamsburg	3,300	3,300	6,600
City of Virginia Beach	1,869	1,796	3,665
City of Hampton	1,573	700	2,273
City of Norfolk	875	250	1,125

Source: James City Service Authority

Historical Operating Summary. The following tables summarize certain charges of the Authority attributable to its water and wastewater services and its financial performance in the five fiscal years ending June 30, 2003 through June 30, 2007. Certain of the financial data contained in these tables for fiscal years ending June 30, 2003 through June 30, 2007, are derived from the Authority's audited financial statements. Audited financial statements for the years ended June 30, 2006 and June 30, 2007, are included in Appendix C.

Operating Revenues:	<u>Revenues and Expenses</u>				
	2003	2004	2005	2006	2007
				<u>as restated</u>	
Water & Sewer Services			\$8,383,600	\$10,269,798	\$1 1,464,460
Miscellaneous			1,262,416	930,060	1,747,670
Reimbursement for storm costs					161,573
Connection Fees			6,130,640	6,132,383	5,904,875
Total Operating Revenues					
Operating Expenses:					
Salaries			754,182	762,584	1,020,053
Fringe Benefits			270,864	265,520	409,947
Operating Supplies			480,994	560,840	737,092
Maintenance of buildings & equipment			856,296	637,345	793,764
Special Services			4,292,880	4,877,696	5,168,706
Utilities			592,153	651,820	640,890
Water Purchases			394,426	320,509	285,190
Storm Costs			---	---	161,349
Other			101,570	207,397	203,327
Total Operating Expenses before depreciation & amortization					
Operating income before depreciation & amortization					
Depreciation and amortization expense					
Operating Loss					
Non-operating Revenues (expenses)					
Water & Sewer Facility Fees					
Investment Income					
Gain (Loss) on disposal of property & equipment					
Interest Expense					
Net Non-operating Revenues					
Net Income (loss)					
Depreciation on contributed fixed assets					
Increase in Retained Earnings					
Retained earnings at beginning of year					
Retained earnings at end of year					
Changes in equity:					
Contributed Capital					
Contributed Capital at beginning of year					
Current year contributions					
Current year connection fees					
Depreciation on contributed fixed assets					
Contributed capital at end of year					

The following table shows the historical debt service coverage ratios.

Historical Revenue Bond Coverage

	2003	2004	2005	2006	2007
Total Operating Revenues	\$8,057,133	\$8,842,083	\$9,646,016	\$11,199,858	\$13,373,703
Less: Operating Expenses ¹	(6,587,651)	(7,128,622)	(7,743,365)	(8,283,711)	(9,420,318)
Plus: Non-Operating Revenues ²	4,154,773	4,617,899		6,533,712	
Net Revenues Available for Debt Service	\$5,624,255	\$6,331,360	\$8,050,737	\$9,449,859	\$8,688,142
Senior Debt Service ³	\$495,969	\$1,307,695	\$1,381,881	\$1,382,981	\$1,383,631
Senior Debt Service Coverage	11.34x	4.84x	5.83x	6.83x	6.28x
Subordinate Debt Service	0	0	0	0	0
Total Debt Service	\$495,969	\$1,307,695	\$1,381,881	\$1,382,981	\$1,383,631
Total Debt Service Coverage ⁴	11.34x	4.84x	5.83x	6.83x	6.28x

Source: Prepared by Davenport & Company LLC

¹ Operating Expenses exclusive of depreciation and amortization.

² Non-Operating Revenues include interest income and total facility fee receipts.

³ \$14,650,000 bond issuance at actual interest rates.

⁴ Net Revenues Available for Debt Service divided by the sum of Senior Debt Service and Subordinated Debt Service.

The Capital Improvements Program

The Authority has an estimated Fiscal Year 2009-2013 Capital Improvements Program of approximately \$31.4 million for both water and sewer facilities. The largest portion of the water facilities improvements is for water supply, while the sewer facilities improvements consist primarily of sewer line rehabilitation and replacements and of improvements mandated by the Department of Environmental Quality.

The table below details the estimated Capital Improvements Program expenditures for the Authority. It is currently anticipated that all of the expenditures will be funded through a combination of facility charges and debt.

	FY 09	FY 10	FY 11	FY 12	FY 13	Total
Water Supply	\$ 4,387,000	\$1,780,000	\$1,780,000	\$2,210,000	\$2,200,000	\$12,357,000
Water Distribution	0	1,200,000	1,220,000	320,000	320,000	3,060,000
Water Storage	500,000	0	0	0	0	500,000
Water Transmission	325,000	895,000	0	0	0	1,220,000
Sewer Improvements	1,436,880	2,107,480	3,186,800	3,656,800	3,666,800	14,054,760
Other Projects	170,000	80,000	0	0	0	250,000
Total Expenditures	\$6,818,880	\$6,062,480	\$6,186,800	\$6,186,800	\$6,186,800	\$31,441,760

Source: James City Service Authority.

The overall Capital Improvements Program may be affected by unanticipated events and circumstances which could result in differences between projected and actual financial results. If customer growth, operating expenses or capital improvement costs are different from that projected, rate and fee increases may be required to support the long-term Capital Improvements Program. Regardless of delays or a slower rate of growth, the Authority believes that revenues will be adequate to support the proposed Capital Improvements Program.

LITIGATION

There is no litigation pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Series 2008 Bonds, or in any way contesting or affecting the validity of the Series 2008 Bonds, any proceeding of the Authority taken with respect to their issuance or sale, the Authority's ability to pledge and use the Net Revenues for the payment of the Series 2008 Bonds, the operation of the System, the existence or powers of the Authority, or the title of any officer of the Authority with respect to his or her position.

There is no litigation pending or, to the best knowledge of the Authority, threatened which would have a material adverse effect on the condition of the Authority, financial or otherwise, or its contractual arrangements with third parties for water supply or wastewater treatment.

CREDIT RATINGS [UPDATE IF NO INSURANCE]

As of the date of the Official Statement, the Series 2008 Bonds will have been rated " " by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. and " __ " by Moody's Investors Service [based on the municipal bond insurance policy to be issued by the Insurer upon delivery of the Series 2008 Bonds].

Moody's issues ratings ranging from Aaa to C to designate the relative investment qualities of bonds. [The "Aaa" rating is the highest of nine such ratings. Moody's describes its "Aaa" rating as follows:

"Bonds rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues."

Standard & Poor's issues ratings ranging from AAA to D to designate the relative investment qualities of bonds. [The "AAA" rating is the highest major rating category of ten such categories. Standard & Poor's describes its "AAA" rating as follows:

"Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong."

In addition, the Series 2008 Bonds have been assigned an underlying rating of [AA] by Standard & Poor's and of [A1] by Moody's without giving effect to the issuance of the municipal bond insurance policy by the Insurer.

These ratings reflect only the views of Moody's Investors Service and Standard & Poor's Ratings Services, respectively, and any explanation of the significance of such ratings may be obtained only from the rating agencies furnishing them. Generally, rating agencies base their ratings on such information and materials as they deem necessary and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings may not be lowered or withdrawn entirely by one or more of these rating agencies if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the market price or marketability of the Series 2008 Bonds.

FINANCIAL STATEMENTS

The financial statements of the Authority included as Appendix C to this Official Statement have been audited by Goodman & Company, L.L.P., Newport News, Virginia, independent auditors, as stated in their report thereon included in Appendix C. Goodman & Company, L.L.P. will not be reviewing any matters in connection with the issuance of the Series 2008 Bonds.

LEGALITY FOR INVESTMENT

Under the Act, the Series 2008 Bonds are securities in which all public officers and public bodies of the Commonwealth of Virginia and its political subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, may legally invest funds in their control. No representation is made as to the eligibility of the Series 2008 Bonds for investment or any other purpose under the laws of any other state.

CERTAIN LEGAL MATTERS

The issuance of the Series 2008 Bonds is subject to the delivery of the approving opinion of Troutman Sanders LLP, Richmond, Virginia, Bond Counsel, substantially in the form set forth in Appendix F to this Official Statement. Since Bond Counsel has not prepared this Official Statement and has not verified its accuracy, completeness or fairness, their opinion will make no statement of any kind as to the Official Statement and will be limited to matters relating to the authorization and validity of the Series 2008 Bonds and to the tax-exempt status of interest on the Series 2008 Bonds under current federal and Virginia income tax laws. Certain legal matters will be passed on for the Authority by its general counsel, the County Attorney's Office of James City County, Williamsburg, Virginia.

TAX EXEMPTION

Opinion of Bond Counsel

Bond Counsel's opinion will state that, under current law and assuming compliance with the Covenants (as defined below), interest on the Series 2008 Bonds is excludable from gross income for purposes of federal income taxation and is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for the purposes of the alternative minimum tax imposed on corporations (as defined for federal income tax purposes under Section 56 of the Code), interest on the Series 2008 Bonds must be included in computing adjusted current earnings. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Series 2008 Bonds.

Bond Counsel's opinion also will state that interest on the Series 2008 Bonds is not includable in computing the Virginia income tax. Prospective purchasers of the Series 2008 Bonds should consult their own tax advisors regarding the tax status of the interest on the Series 2008 Bonds in a particular state or local jurisdiction other than Virginia.

Bond Counsel's opinion will be given in reliance upon certifications of representatives of the Authority as to facts material to the opinion. The Authority has covenanted to comply with the provisions of the Code regarding, among other things, the use, expenditure and investment of proceeds of the Series 2008 Bonds, the arbitrage yield

restrictions and rebate requirements imposed by the Code and certain other actions the failure to perform which would cause interest on the Series 2008 Bonds to be includable in gross income of their owners (the "Covenants"). Failure of the Authority to comply with the Covenants could cause interest on the Series 2008 Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue.

Other Tax Matters

In addition to the matters addressed above, prospective purchasers of the Series 2008 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain "S corporations," certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit. Prospective purchasers of the Series 2008 Bonds should consult their tax advisors as to the applicability and impact of such consequences.

FINANCIAL ADVISOR

Davenport & Company LLC, Richmond, Virginia, has served as financial advisor to the Authority with respect to the sale of the Series 2008 Bonds. The financial advisor has assisted the Authority in matters relating to the planning, structuring and issuance of the Series 2008 Bonds and has provided other advice.

COMPETITIVE SALE

After competitive bidding on August , 2008, the Series 2008 Bonds were awarded to _____ . (the "Initial Purchaser"). The Initial Purchaser has supplied the information as to the public offering yields set forth on the cover of this Official Statement. If all of the Series 2008 Bonds are resold to the public at such yields, the Initial Purchaser has informed the Authority that it anticipates total underwriting compensation of \$. The Initial Purchaser may change the public offering yields from time to time.

CONTINUING DISCLOSURE UNDERTAKING

UNDER RULE 15C2-12(F)(3) PROMULGATED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), THE AUTHORITY IS OBLIGATED TO SET FORTH INFORMATION CONCERNING ANY INSTANCES DURING THE 5 YEARS PRIOR TO THE DATE OF THIS OFFICIAL STATEMENT IN WHICH THE AUTHORITY FAILED TO COMPLY, IN ALL MATERIAL RESPECTS, WITH ANY PREVIOUS UNDERTAKINGS IN A WRITTEN CONTRACT OR AGREEMENT SPECIFIED IN RULE 15C2-12(B)(5)(i). IN CONNECTION WITH THE AUTHORITY'S ISSUANCE OF CERTAIN OF ITS \$14,650,000 WATER AND SEWER SYSTEM REVENUE BONDS, SERIES 2003, THE AUTHORITY ENTERED INTO AN UNDERTAKING TO PROVIDE INFORMATION UNDER RULE 15C2-12(B)(5) (THE "PRIOR UNDERTAKING").

FOR THE FISCAL YEARS 2004-2007, THE AUTHORITY DID NOT COMPLY WITH THE 270-DAY DEADLINE OF THE PRIOR UNDERTAKING FOR THE FILING OF HISTORICAL OPERATING DATA WITH RESPECT TO THE SYSTEM (THE "OPERATING DATA") DESCRIBED IN THE OFFICIAL STATEMENT FOR THE SERIES 2003 BONDS UNDER THE HEADING "JAMES CITY SERVICE AUTHORITY — HISTORICAL INFORMATION REGARDING THE SYSTEM." THE AUTHORITY ALSO DID NOT SEPARATELY FILE ITS AUDITED FINANCIAL STATEMENTS, ALTHOUGH ITS AUDITED FINANCIAL STATEMENTS WERE INCLUDED IN THE AUDITED FINANCIAL STATEMENTS OF JAMES CITY COUNTY, VIRGINIA, WHICH WERE FILED IN FISCAL YEARS 2004-2007.

THE AUTHORITY ON JULY , 2008 FILED THE OPERATING DATA WITH EACH OF THE NRMSIRS (AS DEFINED IN THIS SECTION BELOW).

The offering of the Series 2008 Bonds is subject to the continuing disclosure requirements of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule"). Pursuant to a Continuing Disclosure Agreement outlined in Appendix E, for as long as any of the Series 2008 Bonds are outstanding, the Authority will provide certain annual information, including financial statements, to each nationally recognized municipal securities information repository ("NRMSIR") and to any Virginia state information depository ("SID"). Furthermore, pursuant to the Continuing Disclosure Agreement, for as long as any of the Series 2008 Bonds are outstanding, the Authority will undertake to provide to the Municipal Securities Rulemaking Board and any Virginia SID notice of certain material events as described in the Rule and Appendix E.

As of the date of this Official Statement, (1) the Securities and Exchange Commission has recognized the following NRMSIRs:

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
E-mail: Munis@Bloomberg.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
E-mail: rnisir_repository@sandp.com

DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
E-mail: [nrnsir@dpcdata.com](mailto:nrnisir@dpcdata.com)

FT Interactive Data
Attn: NRMSIR
100 Williams Street, 15th Floor
New York, NY 10038
Telephone: (212) 771-6999
Facsimile: (212) 771-7390
E-Mail: NRMSIR@interactivedata.com

and (2) no SID has been created for the Commonwealth. If, however, a SID is hereafter created for the Commonwealth, the Authority is obligated to make filings and provide notices to the SID as required by the Rule. Investors and other interested parties may contact any NRMSIR for additional information concerning its services. The Authority makes no representations as to the scope of the services provided to the secondary market by any NRMSIR or as to the costs for the provision of such services.

Pursuant to the Continuing Disclosure Agreement, the right of the Trustee and the holders of the Series 2008 Bonds to enforce the undertaking described above is limited to the right to obtain specific performance of the obligations of the Authority. Any failure of the Authority to comply with its obligations will not give rise to an Event of Default under the Master Indenture or the Second Supplemental Indenture.

MISCELLANEOUS

The Authority has furnished all information in this Official Statement relative to it, including the audited financial statements for the years ended June 30, 2006 and June 30, 2007, and for the periods then ended, as well as the report on the audited financial statements by Goodman & Company L.L.P., Newport News, Virginia, independent auditors, contained in Appendix C. Goodman & Company L.L.P. will not be reviewing any matters in connection with the issuance of the Series 2008 Bonds.

The references in this Official Statement to the Indenture, the Act, the Series 2008 Bonds and other documents are brief outlines of certain of their provisions. These outlines do not purport to be complete, and reference is made to the documents and the Act themselves, a reasonable number of copies of which will be furnished without charge (except for copying charges) by the Authority upon request made at 101-E Mounts Bay Road, P.O. Box 8784, Williamsburg, Virginia 23187-8784 (Telephone No. 757-253-6805).

So far as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

AUTHORIZATION AND CERTIFICATION
CONCERNING THE OFFICIAL STATEMENT

This Official Statement has been authorized by the Authority. Concurrently with the delivery of the Series 2008 Bonds, the undersigned will furnish a certificate to the effect that, to the best of their knowledge, this Official Statement did not as of its date and does not as of the date of delivery of the Series 2008 Bonds, contain any untrue statement of a material fact or omit to state a material fact which should be included in it for the purpose for which it is to be used, or which is necessary in order to make the statements contained in it, in light of the circumstances under which they were made, not misleading.

The distribution of this Preliminary Official Statement has been duly authorized by the Directors of the Authority. The Authority has deemed this Preliminary Official Statement final as of its date within the meaning of the Rule, except for the omission of certain pricing and other information permitted to be omitted by the rule.

JAMES CITY SERVICE AUTHORITY

By: _____
Chairman

By: _____
General Manager

DEFINITIONS OF CERTAIN TERMS

DEFINITIONS OF CERTAIN TERMS

"Accreted Value" will have the meaning set forth in any Supplemental Indenture authorizing any Capital Appreciation Bonds.

"Act" means the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2 of the Code of Virginia of 1950, as amended.

"Annual Budget" means the annual budget of the Authority prepared and adopted in accordance with the Master Indenture.

"Authority" means the James City Service Authority, a public body corporate and politic of the Commonwealth of Virginia, duly created pursuant to the Act.

"Authority Reserves" mean the sum of (i) the amount in the Repair and Replacement Fund in excess of the Replacement Reserve Requirement, (ii) the balance in the General Reserve Fund, and (iii) the amount in the Operating Fund in excess of one-twelfth of the Operating Expenses budgeted to be paid from the Operating Fund in the then current Fiscal Year as set forth in the Annual Budget.

"Authorized Authority Representative" means any person or persons designated to act on behalf of the Authority by a certificate signed by its Chairman and filed with the Trustee.

"Availability Charges" mean any non-recurring charges assessed and collected upon issuance of permits to connect to any portion of the System which represent in whole or in part the customer's proportionate share of the capital costs of any portion of the System.

"Balloon Indebtedness" means any series of Bonds, 25% or more of the original principal amount of which matures during any consecutive twelve-month period, if the maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment before the end of such twelve-month period.

"Bond" or **"Bonds"** mean the Series 2008 Bonds and any Additional Bonds issued pursuant to the Master Indenture and any Supplemental Indenture, but will not include any Parity Indebtedness, Subordinate Debt or any bonds or other evidence of indebtedness of the Authority issued from time to time under any other indenture, trust agreement, resolution or similar instrument other than the Master Indenture.

"Bond Counsel" means an attorney or a firm of attorneys (designated by the Authority) of nationally recognized standing in matters pertaining to the validity of, and the tax-exempt nature of interest on, bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"Bond Debt Service" means for any period of twelve consecutive months the sum of the amounts required to be deposited in the Bond Fund during such period pursuant to the Master Indenture with respect to any Bonds then Outstanding.

"Bond Fund" means the fund by that name established by the Master Indenture.

["Bond Insurer" means _____ or any successor thereto or assignee thereof.]

"Business Day" means any day other than (1) a Saturday or Sunday, (2) a day on which commercial banks in the Commonwealth, or the city in which the principal corporate trust office of the Trustee or the Paying Agent is located, are authorized by law to close, (3) a day on which the New York Stock Exchange is closed, or (4) such other days as may be specified in any Supplemental Indenture.

"Capital Appreciation Bonds" mean the Bonds in any series designated as Capital Appreciation Bonds in the Supplemental Indenture authorizing the issuance of the series. No Series 2008 Bonds are designated as Capital Appreciation Bonds in the Second Supplemental Indenture.

"Chairman" means the Chairman or Vice Chairman of the Authority.

"Code" means the Internal Revenue Code of 1986, as amended, including applicable regulations and revenue rulings, and any successor codification.

"Commonwealth" means the Commonwealth of Virginia.

"Compounding Date" for Bonds of any Series will have the meaning set forth in the Supplemental Indenture authorizing the issuance of such Series.

"Consulting Engineer" means the independent engineering firm or individual engineer retained by the Authority as Consulting Engineer in accordance with the Master Indenture.

"Contracted Services" mean services rendered or facilities provided to the Authority in respect of the System or for the performance for or on behalf of the Authority of functions similar to those performed by the System, for a specific project, projects or systems, pursuant to a Service Contract, whether a financing lease, a service agreement or another arrangement.

"Cost" or **"Cost of the Project"** means all costs incurred by the Authority in connection with the acquisition, expansion, construction, improvement, renovation and equipping of the System or any Project comprising a portion of the System, as permitted by the Act, including, without limitation, the payment of costs of issuance of the Bonds and the funding of such funds and accounts as provided in the Master Indenture or any Supplemental Indenture, the cost of all lands, properties, rights, easements, franchises and permits acquired, the cost of all machinery and equipment, amounts paid to purchase water or sewage treatment capacity or services from other entities which are required to be capitalized or which the Authority makes an election to capitalize, financing charges, initial credit enhancement charges, interest before and during construction and for up to one year after completion of construction, any amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code, any deposits to any bond interest and principal reserve accounts, the cost of engineering and legal services, plans, specifications, surveys, estimates of costs and of revenues, other expenses necessary or incident to determining the feasibility or practicability of any acquisition, improvement or construction, administrative expenses, working capital, the retirement of notes or other interim financing the proceeds of which were used to pay Costs, and such other expenses as may be necessary or incidental to the improvement of the System and placing it in operation.

"Cost of Contracted Services" means the payments to be made by the Authority for Contracted Services which may be allocated by the Authority among three components: (1) a Debt Service Component, (2) an Operating Component, and (3) a Remaining Component. No designation or characterization of payments under a Service Contract will affect the Authority's right to make some other allocation of the payments for the purpose of the Master Indenture.

"Cost of Issuance Fund" means the fund by that name established by the Master Indenture.

"Counsel" means such attorney or firm of attorneys selected or approved by the Authority who are duly admitted to practice law before the highest court of any state of the United States of America, none of whom is a full-time employee, member, director or officer of the Authority or a full-time employee or officer of the Trustee.

"Debt Service Component" means the portion of the Cost of Contracted Services that an Authorized Authority Representative reasonably determines, in a certificate delivered to the Trustee from time to time, to be for the purpose of paying a fixed charge or the principal of or interest on the obligations, directly or indirectly associated with rendering the Contracted Services, of the person providing the Contracted Services.

