UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

IN RE:	)	
JEFFERSON COUNTY, ALABAMA	)	**CASE NO.: 11-05736-TBB9**
	)	**CHAPTER 9**
Debtor.	)	

NOTICE OF FILING COUNTY EXHIBIT C.344 (PART 5 OF 6)

Jefferson County, Alabama, the debtor in the above-referenced case (the "County"), submits the following exhibits for the plan confirmation hearing set by the Court's *Order Continuing Confirmation Hearing and Extending Related Deadlines* [Docket No. 2169], which is scheduled to commence on November 20, 2013 at 10:00 a.m.:

1. *Ratemaking Record* of Jefferson County [County's Exhibit No. **C.344**] (PART 5 OF 6).

Respectfully submitted this 15th day of November, 2013.

/s/ James B. Bailey
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be held exclusively as a sanitary fund to be used and applied exclusively to the payment of the interest on the Sanitary bonds herein authorized to be issued, and to keeping in repair the sanitary system of the county and protect the water supplies and the surplus, if any, to be used by the said board of revenue for the payment of the principal of said bonds. Provided, however, that no levy shall be made by said board of revenue in any one year exceeding one-half of one per cent for the ordinary county purposes, but not including necessary public buildings or bridges.

Payment of interest

SEC. 12. Be it further enacted, That the treasurer of said county shall pay out of the sanitary fund the interest coupons on the sanitary bonds as the same become due in accordance with the terms and provisions of said bonds and coupons, and make and keep an account of all coupons paid by him, and shall report in writing to the board of revenue the coupons paid, and shall in the presence of and under the verification of the board of revenue burn all coupons paid and the board of revenue shall sign a verification and deliver to the treasurer, certifying the numbers and amounts of coupons so destroyed in the presence of the board and shall also make a minute on the books kept by the said board of the numbers and amounts of the coupons so destroyed in the presence of the board The treasurer shall make a report of the coupons paid and destroy the coupons as above provided as often as semi-annual payments of coupons are made.

Duty of board of revenue.

SEC. 13. Be it further enacted, That in the event the sanitary fund in the hands of the county treasurer is insufficient at any time to pay the interest coupons as they become due then in that event the said board of revenue is authorized and empowered to make and issue an order to the county treasurer to pay the interest coupons out of any money in the treasury not otherwise appropriated, and under such order being made by the board of revenue, the treasurer shall pay the interest coupons out of any money in the

treasury not otherwise appropriated, it being the intent of this act that the sanitary fund shall be supplemented whenever and as often as is necessary out of moneys in the treasury otherwise unappropriated, in an amount sufficient to pay said interest coupons as they become due. In the event that the sanitary fund is supplemented from the general fund as above provided, then whenever the sanitary fund has a surplus over the amount necessary to meet the accruing interest coupons, the general fund shall be re-imbursed out of the sanitary fund to the extent of such surplus, in no case to exceed the amount drawn from the general fund for the sanitary fund.

Calling in bonds.

SEC. 14. Be it further enacted, That the said board of revenue is authorized and directed as often as there is an amount in the treasury to the credit of the sanitary fund, over and above the amount necessary to pay off the interest coupons, and said bonds, and over and above the amount necessary to expend in protecting the water supplies and over and above the amount necessary to re-imburse the general fund for any amount due it from the sanitary fund and over and above the amount necessary to keep the sewerage system of the county in repair, to authorize and direct the treasurer to call in and pay off a bond or bonds to be designated by the board to the amount of such surplus, provided a right for call or redemption is provided for in said bonds by said commission, and when directed by the board of revenue the treasurer shall call in and pay the bond or bonds designated by the board and shall make reports of the bond or bonds so paid and shall destroy the bonds in the same manner and in all respects as coupons are required to be reported and destroyed.

Bonds to be redeemed.

SEC. 15. Be it further enacted, That in the event there is a provision in said bonds authorizing a call or redemption then as often as there is money in the treasury to the credit of the sanitary fund which can be applied to the redemp-

tion of a sanitary bond or bonds the board of revenue shall determine by lot the bond or bonds to be redeemed, and shall issue an order to the treasurer directing the treasurer to pay off and redeem the bond so directed to be redeemed, and it shall be the duty of the treasurer to give notice of the bond or bonds selected for redemption in some newspaper published in Birmingham, Alabama, and in some newspaper published in the city of New York, once a week for three successive weeks, and if the holder of said bonds does not present the same for payment at place of payment designated in the bond within thirty days from the time of the first publication of the notice, the money shall be set aside for the payment of said bonds when presented, but no interest coupons shall be paid on said bond or bonds after thirty days from the date of the first publication of said notice.

Taxes exempt from.

SEC. 16. Be it further enacted, That the bonds issued under the provisions of this act shall not be subject to taxation by any municipality or county in this State.

Approved February 28th, 1901.

SYMPOSIUM

A BRIEF HISTORY OF THE JEFFERSON COUNTY, ALABAMA SEWER FINANCING CRISIS

MICHAEL D. FLOYD[1]

I. INTRODUCTION

Municipal projects are typically huge in size and scope. The magnitude of the projects and the engineering issues provide much to think about, and much that can go wrong, so careful planning is important. Nevertheless, the essential concepts should be generally straightforward and easy to understand, especially for sewer construction: municipal employees and contractors dig holes in the ground and put pipes in those holes. Water (and other things) in those pipes should generally flow downhill. Uphill flow can be arranged with additional engineering, pumps, expense, etc., but gravity is often available as a simple and inexpensive propellant.

Similarly, municipal finance often involves big numbers with lots of zeros on the end, but the process should be conceptually simple and dull. The money for the construction must generally be borrowed, but taxpayers – and importantly their elected officials – should be able to understand the amounts borrowed, the costs of the transactions, and the related amounts to be repaid.

Municipalities usually cannot expect chance opportunities to increase their income significantly. Amounts to be repaid should therefore be predictable, steady, and sustainable within the financial capacity of the municipality.

[1] Professor of Law and Director of International Studies, Samford University, Cumberland School of Law. A.B. Princeton University, M.S. New York University, J.D. Emory University. I am grateful to the Cumberland Law Review Editorial Board and Brittany Adkins, Editor-in-Chief, for organizing the symposium for which this article is written; Kyle Beckman, Kevin Coleman, Benjamin Coulter, Kristen Peters, and Christopher Romeo for their excellent research assistance; and Brian Noble for his capable, insightful, patient, and diplomatic efforts to organize and support this research and the related symposium. Samford Librarians Ed Craig, Cherie Feenker, and Brenda Jones were, as always, enormously helpful in locating materials. Of course, I retain responsibility if anything in this article is wrong, misleading, trivial, or boring.

Jefferson County, Alabama has seen much financial excitement in recent months, but no one is pleased about that. Events in recent years strain – perhaps to the breaking point – the expectation that taxpayers should be able to rely on their elected officials to make wise and responsible decisions for the public good.

This article offers a brief synopsis of the county's financial problems related to improving its sewer system. Part II describes the nature of the sewer construction and the related costs. Part III outlines the structure of the county's financing transactions and the shift from fixed-rate debt to floating-rate debt, with analogies from the home mortgage market. Part IV reviews the interest rate swap agreements and bond insurance that should have reduced the county's financing risks and costs, and the subsequent failure of those arrangements. Part V briefly describes some of the recent litigation generated by this controversy. In conclusion, Part VI summarizes some of this story's tragic consequences.

II. DIGGING HOLES IN THE GROUND

A. *The Challenges of Dealing with Jefferson County's Sewage*

1. Early Sewer Efforts

The need for a sewer system quickly becomes evident as population density increases. The City of Birmingham, Alabama was chartered in 1871.[2] An 1873 cholera epidemic reduced the population by half, from 4,000 to 2,000; 500 people died and 1,500 decided to leave.[3] To help avoid similar problems in the future, the City of Birmingham began work on a water system in 1874 and a sewer system in 1885.[4] Enabling legislation in 1901 constituted Jefferson County, Alabama (of which Birmingham is a part) as a Sanitary District, created a Sanitary Commission, and authorized funding for sewer construction and system operations.[5] The funding mechanism sparked two lawsuits,[6] but by the end of 1902, the basic

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[2] Public Affairs Research Council of Alabama, The History of the Jefferson County Sewer System 8 (2002) [*hereinafter* PARCA Report] (unpublished special report, on file with the Cumberland Law Review).

[3] *Id.* at 8-9.

[4] *Id.*

[5] *Id.* at 11, 13 (citing Acts of the General Assembly of Alabama 1900-1901 at 1702-19, 1722-28).

[6] Keene v. Jefferson County, 33 So. 435 (1902) (holding that enabling legislation and funding mechanism are constitutional); Birmingham Trust & Sav. Co. v. Jefferson County, 34 So. 398 (1903) (sanitary bonds held to be a general obligation of the county and not restricted to payment from a special fund).

mechanism was in place for Jefferson County to develop a sewer system.[7]

Although things did not always flow smoothly, Jefferson County substantially expanded and improved its sewer system through much of the 20th Century.[8] Environmental legislation and regulation, however, began to have a significant and increasing impact in the 1960s and 1970s; this perhaps suggested storm clouds on the horizon, portending elements of the recent crisis.[9]

2. Complying with the Consent Decree and Other Environmental Standards

The passage of the 1972 federal Clean Water Act[10] (Clean Water Act) was a major milestone in the transition to federal standards and oversight for wastewater.[11] Under the prior state and local standards for pollution control, "the discharge of raw sewage into watercourses to bypass overloaded treatment plants was widespread, and was perfectly legal."[12] New, tougher federal regulations[13] authorized by the Clean Water Act prohibited the discharge of untreated wastewater into navigable waterways and set standards for the quality of treatment.[14]

The Alabama Department of Environmental Management (ADEM) tightened the rules for wastewater discharge in 1990, resulting in significant increases in the level of required wastewater treatment.[15] However, subsequent litigation culminating in the 1996 Consent Decree caused a tectonic shift in Jefferson County's sewer realm.

Jefferson County was the defendant in lawsuits filed in 1993 and 1994 alleging violations of the Clean Water Act. *Kipp v. Jefferson County, Alabama*[16] was initially filed by private individuals in 1993, and the Cahaba River Society intervened in 1994.[17] *United*

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[7] *See* PARCA Report, *supra* note 2, at 13.
[8] *See id.* at 15-47.
[9] *See id.* at 47-55.
[10] Federal Water Pollution Control Act (Clean Water Act), 33 U.S.C. § 1251 *et seq.* (1972).
[11] *See* PARCA Report, *supra* note 2, at 58.
[12] PARCA Report, *supra* note 2, at 58.
[13] *Id.*; *see also* 40 C.F.R. § 133.100-.105 (2010).
[14] PARCA Report, *supra* note 2, at 58.
[15] *Id.* at 68.
[16] Kipp v. Jefferson County, Ala., No. 93-G-2492-S (N.D. Ala. filed Nov. 29, 1993).
[17] Unted States v. Jefferson County, Ala., No. 94-G-2947, Consent Decree at 5 (N.D. Ala. 1996) [*hereinafter* 1996 Consent Decree].

States v. Jefferson County, Alabama[18] was filed in 1994 at the request of the U.S. Environmental Protection Agency.[19] Plaintiffs in both lawsuits alleged "that the [c]ounty has discharged pollutants without the required National Pollutant Discharge Elimination System (NPDES) permits and has violated the terms and conditions of its NPDES permits." [20] Partial summary judgment as to liability was entered against Jefferson County on January 20, 1995. [21] The parties subsequently entered into a Consent Decree in 1996, resolving the issues of penalties and injunctive relief.[22] The stated intent of the Consent Decree was "that, whenever legally required, the County shall provide secondary treatment, an equivalent treatment to secondary treatment, or a standard of treatment otherwise permissible under the [Clean Water] Act, to all discharges from the County's wastewater treatment plants."[23]

The remediation prescribed by the Consent Decree was in three phases: "Phase I will consist of the development of a series of planning documents which will identify the scope, methodologies, time frame, and resources to be allocated by the County to evaluate the condition and capacity of the County Collection System, identify sources of I/I, and develop remedial measures." [24] The county was given 75 to 105 days to develop the initial components of Phase

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[18] United States v. Jefferson County, Ala., No. 94-G-2947-S (N.D. Ala. filed Dec. 6, 1994).

[19] 1996 Consent Decree, *supra* note 17, at 5.

[20] *Id.*; *see also* Coeur Alaska, Inc. v. Se. Alaska Conservation Council, 129 S. Ct. 2458, 2482 (2009) (Ginsburg, J., dissenting) ("The NPDES is the linchpin of the [Clean Water] Act, for it transforms generally applicable effluent limitations into the individual obligations of each discharger. The discharge of a pollutant is generally prohibited unless the source has obtained a NPDES permit.").

[21] 1996 Consent Decree, *supra* note 17, at 7.

[22] *See id.* at 7-8, 132-137.

[23] *Id.* at 20.

A concise definition of "secondary treatment" is elusive. The Clean Water Act directs the Administrator of the Environmental Protection Agency to "publish . . . information, in terms of amounts of constituents and chemical, physical, and biological characteristics of pollutants, on the degree of effluent reduction attainable through the application of secondary treatment." 33 U.S.C. § 1314(d)(1) (2006). The regulations mandated by the Clean Water Act appear at 40 C.F.R. §§ 133.100 - .105; those regulations are considered to be the definition of "secondary treatment." *See, e.g., Clean Water Act Section 305(b): A Potential Vehicle for Incorporating Economics into the "TMDL" and Water Quality Standards-Setting Processes*, 13 TUL. ENVTL. L.J. 71, 76 n.29 (1999); Ross Campbell, Comment, *The Bajagua Project: Finding a Solution to the San Diego-Tijuana Sewage Crisis*, 40 SAN DIEGO L. REV. 1039, 1051 n.61 (2003).

[24] 1996 Consent Decree, *supra* note 17, at 20. "I/I" is defined in the Consent Decree as "the total quantity of water from both infiltration and inflow without distinguishing the source." *Id.* at 18.

I, with responses required to EPA comments.[25] "Phase II will consist of analyses and reports undertaken and/or prepared by the County to determine the extent of rehabilitative needs and corrective actions necessary to meet the objectives of this Consent Decree within the County Collection System and the County's wastewater treatment plants."[26] The Consent Decree set various deadlines in the years 1996 through 2000 for completing portions of Phase II.[27] "Phase III is the implementation phase of the WTSCIP, in which specific improvements will be made . . . ."[28] The Consent Decree set various deadlines from September 1, 2001, to September 1, 2007, for completing components of Phase III.[29] Adjustment of those dates was permitted in specified circumstances, but not beyond February 1, 2008.[30]

Jefferson County had satisfactorily completed the Consent Decree requirements with respect to two of nine wastewater sub-basins by December, 2008.[31] However, additional documentation, inspection, and data collection requirements may delay full satisfaction of Consent Decree requirements until 2010.[32]

3. The Current Status of the Sewer System

The scope of the current Jefferson County sewer system is vast:

> The [Jefferson County Environmental Services Department] provides wastewater collection and treatment services for approximately 478,000 people in 21 different municipalities in Jefferson County. The system is currently comprised of approximately 3,150 miles of sanitary sewer lines, 185 pump stations,

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[25] *See id.* at 24, 28, 33, 39, 40, 42.
[26] *Id.* at 21.
[27] *See id.* at 33, 34, 36; *see also id.* at 23 ("In any case where a report is to be submitted or other action taken by a certain deadline which is measured from the date on which this Consent Decree is executed by the County ('Date of Execution'), such deadline shall be measured from June 1, 1995, unless the United States and Citizen Plaintiffs shall agree to a later date for such deadline.").
[28] 1996 Consent Decree, *supra* note 17, at 22.
"WTSCIP" is the acronym for the "Waste Treatment System Capital Improvement Plan" required by the Consent Decree. *See id.* at 19; *see also id.* at 42-46 (parameters of WTSCIP).
[29] *Id.* at 47-48.
[30] *Id.* at 48-49.
[31] Bank of New York Mellon v. Jefferson County, Ala., No. 2:08-CV-01703-RDP, Report of Special Masters as of Feb. 10, 2009 at 22 (N.D. Ala. filed Feb. 10, 2009) [*hereinafter* Special Masters Feb. 2009 Report].
[32] *Id.*

> nine [wastewater treatment plants], and ancillary centralized administration, maintenance, and laboratory facilities.[33]

From an operational and capacity standpoint, Jefferson County's sewer system appears to be in generally good condition.[34] This progress has required enormous financial expenditures – some warranted, and some not.[35] In an ideal world, those expenditures (plus the other expenditures made on the system since 1885, less appropriate depreciation) would have generated assets of at least commensurate value. Unfortunately, not all of the money was spent wisely.[36]

One estimate places the "value" of the system's assets at approximately $4.3 billion.[37] Possible variations in valuation methodology create uncertainty in any attempt to place a precise monetary value on the system's assets.[38] Whatever the exact monetary value of the system might be, the costs have been very, very large. Those costs have produced a vast sewer system that does seem to work fairly well, but is difficult to pay for. Of primary importance for the current analysis, the costs were financed with debt obligations, exposing the county and its residents to enormous expenditures in the years to come.

B. The Costs of Meeting the Challenges

From 1973 to 1996, Jefferson County spent approximately $575 million to upgrade, improve, and expand sewer plants and lines.[39] The county imposed nine sewer rate increases during this period, raising the sewer charge "from $0.20 to $1.72 per hundred cubic feet of water usage."[40] Regular borrowing to fund improvements, and corresponding increases in debt service costs, became an increasing factor in the county's financial situation.[41]

The Consent Decree imposed enormous additional costs on the system, though no one appears to have anticipated the actual costs or the amount of debt to be incurred. "Early estimates of how much [compliance with the Consent Decree] might cost ranged all

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[33] *Id.*
[34] *Id.*
[35] *See infra* notes 39-66 and accompanying text.
[36] *See infra* notes 44-77 and accompanying text.
[37] *See* Special Masters Feb. 2009 Report, *supra* note 31, at 23-24.
[38] The fact that these assets are unlikely to be sold in the marketplace also increases the difficulty and reduces the importance of establishing a precise monetary value.
[39] PARCA Report, *supra* note 2, at 72.
[40] *Id.* at 75.
[41] *Id.*

the way from $250 million to $1.2 billion. In other words, no one had a clue."[42] The magnitude of the numbers involved make them difficult to grasp intuitively, but the realization is staggering:

> In connection with making the required improvements to . . . Jefferson County's Sewer System, between 1997 and 2003, the County borrowed approximately $3.6 billion in funds through the issuance of various sewer warrants ("Warrants"). The Warrants are secured by a lien on the revenues generated by the Sewer System that remain after payment of 'Operating Expenses.' There are approximately $3.2 billion in Warrants that remain outstanding [in mid-2009].[43]

C. *Why the Sewers Cost More than They Should Have*

Caution is always warranted when using the benefit of hindsight to second-guess past decisions. It was inevitable that compliance with heightened environmental standards and municipal growth would increase the cost of providing sewer service. Some of the decisions, and the attendant cost increases, were perhaps unavoidable.

Nevertheless, even a charitable consideration of the processes and decisions suggests that county officials could have done a much better job of controlling costs. Several of Jefferson County officials' decisions and strategies appear to have dramatically increased the costs of building, maintaining, and operating the county's sewer system.

Waste is bad enough, but there was also blatant criminal behavior by high-level county officials and their business counterparts. The *Fortune Magazine* article on the Jefferson County sewer finance crisis quoted an observation by Larry Lavender, Republican staff director for the House Financial Services Committee: "'It's hard to steal as much as you can waste.'"[44] The *Fortune* article then observed, "Perhaps, although there was lots of stealing too."[45]

In short, a number of people entrusted with significant public responsibility in Jefferson County neglected the public trust, or violated it, or both. A detailed chronicle of all this malfeasance, misfeasance, and nonfeasance would fill volumes. A brief review of some of the issues is instructive.

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[42] David Whitford, *Birmingham on the Brink (of Bankruptcy)*, FORTUNE MAGAZINE, Oct. 27, 2008, at 116.

[43] Bank of New York Mellon v. Jefferson County, Ala., No. 2:08-CV-01703-RDP, Memorandum Opinion at 3 (N.D. Ala. June 12, 2009) [*hereinafter* Federal Receivership Memo Opinion].

[44] Whitford, *supra* note 42, at 117.

[45] *Id.*

1. Planning, Engineering, and Design Issues[46]

a. Consolidating the Sewer System

As originally conceived and built, the responsibility for the sewer system was divided between Jefferson County and various municipalities within the county.[47] The county was responsible for the wastewater treatment plants and the main (trunk) sewer lines. Municipalities were responsible for getting the sewage from homes and businesses to the trunk sewer lines.[48] This division of responsibility was dysfunctional:

> The County had no method of holding accountable all those who tapped into its trunk lines; and the cities had little incentive to view wastewater disposal as a major issue, since their job was simply to transport sewage to another unit of government charged with its disposal. Maintenance of the System suffered as a result.[49]

The 1996 Consent Decree shifted responsibility for the entire system to the county, together with the attendant costs.[50] This has imposed enormous additional costs on the county.[51] However, unlike many of the other issues summarized here, the county does not appear to have had any feasible alternative to taking over the entire system.[52]

b. Inadequate Program Management

County leaders clearly could have done a better job of managing the process of complying with the Consent Decree, as explained in a 2003 Program Review:[53]

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[46] The organization of this material draws heavily on BE&K ENGINEERING CO., JEFFERSON COUNTY PROGRAM REVIEW 4-6 (Executive Summary) (2003) [*hereinafter*, BE&K REPORT].

[47] PARCA Report, *supra* note 2, at 3.

[48] *Id.*

[49] *Id.*

[50] *Id.*; BE&K ENG'G CO., JEFFERSON COUNTY PROGRAM REVIEW 4 (Final Report) 50-02-0241 (2003); *see* 1996 Consent Decree, *supra* note 17, at 14-15 ("County Collection System" defined to include sewer facilities of "Municipalities and the unincorporated areas that are serviced by the County"). The Consent Decree imposed responsibility for remediation of the County Collection System. *See id.* at 20-21. Jefferson County was the only municipality that was a party to the Consent Decree. *See id.* at 9-10.

[51] PARCA Report, *supra* note 2, at 3-4.

[52] BE&K REPORT, *supra* note 46, at 4.

[53] The Program Review was undertaken at the request of Jefferson County Commissioner Gary White after identification of concerns about the county's program for complying with the Consent Decree. The team assembled to undertake the

> Implementation of the Program [required by the Consent Decree] without experienced and sufficient staff and specialized tools and processes has affected both Program delivery and Program costs. [Jefferson County's Environmental Services Department ("ESD")] administered the Program without the addition of significant new internal resources or outside consultants experienced in delivering programs similar in size and complexity. Prior to 1996, ESD and its consultants had been involved in the delivery of capital improvements on the order of $35 million/year. Typically, a program manager with the experience, personnel, and tools to deliver a Program of this magnitude would have been hired.
>
> Delivery of the County's Program involved expenditures of more than $250 million per year and the delivery of hundreds of construction contracts. Inadequate cost and scheduling tools and processes were in place, making it impossible for ESD to accurately predict Program cost and coordinate schedules. As a result, it was not possible to prioritize improvements or accurately track Program cost or progress.[54]

c. Excess Capacity

Significant portions of the Jefferson County sewer system are simply larger – and therefore more expensive – than they need to be.[55] The county has ample sewer capacity to accommodate substantial growth.[56] Unfortunately, that growth does not appear likely to materialize in the foreseeable future, and the capacity has to be paid for whether or not it is used.[57]

Overly conservative engineering decisions also appear to have resulted in excess capacity: "the sizing of some off [sic] the facilities is overly conservative when compared to accepted practice. This is particularly true of the clarifiers, which account for a significant portion of a plant's cost."[58]

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review consisted of BE&K Engineering Co., which provided "overall management of the review, along with a review of Program implementation procedures"; CH2M HILL, which provided "engineering technical expertise and support"; and Porter White and Company, which provided "financial analysis and alternative funding recommendations." *Id.* at 1.

[54] *Id.* at 4-5.

[55] *Id.* at 5.

[56] *Id.*

[57] Whitford, *supra* note 42, at 117; BE&K REPORT, *supra* note 46, at 5.

[58] BE&K REPORT, *supra* note 46, at 6.

d. Inadequate Consideration of Alternative Technologies

The 2003 Program Review[59] identified a number of alternative technologies that could have reduced the cost of Jefferson County's compliance with the Consent Decree: "upstream peak storage facilities, in-system management, tunnels to transport and equalize flows, or other techniques for reducing the cost of transporting and treating peak flows."[60] Unfortunately, the county apparently never considered these alternatives.[61]

e. Inadequate Cost-Benefit Analysis

Jefferson County set high standards for at least some of the technology and services it purchased, but failed to consider adequately whether the essential objectives could be accomplished at lower cost.[62] One symptom of this problem was the county's "contractor prequalification process," which limited, at least initially, the number of contractors who could bid on projects; this reduced the competition in bidding on the various projects, and therefore presumably increased the costs.[63] This approach "is unusual for the utility industry, except when applied to highly technical products and installation."[64] The charitable explanation is perhaps that the county's leaders were too focused on getting the very best, without adequately considering whether something less expensive might suffice. Unfortunately, the indictments and convictions in recent years[65] might suggest a more cynical explanation for limiting the contractors able to bid.

f. Ill-Considered Decisions

Over and over again, those responsible for planning appear to have given inadequate attention to the decisions they made. One of the most dramatic examples is the so-called "super sewer" project:

> In the late 1990s, Jefferson County began drilling a sewer tunnel beneath the scenic Cahaba River. But a citizen uproar ensued, and the tunnel was halted halfway through. In the end,

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[59] *See id.* at 1.
[60] *Id.* at 6.
[61] *Id.*
[62] *Id.*
[63] *See id.*
[64] *Id.*
[65] *See infra* notes 67-69 and accompanying text.

county officials had to pay nearly $20 million to extract the machine from the hole and return it to the contractors.[66]

2. Misbehavior by Public Officials

The *Fortune Magazine* article on the Jefferson County sewer finance crisis noted that "[t]here have been 22 indictments, 21 convictions, and one guilty plea so far in an ongoing investigation by federal authorities . . . ."[67] That tally predated the October 2009 conviction of former Jefferson County Commission President and Birmingham Mayor Larry Langford in federal court on sixty bribery-related counts.[68] The other twenty-one convictions included a number of prominent businessmen, a lobbyist, a well-known investment banker, several former county commissioners, and various other public officials who held positions of responsibility.[69]

These were not isolated instances. The corruption reached the highest levels of county government. It would be difficult – and probably unproductive at this point – to quantify precisely the proportion of excess costs that waste and misbehavior each imposed on the county's sewer projects. Each of those factors undoubtedly played a large role and (in addition to the legitimate costs of environmental compliance) generated a substantial component of the sewer debt.

Some have suggested that county officials' misbehavior might preclude a recovery against the banks and others who participated in the county's financial arrangements.[70] This question and related issues will undoubtedly be researched and briefed extensively in connection with pending litigation.[71] A few brief observations here may be instructive.

General equitable principles require that "he who seeks equity must do equity."[72] A similar, and similarly fundamental, equitable

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[66] Whitford, *supra* note 42, at 117.

[67] *Id.* at 116; *see also* Federal Receivership Memo Opinion, *supra* note 43, at 5 n. 7 ("At the March 26, 2009 receivership hearing, David Denard, the Director of the [Jefferson County Environmental Services Division ("ESD")], testified that he found himself in the position of Director over the ESD after everyone in authority over him had been convicted of crimes relating to these projects.").

[68] *See, e.g.*, Russell Hubbard, *Langford Guilty: Mayor Convicted on All 60 Counts*, BIRMINGHAM NEWS, Oct. 29, 2009, at 1A.

[69] *See, e.g.*, Editorial, *A Trial for Birmingham*, BIRMINGHAM NEWS, Oct. 19, 2009, at 6A; Barnett Wright, *Corrupt Culture Kills Trust: 'More of Same' Attitude Feared*, BIRMINGHAM NEWS, Nov. 2, 2009, at 1A, 3A.

[70] *See* Barnett Wright, *Jeffco Suit Seen as Tough Sell Experts: Past Corruption a Factor*, BIRMINGHAM NEWS, Nov. 15, 2009, at 15A.

[71] *See infra* Part V.

[72] 30A C.J.S. *Equity* § 100 (2007).

principle is often expressed as the "clean hands" doctrine, which "bars relief to those guilty of improper conduct in the matter as to which they seek relief."[73] There is ample evidence of many unclean (and outstretched) hands at the Jefferson County Courthouse in recent years, and a distressing number of those unclean hands belong to former County Commissioners and others who held important positions of power and influence.

However, does Jefferson County *itself* have unclean hands as the result of bad acts by those purportedly, but improperly, acting on behalf of the county? This raises questions of agency law. Jefferson County, like any corporate entity, is a "principal" with "agents" (County Commissioners, employees, contractors, consultants, lawyers, etc.) acting on its behalf.[74]

The liability of a principal for its agent's tortious acts is generally governed by the doctrine of respondeat superior, which "holds the principal responsible for torts and negligent acts of an agent committed while acting within the scope of the agency or employment."[75] Whether or not an agent is acting within the scope of the agency or employment is subject to an extensive and complex body of law.[76] The involvement of a municipal corporation as principal introduces yet another layer of complex questions as to whether and how the doctrine of respondeat superior should be applied.[77]

In short: Jefferson County relied on a number of corrupt people who purported to do the business of the county, but does that mean that the county, itself, was corrupt? Or should individuals' corrupt acts be viewed as outside the scope of their appropriate activities, and therefore independent of the county?

III. PAYING FOR THE HOLES AND PIPES IN THE GROUND

The sewer construction led to the current situation, but the real focus is on the debt incurred. Debt financing for both municipalities and home purchases has been problematic in recent years. A brief look at the problems in the home mortgage market

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[73] *Id.* § 109 (2007).

[74] *See, e.g.*, 2A C.J.S. *Agency* § 3 (2003) ("[T]he term 'agency' signifies the fiduciary relationship which results from the manifestation of consent by one person, known as the principal, to another that the latter is to act on behalf of the principal and subject to his or her control, and consent by the person designated as agent to act in that capacity.").

[75] 2A C.J.S. *Agency* § 425 (2003).

[76] *See, e.g., id.* §§ 427-433 (2003).

[77] *See, e.g.*, 63 C.J.S. *Municipal Corporations* §§ 673-679 (1999).

may help make the less-familiar municipal finance market easier to understand.

A. *The Nature and Use of Debt Financing*

Borrowing money to buy a home is not an inherently bad idea. Neither is borrowing money to build a sewer system. In both cases, debt facilitates acquisition of a capital asset that will provide benefits now and for many years into the future. If these assets could only be purchased or built for cash, most families and municipalities would have to wait many years before enjoying the benefits of their homes or their sewers.

Consequently, families usually borrow much of the money for purchasing a home, and municipalities usually borrow much of the money for construction projects. These two markets, and the problems they have encountered, exhibit surprisingly similar trends in recent years.

Historically, families and municipalities typically used fixed-rate debt transactions to borrow the money they needed. That is to say, the interest rate on the loan balance would remain constant for the life of the loan. Recent transactions in both home finance and municipal finance have been exceedingly complex and have more frequently carried variable rates of interest.

Floating interest rates increase the borrower's risk, because of the possibility of higher interest rates and correspondingly higher payment requirements. The remainder of this Part focuses on the shift from fixed interest rates to floating interest rates.[78] Part IV *infra* explores the nature and consequences of other sources of complexity in these financial instruments.

B. *The Shift from Fixed Interest Rates to Floating Interest Rates*

1. The Home Mortgage Market and Its Instructive Problems

Families once used relatively straightforward fixed-rate debt transactions to borrow the money to purchase a home. With a fixed interest rate, the interest rate on the loan balance did not

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[78] The term "floating" is used here to encompass all interest rates that are not fixed for the duration of the loan. Various mechanisms can be used to set floating interest rates. *See* Memorandum from the Jefferson County Comm. to the County's Creditors and Other Persons 1-2 (June 3, 2009) (endnotes omitted), http://jeffco.jccal.org/pls/portal/docs/PAGE/FINANCE_PAGE_GROUP/INVESTOR_RELATIONS/TAB46713/TAB95555/NOTICE-SEWER%20REVENUE%20WARRANTS-JUNE%205%2C2009.PDF; *see also infra* notes 80 and 84.

change, regardless of changes in money market conditions. Fixed interest rates were typical on home mortgages until the 1980s, when the use of floating rates began to expand dramatically.[79]

Following the savings and loan crisis of the 1980s, home mortgage lenders began offering floating-rate mortgage loans. These typically offer lower rates of interest, at least initially, to entice the borrower to take the risk of fluctuations in interest rates.[80] If the trend in market interest rate cooperates, a floating-rate loan may save interest when compared to a fixed-rate loan. However, floating interest rates increase the borrower's risk, because interest rates may increase, requiring correspondingly higher payments or a longer repayment period.[81] A borrower cannot know whether a particular fixed- or floating-rate loan costs less until the end of the loan term, because only then will the actual interest rates on the floating-rate loan be known.

2. Jefferson County's Shift From Fixed Interest Rates to Floating Rates

Jefferson County's debt[82] carried fixed interest rates through 2000.[83] However, in 2001 and 2002, Jefferson County began issuing

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[79] *See, e.g.*, Jonathan Macey, Geoffrey Miller, Maureen O'Hara, & Gabriel D. Rosenberg, *Helping Law Catch Up to Markets: Applying Broker-Dealer Law to Subprime Mortgages*, 34 IOWA J. CORP. L. 789, 793 (2009); ELIZABETH RENUART AND KATHLEEN E. KEEST, THE COST OF CREDIT: REGULATION, PREEMPTION, AND INDUSTRY ABUSES 178 (4th ed. 2009).

[80] In a fixed-rate loan, the lender bears the risk of interest rate fluctuations. This is not a problem if the lender's source of funds is unaffected by fluctuations in the money markets. However, banks and other financial institutions typically borrow the money they lend, often in the form of deposits, and much of this deposit funding is sensitive to changes in market interest rates. An increase in market interest rates will cause depositors (and others) to demand higher interest rates on their deposits; if the bank doesn't comply, the depositors will withdraw their money and place it elsewhere, forcing the bank to find alternative funding sources (which will also be more costly as the market interest rates increase). A bank that holds floating-rate mortgage loans can pass this increased funding cost to the homeowner. However, a bank that holds fixed-rate mortgage loans will see its profit margins on those loans decrease, and ultimately become negative, as market interest rates increase. This was the genesis of the savings and loan crisis of the 1980s. *See infra* note 89.

[81] *See, e.g.*, Macey et al., *supra* note 79, at 793-94.

[82] For simplicity, this article refers to the sewer debt as Jefferson County's debt. However, the lenders do not have recourse to all of the assets and revenue of the county, but only to sewer revenues. Federal Receivership Memo Opinion, *supra* note 43, at 22; Bank of New York Mellon v. Jefferson County, Alabama, No. 2:08-CV-01703-RDP Final Report of Special Masters, at 3 (July 17, 2009 and clarification July 20, 2009).

floating rate debt in the form of variable-rate and auction-rate obligations, and the vast majority of Jefferson County's current debt now carries floating interest rates.[84] For municipalities, as for homeowners, floating interest rates increase the borrower's risk due to the possibility of higher interest rates and correspondingly higher payment requirements.

As in the home mortgage market, the extraordinary problems that beset Jefferson County were the product not only of floating interest rates, but also of complexity in the debt instruments to which the county agreed. This is the subject of the next Part.

IV. FINANCIAL MAGIC: SOME THOUGHT THEY SAW THE MONEY, BUT NOW WE DON'T

The enormous problems in both the home mortgage market and Jefferson County's finances result from a combination of factors. Prominent among these is the vastly greater complexity of the debt instruments used in recent years. In the home mortgage market, much of the complexity in the instruments has resulted from

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[83] *See* Jody Potter, Jeff Hansen, & Eric Velasco, *How Jefferson County's Debt Ballooned*, BIRMINGHAM NEWS, Mar. 9, 2008, http://blog.al.com/spotnews/2008/03/309Bonddeal2.pdf.

[84] *See id.*; *see also* Memorandum from the Jefferson County Comm. to the County's Creditors and Other Persons 1-2 (June 3, 2009) (endnotes omitted), http://jeffco.jccal.org/pls/portal/docs/PAGE/FINANCE_PAGE_GROUP/INVESTOR_RELATIONS/TAB46713/TAB95555/NOTICE-SEWER%20REVENUE%20WARRANTS-JUNE%205%2C2009.PDF ("Prior to October, 2002, over 95% of the County's sewer debt was outstanding in the form of traditional long-term fixed rate warrants. Beginning in late 2002, a program to refinance the sewer debt was begun. . . . The refinancing converted the County's sewer debt structure from over 95% fixed-rate financing to 93% variable-rate financing, including approximately $2.09 billion of auction rate warrants, $951 million of variable rate demand warrants and only $234 million of traditional fixed rate warrants.").

This article uses the term "floating-rate debt" to encompass both variable-rate debt and auction-rate debt. Variable-rate debt generally provides that the interest will vary based on an index, such as the Prime rate, the rate on a specified borrowing by the U.S. Treasury, or the London Interbank Offered Rate (LIBOR). In auction-rate debt, the interest rate is determined by periodic auctions of the securities. *See, e.g.*, Floyd Norris, *Auctions Yield Chaos for Bonds*, N.Y. TIMES Feb. 20, 2008, at C1; Russell Hubbard, *Morgan Keegan Cited By Authorities Over Auction-Rate Securities*, BIRMINGHAM NEWS, July 22, 2009, at 5B. These two – variable-rate and auction-rate debt – have more in common with each other than either has in common with fixed-rate debt. Auction rate debt carries the additional risk that willing buyers must show up for each auction, or the auction fails. Unfortunately, such auction failures actually occurred in 2008. *See id.*; *see also* Amod Choudhary, *Auction Rate Securities = Auction Risky Securities*, 11 DUQ. BUS. L.J. 23, 24-29 (2008) (describing the rate-setting mechanisms for auction-rate securities).

arcane methods of determining the floating interest rate, combined with artificially low "teaser" rates for the initial portion of the loan's term.[85] These complex debt instruments are one reason that some homeowners have recently seen their mortgage payments increase dramatically, making it hard to stay in their homes. Municipal finance transactions add an additional layer of complexity in the form of hedging mechanisms designed to convert the floating-rate debt into synthetic fixed-rate debt.

A. *The Way the Financial Magic Was Supposed to Work*

Perhaps the most charitable explanation for Jefferson County's shift from fixed-rate to floating-rate debt is that the county's leaders expected to save the county money on borrowing costs.[86] Whatever the explanation and whatever the motivation of Jefferson County officials may have been, those officials were swept along by pervasive trends in municipal finance:

> In the years since Jefferson County embarked on the sewer project, a quiet revolution had swept through the sleepy world of municipal bonds. No longer were local governments reliant on boring but reliable fixed-rate debt. Starting in the mid-1990s, Wall Street banks sold tens of billions of dollars' worth of exotic variable-rate and auction-rate securities into the muni market that promised lower short-term interest rates for the long-term borrower – and oh, by the way, higher fees for the underwriter. Those fees were then multiplied several times over by adding in complicated hedging strategies that were sold as part of the package.[87]

In an attempt to neutralize the risk that the floating interest rates might go up, Jefferson County entered into interest rate swap agreements. The county also bought municipal bond insurance policies to make the debt obligations more attractive to investors and therefore more marketable.[88]

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[85] *See* RENUART, *supra* note 79, at § 4.3.6.6.

[86] Unfortunately, one would probably be naive to believe this explanation fully in light of the fraud and abuse that has pervaded the sewer remediation work and the related financial transactions. *See supra* notes 67-69 and accompanying text. Nevertheless, assuming that county officials were trying to save money with floating-rate debt is a useful starting point for understanding the conceptual structure of the current financing arrangements.

[87] Whitford, *supra* note 42, at 117-18.

[88] Federal Receivership Memo Opinion, *supra* note 43, at 6.

1. Interest Rate Swap Agreements

Preferences for fixed-rate debt or floating-rate debt vary among parties to debt instruments. If money market conditions have a large effect on a borrower's income stream or the amounts of a lender's obligations, that borrower or lender will typically prefer floating rates. For example, commercial banks often prefer to lend at floating rates. Banks typically borrow much of the money that they lend from depositors and other short-term lenders; if interest rates in the general money market move up, availability of bank deposits and short-term loans to the bank will diminish if the bank does not increase the rates it offers.[89] On the other hand, government entities like Jefferson County usually prefer fixed rates, because income from taxes is usually relatively steady and determined primarily by factors other than the level of money market interest rates.[90]

In an apparent effort to convert its floating-rate debt to synthetic fixed-rate debt, Jefferson County entered into "thirteen (13) separate interest rate swap transactions with Bank of America, N.A., Bear Stearns Capital Markets Inc., JPMorgan Chase Bank and Lehman Brothers Special Financing Inc. in a current aggregate notional amount of approximately $5.4 billion."[91]

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[89] This situation was what initially caused the savings and loan crisis of the 1980s. Savings and loan associations made long-term, fixed-rate loans, but these organizations funded those loans with deposits that were subject to withdrawal. That scenario worked as long as interest rates were stable (because of regulatory limits on the amount of interest that could be paid and the lack of alternatives for savers). However, after the Organization of Petroleum Exporting Countries (OPEC) succeeded at restricting petroleum supplies in the 1970s, inflation made savers much more concerned about the rate they earned on their savings. This concern, together with the advent of money market mutual funds (which gave savers a new alternative to regulated limits on savings rates), resulted in large movements of funds away from low-interest savings and loan deposit accounts. *Cf.* RENUART, *supra* note 79, at §§ 4.3.6.1 to 4.3.6.2; IT'S A WONDERFUL LIFE (Liberty Films 1946) (a run on George Bailey's Building & Loan prompted by fears about its solvency).

[90] *See* RONALD J. MANN, PAYMENT SYSTEMS AND OTHER FINANCIAL TRANSACTIONS: CASES, MATERIALS, AND PROBLEMS 341-43 (3d ed. 2006).

[91] *Sewer Revenue Warrants*, Jefferson County Commission, Material Event Notice, Mar. 4, 2008, at 2, *available at* http://jeffco.jccal.org/pls/portal/docs/PAGE/FINANCE_PAGE_GROUP/INVESTOR_RELATIONS/TAB46713/TAB95555/MATERIAL%20EVENT%20NOTICE%20%28SEWER%20REVENUE%20-%20MARCH%204%202008%29.PDF (last visited Mar. 26, 2010). The notional amount of $5.4 billion is significant because it substantially exceeds the amount of floating-rate debt that the county needed to convert to synthetic fixed-rate debt. This suggests that the county was speculating in the interest rate swap market, a highly risky undertaking. *See infra* note 94.

An interest rate swap agreement is a derivative contract[92] that enables a borrower or a lender to convert variable-rate debt to synthetic fixed-rate debt or to convert fixed-rate debt to synthetic variable-rate debt.[93] The parties to a swap agree to make payments to each other based on a notional amount[94] of debt. If all goes as planned, the combined net effect of the actual interest payments on the debt, plus or minus the payments or receipts on the swap contract, will result in net cash flow for the preferred (e.g., fixed)

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[92] A student note suggests an essential characteristic of derivative contracts: "they derive their value from the fluctuations in the values of underlying assets." Karen P. Ramdhanie, Note, *Derivatives Contracts of Insolvent Companies: Preferential Treatment under the Bankruptcy Code of the United States and the Insolvency Laws of the United Kingdom*, 18 N.Y.L. SCH. J. INT'L & COMP. L. 269, 271-72 (1999). The breadth, uncertainty, and potential for confusion related to this term are also nicely suggested by an accompanying footnote in that Note:

> Armando T. Belly, Derivatives: The Good, the Bad and the Ugly, Address at New York Law School 1995-96 Faculty Lecture Series (Oct. 24, 1995). Professor Belly stated that there are three definitions of a derivative: 1. A descriptive definition - a derivative is "any contract, the value of which fluctuates according [sic] the value of an underlying commodity or group of commodities. (quoting Edward J. Swan, The Development of the Law of Financial Services I (1993)); 2. a functional definition - derivatives are globally used financial products that have evolved to meet the demand for cost-effective protection against risk associated with rate and price movements by essentially unbundling and transferring risks from entities less willing or able to manage them to those more willing or able to do so. (quoting General Accounting Office, Financial Derivatives: Actions Needed to Protect the Financial System (1994)); and 3. a layperson's definition - derivatives are insurance contracts unbundling and transferring risks.

Id. at 271 n.20.

[93] *See* MANN, *supra* note 90, at 343.

[94] The notional amount is the hypothetical loan principal amount on which the interest rate swap payments are based. For example, if a borrower wants to convert $50 million in floating-rate debt entirely to synthetic fixed-rate debt, that borrower will seek a swap contract with a notional amount of $50 million (or multiple contracts with notional amounts totaling $50 million). Of course, that borrower could enter into a swap contract for a lesser amount, which would result in converting part of the floating-rate debt to synthetic fixed-rate debt, with floating-rate interest staying in place on the remainder. Alternatively, the borrower may enter into swap contracts for notional amounts exceeding the amount of debt outstanding. This is a form of speculation in swap contracts. The Orange County, California bankruptcy was caused by speculation in another type of derivative contracts, interest sensitive reverse repurchase agreements, which have some similarities to interest rate swaps. *See, e.g.*, Alexander E. Kolar, Note, *Hammersmith Meets Orange County: "Wishing Upon a Star" With Taxpayer Money in the Municipal Bond Derivative Market*, 49 WASH. U. J. URB. & CONTEMP. L. 315, 317-18, 332-33 (1996).

type of interest rate, rather than the actual (e.g., floating) type of interest rate on the original debt obligation.[95]

Unfortunately, of course, things often do not go as planned.[96] Jefferson County's experience with interest rate swaps provides an extensive case study in the things that can go wrong. That is the subject of section "B" of this Part.[97] First, however, one other structural component of financial magic bears examination.

2. Municipal bond insurance

Interest on a loan compensates the lender for, among other things, the risk that the borrower will be unable or unwilling to repay the loan. The greater the risk in a transaction, the greater the compensation that the borrower must pay to induce someone to assume that risk. Consequently, loans that are perceived as more risky require higher interest rates than loans perceived as less risky; all else being equal, borrowers have an incentive to reduce the perceived risk of lending to them. Providing a secondary source of repayment is a common means of reducing the risk of a loan. Common secondary sources of repayment include collateral (e.g., giving the lender special rights in your house or your car as security for the loan) and sureties (e.g., inducing a wealthy relative to guarantee or co-sign your loan obligation).[98]

A huge industry of municipal bond insurance developed to help municipalities reduce the perceived risk of their credit obligations.[99] For a fee, municipal bond insurers provide contractual assurance "that no matter what happens to the finances of the government that issues the bond, the bond's interest and principal payments will be made."[100] This assurance enables the municipality to pay lower interest rates on insured bonds than it would have to

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[95] MANN, *supra* note 90, at 343-44.

[96] "The best laid schemes o' mice an' men Gang aft a-gley." Robert Burns, *To a Mouse, reprinted in* THE YALE BOOK OF QUOTATIONS 118 (Fred R. Shapiro, ed., 2006).

[97] *See infra* text at notes 103-111.

[98] *See, e.g.*, MICHAEL D. FLOYD, MASTERING NEGOTIABLE INSTRUMENTS: UCC ARTICLES 3 AND 4 AND OTHER PAYMENT SYSTEMS 83-84 (2008).

[99] *See* TERRY AGRISS, BLACK & VEATCH, MUNICIPAL BOND MARKET ISSUES: RECENT DEVELOPMENTS, 3 (2008), *available at* http://www.bv.com/Downloads/Resources/Reports/EMSMunibond20081222.pdf (last visited Mar. 26, 2010) ("The best current estimates are that approximately half of the $2.7 trillion municipal bonds outstanding bear insurance.").

[100] MORNINGSTAR, INC., MORNINGSTAR MUNICIPAL BOND INSURANCE COURSE NO. 210: WHY INSURE MUNICIPAL BONDS?, http://news.morningstar.com/classroom2/course.asp?docId=5399&page=2&CN=COM (last visited Mar. 26, 2010).

pay on equivalent, uninsured bonds.[101] The value of this insurance, however, is dependent on the insurers maintaining high credit ratings.[102] The insurers in effect make their own high credit ratings available to the municipalities' debt. If the insurers lose those high ratings, as they did in 2008, the municipalities' debt has to stand on its own merit.

B. *The Effects of Gravity Can Be Held at Bay for a While, but Sooner or Later Things Tend to Go Downhill*

1. The Decline In Credit Ratings and the Failure of the Auction Market

For many years, "monoline" insurers, whose only significant business was insuring municipal debt obligations, provided municipal bond insurance.[103] As late as 2007, municipal bond insurance was readily available from seven insurers rated triple-A[104] by all three major rating firms.[105] However, the bond insurers expanded into insuring securitized home mortgage obligations.[106] The subsequent difficulties with subprime mortgages caused the bond insurers' credit ratings to fall; by the end of 2008, "no municipal bond insurer was left with a triple-A [rating] from all three credit rating services."[107] Downgrades of bond insurers' credit had a negative effect on the credit ratings of Jefferson County's obligations.[108]

At about the same time, the market for auction-rate securities began having difficulty attracting enough buyers to permit successful auctions of the county's debt.[109] When the supply of securities exceeds the bids for purchase of those securities, the auction fails.[110]

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[101] AGRISS, *supra* note 99, at 3; MORNINGSTAR, INC., *supra* note 100.

[102] *See* AGRISS, *supra* note 99, at 3-4; Federal Receivership Memo Opinion, *supra* note 43, at 6.

[103] AGRISS, *supra* note 99, at 2.

[104] Triple-A is the highest rating category. Caitlin M. Mulligan, Note, *From AAA to F: How the Credit Rating Agencies Failed America and What Can Be Done to Protect Investors*, 50 B.C. L. REV. 1275, 1278 (2009).

[105] AGRISS, *supra* note 99, at 3. The three major rating firms are Standard & Poor's, Moody's, and Fitch. *Id.*; *see also* Mulligan, *supra* note 104, at 1278 n.23.

[106] AGRISS, *supra* note 99, at 3.

[107] *Id.*

[108] *See, e.g.*, Material Event Notice 1-2 (Feb. 27, 2008), http://jeffco.jccal.org/pls/portal/url/ITEM/478D6CFC29866FEEE0440003BA23FA0C; Whitford, *supra* note 42, at 120.

[109] *See* Whitford, *supra* note 42, at 120; AGRISS, *supra* note 99, at 4-5.

[110] Amod Choudhary, *Auction Rate Securities = Auction Risky Securities*, 11 DUQ. BUS. L.J. 23, 29-32 (2008).

The combination of ratings downgrades and market failures in the auction-rate securities markets dramatically increased the county's debt service costs: "interest payments doubled within weeks, from $130 million a year to $260 million. Add an accelerated annual principal payment of $200 million, and here's the bottom line: $190 million a year in gross sewer revenues chasing $460 million a year in debt service."[111]

2. Speculation and Fees In Swap Contracts

As indicated above, Jefferson County's problems with its sewer financing arrangements developed over a number of years due to a variety of factors. The two major, immediate factors that precipitated the 2008-09 crisis were the downgrades in bond insurers' credit ratings and the failure of the municipal auction market. One other issue is worthy of note: the county apparently speculated in swap contracts:

> On top of the $3.2 billion of mostly variable-rate debt, the county conducted the interest rate swaps with a notional [sic] of more than $5 billion. That's not how much the county owes on the swaps, but it is a significant fact for this reason: That the county had a notional value of its swaps greater than its debt should have been a red flag that the county was using swaps to speculate on interest rates rather than to hedge.[112]

If swap contracts work properly – a big "if," as Jefferson County has learned to its dismay – they can be a useful mechanism for reducing exposure to variable interest rates. In other words, swap contracts and other derivative securities can be used to reduce risk. However, this only works to the extent that the swap contracts are used against existing debt. Speculating in derivative securities is extremely risky and was the primary cause of the Orange County, California bankruptcy.[113]

It also appears that Jefferson County overpaid the bankers for at least some of its transactions:

> Jefferson County . . . has paid a rich price for not seeking public bids for its financing. JPMorgan . . . charged the county fees that are almost two times – or $45 million – higher than what

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[111] Whitford, *supra* note 42, at 120.
[112] Kyle Whitmire, *Politician-Assisted Suicide*, BIRMINGHAM WEEKLY, July 23, 2009, http://www.bhamweekly.com/2009/07/23/politician-assisted-suicide/.
[113] *See* Kolar, *supra* note 94 at 317-18.

> banks normally collect in derivative transactions of this size, according to data compiled by Bloomberg.[114]

V. RECENT LITIGATION

A. *Litigation Seeking Appointment of a Receiver*

Bank of New York Mellon, Financial Guaranty Insurance Company, and Syncora Guarantee Inc.[115] sued Jefferson County in federal court, "alleg[ing] that the County has defaulted on certain contractual obligations related to its borrowing of substantial sums of money."[116] One week later, the same plaintiffs filed an emergency motion seeking appointment of a receiver for the county's sewer system.[117]

In a fifty-five page memorandum opinion, the federal district court held that

> (1) Plaintiffs have made a sufficient factual showing that they are entitled to the appointment of a receiver; but (2) the Johnson Act prohibits the appointment of a receiver with the power to directly or indirectly affect [public utility] rates; and (3) the court should abstain from appointing a receiver even with limited powers.[118]

The federal district court subsequently ordered a stay of all proceedings and authorized the plaintiffs to seek relief in the courts of the State of Alabama.[119]

The Bank of New York Mellon filed suit on August 3, 2009, in Jefferson County, Alabama Circuit Court, again seeking appointment of a receiver for the sewer system.[120] That lawsuit remains pending at this writing.

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[114] Martin Z. Braun, Darrell Preston, and Liz Willen, "*The Banks that Fleeced Alabama*," BLOOMBERG MARKETS, Sept. 2005, at 54, 58-59.

[115] Bank of New York Mellon is the indenture trustee on the sewer debt. Financial Guaranty Insurance Company and Syncora Guarantee Inc. provide municipal bond insurance for the sewer debt. Bank of New York Mellon v. Jefferson County, Ala., No. CV-08-H-1703-S, at 2 (N.D. Ala. filed Sept. 16, 2008).

[116] Federal Receivership Memo Opinion, *supra* note 43, at 2.

[117] *Id.* at 2, 11.

[118] *Id.* at 1.

[119] Bank of New York Mellon v. Jefferson County, Alabama, No. 2:08-CV-01703-RDP, order at 1 (N.D. Ala. July 6, 2009).

[120] Shelly Sigo, "*BNY Files for JeffCo Sewer Receiver*," THE BOND BUYER, Aug. 5, 2009, at 1; Eric Velasco, "*Sewer Receiver Suit in Jeffco*," BIRMINGHAM NEWS, Aug. 4, 2009, at 2B. Bank of New York Mellon v. Jefferson County, Ala., No. 2:08-CV-01703-RPD (Jefferson County, Ala. Circuit Ct. Aug. 3, 2009)

B. *SEC Settlement with J.P. Morgan*

The Securities and Exchange Commission (SEC) instituted administrative and cease and desist proceedings in late 2009 against J.P. Morgan Securities Inc. (J.P. Morgan) under the Securities Act of 1933 and the Securities Exchange Act of 1934.[121] The SEC and J.P. Morgan entered into a settlement of these proceedings, and J.P. Morgan agreed (without admitting or denying any of the SEC's findings except as to jurisdiction and subject matter) to the SEC's entry of a corresponding Order.[122] This SEC Order asserts that J.P. Morgan violated the Securities Act of 1933, the Securities Exchange Act of 1934, and a Rule of the Municipal Securities Rulemaking Board by making substantial payments to local broker-dealers in order to influence Jefferson County to select J.P. Morgan and its affiliated commercial bank as debt underwriter and interest rate swap provider to the county.[123] The costs of these payments were added into the charges on the interest rate swaps.[124]

In connection with the settlement, J.P. Morgan agreed to pay $50 million to Jefferson County and terminate the county's obligations to pay JPMorgan Chase Bank, N.A. under the interest rate swap agreements.[125] The terminated interest rate swap obligation was valued at $647,804,118 on March 6, 2009.[126] J.P. Morgan was required to pay a $25 million civil monetary penalty, was censured, and was ordered to cease and desist from future violations of the applicable laws.[127]

C. *Jefferson County's Civil Lawsuit Against JPMorgan Chase Bank*

Jefferson County sued JPMorgan, JPMorgan Chase Bank, N.A., and a number of other defendants in November 2009.[128] The com-

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[121] *In re* J.P. Morgan Securities Inc., Securities Act Release No. 9078, Exchange Act Release No. 60,928, Administrative Proceeding File No. 3-13673 (Nov. 4, 2009) at 1.

[122] *Id.*

[123] *Id.* at 2.

[124] *Id.*

[125] *Id.* at 9-10.

[126] *Id.* at 8; *see also* Press Release, U.S. Securities and Exchange Comm'n, J.P. Morgan Settles SEC Charges in Jefferson Co., Ala. Illegal Payments Scheme (Nov. 4, 2009), *available at* http://www.sec.gov/news/press/2009/2009-232.htm (last visited Mar. 26, 2010).

[127] *In re* J.P. Morgan Securities Inc., *supra* note 121, at 10.

[128] Complaint at 1, Jefferson County, Ala. v. JPMorgan Securities, Inc., No. 01-CV-2009-903641.00 (Jefferson County, Ala. Cir. Ct. Nov. 13, 2009) [hereinafter Complaint]; *see also* Barnett Wright & Eric Velascon, *Jefferson County Exposed to 'Unconscionable Degree' of Risk in Bond Deals, Lawsuit Against Firms, Langford Claims*, BIRMINGHAM NEWS, Nov. 14, 2009, at 1A.

plaint alleged "fraud and fraudulent suppression, conspiracy, and unjust enrichment [of] those who have brought the County and its citizens to the brink of financial disaster while lining their own pockets," and that "[t]he real purpose of [the sewer refinancing and related interest rate swaps] was to generate hundreds of millions of dollars in fees and interest payments for JPMorgan and JPMorgan Chase."[129]

Some observers have suggested that the corruption of county officials should preclude recovery against JPMorgan.[130] However, the complaint in the lawsuit asserts that

> [t]he County did not know and could not reasonably have known about the bribes, kickbacks, and pay-offs involved in these financial transactions . . . . Had the County had knowledge of these schemes it would not have entertained the plan to restructure the County's fixed-rate debt to variable rate debt, enter into the various interest rate swap transactions, and undertake the other agreements with the Defendants that have left the County in such financial peril.[131]

Jefferson County seeks compensatory and punitive damages in unspecified amounts.[132] This lawsuit remains pending at the time this article was written.

D. Possibility of Chapter 9 Bankruptcy

Chapter 9 of the Federal Bankruptcy Code is designed to deal with financially troubled municipalities' unique characteristics.[133] Jefferson County has repeatedly considered filing a Chapter 9 bankruptcy petition over the past two years, but a narrow majority of the county commission has opposed such a bankruptcy filing.[134] The prospect of current Jefferson County commissioners moving on, and others being elected to replace them, suggests the possibility that the political calculus may change with respect to a bank-

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[129] Complaint, *supra* note 128, at 2.
[130] Wright, *supra* note 70, at 15A.
[131] Complaint, *supra* note 128, at 11; *see also supra* notes 70-77 and accompanying text.
[132] *Id.* at 23.
[133] 11 U.S.C. § 901 *et seq.* (2006). The law governing bankruptcy is reserved to the federal government. U.S. CONST. art. I, § 8 (Congress shall have power "[t]o establish . . . uniform Laws on the subject of Bankruptcies throughout the United States."). Chapters 1, 3, and 5 of the Bankruptcy Code provide law of general application in bankruptcy. 11 U.S.C. § 101 *et seq.* (2006). Chapters 7, 9, 11, 12, 13, and 15 of the Bankruptcy Code provide the law governing particular types of bankruptcy. *Id.*
[134] *See, e.g., Collins Says She Won't Run Again: May Affect Handling of Debt Crisis,* BIRMINGHAM NEWS, Jan. 3, 2010, at 1A.

ruptcy filing by the county. Great uncertainty remains as to how this scenario might play out.[135] The myriad potential issues raised by municipal bankruptcy are beyond the scope of the current article and symposium.

VI. CONCLUSION

The precarious state of Jefferson County's finances is tragic. So is the story that led the county to this point. The financial burden of any foreseeable solution will weigh heavily on current and future taxpayers in the county. The loss of confidence and trust in leaders will likely have a corrosive effect on the relationship between government and the electorate for years.[136] The public embarrassment of this problem tarnishes the reputation of Birmingham, Jefferson County, and Alabama. In an era when the Birmingham metropolitan area is losing ground to comparable metro areas in the Southeast because those other regions are doing a better job of governing regionally,[137] Jefferson County should be playing a major role in getting municipalities in the county and the region to approach issues more cohesively and less provincially. The time, energy, and money devoted to fixing the county's sewer financing problems is a tragic waste of resources that could be more productively devoted to improving the future, instead of fixing problems from the past.

Productive solutions to these enormous problems are essential for the future physical, financial, and political health of our region. Each of us involved in this symposium might wish that this topic were unnecessary. We hope that this effort will help Jefferson County find better solutions to its immense problems, and that these papers and presentations will help other government entities learn from Jefferson County's mistakes.

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[135] *See id.*

[136] *Cf.* Barnett Wright, *Corrupt Culture Kills Trust 'More of Same' Attitude Feared*, BIRMINGHAM NEWS, Nov. 2, 2009, at 1A.

[137] Michael Tomberlin, *Birmingham Area's Economy Ranked No. 290 for growth in the U.S. in 2008*, AL.COM, Sept. 25, 2009, http://blog.al.com/businessnews/2009/09/birmingham_areas_economy_ranke.html.

FINANCING PLANS FOR THE JEFFERSON COUNTY SEWER SYSTEM: ISSUES AND MISTAKES

JAMES H. WHITE, III*

I take my text for this essay from Walt Kelly's 1971 Earth Day cartoon in which Pogo is walking through the forest observing the trees and the birds and his companion marvels at the "beauty of the forest primeval." In the second panel, the perspective shifts and the forest floor is seen despoiled by garbage and other trash. Pogo comments, "We have met the enemy and he is us."[1] Pogo encapsulates how I feel about the Jefferson County sewer story, which has no heroes. The responsibility for this fiasco rests with a great many of us, far and near, including those of us who voted for the politicians who did us in.

INTRODUCTION

Before dealing substantively with my topic, I have a couple of qualifications. First, my presentation is not a legal brief or legal testimony. You should consider my presentation to be a personal recollection of events, bound together with analysis and opinion. Second, I speak from experience that is substantial but not complete.

Since 1967 I have been active in the field of public finance as a lawyer and an investment banker. I have been professionally involved with the Jefferson County sewer system on at least four separate occasions.

In the early 1980s I worked with the Environmental Services Department (ESD) and Coopers & Lybrand in preparing a financial model projecting sewer system financial operations and conditions. The financial model demonstrated the consequences of growth in system users and the ability of the system to amortize the cost of capital expenditures. I recommended that the County ob-

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* James H. White, III is Chairman of Porter, White & Company, Inc., Birmingham, Alabama, formerly financial advisor to Jefferson County, and a member of the Alabama Bar. He acknowledges the assistance of his colleagues, Dwight V. Percy and C. Johan Grahs, who performed the numerical analysis on which a large portion of the article is based. He also acknowledges the contribution of the editors of the Cumberland Law Review who researched the references in the footnotes.

[1] *See generally* I GO POGO, http://www.igopogo.com/we_have_met.htm (last visited Sept. 9, 2010) (providing background information on Walt Kelly's Earth Day cartoon).

tain an audit of the sewer system financial statements, and Coopers & Lybrand conducted an audit for one year. The Department of Public Examiners resisted further audits by a private auditing firm.

A few years later, our firm, Porter, White & Company, Inc., prepared a financial overview of Jefferson County operations, including all funds and activities. The financial overview predicted severe problems with sewer system operations. Larry C. Lavender, current chief of staff to the minority on the U.S. House of Representatives Financial Services Committee, performed most of the work on the financial overview.

From February 2003 to October 2003 our firm, as a subcontractor to BE&K, Inc., participated in the preparation of a report on the Jefferson County sewer system capital program, including engineering design, construction, and financing. Our work included developing a comprehensive financial model to explore the rate implications of the system's then-current capital expenditure plan.

From late December 2006 through January 2007 and from April 1, 2007, through July 10, 2008, our firm served as financial advisor to the County and addressed a number of significant issues regarding the County's financial structure and financing. We were discharged from part of our job and resigned from the rest when the County realigned politically and changed plans in negotiating its debt problems, pursuing a course that would have made bondholders completely whole at the expense of a variety of new and additional taxes, including taxes on newly authorized gambling revenues.

In addition to these formal engagements, I responded to inquiries from Commissioner Bettye Fine Collins during 1997 in connection with the initial sewer financing and the initial interest rate swaps the County entered into. Subsequent to July 10, 2008, I spoke frequently with Commissioners Jim Carns and Bobby Humphrey. Very able people in my firm have assisted me in this work. These people have the knowledge and experience to go head to head with the best in the public finance business, including expertise in the use of interest rate swaps and derivatives in connection with tax exempt bond deals.

CHRONOLOGY OF MAJOR EVENTS

To set the stage, I submit the following brief chronology of events relating to the Jefferson County sewer system:

1993 to 1996	The Cahaba River Society and others sue the County for significant violations of the Clean Water Act. The County agrees to settle in July 1995 and negotiates a consent decree, agreeing to eliminate sewer plant bypasses (i.e., dumping untreated sewage into rivers and streams) and unpermitted discharges. The court approves the consent decree in December 1996.[2]
1996 to 2003	The original estimate of the capital costs of complying with the consent decree was $250 million. This grew to $3.05 billion in 2003 due to poor planning, waste, and fraud. The total debt outstanding is now more than $3.2 billion, including financing costs.[3]
Spring 1997	Sewer debt structure established with new bond indenture. The structure provides for escalating debt service (just like a typical subprime loan) minimal debt service coverage requirements, no restrictions on deposit of system revenues (which makes sewer system cash subject to diversion for other uses) and automatic rate increases without vote of the Commission or a public hearing. The Commission executes first interest rate swap.[4]

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[2] Kipp v. Jefferson County, Ala., No. 94-G-2947, Consent Decree at 6-7 (N.D. Ala. Sept. 9, 1996) [hereinafter 1996 Consent Decree], *available at* http://www.constitutionwarrior.net/public-documents/jeffco-consent-decree.pdf.

[3] Bank of New York Mellon v. Jefferson County, Ala., No. 2:08-CV-01703, Memorandum Opinion at 3 (N.D. Ala. June 12, 2009) [hereinafter Federal Receivership Memo Opinion] ("In connection with making the required improvements to . . . Jefferson County's Sewer System, between 1997 and 2003, the County borrowed approximately $3.6 billion in funds through the issuance of various sewer warrants . . . [there] are approximately $ 3.2 billion in Warrants that remain outstanding."); David Whitford, *Birmingham on the Brink (of Bankruptcy)*, FORTUNE MAG., Oct. 27, 2008, at 116..

[4] Complaint at 8-9, Jefferson County v. JPMorgan Sec., Inc., No. CV–2009–903641 (Ala. Cir. Ct. Nov. 13, 2009), *available at* http://ftpcontent.worldnow.com/wbrc/docs/jeffcojpmorgansuit.pdf.

Fall 1997	Commissioner Collins writes the Securities and Exchange Commission alleging irregularities.[5]
October 2002 to 2004	The Commission converts fixed rate debt into synthetic fixed rate debt using interest rate swaps, which are subsequently found to have been fraudulently induced. The new structure has the effect of stretching out debt service and lowering required rate increases in early years at the expense of dramatically increasing them in subsequent years.[6]
January to October 2003	The Commission retains BE&K, Inc. (with CH2MHill; Porter, White & Company; and the Public Affairs Research Counsil of Alabama (PARCA) as subcontractors) to review sewer system capital program and financing.[7]
February 2005	Dramatic change in department management results from indictments returned against a former commissioner, ESD employees, and several contractors. ESD management changes as indicted employees are placed on leave.[8]
July 1, 2007	A multi-year effort to convert the County financial system to SAP comes to a head when SAP system is switched on. A number of old accounts are improperly mapped in the new system. Users have difficulty using new system because of implementation defects and lack of familiarity. Interim and annual financial reporting degraded.[9]

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[5] Letter from Bettye Fine Collins, Commissioner for District IV, Jefferson County Commission, to Securities and Exchange Commission, (Nov. 1997) (on file with author).

[6] *See* William Selway & Martin Z. Braun, *The Fleecing of Alabama: The Bills Come Due*, BLOOMBERG MARKETS, July 2008, http://www.bloomberg.com/news/marketsmag/mm_0708_story2.html.

[7] *See* BE&K Report, Executive Summary – Jefferson County Program Review, 50-02-0241 (Sept. 4, 2003) [hereinafter BE&K Report].

[8] Federal Receivership Memo Opinion, *supra* note 3, at 5 n.7.

[9] *See* Mark Brunelli, *SAP Beats Oracle in Jefferson County*, SEARCHORACLE.COM (May 31, 2007), *available at* http://searchoracle.techtarget.com/news/1259117/SAP-beats-Oracle-in-Jefferson-County.

January 2008	S&P confirms an A underlying rating on sewer bonds.[10]
April 2008	Eighty-eight days later, S&P downgrades sewer bonds to D (default).[11]

A PRINCIPAL-AGENT PROBLEM: NEGOTIATING THE CONSENT DECREE

Agency problems, often studied in political science and economics, occur when an agent fails to pursue the interests of the agent's principal.[12] A common agency problem is the propensity of management of publicly traded corporations to act in their own interest (for example, providing for excessive executive compensation) rather than in the interest of stockholders. The Jefferson County sewer debacle can be analyzed as a very big agency problem. Environmental groups sued Jefferson County in 1993 claiming egregious violations of the Clean Water Act.[13] In April 1995, the County threw in the towel and agreed to settle.[14] Settlement negotiations occurred between April 1995 and December 9, 1996.[15]

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[10] *See, e.g.*, Material Event Notice 1-2 (Feb. 27, 2008), http://jeffco.jccal.org/pls/portal/url/ITEM/478D6CFC29866FEEE0440003BA23FA0C; Whitford, *supra* note 3, at 120.

[11] Shelly Sigo, Jefferson County Remedial Plan Under Wraps, BOND BUYER (April 24, 2008), http://www.bondbuyer.com/issues/117_77/-286819-1.html.

[12] Agency Problem is defined as:

> The difficulties encountered when a principal delegates a task to an agent. The agency problem arises when the principal and the agent have different objectives and there is asymmetric information and an incomplete contract. The asymmetric information prevents the principal from perfectly monitoring the agent, and the incomplete contract makes it impossible to determine what will occur in all possible contingencies. The principal cannot therefore ensure that the agent always chooses the action the principal would wish to see chosen. Agency theory determines how contracts can be designed to ensure that these problems are best mitigated.

John Black, Nigar Hashimzade, and Gareth Myles, *A Dictionary of Economics*, OXFORD REFERENCE ONLINE, http://www.oxfordreference.com.ezproxy.samford.edu/views/ENTRY.html?subview=Main&entry=t19.e3417 (last visited Mar. 29, 2010)

[13] PUBLIC AFFAIRS RESEARCH COUNCIL OF ALABAMA, THE HISTORY OF THE JEFFERSON COUNTY SANITARY SEWER SYSTEM 71 (2001), *available at* http://parca.samford.edu/jeffco/History%20of%20the%20Jefferson%20County%20Sewer%20System.pdf (chronicling the history of the Jefferson County sewer system from 1973-1996).

[14] *Id.* at 72.

[15] *Id.* at 71-72.

Leading the negotiations for the County were the same people responsible for the violations of the Clean Water Act, including Jack Swann, Director of the Environmental Services Department.[16] Also playing leadership roles were many of the engineers and lawyers who subsequently greatly benefited from the ensuing engineering, construction, and financing contracts. The engineers were local, without the experience of working on projects of similar size and complexity in other parts of the world. They brought political pressure to keep national and international firms from participating in the project.

Many of these participants have subsequently been convicted of crimes.[17] The plaintiffs, angry at the violations of the environmental laws and the individuals responsible for them, insisted on onerous, and some say impractical, terms in the consent decree. In retrospect, I believe that the County did not resist these terms vigorously because the tougher the decree, the more the engineers, lawyers, and financiers benefitted from the resulting engineering, construction, financing, and legal fees and costs. An unholy alliance of environmentalists, bureaucrats, engineers, and lawyers cooperated to produce a result that benefitted all God's creatures except the one He made in His own image. County Commissioners were more interested in helping the engineers, lawyers, and financiers than they were in protecting the public interest. Ultimately, some of these engineers and financiers expressed their appreciation by giving things of value to the Commissioners and County employees.[18] Bribery is the ultimate agency problem because it diverts a public official from the public interest to the private interest of the person tendering the bribe. In over forty years of experience in public finance, I have found that the decision that causes the greatest controversy among members of the governing bodies of Alabama issuers is the selection of underwriters and other members of a financing team. For various reasons, elected officials generally pay more attention to who is going to provide financial services and products than they do to the substantive aspects of a financing. In fact, selection of the financing team takes up so much time that there is little energy for more important details, because the bankers and lawyers pursue decision-makers zealously and sometimes shower them with campaign contributions and gifts.

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[16] Vickii Howell, *Jeffco sewer rates rising to finance system repairs*, BIRMINGHAM NEWS, Sept, 24, 2000, *available at* http://www.jeffcointouch.com/jeffcointouch/news/newsrel_9-24-00.htm.
[17] Federal Receivership Memo Opinion, *supra* note 3, at 5 n.7.
[18] *Id.* at 6.