"Debt Service Reserve Fund" means the fund by that name established by the Master Indenture.

"Debt Service Reserve Requirement" means an amount equal to the least of (i) the maximum principal and interest due on the Outstanding Bonds in the current or any future Fiscal Year, (ii) 10% of the original proceeds (excluding accrued interest) of the Bonds, and (iii) 125% of the average annual principal and interest due on the Outstanding Bonds in the then current and each future Fiscal Year; provided, however, that with respect to any Series of Bonds, the Debt Service Reserve Requirement may be increased by the Authority to the extent that there is delivered to the Trustee an Opinion of Bond Counsel to the effect that the increase will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. In determining the amount of principal and interest due on Bonds which are Variable Rate Indebtedness, interest will be calculated at a rate equal to the greater of (i) the actual interest rate on the Bonds in effect on the date of their issuance or (ii) the current average yield on municipal revenue bonds maturing in thirty years, according to the weekly index published by The Bond Buyer for the week immediately preceding the week in which the Bonds are issued. In the event The Bond Buyer is not published as the date of any determination, or if published, does not publish an index of the current yield on municipal revenue bonds maturing in thirty years, an alternative index or other source of current bond yields may be selected by the Authority. In determining the amount of principal and interest due on Bonds which are Balloon Indebtedness, the amount of principal and interest on the Balloon Indebtedness due in any year will be calculated by assuming that the original principal amount of the Balloon Indebtedness is amortized on a level annual debt service schedule for a period equal to thirty years from the date the Balloon Indebtedness was incurred.

"Event of Default" means any Event of Default specified in the Master Indenture.

"Fiscal Year" means the period of twelve consecutive months established by the Authority as its annual accounting period.

"General Reserve Fund" means the fund by that name established by the Master Indenture.

"Government Certificates" means certificates representing ownership of either United States Treasury bond principal at maturity or coupons for accrued periods of interest, which bonds or coupons are held by a bank or trust company, organized and existing under the laws of the United States of America or any of its states, in the capacity of custodian independent of the seller of such certificates.

"Government Obligations" means bonds, notes and other direct obligations of the United States of America and securities unconditionally guaranteed as to the timely payment of principal and interest by the United States of America.

"Interest Account" means the Interest Account of the Bond Fund established by the Master Indenture.

"Interest Payment Date" means any date on which a payment of interest on any Bonds or any Parity Indebtedness is due. Interest Payment Date with respect to the Series 2008 Bonds means January 15 and July 15 of each year.

"Interest Period" means the period from and including an Interest Payment Date to and including the day before the next Interest Payment Date, except the first Interest Period for each Series of Bonds and Parity Indebtedness will be the period from and including the date specified in the Supplemental Indenture authorizing the Series of Bonds or the document authorizing the Parity Indebtedness for the Bonds or Parity Indebtedness to begin to bear interest to and including the day before the first Interest Payment Date.

"Master Indenture" means the Master Indenture of Trust, between the Authority and the Trustee, as it may be modified, altered, amended and supplemented from time to time in accordance with its terms.

"Net Proceeds" mean the gross proceeds from any insurance recovery remaining after payment of attorneys' fees, fees and expenses of the Authority and the Trustee and all other expenses incurred in collection of such gross proceeds.

"Net Revenues" mean Revenues less Operating Expenses.

"Operating Component" means the portion of the cost of Contracted Services (excluding any Debt Service Component) reasonably determined by an Authorized Authority Representative, in a certificate delivered to the Trustee from time to time, to be directly or indirectly attributable to the ownership or operation of the System without regard to its treatment under generally accepted accounting principles; provided, however, if no such determination is made, all of the Cost of Contracted Services (excluding any Debt Service Component) will be treated as part of the Operating Component.

"Operating Expenses" mean all expenses which may reasonably be determined by the Authority in its Annual Budget or otherwise to be attributable directly or indirectly to the operation of the System and payable as Operating Expenses without regard to the treatment of such expenses under generally accepted accounting principles, including, without limitation, reasonable and usual expenses of administration, operation, maintenance and repair, which may include expenses not annually recurring, costs of billing and collecting the rates, fee and charges for the use of or services furnished by the System, the Operating Component of the Cost of Contracted Services, insurance and surety bond premiums and reserves, other charges and fees necessary for the maintenance of adequate insurance coverage for the Authority and the System, fees of any credit enhancement facility (including, without limitation, bond insurance, letters of credit and surety bonds), legal, engineering and auditing expenses, expenses and compensation of the Trustee, and other expenses of the Authority required to be paid by law or under the Master Indenture or any Supplemental Indenture, but will not include any allowance for amortization or depreciation, deposits or transfers to the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund, or the Repair and Replacement Fund, or expenditures which the Authority makes an election to capitalize.

"Operating Fund" means the fund by that name established by the Master Indenture.

"Opinion of Counsel" means a written opinion of any Counsel in form and substance acceptable to the Trustee.

"Outstanding" means, at any date, the aggregate of all Bonds authorized, issued, authenticated and delivered under the Master Indenture, except:

- (1) Bonds cancelled or surrendered to the Paying Agent for cancellation;
- (2) Bonds deemed to have been paid as provided in the Master Indenture; and
- (3) Bonds in lieu of or in substitution for which other Bonds have been authenticated and delivered pursuant to the Master Indenture and any Supplemental Indenture unless proof satisfactory to the Paying Agent is presented that any such Bond is held by a bona fide Owner.

In determining whether Owners of a requisite aggregate principal amount of the Outstanding Bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the Master Indenture or any Supplemental **Indenture**, the outstanding principal amount of Capital Appreciation Bonds will be their Accreted Value (as of the immediately preceding Compounding Date). Bonds which are owned by the Authority will be disregarded and deemed not to be Outstanding for the purpose of any such determination; provided, however, that for the purpose of determining whether the Trustee will be protected in relying upon any request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned will be disregarded.

"Owner" means the person in whose name a particular Bond is registered on the records of the Paying Agent.

"Parity Debt Service" means for any period of twelve consecutive months the sum of the amounts required to be deposited in the Parity Debt Service Fund during the period pursuant to the Master Indenture with respect to Parity Indebtedness.

"Parity Debt Service Component" means all or any portion of the Debt Service Component of the Cost of Contracted Services under Service Contracts meeting the requirements of the Master Indenture that an Authorized

Authority Representative reasonably determines in a certificate delivered to the Trustee will be payable on a parity with the Bonds.

"Parity Debt Service Fund" means the fund by that name established by the Master Indenture.

"Parity Indebtedness" means (1) the Parity Debt Service Component of the Cost of Contracted Services and (2) any other Parity Indebtedness incurred in accordance with the Master Indenture and payable on a parity with the Bonds. Parity Indebtedness does not include any Bonds.

"Paying Agent" means any paying agent for the Bonds (and may include the Trustee) and its successor or successors appointed pursuant to the provisions of any Supplemental Indenture. Unless otherwise provided in a Supplemental Indenture, the Trustee will be the Paying Agent.

"Person" means an individual, a corporation, a partnership, a general partner of a partnership, an association, a joint stock company, a trust, any unincorporated organization, or a governmental unit or any of its political subdivisions.

"Principal Account" means the Principal Account of the Bond Fund established by the Master Indenture.

"Principal Payment Date" means any date on which a payment of principal or Accreted Value of any Bonds or any Parity Indebtedness is due. The Principal Payment Date with respect to the Series 2008 Bonds is January 15 of each year.

"Principal Period" means the period from and including a Principal Payment Date to and including the day before the next Principal Payment Date, except the first Principal Period for each Series of Bonds or Parity Indebtedness will be the twelve months immediately preceding the first Principal Payment Date unless some other period is specified in the Supplemental Indenture authorizing the Series of Bonds or the Service Contract or other document authorizing the Parity Indebtedness.

"Project" means any water or wastewater facilities of the Authority which are or become part of the System or any purchase of water or sewage treatment capacity or service from other entities which is required to be capitalized or which the Authority makes an election to capitalize.

"Project Fund" means the fund by that name established by the Master Indenture.

"Rating Agency" means Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch, Inc., or any of them and their respective successors and assigns. If any such corporation ceases to act as a securities rating agency, the Authority may appoint any nationally recognized securities rating agency as a replacement.

"Redemption Account" means the Redemption Account of the Bond Fund established by the Master Indenture.

"Refunding Bonds" means a Series or portion of a Series of Bonds issued to retire or refund all or any portion of another Series of Bonds or other obligations of the Authority.

"Remaining Component" means the portion of the Cost of Contracted Services which is not embraced within the definition of Debt Service Component or Operating Component.

"Repair and Replacement Fund" means the fund by that name established by the Master Indenture.

"Replacement Reserve Requirement" means an amount to be determined by the Authority pursuant to the Master Indenture, but which shall not be less than \$250,000.

"Revenue Fund" means the fund by that name established by the Master Indenture.

"Revenues" mean all revenues, receipts and other income derived by the Authority from the ownership or operation of the System, including, without limitation, Availability Charges (to the extent not subject to refund) and any investment earnings that are required to be deposited in the Revenue Fund. Any lump sum prepayment of Revenues received by the Authority will be reserved by the Authority in a subaccount in the Revenue Fund and disbursed from the subaccount and recognized as Revenues monthly over the appropriate accrual period.

"Secretary" means the Secretary or Assistant Secretary (if any) of the Authority.

"Senior Debt Service" means for any period of twelve consecutive months the sum of the Bond Debt Service and the Parity Debt Service during the period.

"Series" or **"Series of Bonds"** mean a separate series of Bonds issued under the Master Indenture pursuant to a Supplemental Indenture.

"Service Contracts" means any contracts or agreements for Contracted Services entered into by the Authority from time to time.

"Subordinate Debt" means bonds, notes or other evidences of indebtedness of the Authority, including the Debt Service Component of the Cost of Contracted Services which is not a Parity Debt Service Component, secured by a pledge of Net Revenues expressly made subordinate to the pledge of Revenues securing the Bonds and any Parity Indebtedness or which is unsecured.

"Subordinate Debt Service" means for any period of twelve consecutive months the sum of the amounts required to be deposited in the Subordinate Debt Service Fund during the period pursuant to the Master Indenture with respect to any Subordinate Debt and the Debt Service Component of the Cost of Contracted Services which is not a Parity Debt Service Component.

"Subordinate Debt Service Fund" means the fund by that name established by the Master Indenture.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Master Indenture as originally executed, which is duly executed and delivered in accordance with the provisions of the Master Indenture.

"System" means, collectively, the water and wastewater system, and any combination of such systems, owned or operated by or on behalf of the Authority, including but not limited to, any Project and all additions, extensions, improvements and replacements to the System, but excluding any independent water or wastewater systems hereafter owned or operated by the Authority and accounted for separately by the Authority, unless expressly made part of the System by the Authority.

"Trustee" means, initially, U.S. Bank National Association, a national banking association organized under the laws of the United States of America, and its successor or successors under the Master Indenture.

"Variable Rate Indebtedness" means any Bonds the interest on which is not established at the time of their issuance at a rate which is fixed until their maturity.

SUMMARY OF CERTAIN
PROVISIONS OF THE INDENTURE

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions contained in the Master Indenture and Second Supplemental Indenture and does not purport to be a complete statement of all of the provisions of those documents. Reference is made to the Master Indenture and the Second Supplemental Indenture in their entirety for complete information on their terms and on the terms of the Series 2008 Bonds, the applicable security provisions and the application of the Revenues. See also "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and "DESCRIPTION OF THE SERIES 2008 BONDS" above in the Official Statement.

Definitions

Unless defined below, all capitalized terms used in this Appendix B have the meanings set forth in Appendix A or above in the Official Statement.

Conditions of Issuing Additional Series of Bonds

Before the issuance and authentication of any Series of Bonds (other than the initial Series of Bonds under the Master Indenture) by the Paying Agent, the Authority will deliver or cause to be delivered to the Trustee:

(a) An original executed counterpart of a Supplemental Indenture which may include provisions (i) authorizing the issuance, fixing the principal amount and setting forth the details of the Bonds, including the interest rate or rates and the manner in which the Bonds are to bear interest, the Principal Payment Dates and Interest Payment Dates of the Bonds, the purposes for which the Bonds are being issued, the date and the manner of numbering the Bonds, the series designation, the denominations, the maturity dates and amounts, the principal amounts required to be redeemed pursuant to any mandatory redemption provisions or the manner for determining such principal amounts, and any provisions for optional redemption before maturity; (ii) for credit facilities and for reserve and other accounts to be established with respect to the Bonds within the funds established under the Master Indenture; (iii) for the amount, if any, to be deposited into the Debt Service Reserve Fund, which will be an amount at least sufficient to cause an amount equal to the Debt Service Reserve Requirement with respect to all Outstanding Bonds, including the Bonds proposed to be issued, to be on deposit in the Debt Service Reserve Fund; (iv) for the application of the proceeds of the Bonds; (v) necessary or expedient for the issuance of Bonds constituting Variable Rate Indebtedness, including without limitation, tender and remarketing provisions, liquidity facility provisions and provisions for establishing the variable rate and changing interest rate modes; and (vi) for such other matters as the Authority may deem appropriate.

(b) A certified copy of a resolution or resolutions of the Authority authorizing the execution and delivery of the Supplemental Indenture and the issuance, award, execution and delivery of Bonds and, in the case of Refunding Bonds, calling for redemption or providing for payment of the Bonds or other obligations of the Authority to be refunded, fixing any redemption date and authorizing any required notice of redemption in accordance with the provisions of the Master Indenture and the Supplemental Indenture.

(c) A certificate signed by the Chairman of the Authority and dated the date of issuance, to the effect that to the best of the Chairman's knowledge, upon and immediately following the issuance of the Bonds, no Event of Default under the Master Indenture, and no event or condition which, with the giving of notice or lapse of time or both, would become an Event of Default under the Master Indenture, will have occurred and be continuing, or, if such Event of Default or event or condition has occurred and is continuing, it will be cured upon the issuance of the Bonds or upon completion of the Project to be financed with the Bonds.

(d) An Opinion or Opinions of Counsel, subject to customary exceptions and qualifications, to the effect that:

(I) The Authority has been duly created, is validly existing and is vested with all the rights and powers conferred by the Act; and

(2) The Supplemental Indenture delivered pursuant to the Master Indenture has been duly authorized, executed and delivered by the Authority and complies in all respects with the requirements of the Master Indenture.

(e) An Opinion of Bond Counsel, subject to customary exceptions and qualifications, to the effect that the issuance of the Bonds has been duly authorized, that the Bonds are valid and binding obligations of the Authority entitled to the benefits and security of the Master Indenture and that the interest on the Bonds is excludable from gross income for purposes of federal income taxation or, if the interest is not excludable, that the issuance and the intended use of the proceeds of the Bonds will have no adverse effect on the tax-exempt status of the interest on any other Bonds the interest on which was, according to an Opinion of Bond Counsel, excludable from gross income when issued.

(f) A request and authorization of the Authority, signed by its Chairman, Secretary or other Authorized Authority Representative, to the Paying Agent to authenticate and deliver the Bonds as directed in the request upon payment to the Trustee for the account of the Authority of the amount specified in the request.

(g) If the Bonds (other than the initial Series of Bonds issued under the Master Indenture) are issued to pay the cost of acquiring, renovating, equipping or constructing improvements, extensions, additions or replacements to the System:

(1) A written statement of the Consulting Engineer setting forth the Consulting Engineer's (i) estimate of the cost of the acquisition, renovation, equipping or construction (including all financing, reserves, contingencies and related costs) and the date on which such acquisition, renovation, equipping or construction will be completed and (ii) opinion that the proceeds of the Bonds, together with any other money available or reasonably anticipated to be available for such purpose when needed, will be sufficient to pay the cost of the acquisition, renovation, equipping or construction; and

(2) Either (i) a written certificate of the Consulting Engineer or a firm of independent certified public accountants which states that during any twelve consecutive months of the eighteen months preceding the issuance of the proposed additional Series of Bonds the Authority would have been in compliance with the revenue covenant contained in the Master Indenture, taking into account the maximum Bond Debt Service due on the proposed additional Series of Bonds in the current or any future Fiscal Year and those rates, fees and other changes which are in effect at the time of the delivery of the proposed additional Series of Bonds or (ii) a written statement of the Consulting Engineer that projects Operating Expenses, Revenues and Net Revenues for two full Fiscal Years following the anticipated completion of the acquisition, renovation, equipping or construction, and which demonstrates that, on the basis of such projection, the Authority can comply with the revenue covenant contained in the Master Indenture, taking into account those rates, fees and other charges which are in effect at the time of the delivery of the proposed additional Series of Bonds and future increases in such rates, fees and other charges as may be required to continue to comply with the revenue covenant contained in the Master Indenture; provided, however, the Consulting Engineer may not take into account for the purposes of such projection Availability Charges which exceed an amount determined by multiplying (y) the actual average number of customers paying Availability Charges to the Authority during its last three full Fiscal Years, times (z) the amount of each Availability Charge expected to be assessed.

(h) If the Series of Bonds (other than the initial Series of Bonds issued under the Master Indenture) includes Refunding Bonds, then with respect to such Refunding Bonds:

(1) Evidence satisfactory to the Trustee that the Authority has made provision as required by the Master Indenture for the payment or redemption of all Bonds or other obligations of the Authority to be refunded;

(2) A written determination by the Trustee or by a firm of certified independent public accountants that the proceeds (excluding accrued interest) of the Refunding Bonds, together with any other money to be deposited with the Trustee upon the issuance of the Refunding Bonds for such purpose and the investment income to be earned on funds held by the Trustee for the payment or redemption of Bonds or other obligations of the Authority, will be sufficient to pay, whether upon redemption or at maturity, the principal of and premium, if any,

and interest on the Bonds or other obligations of the Authority to be refunded and the estimated expenses incident to the refunding; and

(3) Either (i) a written determination by a firm of certified independent public accountants that after the issuance of the Refunding Bonds and the provision for payment or redemption of all Bonds or other obligations of the Authority to be refunded, the Debt Service Reserve Requirement will not increase by more than 10% as a result of the issuance of the Refunding Bonds, or (ii) the written certification required by subsection (h) (2) of this Section, except that the projections required by clause (ii) of subsection (h)(2) will be for the two full Fiscal Years following the date of the issuance of the Refunding Bonds.

Except for the requirements of paragraph (c) above (which may be waived by the purchaser of Bonds by an instrument or concurrent instruments in writing signed by the purchaser), none of the foregoing requirements of the Master Indenture may be waived without the consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

The proceeds of any Series of Bonds (including accrued interest) will be applied as set forth in the Supplemental Indenture authorizing their issuance.

Parity Indebtedness

The Authority may designate the Debt Service Component of the Cost of Contracted Services as Parity Indebtedness and may incur or refinance Parity Indebtedness relating to the System provided (i) the documents providing for the Parity Indebtedness specify the amounts and due dates of Parity Debt Service of the Parity Indebtedness and the principal and interest components of Parity Debt Service and (ii) the requirements of clauses 1 and 2 of paragraphs (g) and (h) above in the section "Conditions of Issuing Additional Series of Bonds", as appropriate, have been met as if the Parity Indebtedness was an additional Series of Bonds. Parity Indebtedness may include the interest, but not the principal, on notes issued in anticipation of the issuance of Bonds. The Authority agrees that it will fulfill its obligations under all contracts or agreements creating Parity Indebtedness as they may exist from time to time.

Establishment of Funds and Accounts

The following funds and accounts are established under the Master Indenture and are to be held as follows:

- (1) James City Service Authority Project Fund, to be held by the Trustee;
- (2) James City Service Authority Revenue Fund, to be held by the Authority;
- (3) James City Service Authority Operating Fund, to be held by the Authority;
- (4) James City Service Authority Bond Fund, in which there is established an Interest Account, a Principal Account and a Redemption Account, to be held by the Trustee;
- (5) James City Service Authority Parity Debt Service Fund, to be held by the Authority; James
- (6) City Service Authority Debt Service Reserve Fund, to be held by the Trustee; James City
- (7) Service Authority Subordinate Debt Service Fund, to be held by the Authority; James City
- (8) Service Authority Repair and Replacement Fund, to be held by the Authority; James City
- (9) Service Authority General Reserve Fund, to be held by the Authority; and James City
- (10) Service Authority Cost of Issuance Fund, to be held by the Authority.

The Trustee may create additional funds or accounts as provided for in any Supplemental Indenture. Amounts in funds held by the Trustee are pledged to secure the Bonds, while amounts in funds held by the Authority are not pledged to secure the Bonds.

Revenue Fund

(a) The Authority will collect and deposit in the Revenue Fund as received all Revenues derived from the ownership or operation of the System, except as otherwise provided for in the Master Indenture for investment income on certain funds and accounts created by the Master Indenture. Not later than the fifth Business Day of each month, the Authority will make transfers from the Revenue Fund in the following order of priority:

(1) To the Operating Fund, an amount such that the balance on deposit in the Fund will be equal to not less than one-sixth of the Operating Expenses budgeted to be paid from the Fund in the then current Fiscal Year as set forth in the Annual Budget;

(2) Subject to paragraph (b) below, to the Bond Fund an amount not less than that which is necessary to make the following deposits:

(A) first, in the Interest Account an approximately equal amount each month during each Interest Period for each Series of Bonds such that (after taking into consideration with respect to each Series of Bonds the amount then on deposit in the Interest Account and any amount to be transferred from any capitalized interest account to the Interest Account pursuant to the terms of any Supplemental Indenture), on the fifth Business Day immediately preceding the next Interest Payment Date for the Series of Bonds, there will be on deposit in the Interest Account an amount equal to the interest on the Outstanding Bonds of the Series to become due on such Interest Payment Date; provided, however, if on the last Business Day of any month, the required deposit to the Interest Account for that month has not been made with respect to any Series of Bonds, the requirement will be cumulative and will be added to the deposit required in each succeeding month until the deposit is made; and

(B) then, in the Principal Account an approximately equal amount each month during each Principal Period for each Series of Bonds such that (after taking into consideration with respect to each Series of Bonds the amount then on deposit in the Principal Account), on the fifth Business Day immediately preceding the next Principal Payment Date for the Series of Bonds, there will be on deposit in the Principal Account an amount equal to the principal and Accreted Value of the Outstanding Bonds of the Series maturing or required to be redeemed on such Principal Payment Date; provided, however, if on the last Business Day of any month, the required deposit to the Principal Account has not been made with respect to any Series of Bonds, the requirement will be cumulative and will be added to the deposit required in each succeeding month until the deposit is made;

(3) Subject to paragraph (b) below, to the Parity Debt Service Fund, an amount with respect to any Parity Indebtedness such that (after taking into consideration the amount then on deposit in the Fund) if the same amount is transferred to the Fund each month preceding the next ensuing Interest Payment Date or Principal Payment Date for the Parity Indebtedness, there will be on deposit in the Fund an amount equal to the payment due on the Parity Indebtedness on such payment date;

(4) To the Debt Service Reserve Fund, if the amount in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, any amount of money remaining in the Revenue Fund, or all of the money remaining if less than the amount necessary, until there is on deposit in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement;

(5) To the Subordinate Debt Service Fund, such amount with respect to any Subordinate Debt as may be determined by the Authority to be necessary to provide for the payment when due of the principal of and interest on the Subordinate Debt;

(6) To the Repair and Replacement Fund, the amount necessary to make the following deposits:

(A) If the Replacement Reserve Requirement is increased pursuant to the Master Indenture, an amount sufficient to accumulate the Replacement Reserve Requirement in the Repair and Replacement Fund in not more than sixty approximately equal monthly installments as determined by the Authority commencing the month following the date of the filing of the notice of the increase with the Trustee; and

(B) If money has been paid out of the Repair and Replacement Fund for any reason, and an amount equal to the Replacement Reserve Requirement is not on deposit in the Repair Replacement Fund, an amount sufficient to accumulate the Replacement Reserve Requirement in the Repair and Replacement Fund in not more than sixty approximately equal monthly installments as determined by the Authority commencing the month following the date money was paid out of the Repair and Replacement Fund;

(7) To the Repair and Replacement Fund, such other amounts as may be determined by the Authority; and

(8) To the General Reserve Fund, any balance remaining in the Revenue Fund.

(b) In the event there are insufficient funds in the Revenue Fund to make the transfers required by subparagraphs (a) (2) and (a) (3) above in full, the Authority will allocate the available funds between the Bond Fund and the Parity Debt Service Fund in the proportion that the amount required to be deposited to each Fund bears to the total amount required to be deposited to both Funds.

Operating Fund

The Authority will pay Operating Expenses from the Operating Fund as they become due and in accordance with the purposes and amounts provided in the Annual Budget. In the event the balance in the Operating Fund is insufficient for its purposes, the Authority will transfer to the Operating Fund such amounts as may be necessary, first, from the General Reserve Fund and then from the Repair and Replacement Fund. Interest received on and any profit realized from the investment of money in the Operating Fund will be transferred as earned to the Revenue Fund. Amounts in the Operating Fund are not pledged to secure the Bonds.

Bond Fund

The Trustee will pay the principal and Accreted Value of and interest on the Bonds when due from the Principal Account and the Interest Account, respectively. The Trustee will deposit money to, and use money in, the Redemption Account to redeem Bonds pursuant to any optional redemption provision exercised by the Authority or, if directed by an Authorized Authority Representative, to purchase Bonds on the open market subject to provisions of the Master Indenture. In the event the respective balances on deposit in the Principal Account or the Interest Account are insufficient on any payment date for the Bonds to make the payment then due, the Trustee will transfer to the appropriate accounts in the Bond Fund the amount of the deficiency from the Debt Service Reserve Fund, but only to the extent amounts paid by the Authority from first the General Reserve Fund and second the Repair and Replacement Fund are insufficient for that purpose. Interest received on and any profit realized from the investment of money in any account of the Bond Fund will remain in and become a part of that account.

Parity Debt Service Fund

The Authority will use money in the Parity Debt Service Fund to make payments on any Parity Indebtedness when due. In the event the balance in the Parity Debt Service Fund is insufficient to make payments on any Parity Indebtedness, the Authority will transfer such amount as may be necessary for such payment from the General Reserve Fund. Interest received on any profit realized from the investment of money in the Parity Debt Service Fund will be deposited as received in the Revenue Fund. Amounts in the Parity Debt Service Fund do not secure the Bonds.

Debt Service Reserve Fund

The Debt Service Reserve Fund will be used by the Trustee to make transfers to the Bond Fund to the extent necessary to pay the principal and any Accreted Value of and interest on the Bonds when due if the amounts

on deposit in the Principal and Interest Accounts of the Bond Fund, and any amounts transferred by the Authority to the Bond Fund from the General Reserve Fund and the Repair and Replacement Fund, are insufficient for such purpose. In the event the amount on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement, the Authority will transfer funds from the Revenue Fund to the Debt Service Reserve Fund to restore the Debt Service Reserve Requirement in the manner provided in the Master Indenture. If the balance in the Debt Service Reserve Fund is equal to or exceeds the Debt Service Reserve Requirement, any interest received and profit realized from the investment of money in the Debt Service Reserve Fund will be transferred to the Interest Account of the Bond Fund, unless otherwise provided in any Supplemental Indenture.

In lieu of maintaining and depositing money or securities in the Debt Service Reserve Fund, the Authority may deposit with the Trustee a letter of credit or bond issuance policy in an amount equal to all or a portion of the Debt Service Reserve Requirement if the Authority furnishes to the Trustee written evidence from any Rating Agency then rating the Bonds that the Rating Agency has reviewed the proposed letter of credit or bond insurance policy and that its substitution for money or securities on deposit in the Debt Service Reserve Fund will not in and of itself result in a withdrawal or reduction of the Rating Agency's then current rating for the Bonds. Any letter of credit or bond insurance policy will permit the Trustee to draw or obtain amounts under it for deposit in the Debt Service Reserve Fund that, together with any money already on deposit in the Debt Service Reserve Fund, are not less than the Debt Service Reserve Requirement. [The deposit of a letter of credit or bond insurance policy is also subject to certain additional conditions imposed by the Bond Insurer.]

The Trustee will make a drawing on the letter of credit or obtain funds under the bond insurance policy before its expiration or termination (1) whenever money is required for the purposes for which Debt Service Reserve Fund money may be applied and (2) unless the letter of credit or bond insurance policy has been extended or a qualified replacement for it delivered to the Trustee, in the event the Authority has not deposited money in immediately available funds equal to the Debt Service Reserve Requirement at least two Business Days preceding the expiration or termination of the letter of credit or bond insurance policy.

If the Authority provides the Trustee a letter of credit or bond insurance policy, the Trustee will transfer the funds then in the Debt Service Reserve Fund to the Authority, provided the Authority delivers to the Trustee an opinion of Bond Counsel that such transfer of funds will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any Bonds interest on which was excludable from gross income for purposes of federal income taxation on the date of their issuance, and the Authority covenants to comply with any directions or restrictions contained in such opinion concerning the use of the funds.

Subordinate Debt Service Fund

The Authority will use money in the Subordinate Debt Service Fund to make payments of debt service on any Subordinate Debt when due. Interest received on and any profit realized from the investment of money in the Subordinate Debt Service Fund will be deposited as received in the Revenue Fund. Amounts in the Subordinate Debt Service Fund are not pledged to secure the Bonds.

Repair and Replacement Fund

The Authority may use amounts in the Replacement Fund for any of the following purposes:

- (1) to pay reasonable and necessary expenses with respect to the System for major repairs, replacement or maintenance of items of a type not recurring annually or at shorter intervals;
- (2) to pay costs of construction of additions to, or extensions of, the System;
- (3) to pay costs of reconstruction of parts of the System;
- (4) to pay any capital costs with respect to the System;
- (5) to make payments on Service Contracts; or

(6) to make deposits to the Operating Fund, the Bond Fund, the Parity Debt Service Fund or the Debt Service Reserve Fund.

Before the preparation of the Annual Budget for each Fiscal Year, the Authority agrees to review the adequacy of the amount of the Replacement Reserve Requirement under then current operating conditions, and in light of then applicable operating, replacement and maintenance costs of the major components of comparable systems. If at any time the Authority determines in its judgment that the amount of the Replacement Reserve Requirement should be increased or decreased, it will notify the Trustee of its determination setting forth the amount of the new Replacement Reserve Requirement provided, however, in no event will the Replacement Reserve Requirement be reduced below \$250,000. The new Replacement Reserve Requirement will take effect on the date of the receipt of the notice by the Trustee unless some other effective date is specified in the notice in which case the date specified in the notice will control.

If the amount on deposit in the Repair and Replacement Fund exceeds the Replacement Reserve Requirement, the Authority may transfer the excess to the General Reserve Fund. Amounts in the Repair and Replacement Fund are not pledged to secure the Bonds.

General Reserve Fund

The Authority agrees to use available money on deposit in the General Reserve Fund first to cure any deficit which may exist in the Operating Fund, the Bond Fund, the Parity Debt Service Fund or the Debt Service Reserve Fund and then for any lawful purpose. Money on deposit in the General Reserve Fund is not pledged to secure the Bonds or Parity Indebtedness and may be used by the Authority for any lawful purpose.

Cost of Issuance Fund

The portion of the proceeds of any Series of Bonds which are specified in the related Supplemental Indenture to be used to pay the costs associated with the issuance of such Series of Bonds will be deposited in the Cost of Issuance Fund to be held by the Authority. The Authority will maintain within the Costs of Issuance Fund a special account for each Series of Bonds issued. Amounts in the Costs of Issuance Fund are not pledged to secure the Bonds. Money in the Fund will be applied by the Authority to pay costs of issuance, and not later than six months from the date of original issuance of any Series of Bonds, any balance remaining will be transferred to the Interest Account.

Investments

Any money held in any funds and accounts established by the Master Indenture, except the Bond Fund and the Debt Service Reserve Fund, may be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized Authority Representative as the case may be, in any of the following investments which are at the time legal investments for public funds under the Investment of Public Funds Act, Chapter 18, Title 2.1, Code of Virginia 1950, as amended ("Investment Act"), or any subsequent provision of law applicable to such investments:

(1) bonds, notes and other evidences of indebtedness to which the full faith and credit of the Commonwealth is pledged for the payment of principal and interest or which are unconditionally guaranteed as to the payment of principal and interest by the Commonwealth;

(2) Government Obligations;

(3) Government Certificates;

(4) bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth which are rated in one of the two highest debt rating categories by at least one of the Rating Agencies, without regard to any refinement or gradation of such rating category by numerical modifier or otherwise;

(5) savings accounts, time deposits and certificates of deposit in any bank, including the Trustee and its affiliates, or savings and loan association within the Commonwealth, provided that the funds are secured in the

manner required by the Virginia Security for Public Deposits Act or any successor legislation and no deposit will be made for more than five years;

(6) obligations of the Export-Import Bank, the General Services Administration, the United States Maritime Administration, the Small Business Administration, the Governmental National Mortgage Association, the Department of Housing and Urban Development, and the Federal Housing Administration, provided such obligations represent the full faith and credit of the United States:

(7) bonds, notes or other evidences of indebtedness of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank and the Federal Farm Credit Bank;

(8) commercial paper issued by corporations, including banks and bank holding companies, organized under the laws of the United States or any State which is rated by Moody's Investors Service, Inc. ("Moody's"), or its successor, within its NCO/Moody's rating of prime-1 and by Standard & Poor's Rating Services ("Standard & Poor's"), or its successor, within its rating of A-1, and by Fitch, Inc., or its successor, within its rating of F-1, and which matures not more than 270 days after the date of its purchase;

(9) corporate notes with a rating of at least Aa by Moody's and AA by Standard & Poor's with a maturity of not more than five years;

(10) banker's acceptances, as permitted by the Investment Act, with banks rated in one of the two highest debt rating categories by at least one of the Rating Agencies, without regard to any refinement or gradation of such rating category by numerical modifier or otherwise;

(11) such other investments as may be permitted by the Investment Act, provided they are rated in one of the two highest debt rating categories by at least one of the Rating Agencies, without regard to any refinement or gradation or such rating category by numerical modifier or otherwise; and

(12) units representing beneficial interests in investment pools created pursuant to the Commonwealth's Government Non-Arbitrage Investment Act.

Any money held by the Trustee in the Bond Fund or in the Debt Service Reserve Fund will be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized Authority Representative, in investments described in paragraphs (1), (2), (3), (4) and (5) above, which are at the time legal investments for public sinking funds under the Investment Act or any subsequent provisions of law applicable to such investments.

Any investments described above may be purchased by the Trustee pursuant to a repurchase agreement in accordance with the provisions of the Master Indenture.

Investment in a money market fund or in the shares of any other management type investment company registered under the Investment Company Act of 1940, the investments of which fund or company are exclusively in obligations or securities described in paragraphs (2), (3) or (6) above, will be considered investments in obligations described in such paragraphs.

Subject to the provisions of any Supplemental Indenture, all investments will be held by or under the control of the Trustee or the Authority, as the case may be, and while so held will be deemed a part of the fund or account in which the money was originally held. Except as otherwise specifically provided in the Master Indenture, the interest accruing on and any profit realized from such investments will be transferred not less frequently than monthly to the Authority for deposit in the Revenue Fund. The Trustee and the Authority will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in any fund or account is insufficient for its purposes.

Investments of money in the Debt Service Reserve Fund must mature or be payable at the option of the trustee not more than ten years after the date of their purchase.

Money in funds and accounts held by the Authority and money held by the Trustee in the Project Fund may be pooled and commingled for purposes of investments.

The Authority and the Trustee will provide for the investment of all moneys in any fund or account held by either of them not immediately necessary for the purposes of such fund or account.

Particular Covenants

Compliance with Indenture; Payment of Bonds. In the Master Indenture, the Authority covenants to perform its obligations under the Master Indenture and related documents and to pay the Bonds, but only from the Net Revenues and other funds specifically pledged for such purpose.

Billing; Enforcement of Charges; Free Service. The Authority will bill users of the services of the System no less frequently than quarterly, except in the case of wholesale customers who will be billed as provided in the contract between the Authority and such wholesale customer. The Authority has agreed to take all appropriate steps to enforce collection of any overdue charges by any remedy available at law or in equity. The Authority will not permit connection with or the use of the water and wastewater portions of the System, or furnish any services of the System, without making a charge based on the Authority's schedule of rates, fees and charges, except for connections and service for fire protection purposes.

Sale or Encumbrance. The Authority may grant easements, licenses or permits across, over or under parts of the System for streets, road and utilities so long as they will not adversely affect the use of the System. The Authority may sell or otherwise dispose of any property constituting any part of the System otherwise than in the normal course of business, provided that it has obtained a certificate of the Consulting Engineer to the effect that the property to be sold or disposed of is either no longer needed or useful or, based on the representations of the Authority, will be replaced from the proceeds of the disposition and any other necessary money with property serving the same or similar function. If the proceeds received from a sale or disposition not used to replace property exceeds \$100,000, the proceeds will at the option of the Authority be (1) applied to the payment or redemption of Outstanding Bonds and Parity Indebtedness in a manner which in the opinion of Bond Counsel will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any Bonds the interest on which was excludable on the date of their issuance or (2) deposited in the Repair and Replacement Fund and applied solely to pay the costs of capital improvements to the System.

Creation of Liens. The Authority has agreed not to create or suffer to be created any lien or charge upon the System, except as provided in the Master Indenture.

Insurance. To the extent such insurance is available at reasonable costs, the Authority has agreed to continuously maintain and pay the premiums on insurance against such risks as are customarily insured against by other entities owning and operating similar systems.

Damage, Destruction, Condemnation and Loss of Title. If all or any part of the System is destroyed or damaged by fire or other casualty, condemned or lost by failure of title, the Authority will restore promptly, to the extent possible, the property damaged, destroyed, condemned or lost to substantially the same condition as before the damage, destruction, condemnation or loss of title with such alterations and additions as the Authority may determine and which will not impair the capacity or character of the System for the purpose for which it then is being used or is intended to be used. The Trustee will apply so much as may be necessary of the Net Proceeds received on account of any damage, destruction, condemnation or loss of title to payment of the cost of such restoration, either on completion or as the work progresses. If the Net Proceeds are not sufficient to pay in full the cost of the restoration, the Authority will pay from the Repair and Replacement Fund or the General Reserve Fund so much of the cost as may be in excess of such Net Proceeds. The Authority will be under no obligation to restore property if it is no longer needed or useful in the operation of the System and, if the Net Proceeds received for the property exceed \$1,000,000, there is filed with the Authority and the Trustee a certificate of the Consulting Engineer stating that the property is no longer needed or useful in the operation of the System. Any balance of Net Proceeds remaining after payment of the cost of restoration will be deposited in the Repair and Replacement Fund.

Financial Records and Statements. The Authority will keep proper books and records in which full and correct entries will be made in accordance with generally accepted accounting principles of all of its business and affairs. The Authority will cause an audit of the Authority's books and records to be made by an independent certified public accountant at the end of each Fiscal Year.

Arbitrage and Tax Covenants. The Authority has covenanted that it will comply throughout the term of the Series 2008 Bonds with the requirements of Section 148 of the Code applicable to the Series 2008 Bonds, including the rebate and reporting requirements of Section 148(f), and that the Authority will not take or omit to take any action that would cause interest on any of the Series 2008 Bonds to be or to become includable in the gross income of the Owners for purposes of federal income taxation.

Events of Default

Each of the following events is an Event of Default under the Master Indenture:

- (1) payment of any interest on any Bond is not made when due and payable;
- (2) payment of the principal of or premium, if any, on any Bond is not made when due and payable;
- (3) subject to certain rights of the Authority to cure each such defaults as set forth in the Master Indenture, default in the observance or performance of any other covenant, condition or agreement on the part of the Authority under the Master Indenture, any Supplemental Indenture or in the Bonds;
- (4) appointment by a court of competent jurisdiction of a receiver for all or any substantial part of the Revenues and other funds of the Authority pledged pursuant to the Master Indenture, or the filing by the Authority of any petition involving the bankruptcy or reorganization of the Authority or rearrangement or readjustment of the obligations of the Authority under provisions of any applicable bankruptcy or insolvency law; or
- (5) at the end of any Fiscal Year, Net Revenues are less than the sum of (A) 1.0 times Senior Debt Service for the Fiscal Year, (B) Subordinate Debt Service for the Fiscal Year, (C) any amount required to be deposited in the Debt Service Reserve Fund to satisfy the Debt Service Reserve Requirement and (D) any amounts required to be deposited in the Repair and Replacement Fund during the Fiscal Year.

Remedies; Rights of Bondholders

[The rights and remedies of Bondholders on default are subject to certain rights of the Bond Insurer as described in "Certain Rights of the Bond Insurer" below.]

Upon the occurrence and continuation of an Event of Default under the Master Indenture, the Trustee may, and if requested by the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding will, by notice to the Authority, declare the entire unpaid principal of and interest on the Bonds due and payable. Upon any such declaration the Authority will pay to the Owners the entire unpaid principal of and accrued interest on the Bonds, but only from the Net Revenues and the other funds specifically pledged in the Master Indenture for such purpose.

Upon the occurrence and continuation of an Event of Default under the Master Indenture, the Trustee may pursue any available remedy, at law or in equity, to enforce the payment of the principal of, premium, if any, and interest on the Bonds, to enforce any covenant or condition under the Master Indenture or to remedy any Event of Default.

Upon the occurrence and continuation of an Event of Default under the Master Indenture, if requested to do so by the Owners of at least 25% in aggregate principal amount of Bonds then Outstanding and if indemnified as provided in the Master Indenture, the Trustee will exercise such of the rights and powers conferred by the Master Indenture as the Trustee, upon being advised by counsel, deems most effective to enforce and protect the interests of the Owners.

Anything in the Master Indenture to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default under the Master Indenture the Owners of a majority in aggregate principal amount of Bonds then Outstanding will have the right, upon providing satisfactory security and indemnity to the Trustee, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Master Indenture and any Supplemental Indenture.

No owner of any Bonds will have any right to institute any suit action or proceeding in equity or at law for the enforcement of the Master Indenture or any Supplemental Indenture or any remedy under the Master Indenture, any Supplemental Indenture or the Bonds except as expressly provided in the Master Indenture.

Waiver of Events of Default

[The rights and remedies of Bondholders on default are subject to certain rights of the Bond Insurer as described in "Certain Rights of the Bond Insurer" below.]

The Trustee will waive any Event of Default under the Master Indenture and its consequences and rescind any declaration of acceleration upon the written request of the Owners of a majority in aggregate principal amount of all Outstanding Bonds. If any Event of Default with respect to the Bonds has been waived as provided in the Master Indenture, the Trustee will promptly give written notice of the waiver to the Authority and by first class mail, postage prepaid, to all Owners of Outstanding Bonds if the Owners had previously been given notice of the Event of Default. No waiver, rescission and annulment will extend to or affect any subsequent Event of Default or impair any right, power or remedy available under the Master Indenture.