The Jefferson County sewer consent decree required that specified results be achieved but was not based on an analysis of the facilities required to achieve those results, on estimates of capital and operating costs, or on the affordability and reasonableness of the sewer service charges implied by such cost estimates.[19] There was no consideration of, or finding on, the practicality of implementing the consent decree.[20] The decree is another in a long line of decrees growing out of large federal cases that have had significant unintended and adverse consequences. Jefferson County voters are responsible for electing the commissioners who took bribes, but one should be mindful that the County employees who were convicted of taking bribes were products of a personnel system that has been under the oversight of the federal court for over twenty years.[21]

The weakness in the consent decree was reflected in the ongoing mismanagement of the resulting sewer capital program. The BE&K study found that the County's capital program suffered from lack of communication and coordination between the Finance and Environmental Services Departments.[22] ESD took the position that it had the responsibility of determining what to buy and build and that it was up to Finance to furnish the money, whatever the cost or the required rate increases.[23] Design engineers had no budgets to influence their designs.[24] There was no long range planning regarding facilities, operations or finance, nor any attempt to fit the construction program within the limits of what rate payers could afford.[25] In addition to a great deal of waste, a large percentage of the capital program was for expansion rather than remediation of the sewer system, forcing existing customers to pay unaffordable rates to finance facilities benefitting new customers under a "build it and they will come" rationale.[26]

Lack of effective planning was reflected in the ever-increasing costs of the sewer program. Cost estimates of necessary sewer improvements at the time of the court order ranged from $250 million to $1.2 billion.[27] Because there was no comprehensive engi-

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[19] *See* 1996 Consent Decree, *supra* note 2.
[20] *See id.*
[21] *See* Taylor v. Jefferson County Comm'n,, No. 84-C-1730-S, Consent Decree (N.D. Ala. Aug. 17, 1985) [hereinafter 1985 Consent Decree].
[22] BE&K Report, *supra* note 7, at 5-3.
[23] *Id.* at 5-3 to 5-6.
[24] *Id.*
[25] *Id.*
[26] *Id.*
[27] Whitford, *supra* note 3, at 116.

neering or financial plan, there was no evidence before the court on whether compliance with the consent decree was reasonably attainable.[28] Thus, the consent decree became a black hole down which money, and the future of Jefferson County, was poured.[29]

The record shows that Commissioner Bettye Fine Collins was alone among public officials, including the then governor, in opposing the consent decree. Taking this position without the support of business leaders or other people of influence, and in opposition to the editorial position of The Birmingham News, Commissioner Collins believed that Jefferson County did not know what it was getting into.[30]

From the beginning, Jefferson County suffered from a severe principal-agent problem resulting from the fact that public officials charged with representing the public interest responded significantly to the private interests of consultants hired to negotiate and implement the consent decree, and sometimes, in impermissible ways, to their own interests. Neither the elected politicians, the public employees, nor the retained consultants were adequately responsive to the interests of their ultimate principals, the public at large. Other articles within this symposium will explore the issue of whether this circumstance is the result of an inadequate system of government in Jefferson County, or just inadequate elected officials. I recently heard a very senior government official, with experience in the criminal justice system, state that the commission form of government in Alabama – in which elected commissioners have both legislative and executive responsibility – is inherently subject to criminal conduct. Another way to state this conclusion is that the commission form of government is subject to significant principal-agent problems. Most governments in the United States, local, state, and federal, separate executive power from legislative power to interject a system of checks and balances in which the executive checks on the legislators and vice versa. Jefferson County, and a number of other counties in Alabama, combine executive and legislative power in one office, escaping the salutary scrutiny resulting from a division of powers and responsibilities. I believe that a change in the form of government is necessary to solve the principal-agent problem, reduce the risk of public corruption, and improve the performance of Jefferson County.

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[28] BE&K Report, *supra* note 7.
[29] *See* 1996 Consent Decree, *supra* note 2.
[30] Steve Visser, *Collins' Protest of Sewer Suit Deal Further Isolates Her on Commission*, BIRMINGHAM NEWS, Aug. 30, 1996, at 8B.

THE NEW FINANCIAL STRUCTURE: NEGOTIATING THE INDENTURE

In late winter and spring of 1997, following court approval of the consent decree,[31] Jefferson County established a financing structure for raising the money necessary to implement the consent decree. Raymond James & Associates, Inc. was the initial managing underwriter and is responsible, along with bond counsel and underwriters counsel, for the initial structure.[32] In later years, J.P. Morgan became the dominant force, introducing innovations such as synthetic-fixed-rate debt and auction-rate debt.[33]

Until 1983, a necessary condition of revenue-debt financing by Alabama counties for sewer purposes was the enactment of sewer rates sufficient to pay maximum-annual principal and interest on the debt.[34] Elected politicians could not issue debt without facing up to the burden of approving potentially unpopular sewer service charges. State legislation enacted in 1983 permitted the issuance of revenue debt by counties without the adoption of rates equal to maximum-annual debt service.[35] In 1997 and subsequent years, Jefferson County took full advantage of this change in law and proceeded to issue massive amounts of sewer debt in a structure that delayed for many years the adoption of the full-rate increases required to retire the debt.[36] As of 2003, annual debt service was approximately $90 million and was anticipated to triple to $270 million by the year 2039. Anticipated increases in rates were even more pronounced as debt service was paid from bond proceeds during the construction period, delaying the time when rates had to be substantially increased.[37]

The following graph shows the County's sewer debt service pattern in early 2008. Principal payments are negligible through 2007 and begin to pick up after that. "Smoothed MADS" refers to

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[31] 1996 Consent Decree, *supra* note 2, at 5.

[32] *See* Jody Potter, Jeff Hansen, & Eric Velasco, *How Jefferson County's Debt Ballooned*, BIRMINGHAM NEWS (Mar. 9, 2008), http://blog.al.com/spotnews/2008/03/309Bonddeal2.pdf.

[33] *Id.*

[34] ALA. CONST. amend. 73.

[35] *Id.*

[36] *Federal Receivership Memo Opinion*, *supra* note 3, at 3 ("In connection with making the required improvements to . . . Jefferson County's Sewer System, between 1997 and 2003, the County borrowed approximately $3.6 billion in funds through the issuance of various sewer warrants ('Warrants'). The Warrants are secured by a lien on the revenues generated by the Sewer System that remain after payment of 'Operating Expenses.'").

[37] *See* Potter, *supra* note 32.

"smoothed-maximum-annual debt service"[38] and represents a target for sewer rates so that debt service spikes in later years could be paid. The nonlinear pattern of interest rates reflects the results of interest rate swaps designed to delay interest rate payments. By early April 2008, as a result of the downgrading of the bond insurers,[39] Jefferson County's annual-debt-service requirement was over $250 million, or the amount planned for the year 2038.[40] Even at the end of 2007, prior to the collapse, sewer service charges were expected to grow more than 200%, and probably substantially more, through 2037, reflecting increasing debt service, inflation, and expected-capital expenditures.[41]

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[38] The Municipal Securities Rulemaking Board (MSRB) provides a glossary, which defines many of these financial terms.
Debt service is

> [t]he amount of money necessary to pay interest on outstanding bonds, the principal of maturing bonds and the required contributions to a sinking fund for term bonds. This amount is also known as the "debt service requirement." "Annual debt service" refers to the total principal and interest paid in a calendar year, fiscal year, or bond fiscal year. "Total debt service" refers to the total principal and interest paid throughout the life of a bond issue. "Average annual debt service" refers to the average debt service payable each year on an issue.

Glossary of Municipal Securities Terms, MUN. SEC. RULEMAKING BD. (Jan. 2004), http://www.msrb.org/msrb1/glossary/glossary_db.asp?sel=d.

[39] Selway, *supra* note 6. Selway and Braun described the credit downgrading as follows:

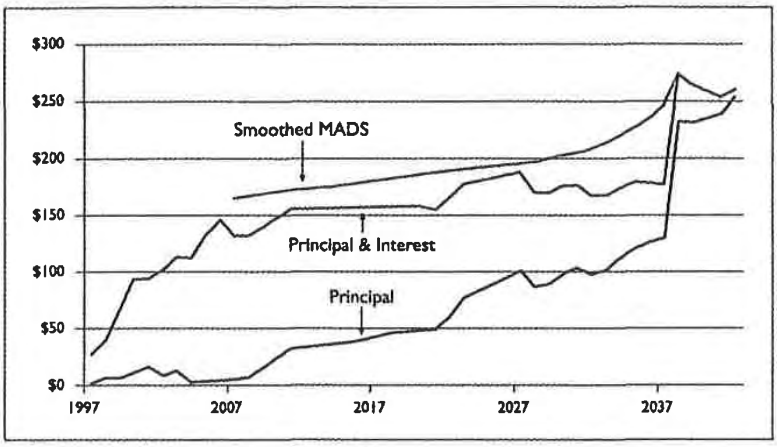
> Jefferson [C]ounty's deals started to unravel in January after its bond insurers, Financial Guaranty Insurance Co. and XL Capital Assurance Inc., suffered hundreds of millions of dollars in losses in securities tied to home loans. Standard & Poor's downgraded Financial Guaranty's credit rating to AA from AAA on Jan. 31. The next week, Moody's Investors Service cut XL Capital six levels to A3. Moody's then downgraded Financial Guaranty to A3. When a bond insurer takes a ratings hit, so do the bonds it has guaranteed; the insurer effectively lends its high rating to the bond issuer. That's what happened to about $3 billion of Jefferson County's debt, causing its interest rate to balloon to as high as 10 percent in February and March from 3 percent in January. That helped increase its total monthly debt payments to $23 million from $10 million. "It happened overnight," County Commission President Bettye Fine Collins says. "It became a situation that worsened every day."

Id.; *see also* Material Event Notice, *supra* note 10, at 1-2.

[40] Louis J, Cisz, III, *Economic Squeeze Pushes Local Governments Towards Chapter 9*, J. CORP. RENEWAL (June 18, 2008), http://www.turnaround.org/Publications/Articles.aspx?objectID=9404.

[41] PORTER, WHITE & CO., ANALYSIS OF SEWER RATES AND PROJECTED FINANCIAL STATEMENTS 6 fig. 3 (Sept. 5, 2007).

Sewer System Debt Service as of December 31, 2007



In summary, as of December 31, 2007, before disaster struck, Jefferson County's sewer debt service pattern was (1) steeply increasing over time (instead of level) and (2) irregular (instead of smooth) as a result of multiple swap transactions.

The Jefferson County sewer debt structure is similar in a way to the structure of subprime mortgages which proliferated in a number of housing markets during the middle part of the last decade.[42] As in the case of Jefferson County, subprime mortgages were characterized by low "teaser" rates and low debt service in the early years.[43] Only when the teaser rates expired and much higher permanent rates kicked in, did homeowners realize that there was no way they could pay their mortgages from current income, and the mortgage market began to experience the defaults that led to the financial crisis of 2007-2008.[44] Jefferson County commissioners, both the honest and the dishonest, were severely frightened at the prospect of having to raise rates, and most of the creative financial structures employed were designed to postpone, for as long as pos-

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[42] Larry C. Lavender, current chief of staff of the minority for the U.S. House of Representatives Financial Services Committee, first drew my attention to the parallel between subprime mortgages and the Jefferson County financial structure.

[43] *See What is a Subprime Mortgage?*, INVESTOPEDIA, http://www.investopedia.com/ask/answers/07/subprime-mortgage.asp (last visited Aug. 11, 2010).

[44] Ryan Barnes, *The Fuel That Fed the Subprime Meltdown*, INVESTOPEDIA, http://www.investopedia.com/articles/07/subprime-overview.asp (last visited Aug. 11, 2010).

sible, the day when rates would have to be raised substantially.[45] In arranging for a delay in rate increases, the professionals involved in the financings removed the incentives to reduce the size of the capital program. So long as Jefferson County could print money, there was no need to avoid unnecessary capital expenditures, waste, and outright corruption.

The aggressive nature of Jefferson County's debt structure may be best understood by a comparison of the Jefferson County and the City of Atlanta sewer revenue bond structures. Atlanta has a combined water and waste water system and has been faced with implementing an even larger sewer capital program than Jefferson County, due to the fact that Atlanta had to separate its storm water and sanitary sewer systems.[46] The following table compares characteristics of the two financing systems. Data for Jefferson County comes from an official statement dated February 1, 1997, and data for Atlanta comes from an official statement dated March 31, 1999.[47]

Characteristic	Jefferson County	Atlanta
Revenue pledge	Net	Gross
Required revenue fund (to protect cash from diversion)	No	Yes
Required coverage	Less than 1.0 to 1 (less in early years)	1.10 to 1
Parity debt test	Less than 1.0 to 1 (less in early years)	1.10 to 1

[45] *See* Potter, *supra* note 32 (showing the amounts of money financed with no tax increases).
[46] BE&K Report, *supra* note 7, at 5-3.
[47] Jefferson County, Ala., Official Statement, Series 1997-A Sewer Revenue Refunding Warrants & Series 1997-B Taxable Sewer Revenue Refunding Warrants (1997); City of Atlanta, Official Statement, Water and Wastewater Revenue Bond Series (1999).

Characteristic	Jefferson County	Atlanta
Audit	By state examiners, dated nineteen months after fiscal year and ten months prior to date of debt issue	By national firm, dated seventy-two days after fiscal year end, and within one month of date of debt issue
Engineering feasibility study	No	Yes
Rate study	No, only limited rate projections	Yes, frequent
Affordability opinion	No	Yes
Rate increases authorized in advance	Automatic rate increases without political approval	Specific increases authorized by governing body

The absence of an engineering feasibility study in connection with the Jefferson County financing is noteworthy. It is customary for disclosure documents in governmental utility revenue financings (and in taxable project financings with similar security provisions) to include a written report by a firm of nationally recognized consulting engineers. In 1997, the latest edition of *Disclosure Handbook for Municipal Securities*, published by the National Federation of Municipal Analysts, recommended disclosure of a "feasibility/engineering study."[48] Such a study describes the results of a comprehensive evaluation of the system being improved with the proceeds of the financing; the engineering, budget, and appropriateness of the proposed projects; forecast statements of income, cash flow, and financial condition; the adequacy, appropriateness, and affordability of existing and proposed rates; and anticipated debt service covenants.[49] No such study has ever been done on the Jefferson County sewer system. The BE&K study covered almost all

[48] NATIONAL FEDERATION OF MUNICIPAL ANALYSTS, DISCLOSURE HANDBOOK FOR MUNICIPAL SECURITIES (1990).
[49] *See generally* BE&K Report, *supra*, note 7.

of the topics customarily included in an engineering feasibility study, but it was not prepared in connection with a financing and was not disclosed in any official statement.[50] Paul B. Krebs & Associates prepared some projections and analyzed rates in connection with several debt issues, but their scope of work was limited and did not include a comprehensive review of system engineering or capital budgets.[51]

In my opinion, no engineering feasibility study was prepared because the Environmental Services Department did not want anyone looking over their shoulders and because the engineering firms who were closest to the Commissioner in charge of environmental services were not experienced or competent in doing such studies and did not want a national firm poaching on their territory. There is a question about whether local engineers worked together to keep larger firms with a nationwide practice from doing work in Jefferson County. I have been personally informed that the U.S. Department of Justice investigated a potential conspiracy in restraint of trade under antitrust laws but concluded that it could not make a case.

An unusual feature of the Jefferson County financing structure is the automatic rate increase ordinance adopted in 1997 at the time of the original financing.[52] Not only were rate increases stretched out and reduced in the early years by the back-ended structure of sewer debt service, but the responsibility for raising rates was largely removed from the Commission.[53] In order to ensure rating agencies, bond insurance companies, and bondholders that necessary rate increases would be implemented, the ordinance permitted the County's Finance Director, an unelected official appointed by the President of the Commission, to increase rates to meet indenture requirements without a vote of the Commission.[54]

Sewer rates adopted by the Commission have always been thought to require a public hearing prior to adoption. The automatic rate increase ordinance removed this annoying step in the

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[50] *See id.*

[51] Federal Receivership Memo Opinion, *supra* note 3, at 10. Paul B. Krebs & Associates was a potential candidate to do such a study, but it was not part of the inside group of engineers.

[52] PUBLIC AFFAIRS RESEARCH COUNCIL OF ALABAMA, THE HISTORY OF THE JEFFERSON COUNTY SANITARY SEWER SYSTEM 89 (2001), *available at* http://parca.samford.edu/jeffco/History%20of%20the%20Jefferson%20County%20Sewer%20System.pdf (chronicling the history of the Jefferson County sewer system from 1973-1996).

[53] *Id.*

[54] *Id.*

rate increase process and allowed commissioners to avoid a public vote that might come back to haunt them at election time. Since the adoption of the automatic rate ordinance, there has been only one public hearing at which the Commission decided to depart from the automatic rate ordinance.[55]

Until recently, Jefferson County never had a thorough study of its sewer rates in which capital and operating costs were analyzed and allocated to different classes of service, and the affordability and reasonableness of rates were analyzed and determined. The automatic rate ordinance made rate increases a mathematical process, divorced from policy and political considerations. This has turned out to be a mistake. Public hearings, however raucous, might have protected the public from the incompetence and criminality that occurred.

Comparative analysis indicates that by 2006, Jefferson County's sewer operations were substantially less credit worthy than other similar issuers analyzed by Standard & Poor's.

S&P Ratings Criteria	AAA	AA	A	BBB	Jeffco
Population	394,515	195,144	54,723	247	640,000
Total Customers	131,505	54,258	16,318	3,699	141,000
Effective Buying income as % US	123.0	107.5	94.0	79.5	92.4
Water Rate	$15.27	$19.18	$22.78	$27.20	$32.81
Sewer Rate	$20.84	$21.96	$24.67	$25.29	$58.40
Debt to plant	25%	31%	38%	45%	77%
Total Debt Service Coverage (x)	1.84	1.88	1.79	1.57	0.89

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[55] *See* Thomas Spencer, *Jefferson County panel recommends halting automatic sewer-rate increase*, BIRMINGHAM NEWS, Dec. 11, 2008, *available at* http://www.al.com/birminghamnews/stories/index.ssf?/base/news/1228986973281170.xml&coll=2.

[56] JAMES BREEDING & JAMES WIEMKEN, STANDARD & POOR'S, RATINGSDIRECT: U.S. MUNICIPAL WATER-SEWER RATING DISTRIBUTIONS AND SUMMARY RATIOS 6 (Dec. 12, 2006).

How could debt securities based on such a poorly conceived financial structure be brought to market? Again, this is the same issue that arises in the case of subprime mortgages. The answer in both cases is that third party financial guarantors provided the platform on which the financings were based. In the case of Jefferson County, there was actually a competition to provide bond insurance on Jefferson County sewer debt.[57]

In late 1996 and early 1997 it was widely known that Jefferson County would likely be issuing a significant amount of debt, and, motivated by ego and the prospect of profit, all of the players in the municipal bond world were anxious to participate. Several firms in the business of providing insurance against the default of municipal bonds were interested in Jefferson County's business.[58] Proposals were solicited from these firms, and the County received proposals for very low insurance premiums.[59] When successive proposals ended with premiums as low as allowable by insurance regulators, the bond insurance firms continued to compete by proposing ever more lenient security terms.[60] Thus, it is possible that the security provisions protecting bondholders under the Jefferson County sewer indenture are the most lenient ever permitted for a major project financing.

Bond insurance brought a AAA rating to the Jefferson County debt, the same rate assigned to obligations of the United States of America. Bond insurance had a pernicious effect because it caused everyone to relax about the question of whether Jefferson County could ultimately afford to pay off the bonds. Because lawyers, underwriters, swap providers, bond purchasers, and even rating agencies, never thought bond insurer default was a possibility, they neglected to consider it. When the bond insurers failed, the rest of the financing structure came tumbling down. S&P confirmed an uninsured A rating on Jefferson County sewer debt in January 2008,

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[57] William Selway & Martin Z. Braun, *JPMorgan Swap Deals Spur Probe as Default Stalks Alabama County*, BLOOMBERG MARKETS, May 22, 2008, http://www.bloomberg.com/apps/news?sid=aF_f8gLLNvn0&pid=20601109.

[58] *Federal Receivership Memo Opinion*, *supra* note 3 at 6.

[59] *Id.*

[60] For additional information on the effects of insuring municipal bonds, see TERRY AGRISS, MUNICIPAL BOND MARKET ISSUES: RECENT DEVELOPMENTS (BLACK & VEATCH) (2008), *available at* http://www.bv.com/Downloads/Resources/Reports/EMSMunibond20081222.pdf.

at a time the bond insurance companies were teetering on the edge of disaster. Eighty-eight days later it issued a D (for "default") rating on the same debt, conclusively demonstrating its total lack of understanding of the financing structure.[61]

The winner of the bond insurer competition was Financial Guaranty Insurance Company (FGIC), then a subsidiary of GE.[62] FGIC proposed the lowest insurance premium and the most lenient credit terms, and thereby became the principal author of the Jefferson County financing structure that proved so disastrous. S&P reduced FGIC's rating from AAA in January 2008 to BB in March 2008.[63] On the way from AAA to BB, FGIC's decline tripped covenants in Jefferson County's financing documents.[64] This caused a dramatic increase in interest costs and eventually resulted in the acquisition of a very large percentage of Jefferson County's outstanding debt by financial institutions who had backstop purchase commitments outstanding or who were forced by the New York Attorney General and the Securities and Exchange Commission to buy auction rate securities whose sale was alleged to have been fraudulent.[65]

Ironically, by the time FGIC imploded, it had been purchased from GE by the Blackstone Group with financing arranged and held by J.P. Morgan, which played the dominant role in issuing Jefferson County sewer debt and became its largest debt holder.[66] FGIC is the moving force behind the lawsuit filed by the indenture trustee and the bond insurance companies. I have wondered whether FGIC is a stalking horse for its beneficial owner, J.P Morgan, under circumstances in which J.P Morgan would have to struggle with various "unclean hands" defenses and lose statute of limitation defenses if it were a direct party. Because of its dominant role in creating and implementing Jefferson County's sewer financing scheme and because of its close connection to the fraud that occurred, J.P. Morgan should be brought out of hiding and made to face the music in all relevant court proceedings.

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[61] *See, e.g.*, *Material Event Notice*, *supra* note 10, at 1-2; Whitford, *supra* note 3, at 120; Shelly Sigo, *Jefferson County Remedial Plan Under Wraps*, BOND BUYER (April 24, 2008), http://www.bondbuyer.com/issues/117_77/-286819-1.html.

[62] *See Material Event Notice*, *supra* note 10, at 1-2.

[63] *Id.*

[64] *Id.*

[65] *See, e.g.*, *id.*

[66] *See FGIC Ownership*, FIN. GUAR. INS. CO., http://www.fgic.com/investorrelations/corporategovernance/fgicownership.jsp (last visited Aug. 12, 2010).

FGIC's implosion resulted from its guarantees of securitized subprime mortgages.[67] Recognition that such guarantees were improvident was the initial cause of rating agency downgrades.[68] These initial downgrades undermined the Jefferson County financing structure leading to downgrades of Jefferson County debt, which in turn led to further downgrades of FGIC and other bond insurance companies that were involved with Jefferson County by 2008.[69]

The financial guaranty business has historically been regarded as highly risky. With few exceptions, Lloyd's of London has long prohibited its members from participating in this type of business.[70] In the United States, financial guaranty insurance has been limited to home mortgages and municipal bonds until recently. Municipal bonds were typically underwritten to a "zero-loss" standard.[71] Only in the last decade were other risks added to the list of those eligible for insurance, which came to be delivered in the form of credit default swaps, a structure invented at J.P Morgan.[72]

The Chairman of the Association of Financial Guaranty Insurers, in testimony before the New York Assembly Standing Committee on Insurance on March 14, 2008, explained how the financial guaranty insurance business came to expand into riskier areas.[73]

> Investors . . . benefit from the financial guaranty insurer's:
>
> - experienced credit selection;
> - ongoing surveillance;

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[67] Selway, *supra* note 6.
[68] *Id.*
[69] *Id.*
[70] Tim Reason, *The Uncertainty of Surety*, *CFO* MAGAZINE, Sept. 1, 2002, *available at* http://www.cfo.com/article.cfm/3006174/c_2984346/?f=archives. ("Lloyd's of London . . . has banned financial guaranty sureties since the end of the Boer War in 1902, when speculative ventures fueled by military spending and underwritten by the insurance consortium collapsed.").
[71] "One such standard is what is known as 'zero-loss' underwriting. This means confirming that the issuer is so strong—or is providing such ironclad protections in the bond issue—that the insurer believes it will sustain no losses. Zero-loss underwriting in the municipal bond industry contrasts with the actuarial approach used by multiline insurers, which assumes a certain level of losses will be sustained." Securities Industry and Financial Markets Association, About Municipal Bonds: How Are Issues Selected for Insurance?, http://www.investinginbonds.com/learnmore.asp?catid=8&subcatid=55&id=113.
[72] Jesse Eisinger, *The $58 Trillion Elephant in the Room*, PORTFOLIO.COM (Oct. 15, 2008), http://www.portfolio.com/views/columns/wall-street/2008/10/15/Credit-Derivatives-Role-in-Crash.
[73] Sean W. McCarthy, Chairman, Association of Financial Guaranty Insurers, Remarks before the New York Standing Committee on Insurance (Mar. 14, 2008).

- effective enforcement of remedies;
- and in the extreme case, protection against default.

. . . .

> . . . [T]he low risk, conservative reward municipal bond insurance business alone cannot sustain a healthy monoline [bond insurer], which requires diversification in order to maintain underwriting and pricing discipline when spread cycles in certain sectors are unfavorable.[74]

After wrongly claiming credit for what it did not deliver prior to the largest default of insured municipal debt (Jefferson County), Mr. McCarthy argued that the "low risk" bond insurance business needed to take on higher risk in order to earn higher margins.[75] This was the fundamental failure of most of the financial services industry in the last decade, and of their regulators as well. County administrators forgot that the first law of finance is that risk and return are directly related and that you do not realize return without assuming risk.

In summary, the immediate cause of Jefferson County's descent into financial difficulty was the incompetence of the bond insurers and the rating agencies. Whatever the underlying soundness of the finances of the Jefferson County sewer system (and they *were* unsound), the sewer financing structure depended upon the continued high rating of the bond insurers.[76] When the rating agencies downgraded the bond insurers, the County's interest rates went up and principal payments accelerated to such an extent that revenues available for debt service were no longer sufficient to permit timely payment.[77] This caused the County to default as a practical matter, which caused the rating agencies to further downgrade the bond insurers, resulting in a disastrous feed-back loop.[78]

INTEREST RATE SWAPS: INVITATIONS TO FRAUD

For many years it was known in financial circles in New York and elsewhere that J.P. Morgan was abusing Jefferson County in interest rate swap transactions.[79] The term "abuse" understates the seriousness of J.P. Morgan's actions. At one point there was industry gossip that the governing body of the Municipal Securities

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[74] *Id.*
[75] *Id.*
[76] Selway, *supra* note 6.
[77] *Id.*
[78] *Id.*
[79] *Id.*

Rulemaking Board, a principal regulator of the tax exempt bond business, discussed the swaps that J.P Morgan was doing with Jefferson County but did not take action.[80]

The first abuse happened on March 5, 1997. Raymond James & Associates, Inc. was the managing underwriter of a $175 million sewer revenue fixed rate debt and swap adviser to the County on a related interest rate swap.[81] Simultaneously with the issuance of the debt, the County entered into an interest rate swap with J.P Morgan, converting the fixed interest rate on the $175 million in debt to a floating rate for ten years.[82] Under the swap as executed, J.P Morgan paid Jefferson County 4.814% and Jefferson County paid J.P Morgan the PSA Municipal Swap Index rate, a floating rate set weekly.[83] Based on market indications that Professor Robert Brooks of the University of Alabama and I received from large swap dealers, including Chase Bank, which was later acquired by J.P. Morgan, the fixed rate that J.P Morgan should have paid Jefferson County was over 5.0%.

At my suggestion, Commissioner Bettye Fine Collins attempted to obtain further explanation of the interest rate swap and related debt. This was the first interest rate swap negotiated by the Commission. In addition, the swap documents were presented for approval in the absence of the Finance Director, who was out of town. Commissioner Collins succeeded in delaying consideration of the swap for a few hours so that the Finance Director could return to Birmingham and explain the transaction. A transcript of discussions before the Commission concerning the swap reveals a great deal of imprecision and confusion.[84] The swap transaction was not well explained or justified and there were several mistakes in discussing the cost of the transaction as compared to other alternatives available to the Commission.

As the hours went by, the pricing on the swap changed by almost $900,000 to the detriment of the County.[85] Proponents of the swap sought to place responsibility on Commissioner Collins for

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[80] *Id.*

[81] *See* Selway, *supra* note 57 (stating that Raymond James & Associates, Inc. was involved with Jefferson County finances in 1997).

[82] Katherine M. Reynolds, *Alabama County's Swap Entangled in Political Controversy*, BOND BUYER (Aug. 25, 1997), http://www.highbeam.com/doc/1G1-19696519.html.

[83] *Id.*

[84] *See Notes Taken from the Minutes of the Jefferson County Commission Meeting* (Mar. 5, 1997).

[85] Steve Visser, *Commissioners' Delay Costs County $900,000*, BIRMINGHAM NEWS, Mar. 6, 1997, at 1A.

this added cost, despite the fact that volatility is always present in the swap market and markets could have just as easily improved.[86] *The Birmingham News* aided and abetted this deception in its reporting and published the following cartoon:

[87]

During his career in Birmingham, cartoonist Scott Stantis drew a large number of outstanding cartoons. In my opinion, however, this particular cartoon was wrong-headed and extremely damaging to the people of Jefferson County. As Commissioner Collins said at the time, "[I]n public finance there are no stupid questions."[88] A major problem with the Jefferson County sewer financing structure was that there were too few questions asked by the Commissioners, the media, the Birmingham business leaders, the lawyers involved in the financing, the rating agencies, the bond insurers, and the bond purchasers. The Emperor wore no clothes and no one opened their eyes wide enough to realize it.[89] More importantly,

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[86] *Id.*; *see also* Bettye Fine Collins, Editorial, *Readers' Opinions*, BIRMINGHAM NEWS, Mar. 16, 1997, at 2C (letter from Commissioner Collins to The Birmingham News in an attempt to "set the record straight" concerning the interest rate swaps).

[87] Scott Stantis, BIRMINGHAM NEWS, Mar. 6, 1997. Copyright, 1997, The Birmingham News. All rights reserved. Reprinted with permission.

[88] Remarks made by Bettye Fine Collins to James H. White, III.

[89] HANS CHRISTIAN ANDERSON, THE EMPEROR'S NEW CLOTHES, (C.A. Reitzel 1853) (1853).

the Stantis cartoon tended to validate the actions of the professionals involved in the transaction and enable future abuses. J.P Morgan and other swap providers could charge whatever they wanted with the expectation that those questioning a transaction would likely be ridiculed. In March 1997, Charles LeCroy was employed by Raymond James & Associates, Inc.[90] Sometime later, LeCroy joined J.P Morgan and began to engage in questionable swap transactions with Jefferson County and other issuers.[91] In *SEC v. LeCroy*,[92] the SEC complaint alleged that, based on tape recordings from J.P Morgan, LeCroy and Douglas MacFaddin funneled compensation to friends of Jefferson County commissioners, including Bill Blount, for the purpose of motivating the commissioners to vote for J.P Morgan financing plans and for J.P Morgan swaps.[93]

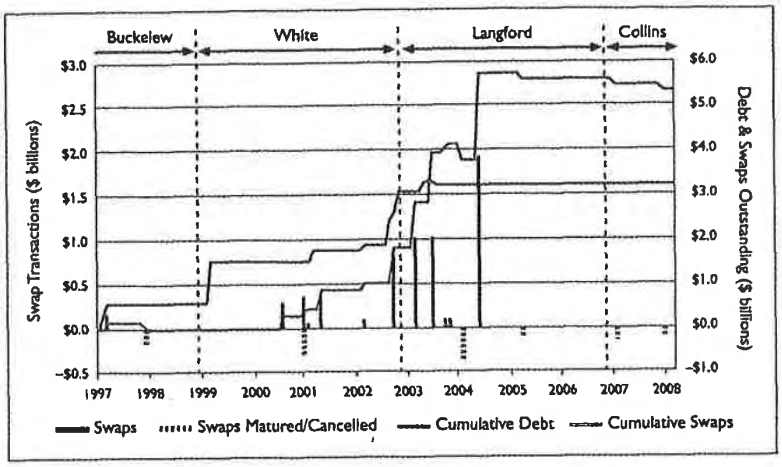
Testimony in the Larry Langford trial and information in the LeCroy complaint indicate a trail of money that ran from J.P Morgan, to Goldman Sachs, to Blount, to Langford.[94] Thus, J.P Morgan and Goldman Sachs became bag-men, furthering the corruption of Blount and Langford.

J.P Morgan's ability to pay large sums of money to individuals and firms who were acknowledged, in taped telephone calls, as not contributing materially to financings was made possible by gross mispricing of these swap transactions. LeCroy worked from Orlando, Florida, not New York, and was thought to earn compensation well above what was customary for an individual with his status and title at J.P Morgan.[95] This should have been a tipoff to J.P Morgan management. LeCroy was paid large amounts of money for arranging transactions that would be active for many years, and he suffered no economic pain when the house of cards he built came tumbling down. The books and records of J.P Morgan, unless they have been destroyed, would confirm the profitability of the Jefferson County swaps in comparison to other swaps executed by J.P Morgan.

From March 5, 1997, to June 10, 2004, Jefferson County executed $6.692 billion in notional amount of swaps in twenty-three swap agreements, fifteen of which were with J.P Morgan.[96] The total debt outstanding at any time to which these swaps were related was less than half this amount, $3.2 billion, indicating that J.P Mor-

[90] Selway, *supra* note 6.
[91] *Id.*
[92] No. 09-CV-02238 (N.D. Ala. Nov. 4, 2009) (Complaint filed November 4, 2009).
[93] *Id.* at 2.
[94] *Id.* at 9-16.
[95] Statements made to James H. White.
[96] *See* Potter, *supra* note 32.

gan and others were in effect "churning" swaps.[97] A graphic depiction of the interest rate swaps in relation to the debt issues follows.



In early 2007, our firm reported publicly that the twenty-three swaps were mispriced by more than $80 million in the aggregate, to the detriment of Jefferson County. Our actual number totaled $93,519,182. This estimate was initially criticized by some of those involved in the transactions, but as time has gone by and details have emerged of how the transactions were motivated, we believe that the estimate was conservative. We will probably never know the extent of the fraud against Jefferson County because reports on the details of swap transactions was not required. We have good information on the Jefferson County swaps, but the public and independent swap advisers have not had access to information on other swaps executed by other parties in the same time frame. Had it chosen to do so in a timely fashion, the SEC could have determined how J.P Morgan valued these swaps based on their own records. The SEC either failed to do so or has not disclosed the information that it found.

Swap dealers have fought to avoid public disclosure of swap transactions, and they have been assisted in this fight by the Federal Reserve Board.[98] Chairman Alan Greenspan thought it best to leave determination of swap prices to the "market" in the mistaken as-

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[97] Selway, *supra* note 6.

[98] Gretchen Morgenson & Don Van Natta Jr., *In Crisis, Banks Dig in for Fight Against Rules*, N.Y. TIMES, May 31, 2009, at A1, *available at* http://www.nytimes.com/2009/06/01/business/01lobby.html.

sumption that efficient pricing would result.[99] Mr. Greenspan misapplied efficient market theory in reacting adversely to the call for more transparency in swap pricing. The efficient market theory says that free markets produce prices that generally reflect available information.[100] The theory does not say that markets are inherently efficient, particularly when relevant information is not available. By failing to ensure transparent reporting of swap prices, the Federal Reserve Board has been responsible for the absence of good information and thus inefficient markets, and Jefferson County has suffered mightily as a result. To be efficient, financial markets require rapid and accurate dissemination of relevant information.[101] A party with information will always be able to take advantage of a party without information, just as J.P Morgan took advantage of Jefferson County on multiple occasions. The major thrust of federal securities law is to make securities markets efficient by requiring disclosure of relevant information. Unfortunately, at the urging of J.P. Morgan and other major swap dealers who want to make more money in an unregulated market where access to knowledge is unequal, Congress has, until very recently, chosen to exempt swaps from disclosure requirements, thereby making the fraud that occurred in Jefferson County possible. [102]

In early July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which purports to address the issues raised above concerning the opacity of swap pricing.[103] Whether the act will be effective in preventing abuses is dependent on the content of regulations mandated by the act and the effectiveness of the enforcement of these regulations.

In November 1997, I drafted a letter, which Commissioner Collins sent to the Securities and Exchange Commission, complaining about the March 5, 1997, swap transaction and enclosed a

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[99] Patrice Hill, *Greenspan Deflects Blame for Crisis*, WASH. TIMES, Apr. 8, 2010, *available at* http://www.washingtontimes.com/news/2010/apr/08/greenspan-links-fannie-freddie-to-crisis/.

[100] *See id.*

[101] DICTIONARY.COM, http://dictionary.reference.com/browse/efficient+market+hypothesis (last visited Aug. 12. 2010).

[102] *See* Hill, *supra* note 99. It may be that failure to disclose the excessive spreads on the J.P Morgan interest rate swaps in official statements constitutes fraud under Section 12 of the Securities and Exchange Act of 1934 and Alabama law, in that such disclosure would arguably be material to a prospective purchaser of debt.

[103] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010).

number of exhibits.[104] For many years there was no response to this letter. Then, in 2007 and again in early 2009, Congressman Spencer Bachus re-sent this letter to the SEC.[105] As in the case of the Bernie Madoff fraud (and a number of other similar cases), the SEC's failed response led to a continuation of questionable and fraudulent activity. Furthermore, the recent SEC settlement with J.P. Morgan[106] has provided insignificant relief when viewed from a comprehensive prospective of what has happened to Jefferson County.

More recently, Commissioner Jim Carns wrote the SEC to ask for a comprehensive investigation of the Jefferson County sewer financing, similar in scope to the investigations of the financial crisis of the City of New York, the Washington State Public Power System, the City of Miami, and others.[107] SEC Chairman Shapiro responded to Commissioner Carnes that the SEC is not interested in investigating further the Jefferson County sewer financing.[108] We are witnessing once again what happens when the watch-dog does not bark.

WHAT MOTIVATED J.P. MORGAN?

What motivated J.P. Morgan, one of the leading financial institutions in the world, to engage in the sort of conduct that has been disclosed in the case of Jefferson County? Was it just a few rogue bankers and traders, or was it something deeper? Most, if not all, of the J.P. Morgan bankers with any contact to Jefferson County are no longer with the company.[109] There is, however, a story that is relevant.

In the late 1990s, Joe Mysak, formerly a columnist for the Bond Buyer, was editor of a publication called *Grant's Municipal*

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[104] Letter from Bettye Fine Collins, Commissioner for District IV, Jefferson County Commission, to Securities and Exchange Commission, (Nov. 1997) (on file with author).

[105] Letter from Spencer Bachus, Congressman for the Sixth District of Alabama, United States Congress, to Securities and Exchange Commission (2007 & 2009) (on file with author).

[106] Mary Williams Walsh, *J.P. Morgan Settles Alabama Bribery Case*, N.Y. TIMES, Nov. 4, 2009, at B1.

[107] Letter from Jim Carns, Commissioner for District V, Jefferson County Commission, to Mary L. Schapiro, Chairman, Securities and Exchange Commission (May 27, 2009) (on file with author).

[108] Letter from Mary L. Schapiro, Chairman, Securities and Exchange Commission, to Jim Carns, Commissioner for District V, Jefferson County Commission (Feb. 18, 2010) (on file with author).

[109] Selway, *supra* note 57.

Bond Observer (*Observer*).[110] On September 24, 1997, Professor Robert Brooks and I were speakers on the subject of variable rate tax-exempt debt at a conference in New York sponsored by the *Observer*.[111] The luncheon speaker at the conference was John McColloch, the head of public finance at J.P. Morgan.[112] Joe Mysak's notes from McColloch's speech, which Mysak sent to me in March 2008, quote McColloch as follows:

> Investment bankers have an opportunity to offer a broader product line to issuers than just bond underwriting, which is fortunate, because revenues from traditional municipal sales, trading and underwriting no longer form the foundation of a prosperous business. In fact, if one analyzes the circumstances of the firms that have abandoned the business, the constant in each case was that management defined the business too narrowly. If you position yourself as just a bond house, you won't be profitable enough to survive in today's municipal business.[113]

McColloch was making the same point about the public finance business that Sean McCarthy later made about the municipal bond insurance business: the traditional, conservative business did not make enough money to satisfy Wall Street objectives.[114] To achieve individual and institutional objectives, it was necessary to take on more risk. Thus, J.P. Morgan added municipal derivatives to its bag of tricks. Suddenly, issuing municipal debt became an intermediate objective on the path to engaging in municipal derivatives transactions. Underwriting municipal debt was a transparent, low margin business. Derivatives were a black box, high margin business.[115] To J.P. Morgan, Jefferson County was not an opportunity to provide service or assist with debt financing; it was an opportunity to make money by doing derivative deals. It was a dramatic departure from the J.P. Morgan mantra of "doing only first-class business, and that in a first-class way."[116]

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[110] *Conferences*, CASGRAIN & CO., LTD., http://www.casgrain.ca/en/newsandevents.php?id=6 (last visited Aug. 12, 2010).
[111] John McColloch, Remarks at the Conference on Municipal Finance sponsored by Grant's Municipal Bond Observer (Sept. 25, 1997) (notes taken from speech) (on file with author).
[112] *Id.*
[113] *Id.*
[114] *See supra* note 73-75 and accompanying text.
[115] Thomas Tan, *The Subprime Crisis Has Quieted, But Hasn't Gone Away*, SEEKING ALPA (Oct. 5, 2007), http://seekingalpha.com/article/48975-the-subprime-crisis-has-quieted-but-hasn-t-gone-away.
[116] *Our business principles*, J.P. MORGAN CHASE & CO., *available at* www.jpmorgan.com/pages/jpmc/about/busprinciples (quoting statement made

The creative financial structures J.P. Morgan invented during the last fifteen years have been used by J.P. Morgan and others to wreck havoc in the financial markets. The latest thing can frequently bring benefits to clients, but its very newness obscures the risks involved. Whether the client has been Enron or Jefferson County, J.P. Morgan clients have suffered greatly from a business model that called for new, innovative services as a means of making money in traditional investment banking areas. The risks of "latest new things" are compounded by a compensation system that pays people for innovation before the innovation is proven and without providing for individual penalties if it does not. We need a reengineering of compensation for bankers doing creative deals. Perhaps J.P. Morgan can apply some of its smarts to this problem.

It is no coincidence that *Bloomberg* scooped the rest of the financial press on J.P. Morgan's abuse of Jefferson County, as Joe Mysak moved to *Bloomberg*[117] when he discovered that traditional public finance would not support another independent publication covering the business. At *Bloomberg*, Mysak gave invaluable guidance to the reporters and editors who did an outstanding job on the Jefferson County story.

ONE CANNOT MANAGE WHAT ONE CANNOT MEASURE

Over the more than thirty years that I have been an observer of the financial affairs of Jefferson County, I have been continuously bothered by the failure of the County to provide up-to-date financial information. The comparative analysis of the Jefferson County and Atlanta debt offerings described earlier illustrates my point. Historically, by the time Jefferson County published audited financial statements, the information was so stale that it was of very little value.

Under the Langford administration, the Budget Management Office of Jefferson County began to report directly to the President of the Jefferson County Commission rather than to the Finance Director, and the actual budgeting process was so deficient as to be out of compliance with state law. There was no systematic preparation of financial statements for any period that permitted comparison of actual results to the budget in a format meaningful to members of the County Commission or to third parties.

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by J.P. Morgan, Jr. on May 23, 1933, to the S. Subcommittee on Banking & Currency).

[117] *See Conferences*, CASGRAIN & CO., LTD., http://www.casgrain.ca/en/newsandevents.php?id=6 (last visited Aug. 12, 2010).

In addition, under Commission President Langford and continuing under Commission President Collins, the second and third positions in the Finance Department were empty for an extended period. As a consequence, for a number of years the Finance Department did not (and still today does not) have the capacity to close the County's books at the end of a fiscal year and produce audited financial statements in a form complying with governmental accounting rules.[118] The County has been forced to hire a firm of certified public accountants to prepare financial statements, which are then audited by the state examiners, or, more recently, by a second firm of certified public accountants.[119] Most recently, however, the County has failed to hire private firms to prepare or audit financial statements. Moreover, the state examiners have declined to audit the County under governmental accounting rules, although they are in the process of performing a compliance audit looking for violations of law.[120]

One of the reasons that the County decided not to hire private firms to close its books and audit its financial statements is that the cost of such services had grown. The cost is so high because the County's financial systems are in considerable disarray.[121] During the Langford administration, and perhaps before, the County decided to upgrade its financial systems and chose to install a SAP system after a committee of mid-level county managers undertook an evaluation process and recommended another system.[122] When the County signed contracts providing for the purchase and installation of the SAP system, the finance director was designated as the County's representative under the contracts. Subsequently, however, both the finance director and the Director of Information Technology were instructed to have nothing to do with the installation, which was managed entirely by consultants and mid-level

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[118] *See* Barnett Wright, *Unaudited Records Trip Deal on Jefferson County Bonds*, BIRMINGHAM NEWS, Mar. 28, 2010, http://blog.al.com/spotnews/2010/03/unaudited_records_trip_deal_on.html (noting that Jefferson County has not had a proper audit of its finances since fiscal year 2007).

[119] *Id.*

[120] Bob Sims, *Alabama's Chief examiner rejects Gov. Bob Riley's request for a Jefferson County Audit*, BIRMINGHAM NEWS, Sept. 19, 2009, http://blog.al.com/spotnews/2009/09/alabamas_chief_examiner_reject.html.

[121] *See* Wright, *supra* note 118.

[122] *Jefferson County Selects Meridian to Provide Maintenance and Support Services*, MERIDIAN PARTNERS, http://www.meridianpartners.us/content/view/49/43/ (last visited Aug. 12, 2010).

county employees.[123] The SAP system is notoriously difficult to install and use, even in a competently managed organization, and the start up of the system in July 2007 was a disaster.[124]

During my sporadic involvement with Jefferson County, I have never seen a monthly financial statement for any department or activity of the County, much less the County as a whole, or any financial statement comparing actual to budgeted performance. I am sure there must be at least a few departments with such financial statements, but they have been the exception rather than the rule. Additionally, I have never seen an interpretation of departmental financial statements employing quantitative, non-financial data measuring output or performance of a department. In short, financial management methods commonplace more than fifty years ago are mostly unknown in Jefferson County.

The lack of interim and annual financial statements, the deficiencies in the financial system, and the lack of reliable management information are themselves risk factors that should have emerged in a competent due diligence investigation by J.P Morgan and other underwriters and should have been disclosed in the official statements pursuant to which securities were offered. The rating agencies knew about the problems with financial information but issued their ratings anyway. The bond insurers would have known about the problems had they conducted even the most superficial investigation. As financial advisor to the County from April 1, 2007 to July 10, 2008, we took the position that the lack of good financial information meant that the County could not publicly issue debt without violating the anti-fraud provisions of state and federal securities laws. Thus, any restructuring plan that contemplated the public issuance of debt was, and remains today, a nonstarter.

Jefferson County's problematic financial systems are on par with the situation at HealthSouth when massive fraud was discovered at that company. HealthSouth attacked its problem by hiring a leading turn-around-management consultant, Alvarez & Marsal, which brought in scores of accountants to reconstruct HealthSouth's financial records.[125] In spring 2008, our firm and others

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[123] *See* Barnett Wright, *Commission OKs New Software Office*, BIRMINGHAM NEWS, Oct. 17, 2007, at Local 2, *available at* 2007 WLNR 20452606 (quoting Commissioner Shelia Smoot as stating the problem with the new SAP system was that the Information Technology Department was left out of the new system implementation).

[124] *See id.*

[125] Bryan Marsal & Guy Sansone, ALVAREZ & MARSAL, *Healthsouth: The Road to Recovery*, (2005),

recommended that Jefferson County employ Alvarez & Marsal, principally for the purpose of reconstructing the County's financial statements and stabilizing its financial systems. That recommendation was rejected by the Commission due to high costs and concern that the Commission would be ceding control of an important County function to an outsider. In retrospect, failure to hire Alvarez & Marsal has been a costly mistake.

SYNTHETIC FIXED RATES: RISKS OVERWHELM BENEFITS

Prior to October 2002, over 95% of Jefferson County's sewer debt was fixed rate.[126] By the fall of 2002 the County was obligated under financing agreements to raise sewer rates by ever larger amounts. This obligation was anticipated to cause political concerns for the county commissioners.[127] Not wanting to let such a crisis go to waste, J.P. Morgan came up with a structure that had the potential to reduce interest costs and debt service in the near term, thereby delaying some rate increases, while providing J.P Morgan the opportunity to make a lot of money.[128] The risks of the structure only became apparent in early 2008 when it fell apart.[129] The following chart shows the conversion of fixed rate to synthetic fixed rate financing that occurred in 2002 and 2003, principally, but not entirely, under the leadership of Larry Langford.[130]

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http://www.alvarezandmarsal.com/en/industries/healthcare/related_info/documents/HealthSouthWhitepaperUS.pdf.

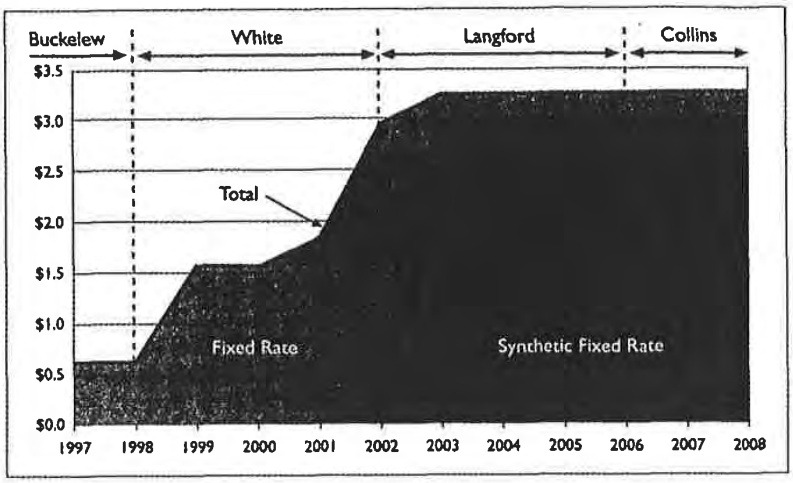
[126] Complaint at 8, Jefferson County v. JPMorgan Sec., Inc., No. CV-2009-903641 (Ala. Cir. Ct. Nov. 13, 2009), *available at* http://ftpcontent.worldnow.com/wbrc/docs/jeffcojpmorgansuit.pdf.

[127] *Id.* at 8-10.

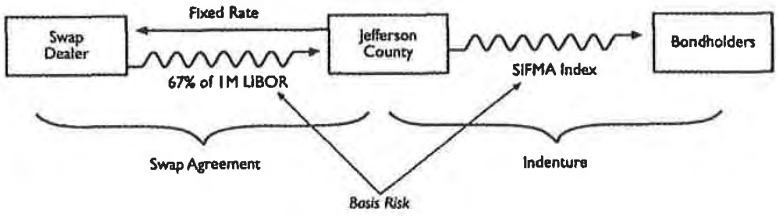
[128] *Id.*

[129] *Id.* at 10.

[130] *See id.* at 8-10; *see also In re* J.P. Morgan Sec., Inc., Sec. Act Release No. 9078, Exch. Act Release No. 60928, Admin. Proceeding File No. 3-13673, at 3-10 (Nov. 4, 2009), *available at* http://www.sec.gov/litigation/admin/2009/33-9078.pdf.



J.P Morgan's proposed structure was a synthetic fixed-rate issue in which the County issued variable rate bonds and then swapped the variable rate to a fixed rate.[131] The following chart illustrates the structure.



A comparison of some of the important features of fixed and synthetic fixed rate debt is presented in the following table:

Feature	Fixed Rate	Synthetic Fixed Rate
Interest rate costs		Lower

[131] *See* Ken Wells, *Armageddon in Alabama Proves Parable for Local U.S. Governments*, BLOOMBERG (Oct. 19, 2009), http://www.bloomberg.com/apps/news?pid=20601109&sid=a6QpSf.s4NaA; *Accrued Interest, The Cautionary Tale of Jefferson County* (Mar. 30, 2008), http://accruedint.blogspot.com/2008/03/cautionary-tale-of-jefferson-county.html (last visited Aug., 12, 2010).

Feature	Fixed Rate	Synthetic Fixed Rate
Financing costs		Higher
Transparency of financing costs	High	Low (swaps opaque)
Complexity	Low	High (many firms continuously involved)
Stability of financing	High	Low (important financing agreements periodically renegotiated)
Credit enhancement risk	Assumed by debt holder	Assumed by County

Careful review of this table reveals that the synthetic fixed rate structure is much riskier than the fixed rate structure. This should not be surprising because in the financial world, greater benefit is usually accompanied by greater risk. The County anticipated very low rates (approximately 4.2% over 40 years), but it incurred more risk to obtain these lower interest rates.[132]

What turned out to be the most important risk was that the credit enhancement entities (the bond insurers) could be downgraded. When this happened to the relatively small portion of county fixed rate debt, there were no consequences to the County.[133] The debt lost value, but the holders of the debt incurred this loss, not the County.[134] When the insurers of the synthetic fixed rate debt were downgraded, however, the County's debt service ratcheted up, effectively doubling or tripling, because the County's debt service obligations were effectively tied to the credit

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[132] Selway, *supra* note 6; Notice, Sewer Revenue Warrants, Jefferson County Dep't of Fin., 2-4 (June. 5, 2009) [hereinafter Notice]; Dick P. Smith, *Standard & Poor's Updates Results of Its Bond Insurance Stress Test For Revised Assumptions*, STANDARD & POOR'S 1 (Jan. 17, 2008), http://www.ambac.com/pdfs/RA/S&P%20Updates%20Results%20Of%20Its%20Bond%20Insurance%20Stress%20Test%20For%20Revised%20Assumptions%20%2801-17-08%29.pdf.

[133] Notice, *supra* note 132, at 4-6.

[134] *See id.*

rating of the bond insurers, and a small decrease in the credit rating of the bond insurers had an unforeseen, catastrophic effect on the County.[135] The County and others have now sued the bond insurance companies claiming damages for the alleged obligation of the bond insurance companies to maintain their high credit ratings.[136]

The risk that the bond insurance companies could be downgraded was not disclosed in county official statements or foreseen by the professionals involved.[137] Everyone thought that the rating agencies would be monitoring the bond insurance companies. Unfortunately, both the rating agencies and the bond insurance companies got greedy. The bond insurance companies wanted to earn more and higher premiums on insuring securities created from subprime mortgages and other assets,[138] and the rating agencies wanted fees for rating these securities.[139] Everyone forgot that the financial guaranty business is risky, especially outside the relatively safe public finance area where default rates are historically very low and actual losses historically miniscule.

The bond insurers suffered from an agency problem.[140] They had collected insurance premiums in the expectation that they

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[135] *See* Statement by Jim Carns, Jefferson County Comm'r, Restructuring of Sewer System Debt (July 11, 2008) (on file with author), *available at* www.jimcarns.com/pdfs/pressrelease.pdf; Notice, *supra* note 132, at 6, 8 ; Russell Hubbard & Barnett Wright, *Rating on Key Jeffco Bond Cut to 'Junk' Bankruptcy Risk Up as Sewer-Bond Status Dips*, BIRMINGHAM NEWS, Mar. 1, 2008 at A1; Bob Sims, *Jefferson County's Sewer Bond Swap Bill Balloons to $735 Million*, Dec. 16, 2008, http://blog.al.com/businessnews/2008/12/jefferson_countys_sewer_bond_s.html.

[136] Eric Velasco, *Jefferson County Sewer Bond Trustee Turns to State Court in Seeking Receiver*, BIRMINGHAM NEWS, Aug. 4, 2009, http://www.al.com/news/birminghamnews/metro.ssf?/base/news/12493737459 8890.xml&coll=2; Barnett Wright, *Jeffco Suit Seen as Tough Sell Experts: Past Corruption a Factor*, BIRMINGHAM NEWS, Aug. 4, 2009, at A15; *SEC Investigation of Jefferson County Bond Deals: A settlement, a Complaint and More*, BIRMINGHAM NEWS, Nov. 5, 2009, http://blog.al.com/businessnews/2009/11/sec_investigation_of_jefferson.html; Barnett Wright, *Jefferson County Exposed to 'Unconscionable Degree' of Risk in Bond Deals, Lawsuit against Firms, Langford Claims*, BIRMINGHAM NEWS, Nov. 14, 2009, http://blog.al.com/birmingham-news-stories/2009/11/jefferson_countys_suit_mirrors.html; Barnett Wright, *Judge to Hear Sewer Lawsuit*, BIRMINGHAM NEWS, Dec. 5, 2009, at B1.

[137] *See* Notice, *supra* note 132, at 5-6.

[138] *See* Bernhard Grossfeld & Hansjoerg Heppe, *The 2008 Bankruptcy of Literacy – A Legal Analysis of the Subprime Mortgage Fiasco*, 15 L. & BUS. REV. AM. 713, 737 (2009); Agriss, *supra* note 60, at 7.

[139] *See* Grossfeld, *supra* note 138, at 718, 734.

[140] *See supra* notes 12-15 and accompanying text.

would maintain AAA ratings to protect the value of debt over many years.[141] In the case of long-term debt, their obligation was to the holders of the bonds, although the insurance premiums were paid by Jefferson County.[142] But those deals were done, the premiums were paid, the profits were booked in the past, and the bond insurers wanted to make money during the current year and their executives wanted bonuses in the current year. So they began to insure riskier deals for larger margins, and the beneficiaries of their outstanding policies paid the price when the risky deals came undone.[143] No doubt, the bonuses were not returned.[144]

Similarly, the rating agencies issued their ratings for the benefit of debt holders and debt purchasers, but their fees were paid by issuers.[145] They had to please issuers to make more money.[146] Rating agency officials took home the money, and the debt holders took it in the ear.[147]

DEFINING REASONABLE: A JOB FOR LAWYERS, JUDGES, AND ECONOMISTS

The power of Jefferson County to impose sewer service charges is based on Amendment 73 to the Alabama Constitution of 1901, which requires that rates be "reasonable and nondiscriminatory."[148] The requirement that rates be nondiscriminatory may limit flexibility and creativity in devising rate schemes. The requirement that rates be reasonable is an important but ambiguous limitation on the power of the County (and a receiver or court) to raise rates.

The proper interpretation of "reasonable" in this context is important because debt holders and bond insurance companies are suing the County and seeking appointment of a receiver to raise rates.[149] In early September, 2010, the trial judge determined that a

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[141] Notice, *supra* note 132, at 4.
[142] *See* Material Event Notice, *supra* note 10, at 3.
[143] Notice, *supra* note 132, at 4.
[144] Vikas Bajaj & Julie Creswell, *8 Banks Discuss Aid for Bond Insurer*, N.Y. TIMES, Feb. 2, 2008, at C2.
[145] Caitlin M. Mulligan, *From AAA to F: How the Credit Rating Agencies Failed America and What Can Be Done to Protect Investors*, 50 B.C. L. REV. 1275, 1278-79 (2009); Louise Anderson, State Bond Banks: Municipal Borrowing Made Easy, COUNCIL OF DEVELOPMENT FINANCE AGENCIES, http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/statebondbanksanderson.html.
[146] *Cf.* Mulligan, *supra* note 145, at 1278-79.
[147] *See id.*
[148] ALA. CONST. amend. 73.
[149] *See* Material Event Notice, *supra* note 10, at 2.

receiver was due to be appointed.[150] The debt holders (and by subrogation, the bond insurance companies) are entitled to receive the net revenues (gross revenues after expenses) from operating the sewer system, and they have the right to require increases in rates to cover debt service to the extent such increased rates are reasonable.[151] In the absence of a settlement of this litigation (which will be difficult to achieve in the event that rate payers and citizens are deemed to have standing to litigate the issue of reasonableness), extensive litigation will be required to resolve the issue. A special master in the federal court case *Bank of New York v. Jefferson County, Alabama*[152] issued a report asserting that sewer service charges could be doubled without being unreasonable.[153] In my opinion, a doubling of rates would be ridiculous, but case law on the issue of the reasonableness of utility rates is sparse.

In some of the leading Alabama cases, there has been testimony by engineers on the issue of reasonableness.[154] Standards applied include whether the rates are necessary to cover expenses and debt service and whether the rates are comparable to other systems similarly situated.[155] More recently, following suggestions by the Environmental Protection Agency, consultants have sought to determine the "affordability" of rates by comparing sewer service charges to median household income.[156] This approach has not yet been supported by any Alabama case.

I believe that the courts will look to custom and practice in determining the word "reasonable" in the context of utility rate setting by governmental bodies and that, in addition to public law cases and the concept of affordability, the courts will rely upon the

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[150] *Jefferson County Sewer to Get Receiver, Judge Says*, BLOOMBERG BUSINESSWEEK, http://www.businessweek.com/news/2010-09-07/jefferson-county-sewer-to-get-receiver-judge-says.html (last visited Sept. 16, 2010).

[151] *See* Complaint at 2-13, Bank of New York Mellon v. Jefferson County, Alabama, No. C200902318 (10th Cir. Ala. 2009); Statement by Jim Carns, Jefferson County Comm'r, Restructuring of Sewer System Debt (July 11, 2008) (on file with author), *available at* www.jimcarns.com/pdfs/pressrelease.pdf; Shelly Sigo, *Jefferson County Has First Missed Payment*, BOND BUYER (July 9, 2009), http://bondbuyer.com/article.html?id=20090708RZRXUQ0V&queryid=2050180669&hitnum=1.

[152] No. 2:08-CV-01703-RDP (N.D. Ala. 2008).

[153] Report of the Special Master in Bank of New York Mellon v. Jefferson County, Alabama, No. 2:08-CV-01703-RDP at 43-47 (N.D. Ala., filed Feb. 10, 2009), *available at* http://blog.al.com/bn/2009/02/special%20master%201.pdf.

[154] *Cf.* Shell v. Jefferson County, 454 So. 2d 1331, 1337 (Ala. 1984).

[155] *Id.*

[156] *Water and Sewer Financial Capacity and Affordability in EPA Region IV*, ENVTL. FIN. CTR., http://www.efc.unc.edu/projects/W&SFinancialCapacity&Afford.htm (last visited Aug. 12, 2010).

body of law and regulations applicable to for-profit utilities. The following table sets forth a list of the principles that I believe applicable and how they relate to the reasonableness of Jefferson County sewer rates.

Principle	Application to Jefferson County
Necessary to cover expenses and debt service (and maintenance capital expenses).	Rates necessary to cover expenses, debt service, and capital expenses would be extremely high under any conceivable scenario that does not include substantial forgiveness of debt.
Affordability – ratio of sewer bills to median household income.	A tough standard for large parts of Jefferson County, depending on how applied.
Comparison to other jurisdictions.	Jefferson County rates come close to the highest in the United States. Atlanta rates are higher, as is Atlanta median household income.
Rate payers should not have to pay for capital expenditures and financing costs that result from fraud.	A problem for those seeking higher rates.
Rate payers should not have to pay for unnecessary capital expenditures.	A problem for those seeking higher rates.
Rate payers whose rates are very high should not have to pay for system expansion not shown to be of benefit to rate payers.	A problem for those seeking higher rates.
Rate payers should not have to pay for incompetently designed and gold plated capital expenditures.	A problem for those seeking higher rates.

Principle	Application to Jefferson County
Because of fraud and corruption, legislative decisions regarding rates by Jefferson County Commission not entitled to deference.	Existing rates may be too high, not too low.

At least one other definitional problem arises under the debt indenture. Debt holders and bond insurance companies will likely argue that net revenues should be used to pay debt service before capital expenditures. The problem with this interpretation is that a significant level of capital expenditures is required on an annual basis to comply with the Clean Water Act,[157] and Jefferson County is under a federal court injunction to comply with the Clean Water Act.[158] Because this injunction predates the debt indenture, it is arguable that the debt holders come behind capital expenditures necessary to maintain compliance with the Clean Water Act. A court would have to consider that failure to comply with the Clean Water Act would likely lead to curtailment of accepting new customers on the existing system and possibly a reduction in net revenues to the detriment of debt holders.

Jefferson County's ability to subsidize sewer operations, even if it desired to do so, is extremely limited. The County's general fund is in poor shape and it is facing default on its general obligation debt.[159] Moreover, continuation of its occupational and business license taxes will be subject to a vote by county residents in 2012 (although there will be attempts to avoid such a vote by claiming that the vote mandated by state law is unconstitutional).[160] Debt holders and bond insurance companies are negotiating not just with the County Commission, the governor, and the legislature of Alabama, but with the people of Jefferson County who may be in a position to do a lot of damage, if provoked, by voting against continuation of the occupational and business license taxes.

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[157] *See* 1996 Consent Decree, *supra* note 2 (detailing the remedial actions necessary for the County to comply with the Clean Water Act).

[158] *Id.*

[159] *See* Kyle Whitmire, *Birmingham's Hidden Deficit*, BIRMINGHAM WEEKLY, Dec. 3, 2009, *available at* http://bhamweekly.com/birmingham/article-1332-birminghamrss-hidden-deficit.html.

[160] David White & Kim Chandler, Jefferson County Occupational Tax Lawsuits Expected, BIRMINGHAM NEWS, Aug. 16, 2009, http://www.al.com/news/birminghamnews/metro.ssf?/base/news/1250410567245540.xml&coll=2.

In any case, it is important to remember that Jefferson County's sewer debt is non-recourse.[161] As stated previously, the deal cut with bondholders limits their recourse to net sewer revenues. Several of the major players from Wall Street have commented to me that "counties and municipalities do not default." I remind them of the default of the Washington Public Power Supply System where bondholders received twenty-six cents on the dollar for approximately $2.25 billion of bonds after a *decade* of litigation.[162] Further, the Jefferson County case is distinguishable from the Washington Supply System default by the significant degree to which Wall Street participated in fraud. In fact, it would not be a miscarriage of justice if J.P. Morgan and other Wall Street players were required to assume responsibility for the entire $3.2 billion in outstanding debt.

REPRISE: "I HAVE MET THE ENEMY AND HE IS US."[163]

One is tempted to place the blame for Jefferson County's problems on someone else. Larry Langford and Bill Blount say it was the bond insurance companies. The lawyers and the engineers say it was the bankers. Steve Sayler says we did not issue enough debt. The Big Mules say whoever is at fault, do not declare bankruptcy – raise taxes instead (but not on them). The rate-payers and citizens say "they are all crooks." Governor Bob Riley says bankruptcy is immoral, and then he says nothing.

And then there are the questions. How could the big utilities stand by while Jefferson County incurred five times as much debt per customer as Alabama Power?[164] How could the big banks stand

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[161] *See* Sigo, *supra* note 151 (stating that the Jefferson County sewer debt is non-recourse).

[162] *See* In re Washington Public Power Supply System Securities Litigation, 19 F.3d 1291 (9th Cir. 1994).

[163] *See supra* text accompanying note 1; *see generally* I GO POGO, http://www.igopogo.com/we_have_met.htm (last visited Sept. 9, 2010) (providing background information on Walt Kelly's Earth Day cartoon).

[164] *See The State of Full Cost Pricing: Full Cost Pricing Among Public Water & Sewer Utilities in the Southeast*, UNC SCH. OF GOV'T ENVTL. FIN. CTR. 6 (Oct. 10, 2008), http://www.efc.unc.edu/publications/pdfs/Full_Cost_Pricing.pdf (finding that Jefferson County's debt amounts to around $17,500 per household); *Form 10-Q*, U.S. SEC. & EXCH. COMM'N, Sept. 30, 2009, *available at* http://apps.shareholder.com/sec/viewerContent.aspx?companyid=SO&docid=6875404#FORM10Q9-09_HTM_116 (stating that in 2009 Alabama Power showed debt of $6,156,960). Alabama Power has more than 1.4 million customers. *Alabama Power Background*, ALA. POWER, http://www.alabamapower.com/about/about.asp (last visited Aug. 12, 2010). Therefore, it can be deduced that Alabama Power's debt per customer is $4.37.

by while Jefferson County failed to issue financial statements?[165] And our engineering community, of which we are very proud, should be asking how did we let these crooked, incompetent engineers smear our profession? Congress should be asking why were the SEC and the Federal Reserve asleep at the switch?[166] And all of us should be asking, is there something more that we should have done?

The scope of the Jefferson County fiasco is so astounding that one has to turn to fiction for a really good precedent. Robert Penn Warren's 1946 Pulitzer Prize winning novel, *All the King's Men,* is a fictional account of Huey Long, whose name in the novel is variously Willie Stark or simply "the Boss."[167] A major theme in the book is whether it is possible to be "good" and still "do business," and whether ethical, law-abiding conduct is possible in the real world.[168] The Boss argues the negative:

> [W]hat folks claim is right is always just a couple of jumps short of what they need to do business. Now an individual, one fellow, he will stop doing business because he's got a notion of what is right, and he is a hero. But folks in general, which is society, . . . is never going to stop doing business. Society is just going to cook up a new notion of what is right. Society is sure not ever going to commit suicide.[169]

Explicitly or implicitly, many of the players involved in the Jefferson County sewer system assert the justification that corrupt acts were required to do business.

In a way, William Faulkner, another famous southern writer, responded to Robert Penn Warren's "Boss" in his 1950 Nobel Prize acceptance speech:

> I decline to accept the end of man. . . . I believe that man will not merely endure: he will prevail. He is immortal, not because he alone among creatures has an inexhaustible voice, but because he has a soul, a spirit capable of compassion and sacrifice and endurance.[170]

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[165] *See* Selway, *supra* note 57 ("I blame the people who said they were the experts, . . . The big Wall Street bankers. Where are they now? We trusted them. We asked our folks to trust them. And you know what–they violated our trust.").
[166] *Id.* ("It's ironic that the Fed can do corporate welfare for the banks, but they can't bail out a county that was victimized by these banks . . . .").
[167] ROBERT PENN WARREN, ALL THE KING'S MEN 6 (1946).
[168] *See id.* at 387.
[169] *Id.*
[170] William Faulkner, Speech at the Nobel Banquet (Dec. 10, 1950), *available at* http://nobelprize.org/nobel_prizes/literature/laureates/1949/faulkner-speech.html.

I believe that Jefferson County can prevail and even become an example for the rest of the state and the region. Achievement of this vision for Jefferson County will require compassion, sacrifice, and endurance, as well as competence – from all of us. It will not happen through quick fixes or expedient compromises, which the public does not trust and will reject. It will require time during which there is a restoration of the public trust, which I believe can occur only through a transparent process in which every effort is made to assure that those responsible for the fiasco pay for it, and it will require reform of the Jefferson County government, including an effective financial system and a change in the form of government. It will require high aspirations and outstanding performance.

APPENDIX

Agency Problem: The difficulties encountered when a principal delegates a task to an agent. The agency problem arises when the principal and the agent have different objectives and there is asymmetric information and an incomplete contract. The asymmetric information prevents the principal from perfectly monitoring the agent, and the incomplete contract makes it impossible to determine what will occur in all possible contingencies. The principal cannot therefore ensure that the agent always chooses the action the principal would wish to see chosen. Agency theory determines how contracts can be designed to ensure that these problems are best mitigated.[171]

Agency Theory: The theory of the contractual relationship between a principal and an agent. Agency theory analyzes the issues that arise when a principal delegates a task to an agent but there is asymmetric information and an incomplete contract. The basis of the analysis is that the principal and the agent have different objectives. For example, the owner of a firm (the principal) may wish to maximize profit but the manager of the firm (the agent) aims to maximize a utility function that is increasing in income but decreasing in effort. The first-best contract would make the reward a function of effort and be designed to induce the efficient effort level in every circumstance. The agency problem arises when there is an asymmetry of information such that the principal cannot ob-

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[171] John Black, Nigar Hashimzade, and Gareth Myles, *A Dictionary of Economics*, OXFORD REFERENCE ONLINE, http://www.oxfordreference.com.ezproxy.samford.edu/views/ENTRY.html?subview=Main&entry=t19.e3417 (last visited Aug. 14, 2010)

serve the effort level of the manager and hence cannot condition the contract upon it. Instead, the contract has to be conditioned upon an observable and verifiable quantity such as the level of profit. This prevents the contract from ensuring that the efficient level of effort is always supplied. The design of the contract has to take into account incentive effects and the allocation of risk between the principal and the agent. It is often assumed that the principal is risk-neutral and the agent risk-averse, in which case, putting incentive effects to one side, all of the variability in pay-off should fall on the principal. Such a contract does not provide any incentive for the agent, which leads to the balancing of risk sharing and incentives. The need to provide an incentive to the agent makes the expected profit of the principal lower than that with the first-best contract that could be used with no asymmetry of information. This is the agency cost of implementing a second-best contract in the presence of asymmetric information. Agency theory has found many applications in economics. Two illustrative examples are the consequences of the separation of control between shareholders and managers, and the delegation of taxation and public good provision to states within a federation.[172]

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[172] John Black, Nigar Hashimzade, and Gareth Myles, *A Dictionary of Economics*, OXFORD REFERENCE ONLINE, http://www.oxfordreference.com.ezproxy.samford.edu/views/ENTRY.html?subview=Main&entry=t19.e3418 (last visited Aug. 14, 2010)

RESOLUTION OF THE JEFFERSON COUNTY COMMISSION

WHEREAS,

A. On November 15, 1948, the Constitution of the State of Alabama was amended by the Jefferson County Sewer Amendment ("Amendment 73"), *see* R-2067,[1] pertaining to the operation, repair, improvement, and management of the Jefferson County sanitary sewer system (the "System");

WHEREAS,

B. Amendment 73 vests "[t]he governing body of Jefferson county" with "full power and authority to manage, operate, control and administer" the System, "and, to that end, [to] make any reasonable and nondiscriminatory rules and regulations fixing rates and charges, providing for the payment, collection and enforcement thereof, and the protection of its property," R-2067;

WHEREAS,

C. The Jefferson County Commission (the "Commission") is the governing body of Jefferson County, Alabama (the "County") referenced in Amendment 73;

WHEREAS,

D. On September 19, 1949, Act Number 619, 1949 Ala. Acts 949, *et seq.* ("Act 619"), *see* R-2068-77, a supplement to Amendment 73, became effective by its terms;

WHEREAS,

E. Act 619 restates and confirms that the Commission has full "power to maintain and operate" the System and to levy and collect "sewer rentals or service charges" from "the persons and property whose [sewage] is disposed of or treated by the [System]," R-2069 (Act 619 §§ 2, 4);

WHEREAS,

F. Act 619 provides that the Commission "shall prescribe and from time to time when necessary revise a schedule of [sewer rates and charges] which shall . . . be such that the revenues derived therefrom will at all times be adequate but not in excess of amounts reasonably necessary [(i)] to pay all reasonable expenses of operation and maintenance of the [System], including reserves and insurance[; (ii)] to make any necessary or appropriate replacements, extensions or

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[1] Citations to "R-___" are to the consecutively paginated record (the "Record") on file in the Minute Clerk's office and available for public inspection and copying.

improvements [to the System; and (iii)] to pay punctually the principal of and interest on any bonds issued by the County pursuant to [Amendment 73]," R-2070-71 (Act 619 § 6(a));

WHEREAS,

G. Act 619 directs that sewer rates and charges "shall, as nearly as may be practicable and equitable, be uniform throughout the county for the same type, class and amount of use or service of the [S]ystem, and may be based or computed either on the consumption of water on or in connection with the real property served, making due allowance for commercial use of water or for water not entering the [S]ystem, or on the number and kind of water outlets on or in connection with such real property, or on the number and kind of plumbing or sewerage [*sic*] fixtures or facilities on or in connection with such real property, or on the number of persons residing or working on or otherwise connected or identified with such real property, or on the capacity of the improvements on or connected with such real property, or on any other factors determining the type, class and amount of use or service of the [S]ystem, or on any combination of any such factors, and may give weight to the characteristics of the sewerage [*sic*] and other wastes and any other special matter affecting the cost of treatment and disposal thereof . . . ," R-2070 (Act 619 § 5);

WHEREAS,

H. Act 619 creates a five-member Board of Arbitration, appointed by the Commission, with jurisdiction to hear and determine challenges to sewer rates "by any user of the [System]," R-2071-73 (Act 619 § 6(b));

WHEREAS,

I. All five seats on the Board of Arbitration are currently vacant, and are due to be filled by the Commission;

WHEREAS,

J. Although all bonded indebtedness authorized or contemplated by Amendment 73 and Act 619 has been fully repaid and is no longer outstanding, the Alabama Supreme Court has ruled that the powers vested in the Commission with respect to the System by Amendment 73 and Act 619 continue to apply notwithstanding such repayment and satisfaction of bonded indebtedness, *see Jefferson County v. City of Birmingham*, 55 So. 2d 196 (Ala. 1951); *Opinion of the Justices*, 251 So. 2d 755 (Ala. 1971); *Shell v. Jefferson County*, 454 So. 2d 1331 (Ala. 1984); *Jefferson County v. City of Leeds*, 675 So. 2d 353 (Ala. 1995);

WHEREAS,

K. On May 11, 1982, the Commission adopted the Jefferson County Sewer Use/Pretreatment Ordinance, which ordinance has been amended from time to

time thereafter, most recently on March 31, 2009 (as amended, the "Sewer Use and Pretreatment Ordinance"), R-1786-1834, and which ordinance (as well as the System generally) is administered on a day-to-day basis by the County's Environmental Services Department ("ESD");

WHEREAS,

L. On December 9, 1996, in a consolidated civil action styled *R. Allen Kipp, Jr., et al. v. Jefferson County, Alabama, et al.*, Case No. 93-G-2492-S (N.D. Ala.) (the "*Kipp* Litigation"), the United States District Court for the Northern District of Alabama entered a consent decree (the "Consent Decree") obligating the County to, *inter alia*, "eliminat[e] further bypasses and unpermitted discharges of untreated wastewater containing raw sewage to the Black Warrior and Cahaba River Basins," "elimmat[e] sewer system overflows," "achiev[e] full compliance with [the County's] NPDES permits," and "achiev[e] full compliance with the Clean Water Act," 33 U.S.C. §§ 1251, *et seq.* (the "Clean Water Act"); *see also* Michael D. Floyd, *A Brief History of the Jefferson County Sewer Crisis*, 40 CUMB. L. REV. 691, 693 (2009-2010) ("*Brief History*") (describing the *Kipp* Litigation and resulting Consent Decree as a "tectonic shift" for the County);

WHEREAS,

M. The Consent Decree required the incorporation of many formerly separate municipal sewer lines (collectively, the "*Kipp* Assets") into the System, with the County assuming full responsibility for the remediation of the *Kipp* Assets, *see id.* at 698; *see also In re Jefferson County*, 474 B.R. 228, 238 (Bankr. N.D. Ala. 2012) (the "Stay Ruling"), *on direct appeal sub nom. Assured Guaranty Municipal Corp., et al. v. Jefferson County*, Case No. 12-13654 (11th Cir.) (noting that the Consent Decree "shifted the costs of disrepair from the local governments and their inhabitants to the County and its inhabitants"); *id.* at 237 ("When the County acquired these sewer systems from the governments located in Jefferson County, it was without compensation by any of them and without investigation of the systems' conditions by the County.");

WHEREAS,

N. Notwithstanding that as an accounting matter (pursuant to GASB 34) the *Kipp* Assets are carried on the County's books at approximately $939 million, the County paid nothing for the *Kipp* Assets and the *Kipp* Assets have actually carried, and will continue to carry, significant liabilities exceeding the book value of the *Kipp* assets due to, *inter alia*, their poor condition and the attendant liabilities under the Consent Decree and the Clean Water Act;

WHEREAS,

O. On February 12, 1997, to finance the cost of complying with the Consent Decree, the Commission adopted a resolution and order that, *inter alia*, authorized the "President of the Commission to execute and deliver, for and in the name and on

behalf of the County, a Trust Indenture" (the "Original Indenture"), *see* R-0604-0715, pursuant to which all previously outstanding debt pertaining to System was fully refunded and repaid, and new debt was incurred;

WHEREAS,

P. The Original Indenture has been supplemented by eleven supplemental indentures (collectively and together with the Original Indenture, the "Indenture");

WHEREAS,

Q. Debt was issued under the Indenture in the form of warrants authorized by provisions of the Alabama Code that permit the County "to sell and issue warrants of the county for the purpose of paying costs of public facilities," ALA. CODE § 11-28-2;

WHEREAS,

R. As permitted by Alabama law, the warrants issued under the Indenture (the "Sewer Warrants") are not general obligation debt supported by the full faith and credit of the County; instead the Sewer Warrants are "limited obligation debt of the county payable solely from specified pledged funds," *id.*;

WHEREAS,

S. The "specified pledged funds" from which the Sewer Warrants are payable are defined in the Indenture as the "Pledged Revenues," R-0622, 0626-27 (Indenture §§ 1.1 & 2.1), and are alternatively sometimes referred to as the "Net Revenues," *see* Stay Ruling, 474 B.R. at 252; *see also The Bank of New York Mellon v. Jefferson County (In re Jefferson County)*, 474 B.R. 725 (Bankr. N.D. Ala. 2012) (the "Net Revenues Opinion"), *appeal filed but not yet docketed*;

WHEREAS,

T. Among other provisions, the Indenture provides that the County must "fix, revise and maintain such rates for services furnished by the System as shall be sufficient (i) to provide for the payment of the interest and premium (if any) on and the principal of the [Sewer Warrants], as and when the same become due and payable, (ii) to provide for the payment of the Operating Expenses and (iii) to enable the County to perform and comply with all of its covenants contained in the Indenture," *see* R-0682 (Indenture § 12.5(a));

WHEREAS,

U. Among other provisions, the Indenture contains a rate covenant (the "Rate Covenant"), which provides that "[t]he County will make from time to time, to the extent permitted by law, such increases and other changes in [sewer] rates and charges as may be necessary . . . to provide, in each Fiscal Year, Net Revenues

Available for Debt Service in an amount that shall result in compliance" with certain debt coverage formulas, *see* R-0682-83 (Indenture § 12.5(b)); *provided, however*, that non-compliance with the Rate Covenant will not be an event of default under the Indenture if "the County employs a utility system consultant to review the System and its existing rates and fees and makes a good faith effort to comply with the recommendations of such consultant," *see* R-0690 (Indenture § 13.1(b)(ii));

WHEREAS,

V. On February 12, 1997, the same day the Commission approved the Original Indenture, the Commission adopted a resolution (the "Automatic Rate Adjustment Resolution") amending the Sewer Use and Pretreatment Ordinance "to establish procedures that will result in periodic automatic increases in the rates and charges for the services provided by the System," such that sewer rates would automatically keep pace with debt service costs, regardless of how much money was borrowed under the Indenture, and without any further action of the Commission;

WHEREAS,

W. Compliance with the Consent Decree's requirements was "initially estimated [to] cost County ratepayers $1.2 to $1.5 billion over the next decade," *United States v. McNair*, 605 F.3d 1152, 1165 n.1 (11th Cir. 2010); *see also* Charles S. Wagner, *The Untold History of the Jefferson County Waste Water Treatment System: 1972 – Present*, 40 CUMB. L. REV. 797, 811 (2009-2010) ("Some estimates at the time placed the potential cost of the work at $1.5 billion, but these estimates were based on incomplete information."); James H. White, III, *Financing Plans for the Jefferson County Sewer System: Issues and Mistakes*, 40 CUMB. L. REV. 717, 719 (2009-2010) ("*Financing Plans*") ("The original estimate of the capital costs of complying with the consent decree was $250 million.");

WHEREAS,

X. The actual amount borrowed under the Indenture between 1997 and 2003 was approximately $3.6 billion -- of which approximately $3.2 billion remains unpaid, *see* Stay Ruling, 474 B.R. at 237;

WHEREAS,

Y. Significantly more money was spent building and rehabilitating the System than was initially estimated, due in part to what the United States Court of Appeals for the Eleventh Circuit has characterized as a criminal "kleptocracy" – "a term used to describe 'a government characterized by rampant greed and corruption,'" R-2333 (*United States v. White*, 663 F.3d 1207, 1209, slip op. at 2 (11th Cir. 2011) (alterations omitted)) ("To that definition dictionaries might add, as a helpful illustration: 'See, for example, Alabama's Jefferson County Commission in the period from 1998 to 2008.' During those years, five members or former members

of the commission that governs Alabama's most populous county committed crimes involving their 'service' in office for which they were later convicted in federal court. And the commission has only five members."); *accord* Stay Ruling, 474 B.R. at 239-40 ("Not to be outdone by the public sector is the business sector. . . . Those involved in investment banking and municipal finance were not out of the loop when it came to dishonest or inappropriate conduct. Some of those involved in the development and sales of the types of financial instruments used in part by the County for its sewer system's needs have committed crimes related to what was sold to the County. Others have not been charged with crimes, but have entered settlements with the United States Securities and Exchange Commission where there is no admission of wrongdoing, but payments in the tens of millions of dollars have been made."); *see generally* R-2284-2331 (*United States v. Langford*, 647 F.3d 1309 (11th Cir. 2011));

WHEREAS,

Z. The System-related fraud ultimately resulted in hundred-plus-count federal criminal indictments charging dozens of defendants with crimes that included "conspiracy to commit bribery, honest services mail fraud, mail fraud, and obstruction of justice," R-2117 (*McNair*, 605 F.3d at 1164-65, slip op. at 2); *see also* Stay Ruling, 474 B.R. at 240 ("So far, the total of public and private persons and entities determined to have committed crimes related to the County's sewer system is somewhere in the low twenties.");

WHEREAS,

AA. The fraud reached the highest levels of decision-making authority in respect of the System, ultimately resulting in the criminal convictions of "the Environmental Services Department's former director, its former assistant director, its former chief civil engineer, its former chief construction maintenance supervisor, one of its former engineers, and one of its former maintenance supervisors," R-2336 (*White*, 663 F.3d at 1211 n.3, slip op. at 5); *see also* R-2189 (*McNair*, 605 F.3d at 1196, slip op. at 74 (describing "pervasive and entrenched corruption"));

WHEREAS,

BB. Much of the fraudulent activity concerned the design and construction of the System, and included, *inter alia*,

(i.) Creating made-up projects for bribe payers with nothing of value to offer ESD, *see, e.g.*, R-2098-99 (*United States v. US Infrastructure, Inc.*, 576 F.3d 1195, 1210, slip op. at 21-22 (11th Cir. 2009) ("*USI*")) (describing how the County Commissioner in charge of ESD received $10,000 in "free" electrical work, and in exchange asked ESD "'to see if we could develop a project that [the electrical engineer] could perform,'" notwithstanding that the engineer "was not able to do the work that [ESD] typically required");

(ii.) Distorting the bid process by limiting the pool of eligible bidders to only those who were willing to pay bribes, *see, e.g.*, R-2119 (*McNair*, 605 F.3d at 1165 n.2, slip op. at 4) (explaining how the 11-member technical committee tasked with finding qualified bidders for ESD projects included at least five criminals); R-2129 (*id.* at 1169-70, slip op. at 14) (describing how the technical committee "effectively limited the 'big jobs' to only three bidders" – all of whom paid substantial bribes); *see also* R-2157 (*id.* at 1181, slip op. at 42) ("When two non-local competitors finally qualified to join the bidding in 2001, prices [for rehabilitating sewer lines] quickly dropped from over $50 per linear foot to about $28."); *see also Brief History*, 40 CUMB. L. REV. at 700 (describing the County's strict "prequalification" process as "unusual for the utility industry");

(iii.) Increasing the profit margins of contractors who were willing to pay bribes, *see, e.g.*, R-2130 (*McNair*, 605 F.3d at 1170, slip op. at 15) ("In 1996 and 1997, at the sewer rehabilitation's outset, [Roland Pugh Construction, Inc.] made gross profits of 10%, and as the project continued and payments were made to [County] officials, the company's sewer rehabilitation profits increased to 50% in 1999, 40% in 2000, and 45% in 2001, making [Pugh] tens of millions of dollars in each of those years."); *see also* R-2129 (*id.*, slip op. at 14) (Pugh's CEO admitting that in exchange for providing "envelopes of cash" to the Commissioner in charge of ESD, "our company [went] from a normal struggling contracting company in the mid to late '90s, to a thriving, wealthy, strong construction company");

(iv.) Directly adding the costs of bribing government officials to the cost of working on the System, *e.g.*, R-2132-33 (*id.* at 1171, slip op. at 17-18) (describing how $52,990 worth of work at a Commissioner's private business was "coded . . . as expenses on a [County] sewer project"); R-2087 (*USI*, 576 F.3d at 1205, slip op. at 10) ("The evidence shows an extended plan or scheme by USI, a company that received $50 million in government contracts over a period of years, to pass nearly $140,000 through bogus invoice payments to the County Commissioner almost wholly responsible for that $50 million.");

(v.) Indirectly adding to the costs of the System by declining to enforce contract deadlines and other terms for which the County had paid valuable consideration, *see, e.g.*, R-2146 (*McNair*, 605 F.3d at 1177, slip op. at 31) ("Swann declined to invoke the performance bond against RAST, which would have guaranteed the project's completion at the original contract price of $27.8 million. Instead, RAST won a re-bid for an additional contract worth $23.8 million. Consequently, the County effectively paid RAST over $50 million for work RAST was obligated to perform under the original $27.8 million contract."); R-2193-94 (*id.* at 1198, slip op. at 78-79) (describing an instance in which a County official retroactively extended the completion deadline on a major project in exchange for a

$4,500 "scholarship" for the official's son, thereby relieving the contractor of more than $100,000 in liquidated damages);

(vi.) Defeating the checks and balances built into the contracting system, insofar as even the "independent consulting engineers, whose jobs were to make sure the contractors performed according to specifications and to sign off on payments and requests for change orders," R-2128-29 (*id.* at 1169, slip op. at 13-14), were corrupt; and

(vii.) Impeding the proper accounting of System assets by misclassifying fraudulent payments on some projects as payments on other projects to avoid specific dollar caps, *see, e.g.*, R-2161-62 (*id.* at 1183, slip op. at 46-47) (explaining how an emergency contract for replacing sewer pipes in the Paradise Lake subdivision was accounted for as part of an unrelated Cahaba River project to skirt the $50,000 limit for emergency projects; the contractor was paid $857,000, and made a 50% profit);

WHEREAS,

CC. Other corrupt and criminal behavior concerned the complex financing structure whereby approximately $3.6 billion was borrowed, including, *inter alia*,

(i.) Payment of bribes totaling "more than $240,000 in cash, clothing, and jewelry" to former Commission President Larry Langford from "Blount–Parrish & Company ('Blount–Parrish'), an investment banking firm that specialized in the underwriting and marketing of municipal bonds," R-2285-86 (*Langford*, 647 F.3d at 1314-15, slip op. at 2-3);

(ii.) Corrupt selection of "Blount–Parrish to participate in many of the County's financial transactions," including a series of disastrous interest rate swap deals, R-2288-89 (*id.* at 1315-16, slip op. at 5-6); *see also* R-2289-90 (*id.* at 1316, slip op. at 6-7) ("All told, Blount–Parrish was paid some $7 million in fees related to transactions involving Jefferson County, which . . . yielded a 'net benefit' to Blount–Parrish of about $5.5 million."); and

(iii.) Improper conduct warranting a cash penalty of $75 million – together with termination of $647 million of interest rate swap penalties – levied by the Securities and Exchange Commission ("SEC") against J.P. Morgan, *see Brief History*, 40 CUMB. L. REV. at 713-14; *cf. Financing Plans*, 40 CUMB. L. REV. at 735 ("For many years it was known in financial circles in New York and elsewhere that J.P. Morgan was abusing Jefferson County in interest rate swap transactions. The term 'abuse' understates the seriousness of J.P. Morgan's actions.");

WHEREAS,

DD. Although the precise scope and effect of the fraud may never be known, *cf.* R-2112 (*USI*, 576 F.3d at 1215, slip op. at 35) (noting that the criminal convictions include obstruction of justice, for providing false information to the grand jury investigating these crimes), the record adduced during the extensive federal criminal proceedings suggests hundreds of millions of dollars in direct effects of the bribery and corruption, *see* R-2235-36 (*McNair*, 605 F.3d at 1217 n.96, slip op. at 120-21) (noting that one defendant's pre-sentence investigation report calculated a "net profit or benefit" of $67,980,043); R-2251 (*id.* at 1224 n.114, slip op. at 136) (net profit or benefit of $42,460,880 for another defendant); R-2338 (*White*, 663 F.3d at 1212, slip op. at 7) ($1,395,552 in professional fees paid to another defendant were "received in return for" cash bribes), with untold additional dollars lost through corruption of the bidding process, make-work projects, improper remission of penalties, and the like;

WHEREAS,

EE. In addition, the financing aspects of the fraud – which involved switching the County's fixed-rate debt to the variable-rate variety (including so-called "synthetic fixed" debt) – left the County particularly vulnerable to the market failures of 2008, and sped the County's default and its attendant consequences, *see, e.g.*, *Financing Plans*, 40 CUMB. L. REV. at 748-49 (explaining that although the 2008 bond insurer downgrades had "no consequences to the County" with respect to its fixed-rate debt, "[w]hen the insurers of the synthetic fixed rate debt were downgraded, however, the County's debt service ratcheted up, effectively doubling or tripling");

WHEREAS,

FF. The facts of the massive and long-running fraud perpetrated on the County and its citizens have been established beyond a reasonable doubt after full and fair trials, *see, e.g.*, R-2125 (*McNair*, 605 F.3d at 1168, slip op. at 10) (noting that the Government and the defense called 36 witnesses and 23 witnesses, respectively, at just one of the trials), and on an evidentiary showing that has been characterized by the United States Court of Appeals for the Eleventh Circuit as "overwhelming[,]" R-2118 (*id.* at 1165, slip op. at 3), grounded in a "wealth of evidence," R-2263 (*id.* at 1230, slip. op at 148), "ample," R-2342 (*White*, 663 F.3d at 1213, slip op. at 11), and "more than sufficient," R-2088 (*USI*, 576 F.3d at 1205, slip op. at 11);

WHEREAS,

GG. To ascertain an approximate amount by which the myriad forms of fraud, waste, and improper conduct has inflated the cost of the System, the County retained an expert engineering firm – CH2M Hill – to evaluate the extent to which the current book value of the assets comprising the System compare to what a highly

regarded engineering-procurement-construction firm estimates the System should have cost;

WHEREAS,

HH. The current book value of the assets comprising the System is approximately $2.819 billion; of that total, approximately $2.386 billion consists of wastewater treatment plant ("WWTP") assets;

WHEREAS,

II. CH2M Hill has prepared a draft analysis, *see* R-1931-2066, estimating the cost of building each of the System's nine WWTPs to their current permitted capacity, calculating each value initially in 2012 dollars and then adjusting the result for inflation back to each WWTP's in-service date; additionally, for the three most costly WWTPs, CH2M Hill conducted an alternative analysis of the cost of building more appropriately-sized facilities – *i.e.*, WWTPs designed to treat what the System actually handles (with appropriate provisions for wet weather flow events and System growth), rather than the much larger permitted capacity;

WHEREAS,

JJ. Although CH2M Hill's conclusions are still in draft form and subject to revision, CH2M Hill has preliminarily estimated the costs for each of the County's nine WWTPs as follows:

(i.) ***Valley Creek (Current Flows, 2012 Dollars)***: Sized based on current 20-year projected flows, the total cost, in 2012 dollars, would have been approximately $347.2 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $520.8 million to approximately $243 million), *see* R-1939;

(ii.) ***Valley Creek (Current Flows, 2005 Dollars)***: Adjusting that figure ($347.2 million) for inflation correlates to an acquisition cost of approximately $281.6 million, *see* R-1939; which would be depreciated to a current book value of $230.5 million (assuming a 40-year useful life for plant assets);

(iii.) ***Valley Creek (Permitted Flows, 2012 Dollars)***: Sized based on 2012 permitted flows, the total cost, in 2012 dollars, would have been approximately $518.2 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $777.3 million to approximately $362.7 million); *see* R-1938;

(iv.) ***Valley Creek (Permitted Flows, 2005 Dollars)***: Adjusting that figure ($518.2 million) for inflation correlates to an acquisition cost of approximately $420.3 million, *see* R-1938; which would be depreciated to

a current book value of approximately $344.1 million (assuming a 40-year useful life for plant assets);

(v.) ***Village Creek (Current Flows, 2012 Dollars)***: Sized based on current 20-year projected flows, the total cost, in 2012 dollars, would have been approximately $357.6 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $536.4 million to approximately $250.3 million), *see* R-1939;

(vi.) ***Village Creek (Current Flows, 2003 Dollars)***: Adjusting that figure ($357.6 million) for inflation correlates to an acquisition cost of approximately $253.9 million, *see* R-1939; which would be depreciated to a current book value of approximately $194.6 million (assuming a 40-year useful life for plant assets);

(vii.) ***Village Creek (Permitted Flows, 2012 Dollars)***: Sized based on 2012 permitted flows, the total cost, in 2012 dollars, would have been approximately $454 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $681 million to approximately $317.8 million), *see* R-1938;

(viii.) ***Village Creek (Permitted Flows, 2003 Dollars)***: Adjusting that figure ($454 million) for inflation correlates to an acquisition cost of approximately $322.4 million, *see* R-1938; which would be depreciated to a current book value of approximately $247.2 million (assuming a 40-year useful life for plant assets);

(ix.) ***Five Mile Creek (Current Flows, 2012 Dollars)***: Sized based on current 20-year projected flows, the total cost, in 2012 dollars, would have been approximately $98.9 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $148.4 million to approximately $69.3 million), *see* R-1940;

(x.) ***Five Mile Creek (Current Flows, 2008 Dollars)***: Adjusting that figure ($98.9 million) for inflation correlates to an acquisition cost of approximately $92.8 million, *see* R-1940; which would be depreciated to a current book value of approximately $83.9 million (assuming a 40-year useful life for plant assets);

(xi.) ***Five Mile Creek (Permitted Flows, 2012 Dollars)***: Sized based on 2012 permitted flows, the total cost, in 2012 dollars, would have been approximately $179.7 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $269.6 million to approximately $125.8 million), *see* R-1938;

(xii.) ***Five Mile Creek (Permitted Flows, 2008 Dollars)***: Adjusting that figure ($179.7 million) for inflation correlates to an acquisition cost of approximately $168.5 million, *see* R-1938; which would be depreciated to

a current book value of approximately $152.4 million (assuming a 40-year useful life for plant assets);

(xiii.) ***Cahaba (Permitted Flows, 2012 Dollars)***: The total cost, in 2012 dollars, would have been approximately $150.4 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $225.6 million to approximately $105.3 million), *see* R-1938;

(xiv.) ***Cahaba (Permitted Flows, 2005 Dollars)***: Adjusting that figure ($150.4 million) for inflation correlates to an acquisition cost of approximately $121 million, *see* R-1938; which would be depreciated to a current book value of approximately $99.1 million (assuming a 40-year useful life for plant assets);

(xv.) ***Leeds (Permitted Flows, 2012 Dollars)***: The total cost, in 2012 dollars, would have been approximately $57.1 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $85.6 million to approximately $40 million), *see* R-1939;

(xvi.) ***Leeds (Permitted Flows, 1995 Dollars)***: Adjusting that figure ($57.1 million) for inflation correlates to an acquisition cost of approximately $34.3 million, *see* R-1939; which would be depreciated to a current book value of approximately $19.3 million (assuming a 40-year useful life for plant assets);

(xvii.) ***Turkey Creek (Permitted Flows, 2012 Dollars)***: The total cost, in 2012 dollars, would have been approximately $64.7 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $97.1 million to approximately $45.3 million), *see* R-1939;

(xviii.) ***Turkey Creek (Permitted Flows, 2005 Dollars)***: Adjusting that figure ($64.7 million) for inflation correlates to an acquisition cost of approximately $51.7 million, *see* R-1939; which would be depreciated to a current book value of approximately $41.9 million (assuming a 40-year useful life for plant assets);

(xix.) ***Trussville (Permitted Flows, 2012 Dollars)***: The total cost, in 2012 dollars, would have been approximately $49.8 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $74.7 million to approximately $34.8 million), *see* R-1939;

(xx.) ***Trussville (Permitted Flows, 1998 Dollars)***: Adjusting that figure ($49.8 million) for inflation correlates to an acquisition cost of approximately $32.6 million, *see* R-1939; which would be depreciated to a current book value of approximately $20.8 million (assuming a 40-year useful life for plant assets);

(xxi.) ***Prudes Creek (Permitted Flows, 2012 Dollars)***: The total cost, in 2012 dollars, would have been approximately $23 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $34.5 million to approximately $16.1 million), *see* R-1939;

(xxii.) ***Prudes Creek (Permitted Flows, 2004 Dollars)***: Adjusting that figure ($23 million) for inflation correlates to an acquisition cost of approximately $17.6 million, *see* R-1939; which would be depreciated to a current book value of approximately $14.0 million (assuming a 40-year useful life for plant assets);

(xxiii.) ***Warrior (Permitted Flows, 2012 Dollars)***: The total cost, in 2012 dollars, would have been approximately $13.8 million (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $20.8 million to approximately $9.7 million), *see* R-1939;

(xxiv.) ***Warrior (Permitted Flows, 2006 Dollars)***: Adjusting that figure ($13.8 million) for inflation correlates to an acquisition cost of approximately $11.6 million, *see* R-1939; which would be depreciated to a current book value of approximately $9.8 million (assuming a 40-year useful life for plant assets);

WHEREAS,

KK. Aggregating the CH2M Hill estimates for all nine WWTPs leads to the following totals:

(i.) ***Current Flows, 2012 Dollars***: Sized based on current 20-year projected flows, the total cost, in 2012 dollars, would have been approximately $1.163 billion (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $1.744 billion to approximately $814 million), *see* R-1940;

(ii.) ***Current Flows, Inflation-Adjusted Dollars***: Adjusting that figure ($1.163 billion) for inflation correlates to an acquisition cost of approximately $897.9 million, *see* R-1940; which would be depreciated to a current book value of approximately $714.0 million (assuming a 40-year useful life for plant assets);

(iii.) ***Permitted Flows, 2012 Dollars***: Sized based on 2012 permitted flows, the total cost, in 2012 dollars, would have been approximately $1.511 billion (with an expected accuracy range of plus 50% to minus 30% – *i.e.*, approximately $2.266 billion to approximately $1.058 billion), *see* R-1939;

(iv.) ***Permitted Flows, Inflation-Adjusted Dollars***: Adjusting that figure ($1.511 billion) for inflation correlates to an acquisition cost of approximately $1.181 billion, *see* R-1939; which would be depreciated to

a current book value of approximately $948.5 million (assuming a 40-year useful life for plant assets);

WHEREAS,

LL. The range between which the System's current book value of approximately $2.819 billion differs from the value of facilities required to deliver sewer services as a result of the *Kipp* Assets and excessive costs incurred in connection with the WWTPs is between $1.597 billion (permitted flows) and $1.832 billion (current flows);

WHEREAS,

MM. This range is conservative insofar as it assumes no deduction for waste, fraud or abuse in connection with any of the System's other fixed assets;

WHEREAS,

NN. The substantial increase in costs "due to poor planning, waste, and fraud," *Financing Plans*, 40 CUMB. L. REV. at 719, resulted in increased debt due under the Indenture, which in turn led to higher debt service costs;

WHEREAS,

OO. The Automatic Rate Adjustment Resolution provided that sewer rates should automatically increase each year to a level sufficient to satisfy increased costs, without any action by the Commission or any input from the public, *see* R-1612 (Memorandum Opinion dated June 12, 2009 (the "Proctor Decision"), in *The Bank of New York Mellon, et al. v. Jefferson County, Alabama, et al.*, Case No. 2:08-cv-01703-RDP (N.D. Ala.) (the "Federal Receivership Case")) (describing "periodic, automatic rate increases in certain circumstances … designed to ensure the County's ability to service its debt"); *see also* R-1638-39 n.23 (Proctor Decision); *cf. Financing Plans*, 40 CUMB. L. REV. at 730-31 ("Sewer rates adopted by the Commission have always been thought to require a public hearing prior to adoption. The automatic rate increase ordinance removed this [step and] made rate increases a mathematical process, divorced from policy and political considerations.");

WHEREAS,

PP. Between 1997 and 2008, sewer rates increased approximately 329%, and an additional automatic rate increase of more than 300% was set to take effect on January 1, 2009, pursuant to the Automatic Rate Adjustment Resolution;

WHEREAS,

QQ. On December 16, 2008, the Commission "suspend[ed] the operation of the [Automatic Rate Adjustment Resolution]," and directed that "there shall be no

adjustment of System rates pending further action of the Commission after such notice and hearing as required by applicable law," R-1602-03;

WHEREAS,

RR. The Commission next acted on sewer rates and charges on March 31, 2009 (by amending the Sewer Use and Pretreatment Ordinance to levy a fee for processing applications for private water meters), and the Commission has not modified sewer rates and charges since;

WHEREAS,

SS. The preceding circumstances, together with significant market failures and bond-insurer downgrades, *see generally* Hon. Spencer T. Bachus, *Federal Policy Responses to the Predicament of Municipal Finance*, 40 CUMB. L. REV. 759, 765-67 (2009-2010) ("*Policy Responses*"); *cf.* R-1613 (Proctor Decision) ("To be sure, the County originally borrowed (and was loaned) far too much money."), led to a default under the Indenture;

WHEREAS,

TT. As a consequence of that default, by order dated September 22, 2010 (the "Receiver Order") in *The Bank of New York Mellon, et al. v. Jefferson County, Alabama, et al.*, Case No. CV-2009-02318 (Ala. Cir. Ct.) (the "State Receivership Case"), the circuit court of Jefferson County appointed a receiver (the "Receiver") over the System and ruled that the Receiver had exclusive power to exercise the Commission's authority under Amendment 73 and Act 619;

WHEREAS,

UU. Because the Receiver Order prohibited the Commission from taking any action concerning the System (including fixing rates and charges), the Commission was enjoined from considering any rate increase from September 2010 through the filing of the County's chapter 9 bankruptcy case in the United States Bankruptcy Court for the Northern District of Alabama (the "Bankruptcy Court") on November 9, 2011;

WHEREAS,

VV. After the Bankruptcy Court found on January 6, 2012, in the Stay Ruling, that the Commission once again may exercise the plenary authority provided for in Amendment 73 and Act 619, the Commission gave public notice of its intent to "exercise its constitutional obligations in respect of sewer rates and charges on the basis of . . . testimony, evidence and public comments received during and in connection with [a series of] public sewer rate hearings," R-0531, and to that end convened public hearings at the Birmingham-Jefferson Civic Center on June 12, 2012, at the Bessemer Courthouse on July 24, 2012, and in the John L. Carroll

Moot Courtroom at Samford University's Cumberland School of Law on August 20, 2012;

WHEREAS,

WW. Ample public notice was provided in advance of each of the hearings, *see* R-0001-02; R-0203-04; R-0533-35, and all stakeholders – including "ratepayers, creditors and any other parties" (*id.*) – were invited to be heard in person and/or via the submission of "any comments or materials they want the Commission to consider in connection with the fixing of rates and charges for sewer service or the fixing of a rate structure," *id.*; *cf. Financing Plans*, 40 CUMB. L. REV. at 731 ("Public hearings . . . might have protected the public from the incompetence and criminality that occurred.");

WHEREAS,

XX. In addition to the foregoing public notice, the County Manager sent personal invitations to each of the major sewer creditors, soliciting their participation in the process and advising, *inter alia*, that "[t]he Commission takes very seriously its newly returned authority over the system, and intends to exercise this public trust in a sound, transparent manner . . . on the basis of the very best information and expertise available, gleaned in a manner befitting a representative democracy: public hearings at which everyone affected by the sewer system and sewer rates and charges has the opportunity to hear the evidence on which the Commission's decisions will be based, and to offer any additional testimony, evidence or commentary that may be germane to the ratemaking process," R-0179-0202;

WHEREAS,

YY. The hearings were well-publicized in the local media, and were attended by a substantial number of citizens, ratepayers and public officials, *see, e.g.*, R-0049 & R-0134 (noting the presence of certain members of the Jefferson County delegation to the Alabama Legislature);

WHEREAS,

ZZ. Eighteen citizens spoke publicly during the hearings, providing information and comment on a range of topics pertinent to the Commission's responsibilities under Amendment 73 and Act 619, *see, e.g.*, R-0115 (representative of the Eastlake community explaining how inability to pay high sewer bills has led to the disconnection of water service and attendant public health concerns); R-0119 (mobile home park owner stating that his combined water and sewer bill went from between $500 and $600 per month in 1999 to between $6,000 and $7,000 per month today, and that these increased costs have been passed on in part to low-income tenants); R-0136 (real estate broker with 30 years' experience in the community observing that high sewer rates deter home sales); R-0139 (concerned citizen opining that ratepayers should not bear the full brunt of "the financial [sleight] of hand that was committed" in connection with the financing and

construction of the System); R-0139-42 (retired utility employee explaining the cumulative impact of high natural gas rates, high electricity rates, and high sewer rates, and recommending that the Commission coordinate with the Alabama Public Service Commission, which has jurisdiction over private utility rates); R-0143 (Ensley resident observing that high sewer rates can lead to a vicious spiral of customers leaving the System and thereby increasing the burden on those who remain, who in turn are more likely to leave the System);

WHEREAS,

AAA. The Commission heard sworn testimony from Mr. David Denard, Director of ESD, concerning the operation of the System, the value of the services it provides, the condition of System infrastructure, and the characteristics of future capital expenditures that will be required to properly maintain the System and keep it in compliance with applicable federal and state law, *see* R-0060-82 (transcribed testimony); R-0003-0018 (written presentation); R-0170 (verification);

WHEREAS,

BBB. Among other things, Mr. Denard testified that:

(i.) Residential sewer accounts are charged on the basis of billable sewer flows at the rate of $7.40 per CCF, *see* R-0070; these sewer use charges account for over 90% of the System's revenues, *see* R-0069, and are "highly variable," R-0070;

(ii.) Over the past ten years, the System has experienced a "very consistent decline in the . . . volume of usage from [its] customer base," R-0072; the decline in consumption has "exceeded three percent per year on a very consistent basis for the last ten years," *id.*;

(iii.) "There is a disconnect" between the System's revenues, which are variable, and its costs, which "are, for the most part, fixed," R-0072; in order to address its declining revenue stream, the County "will almost certainly have to [convert] some portion of the current rate structure to a fixed charge," R-0012;

(iv.) The County currently charges a minimum charge (set in 1991) of $2 per month for users with no usage, *see* R-0071; this charge reflects the fact that the System "incurs fixed expenses to provide service for each account regardless of volumetric usage," R-0011; the amount of the charge "needs to be considered and reconsidered," R-0071;

(v.) The County levies industrial surcharges (that is, additional charges imposed on high-strength users based on the strength of their waste, *see* R-0010) and septage charges (to recover the cost of disposing of septic tank waste delivered directly to the System's wastewater treatment plants by

septage haulers, *see* R-0011); neither the industrial surcharges nor the septage rate has changed since 1991, *see* R-0071; *see also* R-0011-12;

(vi.) The County undertook a "tremendous obligation and liability to . . . fix [the *Kipp* Assets]," R-0076; although the *Kipp* Assets were valued in excess of $1.4 billion for accounting purposes, they were "subsequently determined to be in worse condition than assumed" and have been a net liability from a cash-flow perspective, *see* R-0013; and

(vii.) The System's annual revenues are currently approximately $162 million, *see* R-0069; *see also* R-0009; its annual operating expenses are currently approximately $56 million, *see* R-0064; *see also* R-0006; ESD expects to reduce operating expenses by approximately $4 million per year by decreasing personnel expenses, *see* R-0067, and estimates that capital expenditures will average $36 million per year over the next five years, *see* R-0079; *see also* R-0016;

WHEREAS,

CCC. The Commission heard sworn testimony from Dr. Stephanie Rauterkus, a finance professor at the University of Alabama – Birmingham, analyzing and quantifying the burden on the community from sewer rates and charges, including in comparison to other areas of the country, *see* R-0084-0110 (transcribed testimony); R-0019-47 (written presentation); R-0171 (verification);

WHEREAS,

DDD. Among other things, Dr. Rauterkus testified that:

(i.) Relative to median home value, residential sewer bills in Jefferson County impose a "significantly higher" burden than sewer bills in the other 49 large metropolitan areas included in her analysis, *see* R-0108; specifically, Dr. Rauterkus found that the average annual sewer bill as a percentage of median home value across the 50 metropolitan areas she examined is 0.17%, whereas the average annual sewer bill in Jefferson County is 0.33% of median home value, *see* R-0109; *see also* R-0047; indeed, 83% of Jefferson County sewer customers pay more than the national average as a percentage of home value, *see* R-0047;

(ii.) The average annual sewer bill as a percentage of median household income ("MHI") across the 50 metropolitan areas included in Dr. Rauterkus's study is 0.87%; the average bill in Jefferson County is 1.0% of MHI, *see* R-0103; *see also* R-0046; expressed as a percentage of MHI, sewer bills in Jefferson County are higher than sewer bills in 76% of the metropolitan areas she examined, *see* R-0103; *see also* R-0032; and

(iii.) The burden imposed upon economically vulnerable residents of the County is cause for concern, inasmuch as sewer bills already amount to

2.5% of MHI for residents in the lowest MHI decile, *see* R-0097; *see also* R-0028;

WHEREAS,

EEE. The Commission heard sworn testimony from Mr. Eric Rothstein, a nationally recognized utility system consultant and strategic financial planner, concerning the financing of capital improvements and wastewater utility ratemaking in exceptional situations such as Jefferson County's, *see* R-0264-0328 (transcribed testimony); R-0212-58 (written presentation); R-0368 (verification);

WHEREAS,

FFF. Among other things, Mr. Rothstein testified that:

(i.) The amount of debt incurred in respect of the System is "extraordinary": typical long-term indebtedness per customer for most utilities is between $1,100 to $2,000, *see* R-0305-07, whereas the amount of long-term indebtedness per customer in Jefferson County is more than $21,000, *see* R-0205, 0527; *see also* R-0512-13 (Receiver's sworn trial testimony) ("[The Receiver:] [T]ake a look at the investment per customer here and the resulting sewer debt. You know, I have worked in thirty-five different states all across the country [and] I have never seen that type of investment per customer and the debt associated with it.");

(ii.) At this extraordinary level, "[i]t's just not reasonable, appropriate, or . . . likely even possible for the County to increase rates to pay for the outstanding debt as it becomes due and payable, and to pay for the expenses of operating the system in compliance with applicable law," R-0315; *see also* R-0514 (Receiver's sworn trial testimony) (the "three or four hundred percent rate increases" that would be necessary to service the full amount of outstanding sewer debt are "in my mind and my professional judgment . . . excessive");

(iii.) In this unique circumstance, the County could look for guidance in "how private utilities are regulated," such as the concept of disallowing certain imprudently incurred costs, *see* R-0320 ("Private utilities [set rates by] look[ing] at operating expenses and [looking] at the amount of invested rate base, and calculat[ing] a return on that invested rate base; the concept being that those who've invested in the system are entitled to receive a return on their investment. One of the fundamental princip[les] of that is the rate of return is earned on used and useful assets."); *see also* R-0374 (Receiver's sworn trial testimony) ("A rate proceeding for an investor-owned utility is when a utility comes forward to recommend a certain amount of rate increase and there is due diligence and rulings by the Public Service Commission within that state.");

(iv.) Using that analogy, the County would inquire, "[W]hat would be the debt levels associated with a reasonable[,] prudently incurred cost [of building the System] as opposed to where the system is now[?]," R-0321-22; *see also* R-0321 ("Are there assets that are not really at the value that's recorded in the fixed asset records? . . . Are there assets [for which] the book value has been artificially inflated because of the graft and corruption that occurred[?]"); *cf.* R-0457 (Receiver's sworn trial testimony) (describing one basis for the Receiver's proposed rate increase: "[T]here had always been a concern in the public that the higher rates were [necessary because of] the 2002/2003 refinancing of the debt. And so we did an analysis [of] what would [have] happen[ed] if we had never done the auction rate swaps in 2002 and 2003 and had continued to finance improvements with just conventional fixed rate debt, where would rates be today. And the analysis showed that they would be thirty-two percent higher than they are today. So clearly I felt that helped support a twenty-five percent rate increase.");

(v.) The private utility analogy would also require accounting for the fact that the "process of consolidati[ng] a diverse set of different sewer systems of varying quality" (*i.e.*, incorporating the *Kipp* Assets) has the current effect of "distort[ing] information on the balance sheet," R-0303, insofar as nothing was paid for the *Kipp* Assets and therefore no reasonable return would be due on the *Kipp* Assets;

(vi.) "There is not a bright line standard for reasonableness" in wastewater ratemaking, *i.e.*, "[t]here is not some place that we can look to . . . that says $10 per CCF is reasonable and $10.05 is not," R-0323; and

(vii.) Nevertheless, there are certain hallmarks of reasonableness and non-discrimination, including:

a. The principles that "the same reasonable rates need to be applicable to everyone in the same class of customers," R-0323-24;

b. Rates must be "generally applicable to everybody," R-0324;

c. It is appropriate to make "smooth, nondisruptive rate increases . . . that people can plan for, people can manage, people can understand," R-0325;

d. "Rate increases [should not] ask customers to pay for something that's not being used or some costs that were not prudently incurred," *id.*;

e. "It doesn't make sense to set rates that will only pay for operating expenses and debt service costs, but not provide the annual renewal and rehabilitation necessary to keep the system in good working order," *id.*; and

f. "It doesn't make sense to establish rates that deny customers access to a vitally needed service required to maintain public health," R-0326;

WHEREAS,

GGG. The Commission heard sworn testimony from Mr. Lance LeFleur, Director of the Alabama Department of Environmental Management ("ADEM"), concerning the County's nine National Pollutant Discharge Elimination System ("NPDES") permits and resources required to comply with them, including the required upcoming expenditure of an estimated $150 million to comply with new phosphorous limits, *see* R-0543-0553 (transcribed testimony); R-0562 (errata to transcribed testimony); R-0563 (verification);

WHEREAS,

HHH. Among other things, Mr. LeFleur testified that:

(i.) "Over the past 15 years, . . . the County has done a good job" complying with the requirements of the NPDES permits, and "the professionals who operate the County sewer system have done an excellent job running the system," R-0546;

(ii.) ADEM anticipates that it will soon issue renewal permits with stricter phosphorous limitations on two of the County's treatment plants, *see* R-0548, and that compliance with these permits will require more than $150 million in capital and operating expenses, *see* R-0551-52; and

(iii.) The permits provide for a gradual phasing in of the phosphorous limits over the "maximum time period available," R-0551; failure to comply with the limits would constitute a violation of the Clean Water Act and result in "significant adverse financial consequences and possible loss of local control," R-0552-53;

WHEREAS,

III. The major sewer creditors, including the Bank of New York Mellon, in its capacity as Indenture Trustee (the "Trustee"), JPMorgan Chase Bank, N.A., Bank of America, Bank of Nova Scotia, Sociètè Gènèrale, Bank of New York Mellon, State Street Bank and Trust Company, Lloyds TSB Bank plc, Assured Guaranty Municipal Corp., Syncora Guarantee Inc., and an *ad hoc* group of sewer creditors (the "GLC Group"), submitted as part of the public hearing process over a thousand pages of material for the Commission's consideration, including:

(i.) A detailed, 36-page submission from the GLC Group (the "GLC Submission") addressing the long-term financial footing of the System and encouraging the Commission to, *inter alia*, increase the customer base by

requiring mandatory hookups, *see* R-0564-99 (citing ALA. CODE § 11-3-11(a)(15));

(ii.) A 4-page letter (the "Trustee Letter") addressing the public hearing process, identifying what the creditors contend are errors in the evidence before the Commission, "urg[ing] the Commission and its consultants to review and consider carefully all relevant information," *see* R-0600-603, and appending 1,112 pages of exhibits (collectively with the Trustee Letter, the "Trustee Submission"), *see* R-0604-1714, including:

a. The Original Indenture, *see* R-0604-715;

b. Certain creditors' initial response to the Commission's invitation to appear and be heard as part of the ratemaking process, *see* R-0717-37;

c. The Red Oak Consulting Final Technical Report, dated January 31, 2007 (the "Red Oak Report"), *see* R-0738-1013;

d. The Comprehensive Wastewater Cost of Service and Rate Study Report, dated February 3, 2010 (the "Raftelis Report"), *see* R-1014-1135;

e. The BE&K 2003 Final Report (the "BE&K Report"), *see* R-1136-1295;

f. The Paul B. Krebs & Associates Report, dated November 5, 2002 (the "Krebs Report"), *see* R-1296-1308;

g. The Paul B. Krebs & Associates Revenue Analysis, dated March 31, 2003 (the "Krebs Revenue Analysis"), *see* R-1309-53;

h. An earlier draft of the Krebs Revenue Analysis, dated March 13, 2003 (the "Krebs Draft"), *see* R-1354-1407;

i. A draft expert report from Raftelis Financial Consultants, dated 2008 (the "Raftelis Draft"), *see* R-1408-49;

j. The Report of the Special Master, dated January 20, 2009 (the "Special Master Report"), *see* R-1450-1513;

k. The Receiver's First Interim Report on Finances, Operations, and Rates of the Jefferson County Sewer System, dated June 14, 2011 (the "Receiver Report"), *see* R-1514-1600;

l. The December 16, 2008 Resolution suspending the Automatic Rate Adjustment Resolution, *see* R-1602-03;

m. A "chart describing the consultants', Special Masters', and Receiver's rate setting recommendations between 2002 and 2011, as compared to the County's actual rates during that period," *see* R-1604-08;

n. The Proctor Decision, *see* R-1609-63;

o. The Receiver Order, *see* R-1664-86;

p. A draft settlement term sheet dated as of September 14, 2011 (the "September 2011 Term Sheet"), *see* R-1687-88;

q. Excerpts from the transcript of Mr. Peiffer Brandt's May 17, 2010 deposition in the State Receivership Case, *see* R-1689-94;

r. Excerpts from the transcript of Mr. Rothstein's August 23, 2010 deposition in the State Receivership Case, *see* R-1695-98;

s. A letter from Mr. Brandt dated March 5, 2009, *see* R-1699;

t. Excerpts from the transcript of a hearing held February 25, 2009 in the Federal Receivership Case, *see* R-1700-08;

u. Excerpts from the transcript of a hearing held June 1, 2009 in the Federal Receivership Case, *see* R-1709-12; and

v. A set of typed notes, dated October 15, 2009, *see* R-1713-14;

WHEREAS,

JJJ. The GLC Submission compares the System to 28 other sewer systems also operating under EPA consent decrees, *see* R-0573, 0592-93; including by miles of sewer pipe, *see* R-0576, 0578; number of customers, *see* R-0577-78; operating expenses by customer, *see* R-0579; sewer fees as a percentage of median income, *see* R-0581, 0583; property tax as a percentage of median income, *see* R-0582-83; and projected sewer fee increases for 2013-2015, *see* R-0585-86;

WHEREAS,

KKK. Among other topics, the GLC Group discusses:

(i.) The fixed nature of most sewer costs and the consequence that a smaller base of customers will shoulder higher per-account costs as compared to a larger customer base, *see* R-0568, 0575;

(ii.) The comparability of the sewer rate increases contemplated under the September 2011 Term Sheet to average projected increases of comparable sewer systems operating under EPA consent decrees, *see* R-0568;

(iii.) Today's historically low interest rates, *see* R-0569-70; *see also* R-0571 (overview of municipal financing market); and the County's potential ability to access such rates through legislative measures (including the creation of a GUSC and the backing of a State moral obligation pledge), *see* R-0569, 0596-97; and

(iv.) The legality and desirability of requiring mandatory hookups for new construction within proximity to existing sewer lines, *see* R-0595;

WHEREAS,

LLL. The GLC Group further notes that, according to the Special Master Report, "[s]ewer fees for Jefferson County currently represent 96% of total [system] funding," whereas other systems under EPA consent decrees generate only 93% of their revenue from sewer fees, R-0588; accordingly, the GLC Group recommends that the County consider additional revenue generation from other sources, including clean water charges for septic system owners and potential revenue enhancements outlined in the Special Master Report;

WHEREAS,

MMM. The GLC Group further states that "[n]othwithstanding anything in [the GLC Submission], we believe that [the County] is obligated to set sewer fees by the existing formula established in the sewer warrant indenture," R-0567;

WHEREAS,

NNN. The Trustee Letter reiterates the creditors' position "that the County is both obligated and able to raise rates to a level sufficient to pay all of the County's sewer obligations in full," R-0600; *see also* R-0603 ("[T]he Indenture Trustee believes the County can, consistent with Alabama law and recognized models of financial capacity, implement revenue increases over the next several years that, if done in conjunction with effective and efficient operation and administration of the System, and proper planning for future capital needs and utilization of all available resources, will allow the County to fulfill its obligations to the Warrantholders and the residents of Jefferson County. The County will have to increase rates to achieve the revenues necessary to meet its obligations. However, there may be a number of different rate structures that could be implemented that would allow the County to meet its obligations to the Warrantholders and to its residents. Moreover, if the County were to increase revenues from sources other than rate increases, such as through mandatory hook up, reserve capacity fees, clean water fees, or other non-user fees, the rate increases needed to achieve the necessary revenue increases may be reduced.");

WHEREAS,

OOO. In addition, the Trustee Letter states that it identifies "two significant errors . . . in the information disseminated at the public hearings and upon which the

Commission apparently intends to rely," R-0603, and indicates that the Trustee Letter is "being submitted in an effort to correct a number of the County's current assumptions and conclusions about sewer bills and the impact on System customers," R-0602;

WHEREAS,

PPP. Specifically, the Trustee Letter states that Mr. Rothstein and Dr. Rauterkus used inaccurate figures when comparing sewer rates in Jefferson County to sewer rates elsewhere, insofar as Mr. Rothstein "calculated that a monthly bill for a Jefferson County customer would be almost $63.00 if that customer used 10 ccf of water per month," whereas "the average water usage for Jefferson County sewer customers is closer to 6 ccf per month, which would result in an average monthly sewer bill closer to $38.00," R-0602; *see also id.* R-0602-03 (asserting that although Dr. Rauterkus "assumed the average water usage for Jefferson County Sewer customers is approximately 6 ccf per month," she "then assumed that 6 ccf is the same average monthly usage for the other communities in her comparison" – notwithstanding that other communities may have different levels of water usage);

WHEREAS,

QQQ. Mr. Rothstein and Dr. Rauterkus have considered the Trustee Letter, and although they recognize the broader point being made (that average water usage in Jefferson County is below average water usage in certain other areas being compared in their respective analyses), Mr. Rothstein and Dr. Rauterkus note that the data they presented is accurate and complete and is designed to "compare apples to apples" by reflecting bill amounts based on a single, consistent level of usage; *cf.* R-0885 (identical methodology employed in the Red Oak Report submitted by the Trustee, which compares Jefferson County's sewer rate burden to "typical monthly sewer rates" in twelve other jurisdictions based on identical consumption across jurisdictions);

WHEREAS,

RRR. The Trustee Submission confirms and supports much of the other data presented to the Commission, including:

(i.) The burden imposed by the *Kipp* Assets, *see, e.g.*, R-1139 (BE&K Report) ("When the County agreed [to take the *Kipp* Assets], it was not fully aware of the poor condition of the municipal sewers. The impacts from this decision to consolidate are still being felt today."); R-1175 (same; noting that although "the County expected to obtain approximately 9 million linear feet of sewer lines from the municipalities," in fact it "actually took possession of close to 12 million linear feet" – more than quadrupling the size of the System – and the *Kipp* Assets "were in much worse condition than anticipated due to lack of maintenance and annual

improvement"); R-1188 (same; noting that "[t]he additional sewers and the unanticipated lack of maintenance . . . impacted the size and scope of the [Capital Improvement] Program");

(ii.) Significant and unjustifiable overbuilding of the WWTPs, *see, e.g.*, R-1140 (BE&K Report) ("Wastewater flows in the County have shown no increase over the past five years [*i.e.*, 1998-2003], with no significant increase expected. Yet plant investments were made that significantly increased capacity, requiring a huge capital investment. . . . [A] significant portion of the approximately $1 billion spent [as of the BE&K Report in 2003] was for expanding the capacity of the treatment plants in a system that shows no demands for expansion. Several of the plants now have a capacity of 2.5 to 3 times the average daily flow, which significantly increases operating costs and the challenge of proper operations. Therefore, a significant amount of unnecessary capital was invested, which had the effect of increasing the cost of future operations."); R-1196 (identifying "an additional capital burden in excess of $100 million" attributable to certain aspects of the overbuilding); R-1197 (concluding that portions of the Village Creek WWTP are "twice the size necessary to meet the intended use"); R-0895 (Red Oak Report) (noting "significant excess capacity" not justified by reasonable growth assumptions); and

(iii.) Waste, incompetence and abuse, *see, e.g.*, R-1183 (BE&K Report) (discussing the lack of capital planning that led to cancelling three significant projects midway through: "The new Cahaba River trunk sewer (Super Sewer) was forecast to cost $147 million. It was cancelled after spending $62 million. The new Morris Kimberly wastewater treatment plant was forecast to cost $40 million. It was cancelled after spending $15 million. The Trussville trunk sewer was forecast to cost $32 million. It was cancelled after spending $18 million."); R-1192 ("[T]he BE&K team was surprised when we didn't see a more advanced, robust hydraulic model used as a core analysis tool as is typical for large and complex systems [because] [t]ypical [p]rogram cost savings in the order of 25% have been shown to be available" when such appropriate tools are used);

WHEREAS,

SSS. The Trustee Letter states in a footnote that although "the County has stated that the Trustee is calling for rate increases of 400% or more," in fact "the Trustee has never called for such increases in the past and is not doing so now," R-0603;

WHEREAS,

TTT. The Trustee Submission includes the Raftelis Report, which concludes that for the County to increase rates sufficient to pay the $700 million in principal and interest scheduled for fiscal year 2009-2010, "[r]ates would need to be raised by approximately 527% to cover this payment and budgeted O&M expenses,

assuming no impact on demand elasticity," R-1041; *accord* Stay Ruling, 474 B.R. at 244-45 ("[Rates] would increase by a further 527% based on rates desired by the Indenture Trustee.");

WHEREAS,

UUU. None of the creditor submissions in the Record referenced, described, or supported a particular level of revenue increase proposed to be implemented today (as distinct from historical recommendations), other than urging the Commission to comply with the Rate Covenant in the Indenture;

WHEREAS,

VVV. The County has issued three interim reports on the ratemaking process, *see* R-0172-78 (First Report); R-0526-32 (Second Report); R-1715-25 (Third Report); and has described in these reports the private utility ratemaking analogy outlined by Mr. Rothstein and its conceptual and legal bases, *see, e.g.*, R-0528 (Second Report recounting Mr. Rothstein's testimony and noting that under well-settled Alabama law, "'[a] regulated utility's cost of service consists of two basic components: [1] a reasonable return on its property devoted to public service, [*i.e.*,] its cost of capital; and [2] its operating expenses, including taxes and depreciation. The property upon which the Company is permitted to earn a specific rate of return is its statutory rate base. Generally, the . . . rate base [is] *the reasonable value of its property devoted to the public service, calculated by its original cost, less the accrued depreciation.*'" (quoting *Union Springs Tel. Co. v. Ala. Pub. Serv. Comm'n*, 437 So. 2d 485, 486 (Ala. 1983) (emphasis added));

WHEREAS,

WWW. None of the creditor submissions in the Record expressed any disagreement with the private utility ratemaking analogy outlined by Mr. Rothstein, other than urging the Commission to comply with the Rate Covenant in the Indenture, *see, e.g.*, R-0207 (creditors' response to the Commission's invitation to appear and be heard on rates) ("Throughout all of those proceedings, the Trustee has consistently reiterated and supported its position that the County is obligated under the express terms of the Indenture to repay the Sewer Warrants in full, and to 'fix, revise, and maintain' sewer rates sufficient to pay the Sewer Warrants and to operate and maintain the System. Put simply, the [County] is required to comply with the rate covenant and the other covenants set forth in the Indenture. The County has chosen not to comply with its obligations. The [County] does not need to extend an invitation to the Invitees to elicit these views, as they are already well known by the County Commission and have been well established in numerous hearings and pleadings in both state and federal courts over the last four years."); *see also* R-0208 (same, noting that the creditors "are skeptical that these public hearings are anything but a further effort to delay the process");

WHEREAS,

XXX. Insofar as the Receiver, the Raftelis Report, and Mr. Rothstein have independently concluded that it would be unreasonable and infeasible to raise rates to a level necessary to cure all defaults under the Indenture, refill the depleted reserve funds to the required levels, service the debt, and operate the System in a lawful and appropriate manner, *see* R-1574-75 (Receiver Report); R-0514 (Receiver testimony), R-1041 (Raftelis Report); R-0315 (Rothstein testimony), and inasmuch as no citizen, ratepayer, creditor, or regulator has suggested an alternative ratemaking approach (other than simply urging compliance with the Indenture) or indicated any disagreement with Mr. Rothstein's testimony at the public hearings (other than on an unrelated point concerning the proper comparison of typical sewer bills), and inasmuch as the requirements of the Rate Covenant in the Indenture are conditioned on the requirement of Alabama law that the rules and regulations setting sewer rates must be "reasonable and nondiscriminatory," the Commission finds and determines that it is appropriate to consider an approach under which the debt service portion of the System's revenue requirements should be estimated based on the indebtedness the County would be servicing had there been no fraud, graft, waste, gross incompetence and the like in the construction of the System;

WHEREAS,

YYY. The debt service portion of the System's revenue requirements under this methodology has not yet been ascertained, but the Record evidence (including the CH2M Hill analysis and the System's indisputable operating needs) indicates that additional revenue will be necessary under any scenario;

WHEREAS,

ZZZ. Mr. Rothstein recommends that the basic rate structure of the System must change under any scenario, and advises that any such change must be implemented in an appropriate manner that avoids rate shock and enables customers to adjust to and plan for bill impacts under a revised pricing structure;

WHEREAS,

AAAA. Mr. Denard advises, and Mr. Rothstein concurs, that implementing a new rate structure while ensuring cash flow is uninterrupted will require careful coordination with the County's wastewater billing partners, including adequate time to perform and test necessary programming changes in the billing software of the respective billing partners, revise business processes and customer service protocols to facilitate orderly billing, and advise and inform customers about the reasons for, and implications of, the revised rate structure; accordingly, structural changes should take effect on March 1, 2013, or as soon thereafter as can practicably be implemented by the County's billing partners;

WHEREAS,

BBBB. Mr. Rothstein recommends that in view of the foregoing, the County should proceed on an interim basis as follows:

(i.) The County should fundamentally change the sewer rate structure to include a fixed component, a tiered residential volumetric rate (using an inclining block structure), a uniform non-residential volumetric rate, retention of a 15% "watering credit" for residential accounts (which his own research confirms is an appropriate credit), and certain adjustments to septage and industrial waste fees and charges;

(ii.) As part of the implementation of this new structure, the County should initially set a $10 fixed base charge for all accounts with 5/8" meters (scaled upward for other meter sizes), a marginal residential volumetric rate of $4.50 per CCF for all users' first three CCF, a marginal residential volumetric rate of $7 per CCF for all users' next three CCF, a marginal residential volumetric rate of $8 per CCF for all additional usage, a non-residential volumetric rate of $7.60 per CCF;

(iii.) The County should increase its septic hauling charge from its current rate of $30 per thousand gallons to $60 per thousand gallons for septage and $75 per thousand gallons for grease, reflecting the higher cost of service for grease handling;

(iv.) The County should simplify its industrial waste surcharge rates by implementing the charges initially proposed by the Receiver, which are $0.2855 per pound for Suspended Solids ("TSS"), $0.8057 per pound for Biochemical Oxygen Demand ("BOD"), $0.4028 per pound for Chemical Oxygen Demand ("COD"), $0.1447 for Fats, Oils, and Grease ("FOG"), and $2.9273 per pound for Phosphorous;

(v.) The County should implement this new structure and rates on March 1, 2013, or as soon thereafter as can practicably be implemented by the County's billing partners; and

(vi.) The County should closely monitor the amount of revenues generated by the new rate structure and sewer rates, which at this point (prior to implementation) can only be estimated, as it is not known how customers' usage patterns might change in response to the new structure;

WHEREAS,

CCCC. Mr. Rothstein's recommendations are consistent with and supported by the Record, which contains persuasive support for:

(i.) Implementing a fixed monthly charge, *see, e.g.*, R-1046 (Raftelis Report); R-1500 (Special Master Report); R-1589-90 (Receiver Report);

(ii.) Increasing septage and industrial waste rates and charges, *see, e.g.*, R-1058-67 (Raftelis Report) (recommending septic hauling charges of $60 per thousand gallons for septage and $75 per thousand gallons for grease); R-1591 (Receiver's Report) (recommending industrial waste surcharges closely mirroring Mr. Rothstein's recommendations);

(iii.) Retaining the 15% watering credit for residential customers, *see, e.g.*, R-1057 (Raftelis Report) ("Th[e] data validates the continued utilization of the percent of metered water use billing system, and supports an 85% return factor as reasonable."); *see also* R-2070 (Act 619 § 5) (requiring the County to "mak[e] due allowance . . . for water not entering the sewerage [*sic*] system"); and

(iv.) Implementing these important structural changes in a deliberate and careful manner, *see, e.g.*, R-0744 (Red Oak Report); R-1030 (Raftelis Report); R-1263 (BE&K Report); R-1303 (Krebs Report); R-1414 (Raftelis Draft); R-1498 (Special Master Report); R-1580 (Receiver Report), and comports with Act 619's direction to "from time to time when necessary revise" sewer rates and charges, R-2070 (Act 619 § 6(a));

WHEREAS,

DDDD. Mr. Rothstein further recommends that sewer rates and charges be revisited once the revenue effects of the revised rate structure are susceptible to more precise measurement or the Commission is in a position to adjust the County's sewer indebtedness, at which time a rate schedule that will generate revenues sufficient to satisfy all three "silos" of costs (operating expenses, capital expenditures, and appropriate debt service) can be calculated; *cf.* R-1574-75 (Receiver Report) ("In simplest terms, the revenue requirement [for the System] is the sum of the following costs: (1) O&M Expenses; plus (2) required capital expenditures; plus (3) debt service costs . . . ."); R-0682 (Indenture § 12.5(a)) (same, albeit with slightly different phrasing);

WHEREAS,

EEEE. To the extent, however, that the County remains in chapter 9 bankruptcy and the Bankruptcy Court's Net Revenues Opinion has not been reversed or modified on appeal, Mr. Rothstein recommends that rate revenues otherwise available to satisfy the capital expenditure "silo" as part of any further rate adjustments should be suspended for the duration of the Bankruptcy Case, inasmuch as it is neither fair nor reasonable to collect revenues designed to fund prospective capital expenditures if (as is the case by virtue of the Net Revenues Opinion) such revenues will instead be required to be remitted to the Trustee for debt service;

WHEREAS,

FFFF. With respect to suggestions in the Record on the advisability of mandatory hookups, *see* R-0595 (GLC Submission); R-1267 (BE&K Report); R-1597 (Receiver Report):

(i.) Regulations of the Jefferson County Board of Health already require that "[w]henever new construction is proposed or any on-site sewage disposal system malfunctions so as to create a potential or actual public health hazard or nuisance and cannot be reasonably repaired, the owner and/or occupant shall be required to connect to a sanitary sewer system when any portion of the lot or parcel of land in question is within a distance of one hundred (100) feet of a sanitary sewer existing within any public street, alley, or right-of-way which abuts or joins the lot or parcel of land," R-1844;

(ii.) This already-exercised authority is nearly co-extensive with the Commission's sole legislative authority to require property owners to connect to the System, *see* ALA. CODE § 11-3-11(a)(15) ("[N]o county commission shall have the power to require any owner of property to connect to a county sewer system if (i) the property of such owner is served by any other sewer system as of the date (the 'prospective connection date') that the construction of such county sewer system has advanced to the point that operational sewer lines belonging to such system are adjacent to the property of such owner, (ii) the property of such owner is served by a septic tank installed as of the prospective connection date, or (iii) any building to be served by such county sewer system is located on the property of such owner at a distance greater than 200 feet from the collector line of such county sewer system."); and

(iii.) Nothing in the Record indicates that duplicating or supplementing the regulations already promulgated by the Board of Health is necessary or appropriate at this time;

WHEREAS,

GGGG. With respect to suggestions in the Record on the advisability of a County-wide clean water fee or non-user charge, *see, e.g.*, R-0205 (Trustee Letter):

(i.) Act 619 does not authorize imposition of such a fee or charge insofar as it specifies that "sewer rentals or sewer service charges" may be imposed upon and collect from "the persons and property whose sewerage [*sic*] is disposed of or treated by such sewers or sewerage [*sic*] treatment or disposal plants," R-2068 (Act 619 § 1), and does not include in its description of the permissible bases on which sewer rates and charges may be calculated any mention of mere residence in the County as a basis for imposing fees, R-2070 (Act 619 § 5);

(ii.) In any event, evidence in the Record indicates that the function of a clean water fee or non-user charge (*i.e.*, recognition that the entire County benefits from the System) is already performed by the 0.7 mill ad valorem tax (the "Sewer Tax") levied and collected by the County pursuant to Act Number 716, Feb. 28, 1901 ("Act 716"), for "the repair of the sanitary system of the county and to protect the water supplies," *see, e.g.*, R-0940 (Red Oak Report) ("Ad valorem taxes are a general source of revenue that is most appropriately applied to governmental services that have a substantial benefit to the community as a whole and for which it is difficult to distinguish individual benefit."); R-1277 (BE&K Report) (same); and

(iii.) The Commission has no authority to increase the Sewer Tax because the current millage rate of 0.7 mills is the highest rate allowed by Act 716; rather, the Sewer Tax rate can only be raised by amendment of Act 716, or by enactment of another statute to provide additional taxing authority, which in either case would require an act of the State Legislature and a favorable vote of the citizens within the geographic boundary of the County;

WHEREAS,

HHHH. In view of the substantial Record evidence of the burden created by high sewer rates, and consistent with the Commission's charge to "manage, operate, control and administer" the System, R-2067 (Amendment 73), it is necessary and appropriate to implement a conservation program that will help all ratepayers – without regard to income or wealth – calibrate their water usage (and hence their sewer bills) to a level that is sustainable economically, *cf.* R-1345 (Krebs Revenue Analysis) (recommending a lifeline rate), R-1384-89 (Krebs Draft) (same);

WHEREAS,

IIII. To that end, Dr. Rauterkus is working with ESD to develop a conservation program that will involve such practical measures as assisting customers in identifying leaks and inefficient appliances, facilitating the remediation of such leaks and inefficiencies (by, for example, providing low-flow shower heads), and educating customers on conservation matters; and

WHEREAS,

JJJJ. With regard to septage charges in particular, the increased burden on residents who use septic tanks will be significantly less than the percentage change in the County's septage rate, insofar as:

(i.) Typical residential septic tanks in the County have a capacity of 1,000 gallons, although some newer and larger homes have 2,000-gallon tanks;

(ii.) Septage haulers in the County typically charge $300 to pump a residential septic tank;

(iii.) The County currently charges septage haulers $30 per thousand gallons to dispose of septage;

(iv.) Assuming all increased costs were passed on to customers, a 100% increase in the septage rate (from $30 per thousand gallons to $60 per thousand gallons) would add an additional $30 to $60 to the cost of pumping a typically sized residential septic tank;

(v.) Although most on-site sewage guidelines recommend cleaning every five years, it is unlikely that most are cleaned as frequently as recommended; rather, septic tanks are typically cleaned every five to fifteen years; and

(vi.) Accordingly, for a household with a 1,000 gallon septic tank, a 100% increase in the County's septage rate would result in an increase in the cost of pumping the tank from $300 to $330 (*i.e.*, 10%), which (if the household's septic tank were pumped every seven years) would equate to a $0.36 monthly increase.

THE JEFFERSON COUNTY COMMISSION FINDS AND DETERMINES AS FOLLOWS:

I. That, in light of the Stay Ruling, the Commission is able to exercise its constitutional responsibility to make "reasonable and nondiscriminatory rules and regulations fixing rates and charges," R-2067 (Amendment 73) for sewer service;

II. That, to the extent consistent with Amendment 73, *see Shell v. Jefferson County*, 454 So. 2d 1331, 1336-37 (Ala. 1984) (holding that Amendment 73, as "part of the organic law of this state," overrides any conflicting provisions of Act 619), Act 619 obligates the Commission to set sewer rates such that "the revenues derived therefrom will at all times be adequate but not in excess of amounts reasonably necessary" to operate the System and make appropriate capital improvements (there being no issued and outstanding bonded indebtedness, R-2070);

III. That, to the extent consistent with Amendment 73 and Act 619 (*i.e.*, "to the extent permitted by law," R-0682 (Indenture § 12.5(b))), the Commission is obligated under the Indenture to "make from time to time, to the extent permitted by law, such increases and other changes in [sewer] rates and charges" as may be necessary to comply with the debt coverage formulas, *see* R-0682-83 (Indenture § 12.5(b)); *provided, however*, that non-compliance with the Rate Covenant will not be an event of default under the Indenture if "the County employs a utility system consultant to review the System and its existing rates and fees and makes a good faith effort to comply with the recommendations of such consultant," *see* R-0690 (Indenture § 13.1(b)(ii));

IV. That it is appropriate to exercise the Commission's constitutional and statutory ratemaking authority on the basis of the Record adduced during and in connection with the public sewer rate hearings;

V. That: (i) due and sufficient notice of the public sewer rate hearings was provided; (ii) all persons and entities with a stake in the operation of the System (including ratepayers, citizens, creditors, and regulators) have had a full and fair opportunity to make their views known to the Commission and to provide any information they wished the Commission to consider in connection with ratemaking (all of which has been incorporated as part of the Record); and (iii) the Commission has fully and carefully considered the entire Record;

VI. That Mr. Rothstein is a "utility system consultant" employed by the County to "review the System and its existing rates and fees," and that it is proper and appropriate to "comply with the recommendations of such consultant," R-0690 (Indenture § 13.1(b)(ii)), in undertaking the Commission's constitutional and statutory obligation to make reasonable and non-discriminatory rules and regulations fixing rates and charges for sewer service;

VII. That the existing sewer rate structure is due to be replaced;

VIII. That the proposed rate structure recommended by Mr. Rothstein – which includes, *inter alia*, a fixed charge component, a tiered residential volumetric rate (using an inclining block structure), a uniform non-residential volumetric rate, retention of a 15% "watering credit" for residential accounts, and certain adjustments to septage and industrial waste fees and charges – is appropriate and proper, and is consistent with Amendment 73, Act 619, and the Indenture;

IX. That the sewer rates recommended by Mr. Rothstein – which include, *inter alia*, a $10 fixed charge for all accounts with 5/8" meters (scaled upward for other meter sizes), a marginal residential volumetric rate of $4.50 per CCF for all users' first three CCF, a marginal residential volumetric rate of $7 per CCF for all users' next three CCF, a marginal residential volumetric rate of $8 per CCF for all additional usage, a non-residential volumetric rate of $7.60 per CCF, a septic hauling charge of $60 per thousand gallons for septage and $75 per thousand gallons for grease, and upward adjustments of industrial waste fees and charges – are appropriate and proper, and are consistent with Amendment 73, Act 619, and the Indenture;

X. That the course of action recommended by Mr. Rothstein – including implementing the new rate structure and sewer rates on March 1, 2013 (or as soon thereafter as can practicably be implemented by the County's billing partners), closely monitoring the amount of revenues generated by the new rate structure and sewer rates, and revisiting sewer rates and charges once revenue effects can be ascertained – is appropriate and proper, and is consistent with Amendment 73, Act 619, and the Indenture;

XI. That mandatory hookups are already required under regulations issued by the Board of Health, and that no showing has been made that any other or further mandatory hookup

requirement (which would be either duplicative or conflicting) that the Commission may have authority to enact under section 11-3-11(a)(15) of the Alabama Code is necessary or appropriate at this time;

XII. That it lacks authority under state law to implement a clean water fee, non-user charge, or any other similar fee or charge imposed on individuals or entities not connected to the System, and that in any event such a measure would, in effect, constitute an attempt to increase the ad valorem tax (over which the Commission has no authority); and

XIII. That, in light of the significant sewer rates and bill impacts created thereby, it is appropriate and proper to implement a conservation program being developed by Dr. Rauterkus, and that the costs of implementing and administrating such program constitute "Operating Expenses" under the Indenture.