Discharge of Indenture

If (1) all Bonds secured by the Master Indenture have become due and payable or irrevocable instructions to redeem the Bonds or to pay them at maturity have been given by the Authority to the Trustee and (2) the Trustee holds cash or noncallable Government Obligations or Government Certificates the principal of and the interest on which at maturity will be sufficient (a) to redeem in accordance with the relevant section of the Master Indenture and the applicable Supplemental Indenture all Bonds that have been called for redemption on the date set for such redemption, (b) to pay at maturity all Outstanding Bonds not irrevocably called for redemption, (c) to pay interest accruing on all Bonds until their redemption or payment at maturity, and (d) to pay to the Trustee its reasonable fees and expenses, including the costs and expenses of cancelling and discharging the Master Indenture, then the Trustee will cancel and discharge the Master Indenture, and assign and deliver to the Authority any property at the time subject to the Master Indenture that may then be in its possession, except funds or securities in which such funds are invested which are held by the Trustee for the payment or principal of or premium, if any, or interest on the Bonds.

Bonds will be deemed paid and no longer Outstanding for the purposes of the Master Indenture when there has been deposited with the Trustee cash or noncallable Government Obligations or Government Certificates the principal of and interest on which will be sufficient to pay or redeem such Bonds and to pay interest on them to their payment or redemption date (whether on or before the date of their maturity or their redemption date); provided, however, that if such Bonds are to be redeemed before the maturity, notice of the redemption must have been duly given or irrevocable instructions to redeem such Bonds must have been given to the Trustee.

Modification or Amendment of the Indenture

[The rights of Bondholders to modify or amend the Indenture are subject to certain rights of the Bond Insurer as described in "Certain Rights of the Bond Insurer" below.]

The Authority and the Trustee may, without consent of, or notice to, any of the Owners, enter into Supplemental Indentures for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Master Indenture and any Supplemental Indenture other covenants and agreements, and to surrender any right or power in the Master Indenture and any Supplemental Indenture reserved to or conferred upon the Authority;

- (2) to cure any ambiguity, to supply any omission or to cure, correct or supplement any defect or inconsistent provisions contained in the Master Indenture or any Supplemental Indenture;
- (3) to grant to the Trustee for the benefit of the Owners additional rights, remedies, powers or authority;
- (4) to subject to the Master Indenture and the Supplemental Indenture additional collateral;
- (5) to modify the Master Indenture, any Supplemental Indenture, or the Bonds to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
- (6) to provide for uncertificated Bonds;
- (7) to evidence the succession of a new Trustee or Paying Agent or the appointment by the Trustee or the Authority of a Co-Trustee or a Co-Paying Agent and to specify the rights and obligations of such Co-Trustee or Co-Paying Agent;
- (8) to make any change (including but not limited to a change to reflect any amendment to the Code or interpretation of it by the Treasury Department or the Internal Revenue Service) that in the opinion of the Trustee does not materially adversely affect the rights of any Owner of any Outstanding Bonds or Parity Indebtedness;
- (9) to provide for the issuance of an additional Series of Bonds or make any modifications or changes necessary or appropriate to issue an additional Series of Bonds or any Parity Indebtedness; and
- (10) to make any modifications or changes necessary or appropriate to permit Bonds of any Series to be secured by a credit or liquidity facility or to accommodate the issuance of Bonds bearing variable interest rates, including the addition of provisions for the appointment of tender agents and similar parties and the specification of the duties and powers of such parties.

Any other modification or alteration of the Master Indenture and any Supplemental Indenture or the rights and obligations of the Authority or of the Owners of the Bonds may be made by the Authority and the Trustee with the consent of (1) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, or (2) in case less than all of the Bonds then Outstanding are affected by the modifications or amendments, the Owners of a majority in aggregate principal amount of the Bonds so affected then Outstanding. However, without the consent of each Owner affected, no modification or alteration may (a) extend the maturity of the principal of or interest on any Bond, (b) reduce the principal amount of, or rate of interest on, any Bond, (c) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) reduce the percentage of the principal amount of the Bonds required for consent to such modification or alteration, (e) if applicable, impair the exclusion of interest on any Bonds from gross income for purposes of federal income taxation, (f) eliminate or extend the mandatory redemption date of any Bonds or reduce the redemption price of Bonds, (g) create a lien ranking prior to or on a parity with the lien of the Master Indenture or (h) deprive any Owner of the lien created by the Master Indenture on such property.

[Certain Rights of Bond Insurer

The Second Supplemental Indenture provides for the exercise of certain rights and remedies under the Master Indenture by the Bond Insurer. Whenever the consent of an action by the Owners of the Series 2008 Bonds is required, the consent of or action by the Bond Insurer will be deemed to be required also. Upon the occurrence and continuance of an Event of Default under the Master Indenture, the Bond Insurer may exercise all rights and remedies granted to Owners of the Series 2008 Bonds under the Master Indenture, including the right to waive any such default. The exercise of certain of the Authority's rights with respect to the Series 2008 Bonds under the Master Indenture will be subject to the prior consent of the Bond Insurer.]

AUDITED FINANCIAL STATEMENTS

INFORMATION CONCERNING JAMES CITY COUNTY, VIRGINIA

Information contained in this Appendix D has been furnished by officials of James City County, Virginia. This Appendix is provided to give investors a general description of the County in which the Authority operates. The Series 2008 Bonds are not a debt nor other obligation of the County and neither the full faith and credit nor the taxing power of the County is pledged to the payment of the Series 2008 Bonds.

CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the James City Service Authority (the "Authority"), in connection with the issuance by the Authority of its Water and Sewer System Revenue Bonds, Series 2008 (the "Bonds"). The Authority hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority for the benefit of the holders of the Bonds (the "Bondholders") and in order to assist any of the original underwriters of the Bonds (the "Participating Underwriters") in complying with the provisions of Section (b)(5)(i) of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as the same may be amended from time to time, by providing certain annual financial information and material event notices required by the Rule (the "Continuing Disclosure").

Section 2. Annual Disclosure. (a) The Authority shall provide, or cause to be provided through a dissemination agent appointed by the Authority (the "Dissemination Agent"), annually certain financial information and operating data in accordance with the provisions of Section (b)(5)(i) of the Rule, as follows:

(i) Audited financial statements of the Authority's water and wastewater systems (collectively, the "System"), prepared in accordance with generally accepted accounting principles (GAAP); and

(ii) The operating data with respect to the System described in the Authority's Official Statement dated August , 2008, entitled "JAMES CITY SERVICE AUTHORITY -- Historical Information Regarding the System".

If the financial statements filed pursuant to subsection (a)(i) above are not audited, the Authority shall file **such** statements as audited when available.

(b) The Authority shall provide, or caused to be provided through a Dissemination Agent, annually the financial information and operating data described in subsection (a) above (the "Annual Disclosure") within 270 days after the end of each of the Authority's fiscal years (the "Annual Report Date"), commencing with its fiscal year ending June 30, 2009, to each nationally recognized municipal securities information repository ("NRMSIR") and to the appropriate state information depository if any then exists ("SID").

(c) Any of the Annual Disclosure may be included by specific reference to other documents previously provided to each NRMSIR and to the SID or filed with the SEC; provided, however, that any final official statement incorporated by reference must be available from the Municipal Securities Rulemaking Board (the "MSRB").

(d) The Authority shall provide, or cause to be provided through a Dissemination Agent, in a timely manner to each NRMSIR or the MSRB and to the SID notice specifying any failure of the Authority to provide the Annual Disclosure by the date specified.

(e) If the Authority fails to provide a copy of such Annual Disclosure to each NRMSIR and SID as of the Annual Report Date, the Authority shall send a notice of such failure to each NRMSIR and SID in substantially the form attached as Exhibit A to this Certificate.

Section 3. Event Disclosure. The Authority shall provide, or cause to be provided through a Dissemination Agent, in a timely manner to each NRMSIR or the MSRB and to the SID notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on any credit enhancement reflecting financial difficulties;

- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (g) Modifications to rights of Bondholders;
- (h) Bond calls, except in conjunction with a mandatory sinking fund redemption as noted below;
 - Defeasance of all or any portion of the Bonds;
 - Release, substitution, or sale of property securing repayment of the Bonds; and
- (k) Rating changes.

The Authority does not undertake to provide the above-described notice in the event of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail in the Official Statement, (ii) the only open issue is which Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Resolution, and (iv) public notice of the redemption is given pursuant to 1934 Exchange Act Release No. 23856 of the SEC, dated December 3, 1986, even if the originally scheduled amounts may be reduced by prior optional redemptions or Bond purchases.

Section 4. Termination. The covenants and obligations of the Authority specified in Sections 2 and 3 will terminate upon the redemption, defeasance (within the meaning of the Rule) or payment in full of all the Bonds.

Section 5. Amendment. The Authority reserves the right to modify its obligations contained in Sections 2 and 3 without the consent of Bondholders, provided that such modification complies with the Rule as it exists at the time of modification. The Authority shall within a reasonable time thereafter send to each NRMSIR and the SID a description of such modification(s).

Section 6. Defaults. (a) If the Authority fails to comply with any covenant or obligation regarding Continuing Disclosure specified in this Disclosure Agreement, any holder (within the meaning of the Rule) of Bonds then outstanding may, by notice to the Authority, proceed to protect and enforce its rights and the rights of the holders by an action for specific performance of the Authority's covenant to provide the Continuing Disclosure.

(b) Notwithstanding anything herein to the contrary, any failure of the Authority to comply with any obligation regarding Continuing Disclosure specified in this Disclosure Agreement (i) shall not be deemed to constitute an event of default under the Bonds or the resolution providing for the issuance of the Bonds and (ii) shall not give rise to any right or remedy other than that described in Section 6(a) above.

Section 7. Additional Disclosure. The Authority may from time to time disclose certain information and data in addition to the Continuing Disclosure. Notwithstanding anything herein to the contrary, the Authority shall not incur any obligation to continue to provide, or to update, such additional information or data.

Section 8. Beneficiaries. This Agreement shall inure solely to the benefit of the Authority, the Participating Underwriters and the Bondholders, and shall create no rights in any other person or entity.

Section 9. Governing Law. This Disclosure Agreement will be construed and enforced in accordance with the laws of the Commonwealth of Virginia.

Section 10. Alternative Filing. Any filing under this Disclosure Agreement may be made solely by transmitting such filing to (a) DisclosureUSA as provided in the Securities and Exchange Commission interpretive letter dated September 7, 2004 (the "Interpretive Letter") published at <http://www.disclosureusa.org>, unless the United States Securities and Exchange Commission has modified or revoked its interpretation in the Interpretive Letter, or (b) any such other entity as the Securities and Exchange Commission may, by public notice or interpretive letter, provide shall constitute compliance with provisions of the Rule applicable to filing Annual Disclosure under Section 2 and listed events under Section 3.

Section 11. Compliance with Prior Undertakings. The Authority represents that, as of the date of this Disclosure Agreement, it is in compliance with its undertakings regarding the Rule. The Authority had failed to make the filings required by its 2003 Continuing Disclosure Agreement for fiscal years 2004-2007 with respect to information corresponding to the information requested in Section 2(ii) above. Those filings were made on July —, 2008.

Dated: August , 2008.

JAMES CITY SERVICE AUTHORITY

By _____
Chairman

EXHIBIT A TO CONTINUING DISCLOSURE AGREEMENT

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: JAMES CITY SERVICE AUTHORITY

Name of Issue: _____ Water and Sewer System Revenue Bonds, Series 2008

Date of Issuance: August , 2008

CUSIPS: _____

NOTICE IS HEREBY GIVEN that the Obligated Person named above has not provided the Annual Disclosure [the audited financial statements for the most recent fiscal year] with respect to the above-named Bonds as required by Section 2 of the Continuing Disclosure Agreement dated as of August , 2008, executed and delivered by the Obligated Person named above. [The Obligated Person anticipates that the Annual Disclosure [annual financial statements] will be filed by .]

Dated: _____

JAMES CITY SERVICE AUTHORITY

By _____

Name: _____

Title: _____

PROPOSED FORM OF BOND COUNSEL OPINION

TROUTMAN SANDERS LLP

A T T O R N E Y S A T L A W
TROUTMAN SANDERS BUILDING
1001 HAXALL POINT
RICHMOND, VIRGINIA 23219
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TELEPHONE: 804-697-1200
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MAILING ADDRESS
P.O. BOX 1122
RICHMOND, VIRGINIA 23218-1122

August , 2008

James City Service Authority
Williamsburg, Virginia

U.S. Bank National Association, as Trustee
Richmond, Virginia

James City Service Authority
_____ Water and Sewer System Revenue Bonds, Series 2008

Ladies and Gentlemen:

In acting as Bond Counsel to the James City Service Authority (the "Authority"), we have examined the Constitution of the Commonwealth of Virginia; the Virginia Water and Waste Authorities Act, as amended, Chapter 51, Title 15.2 of the Code of Virginia of 1950, as amended (the "Act"); certified copies of proceedings, including a resolution adopted by the Authority on July 22, 2008; and other papers relating to the issuance and sale by the Authority of its \$ Water and Sewer System Revenue Bonds, Series 2008 (the "Bonds"). Reference is made to the form of the Bonds for information concerning their details, including payment and redemption provisions. Any capitalized term used but not defined herein shall have the meaning given such term in the hereinafter defined Master Indenture.

The Bonds are being issued to (a) purchase a long-term "safe yield share" of treated water capacity from a reservoir project or other water supply source and (b) pay costs related to the issuance of the Bonds, as well as fund any necessary reserves. The Bonds are being issued under and are equally and ratably secured by a Master Indenture of Trust dated as of April 1, 2003 as previously supplemented (the "Master Indenture") and a Second Supplemental Indenture of Trust dated as of August 1, 2008 (the "Supplemental Indenture" and together with the Master Indenture, the "Indenture"), each between the Authority and U.S. Bank National Association, as Trustee.

_____ (the "Insurer") has issued its municipal bond insurance policy (the "Policy") with respect to the Bonds. Reference is made to the Policy for a full statement of its terms and conditions and to the opinion of counsel to the Insurer, as to the due authorization, execution and delivery of the Policy and the enforceability thereof, upon which you are relying as to matters therein. No opinion as to such matters is expressed herein.]

Without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the Authority as to certain facts relevant to both our opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Authority has covenanted to comply with the provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the

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James City Service Authority
U.S. Bank National Association, as Trustee
August , 2008
Page 2

timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the Indenture (the "Covenants").

Based on the foregoing, we are of the opinion that:

(1) The Bonds have been duly authorized and issued in accordance with the Constitution and statutes of the Commonwealth of Virginia, including the Act, and constitute valid and binding limited obligations of the Authority payable solely from the revenues derived from the Authority's water and sewer system (the "System") and certain other moneys, pledged as described in the Indenture to secure payment thereof. The Bonds, the premium, if any, and the interest thereon do not constitute a pledge of the faith and credit of the Commonwealth of Virginia or any political subdivision thereof, including the Authority. The Bonds are secured on a parity with the Authority's Water and Sewer System Revenue Bonds, Series 2003 and any bonds and other obligations that may subsequently be issued or incurred on a parity therewith as provided in the Indenture (collectively, "Parity Debt").

(2) The Authority is required to fix, charge and collect such rates, fees and other charges for the use of and for the services furnished by the System so that such rates, fees and other charges will be sufficient in each fiscal year to pay the cost of operation and maintenance of the System and the principal of and premium, if any, and interest on the Bonds and Parity Debt and to provide certain reserves therefor, all as provided in the Indenture.

(3) The Indenture has been duly authorized, executed and delivered, is in full force and effect, is a valid and binding agreement of the Authority and, subject to paragraph 5 below, is enforceable against the Authority in accordance with its terms. The issuance of the Bonds is permitted under the terms of the Indenture and has been duly authorized. The Indenture pledges as security for payment of the principal of and premium, if any, and interest on the Bonds and any Parity Debt the revenues derived from the ownership or operation of the System, moneys in certain funds and accounts created by the Indenture, income from investments and proceeds of insurance.

(4) The Supplemental Indenture complies with the terms of the Master Indenture.

(5) The rights of the holders of the Bonds and the enforceability of such rights, including the enforcement of the obligations of the Authority under the Indenture, may be limited or otherwise affected by (a) bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and (b) principles of equity, whether considered at law or in equity.

(6) Under existing law, interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes) subject to the alternative minimum income tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax. Failure by the Authority to comply with the Covenants could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. We express no opinion regarding other federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

(7) Under existing law, interest on the Bonds is exempt from income taxation by the Commonwealth of Virginia.

Our services as bond counsel to the Authority have been limited to delivering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. We express no opinion herein as to the financial resources of the

TROUTMAN SANDERS LLP
ATTORNEYS AT LAW

James City Service Authority
U.S. Bank National Association, as Trustee
August , 2008
Page 3

System or the Authority [or the Insurer) that may have been relied upon by anyone in making the decision to purchase Bonds.

Very truly yours,

NOTICE OF SALE

Notice of Sale
James City Service Authority
~~\$28,500,000~~
Water and Sewer System Revenue Bonds, Series 2008

Time and Place of Sale. Electronic bids via the BiDCOMP/Parity Competitive Bidding System ("BiDCOMP/Parity") will be received until

11:00 a.m., Richmond, Virginia time, on Tuesday, August 12, 2008

(subject to postponement as described below) and will be publicly viewed at that time at the office of Davenport & Company LLC, 901 East Cary Street, 11th Floor, Richmond, Virginia 23219, as the Financial Advisor (the "Financial Advisor") to the James City Service Authority (the "Authority"), for the purchase of the ~~\$28,500,000~~ Water and Sewer System Revenue Bonds, Series 2008 (the "Bonds") being issued by the Authority. Award or rejection of bids will be made by the General Manager on behalf of the Authority on such date. No bids will be accepted by hand, by facsimile transmission (except as provided herein) or by any means other than BiDCOMP/Parity. Instructions on how to submit a bid via BiDCOMP/ Parity are provided for the convenience of prospective bidders in an Attachment to this Notice of Sale.

Description of Bonds; Authorization; Security. The Bonds will finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source (the "Project"). The issuance of such Bonds was approved by the Authority on July 22, 2008. The Bonds will be limited obligations of the Authority, payable from the net revenues of the water and sewer system owned and operated by the Authority, as well as certain reserves and income from investments. The Bonds will be issued under and will be equally and ratably secured by a Master Indenture of Trust dated as of April 1, 2003 as previously supplemented (the "Master Indenture") and a Second Supplemental Indenture of Trust dated as of August 1, 2008 (the "Supplemental Indenture" and together with the Master Indenture, the "Indenture"), each between the Authority and U.S. Bank National Association, as Trustee (the "Trustee"). **The Bonds, the premium, if any, and the interest on them will not be deemed to constitute a pledge of the faith and credit of the Commonwealth of Virginia or any of its political subdivisions, including the Authority and James City County, Virginia (the "County"). Neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any county, city, town or other subdivision of the Commonwealth, including the Authority and the County, is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Commonwealth or any county, city, town or other subdivision of the Commonwealth, including the County, to levy any taxes or to make any appropriation for the payment of the Bonds. The Authority has no taxing power.**

Bond Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____

Form of the Bonds. The Bonds will be dated the date of their issuance, and will be issued as fully registered bonds, in denominations of \$5,000 and multiples thereof. Interest on the Bonds will be payable on each January 15 and July 15, beginning January 15, 2009. Principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to The Depository Trust Company, New York, New York ("DTC") or its nominee, as registered owner of the Bonds and will be distributed to beneficial owners of the Bonds as described in the section "Book-Entry Only System" below. Interest on the Bonds shall be calculated on the basis of a 360-day year with twelve 30-day months.

The Bonds will mature in installments, or have mandatory sinking fund installments, on January 15 in the years and amounts as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2009	\$	2019	\$	2029	\$
2010		2020		2030	

* Preliminary, subject to change

* Preliminary, subject to change

2011	2021	2031
2012	2022	2032
2013	2023	2033
2014	2024	2034
2015	2025	2035
2016	2026	2036
2017	2027	2037
2018	2028	2038

Provision for Term Bond Maturities. Bidders may provide that all the Bonds be issued as serial bond maturities or that any two or more consecutive annual principal amounts may be combined into up to three term bond maturities, with annual mandatory sinking fund redemptions in amounts as provided above. Term bond maturities with overlapping sinking fund redemptions or sinking fund redemptions that overlap serial bond maturities will not be permitted.

Book-Entry Only System. The Bonds will be issued by means of a book-entry system with no physical distribution of Bond certificates made to the public. The book-entry system will evidence beneficial ownership of the Bonds in principal amounts of \$5,000 or multiples thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Transfer of principal, premium, if any, and interest payments received by DTC to participants of DTC will be the responsibility of DTC; transfer of such payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. Neither the Authority nor the Trustee will be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (1) DTC determines not to continue to act as securities depository for the Bonds or (2) the Authority determines (a) to select a new securities depository, or (b) that beneficial owners of the Bonds should be able to obtain certificated Bonds, the Authority will discontinue the book-entry system with DTC. If the Authority fails to identify another qualified securities depository to replace DTC, the Authority will provide for the preparation, execution, authentication and delivery of replacement Bonds in the form of registered certificates.

Optional Redemption. Bonds maturing on or before January 15, 2018 are not subject to optional redemption prior to maturity. Bonds maturing on or after January 15, 2019, are subject to redemption prior to maturity at the option of the Authority at any time on or after January 15, 2018, in whole or in part, in any integral multiple of \$5,000, upon payment of 100% of the principal amount of Bonds to be redeemed plus interest accrued and unpaid to the redemption date.

Mandatory Sinking Fund Redemptions. If the successful bidder designates any consecutive annual principal amounts to be combined into up to three term bond maturities, each such term bond maturity shall be subject to mandatory sinking fund redemption, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus interest accrued to the redemption date, commencing on January 15 of the first year which has been combined to form such term bond maturity and continuing on January 15 of each year thereafter until the stated maturity date of that term bond maturity. The amount subject to mandatory sinking fund redemption in any year shall be equal to the principal amount for such year specified above in the section "Form of the Bonds."