NOW, THEREFORE, BE IT RESOLVED BY THE JEFFERSON COUNTY COMMISSION:

1. That the Jefferson County Sewer Use/Pretreatment Ordinance Adopted May 11, 1982, Ordinance No. 689, at Minute Book 61, pages 237-264, including all amendments thereto, is **REPEALED**;

2. That the Grease Control Program Ordinance Adopted October 3, 2006, Ordinance No. 1778, at Minute Book 152, pages 133-138, including all amendments thereto, is **REPEALED**;

3. That Resolution No. Feb-12-1997-Bess-1, adopted February 12, 1997, at Minute Book 6, pages 256-260, is **REPEALED**;

4. That the Jefferson County Sewer Use Administrative Ordinance, Ordinance No. 1808, set out below, is **ADOPTED**;

5. That the Jefferson County Sewer Use Charge Ordinance, Ordinance No. 1809, set out below, is **ADOPTED**;

6. That a copy of this Resolution, together with the Record, the Jefferson County Sewer Use Administrative Ordinance, and the Jefferson County Sewer Use Charge Ordinance, should be delivered to the Alabama Public Service Commission (the "PSC"), with the Commission's recommendation (consistent with citizen comments at the public sewer rate hearings) that the PSC take the sewer rate burden into account when assessing rates that other utilities in the area are permitted to charge;

7. That the five vacancies on the Board of Arbitration should be filled by no later than December 31, 2012, and to that end invites nominations or recommendations of qualified candidates by any person or entity with a stake in the operation of the System (including citizens, ratepayers, creditors, and regulators), which nominations or recommendations should be directed to the County Manager;

8. That until such time as the Board of Arbitration is constituted and able to act on any requests for review of sewer rates, all pending and future requests for review of sewer rates be held in temporary abeyance by the County Manager;

9. That the Commission will revisit sewer rates and charges no later than August 1, 2014, consistent with Act 619's direction that the Commission "from time to time when necessary revise" rates and charges of the System, R-2070 (Act 619 § 6(a));

10. That, once the revenue effects of the revised rate structure are susceptible to more precise measurement, the Commission will entertain a further rate proposal that will generate revenues sufficient to satisfy operating expenses, capital expenditures, and debt service on an amount that correlates to the value of the used and useful System assets; provided, however, that to the extent that the County remains in chapter 9 bankruptcy and the Bankruptcy Court's Net Revenues Opinion has not been reversed or modified on appeal, the portion of the rate revenues designed to satisfy the capital expenditure needs of the System will be suspended for the duration of the Bankruptcy Case; and

11. That the Minute Clerk shall maintain the Record, as the basis on which the Commission has exercised its authority, *cf. Pilcher v. City of Dothan*, 93 So. 16, 19 (Ala. 1922) ("[M]unicipal governmental action, of which a record is required to be made, cannot be shown by parol; [rather,] the records themselves (unless lost or destroyed) are the best and only evidence of such governmental action."), in the Minute Clerk's office separate and apart from the official minutes of the Commission;

DONE and ORDERED this 6th day of November, 2012.

APPROVED BY THE
JEFFERSON COUNTY COMMISSION
DATE: 11-6-12
MINUTE BOOK: 164
PAGE(S): 38-81

JEFFERSON COUNTY
SEWER USE ADMINISTRATIVE ORDINANCE NO. 1808
ADOPTED NOVEMBER 6, 2012

This document is provided as a convenience to the public. The official ordinance and amendments thereto are contained in the office of the Minute Clerk of Jefferson County in Minute Book 164, pages 38 - 81. In the event of a discrepancy between any words or figures contained in this document and those contained in the official minutes of the Jefferson County Commission, the words and figures reflected in the official minutes shall govern.

JEFFERSON COUNTY
SEWER USE ADMINISTRATIVE ORDINANCE

Table of Contents

ARTICLE I. GENERAL PROVISIONS

A. Purpose and Policy

This Ordinance sets forth uniform requirements for all users of the wastewater collection and treatment system for Jefferson County, Alabama, and enables the County to comply with all applicable State and Federal laws required by the Clean Water Act of 1972 and the general Pretreatment Regulations (40 CFR, Part 403), and with the requirements of the Consent Decree.

The objectives of this Ordinance are:

a) to prevent the introduction of pollutants into the Sewer System that may interfere with the operation of the System or contaminate the resulting sludge;
b) to prevent the introduction of pollutants into the Sewer System that will pass through the System inadequately treated into receiving waters or the atmosphere or otherwise be incompatible with the Sewer System;
c) to improve the opportunity to recycle and reclaim wastewaters and sludge from the Sewer System;
d) to minimize the quantities of infiltration/inflow that enters the Sewer System; and,
e) to minimize the possibility of sanitary sewer overflows; and,
f) to comply with the objectives of the Consent Decree.

This ordinance provides for the regulation of all contributors to the System through the issuance of permits and through enforcement of general requirements requiring monitoring, compliance and reporting.

This ordinance shall apply to all sewer users in Jefferson County and to persons outside the County who are, by contract or agreement with the County, users of the System. Except as otherwise provided herein, the Environmental Services Department shall administer, interpret, implement, and enforce the provisions of this ordinance. Where not specifically provided herein, the provisions of this ordinance shall be enforced and interpreted consistent with the "Jefferson County Sewer Use Charge Ordinance."

B. National Categorical Pretreatment Standards

Certain Industrial Users (as defined by the EPA in the General Pretreatment Regulations published in the June 26, 1978 Federal Register, titled Part 403 General Pretreatment Regulations and any revision thereof) are, or hereafter shall become, subject to National Categorical Pretreatment Standards promulgated by the EPA specifying quantities or concentrations of pollutants or pollutant properties which may be discharged into the System. All Industrial Users subject to a National Categorical Pretreatment Standard shall comply with all requirements of such standard and shall also comply with any additional or more stringent limitations contained in this Ordinance. Compliance with

National Categorical Pretreatment Standards for existing sources subject to such standards or for existing sources which hereafter become subject to such standards shall be required within three (3) years following promulgation of the standards unless a shorter compliance time is specified in the standard. Compliance with National Categorical Pretreatment Standards for new sources shall be required upon promulgation of the Standard. Except where expressly authorized by an applicable National Categorical Pretreatment Standard, no Industrial User shall increase the use of process water or in any way attempt to dilute a discharge as a partial or complete substitution for adequate treatment to achieve compliance with such standard.

C. Definitions

Unless the context specifically indicates otherwise, the meaning of terms used in this Ordinance shall be as follows:

1) "ADEM" shall mean the Alabama Department of Environmental Management or its duly authorized deputy, agent, or representative.

2) "Act", "The Act", or "CWA" shall mean the Federal Water Pollution Control Act, also known as the Clean Water Act, as amended, 33 U.S.C. § 1251, *et seq.*

3) "All contributors" denotes any Person or Owner contributing wastewater to the System.

4) "Alternative grease removal technology" shall mean an automatically operated mechanical device specifically designed to remove grease from the waste stream.

5) "ASTM" shall mean the American Society for Testing and Materials.

6) "Authorized Representative of an Industrial User" shall mean any one of the following: (1) a principal executive officer of at least the level of Vice-President, if the industrial user is a corporation; (2) a general partner or proprietor if the industrial user is a partner or proprietorship, respectively; or (3) a duly authorized representative of the individual above if such representative is responsible for the overall operation of the facilities from which the discharge originates.

7) "Best Management Practices" shall mean any program, process, operating method or measure that controls, prevents, removes or reduces discharge of FOG.

8) "BOD_5" or "BOD" (biochemical oxygen demand) shall mean the quantity of oxygen utilized in the biochemical oxidation of organic matter under standard laboratory procedure in five days at 20 degrees C, expressed in milligrams per liter by weight. BOD shall be determined by standard methods as hereinafter defined.

9) "Categorical Standards" shall mean the National Categorical Pretreatment Standards or Pretreatment Standard.

10) "CFR" denotes the Code of Federal Regulations.

11) "COD" shall mean chemical oxygen demand as determined by standard test methods.

12) "Charge(s)" shall mean all applicable charges, fees, assessments, costs or penalties levied under the "Jefferson County Sewer Use Charge Ordinance," as adopted.

13) "Composite Sample" shall mean the makeup of a number of individual samples, so taken as to represent the nature of wastewater or industrial wastes.

14) "Condensate" shall mean liquid water resulting from the change of water vapor to liquid by the use of traditional air conditioner units or water heaters.

15) "Consent Decree" shall mean the Consent Decree entered on December 9, 1996 in the consolidated cases R. Allen Kipp, Jr. et al. v. Jefferson County, Alabama, et al. (United States District Court for the Northern District of Alabama, Civil Action No. 93-G-2492-S) and United States v. Jefferson County, Alabama, et al. (United States District Court for the Northern District of Alabama, Civil Action No. 94-G-2947-S).

16) "Constituents" shall mean the combination of particles, chemicals or conditions existing in the wastewater.

17) "Consumption" shall mean the metering of domestic water at a given unit of measure.

18) "Cooling Water" shall mean the water discharged from commercial air conditioning, cooling or refrigeration sources such as chillers and cooling towers.

19) "Cu. Ft." denotes cubic feet.

20) "County" shall mean the Jefferson County Commission or its employees, duly authorized agents or representatives.

21) "Direct Discharge" shall mean the discharge of treated or untreated wastewater directly to the waters of the State of Alabama, as interpreted by ADEM.

22) "Director" shall mean the Director of the Environmental Services Department or his designee.

23) "Effluent" shall mean the discharge of flow from an industry or a treatment plant facility.

24) "Environmental Services Department" or "ESD" shall mean the County department that has direct responsibility for the maintenance, management and operations of the Sewer System.

25) "EPA" shall mean the U.S. Environmental Protection Agency, or where appropriate, the term may also be used as a designation for the Regional Administrator or other duly authorized official of said agency.

26) "Explosive Liquid" shall mean any liquid which produces two successive readings on an explosion hazard meter, at the point of discharge into the system, of five percent (5%) or greater or any single reading over ten percent (10%) of the lower explosive limit of the meter.

27) "Flammable Liquid" shall mean any liquid having a flash point below 100°F and having a vapor pressure not exceeding 40 psia absolute pressure at 100°F .

28) "FOG" shall mean fats, oils, and grease.

29) "Food" shall mean any raw, cooked or processed edible substance, ice, beverage or ingredient intended for human consumption.

30) "Food Service Facility" shall mean any facility engaged in the preparation of food for human consumption and/or serving of meals, short orders, sandwiches, frozen desserts or other edible products. The term includes restaurants, coffee shops, cafeterias, short order cafes, luncheonettes, taverns, lunchrooms, places which manufacture retail sandwiches, soda fountains, institutional cafeterias, catering establishments and similar facilities by whatever name called.

31) "Fryer Oil" shall mean oil that is used and/or reused in fryers for the preparation of foods.

32) "Grab Sample" shall mean a sample, which is taken from a waste stream on a one-time basis without regard to the total flow in the waste stream.

33) "Grease" shall mean fats, oils and grease used for the purpose of preparing food or resulting from food preparation and includes all elements of FOG. Grease is also generated from washing and cleaning operations such as pot washing, dishwashers, trenches and floor drains. The terms grease and FOG may be used interchangeably.

34) "Grease Control Device" shall mean any grease interceptor, grease trap or other approved mechanism, device or process, which attaches to, or is applied to, wastewater plumbing fixtures and lines, the purpose of which is to trap or collect or treat FOG prior to the balance of the liquid waste being discharged into the System.

35) "Grease Interceptor" shall mean an indoor device located in a food service facility or under a sink designed to collect, contain and remove food wastes and grease from the waste stream while allowing the balance of the liquid waste to discharge to the System by gravity.

36) "Grease Permit" or "Food Service Facility Grease Control Program Permit (FSFGCPP)" shall mean the license/authorization to discharge wastewater/liquid waste into the System granted to the Owner of a Food Service Facility or his/her authorized agent.

37) "Grease Trap" shall mean an outdoor device located underground and outside of a food service facility designed to collect, contain and remove food wastes and grease from the waste stream while allowing the balance of the liquid waste to discharge to the System by gravity.

38) "Hazardous Waste" shall mean any material or wastes identified by the EPA Hazardous Waste Resolution, Part 261, including all wastes identified in Subpart D thereof, regardless of the quantity of material stored or generated.

39) "Health Department" shall mean the State Board of Health as constituted in accordance with Ala. Code § 22-2-1 *et seq.*, and includes the Committee of Public Health or State Health Officer when acting as the Board. The Health Department is not affiliated with the Jefferson County Commission.

40) "Holding Tank Waste" shall mean any waste from holding tanks such as vessels, campers, chemical toilets, trailers, septic tanks, and vacuum pump trucks.

41) "Impact Fee" shall mean the charge assessed to any sewer user prior to connection with, or access to, the System.

42) "Indirect Discharge" shall mean the discharge or introduction into the System of non-domestic pollutants from any source regulated under Section 307(b) or (c) of the Act (including holding tank waste discharged into the System).

43) "Infiltration/Inflow" or "I/I" shall mean the total quantity of water from both infiltration and inflow without distinguishing the source. Infiltration shall mean the water entering a sewer system and service connections from the ground, through sources such as broken or cracked pipe, defective pipe joints, improper connections, manhole walls, etc. Inflow shall mean direct surface or rainwater discharged into the sewer system, including through service connections, from sources such as roof leaders, cellars, yard and area drains, foundation drains, cooling water discharges, drains from springs and swamp areas, cross connections from storm sewers, surface runoff, etc.

44) "Industrial User" shall mean any industry producing liquid waste discharging either with or without pretreatment into the System.

45) "Industrial Sewer Connection Application" shall mean the application required to be filed by all industrial contributors or potential industrial contributors who intend to connect to the System. This request shall be on forms provided by the County, which specify the quantity, strengths, and any special qualities of their industrial waste.

46) "Influent" shall mean the wastewater arriving at a County wastewater treatment plant for treatment.

47) "Interference" shall mean the inhibition, unreasonable degradation or disruption of treatment processes, treatment and/or collection operations, or sewer system operations which contributes to a violation of any requirements of the County's NPDES permits, including sanitary sewer system overflows either within the collection system or at any treatment plant due to infiltration/inflow or a lack of treatment of wastewaters containing infiltration/inflow. This term includes the prevention of sewage biosolids use or disposal by the County in accordance with Section 405 of the Clean Water Act, or any criteria, guidelines or regulations developed pursuant to the Solid Waste Disposal Act (SWDA), the Clean Water Act, the Toxic Substances Control Act, or more stringent State criteria (including those contained in any State biosolids management regulation pursuant to title IV of the SWDA) applicable to the method of biosolid disposal or use employed by the County.

48) "l" denotes liter.

49) "Master Plumber" shall mean any person in continuous and responsible charge of the installation, alteration, repair or renovation of plumbing work and who possesses a current, valid and unrevoked Certificate of Competency issued by the Alabama Plumbers and Gas Fitters Examining Board as a Master Plumber.

50) "MBAS" denotes methylene-blue-active substance.

51) "mg/l" denotes milligrams per liter and shall mean ratio by weight.

52) "Mobile food unit" shall mean a self-propelled or vehicle mounted unit intended to be used as a food service facility.

53) "National Pollution Discharge Elimination System Permit" or "NPDES Permit" shall mean a permit issued pursuant to Section 402 of the Act (33 U.S.C. § 1342).

54) "National Categorical Pretreatment Standards" shall mean any regulation containing pollutant discharge limits promulgated by the EPA in accordance with Section 307(b) and (c) of the Act which applies to Industrial Users.

55) "Natural Outlet" shall mean any outlet used to dispose of liquid waste, which ultimately flows or leads into a watercourse, pond, ditch, lake, or other body of surface or ground water.

56) "New Source" shall mean any industrial source, in which the construction is commenced after the publication of proposed regulations prescribing a Section 307(c) National Categorical Pretreatment Standard which will be applicable to such source, if such standard is thereafter promulgated within 120 days of proposal in the

Federal Register. Where the Standard is promulgated later than 120 days after proposal, a New Source shall mean any source, the construction of which is commended after the date of promulgation of the standard.

57) "pH" shall mean the logarithm of the reciprocal of the concentration of the hydrogen ion. "pH" shall be determined by standard methods as hereinafter defined.

58) "Person" or "Owner" shall mean any natural person, individual, firm, company, joint stock company, association, society, corporation, group, partnership, co-partnership, trust, estate, governmental or legal entity, or their assigned representatives, agents or assigns.

59) "Pollutant" shall mean any dredged spoil, solid waste, incinerator residue, sewage garbage, sewage sludge, munitions, chemical waste, biological materials, radioactive materials, excess heat, wrecked or discarded equipment, rock, sand, and industrial, municipal, and agricultural waste discharged into water; and shall include any pollutant identified in a National Categorical Pretreatment Standard or any incompatible waste identified in Article II of this Ordinance.

60) "Pretreatment" shall mean the reduction of the amount of pollutants, the elimination of pollutants, or the alteration of the nature of pollutant properties in wastewater to a less harmful state prior to or in lieu of discharging or otherwise introducing such pollutants into the System. The reduction or alteration may be obtained by physical, chemical, or biological processes, process changes, or other means except as prohibited by 40 CFR Section 403.6(d).

61) "Pretreatment Requirement" shall mean any substantive or procedural requirement related to pretreatment, other than a National Pretreatment Standard imposed on an industrial user.

62) "Pretreatment Standard" shall mean either a National Categorical Pretreatment Standard or a pretreatment standard imposed as a result of the User's discharging any incompatible wastewater regulated by Article II of this Ordinance.

63) "Public Water System" shall mean a system for the provision to the public of piped water for human consumption.

64) "Receiving Waters" shall mean those waters into which the County's NPDES permitted effluent is discharged.

65) "Restaurant" shall mean an establishment which serves food and/or beverages for human consumption.

66) "SWDA" denotes the Solid Waste Disposal Act, 42 U.S.C. § 6901, et seq.

67) "Sampling Vault/Port" shall mean the structure downstream of a grease trap, interceptor or alternative grease control device that is specially constructed to allow inspection and sampling prior to discharge of effluent into the System.

68) "Sanitary Sewer" shall mean a sewer, which carries wastewater, and from which storm, surface, and ground waters are intended to be excluded.

69) "Sewer" or "main sewer" shall mean a pipe or conduit eight (8) inches in diameter or larger intended for carrying wastewater and generally located in public right-of-way or easement.

70) "Sewer Connection Permit" shall mean the license to proceed with work on a sewer service line, either as new construction or for the repair of an existing line.

71) "Sewer Service Line" shall mean any sanitary sewer line or conduit located outside the building structure which connects the building's plumbing from the outside building wall to the main sewer. The sewer service line is usually four (4) inches in diameter, sometimes six (6) inches in diameter, and in special cases eight (8) inches in diameter or larger. The County does not maintain the sewer service line from the outside building wall to the main sewer.

72) "Sewer System" or "System" shall mean a publicly-owned treatment works (POTW), as defined by Section 212 of the Act (33 U.S.C. § 1292), owned by the County. The term shall mean any wastewater treatment facility, any sanitary sewer that conveys wastewater to such treatment facility and any wastewater pumping facility.

73) "Shall" is mandatory; "may" is permissive.

74) "Significant Industrial User" shall mean any Industrial User of the System that is subject to Categorical Pretreatment Standards and/or who has a discharge flow of 25,000 gallons or more per average work day, or has a flow greater than 5% of the flow in the County wastewater treatment facility providing treatment, or has in its wastewater toxic pollutants as defined herein or within the Act, or is found by the County, ADEM, or the EPA to have significant impact, either singly or in combination with other contributing industries, on the System, the quality of sludge, or effluent quality.

75) "Standard Industrial Classification" or "SIC" shall mean the classification pursuant to the Standard Industrial Classification Manual issued by the Executive Office of the President, Office of Management and Budget, 1972.

76) "Standard Methods" shall mean those sampling and analysis procedures established by and in accordance with EPA pursuant to Section 304(g) of the Act and contained in 40 CFR, Part 136, as amended, or the "Standard Methods for the Examination of Water and Sewer" as prepared, approved, and published jointly by the American Public Health Association, the American Water Works Association, and the Water

Environment Federation. In cases where procedures vary, the EPA methodologies shall supersede.

77) "SID Permit" shall mean a State Indirect Discharge permit issued by ADEM. Such permits may be issued to dischargers of non-domestic pollutants from any source, including, but not limited to, those regulated under Section 307(b) or (c) of the Act.

78) "Storm Sewer" or "Storm Drain" shall mean a sewer which carries storm and surface waters and drainage, but excludes wastewater and polluted industrial wastes.

79) "Suspended Solids" shall mean solids that either float on the surface, or are in suspension in water, wastewater, or liquid as defined by standard methods.

80) "Temporary food service facility" shall mean a food service facility that is not permanently connected to the System nor operates at the same location for a period of time exceeding 14 days in conjunction with a single event, such as a fair, carnival, circus, exhibition or similar temporary gathering. Temporary food service facilities are not regulated by the Grease Control Program.

81) "TOC" shall mean total organic carbon as determined by standard methods.

82) "TSS" shall mean total suspended solids as determined by standard methods.

83) "Total Solids" shall mean total weight expressed in mg/l of all solids: dissolved, undissolved, organic, or inorganic.

84) "Toxic" shall mean detrimental to or adversely affecting the organisms or other processes involved in wastewater treatment.

85) "Toxic Pollutant" shall include but not be limited to any pollutant identified pursuant to Section 307(a) of the Act.

86) "County Treatment Plant" or "County Plant" shall mean that portion of the County's sewer system designed to provide wastewater treatment.

87) "U.S.C." denotes Unites States Code.

88) "User" shall mean the occupant and/or the owner(s) of property from which wastewater is discharged into the System and any individual or entity, including any municipality, that contributes, causes, or permits the contribution of wastewater into the System.

89) "Watercourse" shall mean a channel in which a flow of water occurs, either continuously or intermittently.

90) "Wastewater" shall mean any solids, liquids, gas, or radiological substance originating from residences, business buildings, institutions, and industrial establishments together with any ground water, surface water, and storm water that may be present, whether treated or untreated, which is contributed into or permitted to enter the System.

91) "WEF" shall mean the Water Environment Federation.

Terms for which definitions are not specifically provided herein or in the "Jefferson County Sewer Use Charge Ordinance" shall be interpreted as defined in the Glossary of the current edition of "Design of Municipal Wastewater Treatment Plants, Volume 3" (MOP 8) published by the WEF and the American Society of Civil Engineers.

ARTICLE II. DISCHARGE PROHIBITIONS

A. General Discharge Prohibitions

No user shall contribute or cause to be contributed, directly, or indirectly, any pollutant or wastewater which will interfere with the operation or performance of the System. These general prohibitions apply to all such users of the System whether or not the user is subject to National Categorical Pretreatment Standards or any other National, State, or Local Pretreatment Standards or Requirements. A user may not contribute the following substances to the System:

1) Any wastewater containing quantities of flammable or explosive liquids, or any liquids, solids, or gases which by reason of their nature or quality are, or may be, sufficient alone or by interaction with other substances to cause fire or explosion or be an interference in any way to the System or to the operation of the System. Prohibited materials include, but are not limited to: alcohols, aldehydes, benzene, bromates, carbides, chlorates, commercial solvents, ethers, fuel oil, gasoline, any hydrocarbon derivatives, hydrides, kerosene, ketones, mineral spirits, motor oils, naphtha, perchlorates, peroxides, sulfides, toluene, xylene and any other substances which the County, the State, or EPA has notified the User is a flame or explosion hazard to the System.

2) Any pollutants which will cause corrosive structural damage to the System (in no case with a pH less than 5.0 or higher than 10.5) or wastewater having other corrosive property capable of causing damage or hazard to structures, equipment, and/or personnel of the sewer system or which may be damagmg to the operation of the System.

3) Solid or viscous substances in amounts which may cause obstruction to the flow in the System or other interference with the operation of the System such as, but not limited to: garbage with particles greater than 1/2 inch, ashes, cinders, animal guts or tissues, paunch, manure, offal, bones, hair, hides or fleshings, entrails, whole bloods, beer or distillery slops, milk residue, ice cream, sugar syrups, feathers, sand, lime residues, stone or marble dust, metal, glass, straw, grass clippings, rags, spent grains, spent hops, waste paper, wood, plastics, fiberglass, paint or ink residues, gas, tar, asphalt residues, chemical residues, residues from refining or processing of fuel or lubricating facilities, cannery waste, mud, grinding waste, and polishing waste.

4) Any wastewater which contains fats, oils, or grease, any non-polar material or any wastewater which contains a substance that will solidify or become viscous within the collection system or at the treatment plant or otherwise interfere with the operations of the System.

5) Any uncontrolled wastewater containing spent oils, lubricants, or fuel from vehicles or machinery.

6) Any pollutants released at a flow and/or pollutant concentration which will cause interference to the System.

7) Any wastewater having a temperature, which will inhibit biological activity in the System resulting in interference, but in no case wastewater with a temperature at the introduction into wastewater treatment plant which exceeds 40 degrees C (104 degrees F). No user shall discharge into any sewer line, or appurtenance of the sewer system, wastewater with a temperature exceeding 65.5 degrees C (150 degrees F). More stringent limitations may be required if it is determined the Sewer System is adversely affected by lower temperatures.

8) Any wastewater containing toxic pollutants which either singly or by interaction with other pollutants, would injure or interfere with any wastewater treatment process, constitute a hazard to humans or animals, create a toxic effect in the receiving waters of the sewer system, or exceed the limitations set forth in a Categorical Pretreatment Standard.

9) Any noxious or malodorous liquids, gases, or solids which whether singly or by interaction with other wastes are sufficient to create a public nuisance or hazard to life or are sufficient to prevent entry into the sewers for their maintenance and repair.

10) Any substance which may cause the System wastewater treatment plant effluent or any other product of the System wastewater treatment plant such as residues, biosolids, or scum, to be unsuitable for reclamation and reuse or to interfere with the reclamation process where the County is pursuing a reuse and reclamation program. In no case shall a substance discharged to the System cause the County to be in non-compliance with biosolids use or disposal criteria, guidelines, or regulations developed under Section 503 of the Act; any criteria, guidelines, or regulations affecting sludge use or disposal developed pursuant to the Solid Waste Disposal Act, or State criteria applicable to the biosolids management method being used.

11) Any substance which will cause the County to violate its NPDES and/or State Disposal System Permit or the receiving water quality standards.

12) Any wastewater with color that cannot be removed by any County wastewater treatment plant.

13) Any liquid or wastewater containing quantities of radioactive waste in excess of presently existing or subsequently accepted limits for drinking water as established by applicable State or Federal regulations.

14) Any substance that is introduced to the System in a negligent or vandalistic manner including, but not limited to, cloth, metal, wood, plastic, concrete, rock, glass, leaves, and grass.

15) Any non-permitted liquid leachate from a landfill, drain field, or any type of soil drainage system.

16) Any discharge generated from pools, ponds, or fountains.

B. Prohibitions on Stormwater and Ground Water

Storm water, ground water, rain water, street drainage, roof top drainage, basement drainage, sump pumpings, sub-surface drainage, or yard drainage shall not be discharged through direct or indirect connections to the System. All users of the System are prohibited from discharging stormwater, groundwater, any drainage waters or any waters which may cause or contribute to infiltration/inflow.

C. Maximum Discharge Concentrations

Following herewith are maximum discharge concentrations for any User of the System. The limits are subject to change by the EPA, ADEM, and/or the County. Such change may occur through changes imposed by National Categorical Pretreatment Standards or by the County's determination that an interference exists in the System by reason of any limit set forth herein or by case-specific considerations.

MAXIMUM DISCHARGE CONCENTRATIONS

POLLUTANT	DAILY MAXIMUM, mg/l
Aluminum, dissolved	50.0
Cadmium, total	0.3
Chromium +6	0.2
Chromium, total	5.0
Copper, total	1.0
Cyanide, as CN or HCN	1.0
Iron, total	20.0
Lead, total	0.5
Nickel, total	1.0
Silver, total	0.5
Tin, total	10.0
Zinc, total	3.6
Arsenic	0.10
Ammonia	25.0
Barium	1.0
Chlorides	200.0
Fluorides	1.50
Mercury	0.01
Molybdenum	0.10
Phenol	1.00
Phosphate	30.00
Selenium	0.10

D. Cooling Water

Cooling water discharge may be considered on a case by case basis. Permission to discharge will be granted at the sole discretion of the Director. If permission is denied, all cooling water must be discharged under an NPDES permit issued by ADEM, as applicable.

E. State Requirements

State requirements and limitations on discharges shall apply in any case where they are more stringent than Federal requirements and limitations or the County's requirements and limitations on discharges described in this Ordinance.

F. Excessive Discharge

No user shall increase the use of process water or in any way attempt to dilute a discharge as a partial or complete substitute for adequate treatment to achieve compliance with the limitations contained in the National Categorical Pretreatment Standards, or in any other pollutant specific limitation developed by the County or State without prior written approval by the County. Where necessary in the opinion of the County, flow equalization facilities may be required to eliminate peak flow concentration conditions which could overload the System. Equalization units shall have a capacity judged by the County to allow controlled discharge of the flow at such a rate which will eliminate peak flow conditions. Detailed flow equalization plans, facility plans, specifications and operating procedures shall be submitted to the County for review and recommendations in a specified format. However, the County shall not approve the submittal for performance.

G. Possible Inhibitory Discharges

If any waters or wastes are proposed to be discharged to the System which contain the substances or possess the characteristics either enumerated or not enumerated in this Article, and which in the judgment of the County and/or the State and Federal agencies having jurisdiction may cause an interference with the System, the biosolids or receiving waters, or which may otherwise create a hazard to life or constitute a public nuisance, the County may:

1) reject the wastes in accordance with Article III of this Ordinance;

2) for industries affected by the National Categorical Pretreatment Standards, require pretreatment to an acceptable condition for discharge to the System and state a compliance date which in no case shall exceed three (3) years but may be sooner if so stated in the National Categorical Pretreatment Standards;

3) require control over the quantities and rates of discharge;

4) require payment to cover the added cost of collecting, transporting, handling and

treating the wastewater not covered by standard Charges.

If the County or ADEM requires or permits the pretreatment or equalization of waste flows, the design and installation of the plants and equipment may be reviewed by the County, ADEM, and Federal Agencies having jurisdiction. In any case, the design and installation shall be subject to the requirements of all applicable codes, resolutions, and laws.

H. Accidental Discharges

1. General

Each industrial user shall provide protection from accidental discharge of prohibited materials or other substances regulated by this Ordinance. Facilities to prevent accidental discharge or prohibited materials shall be provided and maintained at the owner's or user's own cost and expense. Detailed plans showing facilities and operating procedures to provide this protection shall be submitted to the County for review and comment. However, the County's review and comment shall in no way be interpreted as a performance approval of such facilities. All existing industrial users shall complete such a plan at the time the industry begins production. No new industrial users who commence this contribution to the sewer system after the effective date of this Ordinance shall be permitted to introduce pollutants into the system until accidental discharge procedures have been reviewed and approved by the County and ADEM and implemented by the Owner or user. Review of such plans and operating procedures shall not relieve the industrial user from the responsibility to modify the user's facility as necessary to meet the requirements of this Ordinance. In the case of an accidental discharge, it is the responsibility of the user to immediately telephone 205-942-0681 and notify County personnel of the incident. The notification shall include:

1) time of discharge
2) location of discharge
3) type of waste
4) concentration and volume
5) corrective action being taken
6) company name
7) contact official
8) phone number

2. Written Notice

Within five (5) days following an accidental discharge, the user shall submit to the County and ADEM a detailed written report which shall include:

1) company name
2) contact official
3) date, time, and type of material discharged
4) corrective actions taken at the time of the discharge and degree of success

5) a determination that the cause of the discharge was of mechanical or human nature
6) a detailed description of new or modified actions which will be instituted to prevent such an occurrence from happening again
7) a timetable for implementing the corrective actions

Such notification shall not relieve the user of any expense, loss, damage or other liability which may be incurred by the County as a result of damage to the system, fish kills, or any other damage to person or property, nor shall such notification relieve the user of any fines, civil penalties, or other liability which may be imposed by this Ordinance or other applicable law.

3. Notice to Employees

A notice shall be permanently placed on the user's bulletin board or other prominent place advising employees whom to call in the event of a prohibited discharge. Employers shall insure that all employees who may cause or suffer an occurrence of such a discharge are advised of the emergency notification procedure.

I. Hazardous Wastes

It is a violation of this Ordinance to discharge or cause to be discharged any material categorized as a hazardous waste.

ARTICLE III. ENFORCEMENT AND ABATEMENT

A. Violation

Discharge of wastewater in any manner in violation of this Ordinance or of any condition of an SID permit shall be corrected and abated as provided for specifically in this Article or elsewhere in the Ordinance.

B. Violation Notification

Whenever the County determines or has reasonable cause to believe that a discharge of wastewater has occurred in violation of the provisions of this Ordinance, an SID permit, or any other applicable law or regulation, the County shall notify ADEM and the User of such violation. Failure of the County to provide such notice shall not in any way relieve the User from consequences of a wrongful or illegal discharge.

C. Conciliation Meetings

The County and ADEM may, but shall not be required to, invite the User to a conciliatory meeting to discuss the violation and methods of correcting the cause of the violation. If the County, ADEM, and the User agree to appropriate remedial and preventative measures, they shall commit such agreement in writing with provisions for a reasonable compliance schedule and the same shall be incorporated as a supplemental condition of the User's SID permit.

D. Show Cause Hearing

ADEM may issue a show cause notice to the User at a specified date and time to show cause why the User's SID Permit should not be modified, suspended, or revoked for a violation of this Ordinance, or other applicable law or regulation, or conditions in the SID permit of the User. If the County seeks to modify the User's SID permit to establish wastewater characteristic limitations or other control techniques to prevent future violations, it shall notify the User of the general nature of the recommended modifications.

E. Referral to Attorney General

ADEM or the County may refer a case to the State of Alabama Attorney General's office for action for a User's violation of a Categorical Standard or the conditions of the User's SID Permit.

F. Injunctive Relief

ADEM or the County may file civil suits for injunction, damages, or other appropriate relief to enforce the provisions of this Ordinance or other applicable law or regulation.

G. Assessment of Damages to Others

When any unauthorized discharge to the System (including vandalism) results in an obstruction, damage, or any other impairment to the System or to property or person of others, or results in any expense of whatever character or nature to the County, the County may assess the expense to the responsible party.

H. Petition for Federal or State Enforcement

In addition to other remedies of enforcement provided herein, the County may petition the EPA to exercise such methods or remedies as shall be available to such government entities to seek criminal or civil penalties, injunctive relief, or such other remedies as may be provided by applicable Federal or State laws to insure compliance by Industrial Users with applicable pretreatment standards, to prevent the introduction of toxic pollutants or other regulated pollutants into the sewer system, or to prevent such other water pollution as may be regulated by State or Federal law.

I. Emergency Termination of Service

In the event of an actual or threatened discharge to the System of any pollutant which in the opinion of the County, presents or may present substantial danger to the health or welfare of persons, or causes an interference or degradation to the System, the County shall immediately notify ADEM of the nature of the emergency. The County shall also attempt to notify the User or other person causing the emergency and request their assistance in abating the discharge. The County may also temporarily terminate the service of such User or Users as necessary to abate the condition. Sewer service may be restored by the County at the User's expense when the adverse discharge has been abated or corrected.

J. Termination of Service

The County may disconnect a User from the System when:

1) EPA or ADEM informs the County that the effluent from the wastewater treatment plant is no longer of a quality permitted for discharge to a watercourse, and it is determined that the User is delivering wastewater to the System that cannot be sufficiently treated or requires treatment that is not provided by the County as normal domestic wastewater treatment, or
2) the User:
   a) discharges industrial waste or wastewater that is in violation of the SID Permit issued, or
   b) discharges any substance to the sewer defined in Article II as being prohibited, or
   c) discharges any wastewater at an uncontrolled, variable rate in sufficient quantity to cause an interference in the System, or
   d) fails to pay Charges for sanitary sewer service when due, or
   e) repeats a discharge of prohibited constituents to the System, or
   f) fails to allow entry to the User's premises to inspect or repair the sanitary

sewer system.

If the service is discontinued pursuant to this Section, the County may disconnect the User at the User's expense, or continue disconnection until such time as the violation is abated. Reconnection shall be at the discretion of the County and at the User's expense.

K. Other Remedies

For violations of this Ordinance and any rules and regulations of the County respecting the System, the County may pursue any remedy or enforcement authority provided to it by law. These remedies may include directing the public water system provider to discontinue the water supply to the property and the recording of liens.

ARTICLE IV. STATE INDIRECT DISCHARGE PERMITS, DISCHARGE REPORTS, AND ADMINISTRATION

A. Applicability

The provisions of this Article are applicable to Industrial Users, as defined by ADEM, or any Industrial User specified by the County. Any permits issued hereunder to Industrial Users who are subject to or become subject to a "National Categorical Pretreatment Standard" as that term is defined in 40 CFR 403.3(i) shall be conditioned upon the Industrial User's also complying with all applicable substantive and procedural requirements promulgated by the EPA and ADEM under the "National Categorical Pretreatment Standards" or any other pollutants identified as "priority pollutants."

B. Application and Permit Requirements for Industrial Users

Prior to discharging non-domestic wastewater into the System, all Significant Industrial Users, as defined by ADEM, and any Industrial User, shall simultaneously submit an application and engineering report to Jefferson County and to ADEM for the purpose of obtaining an SID permit. The original and one copy of said package shall be submitted to ADEM while an additional two (2) copies shall be submitted to Jefferson County. The engineering report shall contain the information specified in Article IV.C. All original application packages shall also include a site plan, floor plan, mechanical and plumbing plans with sufficient detail to show all sewers and appurtenances in the Industrial User's premises by size, location, and elevation, and the Industrial User shall submit to the County and ADEM revised plans whenever alterations or additions to the Industrial User's premises affect said plans. Any currently connected User discharging wastewater other than domestic wastewater who has not heretofore filed such a report shall file same with the County and ADEM within ninety (90) calendar days of receiving notice from the County.

C. Report Requirements

The report required by Section B above or other provisions of this Article for all Industrial Users shall contain, in units and terms appropriate for evaluation, the information listed in sub-sections (1) through (9) below. Industrial Users subject to National Categorical Pretreatment Standards shall submit to the County and ADEM a report which contains the information listed in sub-sections (1) through (9) below within one hundred and eighty (180) calendar days after the promulgation by the EPA of a National Categorical Pretreatment Standard under Section 307(b) or (c) (33 U.S.C. 1317(b) or (c) of the Act).

Industrial Users who are unable to achieve a discharge limit set forth in Article II hereof without improved operation and maintenance procedures or pretreatment shall submit a report which contains the information listed in sub-sections (1) through (9) below. Said report shall be certified by a Professional Engineer registered in the State of Alabama and contain all or applicable portions of the following:

1) General information including name and affiliation of company, number of employees, product(s) to be manufactured, including rate of production and SIC number(s), hours of operation, and water supply and disposition.
2) A map showing location of manufacturing plant (with section, township, range, latitude and longitude), treatment facilities and drainage, and locations of each discharge point. In case of indirect discharges, the location of sewer and point of industry connection should be shown.
3) A narrative account of manufacturing operation(s) explaining and/or defining raw materials, processes and products. Blockline or schematic diagrams indicating points of wastewater origin and its collection and disposition should be included.
4) The average and maximum total flow of each discharge from such Industrial User to the System, in gallons per day.
5) The average and maximum of both quantity and quality of the wastewater discharge from each regulated process from such Industrial User and identification of any applicable Pretreatment Standards and Requirements. The concentration shall be reported as a maximum or average level as provided for in the applicable Pretreatment Standard. If an equivalent concentration limit has been calculated in accordance with a Pretreatment Standard, this adjusted concentration limit shall also be submitted to ADEM for approval.
6) Description of existing wastewater treatment facilities including design basis, pretreatment measures, and recovery systems. Means of handling cooling water, storm drainage, and sanitary wastes should be described. Containment systems for product storage areas, loading and intermediate, or raw material handling areas, process areas, and other areas with spill potential should be described. Where applicable, the availability of a Spill Prevention Control and Containment (SPCC) Plan should be indicated.
7) When treatment sludges are generated, dewatering and handling methods and location of disposal should be indicated. Quantity and analysis information should also be furnished.
8) A statement reviewed and signed by an authorized representative of the Industrial User indicating whether Pretreatment Standards are met on a consistent basis and, if not, whether additional operation and maintenance procedures or additional pretreatment is required for the Industrial User to meet the Pretreatment Standards and Requirements.
9) If additional pretreatment or operation and maintenance procedures will be required to meet the Pretreatment Standards, then the report shall contain the shortest schedule by which the Industrial User will provide such additional pretreatment. The completion date in this schedule shall not be later than the completion date established for the applicable Pretreatment Standards.

D. Incomplete Applications

Industrial Users who have filed incomplete applications will be notified by the County that the application is deficient and the nature of such deficiency. If the deficiency is not corrected within thirty (30) days or within such extended period as allowed by the County, the County shall submit the application for a permit to ADEM with a recommendation that it be denied and notify the applicant in writing of such action.

E. Evaluation of Application

Upon receipt of the County's recommendation, ADEM shall conduct its final evaluation of the completed applications and propose such special permit conditions as it deems advisable. All SID permits shall be expressly subject to all provisions of this Ordinance and all other applicable laws and regulations. Based on the County's recommendation, ADEM may also propose that the SID permit be subject to one or more special conditions in regard to any of the following:

1) Pretreatment Requirements;
2) The average and maximum wastewater constituents and characteristics;
3) Limits on rate and time of discharge or requirements for flow regulation and equalization;
4) Requirements for installation of inspection and sampling facilities;
5) Specifications for monitoring programs, which may include sampling locations, frequency and method of sampling, number, types, and standards for tests and reporting schedule;
6) Requirements for submission of technical reports or discharge reports;
7) Requirements for maintaining records relating to wastewater discharge;
8) Monthly average and daily maximum discharge concentrations, or other appropriate limits when incompatible pollutants (as set forth in Article II) are proposed or present in the Industrial User's wastewater discharge;
9) Other conditions as deemed appropriate by the County to insure compliance with this Ordinance, or other applicable law or regulation. The County reserves the right to require more stringent discharge limits or conditions if it so chooses.
10) A reasonable compliance schedule as may be required by applicable law or regulation to insure the Industrial User's compliance with pretreatment requirements or improved methods of operation and maintenance;
11) Requirements for the installation of facilities to prevent and control accidental discharges or spills at the Industrial User's premises.

F. Applicant's Notification of Draft SID Permit and Right to Object

Upon completion of its evaluation, ADEM shall issue a draft SID Permit with special conditions to be included. The applicant shall have thirty (30) days from receipt of ADEM draft SID Permit to review same and mail a registered letter stating any objections to the County and ADEM. ADEM may, but shall not be required to, schedule a meeting with the County and applicant's authorized representative within fifteen days following receipt of the applicant's objections, and attempt to resolve disputed issues concerning the draft SID Permit. If applicant files no objection to the draft SID Permit or a subsequent agreement is reached concerning same, ADEM shall issue a SID Permit to applicant with such special conditions incorporated therein.

G. Industrial Impact Permit

In addition to the SID Permit application, the Industrial User shall obtain an impact

permit. Upon determination that the available capacity of the existing System is sufficient to accommodate applicant's wastewater and upon the Industrial User's receipt of an ADEM-issued SID permit, the County shall issue the applicant a permit authorizing such connection and permitting applicant to discharge wastewater from such premises to the System at the rate and in quantities stated therein.

H. Compliance Scheduling and Reporting Requirements

The Industrial User shall comply with the following conditions and requirements pertaining to reporting and compliance scheduling:

1) The schedule shall contain certain increments of progress in the form of calendar dates for the commencement and completion of major events leading to the construction and operation of additional pretreatment requirements for the Industrial User to meet the applicable Pretreatment Standards (e.g., hiring an engineer, completing preliminary plans, completing final plans, executing contract for major components, commencing construction, completing construction, etc.).
2) No increment referred to in Article IV.H.1 shall exceed nine (9) months.
3) Not later than fourteen (14) days following each date in the schedule and the final date for compliance, the Industrial User shall submit a progress report to the County and ADEM including, as a minimum, whether or not it complied with the increment of progress to be met on such date and, if not, the date on which it expects to comply with this increment of progress, the reason for the delay, and steps being taken by the Industrial User to return the construction to the schedule established. In no event shall more than nine (9) months elapse between such progress reports to the County and ADEM.
4) Within ninety (90) days following the date for final compliance with applicable Pretreatment Standards or, in the case of a New Source, prior to commencement of the introduction of wastewater into the System, any Industrial User subject to Pretreatment Standards and Requirements shall submit to the County and ADEM a report indicating the nature and concentration of all pollutants in the discharge from the regulated process which are limited by Pretreatment Standards and Requirements and the average and maximum daily flow for those process units which are regulated by such Pretreatment Standards or Requirements. The report shall state whether the applicable Pretreatment Standards or Requirements are being met on a consistent basis and, if not, what additional operation and maintenance procedure or pretreatment is necessary to bring the Industrial User into compliance with the applicable Pretreatment Standards or Requirements. This statement shall be signed by an authorized representative of the Industrial User and certified to by a Professional Engineer registered in the State of Alabama.
5) Any Industrial User subject to a Pretreatment Standard, after the compliance date of such Pretreatment Standard, or, in the case of a New Source, after commencement of the discharge into the System, shall submit to the County and ADEM, at such times and intervals as specified in the respective permit, a report indicating the nature and concentration of pollutants in the effluent which are

limited by such Pretreatment Standard. In addition, this report shall include a record of all daily flows which, during the reporting period, exceeded the average daily flow reported in Section C(4) of this Article. At the discretion of the County and ADEM and in consideration of such factors as local high or low flow rates, holidays, budget cycles, etc., the County and ADEM may agree to a specific schedule for report submission.

6) The County and ADEM, as applicable, may impose mass limitations on Industrial Users where the imposition of mass limitations are appropriate. In such cases, the report required by Article IV.B. shall indicate the mass of pollutants regulated by Pretreatment Standards in the effluent of the Industrial User. Where mass limitations are imposed on Industrial Users, matching concentration limits may be imposed on Industrial Users.
7) The Industrial User shall immediately notify the County of any prohibited discharge under Article II.A.
8) The reports required in this Article shall contain the results of sampling and analysis of the discharge, including the flow rate and the nature and concentration, or production and mass limits where requested by the County and ADEM, of pollutants contained herein which are limited by the applicable Pretreatment Standards. The frequency of monitoring shall be prescribed in the applicable Pretreatment Standard. All analyses shall be performed in accordance with procedures established by the EPA under the provisions of Section 304(h) of the Act (33 U.S.C. § 1314(h)) and contained in 40 CFR Part 136 and amendments thereto, or with any other test procedures approved by the EPA or ADEM. Sampling shall be performed in accordance with the techniques approved by the EPA.

I. Maintenance of Records

Any Industrial User subject to the report requirements established in this Article shall maintain records of all information resulting from any required monitoring activities. Such records shall include for all samples:

1) the date, exact place, method, and time of sampling, preservation techniques, and the names of the persons taking the samples;
2) the date analyses were performed;
3) who performed the analyses;
4) the analytical techniques/methods used; and
5) the results of such analyses.

J. Retention of Records

Any Industrial User subject to the reporting requirement established in this Article shall be required to retain for a minimum of five (5) years any records of monitoring activities and results (whether or not such monitoring activities are required by this Article) and shall make such records available for inspection and copying by the County, ADEM or the EPA. This period of retention shall be extended during the course of any unresolved litigation involving the Industrial User or when requested by the County, ADEM, or the

EPA.

K. Permit Duration

ADEM will issue SID Permits for a period of five (5) years. Notwithstanding the foregoing, Industrial Users becoming subject to a National Pretreatment Standard shall apply for new permits on the effective date of such National Pretreatment Standards. The County shall notify in writing any User whom it has cause to believe is subject to a National Categorical Pretreatment Standard of the promulgation of such federal regulations, but any failure of the County in this regard shall not relieve the User of the duty of complying with such National Pretreatment Standards. A User must apply in writing to the County and ADEM for a renewal permit within one hundred eighty (180) days prior to expiration of the current permit. Limitations or conditions of a permit are subject to modification or change as such changes may become necessary due to revisions in applicable water quality standards, changes in the County's NPDES permit, changes in Article II of this Ordinance, changes in other applicable law or regulation, or for other just cause. Users shall be notified of any proposed changes in their permit by the County and ADEM at least thirty (30) days prior to the effective date of the change. Any change or new condition in a permit shall include a provision for a reasonable time to achieve for compliance. The user may appeal the decision of ADEM in regard to any changed permit conditions as otherwise provided in this Ordinance.

L. Permit Transfer

SID Permits are issued to a specific Industrial User for a specific operation and facility. An SID Permit shall not be reassigned or sold to a new User or different premises. An SID Permit may be transferred when the facility ownership changes, but ADEM and the County reserve the right to issue a new or modified permit.

M. Permit Revocation

Any permit issued under the provisions of this Article is subject to be modified, suspended, or revoked in whole or in part during its term for cause, including, without limitation, the following:

1) Violation of any terms or conditions of the wastewater discharge permit or other applicable law or regulation;
2) Obtaining a permit by misrepresentation or failure to disclose fully all relevant facts; or
3) A change in any permit condition that requires either a temporary or permanent reduction or elimination of the regulated discharge.

ARTICLE V. INSPECTION, MONITORING AND ENTRY

A. General

Whenever required to carry out the objective of this Ordinance, including but not limited to, (1) developing or assisting in the development of any effluent limitation, or other limitation, prohibition, or effluent standard, pretreatment standard, standard of performance, or permit condition under this Ordinance; (2) determining whether any person is in violation of any such effluent limitation, or other limitation, prohibition or effluent standard, pretreatment standard, standard of performance, permit condition or any requirement established under this Ordinance.

1) The County and ADEM shall require any Industrial User or any other User including residential and non-residential Users, if deemed necessary, to comply with the requirements this Ordinance, including:
   (a) establish and maintain such records as required by Article IV of the Ordinance;
   (b) make such reports as required;
   (c) install, use and maintain such monitoring equipment and methods (including, where appropriate, biological monitoring methods) as required;
   (d) sample such effluent (in accordance with such methods, at such locations, at such intervals, and in such manner as the County and ADEM shall prescribe);
   (e) provide the County, ADEM or EPA with access to the User's premises; and
   (f) provide such other information as the County or ADEM may reasonably require.
2) The authorized representative of the County, ADEM, or EPA, upon presentation of his credentials:
   (a) shall, within thirty (30) minutes of presenting proper credentials, have a right of entry to all properties for purposes of inspection, observation, measurement, sampling and testing in accordance with the provisions of this Ordinance; and
   (b) may at any time have access to and copy any records, inspect any monitoring equipment or method required under clause (1), and sample any effluents where the owner or operator of such source is required to sample under such clause.
3) Where, in the opinion of the County, construction, repair, or maintenance of any portion of the System is needed, the County, its employees or contractors shall be permitted to enter property and perform such work as may be necessary. The County shall have the right to disconnect illicit or unpermitted sources from the System. The responsibility for payment of the cost and expense of any such activities shall be determined by the County and billed to the user as appropriate.
4) Where, in the opinion of the County, construction, repair or maintenance of any portion of the System carrying wastewater, storm water, or surface water is needed, and said portion lies outside of a public easement, the owner thereof shall be advised by the County of the needed construction, repair or maintenance and

be given a reasonable time as determined by the County to complete such work. Upon the owner's refusal or failure to complete such work as aforesaid, the County may, with consent of the owner, perform such work at the expense of the owner. Upon the failure of the owner to perform such work or consent to such work at the owner's expense, the County may disconnect said portion from the System.

B. Requirements

Specific requirements under the provisions of Article V.A shall be established by the County and ADEM for each Industrial User and such requirements shall be included as a condition of the Industrial User's SID permit. The nature or degree of any requirements under this provision shall depend upon the nature of the Industrial User's discharge, the impact of the discharge and economic reasonableness of any such requirement imposed. The Industrial User shall be required to design any necessary facility, and to submit detailed design plans and operating procedures to the County and ADEM for review in accordance with accepted engineering practices. However, the County shall not approve such a submittal for performance.

C. Denied Right of Entry

In the event any User denies the County, ADEM, or EPA, or their authorized representatives, the right of entry to or upon the User's premises for purposes of inspection, sampling effluents, inspecting and copying records, or performing such other duties as shall be imposed upon the User under this Ordinance, the County, ADEM, or EPA shall use such means as shall be advisable and reasonably necessary to discharge its duties under this Ordinance to obtain entry.

D. Denied Duty

Any User failing or refusing to discharge any duty imposed upon him under the provisions of this Article, or who denies the County and ADEM or the EPA the right to enter upon the User's premises for purposes of inspection, sampling effluents, inspecting and copying records, or such other duties as may be imposed upon him under this Ordinance, shall be deemed to have violated the conditions of his SID permit, as applicable, and such permit shall be subject to modification, suspension, or revocation under the procedure established in Article III of this Ordinance.

E. Sampling Structure and Equipment

1. General

All industrial waste connections shall have a sampling structure which will meet the requirements of this Ordinance. The Industrial User shall supply and maintain at its expense such equipment as may be necessary to enable the County to take refrigerated continuous flow proportional samples of the wastewater discharges. If, after initial

sampling and monitoring by the County, it is determined that the structure and equipment are inadequate to obtain data of sufficient quality, the County may require changes or modifications in the structure and equipment as it deems necessary. It shall be the Industrial User's responsibility to maintain such structure and equipment. Any damage or loss which necessitates repair or replacement of the County's sampling equipment shall be assessed and charged to the Industrial User on an actual cost basis.

2. Suggested Sampling Structures

Documents are available to assist the User in constructing the aforementioned sampling structure. These documents are available upon request by contacting the Industrial Pretreatment Office at 205-238-3833.

ARTICLE VI. INDIRECT DISCHARGES

A. Hauled Wastewater

No person may discharge hauled wastewater into the System except in the manner and at such locations as may be designated by the County.

B. Certification of Haulers

Any person engaged in the hauling of wastewater to the System must hold a current valid certificate of competency from the Jefferson County Health Department and a license from the Alabama Onsite Wastewater Board. The discharge of hauled wastewater to the System will not be permitted without evidence of such certification.

C. Wastewater Limitations

The discharge of hauled wastewater shall generally be limited to the following:

1) Contents of residential household septic tanks (septage)
2) Food Service Facility grease traps/interceptors

The County reserves the right to refuse any hauled wastewater when, in the absolute discretion of the County, it appears that the discharge of hauled wastewater may interfere with the effective operation of the System.

D. Discharge Locations

The County shall designate the locations and times where hauled wastewater may be discharged. Locations and times of operation are subject to change without notice.

Current locations accepting discharge of hauled wastewater are as follows:

1) Septage Discharge Facility near the Birmingham Municipal Airport at 1701 40th Street North
2) Valley Creek Wastewater Treatment Plant in West Bessemer
3) Village Creek Wastewater Treatment Plant in Ensley (facility accepts grease trap discharge)
4) Such other places as may be designated by the Director of Environmental Services

E. Monitoring of Discharge

The County may collect samples of each load of hauled wastewater to ensure compliance with this Ordinance. The County may also require the wastewater hauler to provide an analysis of the wastewater of any load prior to discharge.

F. Grease Waste

Grease trap waste shall not be combined with septic tank waste and transported to the disposal site as part of a mixed load. Discharge of mixed septage and waste grease loads are prohibited.

Grease manifests shall accompany all grease interceptor and trap waste to the disposal site. The grease hauler shall complete the middle portion of the grease disposal manifest and deliver the manifest to the disposal site for completion.

Only grease collected in Jefferson County or from Users of the System may be discharged at ESD Facilities. Grease disposal manifests shall accompany all grease interceptor and trap waste and be delivered to the grease disposal site.

G. Other Waste

Other hauled wastewater or liquid waste may, at the discretion of the County, be accepted for discharge at an approved location provided that:

1) Wastewater contains no industrial waste or sludges (refer to SID permit and/or Jefferson County Pretreatment Office);
2) Wastewater contains no hazardous waste; and
3) Wastewater is not otherwise limited by this Ordinance.

Sampling and analysis of such non-domestic septage or grease waste shall be provided. Additional Charges for the discharge of such waste may apply as determined by the County.

ARTICLE VII. BUILDINGS, SEWERS, AND CONNECTIONS

A. User Responsibility

All costs and expenses related to the installation and/or connection of the sewer service line shall be borne by the User. The User shall indemnify the County from any loss or damage that may directly or indirectly be occasioned by the installation of the sewer service line.

B. Number of Sewers per Building

A separate and independent sewer service line shall be provided for every building. Variances to this rule are subject to approval by the Sewer Permitting and Inspections Office (716 Richard Arrington Jr. Blvd. North, Suite A300, Birmingham, Alabama).

C. Construction Standards

The size, slope, alignment, materials or construction of a sewer service line, and the methods to be used in excavating, placing of pipe, jointing, testing, and backfilling the trench, shall all conform to the requirements of the ESD Standard Specifications for Sanitary Sewer Service Lines and Connections, the ESD Standards for Construction of Commercial and Residential Sanitary Sewer Systems, all applicable plumbing codes, and other applicable rules and regulations of the County.

D. Sewer Elevation

Whenever possible, a building's sewer service line shall be designed to operate by gravity flow. In limited circumstances, a private lift station may be approved by the Sewer Permitting and Inspections Office.

E. Connection Standards

The connection of the sewer service line into the public sewer shall conform to the requirements of the building and plumbing codes or other applicable rules and regulations of the County. In the absence of specific code provisions, the materials and use provided in applicable specifications of ASTM and WPCF Manual of Practice No. 9 shall apply. All such connections shall be made gastight and watertight. The County reserves the right to deny connections.

F. On-Site Requirements

All excavations for sewer service line installation shall be adequately guarded with barricades and lights so as to protect the public from hazard. Streets, sidewalks, parkways, and other public property disturbed in the course of the work shall be restored in a satisfactory manner.

G. Interceptors

Grease, oil and sand interceptors shall be provided by the Owner when, in the opinion of the County, they are necessary for the proper handling of liquid wastes as provided for in Article II.A. Interceptors shall not be required for individual private living quarters or dwelling units. Prior to installation, all interceptor plans and specifications shall be approved by the County and shall be readily and easily accessible for cleaning and inspection.

H. Facility Maintenance

Where primary treatment or flow-equalizing facilities are provided for any waters or wastes, they shall be maintained continuously in satisfactory and effective operation by the owner at his expense.

I. Cross-Connection

Any cross-connection between potable water supply and a sanitary sewer is prohibited.

J. Right of Way Limitations

No private sewer may be extended more than fifty (50) feet in the public right of way. At no time shall a permanent structure be located over a sewer main or sewer service line.

K. Sewer Impact Permits

All persons or entities who intend to connect to the System or modify, expand, or change an existing connection to the System shall obtain an impact permit for plumbing fixtures. Commencement of work prior to obtaining a permit is prohibited and subject to penalty.

Impact permits shall be obtained by the User or a designated agent of the User before a building or plumbing permit will be issued for any residential, commercial, or industrial facilities whose wastewater is treated in the System. The following is required of an applicant in order to secure an impact permit:

1) Applicants shall provide a building, site utility and plumbing drawings to the Sewer Permitting and Inspections Office (716 Richard Arrington Jr. Blvd. North, Suite A300, Birmingham, Alabama). Site utility plans are required for Non-Residential Users. It is the responsibility of the applicant to determine the number of fixtures.

2) Upon payment of applicable Charges, the applicant shall receive two copies of the impact permit. The applicant shall retain one copy for his or its personal records, and submit one copy to the governing municipal jurisdiction for a building permit, if required.

3) A building permit shall not be issued prior to the issuance of an impact permit as outlined in 2) and in accordance with the Unification Agreement.

4) The County shall inspect the premise to determine compliance with the impact permit. It shall be the responsibility of the applicant and/or the Owner, or Owner's representative to notify the County of completion of construction. For any plumbing fixtures which were not included in the impact permit, Charges shall be paid in full before a certificate of occupancy is issued.

L. Alternate Waste Systems Conversion Prohibition

All persons, firms or entities owning or occupying any home, mobile home, commercial building or industry currently connected to the System shall not disconnect from the System for the purposes of connection to an alternate waste treatment system. The System shall be deemed the primary source of waste disposal.

M. Sewer Connection Permits

All persons or entities who wish to connect a new service line to the System, or to modify, change, or repair an existing service line or connection to the System, shall obtain a sewer connection or sewer repair permit from the Sewer Permitting and Inspections Office (716 Richard Arrington Jr. Blvd. North, Suite A300, Birmingham, Alabama).

All sewer connection permits shall be obtained prior to starting any excavation for the installation or repair of a sewer service line or connection. Plumbers may also be required to secure excavation permits from other jurisdictions when entering road rights of way. The Sewer Connection Permit shall be obtained by the Owner's plumber from the Sewer Permitting and Inspection Office. The sewer connection permit shall be obtained and signed by a Master Plumber or his duly authorized representative. The plumbing company shall have a current bond with the Jefferson County Commission, and be licensed by the State of Alabama Plumbing and Gas Fitters Board.

ARTICLE VIII. GREASE CONTROL

A. Application and Permit Requirements

All Food Service Facilities having the potential to discharge Fats, Oils and Grease (FOG) into the Sewer System shall obtain a Grease Control Program Permit. On all new construction, a sewer impact permit must be obtained from the Sewer Permitting and Inspection Office (716 Richard Arrington, Jr. Blvd. North, Suite A300, Birmingham, Alabama, prior to the issuance of a Grease Control Program Permit.

1. Procedures

Grease Control Program Permits shall be obtained by the Owner or his designated agent. A Grease Control Program Permit must be obtained before (1) a sewer connection permit is issued for new construction or (2) an impact permit is issued for remodels on existing structures for any food service facility whose wastewater is treated in the System. The following describes the process required by an applicant securing a grease permit.

a) The Owner shall submit an application for permit to the Grease Control Program Office (1290 Oak Grove Road, Homewood, AL 35209). The Owner shall include a site utility plan and/or plumbing plans with details, size and location of the grease control device and sampling vault inclusive of locations for all sinks, dishwashers, restrooms, sewer connections, etc. (as deemed necessary) along with a recent copy of the water bill for the facility in question. All grease interceptors and traps located at a facility and operated by the same Owner must be included in the permit application, each grease control device shall be identified individually on said application. All information contained in the Food Service Facility Grease Control Program Permit Application shall be certified by the applicant as true and complete prior to the County's review for approval.
b) Upon submittal and payment, the County will review the permit application for acceptance.
c) Permit acceptance conditions may include, but are not limited to, the following:
   i. permit duration,
   ii. permit fee,
   iii. permit transfer prohibition,
   iv. frequency of inspections,
   v. maintenance requirements,
   vi. compliance schedule,
   vii. requirements for retaining records,
   viii. statement of permission for the County to enter upon the User's property without prior notifications for the purpose of inspection, observation, photography, records examination and copying, measurement, sampling or testing, and
   ix. other conditions deemed by the County necessary to ensure compliance with this program and other applicable ordinances, laws and regulations.
d) A Food Service Facility may apply for a Permit Exemption if the Food Service Facility does not discharge significant amounts of FOG to the System. Such

facilities shall engage only in the reheating, hot holding or assembly of ready to eat food products, and as a result, there is no wastewater discharge containing a significant amount of FOG. Food Service Facilities which are granted an exemption from the permit requirement are subject to inspection by ESD inspectors and are required to notify the County if changes are made where grease waste is generated. A permit exemption shall be subject to a single exemption Charge. The exemption will be in effect until there is a change in food service operations that generates FOG or if the facility is linked to a sewer blockage or sanitary sewer overflow.

e) Permit Denial: The applicant will be advised in writing of the specific cause for the denial within sixty (60) calendar days of the decision to deny the permit application. If the applicant is denied a permit under this program, he shall have the right to appeal such denial to the Director. The appeal shall be filed within fifteen (15) business days of receipt of the notice of denial.

2. Grease Control Device Requirements

All new Food Service Facilities that discharge FOG into the System shall install, operate, and maintain properly sized grease control devices provided in this Ordinance and in accordance with all regulatory authorities having jurisdiction. New construction shall include remodels where plumbing is being re-worked, excavation is being performed on-site, or when there is a change in size or type of food preparation equipment. Existing FSFs may be required to modify existing grease control devices, or to install new or additional grease control devices.

a) Grease Traps (Outdoor Applications)
Grease traps shall be required for each new and existing Food Service Facility if the service provided by the establishment includes food preparation, operation of a food grinder or an automatic dishwasher.

i. Grease traps shall have a capacity of not less than two (2) 1,000 gallon traps installed in series for a total capacity of 2,000 gallons;
ii. The Director may approve the use of a single 1,000 gallon trap where site conditions prevent the installation of two 1,000 gallon traps in series; and
iii. The Director may approve the use of a single 1,000 gallon trap for food service facilities if a Food Service Facility demonstrates that a single 1,000 gallon trap can accommodate the nature of the food service provided.

Contact the Grease Control Program at 238-3878 for grease trap specifications. If additional Food Service Facilities are added to an existing trap, a professional engineer must certify that the existing trap can properly function with the additional FOG loading.

b) Grease Interceptors (Indoor Applications)
Grease interceptors may be approved for use by the County for indoor installations if site conditions prevent the installation of outdoor grease traps, if the Food Service Facility operates infrequently, or if the facility is replacing an

existing grease interceptor provided that the Food Service Facility is not equipped with a dishwasher or a food waste grinder.

Grease interceptors shall be sized in accordance with Plumbing and Drainage Institute Standard PDI-G101, Testing and Rating Procedure for Grease Interceptor with Appendix of Sizing and Installation Data.

Discharge of the following materials to an indoor grease interceptor is prohibited:

i. Wastewater with a temperature higher than 140 degrees F,
ii. Wastewater discharged from a dishwasher
iii. Acidic or caustic cleaners, or
iv. Wastewater discharged from a food waste grinder (disposal).

c) Alternative Grease Removal Technologies

Alternative grease removal technologies may be approved by the County for the purpose of controlling FOG discharge into the sewer system in lieu of a standard grease interceptor or trap if ESD determines the device employing such technology shall be at least as effective as a standard grease interceptor or trap. The approved device shall be wired directly to a circuit breaker and shall contain audio and visual alarms that can only be reset by opening and servicing the device.

The User shall provide the following information to ESD for the evaluation of the proposed technology:

i. A design that is specific to the Food Service Facility submitting the information prepared and certified by a professional engineer. The County will not consider a general proposal.
ii. Complete information regarding the performance of the technology and proof of effectiveness in removing FOG from the waste stream.
iii. Specifications for maintenance service and frequency.
iv. The manufacturer's installation and operation manuals.

If the alternative technology is approved, the User shall install and maintain the device in accordance with the manufacturer's installation and operation specifications. Maintenance shall be performed at least as often as stipulated in the permit, even if the manufacturer specifies less frequent maintenance.

d) Sampling Location

Grease control device sampling vaults or ports shall be required at all new Food Service Facilities. Existing Food Service Facilities may be required to provide a sampling vault/port if two or more failures have occurred and it has determined that the Existing Food Service Facility is a contributor to the downstream blockage.

3. Action Plan

If it is determined by the ESD that an existing grease interceptor or grease trap does not meet the capacity and/or functionality requirements as set forth in this Ordinance, the Owner shall submit a detailed Action Plan within 30 days of notification. The Action Plan shall clearly identify the method which will be used to address the deficient grease interceptor or trap. Options to address the deficient grease interceptor or trap include the following:

Option 1 – Install a grease interceptor or trap (grease control device) of proper size and install a sampling vault/port. The Action Plan shall identify the location and size of the existing grease interceptor or trap, the location and size of the proposed grease interceptor or trap and sampling vault/port, and the date by which the proposed grease interceptor or trap will be in service. ESD will review the proposed location, size and installation schedule and either approve the Action Plan or request modifications and resubmittal of the Action Plan.

Option 2 – Install one or more additional grease interceptors or traps (grease control devices) in series with the existing interceptor or trap to provide the required capacity and install a sampling vault/port. The Action Plan shall identify the location and size of the existing grease interceptor or trap, the location and size of the proposed grease interceptor or trap and the sampling vault, and the date by which the proposed grease interceptor or trap and sampling vault/port will be in service. ESD will review the proposed location, size and installation schedule and either approve the Action Plan or request modifications and resubmittal of the Action Plan.

Option 3 – Install a grease control device employing alternative technology. The device can be a standalone device or may be used in combination with a conventional passive grease interceptor or trap. The Action Plan shall include manufacturer's information on the specific device to be installed and a drawing showing the Food Service Facility plumbing, the proposed location of the device, and the location of the sampling vault/port.

B. Grease Permit Violations

The Director may revoke a permit or approval in the event that any part of the construction, installation or maintenance of the grease control device is in violation of, or not in compliance with, the provisions of this Ordinance.

Installation, modifications, repairs or replacement of grease control devices shall be inspected by the County. Any work completed without prior approval by the County shall be subject to a non-compliance Charge.

C. Maintenance Requirements for Grease Control Devices

Maintenance shall be performed for grease control devices as determined by inspections, sampling and the application of the 25 Percent Rule, or at intervals specified in the Permit, whichever is more frequent, but no less than every 90 days for outdoor grease

traps and every 14 days for indoor grease interceptors. Maintenance of all grease control devices shall be performed as frequently as necessary to protect the sanitary sewer system against the accumulation of FOG. If multiple grease control devices are installed, all systems in the series must be pumped according to the maintenance schedule.

The 25 Percent Rule requires that the depth of oil and grease (floating and settled) in a trap shall be less than 25 percent of the total operating depth of the trap. The operating depth of a trap is determined by measuring the internal depth from the outlet water elevation to the bottom of the trap.

Food Service Facilities which operate infrequently or only for special events may request a modification to the maintenance schedule specified above. The County may authorize a maintenance frequency related to the operation of the Food Service Facility. The User shall submit a request, in writing, for a modified maintenance schedule which includes all details of operation to the County for review.

The User shall be responsible for the proper removal and disposal of the grease interceptor or trap waste. All waste removed from each grease interceptor or trap must be disposed of properly at an appropriate facility designed to receive grease interceptor or trap waste. All grease waste generated within the System shall be disposed of at designated County facilities.

Maintenance shall include the complete removal of all grease waste from the interceptor or trap including floatable materials, wastewater, sludges, and solids. Grease interceptors and traps shall be operated in accordance with the manufacturer's specifications and/or in accordance with generally accepted engineering standards and practices.

Grease trap maintenance shall include the following minimum services:

1) Complete removal of all grease interceptor or trap contents rather than skimming the top grease layer,
2) Thorough cleaning of the grease interceptor or trap to remove grease and scum from inner walls and baffles,
3) Filling cleaned interceptor or trap with cold potable water, and
4) Completion of middle section of the grease disposal manifest form and delivery to waste disposal site along with the grease interceptor or trap waste.

Top skimming, decanting or back flushing of the grease interceptor or trap or its contents for the purpose of reducing the volume of waste to be hauled is prohibited. Vehicles capable of separating water from grease shall not discharge separated water into the grease trap or into the wastewater collection system.

The User shall be responsible for retaining records of the maintenance of all grease control devices including manifests, permits, permit applications, correspondence, sampling data and any other documentation that may be requested by ESD. These records shall include the dates of service, volume of waste removed, waste hauler, and disposal site of waste. These records shall be kept on-site at the location of the grease

control device for a period of three (3) years and are subject to review without prior notification.

D. Grease Control Program Inspections and Compliance

Grease interceptors and traps shall be subject to inspection a minimum of once per year to determine compliance. Frequency of inspections may be increased in order to protect the System against the accumulation of grease. Compliance shall be evaluated based on any of the following criteria:

1) Implementation of Best Management Practices (BMPs),
2) Grease control device(s) kept in compliance with 25 Percent Rule,
3) Regularly scheduled maintenance of grease control device(s),
4) Documentation of maintenance and proper disposal,
5) Employee education and training and documentation thereof
6) Completion of approved action plans, and
7) Absence of fryer oil.

Failure to comply with any of these requirements may result in a non-compliance Charge.

If a grease interceptor or trap fails an inspection, the inspector shall notify the User that maintenance must be performed on the grease device within seven (7) calendar days. The inspector will return within 14 calendar days to re-inspect the grease device, and the FSF shall be subject to a re-inspection Charge per grease interceptor or trap. If the grease interceptor or trap is determined to be in compliance, annual inspections shall resume the subsequent year.

If the grease interceptor or trap fails a re-inspection, a notice of non-compliance shall be issued and maintenance must be performed on the grease interceptor or trap immediately. A second re-inspection will be scheduled within 24 hours. The User shall be subject to the re-inspection Charge for each re-inspection.

Any grease interceptor or trap receiving three (3) notices of non-compliance within a 24-month period shall be deemed a nuisance by the County and shall require corrective actions as determined by the County to cure the nuisance, including, if deemed necessary, termination of all discharges to the System

Any alternative technology grease control device found in non-compliance shall be deemed a nuisance by the County. If the user is unable to cure the nuisance, installation of a conventional passive grease trap shall be required.

E. Prohibitions

The following activities are specifically prohibited:

1) Introduction of chemical elements directly into the grease control device or any section of the plumbing system.
2) Disposal of fryer oil to the System.

F. Grease Haulers

All grease haulers shall be licensed by the Jefferson County Department of Health and hold a Septic Tank Haulers Permit. Grease trap waste shall not be combined with septic tank waste and transported to the disposal site as part of a mixed load. Discharge of mixed septage and waste grease loads are prohibited.

Grease manifests shall accompany all grease interceptor and trap waste to the disposal site. The grease hauler shall complete the middle portion of the grease disposal manifest and deliver the manifest to the disposal site for completion.

Only grease collected in Jefferson County may be discharged at ESD Facilities. Grease collected outside of Jefferson County shall not be accepted for disposal at any ESD Facility. Grease disposal manifests shall accompany all grease interceptor and trap waste and be delivered to the grease disposal site.

ARTICLE IX. GENERAL PROVISIONS

A. Damage to Sewer System

No person shall maliciously, willfully, or negligently break, damage, destroy, uncover, deface, or tamper with any portion of the Sewer System.

B. Validity

All resolutions, ordinances, parts of resolutions, or parts of ordinances in conflict herewith are hereby repealed.

C. Severability

The provisions of this Ordinance are severable. If any provision, section, paragraph, sentence or part thereof, or the application thereof to any individual or entity, shall be held unconstitutional or invalid, such decision shall not affect or impair the remainder of this Ordinance, it being the Commission's legislative intent to ordain and enact each provision, section, paragraph, sentence and part thereof separately and independently of each other.

D. Penalties

Violation of any provision of this Ordinance may subject the violator to fine and/or other enforcement remedies available to the County and to ADEM. Each day on which a violation shall occur or continue shall be deemed a separate and distinct offense. In addition to any such fines or enforcement remedies, the County shall be allowed to recover reasonable attorney's fees, interest, penalties, court costs, court reporter's fees and any other expenses of litigation or collections from any person or entity in violation of this Ordinance or the orders, rules, regulation and permits issued hereunder.

ARTICLE X. ORDINANCE IN FORCE

A. Date Effective

This ordinance shall be in full force and effect on the date of adoption by the Jefferson County Commission.

B. Date Adopted

Passed and adopted by the Jefferson County Commission on the 6 day of November, 2012. Approved this 6 day of November, 2012.

by _____ W. D. Carrington, President - Jefferson County Commission

Attest:

_____
Minute Clerk of the Jefferson County Commission
Approved as to correctness:

APPROVED BY THE
JEFFERSON COUNTY COMMISSION
DATE: 11-6-12
MINUTE BOOK: 164
PAGE(S): 38-81

JEFFERSON COUNTY
SEWER USE CHARGE ORDINANCE NO. 1809
ADOPTED NOVEMBER 6, 2012

This document is provided as a convenience to the public. The official ordinance and amendments thereto are contained in the office of the Minute Clerk of Jefferson County in Minute Book 164, pages 38 -81. In the event of a discrepancy between any words or figures contained in this document and those contained in the official minutes of the Jefferson County Commission, the words and figures reflected in the official minutes shall govern.

JEFFERSON COUNTY
SEWER USE CHARGE ORDINANCE

Table of Contents

ARTICLE I. GENERAL PROVISIONS

A. Purpose and Policy

This ordinance establishes sewer charges for those whose sewerage is disposed of or treated by the wastewater collection and treatment system for Jefferson County, Alabama. This ordinance contains the Commission's reasonable and nondiscriminatory rules and regulations fixing rates and charges for sewer service, providing for the payment, collection, and enforcement thereof, and the protection of its property. These rules and regulations accomplish the equitable distribution of costs of the System.

This ordinance shall apply to all System Users in Jefferson County and to persons outside the County who are, by contract or agreement with the County, Users of the System. Except as otherwise provided herein, the Environmental Services Department shall administer, interpret, implement, and enforce the provisions of this ordinance. Where not specifically provided herein, the provisions of this ordinance shall be enforced and interpreted consistent with the "Jefferson County Sewer Use Administrative Ordinance."

B. Definitions

Unless the context specifically indicates otherwise, the meaning of terms used in this Ordinance shall be as follows:

1. "ADEM" shall mean the Alabama Department of Environmental Management or its duly authorized deputy, agent, or representative.

2. "All contributors" denotes any Person or Owner contributing wastewater to the System.

3. "BOD_5" (denoting five day biochemical oxygen demand), shall mean the quantity of oxygen utilized in the biochemical oxidation of organic matter under standard laboratory procedure in five days at 20 degrees C, expressed in milligrams per liter by weight. BOD shall be determined by standard methods as hereinafter defined.

4. "Billed Volumetric Units" shall mean the total metered volume of water after application of the Return Factor (see Article II.A)

5. "COD" shall mean chemical oxygen demand as determined by standard test methods.

6. "Condensate" shall mean liquid water resulting from the change of water vapor to liquid by the use of traditional air conditioner units or water heaters.

7. "Constituents" shall mean the combination of particles, chemicals or conditions existing in the wastewater.

8. "Consumption" shall mean the amount of water used, as measured by a water meter

using a given unit of measure.

9. "Cooling Water" shall mean the water discharged from commercial air conditioning, cooling or refrigeration sources such as chillers and cooling towers.

10. "Cu. Ft." denotes cubic feet.

11. "County" shall mean the Jefferson County Commission or its employees, duly authorized agents or representatives.

12. "Director" shall mean the Director of the Environmental Services Department or his designee.

13. "Environmental Services Department" or "ESD" shall mean the County department that has direct responsibility for the maintenance, management and operations of the Sewer System.

14. "FOG" shall mean fats, oils, and grease.

15. "Grease Control Device" shall mean any grease interceptor, grease trap or other approved mechanism, device or process, which attaches to, or is applied to, wastewater plumbing fixtures and lines, the purpose of which is to trap, collect or treat FOG prior to the balance of the liquid waste being discharged into the System.

16. "Grease Interceptor" shall mean an indoor device located in a food service facility or under a sink designed to collect, contain and remove food wastes and grease from the waste stream while allowing the balance of the liquid waste to discharge to the System by gravity.

17. "Grease Permit" or "Food Service Facility Grease Control Program Permit (FSFGCPP)" shall mean the license/authorization to discharge wastewater/liquid waste into the System granted to the Owner of a Food Service Facility or his/her authorized agent.

18. "Grease Trap" shall mean an outdoor device located underground and outside of a food service facility designed to collect, contain and remove food wastes and grease from the waste stream while allowing the balance of the liquid waste to discharge to the System by gravity.

19. "Health Department" shall mean the State Board of Health as constituted in accordance with Ala. Code § 22-2-1 *et seq.*, and includes the Committee of Public Health or State Health Officer when acting as the Board. The Health Department is not affiliated with the Jefferson County Commission.

20. "Impact Fee" shall mean the charge assessed to any sewer user prior to connection with, or access to, the System.

21. "Industrial User" shall mean any industry discharging liquid waste into the System either with or without pretreatment.

22. "Industrial Wastewater" shall mean any wastewater discharge with pollutant loadings in excess of the values described in Article IV.D.1.

23. "Industrial Wastewater Surcharge" shall mean the additional service charge assessed to Users whose wastewater characteristics exceed those of normal wastewater as defined in this ordinance.

24. "l" denotes liter.

25. "Metered Water" shall mean the quantity of all sources of water, including water from wells, consumed by the sewer User (see Article II).

26. "mg/l" denotes milligrams per liter and shall mean ratio by weight.

27. "Non-Residential User" or "Other User" shall mean a premise or person who is not considered a Residential User and includes multi-family residential (with master meter(s), i.e. apartment complex, mobile home complex, etc.), commercial and industrial premises that discharge wastewater of Standard Strength into the System.

28. "Non-Resident User" shall mean a User whose property is located outside the corporate limits of Jefferson County.

29. "Person" or "Owner" shall mean any natural person, individual, firm, company, joint stock company, association, society, corporation, group, partnership, co-partnership, trust, estate, governmental or legal entity, or their assigned representatives, agents or assigns.

30. "Private Meter" shall mean a secondary water meter installed by the user downstream of the primary domestic water meter to measure non-sewered (outdoor) water use.

31. "Public Water System" shall mean a system for the provision to the public of piped water for human consumption.

32. "Residential User" or "Domestic User" shall mean a premise or person who discharges into the System wastewater that is of a volume and strength typical for residences, and who lives in a single-family structure, such as an individual house, duplex, townhouse, or condominium, or any other independently-owned single-family structure with an individual water meter for metering potable water. Multi-family residential units are not considered Residential Users.

33. "Sanitary Sewer" shall mean a sewer which carries wastewater, and from which storm, surface, and ground waters are intended to be excluded.

34. "Sewer" or "main sewer" shall mean a pipe or conduit eight (8) inches in diameter or larger intended for carrying wastewater and generally located in public right-of-way or easement.

35. "Sewer Connection Permit" shall mean the license to proceed with work on a sewer service line, either as new construction or for the repair of an existing line.

36. "Sewer Service Line" shall mean any sanitary sewer line or conduit located outside the building structure which connects the building's plumbing from the outside building wall to the main sewer. The sewer service line is usually four (4) inches in diameter, sometimes six (6) inches in diameter, and in special cases eight (8) inches in diameter or larger. The County does not maintain the sewer service line from the outside building wall to the main sewer.

37. "Sewer System" or "System" shall mean a publicly-owned treatment works (POTW) (as defined by Section 212 of the Federal Water Pollution Control Act, also known as the Clean Water Act, as amended, codified at 33 U.S.C. § 1292) owned by the County. The term shall mean any wastewater treatment facility, any sanitary sewer that conveys wastewater to such treatment facility and any wastewater pumping facility.

38. "Shall" is mandatory; "may" is permissive.

39. "Standard Methods" shall mean those sampling and analysis procedures established by and in accordance with EPA pursuant to Section 304(g) of the Act and contained in 40 CFR, Part 136, as amended, or the "Standard Methods for the Examination of Water and Sewer" as prepared, approved, and published jointly by the American Public Health Association, the American Water Works Association, and the Water Environment Federation. In cases where procedures vary, the EPA's methodologies shall supersede.

40. "Standard Strength" shall describe wastewaters of any origin having a pollutant content less than the wastewater pollutant characteristics defined in Article IV, Section D.1 of this ordinance and having no prohibited qualities of sanitary sewer system admission.

41. "Suspended Solids" shall mean solids that either float on the surface, or are in suspension in water, wastewater, or liquid as defined by standard methods.

42. "Total Phosphorous" or "TP" shall mean total phosphorous as determined by standard methods.

43. "TSS" shall mean total suspended solids as determined by standard methods.

44. "Total Solids" shall mean total weight expressed in mg/l of all solids: dissolved, undissolved, organic, or inorganic.

45. "User" shall mean the occupant and/or the owner(s) of property from which wastewater is discharged into the System and any individual or entity, including municipalities, who contributes, causes, or permits the contribution of wastewater into the System.

46. "Wastewater" shall mean any solids, liquids, gas, or radiological substance originating from residences, business buildings, institutions, and industrial establishments together with any ground water, surface water, and storm water that may be present, whether treated or untreated, which is contributed into or permitted to enter the System.

Terms for which definitions are not specifically provided herein or in the "Jefferson County Sewer Use Administrative Ordinance" shall be interpreted as defined in the Glossary of the current edition of "Design of Municipal Wastewater Treatment Plants, Volume 3" (MOP 8) published by the WEF and the American Society of Civil Engineers.

ARTICLE II. BILLING UNITS

A. Volume Determination

The Environmental Services Department shall, at its own discretion, determine the factor and percentage of metered or non-metered water discharged to the System for the purposes of billing consistent with the following:

In making a quantity determination for System Users, the quantity of wastewater discharged by the User to the System shall be the same as the quantity of water delivered to the User by the Public Water System. In limited circumstances, should well water be used for the User's supply of water, the well shall be metered and quantities made known to the County on a monthly basis.

1. Residential Users

Billed Volumetric Units for Residential Users, except participants in the private meter program or as otherwise determined, shall be the metered quantity multiplied by a Return Factor as an allowance for metered water not returned to sewer. The Factor shall be as follows:

Residential Return Factor 0.85

Multi-family residences, apartments, condominiums, lofts and other residential users without unique, contiguous, deeded, unimproved land for that residential unit shall not be eligible for the Residential Return Factor.

2. Non-Residential Users

Billed Volumetric Units for Non-Residential Users and participants in the private meter program shall be the metered quantity multiplied by a Return Factor of 1.00, *provided, however*, a custom return factor may be established at the discretion of ESD for future, continuous use where sufficient evidence exists.

It shall be the obligation of Non-Residential Users who evaporate or otherwise dispose of water delivered by the Public Water System to alternate disposal systems to install such meters or other devices deemed necessary by the County to determine the estimated quantity discharged to the System. The County will consider establishing a constant ratio, factor, or percentage to be applied to the metered water quantity delivered by the Public Water System in order to determine the quantity of wastewater discharged by the User. It shall be the responsibility of the User to provide adequate written documentation which justifies the factor to the satisfaction of the County. The value of this factor will be reviewed for accuracy by ESD biannually, or whenever deemed necessary by the County in its sole discretion.

B. Impact Fee Units

1. Fixtures

Impact fee units shall be billed per defined unit times the rate provided in this ordinance as follows:

Fixture Type	No. Units
Bathtub	1
Shower	1
Water Closet/toilet	1
Lavatory	1
Sink	1
Urinal	1
Bidet	1
Sink	1
Dishwasher	1
Washing Machine	1
Garbage disposal units or pre-wiring for same	1
Stub outs for plumbing fixtures	1
Floor drain	0.5
Trench drain (per 18" of length)	0.5
Bradley wash sink (per 18" of sink perimeter)	1
Body wash/massage	1
Drinking fountain	0.5
Condensate drain	0.5
Sump pump or ejector	1
Dumpster Drain	1
Commercial kitchen sink	1
Commercial dishwasher	1
Commercial ice machine	1
Photographic developing machine	1
Autoclave	1
Restaurant/Bar Seat (booths are calculated per 18" length)	1
Other (any other connection to the System as determined by the County as a full or partial unit)	

2. Food Service Establishments

The impact fee for full service restaurants and bars shall be assessed at a rate of one (1) plumbing fixture per seat. The impact fee for all other food-serving establishments shall be determined on the basis of projected volume of flow to the sewer as provided for in Article II.B.4.

3. Alternate Waste Disposal (Septic) System Conversion

A fixture credit shall be applied for each existing fixture up to a maximum of sixteen (16)

fixtures (or equivalent fixtures) in the event of a conversion from an existing septic or alternate waste disposal system. If the conversion is performed without a permit then the fixture credits shall not apply.

4. Non-Residential

The impact fee for any connection to the System which will result in a non-domestic discharge of wastewater by virtue of the volume, rate of flow, or the level of pollutant concentrations will be determined by the County on a case-by-case basis. The County will base its determination upon all factors which may substantially affect System hydraulic and treatment capacity.

The determination shall be based on the annual volume contributed by a domestic household, which is defined as having twelve (12) plumbing fixtures, and the flow from which is equivalent to 125 hundred cubic feet per year. Therefore, an equivalent fixture, in terms of flow, shall be equal to 10.42 hundred cubic feet per year.

The impact connection fee for non-domestic users shall be as follows:

1) The impact fee shall be determined based on the applicant's estimates of flow at the time of application to secure an impact permit.
2) The County shall apply the applicant's estimates to the following formula to determine the number of equivalent plumbing fixtures and the impact fee to be charged as a result thereof.

$$\text{Number of Equivalent Plumbing Fixtures} = \frac{\text{annual volume of water to sewer (cu. ft.)}}{1{,}042}$$

$$\text{Non-Residential Impact Fee} = \text{Number of Equivalent Plumbing Fixtures} \times \text{the rate established by Article IV.E.1}$$

3) A determination of actual wastewater volume discharged to the System shall be made using actual metered water consumption during the first year of the applicant's use. If it is determined by actual measurement that the volume discharged to the System is substantially different from the estimates given by the applicant, an adjustment will be made either by refund or additional charge to the applicant. The adjustment shall be made on the highest six (6) month volume discharged to the System. Metering shall be installed at the User's expense if required by the County for determination of actual wastewater volume discharged.

ARTICLE III. ADJUSTMENTS AND CREDITS

A. Sewer User Adjustments

Users are eligible to receive a leak adjustment credit based on their volumetric (consumption) sewer charge within the prior twelve (12) month period. Any leak of domestic water that does not discharge to a sanitary drainage system at the premise may be eligible for credit. However, such leak shall be documented to have arisen from a defect in the permanent plumbing system and subsequently have been repaired. A "Jefferson County ESD Request for Leak Adjustment Form" must be completed in its entirety and returned to the Sewer Permitting and Inspections Office, located at 716 Richard Arrington Jr. Blvd. North, Suite A300, Birmingham, AL 35203, along with a dated and descriptive plumbing repair invoice, a work order from a Public Water System, or a receipt in cases where the Owner completes his own repairs.

The County does not provide "courtesy" adjustments. No adjustment will be given based solely on the fact that a User has an unusually high water and sewer bill, and water adjustments or credits given by a Public Water System shall not form the sole basis nor create an obligation to the County to grant a similar adjustment for sewer charges. Sewer charges may be adjusted only if the User supplies sufficient written documentation.

Swimming pools which have been verified on site, measured for volume, and are deemed to be a permanent structure by a Sewer Service Inspector, are eligible for a once-per-year adjustment. The User must be able to demonstrate that the water drained from the pool was not discharged to the System. The adjustment shall be allowed only in cases where there is a substantial pool filling. Adjustments shall not be made prior to the User being billed for the water volume.

B. Adjustment Limitations

Any request for an adjustment of sewer charges shall be limited to one (1) year from the billing date of the original charge, and shall be submitted to the Sewer Permitting and Inspection Office (716 Richard Arrington Jr. Blvd. North, Suite A300, Birmingham, AL).

C. Credit for Existing Fixtures

If an existing structure is to be demolished, altered, remodeled or expanded, an applicant will be allowed credit for the plumbing fixtures in the existing structure. Credit will be given only for those plumbing fixtures in the existing structure which are connected to the System and shall only be applied to a new or remodeled structure at the same location. To receive credit for existing fixtures, applicants must arrange an inspection by County personnel to verify the fixture count before removing the old fixtures. Credit will not be given unless the fixtures have been inspected by ESD prior to removal or evidence of a prior paid impact permit is presented. Except as provided herein, credit for existing connections and fixtures cannot be transferred to another location.

In circumstances such as natural disasters or other uncontrollable circumstances where credit for existing fixtures cannot be accurately determined, the County shall determine the credits available based on available information consistent with this Ordinance. The burden of proof for establishing any claimed credit as provided herein shall be on the applicant.

D. Exemptions

The governing bodies of all municipalities under the terms of their respective unification agreements shall be exempt from payment of all impact fees for facilities which will be used directly by those governing bodies for carrying out their governmental functions. The impact fee exemption does not apply to park boards, recreation boards, school systems, or any other boards or alliances which are autonomous, or are not a direct function of, or owned by, the municipal governing body. However, this fee exemption does not remove the requirement that any applicable permits must be obtained prior to securing a building permit.

E. Refund of Impact Fees

Upon proper application by the permittee, the County will refund Impact Fees for fixtures which have not been installed. If no building permit was issued, the permittee must return all copies of the original impact permit in order to receive a refund. If a building permit was issued, the permittee must return the applicant's copy of the impact permit along with the original issued receipt to the Sewer Permitting and Inspection Office within two (2) years of issuance. The administrative fee shall be deducted from the total amount of the refund.

F. Private Meters

A User of the System may elect to install a private meter on a water service line that is connected to fixtures, equipment, or systems that do not discharge wastewater to the System. Users with installed private meters shall not be eligible for the Residential Return Factor adjustment. Private meter requirements and credit procedures are as follows:

1) A private meter must be permanently installed on the water service line or water distribution system downstream of the primary domestic water service meter. Water metered by the private meter must not directly or indirectly enter the System. Portable meters that attach onto the end of a hose or faucet are not eligible.
2) The private meter shall be registered by an ESD Sewer Service Inspector. The initial meter reading shall start from the reading that is registered at the time of inspection. It is the responsibility of the User to inform the County of the presence of a private meter by calling 205-325-5801 to request a registration/inspection of the private meter. Retroactive usage credit prior to registration shall not be allowed.

3) The private meter owner or an authorized party must be present at the time the private meter is registered by the County and must acknowledge its limitations of use.
4) All private meter readings must be submitted to the Environmental Services Sewer Permitting and Inspection Office at 716 Richard Arrington Jr. Blvd. North, Suite A300, Birmingham, AL 35203.
5) Meter readings should be submitted every 6 months, but not more frequently than every 6 months. Credit shall not be granted for any use prior to the twelve-month period from the date of submission for credit.
6) Private meter forms must be filled out in their entirety in order to be processed.
7) A private meter processing fee as provided for in Article IV.B shall be charged for each private water meter credit administered.

Any active participant of the private meter program who wishes to terminate their current enrollment status must request such action in writing to ESD and shall not be allowed re-enrollment for a twelve month period from the date of request.

The County reserves the right to require, at any time, the private meter to be inspected or re-registered by a Sewer Service Inspector.

It shall be the responsibility of the User to determine whether a private meter is enrolled in the credit program.

ARTICLE IV. FEES, CHARGES, AND PENALTIES

A. Sewer Use Charges

All Users of the System, or their designated agents, shall pay a sewer use charge to the County. Sewer use charges shall include (1) fixed monthly charges and (2) volumetric charges in accordance with the following schedules. Sewer use charges for unmetered water will be determined by the County in its sole discretion.

1. Residential

A block volume charge shall be levied on Billed Volumetric Units in accordance with the below schedule. Whole units shall be used to determine under which Block the charge arises.

	Per 100 Cubic Feet		
	Block 1	Block 2	Block 3
Volume	0-3	4-6	7+
Rate per unit	$4.50	$7.00	$8.00

	Per 1000 Gallons		
	Block 1	Block 2	Block 3
Volume	0-2246	2247-4491	4492+
Rate per unit	$6.02	$9.36	$10.69

2. Non-residential

A block volume charge shall be levied on Billed Volumetric Units in accordance with the below schedule.

	Per 100 Cubic Feet
Volume	0+
Rate per unit	$7.60

	Per 1000 Gallons
Volume	0+
Rate per unit	$10.16

3. Monthly Base Charge

In addition to the volumetric charges in A.1 and A.2, a monthly base charge for each installed meter (except Private Meters) shall be levied as follows:

Meter Size (in. dia.)	Charge
5/8"	$10.00
3/4"	11.00
1"	14.00
1.5"	18.00
2"	29.00
3"	110.00
4"	140.00
6"	210.00
8"	290.00
10"	370.00

4. Billing Frequency

Bills are rendered monthly or quarterly at the discretion of the County.

B. Private Meter/Pool Processing Fee

A processing fee in the amount of $12.00 shall be imposed for the processing of each application for private meter or pool credit.

C. Non-Resident Users

All Non-Resident Users shall pay a sewer User charge to the County equal to the User charges described in Sections A.1 through A.3 of this Article multiplied by the following Non-Resident User Factor.

Non-Resident User Factor = 1.06

The monthly base charges set forth in Section A.3 of this Article shall also be multiplied by the Non-Resident User Factor. All other fees or charges described within this Ordinance shall be assessed to Non-Resident Users in accordance with the schedules set forth herein or as may be established by Jefferson County.

At the discretion of the County and at such times when County ad-valorem tax or any other System-related tax is modified or adopted, the Non-Resident User Factor may be changed or modified by the County.

D. Industrial Waste Surcharges

1. Industrial User Surcharges

An industrial waste surcharge shall be levied against any Industrial User of the System whose wastewater characteristics exceed the following standard strength:

Constituent	Strength	Rate per pound
BOD	300 mg/l	$0.8284
COD	750 mg/l	$0.4142
TSS	300 mg/l	$0.2734
FOG	50 mg/l	$0.1715
TP	4 mg/l	$3.2650

If an industrial wastewater discharge contains excessive loading for both BOD and COD, the imposed surcharge will be based on one of the two parameters as determined by the County in its sole discretion.

At the discretion of the County and at such times when data has been compiled and established, additional or modified industrial waste surcharge parameters, concentrations, or rates may be imposed.

Pounds shall be computed by multiplying the factor 0.00624 (the conversion factor used to determine the weight in pounds of one milligram per liter (mg/l) for a liquid volume in hundreds of cubic feet) times the volume of the wastewater (in hundreds of cubic feet) times the parts per million (ppm) of wastewater characteristics as described in the Table above.

2. Sampling and Analysis

Sampling and analysis charges shall be calculated and assessed as follows:

(1) Round trip mileage shall be charged per mile at the currently published Internal Revenue Service Standard Mileage Rate.
(2) Crew cost: $35.00 per hour (charged in ¼ hour segments at sampling site, each segment = $8.75).
(3) Laboratory analytical cost: Billed by wastewater characteristic, as defined in the laboratory fee schedule, which may be obtained from the Industrial Pretreatment Office at 205-238-3833.
(4) Technical and administrative fees including data collection, calculations, entry, report dispersal and billing per sampling cycle: Flat rate of $50.00.

3. Miscellaneous Fees

Cost incurred by the County for sampling, analysis and monitoring of industrial wastewater not otherwise provided for in this Ordinance shall be charged to the monitored industry on an actual cost basis.

4. Hauled Wastewater

Charges for discharging all hauled wastewater into an approved System facility, as measured at the receiving facility, shall be as follows:

Waste type	Rate per 1000 gallons
Septage and domestic wastewater	$60.00
Grease trap waste	$75.00
Other	*

*Charges for other non-standard discharges shall be calculated by the County based on estimated increased operating costs if, at the County's discretion, the particular waste stream constituents are higher concentrations than typical domestic septage or grease trap waste. Leachate, unless otherwise determined, shall be considered septage.

E. Sewer Impact Fees

1. Fixture Rate

An impact fee shall be levied upon each new connection to the System regardless of county jurisdiction as follows:

Fixture	Impact Fee
Single fixture unit	$225.00
Equivalent fixture unit	$225.00
Stubouts for plumbing fixtures	*
Other fixtures	**

* Impact fee for stubouts will be the cumulative fee for the fixtures to be served by the stubout.

** Impact fee to be determined by the County on a case by case basis in accordance with Article II.B.4 and at a rate of $225.00 per plumbing fixture.

Failure to make payment for any plumbing fixture prior to installation shall result in a doubling of the payment if said payment is not submitted within thirty (30) days of notification. However, failure to mail any notice, or failure to receive any notice, shall in no way affect the obligation of the applicant to pay the fees and any penalty.

2. Alternate Waste Disposal System Conversion

Any home, mobile home or commercial building served by a septic tank, package plant, or other means of waste disposal which was constructed and approved for use subject to the standards of the Jefferson County Department of Health may connect to the System, provided there is no prohibition in the regulations of the County, State or Federal Government and upon payment of a one hundred dollar ($100.00) fee for such connection.

3. Impact Fees Refund

An administrative fee for refund of impact fees will be assessed as follows:

No. Fixtures	Fee

1 - 10	$20.00
11 - 50	$30.00
51	$50.00

F. Sewer Connection Fees

The sewer connection fees as listed include all required inspections and will be assessed for each single user connection in accordance with the following schedule:

Permit type	Prior to installation	After installation
Connection	$50.00	$550.00
Repair	$50.00	$550.00
Tap[1]	$150.00	
Disconnection	$25.00	

[1]County provides saddle, labor, and materials for tap to existing sewer mains.

If the County Sewer Service Inspector is required to visit the connection site for more than two (2) inspections due to faulty material, poor workmanship etc., the third inspection and each inspection thereafter shall be charged at $100 per inspection. After hour, weekend, and holiday inspections must be pre-approved by the ESD and shall be charged at a rate of $100.00 per hour, with a 2 hour minimum. The rate is "per inspector" as deemed necessary by the County.

G. Grease Trap Fees

Grease trap and interceptor fees shall be assessed in accordance with the following schedule:

Annual Inspection Fee

Number	Fee
1-5	$300.00
6-10	$500.00
11+	*

*Units in excess of 10 shall be assessed $500.00 plus $200.00 for each additional 5 units in excess of 10

Other Fees

Type	Fee
Non-compliance	$400.00
Re-inspection	$400.00
Exemption	$300.00

Installation, modifications, repairs or replacement of grease control devices shall be inspected by the ESD inspectors. Any work completed without prior notice shall be subject to a non-compliance fee.

H. Billing Fees

Billing fees shall be assessed in accordance with the following schedule:

Type	Fee
Lien Recording	$16.00
Lien Satisfaction	$16.00
Return Check	$30.00
Pay Off Amount (per sheet)	$4.00

ARTICLE V. GENERAL PROVISIONS

A. Validity

All resolutions, ordinances, parts of resolutions, or parts of ordinances in conflict herewith are hereby repealed.

B. Severability

The provisions of this Ordinance are severable. If any provision, section, paragraph, sentence or part thereof, or the application thereof to any individual or entity, shall be held unconstitutional or invalid, such decision shall not affect or impair the remainder of this Ordinance, it being the Commission's legislative intent to ordain and enact each provision, section, paragraph, sentence and part thereof separately and independently of each other.

C. Penalties

The County shall be allowed to recover reasonable attorney's fees, interest, penalties, collection fees, court costs, court reporter's fees and any other expenses of litigation or collections from any person or entity in violation or non-payment of the provisions of this this Ordinance.

ARTICLE VI. ORDINANCE IN FORCE

A. Date Effective

This ordinance shall be in full force and effect on the date of passage, with such rates and charges being assessed as soon as is practicable.

B. Date Adopted

Passed and adopted by the Jefferson County Commission on the 6 day of November, 2012. Approved this 6 day of November, 2012.

by _____ W. D. Carrington, President - Jefferson County Commission.

Attest: _____

Minute Clerk of the Jefferson County Commission

Approved as to correctness:

APPROVED BY THE
JEFFERSON COUNTY COMMISSION
DATE: 11-6-12
MINUTE BOOK: 164
PAGE(S): 38-81

THIS DOCUMENT IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT IS APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL, BUT IT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

In re:	)	
	)	
JEFFERSON COUNTY, ALABAMA,	)	**Case No. 11-05736-TBB**
a political subdivision of the State of	)	
Alabama,	)	**Chapter 9**
	)	
Debtor.	)	

DISCLOSURE STATEMENT REGARDING
CHAPTER 9 PLAN OF ADJUSTMENT FOR JEFFERSON COUNTY, ALABAMA
(DATED JUNE 30, 2013)

TABLE OF CONTENTS

TABLE OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
1	*Chapter 9 Plan of Adjustment for Jefferson County, Alabama Dated June 30, 2013* [with exhibits]
2	Jefferson County Commission Audited Financial Statements – September 30, 2011
3	Department of Examiners of Public Accounts of the State of Alabama report dated June 8, 2012
4	County's Fiscal Year 2012-2013 Budget
5	Depfa Plan Support Agreement
6	GO Plan Support Agreement
7	Sewer Plan Support Agreements
8	National Plan Support Agreement
9	Financing Plan
10	Financial Projections for General Fund
11	Financial Projections for Education Tax

SUMMARY INFORMATION[1]

Debtor:	Jefferson County, Alabama
Recommendation:	**For the reasons more fully set forth below, the County believes that the prompt confirmation and implementation of the Plan are superior to any potentially feasible alternative. Accordingly, the County recommends that you vote in favor of the Plan.[2]** **The County also recommends that holders of Allowed Class 1-A Claims (Sewer Warrant Claims) and Class 1-B Claims (Bank Warrant Claims and Primary Standby Sewer Warrant Claims) make the Commutation Election on their Ballots; provided, however, with respect to those Class 1-A Claims in the approximate outstanding principal amount of $62 million that are on account of Series 2003-B-8 Sewer Warrants, the County makes no recommendation to such holders regarding the Commutation Election, but requests that such holders also evaluate thoroughly the information contained herein (including, without limitation, Sections XI.B and XII.B of this Disclosure Statement) and decide whether to make the Commutation Election.**
Vote Required to Accept the Plan:	Acceptance of the Plan requires the affirmative vote of two-thirds in amount and a majority in number of the Allowed Claims actually voted in each Class of Impaired Claims entitled to vote. Only Persons holding Claims in Classes 1-A, 1-B, 1-C, 1-D, 2-A, 2-B, 2-C, 2-D, 2-E, 5-A, 5-D, 5-E, 6, and 7 are Impaired, will receive Distributions, and therefore are entitled to vote on the Plan. If any of these Classes rejects the Plan, however, the Bankruptcy Court nevertheless may confirm the Plan if the "cramdown" requirements of Bankruptcy Code section 1129(b) are satisfied with respect to such rejecting Class. The holders of all Allowed Class 1-B Claims, all Allowed Class 1-C Claims, and all Allowed Class 1-D Claims have committed to vote in favor of confirmation of the Plan, subject to the terms of their Plan Support Agreements. Holders of Allowed Class 1-A Claims representing over 75% of the dollar amount of Allowed Class 1-A Claims have also committed to vote in favor of confirmation of the Plan, subject to the terms of their Plan Support Agreements.
Commutation Election:	The Commutation Election available to holders of Allowed Class 1-A Claims (Sewer Warrant Claims) and Class 1-B Claims (Bank Warrant Claims and Primary Standby Sewer Warrant Claims) is set forth in Sections 2.3(a) and 2.3(b) of the Plan and described in Section XII.B

[1] All capitalized terms used but not otherwise defined in this Disclosure Statement have the meanings ascribed to those Defined Terms in Section 1.1 of the *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated June 30, 2013*), a true and correct copy of which is attached hereto as **Exhibit 1** (as more particularly defined therein, the "Plan").

[2] Refer to Article XII below entitled "Voting and Election Procedures" for additional information about the voting and election process with respect to the Plan.

below. If you hold an Allowed Class 1-A or Class 1-B Claim, your decision regarding the Commutation Election will affect your Distribution under the Plan and certain releases thereunder. Under some circumstances, holders of Allowed Class 1-A and Class 1-B Claims will be *deemed to make the Commutation Election*. Holders of Allowed Class 1-A Claims who make or are deemed to make the Commutation Election will receive a materially larger Distribution of Cash under the Plan (80% of one's Adjusted Sewer Warrant Principal Amount) than holders who do not make the Commutation Election (65% of one's Adjusted Sewer Warrant Principal Amount), but will release certain additional rights, including claims that could be asserted against the Sewer Warrant Insurers under the applicable Sewer Insurance Policies.

The holders of all Allowed Class 1-B Claims (Bank Warrant Claims and Primary Standby Sewer Warrant Claims) have committed to make the Commutation Election, subject to the terms of their Plan Support Agreements. Holders of Allowed Class 1-A Claims (Sewer Warrant Claims) representing over 75% of the dollar amount of Allowed Class 1-A Claims have also committed to make the Commutation Election, subject to the terms of their Plan Support Agreements.

Releases and Injunctions under the Plan:

Section 6.3(a) of the Plan provides that if you vote to accept the Plan or make or are deemed to make the Commutation Election, you will be conclusively deemed to have irrevocably and unconditionally waived and released as of the Effective Date of the Plan all Sewer Released Parties (including, among others, the JPMorgan Parties, the Sewer Liquidity Banks, the Sewer Warrant Insurers, the Sewer Warrant Trustee, and the Supporting Sewer Warrantholders) and their respective Related Parties from any and all Sewer Released Claims.

Section 6.3(b) of the Plan provides that if you vote to accept the Plan, you will be conclusively deemed to have irrevocably and unconditionally waived and released as of the Effective Date of the Plan, all GO Released Parties (including, among others, the GO Banks, the GO Warrant Trustee, and National) and their respective Related Parties from any and all GO Released Claims.

The releases and injunctions under the Plan are more particularly described in Section VII.F.3 of this Disclosure Statement.

Voting Information: If you are entitled to vote, you should have received a Ballot with this Disclosure Statement. After completing and signing your Ballot, you should return it in accordance with the instructions provided on your Ballot. The instructions for returning Ballots are also described in Article XII below.

Ballot Deadline: For your Ballot to be counted, the Ballot Tabulator must receive the Ballot not later than 5:00 p.m. prevailing Central time on [October 7, 2013].

If you must return your Ballot to your bank, broker, agent, or nominee,

	you must return your Ballot to such bank, broker, agent, or nominee by the deadline (if any) set by them so that such bank, broker, agent, or nominee may process your Ballot and return it to the Ballot Tabulator by the Ballot Deadline. If your Ballot is not returned, or if you are required to return your Ballot to your bank, broker, agent, or nominee and your Ballot is not received by such bank, broker, agent, or nominee by the deadline (if any) set by them, or if your Ballot is otherwise received by the Ballot Tabulator after the Ballot Deadline, your Ballot will not be counted and, if you are a holder of a Class 1-A Claim or a Class 1-B Claim, depending upon which series or subseries of Sewer Warrants you hold, you may be deemed to have made the Commutation Election in accordance with the terms of the Plan.
Confirmation Hearing:	The Confirmation Hearing will be held on [November 12, 2013], at [__] a.m. prevailing Central time. The Confirmation Hearing may be continued from time to time without further notice.
Treatment of Claims:	The treatment that Creditors will receive if the Bankruptcy Court confirms the Plan is set forth in the Plan and is summarized in Section VII.A of this Disclosure Statement.
The Effective Date:	The Effective Date of the Plan will be a Business Day selected by the County, after consultation with the Sewer Plan Support Parties, provided, among other conditions set forth in Section 4.18 of the Plan, that the Effective Date shall be no later than December 31, 2013.
Questions:	Information about the Plan solicitation procedures, as well as copies of the Plan, Disclosure Statement, Disclosure Statement Order, the approved forms of Ballots, the Plan Procedures Motion, and the Plan Procedures Order, are available at www.jeffersoncountyrestructuring.com. Copies of the Plan, Disclosure Statement, Disclosure Statement Order, the approved forms of Ballots, the Plan Procedures Motion, and the Plan Procedures Order are available upon request by contacting the County's Claims and Noticing Agent and Ballot Tabulator, Kurtzman Carson Consultants LLC, either by email at JeffersonCountyInfo@kccllc.com, or by telephone at (866) 967-0677, or by mail at Jefferson County Ballot Processing, c/o Kurtzman Carson Consultants LLC, (Attention: Jefferson County Ballot Processing), 2335 Alaska Avenue, El Segundo, CA 90245. Copies of the Plan, the Disclosure Statement, the Disclosure Statement Order, the Plan Procedures Motion, and the Plan Procedures Order are also available for review and download at the Bankruptcy Court's website, www.alnb.uscourts.gov. Alternatively, these documents may be accessed through the Bankruptcy Court's "PACER" website, https://ecf.alnb.uscourts.gov. A PACER password and login are needed to access documents on the Court's "PACER" website. A PACER password can be obtained at http://www.pacer.gov.

IMPORTANT NOTICE:

THE PLAN, THIS DISCLOSURE STATEMENT, THE PLAN SUPPLEMENT, AND THE BALLOTS CONTAIN IMPORTANT INFORMATION THAT IS NOT INCLUDED IN THIS SUMMARY. THAT INFORMATION COULD MATERIALLY AFFECT YOUR RIGHTS. YOU SHOULD THEREFORE READ THE PLAN, THIS DISCLOSURE STATEMENT, THE PLAN SUPPLEMENT, AND THE BALLOTS IN THEIR ENTIRETY.

THE PLAN, ONCE CONFIRMED AND EFFECTIVE, IS THE LEGALLY BINDING DOCUMENT REGARDING THE TREATMENT OF CLAIMS AND THE TERMS AND CONDITIONS OF THE COUNTY'S ADJUSTMENT OF ITS INDEBTEDNESS. ACCORDINGLY, TO THE EXTENT THAT THERE IS ANY INCONSISTENCY BETWEEN THE PROVISIONS AND DEFINITIONS CONTAINED IN THIS DISCLOSURE STATEMENT AND THOSE CONTAINED IN THE PLAN, THE TERMS AND DEFINITIONS OF THE PLAN ARE CONTROLLING AND WILL GOVERN.

YOU SHOULD CONSULT WITH YOUR LEGAL AND FINANCIAL ADVISORS BEFORE VOTING ON THE PLAN AND BEFORE MAKING OR NOT MAKING A COMMUTATION ELECTION.

SUMMARY OF CLASSIFICATION AND TREATMENT OF CLAIMS

CLASS	DESCRIPTION	IMPAIRED/ UNIMPAIRED	VOTING STATUS
None	Administrative Claims	Unimpaired	Not Entitled to Vote
Class 1-A	Sewer Warrant Claims	Impaired	Entitled to Vote
Class 1-B	Bank Warrant Claims and Primary Standby Sewer Warrant Claims	Impaired	Entitled to Vote
Class 1-C	Sewer Warrant Insurers Claims	Impaired	Entitled to Vote
Class 1-D	Other Specified Sewer Claims	Impaired	Entitled to Vote
Class 1-E	Sewer Swap Agreement Claims	Impaired	Not Entitled to Vote (deemed to reject)
Class 1-F	Other Standby Sewer Warrant Claims	Impaired	Not Entitled to Vote (deemed to reject)
Class 2-A	Series 2004-A School Claims	Impaired	Entitled to Vote
Class 2-B	Series 2005-A School Claims	Impaired	Entitled to Vote
Class 2-C	Series 2005-B School Claims and Standby School Warrant Claims	Impaired	Entitled to Vote
Class 2-D	School Policy – General Claims	Impaired	Entitled to Vote
Class 2-E	School Surety Reimbursement Claims	Impaired	Entitled to Vote
Class 3-A	Board of Education Lease Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 3-B	Board of Education Lease Policy Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 4	Other Secured Claims, including Secured Tax Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 5-A	Series 2001-B GO Claims and Standby GO Warrant Claims	Impaired	Entitled to Vote
Class 5-B	Series 2003-A GO Claims	Unimpaired	Not Entitled to Vote (deemed to accept)

CLASS	DESCRIPTION	IMPAIRED/ UNIMPAIRED	VOTING STATUS
Class 5-C	Series 2004-A GO Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 5-D	GO Policy Claims	Impaired	Entitled to Vote
Class 5-E	GO Swap Agreement Claims	Impaired	Entitled to Vote
Class 6	General Unsecured Claims	Impaired	Entitled to Vote
Class 7	Bessemer Lease Claims	Impaired	Entitled to Vote
Class 8	Other Unimpaired Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 9	Subordinated Claims	Impaired	Not Entitled to Vote (deemed to reject)

I.
INTRODUCTION

Jefferson County, Alabama (the "County") filed a voluntary petition for relief under chapter 9 of title 11 of the United States Code (the "Bankruptcy Code") on November 9, 2011 (the "Petition Date"), thereby commencing the above-captioned bankruptcy case (the "Case"). The Case is pending before the Honorable Thomas B. Bennett, Chief United States Bankruptcy Judge, in the United States Bankruptcy Court for the Northern District of Alabama, Southern Division (the "Bankruptcy Court") as case number 11-05736-TBB. The Bankruptcy Court entered an order for relief in the Case on March 4, 2012.[3] The County is a municipal debtor operating under chapter 9 of the Bankruptcy Code, which incorporates only some of the Bankruptcy Code provisions that are applicable in bankruptcy cases pending under other chapters of the Bankruptcy Code. *See* 11 U.S.C. § 901(a).

Pursuant to Bankruptcy Code section 941, the County has filed and is the proponent of the *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated June 30, 2013)*, a copy of which is attached to this Disclosure Statement as Exhibit 1. **The document you are reading is the Disclosure Statement for the accompanying Plan.** The Plan sets forth the manner in which all Claims will be treated if the Plan is confirmed by the Bankruptcy Court and the Effective Date occurs. This Disclosure Statement describes the Plan, the County's current and future operations, the proposed adjustment of the County's indebtedness, risk factors associated with confirmation of the Plan, and other related matters.

For a complete understanding of the Plan, you should read this Disclosure Statement, the Plan, and the exhibits to these documents (collectively, the "Exhibits") in their entirety.

This Disclosure Statement sets forth the assumptions underlying the Plan, describes the process that the Bankruptcy Court will follow when determining whether to confirm the Plan, and describes how the Plan will be implemented if the Plan is confirmed by the Bankruptcy Court and the Effective Date occurs. Bankruptcy Code section 1125 requires that a disclosure statement contain "adequate information" concerning a bankruptcy plan. *See* 11 U.S.C. § 1125(a). [After a hearing held on August [6], 2013, the Bankruptcy Court entered an order approving the form of this document as containing adequate information to enable Creditors entitled to vote on the Plan to make an informed judgment when deciding whether to vote to accept or to reject the Plan (the "Disclosure Statement Order").] The Bankruptcy Court's approval of the adequacy of this Disclosure Statement, however, does not constitute a determination by the Bankruptcy Court with respect to the fairness or the merits of the Plan or the accuracy or completeness of the information contained in the Plan or Disclosure Statement. **THE COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. THEREFORE, THE**

[3] As detailed in Section IV.B below, various parties challenged the County's eligibility to be a chapter 9 debtor under Bankruptcy Code section 109(c) and Alabama Code section 11-81-3. After briefing and a hearing, the Bankruptcy Court overruled those objections and entered the order for relief. *See In re Jefferson County*, 469 B.R. 92 (Bankr. N.D. Ala. 2012).

PLAN'S TERMS ARE NOT YET BINDING ON ANYONE. IF THE COURT LATER CONFIRMS THE PLAN AND THE EFFECTIVE DATE OCCURS, THEN THE PLAN WILL BE BINDING ON THE COUNTY AND ON ALL PARTIES IN INTEREST IN THIS CASE, INCLUDING ALL CREDITORS OF THE COUNTY IRRESPECTIVE OF WHETHER SUCH CREDITORS VOTED IN FAVOR OF THE PLAN OR NOT.

The Plan is the product of more than 18 months of effort to restore the County's General Fund to operational balance, to address and resolve years of litigation involving the Sewer System and its indebtedness, and to enable the County to successfully emerge from the Case.

The Plan is structured around a series of significant inter-related, multi-party compromises and settlements among the County and various Creditors, most notably the Sewer Plan Support Parties holding over $2.5 billion of Sewer Debt Claims. Through the Plan, the County will achieve more than $1.3 billion of Sewer Debt Claim concessions (the largest of which will be made by the JPMorgan Parties), which concessions will substantially reduce the amount of the County's Sewer System-related indebtedness (approximately $3.2 billion of principal and interest as of the County's chapter 9 filing) to approximately $1.9 billion. Concomitantly, as part of these compromises the County has committed to increases in sewer rates pursuant to the Approved Rate Structure designed to facilitate the County's issuance of New Sewer Warrants in an amount sufficient to make approximately $1.835 billion of Distributions to the holders of Allowed Class 1-A, Class 1-B, Class 1-C, and Class 1-D Claims pursuant to the Plan and to ensure that the Sewer System will generate adequate funds to service indebtedness, maintain operations, meet capital needs for the foreseeable future, and preserve and improve services. Issuance of the New Sewer Warrants does not require state legislation and will not involve any swap transactions, auction rate securities, or other financial transactions that the County believes contributed to its financial difficulties and the filing of the Case.

As part of the global settlement of myriad, complex disputes among the County, the JPMorgan Parties, the Sewer Warrant Insurers, and the other Sewer Plan Support Parties to be implemented pursuant to the Plan, and in consideration of the settlement and release of all Sewer Released Claims against the JPMorgan Parties and their Related Parties, the JPMorgan Parties will consent to the reallocation to other holders of Sewer Warrants of a substantial portion of the Plan consideration that would otherwise be distributed on a Pro Rata basis to the JPMorgan Parties and, thereby, will increase the recovery received by all other holders of Sewer Warrants and reduce the amount of sewer indebtedness following the County's emergence from chapter 9.

The Plan includes a Commutation Election mechanism whereby holders of Sewer Warrants may elect or be deemed to elect to commute, waive, and forever release certain claims and rights, including all claims that could be asserted against the Sewer Warrant Insurers under the applicable Sewer Insurance Policies, and any and all Sewer Released Claims against the Sewer Released Parties and their respective Related Parties. In consideration for making the Commutation Election, holders of Sewer Warrants will receive a materially higher Cash recovery under the Plan. As more particularly described in Section 4.9 of the Plan, the sources of the higher recovery to Creditors that make or are deemed to make the Commutation Election will be from (i) the reallocation of Plan consideration that otherwise would have been distributed to the JPMorgan Parties; and (ii) consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their

Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims that make the Commutation Election on account of such Claims.

The Plan provides for various releases and injunctions that are key elements of the compromises and settlements contained in the Plan, all of which releases and injunctions shall become effective as of the Effective Date of the Plan. Under the Plan, each Sewer Released Party (including, among others, the County, the JPMorgan Parties, the Sewer Liquidity Banks, the Sewer Warrant Insurers, and the Supporting Sewer Warrantholders) shall waive and release all other Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims. Additionally, all Persons who vote to accept the Plan or make or are deemed to make the Commutation Election will be conclusively deemed to release all Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims. The Plan further provides that all Persons who vote to accept the Plan will be conclusively deemed to release all GO Released Parties (consisting of the County, the GO Banks, the GO Warrant Trustee, and National) and their respective Related Parties from any and all GO Released Claims. The Plan also contains a settlement and release of any and all claims and matters raised in the Declaratory Judgment Action, and any claims and matters related to the reapplication to principal of any interest payments made on the Sewer Warrants during the Case or reallocation of any payments made on the Sewer Warrants both before and during the Case among the holders or various series and subseries of Sewer Warrants. The Plan provides that, upon the Effective Date of the Plan, all Persons bound by the releases set forth in Section 6.3 of the Plan shall be enjoined from pursuing any recovery on account of any Sewer Released Claims and GO Released Claims released under the Plan.

In addition to the foregoing releases, the Plan provides that Distributions provided for in the Plan to the County's Creditors shall be in full, final, and complete settlement, satisfaction, discharge, and release of such Creditors' Claims against the County, against the County's property, and any Claims released under the Plan.

Each of the compromises and settlements to be implemented pursuant to the Plan and described herein and in the Plan are inextricably linked, and each individual compromise and settlement is dependent upon the approval and implementation of every other compromise and settlement.

The Plan contains several provisions related to the validation and approval of the New Sewer Warrants that are crucial to the success of the financing transaction described in the Plan. If the County cannot successfully issue the New Sewer Warrants on the terms contemplated by the Plan, then the Plan will not be consummated and the County will need to pursue other alternatives to emerge from bankruptcy. The County believes that any such alternatives will be less favorable to the County, its Creditors, its citizens, and other parties-in-interest than under the Plan.

The Plan also implements a series of settlements concerning the County's other significant liabilities, including obligations relating to the Bessemer Lease Claims, the School Debt Claims, and the GO Warrant Claims.

Other than with respect to Causes of Action that are expressly released or compromised under the Plan or with respect to Claims that are Allowed under the Plan, various potential claims and Causes of Action (including Avoidance Actions) may be pursued by and for the County's benefit and are being preserved under the Plan. You should not vote to accept or to reject the Plan with the expectation that the County may or may not pursue any action, regardless of whether that action was commenced prepetition or whether that action pertains to preferences, fraudulent transfers, or other claims and Causes of Action. Unless explicitly set forth in the Plan, the County's rights to commence any action will not be released. Furthermore, unless such rights are released or otherwise resolved in the Plan, the County reserves all rights to object to any Claim (other than Claims that are Allowed under the Plan) or defend itself against any counterclaim asserted by any entity in connection with a claim or Cause of Action.

The County believes that the significant compromises and settlements made by the Sewer Plan Support Parties, the GO Plan Support Parties, and other Creditors under the Plan are fair, equitable, and reasonable. Such compromises and settlements are an integral part of the Plan, and they provide value and certainty for the County and all Creditors by eliminating significant litigation risk and expenses, and providing a framework for the County to emerge from chapter 9 expeditiously. As discussed below, the County has been and remains involved in a multitude of litigation in numerous courts against numerous parties. This litigation costs the County millions of dollars each year to pursue. The Plan resolves this litigation on fair terms to the County and all of its Creditors. Accordingly, the County believes that the Plan provides the greatest and earliest possible recoveries to Creditors under the circumstances and that acceptance and confirmation of the Plan is in the best interests of all Creditors, the County, and the County's inhabitants. The County further believes that any alternative to the Plan would result in unnecessary delay, uncertainty, litigation, and expense, the net effect of which would result in recoveries to Creditors less than the Distributions to be made to Creditors under the Plan. There is no better alternative to Creditors than the Plan. The County therefore urges that all Creditors entitled to vote on the Plan cast their Ballots to accept the Plan and, as applicable, to make the Commutation Election.

II.
GENERAL DISCLAIMERS AND INFORMATION

Please carefully read this document and all the Exhibits to this document. These documents explain who may object to confirmation of the Plan, who is entitled to vote to accept or to reject the Plan, who is entitled to make the Commutation Election under the Plan, the implications of making or not making such Commutation Election, and the treatment that Creditors can expect to receive if the Bankruptcy Court confirms the Plan and the Effective Date occurs. The Disclosure Statement also describes the history of the County, the County's liabilities and assets, the contributing factors that the County believes precipitated the Case, certain events in the Case, the effect of Plan confirmation, and some of the things the Bankruptcy Court may consider when deciding whether to confirm the Plan. The Disclosure Statement also addresses the Plan's feasibility and how Creditors' treatment under the Plan compares to potential alternatives. The statements and information

contained in the Plan and Disclosure Statement, however, do not constitute financial or legal advice. You should therefore consult your own advisors if you have questions about the impact of the Plan on your Claims or rights.

The financial information used to prepare the Plan and Disclosure Statement was prepared by the County from information in its books and records and is the sole responsibility of the County. The County's professionals have prepared the Plan and Disclosure Statement at the direction of, and with the review, input, and assistance of, the County Commission and the County's employees. The County's professionals have not independently verified this information. No other party in interest, including the Plan Support Parties or their professionals, has any responsibility for the content of this Disclosure Statement, and such other parties may hold different views than the County with respect to the matters discussed in the Disclosure Statement.

The statements and information concerning the County in this document constitute the only statements and information that the Bankruptcy Court has approved for the purpose of soliciting votes to accept or to reject the Plan. Therefore, no statements or information inconsistent with anything contained in this Disclosure Statement are authorized unless otherwise ordered by the Bankruptcy Court.

You may not rely on the Plan and Disclosure Statement for any purpose other than to determine whether to vote to accept or to reject the Plan and whether to make the Commutation Election. Nothing contained in the Plan or Disclosure Statement constitutes an admission of any fact or liability by any Person or may be deemed to constitute evidence of the tax or other legal effects that the adjustment of indebtedness set forth in the Plan may have on entities holding Claims.

Unless another time is expressly specified in this Disclosure Statement, all statements contained in this Disclosure Statement are made as of [August [ ], 2013]. Under no circumstances will the delivery of this Disclosure Statement or the exchange of any rights made in connection with the Plan create an implication or representation that there has been no subsequent change in the information included in this Disclosure Statement. The County assumes no duty to update or supplement any of the information contained in this Disclosure Statement, and the County presently does not intend to undertake any such update or supplement.

CAUTIONARY STATEMENT: Some statements in this Disclosure Statement may constitute forward-looking statements within the meaning of the Securities Act of 1933, as amended from time to time (the "1933 Act"), and the Securities Exchange Act of 1934, as amended from time to time (the "1934 Act"). Such statements are based upon information available when the statements were made and are subject to risks and uncertainties that could cause actual results materially to differ from those expressed in the statements. Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved the Disclosure Statement, the Plan, or any Exhibits to either document.

The Exhibits that are listed after the Table of Contents are attached to the Disclosure Statement. These Exhibits are incorporated into the Disclosure Statement and will be deemed to be included in this Disclosure Statement when they are Filed.

III.
OVERVIEW OF THE COUNTY, INCLUDING ITS ASSETS AND LIABILITIES

A. Historical Information About the County

1. History

The County is a political subdivision of the State of Alabama that was created by the legislative branch of the state government of Alabama (the "Alabama Legislature") on December 13, 1819. The County is located in the north-central portion of the State of Alabama, on the southern extension of the Appalachians, in the center of the iron, coal, and limestone belt of the South. The County is approximately 1,111 square miles in size.

The City of Birmingham has served as the county seat since 1873, and the County continues to maintain its primary offices and courthouse in Birmingham.

Pursuant to acts passed in the early 1900s, the Alabama Legislature assigned certain obligations to the County with regard to the maintenance of an additional courthouse and other County offices in a region of the County commonly known as the "Bessemer Cutoff." That term references the City of Bessemer, the largest city in the Bessemer Cutoff which, as of 2010, had a population of approximately 28,000 people.

2. Population

The County is the most populous county in the State of Alabama. According to the U.S. Census Bureau, the County's population was estimated in 2011 at 658,931, an increase of 0.1% from the previous year. According to the U.S. Census Bureau, 54.7% of the County's population is white and 42.3% of the population is black.

The County is the center of the seven-county Birmingham-Hoover Metropolitan Statistical Area (the "Birmingham-Hoover MSA"), which covers approximately 5,332 square miles. The Birmingham-Hoover MSA had an estimated population of 1,132,264 as of July 1, 2011, and was the 50th most populated area among the 366 Metropolitan Statistical Areas in the United States, according to figures from the U.S. Census Bureau.

As reflected in the table below, during the period from 2000 to 2012, the population of the County decreased by approximately 0.31%, compared to population increases of 8.02% for the Birmingham-Hoover MSA, 7.60% for the State, and 11.5% for the United States, during the same time frame.

Year	Jefferson County	Birmingham-Hoover MSA	State of Alabama	United States
2000	662,047	1,052,238	4,477,100	281,424,600
2001	660,197	1,060,486	4,647,634	284,968,955
2002	657,518	1,065,283	4,480,089	287,625,193
2003	657,513	1,072,279	4,503,491	290,107,933
2004	656,023	1,080,135	4,530,729	292,805,298
2005	654,919	1,088,218	4,569,805	295,516,599
2006	655,893	1,100,019	4,628,981	298,379,912
2007	655,163	1,107,256	4,672,840	301,231,207
2008	656,510	1,117,101	4,718,206	304,093,966
2009	658,441	1,125,271	4,757,938	306,771,529
2010	658,466	1,128,047	4,779,736	308,745,538
2011	658,386	1,132,264	4,802,740	311,591,917
2012	660,009	1,136,650	4,822,023	313,914,040

Source: Population Division, U.S. Census Bureau and Center for Business and Economic Research.

As reflected in the table below, the County is projected to have growth rates lower than the Birmingham-Hoover MSA, the State, and national levels between 2012 and 2050. The County's growth rate is projected at 0.04%, while the Birmingham-Hoover MSA's, the State's, and the U.S.'s projected population growth rates are 20.4%, 19.8%, and 27.4%, respectively.

Year	Jefferson County	Birmingham-Hoover MSA	State of Alabama	United States
2020	662,040	1,206,843	5,101,172	333,896,000
2030	663,525	1,271,790	5,365,245	358,471,000
2040	661,881	1,319,205	5,567,024	380,016,000
2050	660,241	1,368,388	5,776,392	399,803,000

Source: U.S. Census Bureau and Center for Business and Economic Research, The University of Alabama.

3. Cities and Towns Within the County

Birmingham, with an estimated population of 212,038 in 2012, is the largest city in the County and in the State of Alabama. From 2010 to 2012, Birmingham's population decreased by 0.1%. Birmingham's population is approximately 73% black, 22% white, 4% Hispanic or Latino (including whites and non-whites), and 1% Asian.

The City of Hoover, the sixth largest city in the State of Alabama, is primarily located within the County, with approximately 72.5% of its citizens residing within the County and the remainder living in Shelby County. Hoover had an estimated population of 83,412 in 2012. From 2010 to 2012, Hoover's population rate increased by 2.8%. Hoover's population is approximately 75% white, 15% black, 6% Hispanic or Latino (including whites and non-whites), and 5% Asian.

Other cities and towns located within the County (either wholly or in part) include Adamsville, Adger, Argo, Bessemer, Brighton, Brookside, Cardiff, Center Point, Chalkville, Clay, Ensley, Fairfield, Fultondale, Gardendale, Graysville, Homewood, Hueytown, Huffman, Irondale, Kimberly, Leeds, Lipscomb, Maytown, McCalla, Midfield, Morris, Mountain Brook, Mulga, North Johns, Pinson, Pleasant Grove, Sylvan Springs, Tarrant, Trafford, Trussville, Vestavia Hills, Warrior, Wenonah, and West Jefferson. The County is also home to numerous communities, many of which are unincorporated.

4. Economic Information

a. Employment

According to the Alabama Department of Industrial Relations, the County's civilian labor force totaled 301,631 as of January 2013. Of those persons, 279,640 were employed, and 21,991 were unemployed, reflecting an unemployment rate for the County of 7.3%.

The following table summarizes the labor force, employment, and unemployment figures for the period from 2003 through 2012 for the County, the Birmingham-Hoover MSA, and the State.

Annual Average Labor Force Estimates*
Jefferson County

Employment Status	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Civilian Labor Force	318,771	317,073	315,476	317,635	315,210	309,814	304,500	305,452	306,677	305,558
Employment	302,832	302,119	303,569	306,692	304,780	294,989	275,016	276,779	279,911	284,866
Unemployment	15,939	14,954	11,907	10,943	10,430	14,825	29,484	28,673	26,766	20,692
Rate	5.0	4.7	3.8	3.4	3.3	4.8	9.7	9.4	8.7	6.8

Annual Average Labor Force Estimates*
Birmingham-Hoover MSA

Employment Status	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Civilian Labor Force	522,615	524,631	527,688	537,190	535,660	530,222	522,392	528,139	530,139	530,609
Employment	498,163	501,658	509,277	519,245	506,582	474,221	481,100	480,902	486,344	496,639
Unemployment	24,452	22,973	18,411	17,174	16,415	23,640	48,171	47,237	43,795	33,970
Rate	4.7	4.4	3.5	3.2	3.1	4.5	9.2	8.9	8.3	6.4

Annual Average Labor Force Estimates*
State of Alabama

Employment Status	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Civilian Labor Force	2,104,209	2,113,781	2,133,177	2,173,817	2,178,480	2,163,252	2,144,592	2,179,163	2,190,519	2,156,301
Employment	1,989,784	2,007,153	2,051,893	2,098,462	2,104,157	2,054,849	1,931,814	1,972,387	1,993,977	1,999,182
Unemployment	114,425	106,628	81,284	75,355	74,323	108,403	212,778	206,776	196,542	157,119
Rate	5.4	5.0	3.8	3.5	3.4	5.0	9.9	9.5	9.0	7.3

* Estimates prepared by the Alabama Department of Labor, Bureau of Labor Statistics.

The U.S. Census Bureau reports that, during the period from 2007 through 2011, the median household income in the County was $45,750, which is higher than the Alabama median household income of $42,934, but lower than the U.S. median household income of $52,762 during such period. During that same period, 16.2% of persons in the County lived below the poverty level, compared to 17.6% of Alabama residents and 14.3% of U.S. residents.

b. Industries and Employers

According to the Alabama Department of Industrial Relations, the County's workforce is employed within the following occupational categories: (i) healthcare and social assistance (16.0%); (ii) retail trade (12.3%); (iii) educational services (8.3%); (iv) accommodation and food services (7.5%); (v) manufacturing (7.3%); (vi) finance and insurance (6.8%); (vii) professional, scientific, and technical services (5.9%); (viii) wholesale trade (5.8%); (ix) administrative and support and waste management and remediation services (5.6%); (x) construction (4.5%); (xi) public administration (4.4%); (xii) other services, except public administration (3.2%); (xiii) transportation and warehousing (2.9%); (xiv) information (2.4%); (xv) management of companies and enterprises (2.2%); (xvi) utilities (2.0%); (xvii) real estate, rental, and leasing (1.5%); (xviii) arts, entertainment, and recreation (1.1%); and (xix) agriculture, forestry, fishing and hunting, and mining (0.4%).

The largest private employers in the Birmingham-Hoover MSA include the following companies:

Company	Employment	Product
University of Alabama at Birmingham (incl. UAHSF)	21,550	Education and Healthcare Services
Regions Financial Corporation	6,000	Financial Services (Banking)
AT&T	5,750	Information
St. Vincent's Health System	4,703	Education and Healthcare Services
Baptist Health System, Inc.	4,000	Healthcare and Management Services
Children's Health System/ Children's of Alabama	3,652	Healthcare and Management Services
Southern Nuclear Operating Company	3,200	Utilities
Alabama Power Company	3,000	Utilities
Blue Cross-Blue Shield of Alabama	3,000	Financial Services (Insurance)
BBVA Compass	2,804	Financial Services (Banking)
Brookwood Medical Center	2,600	Healthcare and Management Services
Southern Company Generation	2,500	Utilities
American Cast Iron Pipe Company	2,400	Metal Fabrication
U.S. Steel-Fairfield Works	2,400	Metal Fabrication
Marshall Durbin Food Corporation	2,000	Food Processing
Trinity Medical Center	1,879	Healthcare and management Services
EBSCO Industries, Inc.	1,800	Diverse Products / Subscription
U.S. Social Security Administration	1,800	U.S. government, benefits

Source: Birmingham Business Alliance.

Numerous governmental entities, including the United States Government, the State of Alabama, the Jefferson County Board of Education, the County, and the City of Birmingham, also are major employers within the County.

c. Housing and Construction Activity

The following table contains information about housing units and households in the County, the Birmingham-Hoover MSA, and the state:

Area Housing Units

	Housing Units			Percent Change	
	1990	2000	2010	1990-2000	2000-2010
Jefferson County	273,097	288,162	300,552	5.5	4.3
Birmingham-Hoover MSA	348,470	395,295	500,025	13.6	26.5

Source: U.S. Census Bureau, American Fact Finder.

Characteristics of Housing Units, 2010

	Total Housing Units	Occupied		
		Total	Owner	Renter
Alabama	2,171,853	1,883,791	1,312,589	571,202
Jefferson County	300,552	263,568	171,158	92,410
Birmingham-Hoover MSA	500,025	441,924	312,004	129,920

Source: U.S. Census Bureau, American Fact Finder.

Characteristics of Households by Type, 2010

	Total Households	Family Households	Non-Family Households	Mobile Home or Trailer
Alabama	1,883,791	1,276,440	607,351	310,721
Jefferson County	263,568	170,207	93,361	10,807
Birmingham-Hoover MSA	441,924	300,060	141,864	48,785

Source: U.S. Census Bureau, American Fact Finder.

Average Value of Owner-Occupied Housing Units, 2010

Alabama	$111,900
Jefferson County	132,700
Birmingham-Hoover MSA	143,000

Source: U.S. Census Bureau, American Fact Finder.

The following table presents information about residential and non-residential construction activity in the Birmingham-Hoover MSA over the past five years:

Birmingham-Hoover MSA
Construction Activity

Year	Residential	Non-Residential	Total
2008	$611,267,000	$ 889,578,000	$1,500,845,000
2009	451,241,000	1,077,701,000	1,528,942,000
2010	497,674,000	507,418,000	1,005,092,000
2011*	483,619,000	816,678,000	1,300,297,000
2012**	686,123,000	669,359,000	1,355,482,000

*3rd Quarter 2011
**Projected
Source: McGraw-Hill Construction.

d. Transportation

The County has access to excellent road, rail, air, and waterway transportation. The County is the nexus for three interstate highways: I-65 between Huntsville-Decatur to the north and Montgomery to the south; and I-59 from Gadsden in the northeast and I-20 from Anniston in the east, which interstates merge in the County as I-59/20 serving Tuscaloosa to the southwest. Also, a new interstate highway – I-22 – is currently under construction which, when completed, will connect the County and Memphis, Tennessee. The projected completion date for I-22 is in October 2014.

Rail freight service is provided by three major railroads: Norfolk Southern Railway; CSX Transportation; and Burlington Northern and Santa Fe Railway Corporation. AmTrak provides passenger service to the County through the Crescent, a daily passenger train running from New Orleans to New York. Over 100 truck lines maintain terminals in the area.

The County is home to Birmingham-Shuttlesworth International Airport, the largest airport in the State. The airport offers 110 daily flights to 39 airports in 36 cities throughout the United States. Commercial airline service is provided by five major carriers (American, Delta, Southwest, United, and USAir). The airport presently ranks in the country's top 75 airports in terms of passengers served annually. In 2012, the airport served over 2.8 million passengers.

Barge transportation is available through private dock facilities at Port Birmingham in the western part of the County. These facilities are part of the Warrior-Tombigbee waterway system which provides access to the Port of Mobile in south Alabama. The area is linked with the Tennessee-Tombigbee waterway system, which connects the County with 16,000 miles of barge routes stretching from the Great Lakes to the Gulf of Mexico.

e. Schools and Education

i. Elementary and Secondary

The Jefferson County School System consists of 52 schools with a combined enrollment of approximately 35,843 students. The City of Birmingham has 49 schools in its system and approximately 25,798 students. The 11 other public school systems in the County encompass 63 schools and more than 41,357 students. In addition, the Birmingham-Hoover MSA has 96 private and denominational schools with grades ranging from kindergarten through high school.

ii. Colleges and Universities

The County is home to five colleges and universities, two business schools, and five junior colleges and trade schools. These schools have a combined enrollment of over 47,194.

The largest institution is the University of Alabama at Birmingham (UAB), which includes undergraduate and graduate programs and the UAB Medical Center. UAB is the third largest educational institution in the State, with a total enrollment of approximately 17,999. The UAB Medical Center consists of the Schools of Medicine, Dentistry, Nursing, Optometry, and Public Health, and the School of Community and Allied Health.

Institution of Higher Education
Jefferson County

Name	Type	Approximate Student Enrollment Fall 2012
Four Year Institutions		
Birmingham-Southern College	Private	1,305
Miles College	Private	1,800
Samford University	Private	4,758
Southeastern Bible College	Private	175
University of Alabama at Birmingham	State Supported	17,999
Two Year Institutions		
Herzing College of Business and Technology	Private	411
ITT Technical Institute	Private	733
Jefferson State Junior College	State Supported	9,961
Lawson State Community College	State Supported	4,788
Virginia College	Private	5,264

f. Financial Reporting

The County's fiscal year begins each October 1. The most recent audited financial statements of the County are for the fiscal year ending September 30, 2011, and are attached hereto as **Exhibit 2** (the "2011 Audited Financial Statements"). The 2011 Audited Financial Statements were audited by the outside accounting firm of Warren Averett, LLC.

The Department of Examiners of Public Accounts of the State of Alabama filed a report dated June 8, 2012 regarding its examination of the County for the period from October 1, 2008 through November 9, 2010, a copy of which report is attached hereto as **Exhibit 3**. This report presents a review of the County's compliance with applicable laws and regulations of the State of Alabama in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of Alabama Code section 41-5-14.

5. Governance

a. County Commission

Pursuant to Alabama Code Title 11, Act No. 97-147 and the case of *Michael Taylor et al. v. Jefferson County Commission et al.*, CV 84-C-1730-S, in the United States District Court for the Northern District of Alabama, the County is governed by a five (5) member County Commission (each member, a "Commissioner", who is elected concurrently with the other members of the County Commission). Each Commissioner serves and is elected from one of five geographical districts. Each Commissioner serves as the chair of one of the County Commission's standing committees, which are identified as (1) Health Services and General Services, (2) Community Services and Roads and Transportation, (3) Finance and Information Technology, (4) Courts, Emergency Management, Land Planning and Development Services and (5) Administrative Services. All five Commissioners sit on each of the five standing committees. The standing committees exist to evaluate proposed items of County Commission business and to advance or decline to advance such items to the agenda for a County Commission meeting. Committees and their members have no operational responsibilities of the County—those responsibilities being expressly delegated to the County Manager under applicable state law.

Commissioner Carrington chairs the Committee of Administrative Services, which is comprised of the Environmental Services Department, the Human Resources Department and the County Attorney's Office. Commissioner Bowman serves as Chair of the Committee of Health Services and General Services which is comprised of the General Services Department, Cooper Green Mercy Health Services and the County Coroner's Office. Commissioner Brown chairs the Committee of Community Services and Roads and Transportation, which is comprised of the Roads and Transportation Department, the Office of Senior Citizens Services and Community, Economic, and Workforce Development. The Chair of the Committee of Finance and Information Technology is Commissioner Stephens, and this committee is comprised of the departments of Finance, Revenue, Budget Management and Information Technology. Commissioner Knight chairs the Committee of Courts, Emergency Management and Land Planning and Development Services which is comprised of the County's Family and Juvenile Courts, the Emergency Management Agency, the Board of Registrars and Land Planning and Development Services.

The five current Commissioners are:

- David Carrington: Commissioner Carrington was elected in 2010 to his first term on the County Commission where he represents District 5 of the County. Commissioner Carrington graduated with honors from the University of Houston with an undergraduate degree in mathematics and a Master's of Business Administration. Prior to being elected to the County Commission, he was a member for six years on the City Council of Vestavia Hills, a suburb of Birmingham, and served for four years as the City Council president. He has a wide and varied business background and is currently the president of Racing USA, Inc. He lives in Vestavia Hills, Alabama.

  Commissioner Carrington currently serves as the President of the County Commission.

- Sandra Little Brown: Commissioner Brown was elected in November 2010 to her first term on the County Commission where she represents District 2. Her public service background includes having served as an elected member of the Birmingham City Council for four years. While on the City Council she chaired the Birmingham Parks and Recreation & Cultural Arts Committees where she served as Park Board Commissioner and chaired the Birmingham Regional Arts Commission. Commissioner Brown is also an entrepreneur with over 20 years in sales. She is the owner of JJs T-shirts and Team World. She resides in Birmingham, Alabama.

  Commissioner Brown is President Pro Tempore of the County Commission.

- George Bowman: Major General Bowman first served on the County Commission when he was appointed in 2007 by the Governor of Alabama to fill the remaining, one-year unexpired term of a resigning commissioner. He returned to the County Commission in mid-2010 when he won a special election to replace the resigning District 1 Commissioner. In November 2010, he was re-elected to that position in the regular election. Major General Bowman holds a Master's in Public Administration from Shippensburg University in Pennsylvania. He also served a distinguished career in the United States Army and the Army Reserve, earning numerous decorations and awards during his service. Commissioner Bowman also worked for Liberty National Life Insurance Company at its home office in Birmingham. He resides in Center Point, Alabama.

- James "Jimmie" Stephens: Commissioner Stephens was elected in November 2010 to his first term on the County Commission where he represents District 3. Commissioner Stephens attended Samford University, where he obtained both a Bachelor of Science in Business Administration and a Masters of Business Administration. He previously served as a city councilor on the Bessemer City Council and is past chairman of the Bessemer Board of Zoning Adjustments, the Bessemer Airport Authority, the Bessemer Commercial Development Authority. In addition, he is a former high school educator, where he taught business education

courses. Commissioner Stephens has extensive business experience, primarily in the wholesale and retail fields. He lives in Bessemer, Alabama.

- Joe Knight: Commissioner Knight was elected in November 2010 to his first term as County Commissioner for District 4. Commissioner Knight has practiced as an attorney for the past twenty-three years and is the principle in T. Joe Knight, LLC, located in Birmingham. He is a member of the Alabama State Bar and Birmingham Bar Association. Prior to becoming an attorney, Commissioner Knight was Certified Registered Nurse Anesthetist (CRNA), a Nurse Clinician at UAB Hospital and Registered Nurse specializing in trauma. Commissioner Knight is General Counsel for the Alabama Association of Nurse Anesthetists. He is a member of the Alabama Association of Nurse Anesthetists and the American Association of Nurse Anesthetists. He lives in Trussville, Alabama.

The Commissioners elect one of their members to serve as President of the County Commission at the beginning of each four-year County Commission term. The President's duties include serving a presiding officer at all County Commission meetings, executing all contracts and other agreements which require approval of the County Commission and executing all checks and/or warrants on the County Commission accounts.

b. Other Elected Officials

i. Sheriff

The Sheriff of Jefferson County is an elected official who serves as the chief law enforcement officer of the County. The Sheriff maintains full law enforcement jurisdiction throughout the County, with particular regard for providing service to the unincorporated areas of the County. These enforcement duties include handling criminal investigations and traffic accident investigations. The Sheriff also is responsible for the service of legal process for County courts, the conduct of public elections, and the operation and maintenance of the County jails.

The Sheriff is regarded as a State official under Alabama law. *See Marsh v. Butler Co., Ala.*, 268 F.3d 1014, 1028 (11th Cir. 2001). However, Alabama law requires that the County fund the operations of the Sheriff's office. *See* Ala. Code §§ 11-8-3(c) (providing that a county's annual budget shall include reasonable expenditures for the operation of the sheriff, among other things) and 36-22-18 (providing that the "county commission shall . . . furnish the sheriff with the necessary quarters, books, stationery, office equipment, supplies, postage and other conveniences and equipment, including automobiles and necessary repairs, maintenance and all expenses incidental thereto, as are reasonably needed for the proper and efficient conduct of the affairs of the sheriff's office").

Mike Hale is the current Sheriff of Jefferson County, having served in that position since 1998. In 2010, he was re-elected to a four-year term.

ii. County Treasurer

The County Treasurer is an elected position whose office is responsible for receiving and keeping the money of the County and disbursing the same as provided for by state law.

Mike Miles is the current County Treasurer, having won election for a four-year term in 2012. Mr. Miles succeeds Jennifer Parsons Champion, who served as County Treasurer as of the Petition Date. Sherry McClain is the current Deputy County Treasurer of the "Bessemer Cutoff" division, having won election in 2012. She succeeded Doris Britton.

iii. Tax Assessor

The Jefferson County Tax Assessor is responsible for processing tax returns on real and personal property, discovering and assessing taxable property, recording the ownership of property, and maintaining the County's tax roll.