Notice of Redemption. Notice of redemption will be given by facsimile, registered or certified mail or overnight courier to DTC or its nominee as the registered owner of the Bonds. Such notice will be mailed not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption. The Trustee will not be responsible for mailing notices of redemption to any one other than DTC or its nominee unless no qualified securities depository is the registered owner of the Bonds. A notice of optional redemption may be conditioned upon the occurrence of future events, including the availability of funds to effect the redemption on the redemption date. If such conditions are not satisfied, the Authority may rescind the redemption.

Bidding Rules; Award. Bidders are requested to name the interest rate or rates in multiples of 1/8 or 1/20 of 1%. Each bidder must specify in its bid the amount and the maturities of Bonds of each rate, and the Bonds maturing on the same date must bear interest at the same rate. Any number of interest rates may be named; *provided* that (1) for all

Bonds, the highest interest rate may not exceed the lowest by more than 300 basis points (3%) and (2) no interest rate for any maturity may exceed 6.00%.

No bid for less than all of the Bonds offered or for less than 98% or for more than 105% of par will be considered. The right to reject any or all bids and to waive irregularities in any bid is hereby reserved. Unless all bids are rejected, the Bonds will be awarded to the bidder offering to purchase the Bonds at the lowest "true" or "Canadian" interest cost, such cost to be determined by doubling the semiannual interest rate (compounded semiannually) necessary to discount the payments of the principal of and the interest on the Bonds from their payment dates to the dated date and to the price bid. If more than one bid offers the same lowest true (Canadian) interest cost (out to five (5) decimal places), the successful bid will be selected by lot. Each bidder shall include in its bid a statement of the true (Canadian) interest cost offered in its bid, but this statement shall not be deemed a part of the bid. An award of the Bonds, if made, will be made by the Authority by 3:00 p.m., Richmond, Virginia time, on the date of receipt of bids. ALL BIDS SHALL REMAIN FIRM UNTIL 3:00 P.M., RICHMOND, VIRGINIA TIME, ON THE DATE OF RECEIPT OF BIDS.

Electronic Bidding and Bidding Procedures.

Registration to Bid. All prospective bidders must be contracted customers of i-Deal's BiDCOMP/Parity Competitive Bidding System. If you do not have a contract with BiDCOMP/Parity, call (212) 404-8102 to become a customer. By submitting a bid for the Bonds, a prospective bidder represents and warrants to the Authority that such bidder's bid for the purchase of the Bonds (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Bonds. By registering to bid for the Bonds, a prospective bidder is not obligated to submit a bid in connection with the sale.

If any provisions of this Notice of Sale shall conflict with information provided by i-Deal as approved provider of electronic bidding services, this Notice of Sale shall control. Further information about i-Deal and BiDCOMP/Parity, including qualification, registration, rules and any fee charged, may be obtained from i-Deal, (212) 404-8102 or i-dealprospectus.com.

Bidding Procedures. Bids must be submitted electronically for the purchase of the Bonds (all or none) by means of the James City Service Authority All or None Bid Form (the "Bid Form") via BiDCOMP/Parity. Bids must be communicated electronically to BiDCOMP/Parity in the office of the Financial Advisor not later than 11:00 A.M., RICHMOND, VIRGINIA TIME, on Tuesday, August 12, 2008 unless postponed as described herein (see "Adjustment of Aggregate Principal Amount/Adjustment of Annual Principal Payments/Change in Optional Redemption Provisions/ Postponement"). Prior to that time, a prospective bidder may input and save the proposed terms of its bid in BiDCOMP/ Parity. Once the final bid has been saved in BiDCOMP/Parity, select the final bid button in BiDCOMP/Parity to submit the bid to BiDCOMP/Parity. Once the bids are communicated electronically via Parity to the Financial Advisor, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on BiDCOMP/Parity shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Authority, as described under "Bidding Rules; Award" above, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission (except as provided in the following paragraph) or in any other medium or on any system other than by means of the Bid Form via BiDCOMP/Parity. No bid will be received after the time for receiving such bids specified above. For detailed instructions on submitting a bid via BiDCOMP/Parity, refer to the Attachment to this Notice of Sale.

In the event of a malfunction of the electronic bidding system at 11:00 a.m., Local Time, on the date of sale, an attempt will be made to reschedule the bidding for 12:00 noon, Local Time, on the date of sale. Should the electronic bidding system malfunction a second time, bidding will either be rescheduled or facsimile transmission bids will be accepted at the discretion of the Authority in coordination with its Financial Advisor. To the extent possible, the rescheduled bid time will be communicated to the bidders. Bidders choosing to submit bids in the case of a malfunction by facsimile transmission shall use the following telecopier number for such transmission: (804) 697-2910 (Attention: Courtney Rogers). Transmissions received after the deadline shall be rejected. It is the responsibility of the bidder to ensure that the bid is legible, that the bid is received not later than 12:00 noon, Local

Time, and that the bid is sent to the telecopier number set forth above. Illegible transmissions shall be rejected. The Financial Advisor will, on behalf of the Authority, verify receipt of each bid submitted through facsimile transmission by contacting each bidder by telephone once the bid has been received. The Financial Advisor will in no instance correct, alter or in any way change bids submitted through facsimile transmission. The Authority and the Financial Advisor will not be responsible for bids submitted by facsimile transmission not received in accordance with the provisions of this Notice of Sale. Bidders electing to submit bids via facsimile transmission will bear full and complete responsibility for the transmission of such bid.

ALL MEMBERS OF THE UNDERWRITING GROUP MUST BE LISTED AS PART OF THE BID.

Disclaimer. Each prospective bidder shall be solely responsible to register to bid via BiDCOMP/Parity as described in the Attachment to this Notice of Sale. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access BiDCOMP/Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Authority nor i-Deal shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the Authority nor i-Deal shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by i-Deal. The Authority is using BiDCOMP/Parity as a communication mechanism, and not as the Authority's agent, to conduct the electronic bidding for the Bonds. The Authority is not bound by any advice and determination of BiDCOMP/Parity to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bidding Rules; Award" set forth above. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via BiDCOMP/Parity are the sole responsibility of the bidders; and the Authority is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Bonds, it should telephone i-Deal and notify the Authority's Financial Advisor by facsimile at (804) 697-2910. After receipt of bids is closed, the Authority, through BiDCOMP/Parity will indicate the apparent successful bidder by 3:00 p.m., Richmond, Virginia time, on the date of receipt of bids. Such message is a courtesy only for viewers, and does not constitute the award of the Bonds. Each bid will remain subject to review by the Authority to determine its true interest cost rate and compliance with the terms of this Notice of Sale and to award the Bonds.

Good Faith Deposit. A good faith deposit (the "Deposit"), in the form of a Financial Surety Bond, in the amount of one percent of the final par amount of the Bonds, is required for each bid to be considered. The Financial Surety Bond must be from an insurance company acceptable to the Authority and licensed to issue such a bond in the Commonwealth of Virginia. Such Financial Surety Bond must be submitted to the Authority no later than 5:00 P.M., RICHMOND, VIRGINIA TIME, on the day prior to the sale. The Financial Surety Bond must identify the bidder whose Deposit is guaranteed by such Financial Surety Bond. The successful bidder is required to submit its Deposit to the Authority in the form of a wire transfer not later than 12:00 NOON, RICHMOND, VIRGINIA TIME, on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the Authority to satisfy the Deposit requirement. The Deposit of the successful bidder will be deposited and credited to the purchase price and no interest will be allowed thereon. The Deposit will secure the Authority against any loss resulting from the failure of the successful bidder to comply with the terms of its bid. In the event the successful bidder shall fail to comply with the terms of the bid, the proceeds will be retained as and for full liquidated damages.

Certificate of Winning Bidder. The successful bidder must, by facsimile transmission or overnight delivery received by the Financial Advisor within 24 hours after receipt of bids for the Bonds, furnish the following information to complete the Official Statement in final form, as described below:

- A. The offering prices for the Bonds (expressed as the price or yield per maturity).
- B. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields described in Subpart A above).
- C. The identity of the underwriters if the successful bidder is a part of a group or syndicate.
- D. Any other material information regarding the offering of the Bonds necessary to complete the Official Statement in final form but not known to the Authority.

Prior to delivery of the Bonds, the successful bidder shall furnish to the Authority a certificate, in form acceptable to Troutman Sanders **LLP**, Richmond, Virginia, bond counsel to the Authority ("Bond Counsel"), to the effect that the successful bidder has made a bona fide public offering of the Bonds at the initial public offering prices set forth in such certificate and that a substantial amount of the Bonds of each maturity were sold to the public (excluding bond houses, brokers and other intermediaries) at such initial public offering prices. Such certificate shall state that: (1) it is made on the best knowledge, information and belief of the successful bidder; and (2) sold or reasonably expected as of the sale date to sell at least ten percent (10%) of the aggregate face amount of each maturity of the Bonds to the general public at prices equal to the respective initial public offering prices. The Authority expects the successful bidder to deliver copies of the Official Statement in final form (the "final Official Statement") to persons to whom such bidder initially sells the Bonds, the Municipal Securities Rulemaking Board ("MSRB") and to the nationally recognized municipal securities information repositories ("NRMSIRs"). The successful bidder will be required to acknowledge receipt of such final Official Statement, to certify that it has made delivery of the final Official Statement to such repositories, to acknowledge that the Authority expects the successful bidder to deliver copies of such final Official Statement to persons to whom such bidder initially sells the Bonds and to certify that the Bonds will only be offered pursuant to the final Official Statement and only in states where the offer is legal.

CUSIP Numbers. It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of its proposal. The expense of assignment and printing of CUSIP numbers will be paid by the Authority. It shall be the obligation of the successful bidder to furnish to DTC an underwriter questionnaire and to the Authority the CUSIP numbers for the Bonds within two business days following the date of award.

Legal Opinion and Tax Exemption. The approving opinion of Bond Counsel with respect to the Bonds will be furnished to the successful bidder at the expense of the Authority and will state that the Bonds constitute valid and binding limited obligations of the Authority, as described above in "Description of Bonds; Authorization; Security."

The Official Statement relating to the Bonds contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the exclusion from gross income for federal income tax purposes of interest on the Bonds and a discussion of the opinion of Bond Counsel insofar as it concerns such exclusion.

Delivery of Bonds. The Bonds will be delivered, properly executed, at the expense of the Authority through DTC in New York, New York, on or about August 26, 2008, upon payment therefor in Federal Funds of the amount of the successful bid (taking into account any premium), *minus* the amount of the Deposit.

The usual closing papers will also be furnished, including (1) a certificate signed by appropriate Authority officials stating that no litigation is then pending or, to their knowledge, threatened (a) to restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the application of proceeds of the Bonds as provided in the Indenture or the collection of revenues pledged under the Indenture, (b) in any way contesting or affecting any authority for the issuance or validity of the Bonds or the validity of the Indenture or the other financing documents, or (c) affecting the Project, and (2) a certificate signed by appropriate Authority officials relating to the Official Statement.

Official Statement. The Authority will furnish to the successful bidder at the expense of the Authority a reasonable number of copies of the final Official Statement within seven (7) business days from the date of the award of sale, provided that minor delays in furnishing such final Official Statement will not be a basis for failure to pay for or accept delivery of the Bonds. Additional copies will be made available at the successful bidder's request and expense. The Authority does not assume any responsibility or obligation for the distribution or delivery of any copies of the Official Statement to any one other than the successful bidder. The Authority has deemed the Preliminary Official Statement to be final as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), except for the omission of certain pricing and other information allowed to be omitted pursuant to the Rule.

The successful bidder agrees to provide one copy of the Official Statement to at least one NRMSIR within the meaning of the Rule upon receipt of the Official Statement from the Authority and two copies of the Official Statement (with any required forms) to the MSRB or its designee no later than ten business days following August 12, 2008. The successful bidder shall notify the Authority as soon as practicable of (1) the date which is the end of the underwriting

period (such "underwriting period" is described in the Rule), and (2) the date of filing the Official Statement with a NRMSIR and MSRB or its designee.

If the Bonds are awarded to a syndicate, the Authority will designate the senior managing underwriter of the syndicate as its agent for purposes of distributing copies of the Official Statement to each participating underwriter. Any underwriter executing and delivering a bid form with respect to the Bonds agrees thereby that if its bid is accepted it shall accept such designation and shall enter into a contractual relationship with all participating underwriters for the purposes of assuring the receipt and distribution by each such participating underwriter of the Official Statement, unless another firm is so designated by the syndicate in writing and approved by the Authority.

Continuing Disclosure. In order to assist bidders in complying with the **Rule**, the Authority will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial and operating information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and also will be set forth in the final Official Statement. A description of the Authority's failure to comply with a previous undertaking is also set forth in the Preliminary Official Statement and will be set forth in the final Official Statement.

Federal and State Securities Law. No action has been taken to qualify the Bonds under federal or state securities laws.

Adjustment of Aggregate Principal Amount/Adjustment of Annual Principal Payments/Change in Optional Redemption Provisions/Postponement. The Authority reserves the right to adjust the aggregate principal amount of the Bonds. The Authority reserves the right to adjust the annual principal payments due on the Bonds, as described above in "Form of the Bonds." The Authority reserves the right to change the identity of the Bonds subject to optional redemption, the optional redemption dates and the optional redemption prices, as described above in "Optional Redemption." The Authority reserves the right to postpone, from time to time, the date for receipt of bids. The Authority reserves the right to change the scheduled delivery date for the Bonds. Any such adjustment, change or postponement will be published on www.tm3.com ("TM3") not later than 4:00 p.m., Richmond time, on the last business day prior to any announced date for receipt of bids. Prospective bidders may request notification by facsimile transmission of any such adjustment, change or postponement by so advising, and furnishing their telecopier number to the Financial Advisor at (804) 697-2900 by 12 Noon, Richmond, Virginia time, on the day prior to the announced date for receipt of bids. If any date fixed for receipt of bids is postponed, any alternative bid date will be published on TM3 at least 48 hours prior to such alternative bid date. On the bid date (as it may have been changed), any bidder may submit a bid via BiDCOMP/Parity for the purchase of the Bonds in conformity in all respects with the provisions of this Notice of Sale except for the aggregate principal amount, the annual principal payment schedule, the optional redemption provisions, the date of the bid, or the scheduled delivery date, as adjusted in accordance with this paragraph.

Changes to Principal Amounts After Bid Awarded. After selecting the winning bid, the Authority may adjust the aggregate principal amount and the annual principal amount of each maturity of the Bonds to take into account any premium or discount bid and to provide for level annual debt service. **THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE PRICE OR INTEREST RATES BID AT THE INITIAL OFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE AGGREGATE PRINCIPAL AMOUNT OR ANNUAL PRINCIPAL AMOUNTS OF THE BONDS.** Such adjustments will not change the winning bidder's compensation per \$1,000 of par amount of the Bonds from that which would have resulted from the bid submitted. In the event of any adjustments, no re-bidding or re-calculation of the bids submitted will be required or permitted, and the premium or discount offered, if any, specified in the successful bid shall be applied proportionately to the adjusted principal amount of the Bonds. The Authority will notify the successful bidder of any adjustments to the aggregate and annual principal amounts by 4:00 p.m., Richmond, Virginia time on the date of the sale.

Additional Information. For further information relating to the Bonds, the Authority, the County and the Project, reference is made to the Authority's Preliminary Official Statement. This Notice of Sale and the Preliminary Official Statement are available on the Internet at www.i-dealprospectus.com. See the Attachment for instructions for accessing the Preliminary Official Statement. Additional information concerning the Bonds may be obtained by contacting the Authority's Financial Advisor, Davenport & Company, LLC, 901 East Cary Street, 11th Floor, Richmond, Virginia 23219 (telephone: 804/697-2900).

Dated: August 7, 2008

JAMES CITY SERVICE AUTHORITY
By: James C. Icenhour, Jr., Chairman

See Attachment:

For Internet instructions to access the Preliminary Official Statement via i-Deal
For instructions to submit a bid via the BiDCOMP/Parity System.

Attachment to Notice of Sale

INSTRUCTIONS TO VIEW PRELIMINARY OFFICIAL STATEMENT (NO REGISTRATION NECESSARY):

- Go to URL www.i-dealprospectus.com
- Using Adobe Acrobat Reader you may search and print the document.
- If you do not have Adobe software, it can be downloaded for free at www.i-dealprospectus.com
- Contact i-Deal Prospectus at (212) 404-8104 with questions or problems.

INSTRUCTIONS TO SUBMIT A BID VIA BiDCOMP/Parity:

- You must be a contracted customer of i-Deal's BiDCOMP Competitive Bidding System. If you do not have a contract with BiDCOMP, call (212) 404-8102 to become a customer.
- In BiDCOMP select the James City Service Authority sale among the list of current sales.
- Go to the bid form page. Keep notice of the time clock and be sure to read all bid specifications on bottom.
- Once you have created and saved a bid in BiDCOMP, click the final bid button in BiDCOMP to submit the bid to Parity.
- Upon clicking the final bid button, the bidder will see a message box in BiDCOMP that states: "Do you want to submit this bid to Parity? By submitting the bid electronically via PARITY, you represent and warrant that this bid for the purchase of the Bonds is submitted by the representative who is duly authorized to bind the bidder to a legal, valid, enforceable contract for the purchase of the Bonds. The Notice of Sale is incorporated herein by this reference."
- If during bid calculation BiDCOMP warns you that your current bid violates the bid parameters, please change your bid to meet bid specifications. The BiDCOMP system will submit bids, which violate the bid parameters, but the James City Service Authority does not intend to consider any bids that do not meet its parameters.
- You may choose to proceed with submission of the bid or choose to cancel the submission.
- Contact BiDCOMP/Parity at (212) 404-8102 or with questions or problems.

Summary Bidding Schedule

Date	Time	Occurrence
Monday, August 11, 2008	12:00 Noon	Deadline for prospective bidders to request facsimile notification of changes in various bond details and dates.
	4:00 p.m.	Revisions, if any, to various bond details and dates given by notification published on TM3 (www.tm3.com).
	5:00 p.m.	Deadline for submission of Financial Surety Bond to Authority.
Tuesday, August 12, 2008	Prior to 11:00 a.m.	Deadline for submission of bids via BiDCOMP/Parity.
	11:00 a.m.	Authority receives bids via BiDCOMP/Parity. Successful bidder provides initial reoffering prices to Authority within 2 hours after being notified that such bidder's bid appears to be the winning bid, subject to verification.
	3:00 p.m.	Bids firm until this time; deadline for Authority to award the Bonds.
Wednesday, August 13, 2008	12:00 Noon	Deadline for winning bidder to wire the Deposit to the Authority.

PROPOSED FORM OF MUNICIPAL BOND INSURANCE POLICY

SECOND SUPPLEMENTAL INDENTURE OF TRUST

BETWEEN

JAMES CITY SERVICE AUTHORITY

AND

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

[\$28,500,000]
JAMES CITY SERVICE AUTHORITY
WATER AND SEWER SYSTEM REVENUE BONDS,
SERIES 2008

August 1, 2008

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Exhibit A Form of 2008 Bond

SECOND SUPPLEMENTAL INDENTURE OF TRUST

This SECOND SUPPLEMENTAL INDENTURE OF TRUST is dated as of August 1, 2008, and entered into between the JAMES CITY SERVICE AUTHORITY, a public body politic and corporate of the Commonwealth of Virginia (the "Authority"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, successor-in-interest to SunTrust Bank, as trustee (the "Trustee").

The Authority has executed and delivered to the Trustee a Master Indenture of Trust dated as of April 1, 2003 (the "Master Indenture"), under which the Authority has provided for the issuance of its revenue bonds, notes or obligations from time to time (the "Bonds") to provide funds for the acquisition, financing, construction, operation and maintenance of its water and wastewater facilities and to refund bonds previously issued by it.

The Authority has determined to issue a series of bonds under the Master Indenture in an original aggregate principal amount of \$[28,500,000] (the "2008 Bonds"), the proceeds of which will be sufficient, along with other available moneys, to (i) finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source, and (ii) pay the costs of issuance of the 2008 Bonds and fund reserves.

The Master Indenture provides that, in connection with the issuance of a Series of Bonds, the Authority will execute and deliver to the Trustee a Supplemental Indenture authorizing the Series of Bonds and setting forth their terms and provisions.

All things necessary to make the 2008 Bonds valid and binding limited obligations of the Authority, when authenticated by the Trustee and issued as provided in this Second Supplemental Indenture, and to constitute this Second Supplemental Indenture a valid and binding agreement securing the payment of the principal of and premium, if any, and interest on the 2008 Bonds have been done and performed. The execution and delivery of this Second Supplemental Indenture and the execution and issuance of the 2008 Bonds have in all respects been duly authorized.

ARTICLE I

SECOND SUPPLEMENTAL INDENTURE

Section 1.1 Second Supplemental Indenture. This Second Supplemental Indenture is authorized and executed by the Authority and delivered to the Trustee pursuant to and in accordance with Article V of the Master Indenture. All terms, covenants, conditions and agreements of the Master Indenture apply with full force and effect to the 2008 Bonds, except as otherwise provided in this Second Supplemental Indenture.

Section 1.2 Definitions. All capitalized words and terms used in this Second Supplemental Indenture have the meanings set forth in Article I of the Master Indenture. In addition, the following words and terms have the following meanings in this Second Supplemental Indenture unless the context clearly requires otherwise:

"Additional Bonds" mean any Bonds other than the 2008 Bonds.

["Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal and interest on the 2008 Bonds when due.]

["Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company or any successor thereto or assignee thereof.]

"DTC" has the meaning set forth in Section 2.3.

"Letter of Representation" means the Blanket Issuer Letter of Representations dated April 16, 2003, from the Authority to DTC, as it may be modified, altered, amended and supplemented.

"Master Indenture" means the Master Indenture of Trust dated as of April 1, 2003, between the Authority and the Trustee, as it previously has been or may in the future be modified, altered, amended and supplemented.

"Second Supplemental Indenture" means this Second Supplemental Indenture of Trust dated as of August 1, 2008, between the Authority and the Trustee, as it may be modified, altered, amended and supplemented.

"2008 Bonds" mean the Water and Sewer System Revenue Bonds, Series 2008, of the Authority issued pursuant to this Second Supplemental Indenture.

"2008 Project" means the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source.

Section 1.3 Representations of Authority. The Authority represents that (i) it is duly authorized under the Constitution and laws of the Commonwealth, including particularly and without limitation the Act, to issue the 2008 Bonds, to execute this Second Supplemental Indenture, and to pledge the Net Revenues and funds in the manner and to the extent set forth in the Master Indenture, (ii) all action on its part necessary for the execution and delivery of this Second Supplemental Indenture has been taken, and (iii) the 2008 Bonds in the hands of the Owners are and will be valid and enforceable limited obligations of the Authority.

ARTICLE II

AUTHORIZATION AND DETAILS OF 2008 BONDS

Section 2.1 Authorization of 2008 Bonds. There are authorized to be issued revenue bonds of the Authority in the original aggregate principal amount of \$[28,500,000].

Section 2.2 Details of 2008 Bonds. The revenue bonds authorized in Section 2.1 are designated "James City Service Authority Water and Sewer System Revenue Bonds, Series 2008," and will be issued as fully registered bonds.

The 2008 Bonds will (i) be dated their date of issuance, (ii) be issued in denominations of \$5,000 or any integral multiple of \$5,000, (iii) be numbered from R-1 upwards, sequentially, (iv) bear interest at the rates set forth below, payable on each January 15 and July 15 commencing January 15, 2009, and (v) mature, subject to prior redemption, on January 15 of the years and in the amounts set forth below:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2009	\$	%
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		
2035		
2036		
2037		
2038		

Each 2008 Bond will bear interest (i) from its date of issuance, if it is authenticated before January 15, 2009, or (ii) otherwise, from the January 15 or July 15 that is, or immediately precedes, the date on which the 2008 Bond is authenticated (unless the payment of interest on the 2008 Bond is in default, in which case the 2008 Bond will bear interest from the date to which interest has been paid).

The first Principal Period for the 2008 Bonds will be the period commencing August , 2008, and ending January 14, 2009.

The principal of and premium, if any, and interest on the 2008 Bonds are payable in lawful money of the United States of America, but only from the Net Revenues and other sources pledged for such purpose under the Master Indenture. The principal of and premium, if any, on the 2008 Bonds will be payable upon presentation and surrender of the 2008 Bonds at the principal corporate trust office of the Paying Agent except that, for so long as Cede & Co. or other nominee of DTC is the sole registered Owner of the 2008 Bonds, principal of and premium, if any, on the 2008 Bonds will be paid in accordance with the additional requirements imposed by the Letter of Representation. Interest on the 2008 Bonds will be paid by check or draft mailed by the Paying Agent on each interest payment date to the Owners of the 2008 Bonds at their addresses as they appear on the registration books of the Authority maintained by the Paying Agent. The registered owners will be determined on the January 1 or July 1, as appropriate, which next precedes each interest payment date.

Notwithstanding the foregoing, if the Owner of any 2008 Bond (i) owns at least \$1,000,000 in aggregate principal amount of 2008 Bonds and (ii) has provided satisfactory notice and instructions to the Trustee regarding payment by wire transfer, then interest will be paid to such Owner by wire transfer. The principal of and premium, if any, and interest on the 2008 Bonds are payable in lawful money of the United States of America. Interest on the 2008 Bonds will be computed on the basis of a year of 360 days and twelve 30-day months.

Section 2.3 Book Entry Provisions. (a) The 2008 Bonds will be issued in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and immobilized in the custody of DTC. One fully registered 2008 Bond for the original principal amount of each maturity will be registered to Cede & Co. Beneficial owners will not receive physical delivery of 2008 Bonds. Individual purchases of 2008 Bonds may be made in book-entry form only in original principal amounts of \$5,000 and integral multiples of \$5,000. Payments of the principal of and premium, if any, and interest on the 2008 Bonds will be made to DTC or its nominee as registered owner of the 2008 Bonds on the applicable payment date.

Transfer of the payments of the principal of and premium, if any, and interest on the 2008 Bonds to the participants of DTC, which include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations (the "Participants") is the responsibility of DTC. Transfer of the payments of the principal of and premium, if any, and interest on the 2008 Bonds to the beneficial owners by the Participants is the responsibility of the Participants and other nominees of the beneficial owners.

Transfer of ownership interests in the 2008 Bonds will be made by DTC and its Participants, acting as nominees of the beneficial owners of the 2008 Bonds, in accordance with rules specified by DTC and its Participants. Neither the Authority nor the Trustee makes any assurances that DTC, its Participants or other nominees of the beneficial owners of the 2008 Bonds will act in accordance with those rules or on a timely basis. For every transfer and exchange of beneficial ownership interest in the 2008 Bonds, the beneficial owner may be charged sums sufficient to cover any tax, fee or other governmental charge that may be imposed in relation to it.

THE AUTHORITY AND THE TRUSTEE DISCLAIM ANY RESPONSIBILITY OR OBLIGATIONS TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, (2) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF AND PREMIUM, if ANY, AND INTEREST ON THE 2008 BONDS, (3) THE DELIVERY BY DTC OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE MASTER INDENTURE OR THIS SECOND SUPPLEMENTAL INDENTURE TO BE GIVEN TO BONDHOLDERS, (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2008 BONDS, OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

So long as Cede & Co., or its successor, is the registered owner of the 2008 Bonds, as nominee of DTC, references in the Master Indenture or this Second Supplemental Indenture to the Owners of the 2008 Bonds mean Cede & Co. and do not mean the beneficial owners of the 2008 Bonds. Notwithstanding Section 3.9 of the Master Indenture, the 2008 Bonds may be issued in typewritten form so long as the 2008 Bonds remain in book-entry form.

(b) Replacement 2008 Bonds (the "Replacement Bonds") will be issued directly to beneficial owners of 2008 Bonds rather than to DTC, or its nominee, but only in the event that:

- (1) DTC determines not to continue to act as securities depository for the 2008 Bonds;
- (2) The Trustee or the Authority has advised DTC of its determination that DTC is incapable of discharging its duties; or
- (3) The Trustee or the Authority has determined that it is in the best interests of the beneficial owners of the 2008 Bonds not to continue the book-entry system of transfer.

Upon occurrence of the events described in clauses (1) or (2), the Trustee will attempt to locate another qualified securities depository. If DTC makes the determination described in clause (1) and the Trustee or the Authority fails to locate another qualified securities depository to replace DTC, the Authority will execute and the Trustee will authenticate and deliver to the Participants the Replacement Bonds (substantially in the form set forth in Exhibit A to this Second Supplemental Indenture) to which the Participants are entitled. In the event the Trustee or the Authority makes the determination described in clauses (2) or (3) (the Trustee and the Authority undertake no obligation to make any investigation to determine the occurrence of any events that would permit the Trustee or the Authority to make any such determination) and, in the case of the determination under clause (2), the Trustee or the Authority has failed to locate another qualified securities depository and has made provisions to notify the beneficial owners of 2008 Bonds by mailing an appropriate notice to DTC, the Authority will execute and the Trustee will authenticate and deliver to the Participants the appropriate Replacement Bonds (substantially in the form set forth in Exhibit A to this Second Supplemental Indenture) to which the Participants are entitled. The Trustee is entitled to rely on the records provided by DTC as to the Participants

entitled to receive Replacement Bonds. The principal of and premium, if any, and interest on the Replacement Bonds will be payable as provided in Section 2.2, and the Replacement Bonds will be transferable and exchangeable in accordance with Section 3.7 of the Master Indenture.

Section 2.4 Form of 2008 Bonds. The 2008 Bonds will be issued substantially in the form set forth in Exhibit A to this Second Supplemental Indenture, with appropriate variations, omissions and insertions as permitted or required by the Master Indenture and this Second Supplemental Indenture. There may be endorsed on the 2008 Bonds such legend or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law.

Section 2.5 Application of 2008 Bond Proceeds. (a) The Trustee will apply the proceeds (net of any underwriters' discount but including original issue premium) from the sale of the 2008 Bonds (\$) on the issue date of the 2008 Bonds as follows:

[(1) The sum of \$ _____ , will be wire transferred in federal funds to the Bond Insurer to pay the premium for the surety that is equal to the Debt Service Reserve Requirement for the 2008 Bonds;]

(2) The Trustee will retain \$_____ for the payment of its fees and expenses and those of its counsel and transfer the remaining \$ allocated to costs of issuance by wire transfer to the Authority for deposit in the Cost of Issuance Fund for the payment of the costs of issuing the 2008 Bonds;

[(3) The sum of \$ _____ will be wire transferred in federal funds to the Bond Insurer to pay the premium for the Bond Insurance Policy;] and

(4) The sum of \$ _____ will be deposited in the Project Fund and used to pay the Cost of the 2008 Project.

ARTICLE III

REDEMPTION OF 2008 BONDS

Section 3.1 Redemption of the 2008 Bonds. The 2008 Bonds may not be called for mandatory redemption or redemption at the option of the Authority except as provided in this Article.

Section 3.2 Optional Redemption. The 2008 Bonds maturing on and after January 15, 2019, are subject to redemption before maturity at the option of the Authority at any time on or after January 15, 2018, from any money available for such purpose, in whole or in part (in increments of \$5,000 or any integral multiple of \$5,000), upon payment of a redemption price equal to one hundred percent (100%) of the principal amount of the 2008 Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Section 3.3 Selection of 2008 Bonds for Redemption; Notices. If less than all of the 2008 Bonds are to be called for redemption, the maturities to be called will be as directed by the

Authority in such manner as the Authority determines to be in its best interests. If less than all of any maturity of 2008 Bonds is to be called for redemption, the 2008 Bonds within each maturity to be redeemed will be selected by the Paying Agent in a manner which the Paying Agent determines to be appropriate and fair. A notice of redemption of any of the 2008 Bonds can be given by the Trustee conditioned upon the subsequent deposit with the Trustee of cash or permissible securities (maturing not later than the redemption date) on or before the redemption date and necessary to pay in full when due any 2008 Bonds to be redeemed.

ARTICLE IV

AUTHORIZATION OF 2008 PROJECT

Section 4.1 Authorization of 2008 Project. The 2008 Project is hereby authorized by the Authority.

ARTICLE V

SPECIAL COVENANTS

Section 5.1 Restrictions on Actions Affecting Tax Exemption. The Authority covenants with the Owners of the 2008 Bonds as follows:

(a) **Definitions.** As used in this Article, each of the following capitalized terms shall have the meaning set forth below:

"Bond Year" shall have the meaning set forth in the Non-Arbitrage Certificate.

"Gross Proceeds" shall have the meaning set forth in the Non-Arbitrage Certificate.

"Non-Arbitrage Certificate" means the certificate by that name to be executed and delivered by certain authorized representatives of the Authority regarding the amount and use of the Gross Proceeds of the 2008 Bonds.

"Nonpurpose Investments" shall have the meaning set forth in the Non-Arbitrage Certificate.

"Public Utility Property" means public utility property as defined in Section 168(i)(10) of the Code.

"Private User" means any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability partnership or corporation, or any other entity (including the federal government and any of its agencies and instrumentalities) that is not a state or local governmental unit within the meaning of Section 141 of the Code.

"Service Contract" means a contract under which a Private User will provide services involving all, a portion of, or any function of, the 2008 Project. For example, a

Service Contract includes a contract for the provision of management services for the entire 2008 Project or management services for a specific portion of the 2008 Project. Contracts for services that are solely incidental to the primary governmental function or functions of the 2008 Project (for example, contracts for janitorial, office equipment repair, hospital billing, or similar services) are not included in this definition. Additional contracts not included in this definition are (i) a contract to provide for services by a Private User if the only compensation is the reimbursement of the Private User for actual and direct expenses paid by the Private User to unrelated parties and (ii) a contract to provide for the operations by a Private User of a facility or system of facilities that consists predominantly of Public Utility Property, if the only compensation is the reimbursement of actual and direct expenses of the Private User and reasonable administrative overhead expenses of the Private User.

"Trade or Business" shall have the meaning set forth in Section 141(b)(6)(B) of the Code, and includes, with respect to any Private User other than a natural person, any activity carried on by such Private User.

"Use" shall have the meaning set forth in Section 141(b)(1) of the Code. Under Section 141(b)(1), the Use of bond-financed property is treated as Use of bond proceeds. A Private User may Use bond proceeds and bond-financed property as a result of, among other things, (i) ownership of bond-financed property, (ii) actual or beneficial use of bond-financed property pursuant to a lease or a management or incentive payment contract, or (iii) any other arrangement such as a take-or-pay or other output-type contract. Use by a Private User on the same basis as the general public is not taken into account. However, Use in a Trade or Business by all Private Users on a basis different from the general public shall be aggregated in determining whether the threshold set forth in subsection (c)(i) below has been exceeded.

(b) Rebate Requirement. (1) The Authority acknowledges that the provisions of Section 148 of the Code require a rebate of arbitrage profits to the United States in certain circumstances. The Authority agrees to take all steps necessary to cause the requirements of Section 148(f) of the Code to be satisfied for the 2008 Bonds, including but not limited to all rebate and reporting requirements.

(2) Without limiting the generality of the foregoing, the Authority shall: (i) pay from legally available and appropriated funds the amount required to be paid, if any, with respect to the 2008 Bonds to the United States in accordance with the "rebate requirement" described in Section 148(f) of the Code (the "Rebate Amount"); (ii) determine the Rebate Amount pursuant to Section 148(f) of the Code as of the end of each fifth Bond Year and upon payment in full of all amounts due under the 2008 Bonds; and (iii) retain records of all such determinations until six (6) years after payment in full of all amounts due under the 2008 Bonds.

(3) Not later than thirty (30) days after the date (each a "Calculation Date") that is (i) the end of the fifth Bond Year, (ii) a fifth (5th) anniversary date of the end of the fifth Bond Year, or (iii) the date on which the final payment of the principal and/or interest on the 2008 Bonds is made, the Authority shall prepare or cause to be prepared a certificate (a "Rebate Amount Certificate") setting forth the Rebate Amount, if any, determined to be due to the United States as of such Calculation Date with respect to the 2008 Bonds. Not later than fifty-five (55) days after each Calculation Date described above, the Authority shall pay from legally available and appropriated funds to the United States the Rebate Amount set forth in such Rebate Amount

Certificate. The Authority shall send with each of its Rebate Amount payments an appropriately completed IRS Form 8038-T and/or such other forms or documents as may be required under the Treasury Regulations.

(4) The Authority anticipates that the exemption from reporting and rebate requirements provided in Section 148(f)(4)(C) of the Code will apply to the 2008 Bonds. However, if the 2008 Bonds do not qualify for such exemption or another applicable exemption from the rebate requirement, the Authority agrees to comply with the arbitrage reporting and rebate requirements.

(c) Land Acquisitions. Not more than 25% of the net proceeds of the 2008 Bonds shall be used to acquire interests in land or other existing real property.

(d) Private Use Restrictions. (1) The Authority shall not use or permit the use of the Gross Proceeds of the 2008 Bonds or the 2008 Project in any manner that would result in (i) 5% or more of the proceeds of the 2008 Bonds being Used in a Trade or Business carried on by any Private User, as provided in Section 141(b) of the Code, (ii) 5% or more of the proceeds of the 2008 Bonds being used with respect to any "output facility" (other than a facility for the furnishing of water), within the meaning of Section 141(b)(4) of the Code, or (iii) 5% or more of the proceeds of the 2008 Bonds being used directly or indirectly to make or finance loans to any Private Users, as provided in Section 141(c) of the Code.

(2) (A) As of the issue date of the 2008 Bonds, the Authority reasonably expects to use the Gross Proceeds of the 2008 Bonds and the 2008 Project in a manner that satisfies all the applicable requirements for tax-exempt bonds under Sections 103 and 141 through 150 of the Code for the entire term of the 2008 Bonds.

(B) The Authority agrees not to change the ownership, use or nature of any property financed or refinanced by the Gross Proceeds of the 2008 Bonds so long as any of the 2008 Bonds remains unpaid (whether or not defeased).

(3) The Authority agrees not to enter into any Service Contract with a Private User after the Closing Date unless such Service Contract satisfies the requirements of Revenue Procedure 97-13, 1997-5 I.R.B. 18, as the same has been amended.

(e) No Pooled Financing Bonds. (1) The Authority represents that it does not reasonably expect that the proceeds of the 2008 Bonds will be used directly or indirectly to make or finance loans to two or more ultimate borrowers. The Authority shall not intentionally use the proceeds of the 2008 Bonds to make or finance loans to two or more ultimate borrowers.

(2) As used in this subsection, the term "loan" does not refer to the purchase of Nonpurpose Investments.

(f) No Federal Guaranty. The Authority agrees not to permit (i) the payment of the principal or interest with respect to the 2008 Bonds to be guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof) (the "Federal Government"), (ii) 5 percent or more of the proceeds of the 2008 Bonds to be (A) used in making loans the payment of principal or interest with respect to which are to be guaranteed (in whole or in part) by the

Federal Government or (B) invested (directly or indirectly) in federally insured deposits or accounts, or (iii) the payment of principal or interest on the 2008 Bonds to be otherwise indirectly guaranteed (in whole or in part) by the Federal Government; provided that none of the above-described prohibitions shall apply to (i) proceeds of the 2008 Bonds invested for an initial temporary period until such proceeds are needed for the purposes for which the 2008 Bonds were issued, (ii) investments of proceeds of the 2008 Bonds in a bona fide debt service fund for the 2008 Bonds (within the meaning of Section 148 of the Code), (iii) investments of proceeds of the 2008 Bonds in a reserve fund which meets the requirements of Section 148(d) of the Code, (iv) investments of proceeds of the 2008 Bonds in obligations issued by the United States Treasury, and (v) other investments permitted under regulations.

(g) Information Reporting. The Authority represents that the information set forth in the IRS Form 8038-G prepared in connection with the issuance of the 2008 Bonds is true and correct.

(h) Registration Requirement. The Authority agrees that it will take no action or permit any action to be taken to cause the 2008 Bonds to fail to satisfy the registration requirement of Section 149(a) of the Code.

(i) General Requirement. The Authority will not take any other action that would adversely affect, and will take all action within its power necessary to maintain, the exclusion of interest on all 2008 Bonds from gross income for purposes of federal income taxation.

Section 5.2 Arbitrage Covenants. The Authority will not take or approve or fail to take or approve any action, investment or use of the proceeds of the 2008 Bonds which would cause the 2008 Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and the applicable regulations thereunder (the "Arbitrage Regulations"). The Authority will not request or approve the use or investment of the Gross Proceeds of the 2008 Bonds other than in accordance with the Non-Arbitrage Certificate.

The Trustee will be fully protected in acting on any rebate determination made by the Authority at any time or contained in any certificate of the Authority and will not be liable or responsible in any manner to any person for so acting, notwithstanding any error in any such determination. The Trustee will not be responsible or liable to the Authority or any other party for the failure of the Authority to comply with the provisions of this Section.

Section 5.3 Opinion of Bond Counsel. If the Authority shall provide to Trustee an opinion of nationally-recognized bond counsel addressed to the Authority and the Trustee and acceptable to the Trustee to the effect that any action required under this Article by incorporation or otherwise is not required to maintain the exclusion from gross income of the interest on the 2008 Bonds under Section 103 of the Code, the Authority and the Trustee may rely conclusively on such opinion complying with the provisions of this Article.

[ARTICLE VI

PROVISIONS REGARDING THE BOND INSURANCE POLICY

Section 6.1 Provisions of this Article to Govern. Notwithstanding anything to the contrary in the Master Indenture, as supplemented, or elsewhere in this Second Supplemental Indenture, the following provisions of this Article shall govern.

Section 6.2 Required Consent. (a) No modification, amendment or supplement to the Master Indenture, as supplemented, and the Second Supplemental Indenture (collectively, the "Indenture") or any other transaction document (each a "Related Document") may become effective except upon obtaining the prior written consent of the Bond Insurer.

(b) The prior written consent of the Bond Insurer shall be required as a condition precedent to the deposit of any credit instrument provided in lieu of maintaining moneys or securities in the Debt Service Reserve Fund pursuant to Section 7.6(d) of the Master Indenture and the transfer or use of any such moneys or securities in lieu of which such credit instrument is provided. Such consent has been provided by the Bond Insurer to the Authority and the Trustee with respect to the satisfaction of the Debt Service Reserve Requirement for the 2008 Bonds. Amounts in the Debt Service Reserve Fund allocable to the 2008 Bonds shall be applied solely to the payment of debt service on the 2008 Bonds absent prior written consent of the Bond Insurer to the contrary.

(c) Notwithstanding Section 10.11 of the Master Indenture, no grace period for a covenant default shall exceed or be extended for more than 90 days without the prior written consent of the Bond Insurer.

(d) The maturity of the 2008 Bonds shall not be accelerated without the prior written consent of the Bond Insurer and, if accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal of and interest accrued on such accelerated 2008 Bonds to the date of acceleration (to the extent otherwise unpaid by or on behalf of the Authority).

(e) Upon the occurrence and continuation of an Event of Default with respect to the 2008 Bonds or the occurrence and continuance of an event which with notice or lapse of time or both would constitute an Event of Default, the prior written consent of the Bond Insurer shall be required for the application of any amounts with respect to the Series 2008 Bonds in the Project Fund to any use other than the payment of debt service or redemption price with respect to the 2008 Bonds.