Gaynell Hendricks is the current County Tax Assessor. She was elected to her first four-year term in 2008, and was re-elected in 2012. Andrew Bennett is the current Assistant Tax Assessor, serving the "Bessemer Cutoff" division of the County.

iv. Tax Collector

The County Tax Collector is an elected officer who is responsible for the collection of real property and other taxes assessed by the County. J.T. Smallwood currently serves as County Tax Collector, holding that position since first elected in 2002. Grover Dunn is the current Assistant Tax Collector, serving the "Bessemer Cutoff" division of the County.

v. Probate Court Judges

The County Probate Judges are responsible for a variety of tasks, including issuing marriage licenses, recording real estate documents and other public records, probating wills and administering estates, issuing letters of guardianship and conservatorship, hearing adoptions and name change matters, hearing adult mental health involuntary commitment cases, processing applications for notaries public, and serving as the chief election official for the County.

The Honorable Alan King and the Honorable Sherri Friday both currently serve as Probate Judges.

vi. District Attorney

The District Attorney is a publicly elected official who represents the State in the prosecution of criminal offenses within the County. Brandon Falls is the District Attorney, having most recently won election in 2010 to a six-year term. Arthur Green, Jr. currently serves as the Deputy District Attorney for the "Bessemer Cutoff" division, having won re-election also to a six-year term in 2010.

c. County Management

i. County Manager / Chief Executive Officer

In August 2009, the Alabama Legislature passed Act 2009-662 and Act 2009-812, pursuant to which the Alabama Legislature directed the County Commission to hire a county manager to serve as the County's chief executive officer on or before April 1, 2011. The legislation provided that the votes of four of the five Commissioners would be necessary to select a county manager. The legislation further mandated that the County engage a qualified national search firm to recruit candidates at any time the county manager position was vacant.

Shortly after the current County Commission took office, it engaged a qualified national search firm to find qualified candidates to fill the county manager position. In Act 2011-69, the Alabama Legislature significantly revised the county manager law and extended the deadline for the County to appoint a county manager until June 1, 2011 (or October 1, 2011 if the initial search failed to produce a county manager). The initial national search identified three finalists from a pool of over 50 applicants; however, two of the finalists withdrew from consideration, and the third finalist did not garner the requisite support of the County Commission.

The County Commission resumed its search for a county manager. In addition to seeking applicants from across the country, the County Commission also focused efforts on identifying local candidates who were both qualified for and interested in the position.

On September 27, 2011, the County Commission unanimously selected Tony Petelos to serve as the County's first County Manager. Mr. Petelos came to the position with extensive public service and management experience. From 2004 to 2011, Mr. Petelos had served as the Mayor of the City of Hoover, the County's second largest city and the sixth largest city in Alabama. Before that, he served in the Alabama House of Representative from 1986 through 1997, where he also served as chair of the House's Jefferson County Delegation from 1990 to 1996. In 1997, Mr. Petelos was appointed by Governor Fob James as Commissioner of the Alabama Department of Human Resources after the department entered a federal consent decree. He was subsequently re-appointed by Governor Don Siegelman.

As County Manager, Mr. Petelos has assumed day-to-day management authority for the County's operations, a responsibility that previously had been borne by the Commissioners themselves, on top of their legislative functions. Centralizing the executive functions of the County in the County Manager's office has resulted in substantial efficiencies and improvements in the County's operations. Mr. Petelos oversees the implementation of authorized projects and programs, assures appropriate coordination of departmental operations, analyzes and implements organizational changes to improve the efficient and economical operation of County government, and recommends policies and adopts procedures for the orderly conduct of the County's administrative affairs. Mr. Petelos's office also is charged with the County's budget planning and oversight process, which entails reviewing and evaluating budget estimates of all County departments, submitting an annual budget to the County Commission for its review and approval, reviewing County revenues and expenditures throughout the year to insure budgetary control and to keep the County Commission advised of the financial condition and needs of the County, implementing necessary and prudent

fiscal controls, and providing recommendations as to supplemental appropriations and budget transfers which require County Commission approval. Mr. Petelos (or Deputy County Manager Walter Jackson) attends all County Commission meetings where he, as County Manager, may discuss any matter before the County Commission, although he has no vote on County Commission matters.

The County Manager is the appointing authority for all County employees with the exception of the County Attorneys and their merit system staff, elected County officials and their appointed staff. Aside from the limited exceptions stated above, the County Manager has the authority to select, appoint, evaluate, terminate and retain department heads and county employees.

ii. Chief Financial Officer

In July 2012, the County Commission approved the hire of George Tablack as the County's Chief Financial Officer. Prior to joining the County, Mr. Tablack served as budget director and county administrator for Mahoning County in Ohio. He holds a Bachelor of Science in accounting from Ohio State University and is a Certified Public Accountant (CPA).

As Chief Financial Officer, Mr. Tablack reports directly to the County Manager. The Chief Financial Officer has primary executive responsibility for the County's finance, revenue, purchasing, information technology and budget management offices.

iii. County Attorney

Carol Sue Nelson serves as County Attorney for Jefferson County. The County Commission approved her appointment in May 2013, and she assumed the role of County Attorney effective June 3, 2013. Prior to joining the County, Ms. Nelson was a shareholder at the Birmingham-based law firm of Maynard Cooper & Gale, where she concentrated her practice in the fields of labor and employment law. Ms. Nelson graduated *magna cum laude* from the Cumberland School of Law, and earned her undergraduate degree from Auburn University.

As County Attorney, Ms. Nelson reports directly to the County Commission. She supervises a staff of three in-house attorneys and oversees the work of numerous outside law firms retained from time to time by the County, including the instant Case. The County Attorney's office is responsible for representing and advising the County, its elected officials and department heads. The elected officials include the County Commission, the County Manager, the Deputy County Manager, the Chief Financial Officer, the Tax Collector and Tax Assessor, the Probate Judge, the Election Commission (comprised of the Sheriff, Clerk of Court and Probate Judge) and the Treasurer. The operating departments include the Finance Department, Revenue Department, Roads and Transportation Department, Environmental Services Department, Land Development Department, the Board of Equalization, the Cooper Green Mercy Health Services, the Coroner, the General Services Department, the Family Court, the Juvenile Detention facility, the Human Resources Department, the Budget Management Department, the Board of Registrars, the Inspection Services Department, the Community and Economic Development Department, the Department of Information Technology, the General Retirement System for Employees of Jefferson County, Alabama and the Jefferson County Emergency Management Agency. The County Attorney's office

represents these persons in a variety of matters, including the defense of claims, negotiation of contracts, compliance, and a variety of litigation matters.

Ms. Nelson has served as County Attorney since June 2013. She succeeds Jeffrey M. Sewell, who was County Attorney as of the Petition Date.

iv. Environmental Services Director

David Denard is the Director of the County's Environmental Services Department. In this capacity, Mr. Denard manages the day-to-day operations of the Sewer System and is primarily responsible for long-range planning for the Department. He is also responsible for the management of approximately 390 County employees who work within the Environmental Services Department. Mr. Denard has been employed with the County since 1999, serving as Director of the Environmental Services Department since 2007. Mr. Denard reports directly to the County Manager.

d. County Employees

The number of permanent filled employee positions with the County has decreased by more than 30% over the past five years. In 2008, the County had 3,837 employees. In 2009 and 2010, the numbers were 3,548 and 3,544, respectively. In 2011, the County's employment ranks dropped to 3,160. As of December 31, 2012, the number had dropped further to 2,590.

The Personnel Board of Jefferson County (the "Personnel Board") possesses substantial administrative responsibility over the County's employment practices. The Personnel Board is a human resources organization established by the Alabama Legislature in 1935 to administer the civil service, or merit, system for the County and other certain municipalities within the County. The Personnel Board is responsible for establishing and administering rules and regulations to assure compliance with Act 248, H.580, adopted by the Alabama Legislature in 1945 (as amended, the "Enabling Act"), and to ensure that the County's civil service employees are treated in accordance with the Enabling Act's provisions. To that end, the Personnel Board classifies positions throughout the County, tests potential candidates for employment, establishes hiring registers, develops and administers pay schedules, coordinates the adjudication of grievances, and maintains employee history records. The County's participation in the Personnel Board system is not optional, but is mandated by the Enabling Act.

The Personnel Board operates under the auspices of a three-member panel. This three-member panel is appointed by a Citizens' Supervisory Commission comprised of 17 civic leaders from throughout the County. The composition of the Citizens' Supervisory Commission is defined in the Enabling Act. Each panel member serves a staggered six-year term. A personnel director reports directly to the three-member panel and is responsible for the day-to-day operations of the Personnel Board.

The Personnel Board's expenses throughout its fiscal year are paid by the County, as required by the Alabama Legislature pursuant to the Enabling Act. At the end of each fiscal year, the County submits to the Personnel Board the total sum the County has expended on Personnel Board

operations. Once these expenses have been approved, the County and the other municipalities that participate within the Personnel Board system are billed for their respective shares of such annual expenses. For fiscal year 2011, the percentage of the Personnel Board's expenses allocated to the County was 34.9% of the total amount billed.

In addition to the administrative oversight by the Personnel Board, the Commission is subject to the Hiring Practices Consent Decree and other applicable laws which govern any employment action taken by the County.

6. County Component Units

In the County's financial audits, two separate legal entities are identified as component units of the County. They are The Jefferson County Economic and Industrial Development Authority (the "Development Authority") and The Jefferson County Public Building Authority (the "PBA"). As component units, the financial position and results of the Development Authority and the PBA are generally reflected in the County's financial statements as non-major enterprise funds with any significant activity with other County funds being eliminated.

a. Jefferson County Economic and Industrial Development Authority

The Development Authority is a public corporation formed in 1995 to engage in the solicitation and promotion of industry, industrial development and other concerns, as well as to convince enterprises to locate within the County, retain, expand, and improve their operations. The Development Authority offers a variety of assistance to businesses seeking to locate or expand within the County, including site and facility selection, project financing and incentive packages, and work force recruitment, screening and training.

b. The PBA

The PBA is a public corporation incorporated in 1998 under the laws of the State of Alabama. The general purpose of the PBA is to provide public facilities for use by the County and its agencies. All powers of the PBA are vested in a board of directors, consisting of three members elected by the County Commission for staggered terms. No officer of the State of Alabama, the County, or any incorporated municipality is eligible to serve on the PBA's board of directors. Each member of such board must be a duly qualified resident of the County and serves without compensation.

In September 2012, the County appointed the following individuals to the PBA's board of directors: Jimmy Koikos (term ending September 30, 2014), Katrina Whitely (term ending September 30, 2016), and Don Holmes (term ending September 30, 2018).

7. Services

The County provides an extensive range of services to its residents, including law enforcement, jails, land development and zoning, economic and community development, indigent health care, senior citizen support services, voter and election services, family courts, probate courts,

roads and transportation, coroner and medical examiner services, emergency management, tax assessment and collection, and a host of other public service and assistance programs.

As a result of significant decreases in the County's unrestricted revenues due largely to its loss of its Occupational Tax (as defined below), the County has enacted substantial reductions over the past several years in the depth and scope of services it provides. The loss of the Occupational Tax is discussed in greater detail in Section III.C below.

One of the primary services provided by the County is the administration, operation, and maintenance of the Sewer System. The Sewer System is discussed in greater detail in Section III.B below.

8. Insurance and Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County Commission maintains a risk management program in order to minimize its exposures to loss. Risk financing for these various exposures is accomplished through the following methods:

a. General and Auto Liability: Self-insured with an established department to finance losses.

b. Workers' Compensation: Self-insured with a retention of $550,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.

c. Property Insurance: Commercial insurance coverage purchased in the maximum amount of $1 billion per occurrence, except a separate annual aggregate of $50 million for flood and earthquake damages and including certain sublimits: (i) the County Commission has participated in an Owner Controlled Insurance Program with respect to property in the course of construction, builder's risks and installation or erection, but that program has been discontinued and has only one claim outstanding before it is closed; (ii) $50 million per occurrence as included in the $500 million loss limit subject to the policy terms and conditions; (iii) $5 million with respect to extra expense; and (iv) $500,000 with respect to transit.

d. Hospital and Nursing Home Medical Malpractice and General Liability: Certain medical professional employees purchase individual insurance protection applicable to their County employment. The County generally reimburses premiums for medical malpractice-professional liability insurance coverage for those County medical professional employees in amounts up to a stated amount per year. The County also has purchased professional and general liability insurance itself with coverage consisting of $1 million per occurrence and $3 million in the aggregate.

e. Health Insurance: Self-insured with excess coverage through a commercial insurance provider. The County purchases specific reinsurance coverage with an unlimited benefit for each covered person, subject to a $250,000 deductible per covered person. Employees may obtain health care services through participation in the County's group health insurance plan. Risk management administers health insurance and negotiates with private providers to provide health, life, accidental death and dismemberment, vision and dental insurances for its employees and dependents. The County pays approximately 75% of health insurance and 100% of basic life and accidental death and dismemberment coverage. Employees pay 100% of vision and dental insurance costs and other voluntary insurance plan costs. The County's risk financing activities associated with the County group health insurance, such as the risks of loss related to medical and prescription drug claims, are administered through third parties on a paid-claims basis.

Additional information regarding the County's self-insured activities, as of the fiscal year ended September 30, 2011, is provided in the County's 2011 Audited Financial Statements.

9. The County's Retirement System

The County contributes to the General Retirement System for Employees of Jefferson County, Alabama (the "Retirement System"). The Retirement System is the administrator of a single-employer, defined benefit pension plan (the "Pension Plan") covering substantially all employees of the County. The Retirement System was established by the Alabama Legislature pursuant to Act Number 497, Acts of Alabama 1965, page 717, and provides guidelines for benefits to retired and disabled employees of the County. The Retirement System is a distinct legal entity from the County, and neither the Retirement System nor its assets are the subject of this Case. Employees of the County are required by statute to contribute six percent of their gross salary to the Retirement System. The County is required to contribute amounts equal to participant contributions. The Pension Plan also receives from the County a percentage of the proceeds from the County's sale of pistol permits.

For the fiscal year ended September 30, 2011, the County's annual pension contribution was $9,015,000. For the previous fiscal year, the County's annual pension contribution totaled $9,220,000. These amounts reflect both the County's required and actual contribution for those respective years. These required contributions were determined using the "entry age normal" method. The "entry age normal" method projects the benefit costs of each individual from entry age into a pension plan to assumed exit age from the plan, and allocates these benefit costs on a level basis over the earnings or service of such individual. The actuarial assumptions as of October 1, 2011, the latest actuarial valuation date relating to the Pension Plan, were (a) a 7.0 percent investment rate of return on present and future assets and (b) projected salary increases of 4.25 to 7.25 percent. Both of these assumptions include an inflation component of 3.25 percent.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The funding excess

is being amortized as a level percentage of projected payroll in an open basis. The remaining amortization period as of October 1, 2011 was fourteen years.

Additional information regarding the County's contribution obligations to the Pension Plan and funding progress with respect to the Pension Plan, as of the fiscal year ending September 30, 2011, is provided in the 2011 Audited Financial Statements.

10. Other Post-Employment Benefits

In addition to the pension benefits described above, the County Commission sponsors a single-employer postretirement welfare benefit plan (the "OPEB Plan") in accordance with a resolution first approved by the County Commission on September 25, 1990, and approved annually thereafter. The OPEB Plan provides for medical insurance coverage to eligible retirees and their dependents. The benefits provided under the OPEB Plan are typically financed on a pay-as-you-go basis. The OPEB Plan's eligibility requirements, coverages, and benefit types, as of the fiscal year ending September 30, 2011, are described in the County's 2011 Audited Financial Statements.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and disclosure of OPEB expenses and related liabilities and is effective for the County for the year ended September 30, 2008. Under this Statement, all state and local governmental entities that provide other postemployment benefits are required to report the cost of these benefits on their financial statements. The County Commission first adopted the requirements of GASB Statement No. 45 in 2011 and implemented it prospectively.

As of September 30, 2011, the most recent actuarial valuation date for the County's OPEB Plan, the OPEB Plan had 542 retired participants. The OPEB Plan had a total 3,089 active participants and 37 vested terminated participants. The County subsidizes a portion of the retirees' health care insurance premiums based on the total years of County service and age at retirement. As of September 30, 2011, the County's subsidy for each covered retired employee ranged from $392 to $1,080 per month, and total insurance premiums range from $450 to $1,080 per month.

Additional information about the OPEB Plan and the actuarial valuation thereof, as of the fiscal year ending September 30, 2011, is available in the County's 2011 Audited Financial Statements.

11. Lack of "Home Rule" and the County's Limited Ability to Raise Revenues

The County, as an instrumentality of the State of Alabama, has only such taxing authority and other governmental powers as are specifically granted to it, either under provisions of Alabama's Constitution or by legislative act.

The Alabama Constitution limits the County's ability to increase revenues beyond those sources of revenue described in Section III.G below. The Alabama Constitution contains no local government article and does not provide for "home rule" for counties in Alabama. This limitation on

county governmental powers, coupled with the traditional "Dillon's Rule" followed in Alabama that negates almost any implicit powers that might otherwise be fairly suggested by a county's governmental responsibilities, severely restricts the ability of the County to levy taxes or otherwise raise revenue for the benefit of its general operating fund (the "General Fund"). Specific constitutional provisions restricting the County's authority are described below.

a. Section 44 of Article IV of the Alabama Constitution

Section 44 of Article IV of the Alabama Constitution states that the "legislative power of this state shall be vested in a legislature, which shall consist of a senate and a house of representatives." Because counties are instrumentalities of the State and have only such power as delegated to them by the State, county governments in Alabama have no general authority to act.

b. Section 104 of Article IV of the Alabama Constitution

Section 104 of Article IV of the Alabama Constitution prohibits the Alabama Legislature from passing local bills regarding numerous specific subject areas. As a result, a statewide vote is required to permit the Alabama Legislature to pass many bills related to local issues. Among other things, section 104 provides that:

> The legislature shall not pass a special, private, or local law in any of the following cases: . . .
>
> (15) Regulating either the assessment or collection of taxes, except in connection with the readjustment, renewal, or extension of existing municipal indebtedness created prior to the ratification of the Constitution of eighteen hundred and seventy-five;
> …
> (17) Authorizing any county, city, town, village, district, or other political subdivision of a county, to issue bonds or other securities unless the issuance of said bonds or other securities shall have been authorized before the enactment of such local or special law, by a vote of the duly qualified electors of such county, city, town, village, district, or other political subdivision of a county, at an election held for such purpose, in the manner that may be prescribed by law; provided, the legislature may, without such election, pass special laws to refund bonds issued before the date of the ratification of this Constitution;
> . . .
> (28) Remitting fines, penalties, or forfeitures . . . .

c. Article XI of the Alabama Constitution

Article XI of the Alabama Constitution governs taxation and finance. Section 15 of article XI of the Alabama Constitution limits the authority of the Alabama Legislature to authorize counties to levy property taxes in excess of specified rates. Those tax rate caps were established in 1901 and, despite amendments thereto over the years, remain low. In addition, section 217 of article XI places

other significant restrictions on a county's decision-making authority regarding the assessment and collection of *ad valorem* taxes on taxable property within such county.

d. Legislative Earmarking of County Revenues

The lack of home rule and the attendant concentration of power in the Alabama Legislature frequently result in the "earmarking" of County revenue sources the Alabama Legislature approves. These earmarks are not necessarily aligned with the funding needs of the County. As a result, much of the revenue collected by the County cannot be used by the County in its discretion. For examples of legislative earmarking of County tax revenues, *see* Section III.G below.

B. The County's Sewer System

The County's Sewer System serves nearly half a million people and has more than 144,000 active accounts. The Sewer System consists of more than 3,100 miles of sanitary sewer lines, approximately 174 pump stations, approximately 80,000 manholes, and nine wastewater treatment plants. The Sewer System treats, on average, roughly 100 million gallons of wastewater per day, but has the permitted capacity to treat approximately 200 million gallons daily, allowing for significant growth in the customer base.

1. The Sewer System's History

The oldest components of the Sewer System date back to the late 19th century. Beginning in 1901, the County began creating an ordered system of sanitary sewers that continued to grow with the County's population. However, the Sewer System infrastructure lagged behind the sanitary needs of the County. The patchwork of rapidly-growing municipalities developed their own network of sewer pipes outside of the County's control. Without central control of the collection system, it could not be assured that the various municipalities would take the steps necessary to prevent storm- and ground-water infiltration in the Sewer System. Moreover, some municipalities required hookups; some did not.

By 1931, County officials recognized that the Sewer System lacked sufficient treatment capacity to handle the County's needs. Using both federal grant money and borrowed funds, the County upgraded its treatment plants extensively over the next 15 years. Additionally, during the Great Depression, several projects by the Works Progress Administration brought needed extensions to the County's collection system. Despite these important improvements, the Sewer System's central problem – dispersed control of the collection system among several autonomous municipalities – continued. Compounding this problem, growth in the County surpassed the capacity of the existing pipes. Many brick and terracotta sewer lines had degraded and were crumbling. The Sewer System may have been big enough to handle the needs of the County, but the sewers were in poor condition. Expansion to keep pace with a growing and geographically-dispersed population took precedence over maintaining the existing system.

Recognizing the need for continued investment, the County sought the capacity to borrow money to finance sewer improvements. In 1948, voters approved Amendment 73 to the Alabama Constitution, which granted the County the power to borrow money for sewer improvements and to

charge for sewer service. The County requested the advice of Alvord, Burdick & Howson, a Chicago-based engineering firm, and received a report identifying $22.5 million in recommended projects. An appointed citizens advisory committee reduced the scope of projects from $22.5 million to $10 million, and the County borrowed this $10 million through bonds issued under Amendment 73. To cover cost overruns and extra projects, the County issued an additional $2.5 million in sewer warrants and used roughly $324,000 in excess sewer revenues. The County completed the last of these projects in 1958.

To pay debt service on the new bonds and warrants, the County began charging customers for use of the sewers in 1951. The initial sewer rate was one-half of the charge for water. Billing and collections proved difficult. The Birmingham and Bessemer Water Works refused to collect sewer charges, so the County had to use raw usage information and create its own billing and collections departments. The process produced confusion, disputes with customers, and high levels of overhead. In 1961, the Alabama Legislature passed a bill requiring water systems to bill and collect for sewer providers, so the County was able to outsource those functions.

The sewer projects of the 1940s and 1950s were effective in achieving the desired improvements, but continued growth and degradation to other portions of the Sewer System's infrastructure presented new challenges. The Sewer System lacked secondary treatment capacity and continued to be hampered by the lack of centralized control over the collection system.

The County continued making capital investments in the Sewer System through the 1960s. It opened a new Shades Valley treatment plant in 1961 and completed a major collector sewer project in Valley Creek in 1965. After issuing another $10 million in sewer bonds, the County constructed a treatment plant on the Cahaba River and trunk lines on the Cahaba River and Little Shades Creek. To control access to the Sewer System, the County obtained legislation allowing it to require residents of unincorporated portions of the County to petition for sewer access. The County would then perform a survey of the work required to provide sewer service to the new area, hold a public hearing, and make a decision. If the County decided to provide access, it would assess the cost of the expansion against the properties served by the expansion over ten years.

All of these improvements were insufficient to handle the County's growth. In 1967, the Alabama Water Improvement Commission ("AWIC") notified the County that the County needed to spend $30 million to upgrade five treatment plants. Financing was not available, so the County sought to upgrade only three of the plants and route the sewage from the other two to the newly-completed Cahaba River plant. On March 12, 1971, AWIC issued a moratorium forbidding the County from allowing any new connections to the Sewer System until the projects identified in 1967 were completed.

To finance the work, the County, operating under the mistaken assumption that raising sewer rates required approval from the Alabama Legislature, had legislation introduced that would have raised sewer rates from roughly $0.09 per hundred cubic feet ("CCF") to $0.15 per CCF. The County also sought federal and state funds. The federal government offered $13 million to the County in the form of matching funds, but the County was unable to raise its portion of the capital without assistance from the Alabama Legislature.

In August 1971, the Alabama Supreme Court ruled that the County could raise its sewer rates without approval from the Alabama Legislature. No sooner had the County obtained this power than President Nixon's wage-price freeze forbade the County from exercising it. The Internal Revenue Service (the "IRS") explicitly told the County that no rate increase would be permitted. The County sought relief because it was stuck in a difficult circumstance: on the one hand, regulations issued by the Environmental Protection Agency (the "EPA") required the County to make massive upgrades to the Sewer System, while on the other hand, the IRS denied the County the means to finance those improvements.

The IRS relented, and the County implemented a rate increase on January 11, 1972. The next month, the County approved a $20 million bond issuance. However, litigation about the reasonableness of the rate increase delayed the issuance of the bonds because the validity of their funding source – the higher sewer rates – was in question until the litigation favorably concluded. Without bond proceeds, the County could not begin construction. Eventually, under heavy pressure from businesses and residential customers, the County reduced the planned rate increase from $0.33 per CCF to $0.20 per CCF, with a maximum quarterly bill of $7.50.

In 1973, the federal Clean Water Act came into effect. The Clean Water Act fundamentally changed not only the nature of sewer regulation, but also the strictness of the regulation. Whereas wastewater treatment had been primarily a matter of state and local regulation, the creation of the EPA and the passage of the Clean Water Act centralized regulation in the federal government. These new federal regulations also required secondary treatment of sewage – a major new requirement.

The County had previously provided only primary treatment to wastewater. Primary treatment typically involves allowing a portion of the wastewater solids to settle in a large tank. Solids settle to the bottom of the tank while oils and greases rise to the top. Secondary treatment further removes biodegradable waste products that remain suspended in the wastewater even after primary treatment. Although there are several methods to perform secondary treatments, and several steps in each method, all forms of secondary treatment are more complex, capital-intensive, and expensive than primary treatment alone. Along with the new requirements imposed by the EPA came federal funding to implement the requirements. As the County rapidly spent $50 million to upgrade its treatment plants to perform secondary treatment, federal grants covered roughly $24.5 million of the cost, with another $1.8 million contributed by the State of Alabama.

The County acted decisively to complete this series of massive capital projects in just five years, but it also expended all of this capital without addressing the capacity and collection problems that plagued the Sewer System. These continuing problems, fed by rapid growth of suburbs, led to continued pollution problems, which in turn prompted AWIC to impose a connection moratorium in 1975, followed by two voluntary moratoria in 1975 and 1976.

Recognizing the need for continued improvements and investments in the Sewer System, the County raised rates again in 1977 and imposed industrial surcharges and impact fees on new construction. It also promulgated a $109 million, 10-year capital improvement plan based on raising rates, new borrowing, and federal grants. This plan soon lagged behind schedule. The County was a year late in issuing its first $10 million in bonds. At the same time, federal aid mostly disappeared.

Instead of providing $53 million in construction grants, the federal government announced that it would provide no more than $10 million.

In 1980, the County Commission responded to these cutbacks by raising rates to $0.49 per CCF with a 15% watering credit. The County Commission also raised impact fees. These actions were insufficient to fund the needed improvements, but nevertheless were subjected to a lawsuit that the County had exceeded its authority. The Alabama Supreme Court ruled in the County's favor, and the County raised rates again.

After increasing sewer rates more than 600% between 1970 and 1980, the County realized that financing the Sewer System's needed improvements would require tripling rates again by 1989. It commissioned a blue-ribbon report to set a schedule for investments and rates. The first such rate increase was implemented in 1984, which raised rates to an average of $0.88 per CCF. Another, smaller increase followed in 1985. As the County's rates increased, so did its sewer debt.

2. The EPA Consent Decree

Notwithstanding these rate hikes and increased borrowings, the County fell behind the schedule in the blue-ribbon report. To catch up, the County implemented multi-year rate increases in 1991, taking rates to $1.15 per CCF in 1992, $1.35 per CCF in 1993, $1.44 per CCF in 1994, $1.58 per CCF in 1995, and $1.73 per CCF in 1996.

During the 1990s, the Alabama Department of Environmental Management ("ADEM") imposed much stricter pollution standards. Specifically, ADEM required the County to measure its pollutant discharge not by the quantities discharged, but rather by the concentration of pollutants that resulted from the discharge. This methodology hinged on the volume of water of the streams into which the Sewer System discharged, and the volume in those streams would vary seasonally. ADEM required the County to use the most "conservative" volume, *i.e.*, lowest flow volume, to calculate pollutant concentrations. To meet these strict requirements, the County had to implement more stringent treatment methods. ADEM also imposed new limitations on sewer bypasses. A bypass results when more sewage comes into a treatment plant or collection system than the system can convey or plant can treat. Bypasses are usually caused by rain water that infiltrates the collection system of a sewer, so the normal method of preventing bypasses is to repair the pipes and mains that constitute the collection system or store excess flows for later treatment. According to a plan commissioned by the County, making the required improvements to the collection system and treatment plants would cost $416.8 million. ADEM required the County to perform this plan and to make annual reports about the County's progress.

Shortly thereafter, three citizens filed suit against the County in federal court alleging violations of the Clean Water Act. The EPA filed a separate action the next year, and the suits were consolidated. The court found the County to be in violation of its discharge permits and required the parties to negotiate a plan to fix the Sewer System's problems.

The result of this negotiation process was the EPA Consent Decree, which was formally entered on December 9, 1996. The EPA Consent Decree required the County to eliminate all sewer overflows and bypasses. To fix the long-standing problem of poorly-performing municipal

collection systems, the County assumed responsibility for the municipal collection systems – more than 2,100 miles of sewer pipe – without compensation from the municipalities. These municipal collection systems were consolidated under the County's control as part of the Sewer System. The County also repaired or replaced roughly 730 miles of sewer mains, and made significant upgrades to the capacities of its treatment plants.

3. Cost Overruns, Financing Costs, and Corruption

Although initial estimates of construction costs for the EPA Consent Decree work ranged from around $0.3 billion to $1.2 billion, the work ultimately cost more than $3.05 billion. The County borrowed this money by issuing several series of Sewer Warrants, beginning with over $600 million in 1997. The County borrowed another $953 million in 1999 and $1.4 billion in 2001-2002. Furthermore, in connection with these borrowings, the County entered into several refinancing transactions that caused the County's debt structure to become highly variable and required the use of financial guaranty insurance to make the County's debt marketable and less costly. For a detailed discussion of the Sewer Warrants and related indebtedness, *see* Section III.D.1 below.

Corruption played a significant role in both Sewer System construction projects and Sewer System financing. On the construction side, several County officials – including former County Commissioners Chris McNair and Gary White – were convicted for having accepted bribes while in office from contractors in exchange for steering County business to them. Former Commissioner McNair was sentenced to five years in prison, while former Commissioner White received a ten-year sentence. All told, twenty individuals and organizations were found guilty for their corrupt practices: two former County Commissioners, five other County employees, nine individual contractors, and four organizations.

Corruption also infected the County's financing activities. Two former County Commissioners solicited and accepted bribes in exchange for providing lucrative roles in County transactions to financing institutions. For example, in 2009, former Commission President Larry Langford was convicted for his participation in the bribery scheme; he is currently serving a fifteen-year prison term.

The County increased sewer rates to service its new debts. In 1997, rates rose to $1.78 per CCF. By 2002, rates had roughly doubled to $3.53 per CCF. From there, rates continued climbing: $4.90 per CCF in 2003, $5.39 per CCF in 2004, $5.93 per CCF in 2005, $6.35 per CCF in 2006, $6.87 per CCF in 2007, and $7.40 per CCF in 2008. From 1997 to 2008, rates increased 416 percent.

After 2008, the County did not raise sewer rates until March 2013.

4. Defaults on the Sewer System's Debt Obligations

In late 2007 and early 2008, as an unprecedented financial crisis spread to all aspects of the global economy, the County's ability to pay debt service on the Sewer Warrants worsened. In 2008, the underlying credit ratings of the County's Sewer Warrants were downgraded, as were the credit ratings of two of the Sewer Warrant Insurers, Financial Guaranty Insurance Company ("FGIC") and

Syncora Guarantee Inc., formerly known as XL Capital Assurance Inc. ("Syncora"). Many holders of the County's variable rate demand Sewer Warrants tendered their warrants for immediate payment, causing the maturity date of a substantial amount of the County's Sewer Warrants to be reduced from forty years to four years. Auctions for the County's auction-rate Sewer Warrants failed for lack of bidders, requiring the County to pay higher interest rates. The County was called upon to either fund the Sewer Warrant Indenture's debt service reserve fund (the "Sewer DSR Fund") with cash or replace the debt service reserve policies with an acceptable surety bond, insurance policy or letter of credit, but the County did not do so. In 2008, the County failed to comply with a rate covenant in the Sewer Warrant Indenture and defaulted in payment of the Sewer Warrants and, as a result, the Sewer Warrant Insurers were required to (and did) pay accelerated principal redemptions on the variable rate demand warrants, as well as regularly scheduled interest on Sewer Warrants that the County failed to pay. Thus, although the Sewer System remained operationally sound, the finances of the Sewer System deteriorated even further.

In September 2008, the Sewer Warrant Trustee, along with FGIC and Syncora, filed suit against the County seeking to appoint a receiver over the Sewer System. While noting that a receiver for the Sewer System was warranted, the federal court ultimately decided that it did not have jurisdiction to appoint a receiver with rate making authority. The Sewer Warrant Trustee then filed a similar action in the Jefferson County Circuit Court (the "State Court"). In September 2010, the State Court held that the County was in default of its obligations under the Sewer Warrant Indenture and appointed John S. Young, Jr. LLC as receiver over the Sewer System (the "Receiver").

5. Current Status of Sewer System

Today the Sewer System is generally in good operational condition and fair to good physical condition. The Sewer System still experiences overflows, but five of the County's nine basins have been released from the EPA Consent Decree, including most recently the Leeds basin in April 2012. The Sewer System's treatment plants are operating effectively and are complying with their various permits. The collection system, however, remains in need of continued rehabilitation and replacement. Moreover, portions of the major plant improvements made in the 1990s and early 2000s are beginning to near the end of their useful lives. Complying with new regulations, such as the new phosphorous discharge limits, will require large capital investments.

C. Historical Information About the Occupational Tax

1. Origin of the Occupational Tax

Given the limitations on the County's ability to raise revenue caused by its lack of "home rule" and the numerous earmarks placed by the Alabama Legislature on the County's revenue sources, the County often struggled to fund the basic services for its citizens. In 1967, the Alabama Legislature passed an act (the "1967 Act") authorizing the County to collect an occupational tax on earnings of workers employed in the County (the "Occupational Tax"), as well as a business license fee. The 1967 Act did not contain earmarks, and the County had relied on the Occupational Tax as its primary source of unrestricted General Fund revenues for decades. Between 2000 and 2009, the

Occupational Tax provided roughly $600 million to the County and provided over 40% of the funding for the County's general administration and for the Sheriff.

2. Attacks on the Occupational Tax in the Alabama Legislature

The Occupational Tax has been the subject of nearly continuous litigation from 1987 through the present. Considerable litigation focused on the constitutionality of the Occupational Tax. To date, the Occupational Tax has been challenged in court no less than 17 times. For decades, the Occupational Tax survived all legal challenges, including two trips to the Supreme Court of the United States.

The Occupational Tax ultimately was unable to survive subsequent attacks by the Alabama Legislature. In 1999, the Alabama Legislature passed Act 99-669 (the "1999 Act"), which repealed the 1967 Act but permitted the County to approve a new version of the Occupational Tax. The catch was that the new version of the Occupational Tax was rife with earmarks. The County refused to undermine its own operations through approval of the new version with its earmarks. In March 2000, the Circuit Court of Jefferson County declared in a lawsuit brought by the Jefferson County Employees' Association (the "JCEA Case") that the 1999 Act did not receive enough favorable votes in the Alabama Legislature to become law. The trial court declared the 1999 Act to be unconstitutional and void. No appeal followed the trial court's decision in the JCEA Case.

In 2000, the Alabama Legislature attempted again to repeal the 1967 Act with Act 2000-215 (the "2000 Act"). The 2000 Act purported to, among other things, repeal the 1967 Act; impose a new occupational tax with no exemptions; and earmark nearly one-third of the money collected under the new occupational tax to one state agency and nearly one hundred non-state agencies. In subsequent litigation, the Alabama Supreme Court affirmed the trial court's ruling that the 2000 Act was void because it violated section 106 of the Alabama Constitution.

In May 2005, the Alabama Supreme Court, in an unrelated case (the "BJCCA Case"), ruled that the judicial branch of state government lacks jurisdiction to interpret and enforce provisions of the state constitution that apply to the legislative branch of state government. The Court in the BJCCA Case further held that the courts of Alabama lack jurisdiction to determine whether a bill received the requisite number of favorable votes to become law.

3. Invalidation of the Occupational Tax in the Edwards Lawsuit

In 2007, certain taxpayers filed *Edwards v. Jefferson County*, Case No. CV-07-900873 (the "Edwards Lawsuit"), attacking the Occupational Tax based on the ruling in the BJCCA Case. In the Edwards Lawsuit, the plaintiffs sought to apply the precedent set in the BJCCA Case retroactively to the Alabama Legislature's approval of the 1999 Act. The trial court ruled that: (a) based on the Alabama Supreme Court's opinion in BJCCA Case, the trial court in the JCEA Case lacked jurisdiction to invalidate the 1999 Act; (b) the 1999 Act was valid; (c) the 1967 Act had been repealed by the 1999 Act; and (d) the County had been collecting the Occupational Tax without express statutory authority since the effective date of the 1999 Act.

The trial court in the Edwards Lawsuit stayed its judgment to afford the Alabama Legislature an opportunity to reinstate the Occupational Tax. The trial court also permitted the County to collect the Occupational Tax, but required the County to place the collected taxes into an escrow account. The Alabama Legislature did not pass legislation to revive the Occupational Tax during the regular session, and the stay expired.

The County appealed the court's decision in the Edwards Lawsuit while simultaneously implementing rigorous spending cuts to maintain a balanced budget as required by state law. The County laid off more than 1,000 workers, severely limiting its ability to continue to offer core and essential governmental functions.

4. Legislative Remedy in Response to the Edwards Lawsuit

The determination by the trial court in the Edwards Lawsuit on January 2, 2009, ultimately confirmed by the Alabama Supreme Court later that year, meant that the County could no longer (after expiration of the stays the trial court issued in the case) lawfully levy its occupational and business license taxes under the 1967 Act, which act had survived numerous prior judicial challenges to its validity since the time of the initial levy. Seeking to protect these major sources of General Fund revenue even prior to the ultimate resolution of the Edwards Lawsuit, the County undertook to secure legislative relief from the Alabama Legislature at its Regular Session held in the spring of 2009, backing the introduction and advocating passage of bills intended to revive the County's power to levy and collect the Occupational Tax and its business license taxes, through either "repeal of the repeal" undertaken by the Alabama Legislature in 1999 or through a fresh authorization of the County's power to levy those taxes.[4]

The County's efforts to accomplish these goals and thereby revive its authority to levy occupational and business license taxes were complicated and ultimately frustrated in the 2009 Regular Session when legislators could not agree upon the form and substance of the legislation needed to reauthorize the occupational and business license taxes or to provide other revenues for the General Fund. This lack of agreement was amplified by attempts of individual legislators to amend the several bills under consideration that would have authorized new occupational and business license taxes for the County so as to alter the applicability, extent, or duration of any new taxing authorization, to limit the rates or the tax bases of any new taxes, and to provide for new or additional exemptions therefrom, to specify the use of the proceeds from the taxes to be authorized for particular objects of expenditure other than the County's General Fund, to place conditions on the levy of any new taxes intended to benefit the General Fund considered by the County to be onerous or unhelpful (such as requiring the continued maintenance of particular specified County services without reference to costs), to include a provision for the "sunset" of the tax authorization after a relatively short specified period of time, and to make either the initial authorization, or the continuance of the levies of the authorized taxes beyond a certain date, subject to popular

[4] Among the bills introduced was House Bill 811, 2009 Regular Session, which (had it become law) would essentially have revived the 1967 Act by repealing the 1999 Act and re-enacting the text of the 1967 Act, with some adjustments in respect of persons subject to the tax. Several other bills having a similar effect were also introduced in the Regular Session, but only House Bill 811 made any progress in the legislative process.

referendum by the voters of the County. During the 2009 Regular Session, the County opposed most of these various proposed conditions and provisions primarily because they would have either significantly delayed receipt of any new tax revenues benefitting the General Fund, severely limited the amounts expected to be derived from the taxes, or were regarded by the County's advisors and attorneys as unlikely to survive legal challenge. Upon final adjournment of the 2009 Regular Session, the County had nothing to show for its efforts to revive the 1967 Act's authorization to levy occupational and business license taxes.

In light of this emergency, then-Governor Bob Riley called a Special Session of the Alabama Legislature to enact a new statute authorizing future collection of the Occupational Tax and ratifying, validating, and confirming the collection of Occupational Tax after the effective date of the 1999 Act. The Alabama Legislature enacted Act 2009-811 (the "2009 Act"), which, among other things, repealed the 1999 Act, revived the 1967 Act, and provided separate and additional authority to the County to levy the Occupational Tax and business license fees both retroactively and prospectively. Although the 2009 Act contained several provisions that the County considered undesirable and unhelpful in terms of accomplishing a lasting and effective solution to remedying the financial inadequacy of the County's General Fund to meet County needs (for instance, the new Occupational Tax was required to be levied beginning in 2010 at a rate not in excess of a rate 10% lower than that at which the old Occupational Tax had been levied, the new business license taxes were required to be computed differently from the pre-existing taxes rendering the revenue effect of those taxes uncertain, and the new Occupational Tax was required to be phased out conditionally beginning as soon as 2012, unless the results of a referendum to be held in the County during June 2012 were to the contrary), the County nevertheless in good faith took the formal actions necessary to utilize its new legislative authorization to levy by appropriate ordinances the Occupational Tax and the new business license taxes in the expectation that collections from these new taxes would provide the County with some financial breathing room and at least a partial replenishment of the General Fund. Although the new levies would not, owing to changes in the rates or method of computing thereof, be expected to restore the County's General Fund to the financial position it enjoyed prior to the Alabama Legislature's destruction of the County's power to levy the former occupational and business license taxes, nevertheless the authorization contained in the 2009 Act was viewed by the County as of significant help, and tax revenues from the newly authorized taxes began to flow for the benefit of the General Fund.

In August 2009, the Alabama Supreme Court affirmed the trial court's decision in the Edwards Lawsuit. The Alabama Supreme Court recognized, however, that by virtue of the 2009 Act, the County had a valid claim to the amounts taxed from the time of the trial court's ruling to the effective date of the 2009 Act. During that time, the County deposited approximately $37.7 million in escrow. The Alabama Supreme Court held that the County could not retrieve such funds from the escrow fund.

To avoid the difficulties associated with collecting the Occupational Tax a second time, the County and the named plaintiffs in the Edwards Lawsuit reached and obtained court approval of a settlement of the plaintiffs' claims. Under the terms of that settlement, $30 million of escrowed funds would be made available to refund to taxpayers and to pay the attorneys' fees of class counsel. Additionally, $1.10 million of escrowed funds would be made available to pay the costs of providing notice to the class. The remaining escrowed amounts were to be returned to the County.

5. Attack on Legislative Remedy in the Weissman Lawsuit

Shortly after the County levied a new tax under the 2009 Act, the 2009 Act was challenged in a class action lawsuit brought by certain taxpayers against the County (the "Weissman Lawsuit"). In the Weissman Lawsuit, Judge Charles Price ruled that the Alabama Legislature failed to comply with the publication requirement of section 106 of the Alabama Constitution when enacting the 2009 Act. Judge Price concluded that the 2009 Act was unconstitutional and void. Judge Price's judgment became final on December 1, 2010, but it did not require that the County refund the Occupational Tax collected between the effective date of the 2009 Act (August 14, 2009) and the date of final judgment (December 1, 2010).

Both the County and the plaintiffs appealed Judge Price's ruling to the Alabama Supreme Court. The County challenged Judge Price's ruling that the 2009 Act was unconstitutional and void. The plaintiffs challenged Judge Price's determination that his ruling would not be given retroactive effect. The County continued to collect the Occupational Tax pending the appeal, with such collections being deposited into an escrow fund.

The Alabama Supreme Court bifurcated the issues on appeal. On March 16, 2011, the Alabama Supreme Court upheld Judge Price's ruling that the 2009 Act was unconstitutional and void. Consequently, all escrowed funds were released to the plaintiffs. As of the Petition Date, the Alabama Supreme Court had not ruled on whether the County was obligated to refund approximately $100 million in Occupational Tax collected pursuant to the 2009 Act from its effective date (August 14, 2009) through the date of Judge Price's order (December 1, 2010). The amount of those Claims exceeded the County's cash reserves in its General Fund as of the Petition Date.[5]

6. Lack of Legislative Remedy to Address the Weissman Lawsuit

In light of the rulings in the Weissman Lawsuit, the County instituted further efforts, this time at the Alabama Legislature's 2011 Regular Session, to obtain the enactment of replacement legislation that would alleviate the financial pressures associated with the loss of the Occupational Tax. The first option was to pass "limited home rule" legislation that would grant the County limited authority to raise tax revenue without specific legislative approval. The second option was to pass "un-earmarking" legislation to remove certain restrictions on the County's use of tax revenues.

While making this push for legislation, the County simultaneously made drastic cuts in its expenditures in an attempt to balance its budget as mandated by state law. The spending cuts affected nearly every department and resulted in sweeping reductions in basic services. Initially, the County took steps to reduce expenditures without laying off employees. The County closed its four satellite courthouse locations and consolidated services at the Birmingham courthouse. These and other steps reduced spending by approximately $30 million.

[5] As referenced below in Section III.E.8, the Alabama Supreme Court ruled postpetition that the County does not have to refund the approximate $100 million of collected Occupational Taxes.

The "home rule" legislation enjoyed the support of a majority of the County's legislative delegation and was approved in the House of Representatives. However, under state legislative procedures related to bills impacting local issues,[6] a Senate vote on the legislation was blocked, effectively killing the "home rule" bill. Likewise, the "un-earmarking" legislation faced opposition from legislators intent on preserving revenues for certain County operating funds and enterprise funds. The Regular Session concluded without a legislative fix for the loss of Occupational Tax revenues.

D. Summary of the County's Prepetition Indebtedness

The following subsections discuss each of the major types of indebtedness issued by the County prior to the filing of the Case.

1. Sewer Warrants

The Sewer Warrants were issued under chapter 28 of title 11 of the Alabama Code sections 11-28-1, *et seq.*, which authorizes the County to issue warrants for the purpose of paying the costs of public facilities, including sanitary sewer systems and all necessary and desirable appurtenances with respect thereto, and to pledge in favor thereof the revenues from any revenue-producing properties owned or operated by the County, including the Sewer System. The Sewer Warrants are limited obligations of the County payable solely out of, and secured by a pledge and assignment of, the System Revenues (other than tax revenues) from the Sewer System remaining after payment of Operating Expenses (as such term is defined in the Sewer Warrant Indenture), and the moneys deposited into the Sewer DSR Fund and the Debt Service Fund (as defined below) and other moneys that came into the possession or control of the Sewer Warrant Trustee as additional security. As of the Petition Date, the aggregate principal amount of Sewer Warrants outstanding was $3,135,977,500.

a. Series 1997-A Sewer Warrants

The Series 1997-A Sewer Warrants were issued as fixed rate warrants in the aggregate principal amount of $211,040,000 on February 27, 1997, pursuant to a Trust Indenture dated as of February 1, 1997 (as amended and supplemented from time to time, the "Sewer Warrant Indenture"), between the County and AmSouth Bank of Alabama, as indenture trustee (together with The Bank of New York Mellon, as successor indenture trustee, the "Sewer Warrant Trustee"). Interest on the Series 1997-A Sewer Warrants is payable on February 1 and August 1 of each year with the final maturity on February 1, 2027.

The Sewer Warrant Indenture provides for the Sewer DSR Fund, a debt service reserve fund which is a special trust fund that must be maintained at a prescribed amount (the "Sewer DSR Fund

[6] By convention and practice, although not by legislative rule or constitutional requirement, legislation pertaining to only one county, and general legislation that has as a practical matter at the time of consideration only a local impact, are almost invariably voted on in the Alabama Legislature only by members of the affected county's local legislative delegation; while all members of the legislative body may vote on the bill, most choose to refrain from doing so, meaning that a majority of the local delegation may effectively block most local bills.

Requirement") determined by a formula defined in the Sewer Warrant Indenture. Upon the issuance of each additional series of Sewer Warrants under the Sewer Warrant Indenture (other than the Series 2003-A Sewer Warrants described below), a new Sewer DSR Fund Requirement was calculated and, if necessary, the County was required to deposit cash, an insurance policy, a surety bond, or a letter of credit in the Sewer DSR Fund to fulfill the Sewer DSR Fund Requirement. In addition, the Sewer Warrant Indenture established a rate stabilization fund (the "Rate Stabilization Fund"), which is a special trust fund intended to supplement the net revenues of the Sewer System when necessary.

The proceeds of the Series 1997-A Sewer Warrants were used to (i) refund a portion of the County's then-outstanding Sewer System indebtedness, including warrants previously issued in 1992, 1993, and 1995; (ii) pay the premium for a municipal bond insurance policy provided by FGIC; (iii) fund the Sewer DSR Fund to the Sewer DSR Fund Requirement; (iv) fund a deposit to the Rate Stabilization Fund; and (v) pay the costs of issuance of the Series 1997-A Sewer Warrants.

Pursuant to Municipal Bond New Insurance Policy number 97010082, FGIC guaranteed the payment of scheduled principal and interest on the Series 1997-A Sewer Warrants.

On the Petition Date, the outstanding principal amount of the Series 1997-A Sewer Warrants was $57,030,000. As of the Petition Date, the County had paid all scheduled principal and interest payments on the Series 1997-A Sewer Warrants to the Sewer Warrant Trustee when due.

b. Series 2001-A Sewer Warrants

The Series 2001-A Sewer Warrants were issued as fixed rate warrants in the aggregate principal amount of $275,000,000 on March 22, 2001, pursuant to a supplement to the Sewer Warrant Indenture dated as of March 1, 2001. Interest on the Series 2001-A Sewer Warrants is payable on February 1 and August 1 of each year with the final maturity on February 1, 2041.

The proceeds of the Series 2001-A Sewer Warrants were used to (i) pay a portion of the cost to upgrade the Sewer System in accordance with the EPA Consent Decree, (ii) fund other improvements to the Sewer System as part of the County's capital improvement program, (iii) pay the premium for a municipal bond insurance policy provided by FGIC, (iv) pay the premium for a debt service reserve fund policy provided by FGIC, and (v) pay the costs of issuance of the Series 2001-A Sewer Warrants.

Pursuant to Municipal Bond New Insurance Policy number 01010225, FGIC guaranteed the payment of scheduled principal and interest on the Series 2001-A Sewer Warrants. In addition, the County purchased Municipal Bond Debt Service Reserve Fund Policy number 01010226 in the maximum amount of $14,318,478 from FGIC to fulfill the Sewer DSR Fund Requirement.

On the Petition Date, the outstanding principal amount of the Series 2001-A Sewer Warrants was $11,010,000. As of the Petition Date, the County had paid all scheduled principal and interest payments on the Series 2001-A Sewer Warrants to the Sewer Warrant Trustee when due.

c. Series 2002-A Sewer Warrants

The Series 2002-A Sewer Warrants were issued as variable rate demand warrants in the aggregate principal amount of $110,000,000 on March 6, 2002, pursuant to a supplement to the Sewer Warrant Indenture dated as of February 1, 2002. Interest on the Series 2002-A Sewer Warrants is payable on the first business day of each month with the final maturity on February 1, 2042.

The proceeds of the Series 2002-A Sewer Warrants were used to (i) pay a portion of the cost to upgrade the Sewer System in accordance with the EPA Consent Decree, (ii) fund other improvements to the Sewer System as part of the County's capital improvement program, (iii) pay the premium for a municipal bond insurance policy provided by FGIC, (iv) pay the premium for a debt service reserve fund policy provided by FGIC, and (v) pay the costs of issuance of the Series 2002-A Sewer Warrants.

Pursuant to Municipal Bond New Insurance Policy number 02010251, FGIC guaranteed the payment of scheduled principal and interest on the Series 2002-A Sewer Warrants. In addition, the County purchased Municipal Bond Debt Service Reserve Fund Policy number 02010251 in the maximum amount of $5,566,000 from FGIC to fulfill the Sewer DSR Fund Requirement.

Liquidity support for the Series 2002-A Sewer Warrants was provided by a Standby Sewer Warrant Purchase Agreement among the County, the Sewer Warrant Trustee and JPMorgan Chase Bank, N.A. ("JPMorgan Chase") dated as of February 1, 2002. In 2008, the principal amount of the Series 2002-A Sewer Warrants then outstanding was tendered by investors and purchased by JPMorgan Chase, and such Series 2002-A Sewer Warrants became "Bank Warrants" pursuant to the Standby Sewer Warrant Purchase Agreement (the "Series 2002-A Sewer Bank Warrants"). The Standby Sewer Warrant Purchase Agreement required the County to redeem the Series 2002-A Sewer Bank Warrants in twelve equal quarterly installments. JPMorgan Chase subsequently exercised its right under the Standby Sewer Warrant Purchase Agreement to further accelerate principal payments on the Series 2002-A Sewer Bank Warrants so that the remaining principal amount was due in four quarterly installments. The County defaulted on its obligation to redeem the Series 2002-A Bank Warrants on the accelerated timeframe, whereupon FGIC purchased the Series 2002-A Sewer Bank Warrants in an aggregate principal amount of $101,465,000 pursuant to claims on Municipal Bond New Insurance Policy number 02010251. The defaults with respect to the Series 2002-A Sewer Bank Warrants caused interest to accrue thereon at higher default rates of interest.

As of the Petition Date, the Series 2002-A Sewer Warrants were outstanding in the aggregate principal amount of $101,465,000. FGIC held on the Petition Date and continues to hold all Series 2002-A Sewer Warrants.

d. Series 2002-C Sewer Warrants

The Series 2002-C Sewer Warrants were issued in the aggregate principal amount of $839,500,000 on October 25, 2002, pursuant to a supplement to the Sewer Warrant Indenture dated as of October 1, 2002. The County issued $298,800,000 aggregate principal amount of the Series 2002-C Sewer Warrants as auction rate warrants and $540,700,000 aggregate principal amount of

the Series 2002-C Sewer Warrants as variable rate demand warrants. On August 1, 2003, the County converted $98,300,000 aggregate principal amount of the variable rate demand warrants to auction rate warrants. Interest on the Series 2002-C Sewer Warrants in a variable rate demand mode is payable on the first business day of each month with the final maturity on February 1, 2040. Interest on the Series 2002-C Sewer Warrants in an auction rate mode is payable on the business day immediately succeeding each respective auction period with the final maturity on February 1, 2040.

The proceeds of the Series 2002-C Sewer Warrants were used to (i) advance refund all or a portion of select maturities of the County's then-outstanding Sewer System indebtedness, including warrants previously issued in 1997, 1999, and 2001; (ii) pay the premium for a municipal bond insurance policy provided by Syncora; and (iii) pay the costs of issuance of the Series 2002-C Sewer Warrants.

Pursuant to Municipal Bond Insurance Policy number CA00370A, Syncora guaranteed the payment of regularly scheduled principal and interest on certain of the Series 2002-C Sewer Warrants.

Liquidity support for the Series 2002-C Sewer Warrants issued as variable rate demand warrants was provided by Standby Warrant Purchase Agreements among the County, the Sewer Warrant Trustee, JPMorgan Chase (as Liquidity Agent) and each of JPMorgan Chase, Bank of America, N.A. ("Bank of America"), The Bank of Nova Scotia, Bayerisch Hypo-und Verinsbank AG, New York Branch, Societe Generale, New York Branch, and Regions Bank, each dated as of October 1, 2002 (collectively, "Series 2002-C Standby Sewer Warrant Purchase Agreements"). In 2008, all outstanding Series 2002-C Sewer Warrants issued as variable rate demand warrants were tendered by investors and purchased by the Series 2002-C Standby Sewer Warrant Purchase Agreement providers and such Series 2002-C Sewer Warrants became "Bank Warrants" pursuant to the Series 2002-C Standby Sewer Warrant Purchase Agreements (the "Series 2002-C Sewer Bank Warrants"). The Series 2002-C Standby Sewer Warrant Purchase Agreements required the County to redeem the Series 2002-C Sewer Bank Warrants in sixteen equal quarterly installments. The County defaulted on its obligation to redeem the Series 2002-C Sewer Bank Warrants on the accelerated timeframe, whereupon Syncora purchased Series 2002-C Sewer Bank Warrants in an aggregate principal amount of $109,196,250 pursuant to claims on Municipal Bond Insurance Policy number CA00370A. Syncora and the Series 2002-C Standby Sewer Warrant Purchase Agreement providers subsequently entered into the Syncora Settlement Agreement, under which Syncora commuted its obligations under Municipal Bond Insurance Policy number CA00370A in exchange for certain payments to such providers and the purchase from the Series 2002-C Standby Sewer Warrant Purchase Agreement providers of certain Series 2002-C Sewer Bank Warrants, in each case as set forth in such Settlement Agreement. The defaults with respect to the Series 2002-C Sewer Bank Warrants caused interest to accrue thereon at higher default rates of interest.

As of the Petition Date, the Series 2002-C Sewer Warrants in a variable rate demand mode were outstanding in the aggregate principal amount of $409,637,500 and the Series 2002-C Sewer Warrants in an auction rate mode were outstanding in the aggregate principal amount of $397,100,000, for a total aggregate principal amount of $806,737,500 for all outstanding Series 2002-C Sewer Warrants. Syncora only insures payment of regularly scheduled principal and interest on those Series 2002-C Sewer Warrants in an auction rate mode.

e. Series 2003-A Sewer Warrant

The Series 2003-A Sewer Warrant was issued as a fixed rate warrant in the aggregate principal amount of $41,820,000 on January 8, 2003, pursuant to a supplement to the Sewer Warrant Indenture dated as of January 1, 2003.

The Series 2003-A Sewer Warrant was issued to the Alabama Water Pollution Control Authority (the "AWPCA") pursuant to a Special Authority Loan Conditions Agreement dated as of January 1, 2003, among the County, the AWPCA, and ADEM, whereby the AWPCA agreed to loan the County a portion of the proceeds from its Revolving Fund Loan Refunding Bonds, Series 2003-B in exchange for loan payments secured by the net revenues of the Sewer System. The County issued its Series 2003-A Sewer Warrant to the AWPCA to evidence its repayment obligations with respect to the loan. Interest on the Series 2003-A Sewer Warrant is payable on February 15 and August 15 of each year with the final maturity on February 15, 2015.

The proceeds of the Series 2003-A Sewer Warrant were used to redeem a portion of the County's then-outstanding Sewer System indebtedness, specifically warrants previously issued in 1997. The Revolving Fund Loan Refunding Bonds, Series 2003-B, which are not obligations of the County, are insured by Financial Guaranty Insurance Policy number 20438BE provided by Ambac Assurance Corporation ("Ambac"). Principal and interest payments due from the County under the Series 2003-A Sewer Warrant are not insured.

As of the Petition Date, the outstanding principal amount of the Series 2003-A Sewer Warrant was $15,280,000 and the County had paid all scheduled principal and interest payments on the Series 2003-A Sewer Warrant to the Sewer Warrant Trustee when due.

f. Series 2003-B Sewer Warrants

The Series 2003-B Sewer Warrants were issued in the aggregate principal amount of $1,155,765,000 on May 1, 2003, pursuant to a supplement to the Sewer Warrant Indenture dated as of April 1, 2003. The County issued $735,800,000 aggregate principal amount of the Series 2003-B Sewer Warrants as auction rate warrants (the "Series 2003-B-1 Sewer Warrants"), $300,000,000 aggregate principal amount of the Series 2003-B Sewer Warrants as variable rate demand warrants (the "Series 2003-B-2 Through B-7 Sewer Warrants"), and $119,965,000 aggregate principal amount of the Series 2003-B Sewer Warrants as fixed rate warrants (the "Series 2003-B-8 Sewer Warrants"). Interest on the Series 2003-B-1 Sewer Warrants is payable on the business day immediately succeeding each respective auction period with the final maturity on February 1, 2042. Interest on the Series 2003-B-2 Through B-7 Sewer Warrants is payable on the first business day of each month with the final maturity on February 1, 2042. Interest on the Series 2003-B-8 Sewer Warrants is payable on February 1 and August 1 of each year with the final maturity on February 1, 2016.

The proceeds of the Series 2003-B Sewer Warrants were used to (i) advance refund all or a portion of select maturities of the County's then-outstanding Sewer System indebtedness, including warrants previously issued in 1997, 1999, 2001, and 2002; (ii) refund a portion of the interest on Sewer Warrants remaining outstanding subsequent to the advance refunding accomplished by the

issuance of the Series 2003-B Sewer Warrants; (iii) pay the premiums for municipal bond insurance policies provided by Syncora, FGIC, and Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance, Inc. ("Assured"); and (iv) pay the costs of issuance of the Series 2003-B Sewer Warrants.

Pursuant to Municipal Bond New Issue Insurance Policy number 03010448, FGIC guaranteed scheduled payments of the principal and interest on the Series 2003-B-1 Sewer Warrants. Pursuant to Municipal Bond Insurance Policy number CA00522A, Syncora guaranteed the regularly scheduled principal and interest on the Series 2003-B-2 Through B-7 Warrants. Pursuant to Municipal Bond Insurance Policy number 200777-N, Assured guaranteed the regularly scheduled principal and interest on the Series 2003-B-8 Sewer Warrants.

Liquidity support for the Series 2003-B-2 Through B-7 Sewer Warrants was provided by Standby Warrant Purchase Agreements among the County, the Sewer Warrant Trustee, JPMorgan Chase (as Liquidity Agent) and each of Societe Generale, New York Branch, The Bank of New York, State Street Bank and Trust Company, and Lloyds TSB Bank plc, each dated as of May 1, 2003 (collectively, "Series 2003-B-2 Through B-7 Standby Sewer Warrant Purchase Agreements" and, together with the Series 2002-C Standby Sewer Warrant Purchase Agreements, the "Standby Sewer Warrant Purchase Agreements"). In 2008, all outstanding Series 2003-B-2 Through B-7 Sewer Warrants were tendered by investors and purchased by the Series 2003-B-2 Through B-7 Standby Sewer Warrant Purchase Agreement providers and such Series 2003-B-2 Through B-7 Sewer Warrants became "Bank Warrants" pursuant to the Series 2003-B-2 Through B-7 Standby Sewer Warrant Purchase Agreements (the "Series 2003-B-2 Through B-7 Sewer Bank Warrants"). The Series 2003-B-2 Through B-7 Standby Sewer Warrant Purchase Agreements required the County to redeem the Series 2003-B-2 Through B-7 Sewer Bank Warrants in sixteen equal quarterly installments. The County defaulted on its obligation to redeem the Series 2003-B-2 Through B-7 Sewer Bank Warrants on the accelerated timeframe, whereupon Syncora purchased the Series 2003-B-2 Through B-7 Sewer Bank Warrants in an aggregate principal amount of $74,995,000 pursuant to claims on Municipal Bond Insurance Policy number CA00522A. Syncora and the Series 2003-B-2 Through B-7 Standby Sewer Warrant Purchase Agreement providers subsequently entered into the Syncora Settlement Agreement, under which Syncora commuted its obligations under Municipal Bond Insurance Policy number CA00522A in exchange for certain payments to such providers and the purchase from the Series 2003-B Standby Sewer Warrant Purchase Agreement providers of certain Series 2003-B Sewer Bank Warrants, in each case as set forth in such Settlement Agreement. The defaults with respect to the Series 2002-B-2 Through B-7 Sewer Bank Warrants caused interest to accrue thereon at higher default rates of interest.

As of the Petition Date, the Series 2003-B-1 Sewer Warrants were outstanding in the aggregate principal amount of $723,725,000, the Series 2003-B-2 Through B-7 Sewer Warrants were outstanding in the aggregate principal amount of $281,260,000, and the Series 2003-B-8 Sewer Warrants were outstanding in the aggregate principal amount of $95,845,000. The total aggregate principal amount of all outstanding Series 2003-B Sewer Warrants as of the Petition Date was $1,100,830,000.

g. Series 2003-C Sewer Warrants

The Series 2003-C Sewer Warrants were issued as auction rate warrants in the aggregate principal amount of $1,052,025,000 on August 7, 2003, pursuant to a supplement to the Sewer Warrant Indenture dated as of August 1, 2003. Interest on the Series 2003-C Sewer Warrants is payable on the business day immediately succeeding each respective auction period with the final maturity on February 1, 2042.

The proceeds of the Series 2003-C Sewer Warrants were used to (i) advance refund all or a portion of select maturities of the County's then-outstanding Sewer System indebtedness, including warrants previously issued in 1997, 1999, 2001, and 2002; (ii) pay the premiums for municipal bond insurance policies provided by FGIC and Assured; and (iii) pay the costs of issuance of the Series 2003-C Sewer Warrants.

Payment of regularly scheduled principal and interest on the Series 2003-C Sewer Warrants issued in the aggregate principal amount of $820,000,000 (the "Series 2003-C-1 Through C-8 Sewer Warrants") is guaranteed by Municipal Bond New Issue Insurance Policy number 03010824 issued by FGIC. The remaining Series 2003-C Sewer Warrants issued in the aggregate principal amount of $232,025,000 (the "Series 2003-C-9 Through C-10 Sewer Warrants") are insured by Municipal Bond Insurance Policy number 201371-N issued by Assured. As of the Petition Date, the Series 2003-C-1 Through C-8 Sewer Warrants were outstanding in the aggregate principal amount of $820,000,000, and the Series 2003-C-9 Through C-10 Sewer Warrants were outstanding in the aggregate principal amount of $223,625,000.

The total aggregate principal amount of all outstanding Series 2003-C Sewer Warrants as of the Petition Date was $1,043,625,000.

h. Sewer Debt Service Reserve Fund Substitution

Subsequent to the issuance of the Sewer Warrants, the Sewer DSR Fund was funded to the Sewer DSR Fund Requirement and contained cash, securities, and two FGIC Municipal Bond Debt Service Reserve Fund Policies numbered 01010226 and 02010251 (the "FGIC DSRF Policies") related to the Series 2001-A Sewer Warrants and the Series 2002-A Sewer Warrants, respectively. On December 30, 2004, the County purchased Debt Service Reserve Insurance Policy number CA01568A, which provides coverage up to the maximum amount of $164,863,746.40 from Syncora (the "Syncora DSRF Policy"). On April 1, 2005, the County purchased Municipal Bond Debt Service Reserve Insurance Policy number 201371-R, which provides coverage up to the maximum amount of $26,421,902 from Assured (the "Assured DSRF Policy", and collectively with the FGIC DSRF Policies and the Syncora DSRF Policy, the "Sewer DSRF Policies"). Pursuant to a Deposit Agreement between the County and the Sewer Warrant Trustee dated as of April 1, 2005, cash and investments with an aggregate value of $181,415,268.19 were withdrawn from the Sewer DSR Fund and substituted with the Syncora DSRF Policy and the Assured DSRF Policy.

In connection with the purchase of the Sewer DSRF Policies, the County entered into four agreements (two with FGIC and one with each of Syncora and Assured) obligating the County to reimburse the applicable Sewer Warrant Insurer for draws made on the applicable Sewer DSRF

Policies and reasonable expenses related to the Sewer DSRF Policies (collectively, the "Sewer DSRF Reimbursement Agreements").

Between September 30, 2008 and December 3, 2008, draws were made on the Sewer DSR Fund by the Sewer Warrant Trustee to make regularly scheduled interest payments on certain of the Sewer Warrants. As a result, the Sewer DSRF Policies were drawn upon in the approximate aggregate amount of $35.088 million. As of the Petition Date, the County had not reimbursed any amounts that were due under the Sewer DSRF Reimbursement Agreements as a result of those draws or interest or expenses that have accrued as a result of the draws.

i. The Rate Covenant

As non-recourse obligations, the Sewer Warrants are not backed by the full faith and credit of the County, and the holders of the Sewer Warrants have no legal right to the County's General Fund or to the County's other assets for repayment. Under the Sewer Warrant Indenture and applicable Alabama statutory and constitutional law, including Alabama Code section 11-28-3, the primary collateral for the Sewer Warrants is the "Net Revenues" of the Sewer System. Pursuant to the Sewer Warrant Indenture, the "Net Revenues" are the gross revenues produced by the Sewer System ("System Revenues") *less* the Operating Expenses of the Sewer System.

Section 12.5 of the Sewer Warrant Indenture contains, among other things, a covenant (the "Rate Covenant") that requires the County to fix, revise, and maintain sewer rates sufficient to cover, to the extent permitted by law, all payments of principal, interest, and premium due under the Sewer Warrants.

j. Sewer Warrant Indenture Funds

The following section provides descriptions of funds and accounts established by the County either under the Sewer Warrant Indenture or in connection with the Sewer System (the "Sewer Warrant Indenture Funds").

i. Revenue Account

The Sewer Warrant Indenture requires that all System Revenues be deposited as received in the "Revenue Account" established under the Sewer Warrant Indenture (the "Revenue Account"). The County is permitted to select any commercial bank as the custodian of the Revenue Account. Once deposited in the Revenue Account, the Sewer Warrant Indenture requires System Revenues to be applied first to the payment of Operating Expenses of the Sewer System. System Revenues remaining after the deduction of Operating Expenses (i.e., the "Net Revenues") are directed to the other funds established by the Sewer Warrant Indenture, including funds dedicated for the payment of debt service on the Sewer Warrants and for the payment of the costs of Sewer System improvements. As of the Petition Date, the balance in the Revenue Account was $7,172,210. The balance in the Revenue Account as of the date of this Disclosure Statement is $[____].

ii. Debt Service Fund

The Debt Service Fund is a special trust fund established under the Sewer Warrant Indenture for which the Sewer Warrant Trustee is the depository, custodian and disbursing agent. Moneys on deposit in the Debt Service Fund are used to pay debt service on the Sewer Warrants as well as any other obligations related to the Sewer Warrants that have been secured by a pledge of the Pledged Revenues (defined herein below) on parity with the pledge securing the Sewer Warrants. The Sewer Warrant Indenture requires the County to apply the Net Revenues in the Revenue Account to the Debt Service Fund in such amounts sufficient to satisfy the debt service provisions of the Sewer Warrant Indenture. As of the Petition Date, the balance in the Debt Service Fund was $39,877,937. The balance in the Debt Service Fund as of the date of this Disclosure Statement is $[____].

iii. Sewer DSR Fund

The Sewer DSR Fund is defined in Section III.D.1.a above. As of the Petition Date and the date of this Disclosure Statement, the Sewer DSR Fund had a zero cash balance.

iv. Subordinate Debt Fund

The Subordinate Debt Fund is the "Subordinate Debt Fund" under the Sewer Warrant Indenture. It was established as a special trust fund under a supplement to the Sewer Warrant Indenture dated as of September 1, 2002, and was to be held by any bank chosen by the County. The County was permitted (but not required) to make certain semiannual payments from Net Revenues into the Subordinate Debt Fund after all required deposits to the Debt Service Fund and the Sewer DSR Fund were made. Moneys in the Subordinate Debt Fund could be used to pay amounts owed on any obligations secured by a subordinate pledge of the Net Revenues. No such obligations were issued; accordingly the Subordinate Debt Fund was never funded.

v. Rate Stabilization Fund

The Rate Stabilization Fund is defined in Section III.D.1.a above. As of the Petition Date and the date of this Disclosure Statement, the Rate Stabilization Fund had a zero balance.

vi. Depreciation Fund

The Depreciation Fund is a special trust fund established under the Sewer Warrant Indenture and can be held by any bank chosen by the County. The moneys held in the Depreciation Fund may be used by the County to pay the costs of improvements to the Sewer System or to purchase or redeem Sewer Warrants. The Sewer Warrant Indenture provides that once all payments required to be made from the Revenue Account into the Debt Service Fund, the Sewer DSR Fund, the Subordinate Debt Fund, and the Rate Stabilization Fund have been made, then the Net Revenues remaining are to be deposited semiannually in $5,000,000 increments into the Depreciation Fund until the fund balance equals the accumulated depreciation referable to the Sewer System. If Net Revenues available in the Revenue Account are not sufficient to permit a deposit of the required sum into the Depreciation Fund, such shortfall does not increase the required amount of any subsequent deposit into the Depreciation Fund. As of the Petition Date, the balance in the Depreciation Fund

was $52,549,266. The balance in the Depreciation Fund as of the date of this Disclosure Statement is $[____].

vii. 2002-D Construction Fund

The 2002-D Construction Fund is a special trust fund established under a supplement to the Sewer Warrant Indenture dated as of November 1, 2002. The Sewer Warrant Trustee is the depository, custodian and disbursing agent for the 2002-D Construction Fund. The 2002-D Construction Fund was funded from the proceeds of the County's Series 2002-D Sewer Warrants issued as fixed rate warrants in the aggregate principal amount of $475,000,000 on November 8, 2002. Moneys on deposit in the 2002-D Construction Fund may be used to pay (A) expenses of the Sewer Warrant Trustee in connection with the 2002-D Construction Fund; (B) costs of acquiring, construction and installing improvements to the Sewer System, including land acquired for such improvements; or (C) expenses related to the items described in the foregoing clauses (A) and (B). As of the Petition Date, the balance in the 2002-D Construction Fund was $45,569,230. The balance in the 2002-D Construction Fund as of the date of this Disclosure Statement is $[____].

viii. 2005 Construction Fund

The Sewer DSR Fund was created to provide a back-up source of funds for payment of principal and interest on the Sewer Warrants in the event of a deficiency in Net Revenues. The Sewer Warrant Indenture provides that the Sewer DSR Fund must be funded in an amount at least equal to the Sewer DSR Fund Requirement and permits the County to satisfy the Sewer DSR Fund Requirement either in the form of cash or by deposit of a surety bond, insurance policy or letter of credit. Prior to April, 2005, the Sewer DSR Fund Requirement had been satisfied by cash or surety bonds deposited at the time of issuance of various series of Sewer Warrants. On April 1, 2005, the County delivered to the Sewer Warrant Trustee the Syncora DSRF Policy and the Assured DSRF Policy in the aggregate face amount of $191,285,648.40. On the same date, the County and the Sewer Warrant Trustee entered into a Deposit Agreement (the "Deposit Agreement") pursuant to which the County directed the Sewer Warrant Trustee to withdraw $181,415,268.19 in cash and investments from the Sewer DSR Fund and to deposit such amount in the newly established 2005 Construction Fund.