Section 6.3 Bond Insurer Deemed Holder of the 2008 Bonds. The Bond Insurer shall be deemed to be the sole holder of the 2008 Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the 2008 Bonds insured by it are entitled to take pursuant to Article X of the Master Indenture pertaining to defaults and remedies and Article XI of the Master Indenture pertaining to the duties and obligations of the Trustee, if any. The Trustee shall take

no action except with the consent, or at the direction, of the Bond Insurer. The maturity of the 2008 Bonds shall not be accelerated without the consent of the Insurer.

Section 6.4 Third Party Beneficiary. The Bond Insurer shall be included as a third party beneficiary to the Indenture.

Section 6.5 Copies of Modifications or Amendments. Copies of any modification or amendment to the Indenture, shall be sent to Standard & Poor's Ratings Services and Moody's Investors Service, Inc. at least 10 days prior to the effective date thereof.

Section 6.6 Rights Granted to Bond Insurer. (a) The rights granted to the Bond Insurer under the Indenture or any other Related Document to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholders nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

(b) To accomplish defeasance of 2008 Bonds in accordance with Article XIV of the Master Indenture, the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer verifying the sufficiency of the escrow established to pay the 2008 Bonds in full on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Bond Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the 2008 Bonds are no longer "Outstanding" under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the 2008 Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority, the Trustee and the Bond Insurer. The Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow.

2008 Bonds shall be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

Section 6.7 Amounts Paid by Bond Insurer. Amounts paid by the Bond Insurer under the Bond Insurance Policy shall not be deemed paid for purposes of the Indenture, and shall remain outstanding and continue to be due and owing until paid by the Authority in accordance with the Indenture, as supplemented. The Indenture shall not be discharged unless **all** amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

Section 6.8 Claims Upon the Bond Insurance Policy and Payments by and to the Bond Insurer. (a) If, on the third Business Day prior to the related scheduled interest payment date or principal payment date or the date to which any 2008 Bond maturity has been accelerated ("Payment Date"), there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the 2008

Bonds due on such Payment Date, the Trustee shall give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the 2008 Bonds due on such Payment Date, the Trustee shall make a claim under the Bond Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the 2008 Bonds and the amount required to pay principal of the 2008 Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Bond Insurance Policy.

(b) In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Trustee shall authenticate and deliver to affected Bondholders who surrender their 2008 Bonds a new 2008 Bond or 2008 Bonds in an aggregate principal amount equal to the unredeemed portion of the 2008 Bond surrendered. The Trustee shall designate any portion of payment of principal on 2008 Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of 2008 Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement 2008 Bond to the Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement 2008 Bond shall have no effect on the amount of principal or interest payable by the Authority on any 2008 Bond or the subrogation rights of the Bond Insurer.

(c) The Trustee shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the 2008 Policy Payments Account (hereinafter defined) and the allocation of such funds to payment of interest on and principal paid in respect of any 2008 Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(d) Upon payment of a claim under the Bond Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of 2008 Bondholders referred to herein as the "2008 Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Bond Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the 2008 Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Bondholders in the same manner as principal and interest payments are to be made with respect to the 2008 Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything to the contrary otherwise set forth in the Indenture, and to the extent permitted by law, in the event amounts paid under the Bond Insurance Policy are applied to claims for payment of principal of or interest on the 2008 Bonds, interest on such principal of and interest on such 2008 Bonds shall accrue and be payable from

the date of such payment at the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank or its successor at its principal office in the City of New York, as its prime or base lending rate plus 3%, and (ii) the then applicable overall rate of interest on the 2008 Bonds provided that in no event shall such rate exceed the maximum rate permissible under applicable usury or similar laws limiting interest rates.

(e) Funds held in the 2008 Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

(f) Any funds remaining in the 2008 Policy Payments Account following a 2008 Bond payment date shall promptly be remitted to the Bond Insurer.

Section 6.9 Subrogation. The Bond Insurer shall, to the extent it makes any payment of principal of (or, in the case of capital appreciation bonds, accreted value) or interest on the 2008 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. The obligations to the Bond Insurer shall survive discharge or termination of the Related Documents.

Section 6.10 Bond Insurer Expenses. The Authority shall pay or reimburse the Bond Insurer any and all charges, fees, costs and expenses which the Bond Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture, or any Related Document, (ii) the pursuit of any remedies under the Indenture, or any Related Document, or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture, or any Related Document, whether or not executed or completed, (iv) the violation by the Authority of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with the Indenture, or any Related Document, or the transactions contemplated thereby, other than amounts resulting from the failure of the Bond Insurer to honor its obligations under the Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any Related Document, as amended.

Section 6.11 Payment Under the Bond Insurance Policy In the Event of Nonpayment by the Authority. The Bond Insurer shall be entitled to pay principal or interest on the 2008 Bonds that shall become due for payment but shall be unpaid by reason of nonpayment by the Authority and any amounts due on the 2008 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Bond Insurer has received a notice of nonpayment or a claim upon the Bond Insurance Policy, and the Trustee shall accept such amounts. Upon payment of such accounts, the Bond Insurer's obligations under the Bond Insurance Policy shall be fully discharged.

Section 6.12 Notice to Bond Insurer. The notice address of the Bond Insurer is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director -- Surveillance; Re: Policy No. 200785-N; Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the

attention of General Counsel at the foregoing address and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

Section 6.13 Information to be Furnished to Bond Insurer. The Bond Insurer shall be provided with the following information:

(i) Annual audited financial statements within 150 days after the end of the Authority's fiscal year (together with a certification of the Authority that it is not aware of any default or Event of Default under the Indenture) and the Authority's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Bond Insurer shall reasonably request from time to time;

(ii) Notice of any draw upon the Debt Service Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Debt Service Reserve Requirement and (ii) withdrawals in connection with a refunding of the 2008 Bonds;

(iii) Notice of any default known to the Trustee within five Business Days after knowledge thereof;

(iv) Prior notice of the advance refunding or redemption of any of the 2008 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(v) Notice of the resignation or removal of the Trustee, Paying Agent and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto;

(vi) Notice of the commencement of any proceeding by or against the Authority commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the 2008 Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment or supplement to the Related Documents; and

(ix) All reports, notices and correspondence to be delivered under the terms of the Related Documents.

Section 6.14 Perfection of Security Interests. Each of the Authority and the Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to perfect or otherwise preserve the priority of the pledge of Trust Estate under applicable law.

Section 6.15 Application of Funds After Default. After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to payment of expenses of the Authority or rebate only after the payment of debt service due and past due on the 2008 Bonds, together with replenishment of the Debt Service Reserve Fund.

Section 6.16 Additional Bonds. Notwithstanding satisfaction of other conditions to the issuance of Additional Bonds contained in the Indenture, no such issuance may occur (1) should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon such issuance and (2) unless the Debt Service Reserve Fund is fully funded at its requirement (including the new issue) upon the issuance of such Additional Bonds, in either case unless otherwise permitted by the Bond Insurer.

Section 6.17 Trustee Considerations. In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Indenture would adversely affect the security for the 2008 Bonds or the rights of the Bondholders, the Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Bond Insurance Policy.

Section 6.18 No Contractual Impairment of Bond Insurer Rights or Security. No contract shall be entered into nor any action taken by which the rights of the Bond Insurer or security for or sources of payment of the 2008 Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Bond Insurer.]

ARTICLE VII

MISCELLANEOUS

Section 7.1 Successors and Assigns. This Second Supplemental Indenture is binding upon, inures to the benefit of and is enforceable by its parties and their respective successors and assigns.

Section 7.2 Severability. If any provision of this Second Supplemental Indenture is held invalid by any court of competent jurisdiction, such holding will not invalidate any other provision.

Section 7.3 Governing Law. This Second Supplemental Indenture will be governed by and construed under the applicable laws of the Commonwealth.

Section 7.4 Counterparts. This Second Supplemental Indenture may be executed in several counterparts, each of which will be an original, and the counterparts will together constitute one and the same instrument.

Section 7.5 Parties Interested. Nothing in this Second Supplemental Indenture expressed or implied is intended or will be construed to confer upon any Person, other than the Authority, the Trustee[, the Bond Insurer] and the Owners of the 2008 Bonds, any right, remedy

or claim under or by reason of this Second Supplemental Indenture, this Second Supplemental Indenture being intended for the sole and exclusive benefit of the Authority, the Trustee[, the Bond Insurer] and the Owners of the 2008 Bonds.

IN WITNESS WHEREOF, the parties have caused this Second Supplemental Indenture to be executed on their behalf by their duly authorized officers.

JAMES CITY SERVICE AUTHORITY

By: _____
Chairman

(SEAL)

Attest:

By: _____
Secretary

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By: _____
Its: _____

EXHIBIT A
FORM OF BOND

R-

CUSIP

UNITED STATES OF AMERICA
COMMONWEALTH OF VIRGINIA

JAMES CITY SERVICE AUTHORITY
WATER AND SEWER SYSTEM REVENUE BOND
SERIES 2008

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATED DATE</u>
7/0		August , 2008

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

JAMES CITY SERVICE AUTHORITY, a public body politic and corporate of the Commonwealth of Virginia (the "Authority"), for value received, promises to pay, solely from the revenues and other property pledged to the payment of this Bond, to the registered owner of this Bond or legal representative, the principal sum stated above on the maturity date stated above, and to pay solely from such source, interest on the principal amount of this Bond at the annual rate stated above, payable semi-annually on each January 15 and July 15, commencing on January 15, 2009, all subject to prior redemption as described in this Bond. This Bond will bear interest (i) from its date of issuance, if this Bond is authenticated before January 15, 2009, or (ii) otherwise, from the January 15 or July 15 that is, or immediately precedes, the date on which this Bond is authenticated (unless the payment of interest on this Bond is in default, in which case this Bond will bear interest from the date to which interest has been paid). The principal of and premium, if any, on this Bond is payable upon presentation and surrender of this Bond at the principal corporate trust office of U.S. Bank National Association, Richmond, Virginia, as Trustee and Paying Agent under the Indenture (as hereinafter defined), or its successor in trust (the "Trustee"). Interest on this Bond will be paid by check or draft mailed to the person registered on the January 1 or July 1, as appropriate, next preceding any interest payment date as the registered owner of this Bond at the address of such person as it appears on the registration books of the Authority maintained by the Trustee. Interest on this Bond will be computed on the basis of a year of 360 days and twelve 30-day months. Notwithstanding the foregoing, if (i) the registered owner of this Bond owns at least \$1,000,000 in aggregate principal amount of Bonds, and (ii) such owner has provided satisfactory prior notice of a wire address to the Trustee, then interest on this Bond will be paid by wire transfer. Principal of and premium, if any, and interest on this Bond are payable in lawful money of the United States of America.

In case the date of maturity of the principal of this Bond or the date fixed for the payment of interest on or the redemption of this Bond is not a Business Day (as defined in the Master Indenture), then payment of the principal and premium, if any, and interest need not be made on such date, but may be made on the next succeeding date which is a Business Day, and if made on such next succeeding Business Day, no additional interest will accrue for the period after such date of maturity or date fixed for redemption.

This Bond and the issue of which it is a part and the premium, if any, and interest on this Bond are limited obligations of the Authority and payable solely from the revenues and other property pledged and assigned to the Trustee under the terms of the Master Indenture as supplemented by the Second Supplemental Indenture (as defined below) to secure payment of this Bond. **Neither the Commonwealth of Virginia nor any of its, political subdivisions, including the Authority, is obligated to pay the principal of or premium, if any, or interest on this Bond or other costs incident to it except from the revenues, money or property of the Authority pledged for such purpose, and neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any county, city, town or other subdivision of the Commonwealth of Virginia is pledged to the payment of the principal of or premium, if any, or interest on this Bond. The issuance of this Bond does not directly, indirectly, or contingently obligate the Commonwealth of Virginia or any county, city, town or other subdivision of the Commonwealth of Virginia to levy any taxes or to make any appropriation for the payment of this Bond. The Authority has no taxing power.**

This Bond is one of an issue of \$[28,500,000] Water and Sewer System Revenue Bonds, Series 2008 (the "Bonds"), of like tenor, except as to number, denomination, interest rate, privilege of redemption and maturity, authorized and issued by the Authority, pursuant to a resolution adopted on July 22, 2008, and the Virginia Water and Waste Authorities Act, Chapter 51, Title 15.2 of the Code of Virginia of 1950, as amended, for the purpose of providing funds to be used, along with other available money, to (i) finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source, and (ii) pay costs of issuing the Bonds and funding reserves. The Bonds are issued under and are equally and ratably secured by a Master Indenture of Trust dated as of April 1, 2003, as supplemented and amended (the "Master Indenture"), between the Authority and the Trustee, and a Second Supplemental Indenture of Trust dated as of August 1, 2008 (the "Second Supplemental Indenture"), between the Authority and the Trustee. The Master Indenture and the Second Supplemental Indenture are referred to collectively in this Bond as the "Indenture." Reference is made to the Indenture for a description of the revenues and property pledged and assigned and the provisions, among other things, with respect to the nature and extent of the security for the Bonds, the rights and obligations of the Authority and the Trustee, the terms on which the Bonds are issued, the rights of the registered owners of the Bonds and the provisions for defeasance of such rights. Additional Bonds and Parity Indebtedness (as such terms are defined in the Master Indenture) ranking equally as to the pledge of Net Revenues (as defined in the Master Indenture) with the Bonds may be issued on the terms provided in the Master Indenture.

The Bonds maturing on and after January 15, 2019, are subject to redemption before maturity at the option of the Authority at any time on or after January 15, 2018, from any money available for such purpose, in whole or in part (in increments of \$5,000 or any integral multiple

of \$5,000), upon payment of a redemption price equal to one hundred percent (100%) of the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

If any of the Bonds are called for redemption, the Trustee will cause a notice of redemption to be sent by first class mail, postage prepaid, not less than thirty nor more than sixty days before the date fixed for redemption, to the registered owners of the Bonds called for redemption, at their respective addresses as they appear on the registration books maintained by the Trustee. The Indenture provides that a notice of optional redemption can be conditional. The receipt of notice is not a condition precedent to the redemption, and failure to mail a notice to a registered owner will not affect the validity of the proceedings for the redemption of the Bonds. If this Bond is duly called for redemption, and payment of the principal of and premium, if any, and unpaid interest accrued to the date fixed for redemption has been made or provided for, then, notwithstanding that this Bond has not been surrendered for cancellation, interest on this Bond will cease to accrue from the date fixed for redemption, and, from and after the date fixed for redemption, this Bond will no longer be entitled to any lien, benefit or security under the Indenture, and the registered owner of this Bond will have no rights in respect of this Bond except to receive payment of the principal of and premium, if any, and unpaid interest accrued to the date fixed for redemption on this Bond.

The registered owner of this Bond has no right to enforce the provisions of the Indenture or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect to the Indenture, except as provided in the Indenture. Upon the occurrence of certain events or upon certain conditions, in the manner and with the effect set forth in the Indenture, the principal of all of the Bonds issued under the Indenture and then outstanding, together with any accrued interest on them, may become or may be declared due and payable before their stated maturities. Modifications or alterations in the Indenture, or any supplements to it, may be made to the extent and under the circumstances provided by the Indenture.

The Bonds are issued as registered bonds without coupons in denominations of \$5,000 or any integral multiple of \$5,000. Upon surrender of this Bond at the principal corporate trust office of the Trustee, in the manner and subject to the limitations and conditions provided for in the Indenture, this Bond may be exchanged for an equal aggregate principal amount of Bonds of like date and tenor and of authorized denominations and bearing interest at the same rate.

The transfer of this Bond may be registered by the registered owner in person or by his duly authorized attorney or legal representative at the principal office of the Trustee, but only in the manner and subject to the limitations and conditions provided for in the Indenture and upon surrender and cancellation of this Bond. Upon the registration of any transfer, the Authority will execute and the Trustee will authenticate and deliver in exchange for this Bond a new Bond or Bonds, registered in the name of the transferee, of like date and tenor and of authorized denominations for the aggregate principal amount which the registered owner is entitled to receive. Before due registration of any transfer of this Bond, the Trustee will treat the registered owner shown on the registration books maintained by the Trustee as the person exclusively entitled to the payment of principal of and premium, if any, and interest on this Bond and the exercise of all other rights and powers of the owner.

All acts and conditions required to happen, exist or be performed precedent to and in connection with the issuance of this Bond have happened, exist and have been performed.

This Bond will not become obligatory for any purpose or be entitled to any security or benefit under the Indenture or be valid until the Trustee has executed the Certificate of Authentication appearing on this Bond.

IN WITNESS WHEREOF, James City Service Authority has caused this Bond to be executed by the facsimile signature of its Chairman, a facsimile of its seal to be imprinted on this Bond and attested by the facsimile signature of its Secretary.

JAMES CITY SERVICE AUTHORITY

By: _____
Chairman

[SEAL]

ATTEST:

By: _____
Secretary

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds described in the within-mentioned Indenture.

AUTHENTICATION DATE: _____

U.S. BANK NATIONAL ASSOCIATION, as
Trustee and Paying Agent

By: _____
Authorized Officer

[STATEMENT OF INSURANCE

Financial Security Assurance Inc. ("Financing Security"), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on this Bond to U.S. Bank National Association, Richmond, Virginia, or its successor, as paying agent for the Bonds (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Financial Security or the Paying Agent.]

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE: _____

this Bond and does irrevocably constitute and appoint

_____ attorney, to transfer this Bond on the books kept for registration of this Bond, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

(NOTE: Signature(s) must be guaranteed by and Eligible Guarantor Institution such as a Commercial Bank, Trust Company, Securities Broker/Dealer, Credit Union or Savings Association who is a member of a medallion program approved by The Securities Transfer Association, Inc.)

(NOTE: The signature above must correspond with the name of the Registered Owner as it appears on the books kept for registration of this Bond in every particular, without alteration or change.)

**[\$28,500,000]
James City Service Authority
Water and Sewer System Revenue Bonds,
Series 2008**

REQUISITION FROM PROJECT FUND

TO: U.S. Bank National Association, as
Trustee
1021 East Cary Street, Suite 1850
Richmond, Virginia 23219
Attention: Corporate Trust Department

Requisition Number: _____

Date: _____, 20__

Pursuant to the Master Indenture of Trust, dated as of April 1, 2003, as supplemented by the First Supplemental Indenture of Trust, dated as of April 1, 2003, and by the Second Supplemental Indenture of Trust, dated as of August 1, 2008 (collectively, the "Indenture"), by and between the James City Service Authority and U.S. Bank National Association, as Trustee (the "Trustee"), I request that you, or your agent, make disbursement of funds from the Project Fund held by you, or your agent, as Trustee under the Indenture to the following payee in the following amount:

Payee: _____

Payee's Address: _____

Amount: _____

Purpose of Requisition:

(All capitalized terms used herein shall be defined in accordance with Article I of such Master Indenture or Article I of such Second Supplemental Indenture, as applicable.)

I hereby certify that:

(a) none of the items for which funds are being requisitioned has formed the basis for any disbursement heretofore made from the Project Fund;

(b) each item for which funds are being requisitioned is a proper charge against the Project Fund and is necessary in connection with the 2008 Project; and

(c) all of such funds are being used for the payment Costs of the 2008 Project.

We further hereby certify that no Event of Default has occurred and is continuing as of the date hereof.

JAMES CITY SERVICE AUTHORITY

By: _____
Authorized Authority Representative

Notice of Sale
James City Service Authority
~~\$28,500,000~~
Water and Sewer System Revenue Bonds, Series 2008

Time and Place of Sale. Electronic bids via the BiDCOMP/Parity Competitive Bidding System ("BiDCOMP/Parity") will be received until

11:00 a.m., Richmond, Virginia time, on Tuesday, August 12, 2008

(subject to postponement as described below) and will be publicly viewed at that time at the office of Davenport & Company LLC, 901 East Cary Street, 11th Floor, Richmond, Virginia 23219, as the Financial Advisor (the "Financial Advisor") to the James City Service Authority (the "Authority"), for the purchase of the ~~\$28,500,000~~ Water and Sewer System Revenue Bonds, Series 2008 (the "Bonds") being issued by the Authority. Award or rejection of bids will be made by the General Manager on behalf of the Authority on such date. No bids will be accepted by hand, by facsimile transmission (except as provided herein) or by any means other than BiDCOMP/Parity. Instructions on how to submit a bid via BiDCOMP/ Parity are provided for the convenience of prospective bidders in an Attachment to this Notice of Sale.

Description of Bonds; Authorization; Security. The Bonds will finance the purchase from the City of Newport News, Virginia of a "safe yield share" of treated water capacity from the King William Reservoir Project or an alternate water supply source (the "Project"). The issuance of such Bonds was approved by the Authority on July 22, 2008. The Bonds will be limited obligations of the Authority, payable from the net revenues of the water and sewer system owned and operated by the Authority, as well as certain reserves and income from investments The Bonds will be issued under and will be equally and ratably secured by a Master Indenture of Trust dated as of April 1, 2003 as previously supplemented (the "Master Indenture") and a Second Supplemental Indenture of Trust dated as of August 1, 2008 (the "Supplemental Indenture" and together with the Master Indenture, the "Indenture"), each between the Authority and U.S. Bank National Association, as Trustee (the "Trustee"). **The Bonds, the premium, if any, and the interest on them will not be deemed to constitute a pledge of the faith and credit of the Commonwealth of Virginia or any of its political subdivisions, including the Authority and James City County, Virginia (the "County"). Neither the faith and credit nor the taxing power of the Commonwealth of Virginia or any county, city, town or other subdivision of the Commonwealth, including the Authority and the County, is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The issuance of the Bonds does not directly, indirectly or contingently obligate the Commonwealth or any county, city, town or other subdivision of the Commonwealth, including the County, to levy any taxes or to make any appropriation for the payment of the Bonds. The Authority has no taxing power.**

JBond Insurance. The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by _____

Form of the Bonds. The Bonds will be dated the date of their issuance, and will be issued as fully registered bonds, in denominations of \$5,000 and multiples thereof. Interest on the Bonds will be payable on each January 15 and July 15, beginning January 15, 2009. Principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to The Depository Trust Company, New York, New York ("DTC") or its nominee, as registered owner of the Bonds and will be distributed to beneficial owners of the Bonds as described in the section "Book-Entry Only System" below. Interest on the Bonds shall be calculated on the basis of a 360-day year with twelve 30-day months.

The Bonds will mature in installments, or have mandatory sinking fund installments, on January 15 in the years and amounts as follows:*

Year	Amount	Year	Amount	Year	Amount
2009	\$	2019	\$	2029	\$
2010		2020		2030	
2011		2021		2031	
2012		2022		2032	
2013		2023		2033	
2014		2024		2034	
2015		2025		2035	
2016		2026		2036	
2017		2027		2037	
2018		2028		2038	

Provision for Term Bond Maturities. Bidders may provide that all the Bonds be issued as serial bond maturities or that any two or more consecutive annual principal amounts may be combined into up to three term bond maturities, with annual mandatory sinking fund redemptions in amounts as provided above. Term bond maturities with overlapping sinking fund redemptions or sinking fund redemptions that overlap serial bond maturities will not be permitted.

Book-Entry Only System. The Bonds will be issued by means of a book-entry system with no physical distribution of Bond certificates made to the public. The book-entry system will evidence beneficial ownership of the Bonds in principal amounts of \$5,000 or multiples thereof, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Transfer of principal, premium, if any, and interest payments received by DTC to participants of DTC will be the responsibility of DTC; transfer of such payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. Neither the Authority nor the Trustee will be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (1) DTC determines not to continue to act as securities depository for the Bonds or (2) the Authority determines (a) to select a new securities depository, or (b) that beneficial owners of the Bonds should be able to obtain certificated Bonds, the Authority will discontinue the book-entry system with DTC. If the Authority fails to identify another qualified securities depository to replace DTC, the Authority will provide for the preparation, execution, authentication and delivery of replacement Bonds in the form of registered certificates.

Optional Redemption. Bonds maturing on or before January 15, 2018 are not subject to optional redemption prior to maturity. Bonds maturing on or after January 15, 2019, are subject to redemption prior to maturity at the option of the Authority at any time on or after January 15, 2018, in whole or in part, in any integral multiple of \$5,000, upon payment of 100% of the principal amount of Bonds to be redeemed plus interest accrued and unpaid to the redemption date.

Mandatory Sinking Fund Redemptions. If the successful bidder designates any consecutive annual principal amounts to be combined into up to three term bond maturities, each such term bond maturity shall be subject to mandatory sinking fund redemption, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus interest accrued to the redemption date, commencing on January 15 of the first year which has been combined to form such term bond maturity and continuing on January 15 of each year thereafter until the stated maturity date of that term bond maturity. The amount subject to mandatory sinking fund redemption in any year shall be equal to the principal amount for such year specified above in the section "Form of the Bonds."

Notice of Redemption. Notice of redemption will be given by facsimile, registered or certified mail or overnight courier to DTC or its nominee as the registered owner of the Bonds. Such notice will be mailed not less than thirty (30) nor more than

Preliminary, subject to change

sixty (60) days prior to the date fixed for redemption. The Trustee will not be responsible for mailing notices of redemption to any one other than DTC or its nominee unless no qualified securities depository is the registered owner of the Bonds. A notice of optional redemption may be conditioned upon the occurrence of future events, including the availability of funds to effect the redemption on the redemption date. If such conditions are not satisfied, the Authority may rescind the redemption.

Bidding Rules; Award. Bidders are requested to name the interest rate or rates in multiples of 1/8 or 1/20 of 1%. Each bidder must specify in its bid the amount and the maturities of Bonds of each rate, and the Bonds maturing on the same date must bear interest at the same rate. Any number of interest rates may be named; *provided* that (1) for all Bonds, the highest interest rate may not exceed the lowest by more than 300 basis points (3%) and (2) no interest rate for any maturity may exceed 6.00%.

No bid for less than all of the Bonds offered or for less than 98% or for more than 105% of par will be considered. The right to reject any or all bids and to waive irregularities in any bid is hereby reserved. Unless all bids are rejected, the Bonds will be awarded to the bidder offering to purchase the Bonds at the lowest "true" or "Canadian" interest cost, such cost to be determined by doubling the semiannual interest rate (compounded semiannually) necessary to discount the payments of the principal of and the interest on the Bonds from their payment dates to the dated date and to the price bid. If more than one bid offers the same lowest true (Canadian) interest cost (out to five (5) decimal places), the successful bid will be selected by lot. Each bidder shall include in its bid a statement of the true (Canadian) interest cost offered in its bid, but this statement shall not be deemed a part of the bid. An award of the Bonds, if made, will be made by the Authority by 3:00 p.m., Richmond, Virginia time, on the date of receipt of bids. ALL BIDS SHALL REMAIN FIRM UNTIL 3:00 P.M., RICHMOND, VIRGINIA TIME, ON THE DATE OF RECEIPT OF BIDS.

Electronic Bidding and Bidding Procedures.

Registration to Bid. All prospective bidders must be contracted customers of i-Deal's BiDCOMP/Parity Competitive Bidding System. If you do not have a contract with BiDCOMP/Parity, call (212) 404-8102 to become a customer. By submitting a bid for the Bonds, a prospective bidder represents and warrants to the Authority that such bidder's bid for the purchase of the Bonds (if a bid is submitted in connection with the sale) is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Bonds. By registering to bid for the Bonds, a prospective bidder is not obligated to submit a bid in connection with the sale.

If any provisions of this Notice of Sale shall conflict with information provided by i-Deal as approved provider of electronic bidding services, this Notice of Sale shall control. Further information about i-Deal and BiDCOMP/Parity, including qualification, registration, rules and any fee charged, may be obtained from i-Deal, (212) 404-8102 or i-dealprospectus.com.

Bidding Procedures. Bids must be submitted electronically for the purchase of the Bonds (all or none) by means of the James City Service Authority All or None Bid Form (the "Bid Form") via BiDCOMP/Parity. Bids must be communicated electronically to BiDCOMP/Parity in the office of the Financial Advisor not later than 11:00 A.M., RICHMOND, VIRGINIA TIME, on Tuesday, August 12, 2008 unless postponed as described herein (see "Adjustment of Aggregate Principal Amount/Adjustment of Annual Principal Payments/Change in Optional Redemption Provisions/ Postponement"). Prior to that time, a prospective bidder may input and save the proposed terms of its bid in BiDCOMP/ Parity. Once the final bid has been saved in BiDCOMP/Parity, select the final bid button in BiDCOMP/Parity to submit the bid to BiDCOMP/Parity. Once the bids are communicated electronically via Parity to the Financial Advisor, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on BiDCOMP/Parity shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Authority, as described under "Bidding Rules; Award" above, represented by the rate or rates of interest and the bid price specified in their respective bids.

No bids will be accepted in written form, by facsimile transmission (except as provided in the following paragraph) or in any other medium or on any system other than by means of the Bid Form via BiDCOMP/Parity. No bid will be received after the time for receiving such bids specified above. For detailed instructions on submitting a bid via BiDCOMP/Parity, refer to the Attachment to this Notice of Sale.

In the event of a malfunction of the electronic bidding system at 11:00 a.m., Local Time, on the date of sale, an attempt will be made to reschedule the bidding for 12:00 noon, Local Time, on the date of sale. Should the electronic bidding system malfunction a second time, bidding will either be rescheduled or facsimile transmission bids will be accepted at the discretion of the Authority in coordination with its Financial Advisor. To the extent possible, the rescheduled bid time will be communicated to the bidders. Bidders choosing to submit bids in the case of a malfunction by facsimile transmission shall use the following telecopier number for such transmission: (804) 697-2910 (Attention: Courtney Rogers). Transmissions received after the deadline shall be rejected. It is the responsibility of the bidder to ensure that the bid is legible, that the bid is received not later than 12:00 noon, Local Time, and that the bid is sent to the telecopier number set forth above. Illegible transmissions shall be rejected. The Financial Advisor will, on behalf of the Authority, verify receipt of each bid submitted through facsimile transmission by contacting each bidder by telephone once the bid has been received. The Financial Advisor will in no instance correct, alter or in any way change bids submitted through facsimile transmission. The Authority and the Financial Advisor will not be responsible for bids submitted by facsimile transmission not received in accordance with the provisions of this Notice of Sale. Bidders electing to submit bids via facsimile transmission will bear full and complete responsibility for the transmission of such bid.

ALL MEMBERS OF THE UNDERWRITING GROUP MUST BE LISTED AS PART OF THE BID.

Disclaimer. Each prospective bidder shall be solely responsible to register to bid via BiDCOMP/Parity as described in the Attachment to this Notice of Sale. Each qualified prospective bidder shall be solely responsible to make necessary arrangements to access BiDCOMP/Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Authority nor i-Deal shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the Authority nor i-Deal shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by i-Deal. The Authority is using BiDCOMP/Parity as a communication mechanism, and not as the Authority's agent, to conduct the electronic bidding for the Bonds. The Authority is not bound by any advice and determination of BiDCOMP/Parity to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bidding Rules; Award" set forth above. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via BiDCOMP/Parity are the sole responsibility of the bidders; and the Authority is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Bonds, it should telephone i-Deal and notify the Authority's Financial Advisor by facsimile at (804) 697-2910. After receipt of bids is closed, the Authority, through BiDCOMP/Parity will indicate the apparent successful bidder by 3:00 p.m., Richmond, Virginia time, on the date of receipt of bids. Such message is a courtesy only for viewers, and does not constitute the award of the Bonds. Each bid will remain subject to review by the Authority to determine its true interest cost rate and compliance with the terms of this Notice of Sale and to award the Bonds.

Good Faith Deposit. A good faith deposit (the "Deposit"), in the form of a Financial Surety Bond, in the amount of one percent of the final par amount of the Bonds, is required for each bid to be considered. The Financial Surety Bond must be from an insurance company acceptable to the Authority and licensed to issue such a bond in the Commonwealth of Virginia. Such Financial Surety Bond must be submitted to the Authority no later than 5:00 P.M., RICHMOND, VIRGINIA TIME, on the day prior to the sale. The Financial Surety Bond must identify the bidder whose Deposit is guaranteed by such Financial Surety Bond. The successful bidder is required to submit its Deposit to the Authority in the form of a wire transfer not later than 12:00 NOON, RICHMOND, VIRGINIA TIME, on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the Authority to satisfy the Deposit requirement. The Deposit of the successful bidder will be deposited and credited to the purchase price

and no interest will be allowed thereon. The Deposit will secure the Authority against any loss resulting from the failure of the successful bidder to comply with the terms of its bid. In the event the successful bidder shall fail to comply with the terms of the bid, the proceeds will be retained as and for full liquidated damages.

Certificate of Winning Bidder. The successful bidder must, by facsimile transmission or overnight delivery received by the Financial Advisor within 24 hours after receipt of bids for the Bonds, furnish the following information to complete the Official Statement in final form, as described below:

- A. The offering prices for the Bonds (expressed as the price or yield per maturity).
- B. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields described in Subpart A above).
- C. The identity of the underwriters if the successful bidder is a part of a group or syndicate.
- D. Any other material information regarding the offering of the Bonds necessary to complete the Official Statement in final form but not known to the Authority.

Prior to delivery of the Bonds, the successful bidder shall furnish to the Authority a certificate, in form acceptable to Troutman Sanders LLP, Richmond, Virginia, bond counsel to the Authority ("Bond Counsel"), to the effect that the successful bidder has made a bona fide public offering of the Bonds at the initial public offering prices set forth in such certificate and that a substantial amount of the Bonds of each maturity were sold to the public (excluding bond houses, brokers and other intermediaries) at such initial public offering prices. Such certificate shall state that: (1) it is made on the best knowledge, information and belief of the successful bidder; and (2) sold or reasonably expected as of the sale date to sell at least ten percent (10%) of the aggregate face amount of each maturity of the Bonds to the general public at prices equal to the respective initial public offering prices. The Authority expects the successful bidder to deliver copies of the Official Statement in final form (the "final Official Statement") to persons to whom such bidder initially sells the Bonds, the Municipal Securities Rulemaking Board ("MSRB") and to the nationally recognized municipal securities information repositories ("NRMSIRs"). The successful bidder will be required to acknowledge receipt of such final Official Statement, to certify that it has made delivery of the final Official Statement to such repositories, to acknowledge that the Authority expects the successful bidder to deliver copies of such final Official Statement to persons to whom such bidder initially sells the Bonds and to certify that the Bonds will only be offered pursuant to the final Official Statement and only in states where the offer is legal.

CUSIP Numbers. It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of its proposal. The expense of assignment and printing of CUSIP numbers will be paid by the Authority. It shall be the obligation of the successful bidder to furnish to DTC an underwriter questionnaire and to the Authority the CUSIP numbers for the Bonds within two business days following the date of award.

Legal Opinion and Tax Exemption. The approving opinion of Bond Counsel with respect to the Bonds will be furnished to the successful bidder at the expense of the Authority and will state that the Bonds constitute valid and binding limited obligations of the Authority, as described above in "Description of Bonds; Authorization; Security."

The Official Statement relating to the Bonds contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the exclusion from gross income for federal income tax purposes of interest on the Bonds and a discussion of the opinion of Bond Counsel insofar as it concerns such exclusion.

Delivery of Bonds. The Bonds will be delivered, properly executed, at the expense of the Authority through DTC in New York, New York, on or about August 26, 2008, upon payment therefor in Federal Funds of the amount of the successful bid (taking into account any premium), *minus* the amount of the Deposit.

The usual closing papers will also be furnished, including (1) a certificate signed by appropriate Authority officials stating that no litigation is then pending or, to their knowledge, threatened (a) to restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the application of proceeds of the Bonds as provided in the Indenture or the collection of revenues pledged under the Indenture, (b) in any way contesting or affecting any authority for the issuance or validity of the Bonds or the validity of the Indenture or the other financing documents, or (c) affecting the Project, and (2) a certificate signed by appropriate Authority officials relating to the Official Statement.

Official Statement. The Authority will furnish to the successful bidder at the expense of the Authority a reasonable number of copies of the final Official Statement within seven (7) business days from the date of the award of sale, provided that minor delays in furnishing such final Official Statement will not be a basis for failure to pay for or accept delivery of the Bonds. Additional copies will be made available at the successful bidder's request and expense. The Authority does not assume any responsibility or obligation for the distribution or delivery of any copies of the Official Statement to any one other than the successful bidder. The Authority has deemed the Preliminary Official Statement to be final as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), except for the omission of certain pricing and other information allowed to be omitted pursuant to the Rule.

The successful bidder agrees to provide one copy of the Official Statement to at least one NRMSIR within the meaning of the Rule upon receipt of the Official Statement from the Authority and two copies of the Official Statement (with any required forms) to the MSRB or its designee no later than ten business days following August 12, 2008. The successful bidder shall notify the Authority as soon as practicable of (1) the date which is the end of the underwriting period (such "underwriting period" is described in the Rule), and (2) the date of filing the Official Statement with a NRMSIR and MSRB or its designee.

If the Bonds are awarded to a syndicate, the Authority will designate the senior managing underwriter of the syndicate as its agent for purposes of distributing copies of the Official Statement to each participating underwriter. Any underwriter executing and delivering a bid form with respect to the Bonds agrees thereby that if its bid is accepted it shall accept such designation and shall enter into a contractual relationship with all participating underwriters for the purposes of assuring the receipt and distribution by each such participating underwriter of the Official Statement, unless another firm is so designated by the syndicate in writing and approved by the Authority.

Continuing Disclosure. In order to assist bidders in complying with the Rule, the Authority will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial and operating information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and also will be set forth in the final Official Statement. A description of the Authority's failure to comply with a previous undertaking is also set forth in the Preliminary Official Statement and will be set forth in the final Official Statement.

Federal and State Securities Law. No action has been taken to qualify the Bonds under federal or state securities laws.

Adjustment of Aggregate Principal Amount/Adjustment of Annual Principal Payments/Change in Optional Redemption Provisions/Postponement. The Authority reserves the right to adjust the aggregate principal amount of the Bonds. The Authority reserves the right to adjust the annual principal payments due on the Bonds, as described above in "Form of the Bonds." The Authority reserves the right to change the identity of the Bonds subject to optional redemption, the optional redemption dates and the optional redemption prices, as described above in "Optional Redemption." The Authority reserves the right to postpone, from time to time, the date for receipt of bids. The Authority reserves the right to change the scheduled delivery date for the Bonds. Any such adjustment, change or postponement will be published on www.tm3.com ("TM3") not later than 4:00 p.m., Richmond time, on the last business day prior to any announced date for receipt of bids. Prospective bidders may request notification by facsimile transmission of any such adjustment, change or postponement by so advising, and furnishing their telecopier number to the Financial Advisor at (804) 697-2900 by 12 Noon, Richmond, Virginia time, on the day prior to the announced date for receipt of bids. If any date fixed for receipt of bids is postponed, any alternative bid date will be published on TM3 at least 48 hours prior to such alternative bid date. On the bid date (as it may have been changed), any bidder may submit a bid via BiDCOMP/Parity for the purchase of the Bonds in

conformity in all respects with the provisions of this Notice of Sale except for the aggregate principal amount, the annual principal payment schedule, the optional redemption provisions, the date of the bid, or the scheduled delivery date, as adjusted in accordance with this paragraph.

Changes to Principal Amounts After Bid Awarded. After selecting the winning bid, the Authority may adjust the aggregate principal amount and the annual principal amount of each maturity of the Bonds to take into account any premium or discount bid and to provide for level annual debt service. **THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE PRICE OR INTEREST RATES BID AT THE INITIAL OFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE AGGREGATE PRINCIPAL AMOUNT OR ANNUAL PRINCIPAL AMOUNTS OF THE BONDS.** Such adjustments will not change the winning bidder's compensation per \$1,000 of par amount of the Bonds from that which would have resulted from the bid submitted. In the event of any adjustments, no re-bidding or recalculation of the bids submitted will be required or permitted, and the premium or discount offered, if any, specified in the successful bid shall be applied proportionately to the adjusted principal amount of the Bonds. The Authority will notify the successful bidder of any adjustments to the aggregate and annual principal amounts by 4:00 p.m., Richmond, Virginia time on the date of the sale.

Additional Information. For further information relating to the Bonds, the Authority, the County and the Project, reference is made to the Authority's Preliminary Official Statement. This Notice of Sale and the Preliminary Official Statement are available on the Internet at www.i-dealprospectus.com. See the Attachment for instructions for accessing the Preliminary Official Statement. Additional information concerning the Bonds may be obtained by contacting the Authority's Financial Advisor, Davenport & Company, LLC, 901 East Cary Street, 11th Floor, Richmond, Virginia 23219 (telephone: 804/697-2900).

Dated: August 7, 2008

JAMES CITY SERVICE AUTHORITY
By: James C. Icenhour, Jr., Chairman

See Attachment:

For Internet instructions to access the Preliminary Official Statement via i-Deal
For instructions to submit a bid via the BiDCOMP/Parity System.

Attachment to Notice of Sale

INSTRUCTIONS TO VIEW PRELIMINARY OFFICIAL STATEMENT (NO REGISTRATION NECESSARY):

- Go to URL www.i-dealprospectus.com
- Using Adobe Acrobat Reader you may search and print the document.
- If you do not have Adobe software, it can be downloaded for free at www.i-dealprospectus.com
- Contact i-Deal Prospectus at (212) 404-8104 with questions or problems.

INSTRUCTIONS TO SUBMIT A BID VIA BiDCOMP/Parity:

- You must be a contracted customer of i-Deal's BiDCOMP Competitive Bidding System. If you do not have a contract with BiDCOMP, call (212) 404-8102 to become a customer.
- In BiDCOMP select the James City Service Authority sale among the list of current sales.
- Go to the bid form page. Keep notice of the time clock and be sure to read all bid specifications on bottom.
- Once you have created and saved a bid in BiDCOMP, click the final bid button in BiDCOMP to submit the bid to Parity.
- Upon clicking the final bid button, the bidder will see a message box in BiDCOMP that states: "Do you want to submit this bid to Parity? By submitting the bid electronically via PARITY, you represent and warrant that this bid for the purchase of the Bonds is submitted by the representative who is duly authorized to bind the bidder to a legal, valid, enforceable contract for the purchase of the Bonds. The Notice of Sale is incorporated herein by this reference."
- If during bid calculation BiDCOMP warns you that your current bid violates the bid parameters, please change your bid to meet bid specifications. The BiDCOMP system will submit bids, which violate the bid parameters, but the James City Service Authority does not intend to consider any bids that do not meet its parameters.
- You may choose to proceed with submission of the bid or choose to cancel the submission.
- Contact BiDCOMP/Parity at (212) 404-8102 or with questions or problems.

Summary Bidding Schedule

Date	Time	Occurrence
Monday, August 11, 2008	12:00 Noon	Deadline for prospective bidders to request facsimile notification of changes in various bond details and dates.
	4:00 p.m.	Revisions, if any, to various bond details and dates given by notification published on TM3 (www.tm3.com).
	5:00 p.m.	Deadline for submission of Financial Surety Bond to Authority.
Tuesday, August 12, 2008	Prior to 11:00 a.m.	Deadline for submission of bids via BiDCOMP/Parity.
	11:00 a.m.	Authority receives bids via BiDCOMP/Parity. Successful bidder provides initial reoffering prices to Authority within 2 hours after being notified that such bidder's bid appears to be the winning bid. subject to verification.
	3:00 p.m.	Bids firm until this time; deadline for Authority to award the Bonds.
Wednesday, August 13, 2008	12:00 Noon	Deadline for winning bidder to wire the Deposit to the Authority.