The Sewer Warrant Trustee was designated as the depository, custodian and disbursing agent for the 2005 Construction Fund and was authorized to disburse funds upon requisitions submitted by the County to pay (A) expenses of the Sewer Warrant Trustee; (B) costs of acquiring, construction and installing improvements to the Sewer System, including land acquired for such improvements; or (C) expenses related to the items described in the foregoing clauses (A) and (B). By an Amendment to the Deposit Agreement dated January 1, 2007, the County and the Sewer Warrant Trustee agreed to several changes, including an addition to the Deposit Agreement permitting funds withdrawn from the 2005 Construction Fund to be deposited into any other account or fund established by the County pursuant to the Sewer Warrant Indenture or otherwise established by the County with respect to the Sewer System or obligations of the County pertaining thereto. As of the Petition Date, the balance in the 2005 Construction Fund was $29,335,679. The balance in the 2005 Construction Fund as of the date of this Disclosure Statement is $[____].

ix. Released Escrow Funds

The Series 2002-C Sewer Warrants, Series 2003-B Sewer Warrants, and Series 2003-C Sewer Warrants (together, the "Refunding Sewer Warrants") were issued to refund certain previously issued Sewer Warrants (the "Refunded Sewer Warrants") and thereby take advantage of lower interest rates. Because the Refunded Sewer Warrants were not subject to call and redemption at the time of issuance of the Refunding Sewer Warrants, the proceeds of the Refunding Sewer Warrants were deposited into irrevocable escrow accounts held by the Sewer Warrant Trustee for the payment of all principal of and interest on the Refunded Warrants. In each case, the escrow was established by an agreement between the County and the Sewer Warrant Trustee (collectively, the "Escrow Trust Agreements"). Each escrow was invested in U.S. Government securities that, taking into account their interest earnings and maturities, were calculated to produce funds sufficient to pay the Refunded Warrants when due.

As permitted by the Escrow Trust Agreements, the County subsequently elected to restructure the escrows by selling the original securities held in the escrow accounts and replacing them with higher yielding federal securities. The result of such transactions was to produce cash in excess of the amount necessary to fund the escrows at their required levels. To document the restructurings, the County and the Sewer Warrant Trustee entered into three separate agreements (the "Escrow Restructuring Agreements") setting out the terms and conditions of the restructuring transactions and providing for the release of the excess cash to the County. In each case, the County has contended that excess cash was transmitted to the County and deposited in one of three newly established escrow funds (the "Released Escrow Funds") to be used as the County should determine. The Sewer Warrant Trustee has disputed the County's contention and has asserted that the Released Escrow Funds were security for the Sewer Warrants. As of the Petition Date, the balance of the Released Escrow Funds was $57,006,375. The balance of the Released Escrow Funds as of the date of this Disclosure Statement is $[____].

x. Supplemental Transactions Fund

The Supplemental Transactions Fund is a special fund established under a supplement to the Sewer Warrant Indenture dated as of May 1, 2004. The Supplemental Transactions Fund consists of cash and cash-equivalent investments derived from the 2004 Swaps (as such term is defined in Section III.D.7.g below). The County received upfront premiums from the counterparties to the 2004 Swaps in the aggregate amount of $25,488,000. These upfront premiums were deposited into the Supplemental Transactions Fund, where they remain to this day – in full, plus interest. Moneys in the Supplemental Transactions Fund may be disbursed only at the direction of the County, and in the meantime are invested pursuant to the County's instructions. The County has contended that, pursuant to the authorizing supplement to the Sewer Warrant Indenture, the Supplemental Transactions Fund could only be used to pay the costs of improvements to the Sewer System. The Sewer Warrant Trustee disputed the County's contention and asserted that this fund was security for the Sewer Warrants. As of the Petition Date, the balance in the Supplemental Transactions Fund was $29,741,042. The balance in the Supplemental Transactions Fund as of the date of this Disclosure Statement is $[____].

2. School Warrants

The School Warrants were issued under chapter 28 of title 11 of the Alabama Code sections 11-28-1, *et seq.*, which authorizes the County to issue warrants for the purpose of paying the costs of public facilities, including school buildings, and to pledge in favor thereof the proceeds of any occupational, privilege, license, or excise tax that the County is authorized to levy at the time of the issuance of such warrants.

The School Warrants are limited obligations of the County payable solely from, and secured by a pledge and assignment of, the gross proceeds of an excise tax and a privilege and license tax (the "Education Tax") levied by the County and amounts held in designated funds created under the School Warrant Indenture (as defined below). The Education Tax generally parallels the statewide sales and use tax levied by the State of Alabama and the general rate is 1%. As of the Petition Date, the aggregate principal amount of School Warrants outstanding was $814,075,000.

a. Series 2004-A School Warrants

The Series 2004-A School Warrants were issued as fixed rate warrants in the aggregate principal amount of $650,000,000 on December 29, 2004, pursuant to a Trust Indenture dated as of December 1, 2004 (the "School Warrant Indenture"), between the County and SouthTrust Bank as indenture trustee (together with U.S. Bank National Association, as successor indenture trustee, the "School Warrant Trustee"). Interest on the Series 2004-A School Warrants is payable on January 1 and July 1 of each year with the final maturity on January 1, 2025.

The School Warrant Indenture provides for a debt service reserve fund (the "School DSR Fund"), which is a special trust fund that must be maintained at a prescribed amount (the "School DSR Fund Requirement") determined by a formula defined in the School Warrant Indenture. Upon the issuance of each additional series of School Warrants under the School Warrant Indenture, a new School DSR Fund Requirement is calculated and, if necessary, the County must deposit cash, an insurance policy, a surety bond, or a letter of credit in the School DSR Fund to fulfill the School DSR Fund Requirement.

The proceeds of the Series 2004-A School Warrants were used to (i) make grants to eleven local school boards operating in the County in order to finance a variety of capital improvement projects and for the retirement of certain outstanding indebtedness of such school boards, (ii) fund the School DSR Fund to the School DSR Fund Requirement, and (iii) pay the costs of issuance of the Series 2004-A School Warrants.

As of the Petition Date, the outstanding principal amount of the Series 2004-A School Warrant was $534,400,000, and the County had paid all scheduled principal and interest payments on the Series 2004-A School Warrants to the School Warrant Trustee when due.

During the Case, the County has continued to make all scheduled principal and interest payments on these warrants when due.

b. Series 2005-A School Warrants and Series 2005-B School Warrants

The Series 2005-A School Warrants were issued as auction rate warrants in the aggregate principal amount of $200,000,000. The Series 2005-B School Warrants were issued as variable rate demand warrants in the aggregate principal amount of $200,000,000. Both the Series 2005-A School Warrants and the Series 2005-B School Warrants were issued pursuant to a supplement to the School Warrant Indenture dated as of January 1, 2005. Interest on the Series 2005-A School Warrants is payable on the business day immediately succeeding each respective auction period with the final maturity on January 1, 2027. Interest on the Series 2005-B School Warrants is payable on the first business day of each month with the final maturity on January 1, 2027.

The proceeds of both the Series 2005-A School Warrants and the Series 2005-B School Warrants were used to (i) make grants to eleven local school boards operating in the County in order to finance a variety of capital improvement projects of such school boards, (ii) pay the premium for a surety bond provided by Ambac, (iii) pay the premium for a municipal bond insurance policy provided by Ambac, and (iv) pay the costs of issuance of the Series 2005-A School Warrants and the Series 2005-B School Warrants.

The Series 2005-A School Warrants and the Series 2005-B School Warrants are insured by Financial Guaranty Insurance Policy number 23545BE issued by Ambac. In addition, the County purchased Surety Bond number SB1982BE in the maximum amount of $29,438,296.81 from Ambac to fulfill the School DSR Fund Requirement.

Liquidity support for the Series 2005-B School Warrants was provided by a Standby Warrant Purchase Agreement among the County, the School Warrant Trustee and DEPFA Bank plc ("Depfa") dated as of January 1, 2005 (the "Standby School Warrant Purchase Agreement"). In 2008, the principal amount of the Series 2005-B School Warrants then outstanding was tendered by investors and purchased by Depfa and such Series 2005-B School Warrants became "Bank Warrants" pursuant to the Standby School Warrant Purchase Agreement.

As of the Petition Date, the Series 2005-A School Warrants were outstanding in the aggregate principal amount of $105,500,000 and the Series 2005-B School Warrants were outstanding in the aggregate principal amount of $174,175,000. The total aggregate principal amount of all outstanding Series 2005-A School Warrants and Series 2005-B School Warrants as of the Petition Date was $279,675,000, and the County had paid all scheduled principal and interest payments on such warrants to the School Warrant Trustee when due.

During the Case, the County has continued to make all scheduled principal and interest payments on the School Warrants when due.

3. Board of Education Lease Warrants

The Board of Education Lease Warrants were issued by the County under chapter 28 of title 11 of the Alabama Code sections 11-28-1, *et seq*., which authorizes the County to issue warrants for the purpose of paying the costs of public facilities, including school buildings, and to pledge in favor

thereof the revenues from any revenue-producing properties owned or operated by the County, including school buildings.

The Board of Education Lease Warrants were issued as fixed rate warrants in the aggregate principal amount of $45,210,000 on July 25, 2000, pursuant to a *Mortgage and Trust Indenture* dated as of July 1, 2000 (the "Board of Education Lease Indenture"), between the County and SouthTrust Bank, as indenture trustee (together with U.S. Bank National Association, as successor indenture trustee, the "Board of Education Lease Trustee"). Interest on the Board of Education Lease Warrants is payable on February 15 and August 15 of each year with the final maturity on February 15, 2020. The Board of Education Lease Indenture provides for a debt service reserve fund (the "Board of Education Lease DSR Fund"), which is a special trust fund that must be maintained at a prescribed amount (the "Board of Education Lease DSR Fund Requirement") determined by a formula defined in the Board of Education Lease Indenture.

The proceeds of the Board of Education Lease Warrants were used to (i) purchase certain public school facilities (the "Board of Education Leased Property") of the Board of Education of Jefferson County (the "Board of Education"), an agency of the State of Alabama; (ii) fund the Board of Education Lease DSR Fund to the Board of Education Lease DSR Fund Requirement; (iii) pay the premium for a municipal bond insurance policy provided by Assured; and (iv) pay the costs of issuance of the Board of Education Lease Warrants.

The Board of Education Lease Warrants are limited obligations of the County payable solely from, and secured by a pledge of, the rentals and other receipts derived from the leasing of the Board of Education Leased Property. Pursuant to a Lease Agreement between the County and the Board of Education dated as of July 1, 2000 (the "Board of Education Lease Agreement"), the Board of Education is obligated to pay rentals to the Board of Education Lease Trustee (for the account of the County) on such dates and in such amounts sufficient to provide for the payment of debt service on the Board of Education Lease Warrants. Under the Board of Education Lease Agreement, the Board of Education has pledged the proceeds it receives from *ad valorem* taxes to secure its obligation to make rental payments to the Board of Education Lease Trustee (for the account of the County).

The Board of Education Lease Warrants are insured by Municipal Bond Insurance Policy number 26420-N issued by Assured.

As of the Petition Date, the outstanding principal amount of the Board of Education Lease Warrants was $26,255,000 and the Board of Education (for the account of the County) had paid all scheduled principal and interest payments on the Board of Education Lease Warrants to the Board of Education Lease Trustee when due.

4. General Obligation Warrants

The County's general obligation warrants (as more particularly described below, the "GO Warrants") were issued under chapter 28 of title 11 of the Alabama Code sections 11-28-1, *et seq.* and are general obligations of the County, for the payment of which the full faith and credit of the County is irrevocably pledged.

Revenues available to the County for payment of debt service on the GO Warrants include *ad valorem* taxes, sales and business license taxes, and other general fund revenues. None of such legally available revenues are, however, specially pledged for payment of debt service on the GO Warrants.

Pursuant to section 215 of the Alabama Constitution, as amended by Amendment No. 208, and sections 11-3-11(a)(2), 11-14-11, and 11-14-16 of the Alabama Code (collectively, "Section 215"), the County may levy and collect a 5.1 mill special *ad valorem* tax (the "Special Tax"), not to exceed one-fourth of one percent per annum, for the purpose of paying any debt or liability against the County due and payable during the year and created for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads, and any remaining proceeds of the Special Tax in excess of amounts payable on bonds, warrants, or other securities issued by the County for such limited purposes may be spent for general county purposes. Section 215 provides that the County may use proceeds of the Special Tax for general county purposes only after all amounts due and payable in any given fiscal year on bonds, warrants, or other securities issued by the County for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads (collectively, "Special Tax Obligations") are paid in full, and such proceeds shall be applied first to Special Tax Obligations.

The GO Warrants constitute debts or liabilities against the County created for the erection, repair, furnishing, or maintenance of public buildings, bridges, or roads within the scope and meaning of Section 215. As such, all amounts payable on account of or in connection with the GO Warrants in any given fiscal year must be paid by the County from the proceeds of the Special Tax prior to the County using any such proceeds in such fiscal year for general county purposes, including but not limited to General Fund expenses or any expenditures related to the Sewer System.

As of the Petition Date, the aggregate principal amount of GO Warrants outstanding was $200,520,000.

a. Series 2001-B GO Warrants

The Series 2001-B GO Warrants were issued as variable rate demand warrants in the aggregate principal amount of $120,000,000 on July 19, 2001, pursuant to a Trust Indenture dated as of July 1, 2001 (the "GO Warrant Indenture"), between the County and The Bank of New York, as indenture trustee (together with Wells Fargo Bank, National Association, as successor indenture trustee, the "GO Warrant Trustee"). Interest on the Series 2001-B GO Warrants was payable on the first business day of each month with the final maturity on April 1, 2021.

The proceeds of the Series 2001-B GO Warrants were used to (i) refund a portion of the County's then-outstanding general obligation indebtedness, including warrants previously issued in 1996 and 1999 for the erection, repair, furnishing, or maintenance of public buildings, bridges or roads within the scope and meaning of Section 215; and (ii) pay the costs of issuance of the Series 2001-B GO Warrants.

Liquidity support for the Series 2001-B GO Warrants was provided by a Standby Warrant Purchase Agreement among the County, the GO Warrant Trustee, JPMorgan Chase, and Bayerische

Landesbank Girozentrale, New York Branch, dated as of July 1, 2001 (as subsequently amended by that certain First Amendment to Standby Warrant Purchase Agreement dated as of September 1, 2004, the "Standby GO Warrant Purchase Agreement"). In 2008, virtually all outstanding Series 2001-B GO Warrants were tendered by investors and purchased by the Standby GO Warrant Purchase Agreement providers and such Series 2001-B GO Warrants became "Bank Warrants" pursuant to the Standby GO Warrant Purchase Agreement (the "Series 2001-B GO Bank Warrants"). The Standby GO Warrant Purchase Agreement required the County to redeem the Series 2001-B GO Bank Warrants in six equal semi-annual installments. The County defaulted on its obligation to redeem the Series 2001-B GO Bank Warrants on the accelerated timeframe.

As of the Petition Date, the outstanding principal amount of the Series 2001-B GO Warrants was $105,000,000.

b. Series 2003-A GO Warrants

The Series 2003-A GO Warrants were issued as fixed rate warrants in the aggregate principal amount of $94,000,000 on March 19, 2003, pursuant to a resolution of the County Commission dated March 6, 2003 (the "GO Resolution 2003-A"). Interest on the Series 2003-A GO Warrants is payable on April 1 and October 1 of each year with the final maturity on April 1, 2023.

The proceeds of the Series 2003-A Warrants were used to (i) refund a portion of the County's then-outstanding general obligation indebtedness, including warrants previously issued in 1993; (ii) finance the acquisition and construction of new streets and roads, landfill operations, acquisition of new equipment for use in the operation of County government, and resurfacing and repair of existing streets and roads; (iii) pay the premium for a municipal bond insurance policy provided by National Public Finance Guarantee Corporation, formerly known as MBIA Insurance Corporation ("MBIA"); and (iv) pay the costs of issuance of the Series 2003-A GO Warrants.

The Series 2003-A GO Warrants are insured by Financial Guaranty Insurance Policy number 40587 issued by MBIA.

There is no formal indenture trustee with respect to the Series 2003-A GO Warrants. The Bank of New York Mellon Trust Company, N.A. serves as paying agent with respect to the Series 2003-A GO Warrants.

On the Petition Date, the outstanding principal amount of the Series 2003-A GO Warrants was $46,185,000. As of the Petition Date, the County had paid all scheduled principal and interest payments on the Series 2003-A GO Warrants when due. Following the filing of the Case, the County Commission resolved to cease making payments on the Series 2003-A GO Warrants, and all principal and interest payments scheduled to come due during the duration of the Case have been paid by National pursuant to the GO Insurance Policies.

c. Series 2004-A GO Warrants

The Series 2004-A GO Warrants were issued as fixed rate warrants in the aggregate principal amount of $51,020,000 on August 10, 2004, pursuant to a resolution of the County Commission

dated July 27, 2004 (the "GO Resolution 2004-A"). Interest on the Series 2004-A GO Warrants is payable on April 1 and October 1 of each year with the final maturity on April 1, 2024.

The proceeds of the Series 2004-A Warrants were used to (i) finance the cost of various capital improvements, (ii) pay the premium for a municipal bond insurance policy provided by MBIA, and (iii) pay the costs of issuance of the Series 2004-A GO Warrants.

The Series 2004-A GO Warrants are insured by Financial Guaranty Insurance Policy number 44671 issued by MBIA.

There is no formal indenture trustee with respect to the Series 2004-A GO Warrants. U.S. Bank National Association serves as successor paying agent with respect to the Series 2004-A GO Warrants.

On the Petition Date, the outstanding principal amount of the Series 2004-A GO Warrants was $49,335,000. As of the Petition Date, the County had paid all scheduled principal and interest payments on the Series 2004-A GO Warrants when due. Following the filing of the Case, the County Commission resolved to cease making payments on the Series 2004-A GO Warrants, and all principal and interest payments scheduled to come due during the duration of the Case have been paid by National pursuant to the GO Insurance Policies. With respect to the Series 2003-A GO Warrants and the Series 2004-A GO Warrants, National is anticipated to pay during the Case (assuming the Effective Date occurs prior to April 1, 2014), (a) $5,845,000.00 on account of principal maturing on the Series 2003-A GO Warrants and the Series 2004-A GO Warrants during the Case; (b) $503,046.38 on account of interest accruing on the Series 2003-A GO Warrants and the Series 2004-A GO Warrants during the period between October 1, 2011 and the Petition Date; and (c) $8,562,964.87 on account of interest accruing on the Series 2003-A GO Warrants and the Series 2004-A GO Warrants during the period after the Petition Date.

5. Bessemer Lease Warrants

The Bessemer Lease Warrants were issued by the PBA under chapter 15 of title 11 of the Alabama Code sections 11-15-1, *et seq.*, which authorized the PBA to issue revenue warrants for the purpose of financing a building or buildings designed for use and occupancy as a County courthouse or jail or for the supplying of offices and related facilities for officers and departments of the County and any agencies for which the County may lawfully furnish office facilities or any one or more thereof, together with any lands deemed by the PBA to be desirable in connection therewith.

The Bessemer Lease Warrants were issued as fixed rate warrants in the aggregate principal amount of $86,745,000 on August 17, 2006, pursuant to a Trust Indenture dated as of August 1, 2006 (the "Bessemer Indenture"), between the County and First Commercial Bank, as indenture trustee (the "Bessemer Trustee"). Interest on the Bessemer Lease Warrants is payable on April 1 and October 1 of each year with the final maturity on April 1, 2026.

The Bessemer Indenture provides for a debt service reserve fund (the "Bessemer DSR Fund"), which is a special trust fund that must be maintained at a prescribed amount (the "Bessemer DSR Fund Requirement") determined by a formula defined in the Bessemer Indenture.

The proceeds of the Bessemer Lease Warrants were to be used to (i) provide for the payment of the cost of various capital improvements including a new County courthouse building in Bessemer, Alabama, the renovation of the existing courthouse, renovations to the existing County jail in Bessemer, and the acquisition and construction of an E911 Communications Center; (ii) fund the Bessemer DSR Fund to the Bessemer DSR Fund Requirement; (iii) pay the premium for a municipal bond insurance policy provided by Ambac; and (iv) pay the costs of issuance of the Bessemer Lease Warrants. In the Bessemer Indenture, the PBA reserved the right to use the proceeds of the Bessemer Lease Warrants for any other legally permissible purpose.

The E911 Communications Center was not constructed as planned and therefore the PBA is still in possession of the Bessemer Lease Warrants proceeds allocated to that facility. The Bessemer Lease Warrants are limited obligations of the PBA, payable solely out of revenues derived from the facilities with respect to which they were issued. The Bessemer Lease Warrants are also secured by a non-foreclosable mortgage lien on such facilities.

Pursuant to a Lease Agreement between the County and the PBA dated as of August 1, 2006 (the "Bessemer Lease"), the County is obligated to pay rentals to the Bessemer Trustee (for the account of the PBA) on such dates and in such amounts sufficient to provide for the payment of debt service on the Bessemer Lease Warrants. Such rental payments serve as consideration for the County's lease from the PBA of a courthouse and jail facility in Bessemer (the "Bessemer Leased Facilities"). The Bessemer Lease was renewable for successive one-year terms continuing to and including September 30, 2026. However, if the County elected not to renew the Bessemer Lease at the end of any fiscal year as therein provided, the PBA would have no funds with which to pay the principal of and interest on the Bessemer Lease Warrants.

The Bessemer Lease Warrants are insured by Financial Guaranty Insurance Policy number 25645BE issued by Ambac.

As of the Petition Date, the outstanding principal amount of the Bessemer Lease Warrants was $82,500,000, and the County (for the account of the PBA) had paid all scheduled principal and interest payments on the Bessemer Lease Warrants to the Bessemer Trustee when due.

6. Multi-Family Warrants

The Multi-Family Warrants were issued as fixed rate warrants in the aggregate principal amount of $4,405,000 on September 25, 1997, pursuant to a Trust Indenture dated as of September 1, 2007 (the "Multi-Family Indenture"), between the County and Regions Bank, as indenture trustee. The Multi-Family Warrants were issued for the purpose of purchasing a mortgage loan used to finance the acquisition and construction of two separate multi-family residential developments for occupancy by persons of low and moderate income and to pay related development costs. The Multi-Family Warrants were limited obligations of the County, with debt service to be paid primarily from payments made by the developer.

As of the Petition Date, the outstanding principal amount of the Multi-Family Warrants was $1,105,000. Since the Petition Date, the Multi-Family Warrants have been fully redeemed through

the optional redemption provisions under the Multi-Family Indenture. There are no Multi-Family Warrants still outstanding.

7. Swap Agreements

The County entered into numerous interest rate swap agreements with multiple counterparties from 2001 to 2004 (collectively, as more particularly described below, the "Swap Agreements"). Each of the Swap Agreements was entered into pursuant to separate International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Master Agreements") between the County and each of the Swap Agreement counterparties. The terms and conditions of each Swap Agreement were confirmed by a letter agreement (a "Confirmation"), which supplemented, formed a part of, and was subject to the separate ISDA Master Agreement between the County and each of the Swap Agreement counterparties.

Each of the ISDA Master Agreements contained termination provisions pursuant to which the counterparties were authorized to terminate the Swap Agreements upon the occurrence of events of default or termination events as defined in the ISDA Master Agreements. Each of the Swap Agreement counterparties exercised the termination provisions contained in their respective ISDA Master Agreements to terminate the Swap Agreements with the County.

a. Series 2002-A Sewer Swap

The County entered into the Series 2002-A Sewer Swap with JPMorgan Chase pursuant to a Confirmation dated September 18, 2001. The Series 2002-A Sewer Swap was "super-integrated" with the Series 2002-A Sewer Warrants for purposes of section 1.148-4(h)(4) of the Treasury Regulations promulgated under the Internal Revenue Code (the "Treasury Regs") and had a notional amount of $110,000,000, which was amortized to match the principal reduction on the Series 2002-A Sewer Warrants.

The effective date of the Series 2002-A Sewer Swap was February 15, 2002, and the termination date was February 1, 2042, which coincided with the maturity date of the related Series 2002-A Sewer Warrants. The terms of the Series 2002-A Sewer Swap required the County to pay a fixed rate of 5.060% and receive a floating rate equal to the Securities Industry and Financial Markets Association Municipal Swap Index rate (the "SIFMA Index") (formerly known as the BMA Municipal Swap Index), thereby synthetically fixing the variable rate of the Series 2002-A Sewer Warrants under the theory that the floating rate received by the County would offset the variable rate paid on the Series 2002-A Sewer Warrants, leaving only a fixed swap payment for the net interest payment related to the Series 2002-A Sewer Warrants.

The Series 2002-A Sewer Swap was terminated by JPMorgan Chase on March 2, 2009, with a calculated termination payment amount (including interest and deferred amounts) of $37,856,816 payable to JPMorgan Chase. As referenced in a settlement that JPMS entered into with the SEC in November of 2009 (the "JPMorgan SEC Settlement"), JPMorgan Chase terminated all obligations of the County to make termination payments associated with the Series 2002-A Sewer Swap. The JPMorgan SEC Settlement is discussed in more detail in Section III.E.9 below.

b. Series 2002-C Sewer Swaps

The County entered into three separate Series 2002-C Sewer Swaps with JPMorgan Chase (the "Series 2002-C JPM Sewer Swap"), Bank of America (the "Series 2002-C BofA Sewer Swap"), and Lehman Brothers Special Financing Inc. (the "Series 2002-C LB Sewer Swap") pursuant to three Confirmations dated October 23, 2002. The Series 2002-C BofA Sewer Swap Confirmation was later revised on November 1, 2002. The Series 2002-C Sewer Swaps were "integrated" with the Series 2002-C Sewer Warrants for purposes of section 1.148-4(h)(2) of the Treasury Regs.

The effective date of the Series 2002-C Sewer Swaps was October 25, 2002, and the termination date was February 1, 2040, which coincided with the maturity date of the related Series 2002-C Sewer Warrants. The terms of the Series 2002-C Sewer Swaps required the County to pay a fixed rate of 3.92% and receive a floating rate equal to 67% of the one month London Interbank Offered Rate ("LIBOR"), thereby synthetically fixing the variable rate of the Series 2002-C Sewer Warrants under the theory that the floating rate received by the County would offset the variable rate paid on the Series 2002-C Sewer Warrants, leaving only a fixed swap payment for the net interest payment related to the Series 2002-C Sewer Warrants. The Series 2002-C JPM Sewer Swap had a notional amount of $539,446,000, the Series 2002-C BofA Sewer Swap had a notional amount of $110,000,000, and the Series 2002-C LB Sewer Swap had a notional amount of $190,054,000. The notional amounts of the Series 2002-C Sewer Swaps were amortized to match the principal reduction on the Series 2002-C Sewer Warrants.

The Series 2002-C JPM Sewer Swap was terminated by JPMorgan Chase on March 2, 2009 with a calculated termination payment amount (including interest and deferred amounts) of $153,756,229 payable to JPMorgan Chase. As referenced in the JPMorgan SEC Settlement, JPMorgan Chase terminated all obligations of the County to make termination payments associated with the Series 2002-C JPM Sewer Swap.

The Series 2002-C BofA Sewer Swap was terminated by Bank of America on July 15, 2008, with a calculated termination payment amount (including interest and deferred amounts) of $11,866,081 payable to Bank of America. In December 2010, Bank of America entered into an out of court settlement agreement with attorneys general from Alabama and numerous other states (the "BofA Attorney General Settlement"). Pursuant to the BofA Attorney General Settlement, Bank of America forfeited the termination fee associated with the Series 2002-C BofA Sewer Swap. The BofA Attorney General Settlement resolved allegations against Bank of America for engaging in anticompetitive conduct or unfair trade practices in the marketing, sale, and placement of any municipal bond derivatives, or in the offer to market, sell, or place any municipal bond derivatives.

The Series 2002-C LB Sewer Swap was terminated by Lehman Brothers Special Financing, Inc. ("Lehman Brothers") on December 15, 2008, with a calculated termination payment amount (including interest and deferred amounts) of $68,568,285 payable to Lehman Brothers. As of the Petition Date, the Series 2002-C LB Sewer Swap termination payment remained outstanding. The Plan classifies any Claims arising from the Series 2002-C LB Sewer Swap in Class 1-E among the Sewer Swap Agreement Claims.

Lehman Brothers has filed an adversary proceeding in the Case regarding the Series 2002-C LB Sewer Swap. That adversary proceeding is discussed in Section IV.H.4 below.

c. Series 2003-B Sewer Swap

The County entered into the Series 2003-B Sewer Swap with JPMorgan Chase pursuant to a Confirmation dated March 28, 2003. The Series 2003-B Sewer Swap was "integrated" with the Series 2003-B Sewer Warrants for purposes of section 1.148-4(h)(2) of the Treasury Regs and had a notional amount of $1,035,800,000, which was amortized to match the principal reduction on the Series 2003-B Sewer Warrants.

The effective date of the Series 2003-B Sewer Swap was May 1, 2003, and the termination date was February 1, 2042, which coincided with the maturity date of the related Series 2003-B Sewer Warrants. The terms of the Series 2003-B Sewer Swap required the County to pay a fixed rate of 3.678% and, from May 2, 2004, receive a floating rate equal to 67% of one month LIBOR, thereby synthetically fixing the variable rate of the Series 2003-B Sewer Warrants under the theory that the floating rate received by the County would offset the variable rate paid on the Series 2003-B Sewer Warrants, leaving only a fixed swap payment for the net interest payment related to the Series 2003-B Sewer Warrants.

The Series 2003-B Sewer Swap was terminated by JPMorgan Chase on March 2, 2009, with a calculated termination payment amount (including interest and deferred amounts) of $255,717,158 payable to JPMorgan Chase. As referenced in the JPMorgan SEC Settlement, JPMorgan Chase terminated all obligations of the County to make termination payments associated with the Series 2003-B Sewer Swap.

d. Series 2003-C Sewer Swaps

The County entered into two separate Series 2003-C Sewer Swaps with JPMorgan Chase (the "Series 2003-C JPM Sewer Swap") and Bank of America (the "Series 2003-C BofA Sewer Swap") pursuant to two Confirmations dated July 14, 2003 and July 15, 2003, respectively. The Series 2003-C Sewer Swaps were "integrated" with the Series 2003-C Sewer Warrants for purposes of section 1.148-4(h)(2) of the Treasury Regs.

The effective date of the Series 2003-C Sewer Swaps was August 7, 2003 and the termination date was February 1, 2042, which coincided with the maturity date of the related Series 2003-C Sewer Warrants. The terms of the Series 2003-C Sewer Swaps required the County to pay a fixed rate of 3.596% and, from February 1, 2005, receive a floating rate equal to 67% of one month LIBOR, thereby synthetically fixing the variable rate of the Series 2003-C Sewer Warrants under the theory that the floating rate received by the County would offset the variable rate paid on the Series 2003-C Sewer Warrants, leaving only a fixed swap payment for the net interest payment related to the Series 2003-C Sewer Warrants. The Series 2003-C JPM Sewer Swap had a notional amount of $789,018,750, and the Series 2003-C BofA Sewer Swap had a notional amount of $263,006,250. The notional amounts of the Series 2003-C Sewer Swaps were amortized to match the principal reduction on the Series 2003-C Sewer Warrants.

The Series 2003-C JPM Sewer Swap was terminated by JPMorgan Chase on March 2, 2009, with a calculated termination payment amount (including interest and deferred amounts) of $194,223,915 payable to JPMorgan Chase. As referenced in the JPMorgan SEC Settlement, JPMorgan Chase terminated all obligations of the County to make termination payments associated with the Series 2003-C JPM Sewer Swap.

The Series 2003-C BofA Sewer Swap was terminated by Bank of America on July 15, 2008, with a calculated termination payment amount (including interest and deferred amounts) of $16,762,880 payable to Bank of America. Bank of America forfeited the termination fee associated with the Series 2003-C BofA Sewer Swap under the BofA Attorney General Settlement.

e. Series 2001-B GO Swap

The County entered into the Series 2001-B GO Swap with JPMorgan Chase pursuant to a Confirmation dated April 26, 2001. The Series 2001-B GO Swap was associated with the Series 2001-B GO Warrants and had a notional amount of $120,000,000. The Series 2001-B GO Swap was not, however, "integrated" with the Series 2001-B GO Warrants for purposes of section 1.148-4(h)(2) of the Treasury Regs. The provisions of the Series 2001-B GO Swap allowed JPMorgan Chase to cancel the swap on or after April 1, 2008.

The effective date of the Series 2001-B GO Swap was April 19, 2001, and the termination date was April 1, 2011. The terms of the Series 2001-B GO Swap required the County to pay a fixed rate of 4.295% and receive a floating rate equal to the SIFMA Index.

The Series 2001-B GO Swap was terminated by JPMorgan Chase on September 4, 2008, with a calculated termination payment amount (including interest and deferred amounts) of $7,893,762 payable to JPMorgan Chase. As of the Petition Date, the Series 2001-B GO Swap termination payment remained outstanding, and JPMorgan Chase asserts that such termination payment and the obligations in respect of the 2001-B GO Warrants are equal priority Claims against the County. The County has reserved all of its rights in respect of the allowance, priority, and treatment of the Series 2001-B-GO Swap Claims, but believes that the Plan provides for the fair and equitable satisfaction of such Claims in accordance with the GO Plan Support Agreement. Pursuant to the compromises and settlements between the County and the JPMorgan Parties implemented under the Plan, JPMorgan Chase will receive on the Effective Date the sum of ten dollars ($10.00) on account of and in full, final, and complete settlement, satisfaction, release, and exchange of all Series 2001-B GO Swap Claims.

f. 2001 Swaptions

The County entered into two separate 2001 Swaptions with JPMorgan Chase pursuant to two Confirmations dated January 10, 2001. The 2001 Swaptions included provisions that allowed them to be cancelled and restarted by JPMorgan Chase.

The first 2001 Swaption had a notional amount of $200,000,000 and an effective date of February 1, 2001 (the "First 2001 Swaption"). The second 2001 Swaption had a notional amount of $175,000,000 and an effective date of February 1, 2002 (the "Second 2001 Swaption"). Both of the

2001 Swaptions had a termination date of January 1, 2016. The terms of the First 2001 Swaption required the County to pay a floating rate equal to the SIFMA Index and receive a fixed rate of 5.069%. The terms of the Second 2001 Swaption required the County to pay a floating rate equal to the SIFMA Index and receive a fixed rate of 5.2251%.

Both the 2001 Swaptions were terminated by JPMorgan Chase on September 4, 2008. The First 2001 Swaption had a calculated termination payment amount of $3,500,000 payable to JPMorgan Chase. The Second 2001 Swaption had a calculated termination payment amount of $2,750,000 payable to JPMorgan Chase. As referenced in the JPMorgan SEC Settlement, JPMorgan Chase terminated all obligations of the County to make termination payments associated with the 2001 Swaptions.

g. 2004 Swaps

The County entered into four separate 2004 Swaps pursuant to four Confirmations dated June 10, 2004, whereby the County paid a floating rate and received a floating rate from Bear Stearns Capital Markets Inc. ("Bear Stearns") and Bank of America. In addition, the County entered into a supplement to the Sewer Warrant Indenture dated as of May 1, 2004 in relation to the 2004 Swaps.

The purpose of the 2004 Swaps was to better match payments on the Series 2002-A Sewer Warrants, the Series 2002-C Sewer Warrants, the Series 2003-B Sewer Warrants, and the Series 2003-C Sewer Warrants as compared to the original swaps that were "integrated" with those outstanding series of Warrants. When the 2004 Swaps were executed, the County received aggregate up-front payments of $25,488,000 from Bear Stearns and Bank of America. The first Bear Stearns 2004 Swap had a notional amount of $110,000,000, an effective date of June 24, 2004, and a termination date of February 1, 2042 to match the maturity date of the Series 2002-A Sewer Warrants (the "First 2004 Bear Stearns Swap"). The second Bear Stearns 2004 Swap had a notional amount of $824,700,000, an effective date of February 1, 2011, and a termination date of February 1, 2040 to match the maturity date of the Series 2002-C Sewer Warrants (the "Second 2004 Bear Stearns Swap"). The third Bear Stearns 2004 Swap had a notional amount of $633,078,000, an effective date of August 1, 2012, and a termination date of February 1, 2042 (the "Third 2004 Bear Stearns Swap" and, collectively with the First 2004 Bear Stearns Swap and the Second 2004 Bear Stearns Swap, the "2004 Bear Stearns Swaps"). The Bank of America 2004 Swap had a notional amount of $379,847,000, an effective date of August 1, 2012, and a termination date of February 1, 2042 (the "2004 BofA Swap"). The Third 2004 Bear Stearns Swap and the 2004 BofA Swap were structured to match the maturity date of the Series 2003-B Sewer Warrants. The terms of the First 2004 Bear Stearns Swap required the County to pay a floating rate equal to the SIFMA Index and receive a floating rate equal to 56% of one month LIBOR plus a spread of 0.49 basis points. The terms of the Second 2004 Bear Stearns Swap, the Third 2004 Bear Stearns Swap, and the 2004 BofA Swap required the County to pay a floating rate equal to the 67% of one month LIBOR and receive a floating rate equal to 56% of one month LIBOR plus a spread of 0.49 basis points.

The 2004 Bear Stearns Swaps were terminated by Bear Stearns on March 3, 2009. The First 2004 Bear Stearns Swap had a calculated termination payment amount (including interest and deferred amounts) of $25,834,956 payable to Bear Stearns. The Second 2004 Bear Stearns Swap had a calculated termination payment amount of $6,249,915 payable to the County. The Third 2004

Bear Stearns Swap had a calculated termination payment amount of $10,524,145 payable to the County. The 2004 Bear Stearns Swaps net termination payment amount is $9,060,896 payable to Bear Stearns. As of the Petition Date, the 2004 Bear Stearns Swaps termination payment remained outstanding. The Plan classifies any Claims arising from the 2004 Bear Stearns Swaps in Class 1-E among the Sewer Swap Agreement Claims.

The 2004 BofA Swap was terminated by Bank of America on July 15, 2008, with a calculated termination payment amount of $2,560,000 payable to Bank of America. Bank of America forfeited the termination fee associated with the 2004 BofA Swap under the BofA Attorney General Settlement.

8. Economic Development Agreements and Tax Abatement Agreements

The County historically has placed significant importance on the aggressive recruitment of businesses to build or expand commercial ventures within the County. The County's business recruiting efforts usually take the form of agreements (generally, the "Economic Development Agreements") whereby the County agrees to tax rebates, tax abatements, expense reimbursements, or other incentives associated with specific economic development projects. New business development was intended to stimulate job growth for the County's citizens and increase tax revenues so the County could fund its obligations under the Economic Development Agreements while also creating new jobs for the County's citizens.

With respect to Economic Development Agreements involving tax rebates, the County agreed to reimburse the counterparty a fixed amount of non-earmarked sales and use taxes or occupational taxes paid by the counterparty in connection with the project. The County typically would rebate the counterparty's prior tax payments on a quarterly basis for a period of time until the agreed-upon rebate amount was paid.

With respect to Economic Development Agreements involving expense reimbursements, the County agreed to reimburse the counterparty a fixed amount over time, based on the counterparty's construction of expansion-related infrastructure beneficial to the County, such as roads, drainage, sewer lines, and related infrastructure. Under these reimbursement agreements, the County typically would reimburse the counterparty on an annual basis for a period of time until the agreed-upon reimbursement was paid.

The County entered into the Economic Development Agreements involving tax abatements pursuant to the Tax Incentive Reform Act of 1992 ("TIRA"), which is codified at Alabama Code sections 40-9B-1, *et seq*. Under these agreements (as more particularly described in the Plan, the "Tax Abatement Agreements"), the County has agreed to refrain from collecting certain non-educational *ad valorem* taxes, and sales and use taxes associated with construction and acquisition costs, or mortgage recording taxes (or some combination thereof) related to economic development projects within the County. The Tax Abatement Agreements typically provide for an abatement of non-educational *ad valorem* taxes for a period of 10 years, which is the maximum period allowed under TIRA.

Notably, TIRA permits the governing bodies of cities and public industrial authorities to grant abatements of County taxes without County consent, thereby affecting the County's revenue. The County is not a party to these agreements. Rather, the County merely receives a copy of the agreement and adjusts its tax rolls accordingly. The abatements granted by other entities within the County, which adversely impact the County's tax revenues, number in the hundreds.

E. Summary of Prepetition Litigation Involving the County

Prior to the filing of the Case, the County was party to various pending litigation matters. Several of these matters have been removed to, or otherwise moved to, the Bankruptcy Court as adversary proceedings and contested matters. Other matters remain pending in other courts, where they are subject to the automatic stays imposed under Bankruptcy Code sections 362(a) and 922(a).

1. *Wilson v. Bank of America, et al.*; Circuit Court of Jefferson County, Alabama, Birmingham Division, Case No. CV-2008-901907.00, and United States Bankruptcy Court for the Northern District of Alabama (Birmingham), Adversary Proceeding No. 11-0433-TBB (together, the "Wilson Action")

In the Wilson Action, the plaintiffs, representatives of a putative class of sewer ratepayers, allege that the County's sewer rates are unconstitutionally high, that the Sewer Warrant Indenture pursuant to which the County issued the Sewer Warrants is invalid, and that the chapter of the Alabama Code that authorized the issuance of the Sewer Warrants is invalid. Plaintiffs sued several banks and individuals in addition to the County. The County, along with numerous other parties, moved to dismiss the action. The state trial court subsequently denied all motions to dismiss. Several defendants petitioned the Alabama Supreme Court for writs of mandamus to have the trial court's denial of the motions to dismiss overturned. Due to the County's bankruptcy and the automatic stay of Bankruptcy Code section 362, the Alabama Supreme Court has not yet ruled on those petitions.

Shortly after the Petition Date, FGIC removed one count of the Wilson Action to the United States District Court for the Northern District of Alabama (the "District Court"). It was referred to the Bankruptcy Court shortly thereafter, where the removed count was assigned Adversary Proceeding Number 11-00433-TBB (the "Wilson Adversary Proceeding"). After a duly-noticed hearing, the Bankruptcy Court entered an order decreeing that the automatic stay of Bankruptcy Code section 362(a) applies to the Wilson Adversary Proceeding and that the plaintiffs' efforts to engage in discovery were prohibited by the automatic stay.

The matter remains pending with one count in Bankruptcy Court and one count in State Court. The count in State Court is stayed by virtue of the automatic stays under Bankruptcy Code sections 362(a) and 922(a). The Wilson Adversary Proceeding is discussed further in Section IV.H.1 below.

2. *Bank of New York Mellon as Trustee v. Jefferson County, et al.*; United States District Court for the Northern District of Alabama, Southern Division, Case No. 2:08-cv-1703-RDP (the "Federal Court Receivership Action")

In 2008, the Sewer Warrant Trustee, FGIC, and Syncora filed this action in District Court seeking the appointment of a receiver over the Sewer System. Although the District Court found that the appointment of a receiver was warranted, the District Court abstained from exercising jurisdiction over the Federal Court Receivership Action. This case was stayed prior to the County's bankruptcy filing and has been administratively closed.

3. *Bank of New York Mellon as Trustee v. Jefferson County, et al.*; Circuit Court of Jefferson County, Alabama, Birmingham Division, Case No. CV-09-2318 (the "State Court Receivership Action," and together with the Federal Court Receivership Action, the "Receivership Actions")

After the District Court abstained in the Federal Court Receivership Action, the Sewer Warrant Trustee filed the State Court Receivership Action in the State Court to seek the appointment of a receiver for the Sewer System. The State Court granted the Sewer Warrant Trustee's motion for partial summary judgment. In an order effective as of September 22, 2010 (the "Receiver Order"), the State Court, relying upon Alabama Code section 6-6-620 and section 13.2 of the Sewer Warrant Indenture (titled "Remedies on Default"), appointed the Receiver to operate the Sewer System.

As part of the Receiver Order, the State Court also entered a money judgment against the County in the amount of $515,942,500.11, with recourse for that money judgment limited to the net revenues from the operation of the Sewer System.

Several additional parties sought to intervene in the State Court Receivership Action since the Receiver Order was entered. The potential intervening parties include the Attorney General of the State of Alabama (the "Attorney General"), the plaintiffs from the Wilson Action, a group of Alabama state legislators, and another group that includes legislators, Birmingham city officials, and citizens (many of whom are also plaintiffs in the Bennett Action discussed in Section IV.H.2 below). No intervenors sought to assert new claims against the County. The State Court granted the Attorney General's motion to intervene but denied the motions of the other potential intervenors.

After the County filed its chapter 9 Case, the Sewer Warrant Trustee, the Receiver, and other parties filed motions requesting that the Bankruptcy Court find that the automatic stays did not apply to the State Court Receivership Action or that the automatic stays should be lifted. This litigation is discussed in more detail in Section IV.A below.

4. *Syncora Guarantee v. Jefferson County, Alabama, et al.*, Supreme Court of New York, County of New York, Case No. 601100/10 (the "Syncora Lawsuit")

In the Syncora Lawsuit, Syncora alleged that the County, JPMorgan Chase, and JPMS engaged in fraud and aided and abetted fraud in connection with Syncora's issuance of bond guarantees for certain of the Sewer Warrants. JPMorgan Chase and JPMS have denied the allegations and any liability to Syncora in connection with Syncora's issuance of such bond

guarantees. The New York state court denied JPMorgan Chase's and JPMS's motion to dismiss the claims asserted against them in the Syncora Lawsuit.

The County asserted counterclaims against Syncora in the Syncora Lawsuit for Syncora's alleged failure to maintain its credit rating. Upon a motion to dismiss by Syncora, the New York state court dismissed those claims holding that Syncora had no obligation to maintain its credit rating. JPMorgan Chase and JPMS cross-claimed against the County for contribution and indemnification, alleging that the County had a contractual and common law obligation to indemnify any liability of JPMorgan Chase and JPMS to Syncora in the Syncora Lawsuit. The County's motion to dismiss the indemnification and contribution claim was denied by the New York state court.

The Syncora Lawsuit is currently stayed pending the resolution of the County's chapter 9 proceeding. As discussed in Section V.A below, pursuant to the settlements and compromises implemented pursuant to the Plan, the JPMorgan Parties and their Related Parties will be released from any and all claims and causes of action asserted in the Syncora Lawsuit, the Syncora Lawsuit will be dismissed with prejudice, and JPMorgan Chase and JPMS will release or otherwise receive no recovery on account of their indemnification and contribution claims against the County in connection with the Syncora Lawsuit.

5. *Assured Guaranty Municipal Corp v. JPMorgan Chase Bank, N.A., et al.*, Supreme Court of the State of New York, County of New York, Case No. 650642/10 (the "Assured Lawsuit")

In the Assured Lawsuit, Assured alleged that JPMorgan Chase and JPMS engaged in fraud and aided and abetted fraud in connection with Assured's issuance of bond guarantees for certain of the Sewer Warrants. JPMorgan Chase and JPMS have denied the allegations and any liability to Assured in connection with Assured's issuance of such bond guarantees. The New York state court denied JPMorgan Chase's and JPMS's motion to dismiss the claims asserted against them in the Assured Lawsuit. JPMorgan Chase and JPMS filed a third-party complaint against the County for contribution and indemnification alleging that the County had a contractual and common law obligation to indemnify any liability of JPMorgan Chase and JPMS to Assured in the Assured Lawsuit. The County's motion to dismiss the indemnification and contribution claims was denied by the New York state court.

The Assured Lawsuit is currently stayed pending the resolution of the County's chapter 9 Case. As discussed in Section V.A below, pursuant to the settlements and compromises implemented pursuant to the Plan, the JPMorgan Parties and their Related Parties will be released from any and all claims and causes of action asserted in the Assured Lawsuit, the Assured Lawsuit will be dismissed with prejudice, and JPMorgan Chase and JPMS will release or otherwise receive no recovery on account of their indemnification and contribution claims against the County in connection with the Assured Lawsuit.

6. *Jefferson County, Alabama v. JPMorgan Chase Bank, N.A., et al.*, Circuit Court of Jefferson County, Alabama, Birmingham Division, Case No. CV-2009-903641.00 (the "JPMorgan Lawsuit")

The County brought suit against JPMS; JPMorgan Chase; Blount Parrish & Company; Charles LeCroy; Douglas MacFaddin; Larry Langford; William Blount; and Albert LaPierre asserting claims for fraud, suppression, unjust enrichment, and conspiracy. The JPMorgan Lawsuit was filed on November 13, 2009. The County seeks damages in excess of a billion dollars, and JPMS and JPMorgan Chase have denied the allegations and any liability to the County and have counterclaimed for indemnification. Prior to the County's filing its Plan, the lawsuit had been scheduled to go to trial in October 2013.

The JPMorgan Lawsuit is stayed by consent of the parties pending the confirmation and consummation of the Plan. As discussed in Section V.A below, pursuant to the settlements and compromises implemented pursuant to the Plan, the JPMorgan Parties and their Related Parties will be released from any and all claims and causes of action asserted in the JPMorgan Lawsuit, the JPMorgan Lawsuit will be dismissed with prejudice, and JPMorgan Chase and JPMS will release or otherwise receive no recovery on account of their indemnification claims against the County in connection with the JPMorgan Lawsuit.

7. *Edwards v. Jefferson County, Alabama*; Circuit Court of Jefferson County, Alabama, Birmingham Division, Case No. CV-07-900873

The plaintiffs in the Edwards Lawsuit successfully obtained, on behalf of a class, a declaration that the County's occupational, license, and privilege taxes were invalid and an injunction against the further collection of those taxes. The Alabama Supreme Court affirmed this ruling. As a result, the County was ordered to refund previously collected taxes in the amount of approximately $37,800,000. To that end, the County Commission escrowed occupational tax collections from January 12, 2009 to August 13, 2009.

While the case was on its first appeal, the Alabama Legislature reauthorized the County Commission to collect occupational, license, and privilege taxes. In a subsequent appeal, the Alabama Supreme Court recognized that, under the new legislation, the County Commission could levy and collect the new tax for the period covered by the escrow, but that the County Commission could not simply transfer to itself the amounts that had been escrowed.

After this second appeal, the County Commission mediated with plaintiffs' counsel and reached a settlement framework applicable to approximately $6,500,000 of the escrowed taxes (the "Edwards Preliminary Settlement Amount"). On May 19, 2011, the trial court ordered that $31,416,169 be refunded to taxpayers, less any attorneys' fees that may be awarded by the court. The trial court on that same day gave preliminary approval to the settlement that had been struck between the named class representatives and the County Commission. By order dated August 9, 2011, the trial court gave final approval to the settlement. Based on the final approval, approximately $6,400,000 was returned to the County.

Members of the settlement subclass appealed the trial court's final approval of the settlement to the Alabama Supreme Court. The Bankruptcy Court granted the County's motion to lift the automatic stays to allow the appeal to proceed. On appeal, the Alabama Supreme Court ruled in the County's favor and upheld the settlement. The Edwards litigation is now concluded.

8. *Weissman v. Jefferson County, Alabama*; Circuit Court of Jefferson County, Alabama, Birmingham Division, Case No. CV-09-904022.00

The plaintiffs in this case sought repayment of all occupational, license, and privilege taxes levied by the County pursuant to authorizing legislation passed on August 14, 2009. The taxes levied between August 1 and December 31 of 2009 amounted to approximately $31 million. On December 1, 2010, the trial court granted summary judgment for the plaintiffs and found that the notice that preceded the passage of the authorizing legislation was inadequate. The trial court enjoined the County from collecting the occupational, license, and privilege taxes, but did not order the County to refund amounts already collected. Prior to the Petition Date, the Supreme Court of Alabama affirmed the trial court's ruling that the statute was unconstitutional, but had not decided the question whether the County must refund any taxes collected prior to December 1, 2010.

After the Bankruptcy Court granted the County's request that the automatic stays be lifted as to this case to allow the appeal to proceed, the Supreme Court of Alabama ruled that the County was not required to refund taxes it collected prior to December 1, 2010. Had the Alabama Supreme Court ruled to the contrary, the County's liability for refunding such taxes could have totaled approximately $100 million. The Weissman litigation is now concluded.

9. *In the Matter of J.P. Morgan Securities, Inc., Respondent;* Securities and Exchange Commission, Administrative Proceeding, File No. 3-13673

The County has received aggregate payments of $75,033,692.30 in connection with or pursuant to undertakings referenced in the JPMorgan SEC Settlement. On November 4, 2009, the SEC issued an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order (the "SEC Order"). This proceeding is now concluded.

In connection with the JPMorgan SEC Settlement, in view of JPMS's undertaking to pay $50,000,000 "to and for the benefit of Jefferson County, Alabama" and to terminate any and all obligations of the County to make any payments to JPMorgan Chase under the Series 2002-A Sewer Swap, the Series 2002-C JPM Sewer Swap, the Series 2003-B Sewer Swap, the Series 2003-C JPM Sewer Swap, and the 2001 Swaptions, the SEC, among other things, ordered JPMS to pay disgorgement of $1.00 and a civil money penalty in the amount of $25,000,000 to the SEC, which JPMS thereafter paid. JPMS did not admit nor deny the findings contained in the SEC Order. Pursuant to the "Fair Fund" provisions of the Sarbanes-Oxley Act of 2002, the County was an eligible recipient of the civil money penalty and the disgorgement paid by JPMS to the SEC and, on August 18, 2010, the SEC issued a Proposed Plan of Distribution, which provided for distribution of these funds to the County. In determining that the County was the eligible recipient of such funds, the SEC's Division of Risk, Strategy and Financial Innovation concluded that (i) there was no

evidence or information that the interest rates warrantholders received were affected by the improper payment scheme alleged in the SEC Order, and (ii) the harm sustained by original warrantholders was largely the result of the failures of the markets for variable rate demand warrants and auction rate warrants, and there was no evidence to indicate that these failures were caused by the improper payment scheme alleged in the SEC Order. On October 7, 2010, the SEC issued an order approving the payment of the $25,000,001 to the County, and the funds in the amount of $25,000,001, plus interest thereon, were disbursed to the County on February 1, 2011.

Both the Sewer Warrant Trustee and the Receiver gave notice prepetition to the County Commission under Alabama Code section 6-5-20 of a claim to the proceeds of the $50,000,000 payment to the County by JPMS. The Receiver also presented a claim for the Fair Fund proceeds in the amount of $25,033,692. The County disputed those claims and has not turned over to the Trustee or the Receiver any of the funds received from JPMS in connection with or pursuant to undertakings referenced in the JPMorgan SEC Settlement.

Following the filing of the case, the Sewer Warrant Trustee filed a proof of claim asserting that the County was obligated to turn over to the Sewer Warrant Trustee any of the funds received from JPMS in connection with or pursuant to undertakings referenced in the JPMorgan SEC Settlement. The County disputes this claim.

10. *United States v. Jefferson County, et al.*; United States District Court for the Northern District of Alabama, Southern Division, Case No. 2:75-cv-00666-CLS

Various private plaintiffs and the United States filed suit against the County's Personnel Board and other defendants, including the County and the City of Birmingham, to remedy alleged wrongs in the hiring and promotion of African-American and female applicants and employees. After considerable negotiations, litigation, and appeals, the County entered into a consent decree on December 29, 1982 (the "Hiring Practices Consent Decree"). This decree, along with other consent decrees executed by other parties, remained the subject of further litigation and negotiations, including, in 2002, the District Court appointing a receiver for the Personnel Board.

At present, the active portion of the litigation began on October 3, 2007, when two groups of plaintiffs claimed that the County had failed to comply with the Hiring Practices Consent Decree's requirements to ensure equal employment for blacks and women and to remedy the effects of prior discrimination. The plaintiffs also allege that the County failed to comply with other specific consent decree requirements. The plaintiffs sought to hold the County in contempt and sought to modify the Hiring Practices Consent Decree to mandate particular practices that the plaintiffs would like to see implemented.

The District Court set disputed issues for trial in March 2009. Trial initially began on March 30, 2009. Prior to the Petition Date, the trial was continued for reasons unrelated to the litigation. On January 27, 2012, the District Court found that the automatic stays in the County's Case did not apply to the portions of the litigation concerning the County. The trial resumed on December 3, 2012. The contempt trial concluded on December 11, 2012, and the parties await a ruling from the federal district court. Until such time as the court issues its ruling on the contempt motion, the

County is under a hiring freeze precluding it from hiring without express permission from the other parties and the District Court.

F. Summary of the County's Assets

1. Exemption of the County's Assets from Execution or Levy

Under Alabama law, the County's real and personal property holdings are exempt from the reach of the County's creditors. Alabama Code section 6-10-10 provides that "[a]ll property, real or personal, belonging to the several counties or municipal corporations in this state and used for county or municipal purposes shall be exempt from levy and sale under any process or judgment whatsoever."

2. Capital Assets

The County owns all manner of capital assets, including buildings, roads, bridges, sewer pipes, treatment plants, undeveloped real estate, and a variety of service vehicles. Most of these assets are used daily in the ordinary course performance of the County's public functions. These assets are not easily liquidated or subject to liquidation at all.

The County's assets are valued in its books and records at depreciated historical cost. These book values do not represent the cash value that could be realized by the County were it to seek to sell or otherwise liquidate these assets.

3. Statement of Net Assets

The County's 2011 Audited Financial Statements contain a "Statement of Net Assets" for the County. The Statement of Net Assets differentiates between assets relating to governmental activities and assets relating to business-type activities. The County's governmental activities are those primary governmental functions, which are generally financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties and, in the County's case, as of the Petition Date, included the County's operation of the Sewer System, the County's landfill systems, the County-owned healthcare facility Cooper Green Mercy Hospital ("Cooper Green")[7], and the County-owned nursing home in Ketona, Alabama (the "Nursing Home").[8]

The 2011 Audited Financial Statements reflect, as of September 30, 2011, total current and non-current assets relating to the County's governmental activities totaling $820.4 million and assets

[7] Since the Petition Date, the County has adopted a new model for providing health care to indigent patients. As explained in greater detail below in Section IV.O, the County is now providing diagnostic care, urgent care, specialty care, and primary care to indigent patients under the auspices of Cooper Green Mercy Health Services. For ease of reference, the term "Cooper Green" shall refer to the County's former operation of Cooper Green Mercy Hospital and its current operation of Cooper Green Mercy Clinic and Cooper Green Mercy Health Services.

[8] Since the Petition Date, the County has sold its interests in the Nursing Home. For a description of that sale, see section IV.P below.

relating to business-type activities totaling $3.203 billion. More specifically, the 2011 Audited Financial Statements report the County's assets as follows:

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS

30-Sep-11

(IN THOUSANDS)

ASSETS	Governmental Activities	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Fund	Total
Current Assets					
Cash and investments	$99,323	$2,576	$8,707	$4,415	$115,021
Patient accounts receivable, net	-	6,543	-	945	7,488
Estimated third-party payor settlements	-	402	-	-	402
Accounts receivable, net	5,940	-	18,619	169	24,728
Loans receivable, net	2,212	-	-	-	2,212
Taxes receivable, net	132,465	-	5,096	-	137,561
Other receivables	-	2,438	-	-	2,438
Due from (to) other governments	8,357	-	1,540	-1,300	8,597
Inventories	-	1,298	-	5	1,303
Prepaid expenses	-	739	-	-	739
Deferred charges – issuance costs	11,970	-	46,591	3	58,564
Restricted assets – current	164,513	-	202,942	-	367,455
Total Current Assets	424,780	13,996	283,495	4,237	726,508
Noncurrent Assets					
Deferred charges – issuance costs	-	-	-	1	1
Advances due from (to) other funds	42,745	-	-10,628	-32,117	-
Loans receivable, net	21,570				21,570
Restricted assets	4,107	1,759	56	3,881	9,803
Assets internally designated for capital improvements or redemption of warrants	-	-	52,549	-	52,549
					-
Capital assets:					
Depreciable assets, net	287,866	35,781	2,763,883	32,342	3,119,872
Nondepreciable assets	39,376	1,090	31,672	20,681	92,819
	395,664	38,630	2,837,532	24,788	3,296,614
	$820,444	$52,626	$3,121,027	$29,025	$4,023,122

Among the categories of personal and real property of the County identified in the 2011 Audited Financial Statements are the following:

a. Deposits and Investments

The County's deposits include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Under Alabama Code section 11-8-11, the County Commission is authorized to invest in interest-bearing securities issued by the United States government which are guaranteed as to principal and which are redeemable upon application. Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The County Commission reports all money market investments (*i.e.*, U.S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less) at amortized cost. Investments held in escrow for retainage on construction contracts and as surety for purchase commitments are stated at fair value.

b. Receivables

All trade, property tax, loans, and patient receivables are shown net of an allowance for uncollectible amounts. Allowances for doubtful accounts are estimated based on historical write-off percentages. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

As reported in the County's 2011 Audited Financial Statements, sales tax receivables consist of taxes that have been paid by consumers in the month of September of the immediately preceding fiscal year. These taxes are normally remitted to the County Commission within the next sixty days.

Patient receivables relating to the County's business-type activities, including the operation of Cooper Green and the Nursing Home, are receivables due from patients, insurance companies, and third-party reimbursement contractual agencies. Patient receivables are recorded less an allowance for uncollectible accounts, charity accounts, and other uncertainties. Certain third-party insured accounts (*e.g.*, Blue Cross, Medicare, and Medicaid) are based on contractual agreements, which generally result in collecting less than the established rates. Final determinations of payments under these agreements are subject to review by appropriate authorities. Doubtful accounts are written off against the allowance as deemed uncollectible and recorded as recoveries of bad debts if subsequently collected.

c. Inventories

Inventories are valued at cost, which approximates realizable value, using the first-in, first-out (or "FIFO") method. Inventories of governmental funds are recorded as expenditures when consumed.

d. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items for both government activities and business-type activities.

e. Restricted Assets

Certain funds set aside for the repayment of certain GO Warrants and Sewer Warrants were classified as restricted assets because they are maintained in separate bank accounts, and their use is limited by the applicable warrant documents or by applicable law. Also, various amounts were classified as restricted because they may be limited by warrant documents for the construction of various ongoing projects or improvements. Restricted assets available to satisfy liabilities classified as current were classified as current assets.

f. Capital Assets

The County's capital assets include land, equipment, and infrastructure assets (*e.g.*, roads, bridges, water and sewer systems, and similar items). Capital assets are reported in the applicable governmental activities and business-type activities. Because of their public nature and use, the County's capital assets generally are not readily subject to liquidation or sale.

In its financial records, the County's capital assets are valued at cost when historical records are available, and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation on all assets is provided on the straight-line basis over the asset's estimated useful life. Capitalization thresholds (*i.e.*, the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of the County's reported capital assets are as follows:

Item	Capitalization Threshold	Estimated Useful Life
Buildings	$100,000	40 years
Equipment and furniture	5,000	5-10 years
Roads	250,000	15 years
Bridges	250,000	40 years
Collection sewer system assets	250,000	25-40 years
Treatment plant sewer system assets	250,000	40 years
Landfills and improvements	100,000	25 years

The County Commission capitalizes interest cost incurred on funds used to construct property, equipment, and infrastructure assets. Interest capitalization ceases when the construction project is substantially complete. The capitalized interest is recorded as part of the asset to which it

relates and is amortized over that asset's estimated useful life. Interest is not capitalized, however, for construction projects of governmental funds.

Capital assets are reviewed for impairment in accordance with the methodology prescribed in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, constitutes a significant unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include (i) evidence of physical damage, (ii) changes in legal or environmental circumstances, (iii) technological development or evidence of obsolescence, (iv) a change in the manner or expected duration of use of the asset, and (v) construction stoppage.

4. County Tax Revenues

As discussed in Section III.G below, the County levies and collects a variety of taxes for the benefit of its general governmental operations and the General Fund. The proceeds of some of those taxes have been pledged to secure certain obligations of the County. For example, the County has pledged the proceeds of the Education Tax described in Section III.G.3 below as security for the payment of the School Warrants. In addition, the Alabama Legislature has earmarked the County's tax revenues, thereby restricting the purposes for which those revenues may be used and, in many instances, requiring the payment of such revenues to other municipal authorities.

For fiscal year 2011, the County's net general revenues from taxes, both with respect to governmental activities and business-type activities, were as follows:

Net General Revenues from Taxes (in thousands)	
Property taxes	$108,226
Sales tax	$163,912
Other taxes	$29,288
Licenses and permits	$17,830
Unrestricted investment earnings	$4,159
Miscellaneous	$52,172
Total General Revenues	$375,587

5. Operating Revenues from the County's Business-Type Activities

The County generates revenues from the operation of its business-type activities, including the Sewer System, the County's landfill system, and the Development Authority. Those operating revenues include charges for services, tax revenues, and intergovernmental transfers. For fiscal year 2011, the County's operating revenues from its business-type activities were as follows:

JEFFERSON COUNTY COMMISSION
Operating Revenues of Proprietary Funds
30-Sep-11
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total
Operating Revenues						
Taxes	$0	$4,702	$0	$0	$0	$4,702
Intergovernmental	$0	$103	$0	$0	$0	$103
Charges for Services, Net	$29,845	$154,302	$0	$9,865	$0	$194,012
Other operating revenue	$9,658	$4,109	$1,266	$209	$637	$15,879
	$39,503	$163,216	$1,266	$10,074	$637	$214,696

In certain instances, the County has pledged some or all of these operating revenues to secure certain County debts. Most notably, the Sewer Warrants are secured by a pledge of Net System Revenues. In other instances, the operating revenues are earmarked for a specific use. For example, pursuant to a Local Act enacted by the Alabama Legislature which affects only the County, any funds generated by Cooper Green are required to be retained by Cooper Green in its own general fund and to be expended solely by it.

6. Claims and Causes of Action Against Third Parties

In addition to the foregoing assets and revenue sources, the County also holds claims and causes of action against various parties, including without limitation the Preserved Claims.

G. Summary of the County's Revenues

When analyzing the County's sources of revenues, it is appropriate to distinguish between revenues attributable to the County's enterprise or proprietary funds, on the one hand, and the County's governmental funds, on the other hand.

1. Enterprise or Proprietary Fund Revenues

Enterprise funds are used to report the activities of the County for which fees are charged by the County to external users for goods or services. The County's major enterprise or proprietary funds are (a) the Cooper Green Hospital Fund, which is used to account for the revenues generated by the operation of Cooper Green from patient charges and reimbursements from third parties, including Medicare and Medicaid; and (b) the Sanitary Operations Fund, which is used to account for the revenues generated by the Sewer System through user charges, impact fees, and designated property and *ad valorem* taxes.

Non-major enterprise funds of the County include (x) the Landfill Operations Fund, which accounts for the revenues generated from the operation of the County's landfill systems primarily through user charges and lease payments from a third-party lessee; and (y) the Jefferson County Rehabilitation and Health Center Fund, which fund is used to account for the revenues generated by the operation by the County of the Nursing Home (which the County has sold since the Petition Date) from patient charges and reimbursements from third parties, principally Medicaid.

The statement of revenues, expenses, and changes in fund net assets for the aforementioned proprietary funds for the fiscal year ending September 30, 2011 may be found in the 2011 Audited Financial Statements attached hereto as **Exhibit 2**.

2. Governmental Fund Revenues

The County's governmental funds reflect revenues generated by governmental services, primarily derived from taxes, licenses and permits, intergovernmental revenues from state and federal governments, and other nonexchange transactions. The County's major governmental funds include the following:

- General Fund: This fund is the primary operating fund of the County Commission. It is used to account for financial resources except those required to be accounted for in another fund. The General Fund is funded primarily from collections of property taxes, sales taxes, and revenues collected by the State of Alabama and shared with the County Commission.

- Limited Obligation School Fund: This fund is used to account for the education sales tax collected for the payment of principal and interest on the School Warrants.

- Indigent Care Fund: This fund is used to account for the beverage and sales taxes collected by the County that have been earmarked by the Alabama Legislature for providing indigent care to County residents.

- Bridge and Public Building Fund: This fund is used to account for the special County property taxes that have been earmarked by the Alabama Legislature for building and maintaining public buildings, roads, and bridges within the County.

- Debt Service Fund: This fund is used to account for the accumulation of resources for and the payment of debt service on the GO Warrants.

Other non-major governmental funds of the County are:

- Community Development Fund: This fund is used to account for the expenditure of federal block grant funds received by the County.

- Capital Improvements Fund: This fund accounts for the financial resources used in the improvement of major capital facilities of the County.

- Emergency Management Fund: This fund is used to account for the expenditure of funds received for disaster assistance programs.

- Road Construction Fund: This fund accounts for the financial resources expended in the construction of roads.

- Home Grant Funds: This fund accounts for the expenditure of funds received to create affordable housing for low-income households.

- Public Building Authority Fund: This fund is used to account for the operation of the PBA.

The statement of revenues, expenditures, and changes in fund revenues for the aforementioned governmental funds for the fiscal year ending September 30, 2011 may be in the 2011 Audited Financial Statements attached hereto as **Exhibit 2**.

3. Sources of Revenues

The County's revenues from taxes, licenses, and permits utilized by the County's governmental funds are derived primarily from the following sources:

- Sales Tax Group (Sales, Consumer Use, and Sellers Use). The County imposes a 1.0% tax on sales or goods sold within the County, or purchased from outside the County for use within the County. With respect to automotive vehicles and equipment, mining, manufacturing, processing, and farm equipment, the sales tax is .375%. Sales of motorboats, both inboard and outboard (where the motor is not easily removable), are also subject to a .375% tax.

  After payment of collection costs, the net proceeds of the sales and use tax are distributed in accordance with an earmarked formula mandated by Legislative Act 1973-659, as follows:

  a. collections on the first one-half of the proceeds are allocated as follows:

     (1) an administrative cost of one and one-half percent (1.5%) of the total collected is first paid to the General Treasury of the County;

     (2) 9% of the balance goes to the Jefferson County Board of Health; and

     (3) the balance of collections remaining goes to the Indigent Care Fund.

b. collections on the second one-half of the proceeds from the sales tax are allocated as follows:

(1) the first $100,000 of monthly collections is paid to the Birmingham-Jefferson Civic Center Authority, a public corporation that owns and operates a civic center complex within the County (the "Civic Center Authority");

(2) 22% goes to the Jefferson County Board of Health;

(3) 9% of any remaining balance goes to the Jefferson County Board of Health; and

(4) any remaining balance goes to the General Treasury of the County.

- Education Tax. There is an additional 1.0% tax imposed on sales or goods sold within the County or purchased outside the County for use within the County. The special automotive, manufacturing, mining and farming rates of 0.357% apply to the Education Tax. The proceeds of this tax are earmarked exclusively for educational purposes. Alabama law provides that the proceeds from such taxes, less collection costs, "shall be used exclusively for public school purposes." Currently, all collections, after commission, are used solely for the payment of the School Warrants.

- Additional 3.0% Sales Tax on Beer and Alcohol (Excluding Wine). With respect to sales of beer and alcohol (excluding wine) by restaurants, there is an additional 3.0% sales tax that is levied, the proceeds of which are distributed in full to the Civic Center Authority.

- Lodgings Tax. A 7.0% tax exists on the rental of hotel rooms, motel rooms, and other transient lodging within the County. The 7.0% lodging tax is divided into two components:

a. a 3.0% tax, the proceeds of which are paid solely to the Civic Center Authority; and

b. a 4.0% tax, the proceeds of which are distributed as follows:

(1) the first 25% goes to the Greater Birmingham Convention and Visitors Bureau;

(2) of the remaining 75% balance,

i. 1% is paid to the County for a collection, administrative, and enforcement commission;

ii. 1/3 (one-third) of the balance, after commission, goes to the Civic Center Authority; and

iii. 2/3 (two-thirds) of the balance, after commission, goes to the Greater Birmingham Convention and Visitors Bureau.

- Beer Tax. Beer wholesalers are required to collect and pay tax on their sales of beer to retailers in the County. The proceeds of this tax are then distributed as follows:

Fund A

a. 4/9 (four-ninths) of the beer tax is paid into a fund, the proceeds of which are distributed as follows:

(1) 2% is retained by the County as a commission and paid to the General Treasury;

(2) the remaining 98% is distributed as follows:

i. 1/4 (one-fourth) is paid to the County Board of Education;

ii. 3/8 (three-eighths) is paid to the General Treasury of the County; and

iii. 3/8 (three-eighths) is distributed among various municipalities within the County based upon their respective populations, according to the most recent federal census.

Fund B

b. 2/9 (two-ninths) of the beer tax is paid into another fund, the proceeds of which are distributed among municipalities within the County based on the ratio of beer sales within each municipality to the total beer sales in the County.

Fund C

c. the remaining 1/3 (one-third) of the beer tax is distributed as follows:

(1) 50% of such annual amount, or $2,000,000, whichever is greater, is paid annually to the Birmingham Jefferson County Transit Authority; and

(2) the remaining balance is divided between the County and the incorporated municipalities within the County based upon their respective population, as shown by the most recent federal census. Five percent (5.0%) of the County's share shall be paid to the fire districts in the unincorporated areas of the County.

- Wine Tax. Wine wholesalers are required to collect a tax from total sales to wine retailers in the County, and pay the tax to the County. All of the proceeds from this tax are paid to the County Treasurer. No commission is provided for administration of the wine tax.

- Alcoholic Beverages Tax. This tax is collected from restaurants, lounges, package stores, private clubs and any other retailer of alcoholic beverages at a rate of 6.0% of sale of alcoholic beverages (excluding beer and wine). The County receives 2.0% of such tax receipts as its collection, enforcement, and administrative commission, with the remaining 98% being paid into the County's Indigent Care Fund.

- Tobacco Tax. The County imposes a tax on the sales of cigarettes and smoking tobacco within the County, but not on cigars, cheroots, snuff or chewing tobacco. For cigarettes, the tax rate is four cents for 20 count packs and five cents for 25 count packs or fractions thereof. For loose, canned or bagged smoking tobacco, the rate is one cent for up to one and one-eighth ounces, three cents for over one and one-eighth ounces up to two ounces, five cents for over two ounces up to three ounces, seven cents for over three ounces up to four ounces, and seven cents for over four ounces plus two cents for each additional ounce or fractional part thereof over four ounces. Tax proceeds are distributed as follows:

  a. with respect to the first half,

     (1) 3.0% is retained by the County as an administrative commission; and

     (2) of the remaining balance,

        i. 75% is paid to municipalities based upon their population, according to the most recent federal census; and

        ii. 25% is paid to the General Treasury of the County; and

  b. with respect to the second half

(1) 1.0% is retained by the County as an administrative commission; and

(2) the 99.0% remaining amount is paid to the Civic Center Authority.

- State Gasoline Taxes .04, .05., and 07. These taxes are collected by the State of Alabama and paid to the County on a monthly basis. Tax proceeds are distributed by the County as follows:

  a. with respect to the first $6.0 million of tax,

     (1) 13% is paid to the General Treasury of the County; and

     (2) 87% is distributed among the incorporated municipalities within the County and the County's General Treasury. Each municipality's share is based on the ratio of each municipality's population relative to the County's total population. The County's share is based on the County's unincorporated portion relative to the County's total population;

  b. with respect to tax revenues above $6.0 million and up to $6.5 million, 100% of such revenues is paid to the General Treasury of the County;

  c. with respect to all tax revenues over $6.5 million,

     (1) 13% is paid to the County's General Treasury; and

     (2) 87% is distributed among the incorporated municipalities within the County and the County's General Treasury. Each municipality's share is based on the ratio of each municipality's population relative to the County's total population. The County's share is based on the County's unincorporated portion relative to the County's total population.

- County Gasoline Tax. This tax is collected from wholesale gasoline and diesel distributors at the rate of one cent (1¢) per gallon, and paid to the County by each wholesale distributor. Two percent (2%) is retained by the County as an administrative commission. The proceeds of this tax are distributed by the County to each municipality based on the total gallons of gasoline and diesel delivered into each municipality. The County's share of the tax is based on the total gallons of gasoline and diesel delivered into the unincorporated portions of the County.

- State Business Licenses. Collections for state business privilege license taxes are allocated according to different formulas provided for by Alabama Code sections 40-12-1 *et seq*. Proceeds from business license taxes are allocated to the State of Alabama, the County, municipalities within the County, and various professions, professional examiners, boards, and societies.

- International Registration Prorations, Petroleum Inspection Fees, State Auto Licenses, and Additional State Motor Vehicle Fees. These taxes are all earmarked for payment to the Jefferson County General Road Fund.

- Property Taxes. Property taxes on real estate (residential buildings, commercial buildings, industrial buildings, farm land, timber land and land for other uses) and personal property (business machines and equipment) are assessed by the County Tax Assessor and collected by the Tax Collector's office. The County's share of the property taxes collected is remitted by the Tax Collector's office to the County Treasurer's office.

- Occupational Tax. The County's Occupational Tax represented over a third of funding for the County's General Fund until invalidated by prepetition court opinions. The invalidation of the Occupational Tax is discussed in greater detail in Section III.I.1 below.

4. Collection and Remittance of Taxes and Fees Due the State and Other Municipalities

The County, through its Revenue Department and the Tax Collector's office, administers and enforces several federal, state, county, and municipal statutes, ordinances, and regulations. This responsibility includes collecting *ad valorem* real and personal property taxes, motor vehicle sales and use taxes, boat sales and use taxes, manufactured home taxes, tobacco taxes, wine and beer taxes, state and county gas and diesel taxes, motor vehicle registration fees, hunting/fishing license fees, privilege (business) licenses, education sales taxes, television franchise fees, stormwater fees, and municipal real estate license fees, as well as other taxes and fees.

The County collects certain of these taxes and fees on behalf of the County, the State of Alabama, other municipalities, school districts, quasi-governmental organizations, and fire districts within the County. For example, although cities and towns may levy taxes upon property, Alabama Code section 11-51-43 mandates that, in certain circumstances, the "tax collector of the counties in which such municipalities are situated shall collect all property taxes for such municipalities at the same time, and in the same manner, and under the same laws, that state and county taxes are collected." Accordingly, the County routinely collects property taxes that are due and owing to over 60 other taxing authorities, including municipalities, boards of education, and the State of Alabama.

Similarly, the County is obligated to collect motor vehicle sales and use taxes that are due to the County, the State of Alabama, and other municipalities. *See* Ala. Code §§ 40-23-100 to -111. The County is entitled to a fee for its services in collecting the State's portion of the motor vehicle

tax and, after payment of such fee, is obligated to and does remit the balance to the State. *See* Ala. Code § 40-23-108.

The County also levies certain privilege, license, and excise taxes pursuant to the authority of Alabama Code section 40-12-4. Alabama law provides that the proceeds from such taxes, less the County's collection costs, "shall be used exclusively for public school purposes." Because there are multiple boards of education within the County, the County distributes among those various boards the net proceeds of these taxes remaining after payment of collection costs and debt service, with those net proceeds to be used solely for public school purposes, but excluding teachers', administrators', and supporting staff's wages.

The County likewise serves as a disbursing agent with respect to other taxes, receiving the portions of those taxes due not only to the County, but also to the municipalities within the County, and then remitting to such municipalities their respective shares.

The County also maintains agreements with several of its municipalities to create tax increment financing (or TIF) districts to promote economic development in the area. Pursuant to these TIF agreements, the County has agreed to remit to such municipalities the *ad valorem* taxes that would be otherwise due the County with respect to the redeveloped or improved properties within the TIF district.

In addition to TIF agreements, the County has participated over several years in tax abatements initiated by municipalities and industrial development boards. Although *ad valorem* tax abatements generally last up to ten (10) years, non-educational construction-related taxes (general sales and use) are abated until the completion of the buildings and installation of machinery, furniture, fixtures, and equipment. Abatements include not only new construction, but also additions or improvements to existing structures.

Although abatements initially result in the County losing revenue, the projects, in the long-term, usually provide additional jobs within the County, and generally result in purchase of homes by the new employees, or at least provide rental income to owners of apartments and houses. This produces additional *ad valorem* taxes and increased sales taxes, as well as other consumer-related taxes; *e.g.*, tobacco tax, television franchise fees, and the like.

During the course of the Case, pursuant to its authority under chapter 9 of the Bankruptcy Code and its obligations under Alabama law, the County has continued to remit, on the due dates prescribed by legislative acts and local ordinances, all of the taxes, fees, and other amounts that the County has collected on behalf of the State of Alabama, municipalities, boards of education, authorities, organizations, or any entity otherwise duly owed such amounts. The Claims of the State of Alabama, cities, towns, boards of education, authorities, organizations, and other municipalities for taxes and other funds due them that the County, under applicable state law, has collected on their behalf and is obligated to remit to them are "Pass-Through Obligation Claims" classified as Class 8 "Other Unimpaired Claims" under the Plan.

5. *Ad Valorem* Taxes on Real and Personal Property

The levy and collection of *ad valorem* taxes in Alabama are subject to the provisions of the Alabama Constitution. The Alabama Constitution, among other things, fixes the percentage of market value at which property can be assessed for taxation, limits the rates of county taxation that can be levied against property, and provides a maximum value for the aggregate *ad valorem* taxes that can be levied by all taxing authorities on any property in any tax year.

The amount of any specific *ad valorem* tax in Alabama is computed by multiplying the tax rate times the assessed value of the taxable property. The assessed value of taxable property is a specified percentage (known as the "assessment ratio") of its fair and reasonable market value or, in certain circumstances, its current use value. *Ad valorem* tax rates generally are stated in terms of mills (one-thousandth of a dollar) per dollar of assessed value. For any given *ad valorem* tax, each mill in the rate of taxation represents a tax on property equal to one-tenth of one percent of the assessed value of such property.

a. Classification and Limitations on *Ad Valorem* Tax Rates

Amendment No. 373 to the Alabama Constitution (the "Property Tax Amendment") requires all taxable property to be divided into the four classes shown below and valued for taxation according to the assessment ratios respectively shown applicable thereto:

Class I	All property owned by utilities and used in the business of such utilities	30%
Class II	All property not otherwise classified	20%
Class III	All agricultural, forest and single-family, owner-occupied residential property and historic buildings and sites	10%
Class IV	Private passenger automobiles and pickup trucks owned and operated by an individual for personal or private use	15%

The Property Tax Amendment provides that the owner of Class III property may elect to have such property appraised at its "current use value" instead of its "fair and reasonable market value." The legislative act implementing the Property Tax Amendment defines "current use value" as the value of such property based on the use being made of it on October 1 of the preceding year, without taking into consideration "the prospective value such property might have if it were put to some other possible use."

b. Assessment Ratio Adjustments

The Property Tax Amendment provides that with respect to local (as distinguished from State) *ad valorem* taxes, the governing body of any county, municipality, or other local taxing authority may, subject to certain criteria established by legislative act, adjust (by increasing or decreasing) the ratio of assessed value of any class of taxable property to its fair and reasonable

market value or its current use value (as the case may be), but only if: (i) the governing body of such county, municipality, or other taxing authority holds a public hearing on the proposed adjustment before authorizing the adjustment; (ii) the Alabama Legislature adopts an act approving the adjustment; and (iii) a majority of the electors of such county, municipality, or other taxing authority subsequently approve the adjustment in a special election. Any adjustment of assessment ratios is subject to the further requirements that the assessment ratio applicable to each class of taxable property must be uniform within the jurisdiction of each local taxing authority and that no class may be assessed at more than thirty-five percent (35%) or less than five percent (5%) of its fair and reasonable market value or current use value (as the case may be). By virtue of the Property Tax Amendment, the Alabama Legislature has no power over the adjustment of assessment ratios pertaining to local taxes except to approve or disapprove an adjustment proposed by a local taxing authority. The County Commission has not sought to make any adjustment of the assessment ratio applicable to any class of taxable property in the County.

c. Rate Adjustments

The Property Tax Amendment authorizes any county, municipality, or other local taxing authority to decrease any *ad valorem* tax rate at any time, provided that such decrease will not jeopardize the payment of any bonded indebtedness secured by such tax. The Property Tax Amendment provides that a county, municipality, or other local taxing authority may at any time increase the rate at which any *ad valorem* tax is levied above the limit otherwise provided in the Alabama Constitution, but only if: (i) the governing body of such county, municipality, or other taxing authority holds a public hearing on the proposed increase before authorizing the increase; (ii) the Alabama Legislature adopts an act approving the increase; and (iii) a majority of the electors of such county, municipality, or other taxing authority subsequently approve the increase in a special election.

d. Maximum Tax Limitation

The Property Tax Amendment contains a provision that limits the total amount of *ad valorem* taxes (including all state, county, municipal, and other taxes) that may be imposed on any property in any one tax year to an amount not exceeding a specified percentage of the fair and reasonable market value of such property. The percentages applicable to the various classes of property are as follows:

Class I	2.0%
Class II	1.5%
Class III	1.0%
Class IV	1.25%

If the total amount of tax otherwise payable with respect to any property would exceed the applicable maximum tax limit, then the millage rate of each separate tax to which such property is subject must be reduced in the same proportion that the millage levied by or for the benefit of each taxing authority bears to the total millage levied by or for the benefit of all taxing authorities. This provision of the Property Tax Amendment has had the operative effect of requiring, since October 1, 1979, a reduction in the aggregate *ad valorem* tax rate on property located in certain municipalities in the County.

e. Additional Exemptions

The Property Tax Amendment exempts from all *ad valorem* taxes household and kitchen furniture, farm tractors, and farming implements when used exclusively in connection with agricultural property, as well as stocks of goods, wares, and merchandise. These categories of property generally were not exempt from *ad valorem* taxation prior to adoption of the Property Tax Amendment.

f. Homestead Exemption

Act No. 82-789 of the Alabama Legislature provides for an increase in the State *ad valorem* tax homestead exemption and authorizes the County Commission to: (a) increase the presently applicable $2,000 homestead exemption against County taxes to an amount not greater than $4,000 of assessed value; and (b) extend such homestead exemption to school district taxes. The County Commission has not taken any action to effectuate such an increase in the amount of the homestead exemption currently available against County *ad valorem* taxes, or to extend such exemption to school district taxes, for the current tax year or for any future tax year.

g. *Ad Valorem* Tax Rates in the County

Excluding taxes levied by incorporated municipalities within the County (which vary from district to district), the total rates levied on property located within the County generally range from 46.6 mills to 50.1 mills per dollar of assessed value.

h. *Ad Valorem* Tax Assessment and Collection

Ad valorem taxes on taxable properties within the County, except motor vehicles and public utility and railroad properties, are assessed by the County Tax Assessor and collected by the County Tax Collector. *Ad valorem* taxes on motor vehicles in the County are assessed and collected by the County Revenue Director, and *ad valorem* taxes on public utility and railroad properties are assessed by the State Department of Revenue and collected by the State and by the County Tax Collector. *Ad valorem* taxes are due and payable on the October 1 following the October 1 as of which they are assessed, and they become delinquent on the following December 31. The County Tax Assessor reassesses property on an annual basis.

i. Earmarking of *Ad Valorem* Tax Collections

Of the *ad valorem* taxes collected by the County on its own behalf, approximately 50% are allocated to funds other than the General Fund. For each dollar the County collects in *ad valorem* taxes on its behalf, approximately 45% is allocated to roads and bridges and approximately 5% is allocated to Sewer System improvements, leaving only roughly 50% of each dollar of *ad valorem* taxes collected by the County for use by the County without restriction.

j. Historical *Ad Valorem* Tax Levies and Collections

Following is a table showing the *ad valorem* tax levies and collections for the County for the period from 2008 to 2012.

HISTORICAL AD VALOREM TAX COLLECTIONS

Tax Year Ended September 30 [(1)]	Total Net Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collection to Tax Levy
2008	545,472,944	540,392,751	99.07%	2,377,973	542,770,724	99.50%
2009	580,123,421	559,724,507	96.48%	4,470,839	564,195,346	97.25%
2010	571,239,380	556,700,119	97.45%	4,686,256	561,386,375	98.28%
2011	563,149,729	539,061,625	95.72%	6,669,403	545,731,028	96.91%
2012	553,608,072	540,707,822	97.67%	5,961,035	546,668,857	98.75%

Footnotes:
(1) Taxes collected in each fiscal year represent the taxes levied in the prior fiscal year, as taxes are collected in arrears.

Source: Jefferson County Tax Collector.

H. The Indigent Care Fund and Cooper Green Mercy Hospital

1. The County's Indigent Care Fund

For nearly 50 years, the County has provided healthcare for indigent County residents. In 1965, the Alabama Legislature passed Act Number 387 of the Acts of Alabama ("Act No. 387"), providing for the establishment of a fund to help finance the cost of delivering healthcare to the County's poorer citizens. Act No. 387 applied to Alabama counties with populations over 500,000 – such as the County – and required each such county to impose a sales and use tax to establish an "Indigent Care Fund" for that county. Section 14 of Act No. 387 was its operative provision and stated as follows:

> There is hereby established for the county the County Indigent Care Fund herein called 'the Indigent Care Fund'. The Indigent Care Fund shall be used by the county for any or all of the following purposes: to acquire . . . a county hospital . . .; to operate, equip and maintain the same for the medical care and treatment of indigent persons of the county suffering from illness, injury, disability or infirmity, including out-patients; and the furnishings of drugs and medicine to such indigent persons . . .; also the operation of an emergency clinic. In addition, the county shall be authorized to furnish a part of the cost of the medical care for those of the county able to pay for only part of their own medical care.
>
> The county shall be authorized to provide such treatment, care, drugs and medicines at a county hospital, out-patient clinic and/or emergency clinic or other hospitals located in the county under a contract between the county and any general hospital approved by the Joint Commission on Accreditation of Hospitals in the county.

> The county shall be authorized to collect for the benefit of the 'Indigent Care Fund' such sums as the county is able to collect from 'part-pay' patients and from any other source or fund, public or private . . . .
>
> The county each year shall earmark and set aside in a separate fund not less than twenty-five percent (25%) of the county indigent care fund to be used for capital improvements. This requirement shall cease and no longer be binding upon the county after a county hospital has been constructed and fully equipped.

In 1967 the Alabama Legislature passed Act Number 405 of the Acts of Alabama ("Act No. 405"), which largely repealed and replaced Act No. 387 (though not section 14 of Act 387 quoted above). The primary effect of Act No. 405 was to reallocate the proceeds of the sales tax previously authorized under Act No. 387. Under the new Act No. 405, the first one-half of such sales tax was to be distributed as follows: (a) 1.5% of the total proceeds collected would be paid to the County to compensate it for its collection, enforcement and administration costs, and (b) the balance of such one-half share would be paid to the Indigent Care Fund.

Six years later, the Alabama Legislature again passed legislation to reallocate the sales tax that funded the County's Indigent Care Fund. Under Act No. 659 of the Acts of Alabama ("Act No. 659" and, together with Act No. 387 and Act No. 405, the "Indigent Care Fund Acts"), the Alabama Legislature decreased the portion of the authorized sales tax that would be paid to the Indigent Care Fund. Act No. 659 provided that the first one-half of such sales tax would be allocated generally as follows: (x) 1.5% of the total proceeds collected would be paid to the County to compensate it for its collection, enforcement, and administration costs; (y) 9.0% of such one-half share would be paid to the County's Board of Health; and (z) the balance of such one-half share would be paid to the Indigent Care Fund.

The sales tax allocation formula adopted in 1973 remains largely in place today. In addition, the Indigent Care Fund receives 100% of the net proceeds from the County's alcoholic beverages tax. Together, contributions to the Indigent Care Fund from the County's sales tax and alcoholic beverages tax totaled $43.77 million in fiscal year 2011.

Since the Petition Date, the County has adopted a new model for the delivery of indigent health care which is more particularly discussed in Section IV.O below.

2. Cooper Green

The Indigent Care Fund Acts did not mandate the County's establishment and maintenance of a County-owned hospital to provide indigent care. In fact, the Indigent Care Fund Acts authorized the County Commission, in the alternative to a public hospital, to appropriate funds from the County's Indigent Care Fund to one or more accredited private hospitals to care for the County's citizens.

From 1965 through 1972, indigent care was provided by the County through private hospitals. In 1972, the County opened its own public hospital, Mercy Hospital, to provide indigent

care. The hospital was accredited in 1973. In 1975 it was renamed Cooper Green Mercy Hospital. Since 1983, Cooper Green has operated as a department of the County.

As of the Petition Date, the County operated the Cooper Green hospital at its primary facility in south Birmingham. In that respect, the County was unusual, as it was the only one of the seven largest counties in Alabama (*i.e.*, Jefferson, Mobile, Madison, Montgomery, Shelby, Tuscaloosa, and Baldwin) that operated its own inpatient hospital. The hospital historically offered an expansive range of healthcare services. On an outpatient basis, it offered primary care and specialty services, such as general surgery, urology, orthopedics, ENT, ophthalmology, obstetrics and gynecology, cardiology, pulmonary, nephrology, and hematology/oncology services. Cooper Green also offered inpatient services, emergency room care, rehabilitation services, diagnostic services, and social services. Services that were not provided directly at the Cooper Green hospital facility, such as cardiac catheterization or bypass surgery, were often coordinated through the nearby University of Alabama-Birmingham hospitals. Cooper Green also operated two separate outpatient, primary care centers within the County known as the Jefferson MetroCare Health Center and the South Town Clinic.

In addition to the funding it received from the Indigent Care Fund, the Cooper Green hospital facility and outpatient care centers earned revenue from the services they provided, receiving payment for services from Medicare, Medicaid, and private insurers such as Blue Cross. These facilities also charged some uninsured patients for their care, with the decision regarding whether and in what amount to charge fees based on family size and income. Under Act Number 2009-790 of the Acts of Alabama, a Local Act affecting only the County, any funds generated by the Cooper Green facilities were required to be retained by Cooper Green in its own general fund and to be expended solely by it. Cooper Green was required to account for all its operating revenues to the County Commission as part of the County's budget process set forth in Alabama Code section 11-8-3(d)(1).

Cooper Green has received additional funding for grants, special projects, and other operating expenses from the Cooper Green Hospital Foundation (the "Foundation"). In June 1973, the County Commission passed a resolution approving the creation of the Foundation, which has the stated purpose of assisting and strengthening Cooper Green in its service as a health center and a medical research and educational facility for the community. The Foundation has operated as a charitable non-profit corporation since its incorporation, donating millions of dollars to Cooper Green over the past forty years. In 1985, the County Commission passed a resolution naming the County Commission as the successor to the board of directors and executive committee of the Foundation, with the County Commission to continue the objects and purposes of the Foundation.

The cost of operating Cooper Green historically exceeded the funding Cooper Green received from the Indigent Care Fund, the operating revenues, and donations from the Foundation. In fiscal year 2010, Cooper Green received $12.7 million from the County's General Fund reserves to cover its operating shortfalls. In fiscal year 2011, an additional $10.6 million was transferred from the General Fund to Cooper Green.

I. Significant Events Leading to Commencement of the Chapter 9 Case

The County's chapter 9 filing was precipitated by the combined effects of several different events, which are discussed in turn below.

1. Loss of Occupational Tax

Between 2000 and 2009, the Occupational Tax provided roughly $600 million to the County and provided over 40% of the funding for the County's general administration and the Sheriff's department. For fiscal year 2010, unrestricted revenues in the County's General Fund (the "Unrestricted General Fund Revenues") totaled approximately $207.2 million. Approximately $50 million of the 2010 Unrestricted General Fund Revenues were related to one-time non-recurring revenue events. For fiscal year 2010, revenues from the Occupational Tax and business license fees totaled approximately $75.7 million, accounting again for roughly 48% of recurring Unrestricted General Fund Revenues.

By contrast, for fiscal year 2011 – the year in which the County lost the Occupational Tax – Unrestricted General Fund Revenues totaled approximately $152.47 million, with approximately $46.9 million of that amount attributable to non-recurring revenue events. The County collected only $15.3 million in Occupational Taxes from the beginning of the 2011 fiscal year through December 1, 2010 – the date that a judgment invalidating the Occupational Tax became final.

For fiscal years 2012 and 2013, the County collected no Occupational Taxes.

Following the court rulings in the Weissman Lawsuit, the County made a concerted effort to persuade the Alabama Legislature to pass legislation during its regular 2011 session to remedy the County's revenue problems caused by the loss of the Occupational Tax. The first option was to pass "limited home rule" legislation that would grant the County limited authority to raise tax revenue without specific state legislative approval. The second option was to pass "un-earmarking" legislation that removed certain restrictions on the County's use of tax revenues, which would have improved the County's ability to adapt to changing economic circumstances by allowing the County to allocate funds where needed.

The "home rule" legislation was approved in the Alabama House of Representatives and enjoyed the support of a majority of the County's delegation in the Alabama Senate. However, under state legislative procedures related to bills affecting local issues, one State Senator blocked a vote on the legislation in the Alabama Senate, effectively killing the "home rule" bill. Likewise, the "un-earmarking" legislation faced opposition from state legislators intent on preserving earmarks for certain County functions. As a result, the regular 2011 legislative session concluded without a legislative fix for the loss of Occupational Tax revenues.

The County had exhausted all of its Constitutional and legislatively-authorized taxing powers. For instance, the County's ability to increase *ad valorem* property taxes for the benefit of the General Fund is constrained by Section 215 of the Alabama Constitution, which limits the rate of property tax for county general fund purposes to 5.1 mills per dollar of assessed value of taxable property, subject to adjustment only (a) with approval by act of the Alabama Legislature and by the

County's voters under procedures set forth in Amendment No. 373 to the Alabama Constitution, or (b) through the ratification of Constitutional amendments proposed by the Alabama Legislature and applicable only to the County authorizing new or increased rates of *ad valorem* taxation. While actions previously taken by the County as permitted under Amendment No. 373 presently authorize the levy in the County of *ad valorem* property taxes for the benefit of the General Fund at the total rate of 5.6 mills per dollar of assessed property value (and for other earmarked non-General Fund purposes at the rate of 7.9 mills per dollar of assessed value), the County presently possesses no unutilized Constitutional or voter-authorized authority to levy *ad valorem* taxes in addition to, or to increase the rates of any of, the property taxes now being levied by the County, whether for the benefit of the General Fund or otherwise.

In respect of other types of County-levied taxes, such as the Occupational Tax formerly levied by the County and the business license taxes, transient occupancy taxes, sales, use, and other excise taxes presently levied by the County, the County is restricted in its ability to levy and to raise the rates of those taxes by the terms and conditions of the specific legislative acts providing authorizations therefore, some of which acts are applicable to all counties in the State of Alabama pursuant to general laws enacted by the Alabama Legislature and others of which are made applicable specifically to the County through the enactment by the Alabama Legislature of "local laws" relating only to the County

For a discussion of postpetition efforts to cause the Alabama Legislature to restore the Occupational Tax, *see* Section IV.Q.1 below.

2. Prepetition Cost Cutting Measures

Independent of its efforts to persuade the Alabama Legislature to pass legislation to help the County with its revenue problems, the newly-elected members of the County Commission made drastic cuts in the County's expenditures in an attempt to make up for the loss of the Occupational Tax. The prepetition spending cuts affected nearly every County department and resulted in sweeping reductions in basic services. In the first few months of 2011, the County Commission reviewed the budget approved by the previous County Commission to look for ways to reduce expenditures without laying off employees. The County Commission identified and promptly implemented measures to reduce the County's expenditures by over $30 million on an annualized basis, trimming $22.3 million in budgeted expenses from the general operating fund, $4.2 million from the capital projects fund, and $3.9 million from the budget for the County-operated hospital Cooper Green.

Even after these cuts were made, the County still faced a significant operating deficit due to the loss of the Occupational Tax revenues. The County Commission again took action. In June 2011, the County placed approximately 500 employees on leave without pay and eliminated approximately 160 remaining vacant positions, trimming over $11 million from the County's annual general fund budget. The County Commission also made cuts to various contracts with outside vendors and suppliers, resulting in additional annualized savings of approximately $1.0 million.

In the year prior to the Petition Date, the County implemented numerous cost-cutting measures, including: (a) all Sheriff's department employees were placed on a reduced workweek; (b)

curtailment of generally all of the Sheriff's law enforcement actions, including responding to traffic accidents; (c) cessation of most street paving and all roadside mowing; (d) significant reductions in maintenance on all County buildings; (e) substantial reductions in security services at County courthouses, resulting in stop-gap funding for security at criminal, domestic relations, and family courts; (f) closure of the County's four satellite courthouse locations and consolidation of services at the Birmingham courthouse; (g) termination of all non-essential County contracts; (h) strict monitoring and restriction of overtime; (i) strict monitoring and restriction of discretionary expenditures; (j) strict implementation of a hiring freeze with exceptions made only where critical need was demonstrated; and (k) formation of an internal investment committee to replace external investment advisory services.

3. The April 27, 2011 Tornadoes and the County's Clean-Up Costs

On April 27, 2011, communities throughout the County were devastated when numerous tornadoes tore through the region. More than 20 people were killed by these tornadoes.

The County Commission authorized the usage of up to $25.0 million of the County's remaining operating reserves to finance storm clean-up. As of the Petition Date, the County had drawn $20.0 million from its operating reserve to fund those efforts, of which approximately $7.3 million had been reimbursed by the Federal Emergency Management Agency. The unexpected and substantial costs of the storm cleanup further strained the County's prepetition cash position.

4. The Financial Problems of the Sewer System Result in Substantial Claims Against the County's General Fund

The County's Sewer Warrants are non-recourse debts for which the County's General Fund has no repayment obligation. Nevertheless, the financial problems associated with the Sewer System impacted the County's General Fund, causing claims against the General Fund to be asserted or accelerated prepetition. These claims included the following:

- The $105.0 million of the County's outstanding Series 2001-B GO Warrants, which warrants were otherwise due to mature in 2021, became subject to an accelerated repayment schedule requiring repayment in full by March 15, 2011. The County's liability for the accelerated Series 2001-B GO Warrants significantly exceeded the balance of the County's General Fund reserves as of the Petition Date. *See* Section III.D.4.a above for further discussion of the Series 2001-B GO Warrants;

- The demand made upon the County's General Fund by the Receiver for the payment of over $75 million received by the County from JPMS in connection with or pursuant to undertakings referenced in the JPMorgan SEC Settlement. *See* Section III.E.9 above for further discussion;

- The assertion of claims and counterclaims against the County by certain Sewer Warrant Insurers and holders of Sewer Warrants, alleging that the County's alleged improper conduct with respect to the Sewer Warrants was chargeable against the County's General Fund. *See* Sections III.E.4, III.E.5, and III.E.6 above for further discussion; and

• The incurrence of substantial legal fees defending claims relating to the Sewer Warrants and the Sewer System.

5. Sewer System Debt Crisis

a. EPA Consent Decree

The County's financial distress related to its Sewer System can be traced back to the entry of the EPA Consent Decree in 1996. As explained in more detail in Section III.B.2 above, the EPA Consent Decree imposed stringent requirements on the County, both with respect to the scope of the work to be done and the timetable for performing such tasks. While initial projections of the cost of implementation ranged between $250 million and $1.2 billion, the ultimate cost was far higher. Under the EPA Consent Decree, the County assumed responsibility for a consolidated Sewer System serving twenty-one municipalities, whose sewer lines generally were in worse condition than the parties to the EPA Consent Decree anticipated. Contracting inefficiencies, certain engineering decisions, and the corruption of certain public officials contributed to the increased cost of the Sewer System. As a result of these and other factors, the overall debt associated with the improvements to the Sewer System and related financing exceeded $3.1 billion in principal as of the Petition Date.

b. The Sewer System's Debt Structure

Of the series of Sewer Warrants issued in 2002 and 2003 that are currently outstanding, nearly 95% were issued either as variable rate demand warrants or auction rate warrants. The County's variable rate demand warrants set forth the timing and terms and conditions upon which the rate of interest would adjust. For some of the County's variable rate demand warrants, the rate of interest was to adjust daily. For others, the rate of interest was to adjust weekly. The County's auction rate warrants provide that such warrants were to be sold by "Dutch auction" on a set schedule (generally every week or every five weeks), with the auction process to determine the interest rate for the warrants until the next auction. If an auction failed, the holders of the warrants would become entitled to a penalty rate of interest that compensates the holders for their inability to sell.

As more particularly described in Section III.D.1 above, because of the risk of fluctuations in interest rates, the variable rate demand Sewer Warrants and auction rate Sewer Warrants often were credit-enhanced by standby warrant purchase agreements, bond insurance, or both. Pursuant to the Standby Sewer Warrant Purchase Agreements, certain financial institutions agreed to purchase such variable rate demand warrants from the original warrantholders under certain conditions. Additionally, the Sewer Warrant Insurers issued the Sewer Wrap Policies insuring the payment of regularly scheduled principal and interest due on Sewer Warrants. The County entered into Sewer Swap Agreements to create a "synthetic" fixed interest rate with respect to the variable rate and auction rate Sewer Warrants. For a period, payments to the County from the counterparties to the Sewer Swap Agreements were sufficient to cover the interest rates as reset under the variable rate demand Sewer Warrants and auction rate Sewer Warrants, achieving the desired "synthetic" fixed interest rate the County sought. Later, that did not prove to be the case.

c. Triggering Events Related to Sewer System Crisis

Until February 2008, the County paid all principal and interest on the Sewer Warrants as and when due. However, as discussed in Section III.B.4 above, a series of unexpected events in the financial markets caused the County's obligations under the Sewer Warrants to mature on an expedited basis and to increase markedly.

In addition to the events described in Section III.B.4 above, the Sewer Swap Agreements associated with the Sewer Warrants did not perform as expected. The variable rates paid to the County by the swap providers under the Sewer Swap Agreements were intended to move in tandem with, and roughly match, the variable interest rates payable by the County on the Sewer Warrants. However, as a result of failed bond auctions and ratings downgrades in early 2008, the applicable interest rates on the variable rate and auction rate Sewer Warrants increased dramatically. At the same time, the LIBOR and SIFMA Index fell. As a consequence of this divergence in interest rates, the Sewer Swap Agreements had the opposite of their intended effect. Moreover, as a result of the downgrade of the County's underlying rating on the Sewer Warrants and the failure of the County to execute and deliver collateral agreements or to obtain an insurance policy, one or more termination events occurred under each of the Sewer Swap Agreements.

All Sewer Swap Agreements were terminated prepetition, triggering Sewer Swap Agreement Claims for termination fees asserted to be in excess of $100 million in the aggregate.

d. Litigation and Appointment of Receiver

i. The State Court Receivership Action

As discussed above in Section III.E.3, the State Court appointed the Receiver in the State Court Receivership Action by entry of the Receiver Order on September 22, 2010.

On June 14, 2011, the Receiver published its First Interim Report on Finances, Operations, and Rates of the Jefferson County Sewer System. In that report, the Receiver announced its intention to increase System Revenues by 25%, through the levying of a monthly service charge on all Sewer System customers, increases of the Sewer System's volumetric rates, and increasing certain surcharges.

On July 8, 2011, the State Court entered a further order directing the County to provide the Receiver signature authority over all existing bank accounts relating to the Sewer System and any other Cash Equivalent Assets (as that term is defined in the Receiver Order) of the Sewer System.

Following the Receiver's proposed rate increases, the Attorney General filed a motion to intervene in the State Court Receivership Action. On July 25, 2011, the State Court granted the Attorney General's motion.

ii. Ratepayer Litigation

Prior to the Petition Date, a putative class of ratepayers commenced the Wilson Action, suing the County for, among other things, a declaration that the County's volumetric sewer rates were

unreasonably and unlawfully high, and that the Sewer Warrant Indenture was void. The plaintiffs in the Wilson Action sought opposite relief from that pursued by the Sewer Warrant Trustee in its prepetition lawsuits, arguing for the reduction, rather than the increase, of existing sewer rates. For more information about the Wilson Action, *see* Sections III.E.1 and IV.H.1 of this Disclosure Statement.

e. Negotiations Regarding the Restructuring of the Sewer Warrants

Starting in February 2008 and continuing through the Petition Date, the County negotiated with the Sewer Warrant Trustee, holders of the majority of the Sewer Warrants, and the Sewer Warrant Insurers (collectively, the "Sewer Warrant Creditors"). At various times, Governors Bob Riley and Robert Bentley, Attorney General Luther Strange, the Receiver, and others participated in these negotiations. For a variety of different reasons, however, these prepetition negotiations between the County and the Sewer Warrant Creditors did not result in a consummated settlement.

6. Accelerated Obligations Under General Obligation Warrants

Although the Sewer Warrants are non-recourse obligations, the problems with those warrants nevertheless had an adverse financial effect on the County's General Fund obligations. Within two months of the onset of the financial crisis associated with the Sewer Warrants, the County's Series 2001-B GO Warrants were tendered to the County's liquidity providers for purchase pursuant to the Standby GO Warrant Purchase Agreement as a result of credit downgrades of the County. Pursuant to the Standby GO Warrant Purchase Agreement, JPMorgan Chase and Bayerische Landesbank (formerly known as Bayerische Landesbank Girozentrale) (together, the "Series 2001-B GO Warrant Liquidity Providers") purchased prepetition approximately $119.25 million in tendered Series 2001-B GO Warrants. Pursuant to the Standby GO Warrant Purchase Agreement, the County was thereafter required to redeem the tendered Series 2001-B GO Warrants in six equal semiannual installments in the amount of $19.79 million each, beginning on September 15, 2008 and continuing through March 15, 2011.

On September 15, 2008, the County, in an attempt to limit draws on its General Fund, entered into a forbearance agreement with the Series 2001-B GO Warrant Liquidity Providers. The forbearance agreement was extended again on September 30, 2008 and October 7, 2008. In connection with an October 31, 2008 extension of the forbearance agreement, the County made a partial principal payment of $10.0 million with respect to the Series 2001-B GO Warrants. In connection with a January 15, 2009 extension of the forbearance agreement, the County made a partial principal payment of $5.0 million with respect to the Series 2001-B GO Warrants. The County and the Series 2001-B GO Warrant Liquidity Providers extended the forbearance agreement on March 12, 2009, and the forbearance agreement expired on June 20, 2009 with no further extensions.

Under the accelerated repayment schedule set forth in the Standby GO Warrant Purchase Agreement, the outstanding principal balance owing under the Series 2001-B GO Warrants totaled approximately $105 million as of the Petition Date. The County did not have sufficient cash to pay the debt then due under the Series 2001-B GO Warrants while also maintaining basic services to its citizens.

7. The Decision to File for Chapter 9

The County struggled on multiple fronts for over three and a half years to avoid filing for chapter 9. Notwithstanding those efforts, the County eventually concluded that its non-bankruptcy efforts would not resolve the County's myriad financial problems.

Accordingly, the County Commission met on November 9, 2011 to consider its options. By a majority vote, the County Commission authorized the County to file its chapter 9 petition as a means to continue providing essential services to the County's residents and to seek adjustment of the County's debts before the Bankruptcy Court.

IV.
OVERVIEW OF THE CHAPTER 9 CASE

As previously discussed, the County filed a voluntary petition under chapter 9 of the Bankruptcy Code on the Petition Date, thereby commencing the Case. The following sections describe significant events that have occurred in the Case or in related litigations.

A. Receiver-Stay Litigation

On the second day of the Case, the Receiver and the Sewer Warrant Trustee filed emergency motions seeking expedited determinations that, among other things, (1) the automatic bankruptcy stays did not apply to the Receiver's continued operation and administration of the Sewer System for various reasons or (2) "cause" existed to grant relief from the automatic stays to allow the Receiver to continue to operate and administer the Sewer System (together, the "Receiver-Stay Motions"). Various other parties, including certain of the Sewer Warrant Insurers, the Standby Sewer Warrant Purchase Agreement providers, and other parties in interest, filed joinders or statements in support of the Receiver-Stay Motions.

The County opposed the Receiver-Stay Motions. After an evidentiary hearing, the Bankruptcy Court ruled that "[w]ith one exception, the automatic stays of 11 U.S.C. § 362(a) and 11 U.S.C. § 922(a) prevent the Indenture Trustee and the Receiver from taking further actions in the [State Court Receivership Action] and with respect to the County's sewer system properties." The exception related to Bankruptcy Code section 922(d), which the Bankruptcy Court held requires the County to pay over to the Sewer Warrant Trustee postpetition net System Revenues for payment on the Sewer Warrants. Additionally, the Bankruptcy Court concluded that "cause" had not been shown for relief from stay.

After notices of appeal were filed by various parties (including the County), the Bankruptcy Court certified its ruling for direct appeal to the United States Court of Appeals for the Eleventh Circuit, which thereafter agreed to hear the appeals.

The parties completed their respective briefing before the Eleventh Circuit (on both the creditors' appeal and the County's cross-appeal). The consolidated appeals were set for oral argument during the week of July 24, 2013. On June 10, 2013, in accordance with the Sewer Plan Support Agreements, the County and the parties that were Sewer Plan Support Parties, requested that

the Court of Appeals postpone the oral argument and hold the appeal in abeyance. By order entered June 19, 2013, the Court of Appeals entered an order granting the parties' request to postpone oral argument and to hold the appeal in abeyance until January 15, 2014.

B. Eligibility Litigation

Bankruptcy Code section 109(c) sets forth five elements that must be met for an entity to be eligible as a debtor under chapter 9 of the Bankruptcy Code. More specifically, such entity is eligible if and only if such entity: (1) is a municipality; (2) is specifically authorized, in its capacity as a municipality or by name, to be a debtor under State law, or by a governmental officer or organization empowered by state law to authorize such entity to be a debtor under chapter 9; (3) is insolvent; (4) desires to effect a plan to adjust such debts; and (5)(A) has obtained the agreement of creditors holding at least a majority in amount of the claims of each class that such entity intends to impair under a chapter 9 plan; (B) has negotiated in good faith with creditors and has failed to obtain the agreement of creditors holding at least a majority in amount of the claims of each class that such entity intends to impair under a chapter 9 plan; (C) is unable to negotiate with creditors because such negotiation is impracticable; or (D) reasonably believes that a creditor may attempt to obtain a transfer that is avoidable under Bankruptcy Code section 547.

On the Petition Date, the County filed a memorandum setting forth various historical information and the bases for the County's conclusion that it is qualified to be a chapter 9 debtor under Bankruptcy Code section 109(c). Various parties objected to the County's eligibility to file for chapter 9, including the Receiver, the Sewer Warrant Trustee, certain of the Sewer Warrant Insurers, the Standby Sewer Warrant Purchase Agreement providers, and other parties in interest. With one minor exception, the exclusive foundation for all of the objections was that the County was not authorized to file chapter 9 under Alabama Code section 11-81-3, and therefore could not satisfy the condition set forth in Bankruptcy Code section 109(c)(2).

On March 4, 2012, the Bankruptcy Court issued its Memorandum Opinion on Eligibility of Jefferson County, Alabama Under 11 U.S.C. § 109(c), reported as *In re Jefferson County*, 469 B.R. 92 (Bankr. N.D. Ala. 2012) (the "Eligibility Opinion"). In the Eligibility Opinion, the Bankruptcy Court held that the County had demonstrated that it met all of the requirements of Bankruptcy Code section 109(c) and was therefore eligible to proceed as a municipal debtor in a chapter 9 bankruptcy case. The Bankruptcy Court's March 4, 2012 Order on Eligibility of Jefferson County, Alabama as a Debtor under 11 U.S.C. § 109(c)(1)-(5) also provided that it constituted an order for relief under Bankruptcy Code section 921(d) and all other relevant provisions of the Bankruptcy Code.

Various of the objecting parties filed notices of appeal of the Eligibility Opinion and associated order to the District Court. The objecting parties also filed motions for leave to appeal, which the District Court granted. The District Court subsequently stayed the appeals for thirty (30) days pending a decision by the Supreme Court of Alabama in the pending case *City of Prichard v. Balzer*, No. 1100950. On April 20, 2012, the Supreme Court of Alabama released its decision in the *City of Prichard* case, holding that "[i]t is clear that the legislature intended to authorize *every* county, city, town, and municipal authority organized pursuant to Article 9, Chapter 47 of Title 11, Ala. Code 1975, to file for federal bankruptcy protection" and that Alabama Code section 11-81-3 "does not require that an Alabama municipality have indebtedness in the form of refunding bonds or

funding bonds as a condition to eligibility to proceed under Chapter 9 of" the Bankruptcy Code. *City of Prichard v. Balzer*, 95 So. 3d 1, 6 (Ala. 2012).

In the wake of the *Prichard* opinion, the objecting appellants filed motions to dismiss their appeals of the Eligibility Opinion and associated order, which motions the District Court granted. As a result of the dismissal of these appeals, the Eligibility Opinion and associated order have become final rulings of the Bankruptcy Court.

C. Net Revenues Litigation

While the Bankruptcy Court's opinion regarding the Receiver-Stay Motions held that the County must continue to pay over net System Revenues to the Sewer Warrant Trustee for continued payment on the Sewer Warrants, the opinion did not address the extent to which amounts could be deducted from net System Revenues, either as "Operating Expenses" under the Sewer Warrant Indenture or as "necessary operating expenses" under Bankruptcy Code section 928(b).

Various issues regarding the amounts that could be deducted from net System Revenues were litigated in the context of *Bank of New York Mellon v. Jefferson County (In re Jefferson County)*, Adversary Proceeding No. 12-00016-TBB (the "Net Revenues Adversary Proceeding"). The Net Revenues Adversary Proceeding was commenced when the Sewer Warrant Trustee filed an adversary complaint against the County, which was subsequently amended to add certain of the Standby Sewer Warrant Purchase Agreement providers and the Sewer Warrant Insurers as plaintiffs. In addition, FGIC filed a complaint in intervention against the County, and the County filed counterclaims.

The Bankruptcy Court severed three counts of the plaintiffs' complaint and the County's counterclaims into a separate adversary proceeding (see discussion of the "Severed Sewer Adversary Proceeding" below). After a trial on the plaintiffs' remaining counts,, the Bankruptcy Court issued its *Memorandum Opinion On Net Revenues And Applicability of 11 U.S.C. § 928(b)*, reported as *Bank of New York Mellon v. Jefferson County (In re Jefferson County)*, 474 B.R. 725 (Bankr. N.D. Ala. 2012) (the "Net Revenues Opinion"). In the Net Revenues Opinion, the Bankruptcy Court analyzed whether certain expenditures were payable prior to debt service, either as Operating Expenses under the Sewer Warrant Indenture or pursuant to Bankruptcy Code section 928(b); the opinion concludes with the following summary of the Bankruptcy Court's ruling:

> Operating Expenses as determined under the Indenture do not include (1) a reserve for depreciation, amortization, or future expenditures, or (2) an estimate for professional fees and expenses. At the end of each monthly period, as is determined under the Indenture, the monies remaining in the Revenue Account following payment of the Operating Expenses that were (1) incurred in the then current month or any prior month and (2) due and payable in the then current month or a prior month are to be remitted in the priority and manner as set forth in Article XI of the Indenture without withholding of any monies for depreciation, amortization, reserves, or estimated expenditures that are the subject of this litigation. Additionally, 11 U.S.C. § 928(b) is inapplicable to the pledge of revenues under the Indenture and the distributive scheme in Article XI of the Indenture.

The Net Revenues Opinion did not address the County's entitlement to deduct from Sewer Revenues sewer-related professional fees and expenses actually incurred in connection with the Case. The Bankruptcy Court subsequently entered an order (1) determining to decide by separate order the issue of actually-incurred professional fees and expenses based on the testimony from the evidentiary hearing and the post-hearing briefs submitted by the parties; (2) finding that there was "no just reason for delay … in the entry of a final appealable judgment in [the Net Revenues Adversary Proceeding]"; and (3) entering partial final judgment in favor of the plaintiffs in the Net Revenues Adversary Proceeding.

The County appealed the Net Revenues Ruling, and the matter was once again certified to and accepted by the Eleventh Circuit as a direct appeal, pending as docket No. 13-10348-BB. On June 20, 2013, the County, FGIC, JPMorgan Chase, Syncora, Assured, The Bank of New York Mellon, as liquidity bank, and State Street Bank and Trust Company moved to stay the appeal. On June 21, 2013 the Eleventh Circuit granted the parties' motion and stayed further proceedings (including the filing of the County's appellate reply brief) until January 15, 2014.

On June 12, 2013, in accordance with the Sewer Plan Support Agreements, the County filed a motion to stay all proceedings in the Net Revenues Adversary Proceeding, with certain limited exceptions concerning the issuance and appeal of the Court's ruling on the attorneys' fee issue.

On June 27, 2013, the Bankruptcy Court issued its *Memorandum Opinion on Professional Fees and Expenses, the Indenture's Operating Expenses, and 11 U.S.C. § 928(b)'s "Necessary Operating Expenses"* (the "Fee Opinion"). In the Fee Opinion, the Bankruptcy Court clarified certain aspects of the Net Revenues Opinion in the process of analyzing the County's entitlement to deduct from Sewer Revenues sewer-related professional fees and expenses actually incurred in connection with the Case. The Bankruptcy Court ultimately concluded "that for the Joint Submission categories [of professional fees] as either Operating Expenses under the Indenture or as 'necessary operating expenses' for § 928(b) subordination purposes, all of the Joint Submission categories of Professional Fees are permitted to be paid ahead of interest and principal to the [holders of the Sewer Warrants]." The County understands that the Sewer Warrant Trustee and other parties intend to appeal the Fee Opinion. Notwithstanding this holding, the Sewer Plan Support Agreements and the Plan provide that the Accumulated Sewer Revenues will be distributed under the Plan without deducting any amounts that may be subject to deduction as "Operating Expenses" under the Sewer Warrant Indenture as a result of the ruling by the Bankruptcy Court in the Net Revenues Adversary Proceeding.

By order dated June 28, 2013, the Bankruptcy Court stayed all proceedings in the Net Revenues Adversary Proceeding, with the aforementioned limited exceptions, until the earlier of (1) the Effective Date of the Plan, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the Sewer Plan Support Agreements, and (2) the date of termination of any Sewer Plan Support Agreement.

D. Severed Sewer Adversary Proceeding

As referenced above, the Bankruptcy Court severed three of the plaintiffs' counts, as well as the County's counterclaims, from the Net Revenues Adversary Proceeding and into a separate

adversary proceeding. That severed adversary proceeding remains pending before the Bankruptcy Court as *Bank of New York Mellon v. Jefferson County (In re Jefferson County)*, Adversary Proceeding No. 12-00067-TBB (the "Severed Sewer Adversary Proceeding"). The portions of the Severed Sewer Adversary Proceeding consisting of claims made by the plaintiffs against the County were stayed pending disposition of the Net Revenues Appeal.

At issue in the Severed Sewer Adversary Proceeding are three counterclaims (the "Fund Ownership Counterclaims") seeking declaratory relief pursuant to 28 U.S.C. §§ 1334(e)(1) & 2201(a) with respect to the following funds: (1) the Released Escrow Funds; (2) the 2005 Construction Fund; and (3) Supplemental Transactions Fund. More specifically, the County sought a determination from the Bankruptcy Court that it owns each of these funds free and clear of any lien, pledge or other property interest.

The County filed a *Motion For Summary Judgment On The County's Counterclaim*, arguing that none of the funds at issue in the Fund Ownership Counterclaims were the subject of any of the granting clauses in the Sewer Warrant Indenture. The County also argued that the Released Escrow Funds and the Supplemental Transactions Fund were not delivered to or deposited with the Trustee, and that the 2005 Construction Fund was not delivered to or deposited with the Trustee "as additional security" (Sewer Warrant Indenture § 2.1(III)), but rather was to be returned to the County when the County exercised its right to replace the Sewer Reserve Fund with the Syncora DSRF Policy and the Assured DSRF Policy. The County further argued that section 13.3 of the Sewer Warrant Indenture did not expand the granting clauses in section 2.1, and that the Receiver Order did not create any interest in property beyond those created by the Sewer Warrant Indenture.

In response, the plaintiffs/counterclaim defendants in the Severed Sewer Adversary Proceeding filed a cross-motion for summary judgment. The plaintiffs argued that the Sewer Warrant Trustee had a lien on the disputed funds under sections 2.1 and 14.7 of the Sewer Warrant Indenture, and that there was a statutory lien on the funds pursuant to Chapter 28, Title 11 of the Alabama Code, and that regardless of any lien, the funds were restricted. In addition, the plaintiffs argued that the Receiver Order found that the Sewer Warrant Trustee had a first-priority lien on all "Funds of the [Sewer] System" in its possession, and that the County was barred by *res judicata* from challenging that finding.

The Bankruptcy Court heard oral argument on the parties' cross motions for summary judgment. No ruling has been issued. On June 12, 2013, in accordance with the Sewer Plan Support Agreements, the County filed a motion to stay all proceedings in the Severed Sewer Adversary Proceeding, including any ruling on the parties' cross motions for summary judgment. By order dated June 28, 2013, the Bankruptcy Court stayed all proceedings in the Severed Sewer Adversary Proceeding until the earlier of (1) the Effective Date of the Plan, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the Sewer Plan Support Agreements, and (2) the date of termination of any Sewer Plan Support Agreement.

E. The Rate-Related Stay Relief Motions

In March 2012, FGIC filed a Motion to Lift or Condition the Automatic Stay. FGIC sought either (1) relief from the stay to allow the Receiver to set new sewer rates or (2) an order conditioning the continuance of the automatic stay on the County's raising sewer rates by July 1, 2012. The County objected to FGIC's motion. After a hearing thereon, the Court entered an interim order requiring the County to file status reports "concerning the sewer ratemaking process" every 45 days. FGIC's motion was continued.

The County filed status reports in compliance with the Court's order, setting out the County's ratemaking progress. Among other things, the County held three public hearings and, on November 6, 2012, the County Commission adopted a sewer rate structure proposed by the County's utility system consultant Eric Rothstein, a principal of the Galardi Rothstein Group ("Mr. Rothstein").

On November 5, 2012, the Sewer Warrant Trustee filed a motion seeking relief from the automatic stays to pursue litigation for the purpose of increasing the County's sewer rates. FGIC requested further hearings on its pending motion for relief from stay. Soon thereafter, holders of a substantial amount of the Sewer Warrants (the "Ad Hoc Sewer Warrantholders") and Assured each filed motions for relief from stay articulating different bases for such relief. These stay-relief motions are referred to collectively as the "Rate-Related Stay Relief Motions."

The Rate-Related Stay Relief Motions alleged that the County's sewer rates did not comply with the Sewer Warrant Indenture, Alabama law, or the County's obligations under the Bankruptcy Code. The County filed a Preliminary Opposition to the Rate Relief Motions, asserting that the County Commission's rates were presumptively valid under applicable law and that the County's newly-adopted rates complied with the County's obligations under both Alabama and bankruptcy law.

An evidentiary hearing on the Rate-Related Stay Relief Motions was held earlier this year. The Bankruptcy Court has not ruled on the Rate-Related Stay Relief Motions.

On June 12, 2013, in accordance with the Sewer Plan Support Agreements, the County filed a motion to stay all proceedings on the Rate-Related Stay Relief Motions, including any ruling on the Rate-Related Stay Relief Motions. By order dated June 28, 2013, the Bankruptcy Court stayed all proceedings on the Rate-Related Stay Relief Motions until the earlier of (1) the Effective Date of the Plan, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the Sewer Plan Support Agreements, and (2) the date of termination of any Sewer Plan Support Agreement.

F. Adversary Proceeding Commenced by the Sewer Warrant Trustee Against the County, Syncora, and Assured

Without forbearances from certain holders of the Bank Warrants to permit regularly scheduled principal payments to be made on other series of Sewer Warrants, the Sewer Warrant Trustee filed a complaint for declaratory relief in the Bankruptcy Court, naming the County, Syncora

and Assured as defendants.[9] The action is styled *The Bank of New York Mellon, as Indenture Trustee v. Jefferson County, Alabama, et al.*, Adversary Proceeding Number 13-00019-TBB (the "Declaratory Judgment Action"). In the complaint, the Sewer Warrant Trustee requests declaratory relief regarding the Sewer Warrant Trustee's rights and duties under the Sewer Warrant Indenture and statutory and constitutional law. Among other relief, the Sewer Warrant Trustee (1) seeks authorization to accelerate, in its discretion, some of the Sewer Warrants, without accelerating certain Sewer Warrants insured by Assured and FGIC; (2) requests instructions regarding the application of funds received by the Trustee after acceleration of some, but not all, Sewer Warrants; (3) asks the Bankruptcy Court to consider whether, if an insurer is unable to perform its obligations under a Sewer DSRF Policy, the Sewer Warrant Trustee may make multiple draws on the Sewer DSRF Policies before drawing on the Sewer Wrap Policies; (4) seeks a declaration that reimbursement of amounts paid by the Sewer Warrant Insurers on account of draws on the Sewer DSRF Policies are subordinate to the payment of the Sewer Warrants; and (5) requests a declaration that obligations to honor draws under the Sewer Insurance Policies continue after all or certain of the Sewer Warrants have been accelerated. The Sewer Warrant Trustee later dismissed, without prejudice, its claim for declaratory relief with respect to whether reimbursements of amounts paid by Sewer Warrant Insurers on account of draws upon the Sewer DSRF Policies are subordinate to the payment of Sewer Warrants.

The County timely answered the complaint in the Declaratory Judgment Action. The County's answer includes the following assertions: (a) section 13.2(a) of the Sewer Warrant Indenture provides that the Sewer Warrant Trustee shall accelerate all Sewer Warrants upon the occurrence of a payment default under section 13.1(a), notwithstanding anything in the supplements to the Sewer Warrant Indenture or in the Sewer Warrants to the contrary; (b) any order or judgment in the adversary proceeding should be without prejudice to the County's rights regarding the proper characterization, allocation, or application of any funds disbursed by the Sewer Warrant Trustee, or otherwise received by any Sewer Warrant holder, after the first occurrence of an Event of Default under section 13.1(a) of the Sewer Warrant Indenture; (c) the County reserves all rights with respect to whether certain Sewer Warrant Insurer consent provisions contained in supplements to the Sewer Warrant Indenture may be exercised in a manner that overrides the mandatory acceleration provision of section 13.2(a) of the Sewer Warrant Indenture; (d) the entire indebtedness of the County to all the holders of Sewer Warrant was accelerated by the filing of the County's bankruptcy petition; (e) any order or judgment in the adversary proceeding should be without prejudice to the County's rights regarding the proper characterization, allocation, or application of any funds disbursed by the Sewer Warrant Trustee, or otherwise received by any Sewer Warrant holder, postpetition; (f) any and all reimbursements to Sewer Warrant Insurers for fees, expenses, claims and draws upon the Sewer DSRF Policies are contractually and statutorily subordinate to the payment of debt service on the Sewer Warrants; and (g) the Sewer Warrant Insurers' respective obligations to honor draws upon the Sewer DSRF Policies and the Sewer Wrap Policies continue after any or all of the Sewer Warrants have been accelerated.

[9] The Sewer Warrant Trustee did not name FGIC as a defendant, presumably due to the pendency of the FGIC Rehabilitation Proceeding (as defined below).

In lieu of answering the Sewer Warrant Trustee's complaint, Assured moved to dismiss the Declaratory Judgment Action for lack for subject matter jurisdiction under Rule 12(b)(1) of the Federal Rules of Civil Procedure and for failure to state a claim under Rules 8(a) and 12(b)(6) of the Federal Rules of Civil Procedure. Syncora also moved to dismiss the Declaratory Judgment Action, asserting that FGIC was a necessary and indispensable party to the Declaratory Judgment Action and that the Bankruptcy Court should dismiss the adversary proceeding if the FGIC Rehabilitation Proceeding (as such term is defined below) precluded FGIC's joinder in the action.

On June 28, 2013, the Bankruptcy Court entered an order in the Declaratory Judgment Action (the "Declaratory Judgment Action Order"). The Declaratory Judgment Action Order provides that: (1) the Declaratory Judgment Action is stayed; (2) the County will continue to pay to the Sewer Warrant Trustee on a monthly basis net revenues of the Sewer System (without deducting any additional amounts that may be subject to deduction as "Operating Expenses" under the Sewer Warrant Indenture as a result of any ruling by the Bankruptcy Court regarding pending disputes about actually incurred professional fees in the Net Revenues Adversary Proceeding); (3) the Sewer Warrant Trustee will not present any claims or seek to draw on any Sewer Wrap Policies or Sewer DSRF Policies; and (4) the Sewer Warrant Trustee shall not distribute sewer revenues to the holders of Sewer Warrants on account of obligations becoming due on or after February 1, 2013. The Declaratory Judgment Action Order states that the relief granted therein shall remain effective until the earlier of (1) the Effective Date of the Plan, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the Sewer Plan Support Agreements, and (2) the date of termination of any Sewer Plan Support Agreement.

G. Litigation with the City of Birmingham and the Mayor regarding Cooper Green.

Cooper Green has been the subject of litigation between the County and the City of Birmingham (the "City") during the course of the chapter 9 Case. The City and Mayor William A. Bell, Sr. (the "Mayor") filed a complaint in State Court against the County Commission, seeking a declaratory judgment that the County Commission should be barred from closing Cooper Green. In response, the County filed an emergency motion to enforce the automatic stays, requesting entry of an order compelling the City and the Mayor to comply with the automatic stays of Bankruptcy Code sections 362(a) and 922(a).

The City and Mayor filed a Notice of Dismissal of their State Court lawsuit, without prejudice. After dismissing their lawsuit in State Court, the City and the Mayor then filed a motion with the Bankruptcy Court requesting relief from the automatic stays to file another complaint in State Court challenging the County Commission's decision to close the emergency room at Cooper Green. The City and Mayor also filed a complaint with the Bankruptcy Court, naming the County Commission and three County Commissioners as defendants in the complaint. The factual allegations and requested relief in the second complaint were almost identical to those in the original complaint filed in State Court. The County filed a motion to dismiss the City's and the Mayor's complaint in the Bankruptcy Court.

The Bankruptcy Court entered an order and memorandum opinion, denying the City's and the Mayor's motion for relief. The Bankruptcy Court ruled that the automatic stays applied to the City's and the Mayor's proposed State Court action, and there was no cause for relief from the

automatic stays. *See In re Jefferson County*, 484 B.R. 427 (Bankr. N.D. Ala. 2012). Among other things, the Bankruptcy Court ruled that the state law relied upon by the City and the Mayor, Alabama Code sections 22-21-290 to 22-21-297, does not require that the County operate a hospital. Based upon the same reasoning as the denial of stay relief, the Bankruptcy Court dismissed the City's and the Mayor's complaint against the County and the County Commissioners. The Bankruptcy Court's rulings on these issues have become final.

H. Other Adversary Proceedings

In addition to the Net Revenues Adversary Proceeding, the Severed Sewer Adversary Proceeding, and the Declaratory Judgment Action, there are other adversary proceedings that have been filed in connection with the Case, which are discussed in turn below.

1. Wilson Adversary Proceeding

As discussed in Section III.E.1 above, FGIC removed one count of the Wilson Action to federal court, which had the effect of creating the Wilson Adversary Proceeding. The Bankruptcy Court has entered an order that the automatic stay of 11 U.S.C. § 362(a) applies to the Wilson Adversary Proceeding, thereby prohibiting the plaintiffs from engaging in discovery or otherwise pursuing the Wilson Adversary Proceeding without seeking relief from the automatic stay. Neither the Bankruptcy Court nor the parties have taken any subsequent action in the Wilson Adversary Proceeding.

The County maintains that the claims asserted in the Wilson Action and the Wilson Adversary Proceeding, to the extent they have any validity at all, are claims that rightfully belong to and can be brought and settled only by the County. The claims asserted in the Wilson Action and the Wilson Adversary Proceeding effectively seek to either have monies returned to the County or obtain declarations concerning the County's liabilities or lack thereof. The County – and not the plaintiffs in the Wilson Action and the Wilson Adversary Proceeding – has standing to pursue these claims. The County contends that the settlements, compromises, and validations contained in the Plan, including the validation and allowance of the Sewer Debt Claims, the amount of the New Sewer Warrants issued, and the validation of the Approved Rate Structure, will render the Wilson Adversary Proceeding and the remaining count in the Wilson Action pending in the State Court moot or otherwise resolved as of the Effective Date, and the County intends to have the Wilson Adversary Proceeding and the remaining count of the Wilson Action pending in the State Court dismissed in connection with confirmation of the Plan.

2. Bennett Action

On behalf of a putative class of individual and corporate sewer ratepayers of Jefferson County, fifteen named plaintiffs filed suit against the County and fourteen other defendants. The action was filed in the Bankruptcy Court and is styled *Bennett, et al. v. Jefferson County, Alabama, et al.*, Adversary Proceeding No. 12-00120 (the "Bennett Action").

The opening complaint in the Bennett Action[10] sought injunctive and declaratory relief, in addition to damages, on behalf of several putative classes of sewer customers. The County, named in the opening complaint only as a "nominal defendant," moved for a more definite statement of the claim and moved to strike the class allegations. Other defendants filed motions to dismiss detailing various shortcomings in the opening complaint. The plaintiffs voluntarily dismissed, with prejudice, six of the nine counts of their complaint. With respect to the remaining counts, the Bankruptcy Court entered orders granting the County's motion for a more definite statement and the County's motion to strike the class allegations, deeming moot the other defendants' various motions to dismiss, and giving plaintiffs time to file an amended complaint.

Plaintiffs filed their Second Amended Complaint For a Declaratory Judgment and Injunctive Relief on the Bankruptcy Court's deadline. This complaint named as defendants only the County and the Sewer Warrant Trustee. This complaint sought relief similar to that requested in the Wilson Adversary Proceeding, namely the entry of a declaratory judgment that certain series of Sewer Warrants were invalid because they violated the pre-issuance requirements of the Sewer Warrant Indenture and contravened the Alabama and United States Constitutions. Both the County and the Sewer Warrant Trustee responded to the Second Amended Complaint with motions to dismiss.

In its reply to the plaintiffs' brief, the County requested that the Bankruptcy Court stay the adversary proceeding pending confirmation of the County's Plan, on the grounds that confirmation likely will resolve or moot the adversary proceeding. The Bankruptcy Court granted the County's request and stayed the Bennett Action. The plaintiffs filed a motion for reconsideration of the Bankruptcy Court's order staying the adversary proceeding, which the Bankruptcy Court denied.

The County maintains that the claims asserted in the Bennett Action, to the extent they have any validity at all, are claims that rightfully belong to and can be brought and settled only by the County. The claims asserted in the Bennett Action effectively seek to either have monies returned to the County or obtain declarations concerning the County's liabilities or lack thereof. The County – and not the plaintiffs in the Bennett Action – has standing to pursue these claims. The County contends that the settlements, compromises, and validations contained in the Plan, including the validation and allowance of the Sewer Debt Claims, the amount of the New Sewer Warrants issued, and the validation of the Approved Rate Structure, will render the Bennett Action moot or otherwise resolved as of the Effective Date, and the County intends to have the Bennett Action dismissed in connection with confirmation of the Plan.

3. Moore Oil Adversary Proceeding

Moore Oil Co., Inc. ("Moore Oil") filed a complaint in the Bankruptcy Court against Jennifer Champion, as Treasurer of the County (the "Treasurer"), thereby commencing Adversary Proceeding

[10] The opening complaint in the Bennett Action was the second attempt by the plaintiffs to state viable claims. In July 2012, the same plaintiffs had attempted to intervene in the Net Revenues Adversary Proceeding, filing a putative complaint and a motion to certify a class. The Bankruptcy Court denied permission to intervene in the Net Revenues Adversary Proceeding but granted leave to file a new complaint that became the Bennett Action.

No. 12-00060-TBB (the "Moore Oil Adversary Proceeding"). In its complaint, Moore Oil alleged that the Treasurer breached a constructive trust by failing to remit to Moore Oil excess bid proceeds from a tax sale and thereby caused damages to Moore Oil. The County moved to dismiss the Moore Oil Adversary Proceeding on the basis that the claims asserted therein were prepetition causes of action that should be handled through the bankruptcy claims administration procedures, not as a separate adversary proceeding. The Bankruptcy Court agreed and dismissed the Moore Oil Adversary Proceeding.

4. Lehman Adversary Proceeding

Lehman Brothers filed a complaint in the Bankruptcy Court against the Sewer Warrant Trustee and the County, thereby commencing Adversary Proceeding No. 12-00149-TBB (the "Lehman Adversary Proceeding"). In its complaint, Lehman Brothers requests that the Bankruptcy Court enter a judgment declaring that a periodic payment component of the obligations arising under the Series 2002-C LB Sewer Swap, in the alleged principal sum of $1,002,754.42 (exclusive of interest), stands in *pari passu* and in parity with debt service on the Sewer Warrants, and that the Sewer Warrant Trustee is obligated to make provision for payment to Lehman Brothers of that entire principal sum, plus interest.

Lehman Brothers, the Sewer Warrant Trustee, and the County entered into a joint stipulation providing that the County shall not be required to answer or further respond to the Lehman Brothers' complaint, but shall be bound by any ruling in the Lehman Adversary Proceeding on the issue of whether the Sewer Warrant Trustee is required to treat "the periodic payment component of the Lehman debt," as described in the Lehman Brothers' complaint, in parity with debt service on the Sewer Warrants. The County otherwise reserved all rights, claims, and defenses, including, without limitation, with respect to the allowance or treatment, in a plan or otherwise, of all Claims of Lehman Brothers against the County. The Sewer Warrant Trustee has filed its answer to the Lehman Brothers' complaint, and the County understands that discovery is underway.

The Plan classifies any Claims arising from the Series 2002-C-LB Sewer Swap in Class 1-E among the Sewer Swap Agreement Claims because the County believes that all such Claims are subordinated. If not otherwise resolved by the Confirmation Hearing, the priority of such Claim may be a disputed issue at the Confirmation Hearing. The County reserves all of its rights with respect to this issue and will address it, if necessary, in the context of confirmation of the Plan.

5. Dr. Farah Adversary Proceeding

Dr. Ahmed Farah ("Dr. Farah") filed a complaint in the Bankruptcy Court against the County Commission and Tony Petelos, in his official capacity as County Manager (the "County Manager"), thereby commencing Adversary Proceeding No. 13-00002-TBB (the "Dr. Farah Adversary Proceeding"). In his complaint, Dr. Farah alleges that the County Commission and County Manager breached a Professional Services Agreement with Dr. Farah and were unjustly enriched by Dr. Farah's services at Cooper Green. The County Commission filed an answer and asserted counterclaims for breach of contract, indemnification, and a declaratory judgment that the Professional Services Agreement is unenforceable. The County Manager moved to dismiss Dr. Farah's complaint for failure to state a claim upon which relief may be granted. The Bankruptcy

Court dismissed Dr. Farah's complaint against the County Manager. The County Commission has approved a settlement of this matter, subject to execution of a release.

6. Johnson Adversary Proceeding

Merrianne Johnson ("Johnson") filed a complaint against the County Commission in the United States District Court for the Middle District of Alabama (the "Middle District"). Johnson's complaint alleges employment discrimination in violation of Title VII of the Civil Rights Act. The County Commission filed a notice of bankruptcy in the lawsuit in January 2013, and the Middle District transferred Johnson's complaint to the District Court. The District Court referred Johnson's complaint to the Bankruptcy Court, thereby initiating Adversary Proceeding No. 13-00040-TBB (the "Johnson Adversary Proceeding"). The Bankruptcy Court stayed the Johnson Adversary Proceeding pending further order. Neither the Bankruptcy Court nor the parties have taken any subsequent action in the Johnson Adversary Proceeding.

I. Creditors' Claims

1. The List of Creditors and the Bar Dates

On December 12, 2011, the County filed its original List of Creditors as required by Bankruptcy Code section 924. On April 23, 2012, the County amended its List of Creditors to add additional creditors. Pursuant to the List of Creditors, as amended, the County scheduled Claims as of the Petition Date totaling $4,616,790,649.30. This figure includes disputed and undisputed, contingent and non-contingent, and liquidated and unliquidated Claims. Of this amount, secured claims accounted for approximately $4,112,668,974, and unsecured claims accounted for approximately $504,121,675.

Following the entry by the Bankruptcy Court of the order for relief in the Case, the County moved the Bankruptcy Court to set the General Bar Date, the 503(b)(9) Bar Date, the Governmental Unit Bar Date, the Amended List Bar Date, and the Rejection Bar Date. By order dated April 6, 2012, the Bankruptcy Court set the following deadlines: June 4, 2012 as the General Bar Date; June 4, 2012 as the 503(b)(9) Bar Date; and August 31, 2012 as the Governmental Unit Bar Date (as amended, the "Bar Date Order"). Similarly, the Bankruptcy Court set the Amended List Bar Date and Rejection Bar Date by reference to any amendment to the County's List of Creditors and any Rejection Orders, respectively.

With the assistance of its claims and servicing agent, Kurtzman Carson Consultants LLC (the "Claims Agent"), the County caused the Bar Date Notice to be mailed to all parties on the List of Creditors. In addition, at the County's request, the Bankruptcy Court ordered The Depository Trust Corporation ("DTC") to provide the County with a listing of the names and address of institutional brokers and other customers that held, directly or indirectly, any of the County's GO Warrants, the School Warrants, the Sewer Warrants, and other debt instruments (the "Institutional Nominees"). DTC complied with this requirement and provided the County with the contact information for the Institutional Nominees. The County, again with the Claims Agent's assistance, served the Bar Date Notice on approximately 12,000 Institutional Nominees identified by DTC. In total, the Bar Date Notice was served by mail on over eighteen thousand (18,000) potential claimants. The County also

published the Bar Date Notice in The Bond Buyer and The Birmingham News, the largest newspaper within the County.

As of the date of this Disclosure Statement, over 1,360 proofs of claim have been Filed, asserting Claims totaling in excess of $4.8 billion. Over 140 proofs of claim have been voluntarily withdrawn, representing over $500,000 in claims. Of the remaining proofs of claim, approximately 300 were Filed as unliquidated or in an unknown amount. The County believes that many of the Filed proofs of claim are overstated, are duplicative of other proofs of claims, or are not allowable under applicable law. For example, with respect to prepetition unsecured trade Claims, the County's List of Creditors listed trade claims totaling $3,683,281.24. Of that amount, the County disputed over $1.9 million of those Claims. During the course of its Case, the County has exercised its authority under Bankruptcy Code sections 903 and 904 to pay lawful trade Claims in the ordinary course of its operations to the extent those Claims were due to be Allowed. Accordingly, the County believes that it has paid substantially all of those prepetition unsecured trade Claims that are or were due to be Allowed and will amend its List of Creditors accordingly.

THE COUNTY RESERVES ANY AND ALL RIGHTS, EXCEPT AS EXPRESSLY SETTLED, RELEASED, OR RESOLVED IN THE PLAN OR THE CONFIRMATION ORDER, TO OBJECT TO, DEFEND AGAINST, AND REQUEST DISALLOWANCE, REDUCTION, SUBORDINATION OR RECHARACTERIZATION OF ANY CLAIM ASSERTED AGAINST THE COUNTY OR ITS PROPERTY. THE COUNTY ANTICIPATES THAT SOME CLAIM OBJECTIONS WILL BE FILED AFTER CONFIRMATION OF THE PLAN.

2. Claims Filed By the Institutional Nominees

A significant number of Institutional Nominees or purported individual holders filed proofs of claim to recover principal and interest allegedly due on their respective warrants. The County intends to object to all claims filed by Institutional Nominees or other individual holders for principal and interest on warrants as duplicative of those proofs of claim filed by the respective indenture trustees.

A very small minority of Institutional Nominees with respect to the County's warrants filed claims to recover purported losses on their investment, which allegedly occurred upon disposition of the County's warrants. All claims for damages arising from the purchase or sale of the County's warrants are subject to subordination pursuant to Bankruptcy Code section 510(b) and will receive the treatment provided for Class 9 (Subordinated Claims) under the Plan.

3. 503(b)(9) Claims

Bankruptcy Code section 503(b)(9) provides that the allowable "administrative expenses" in a bankruptcy case include "the value of any goods received by the debtor within 20 days before the date of commencement of a case under [the Bankruptcy Code] in which the goods have been sold to the debtor in the ordinary course of such debtor's business." Approximately 160 purported 503(b)(9) Claims have been filed against the County. The vast majority of 503(b)(9) Claims were filed by beneficial holders of the County's various outstanding warrants and are not for goods

provided to the County within the twenty (20) days prior to the Petition Date. Other 503(b)(9) Claims were filed by certain of the County's trade creditors who have been or will be paid by the County in the ordinary course of its ongoing operations. Consequently, the County intends to object to most of the filed 503(b)(9) Claims and anticipates that the total 503(b)(9) Claims to be paid pursuant to the Plan will be less than $10,000.

4. Professional Fees

Pursuant to Bankruptcy Code section 943(b)(3), all amounts to be paid for services or expenses in the Case or incident to the Plan must be fully disclosed to the Bankruptcy Court and must be reasonable. There shall be paid to each holder of a Professional Fee Claim against the County in full, final, and complete settlement, satisfaction, release, and discharge of such Claim, Cash in an amount equal to the portion of such Professional Fee Claim that the Bankruptcy Court determines is reasonable on or as soon as is reasonably practicable following the date on which the Bankruptcy Court enters an order determining reasonableness. The County, in the ordinary course of its business, and without the requirement for Bankruptcy Court approval, may pay for professional services rendered and expenses incurred following the Effective Date.

The County has paid the fees and expenses of its bankruptcy counsel, bond counsel, general outside counsel, and other professionals on a regular basis during the Case. Such fees are not subject to the Bankruptcy Court's review or approval, as Bankruptcy Code sections 327-331 do not apply in chapter 9 cases. In addition, the County does not believe that Bankruptcy Code section 943(b)(3) requires that any fees and expenses *previously paid* be subject to review or challenge based on reasonableness grounds. *Compare* 11 U.S.C. § 943(b)(2) (providing that "all amounts ***to be paid*** by the debtor or by any person for services or expenses in the case or incident to the plan have been fully disclosed and are reasonable" (emphasis added)), *with* 11 U.S.C. § 1129(a)(4) (providing that "[a]ny payment ***made or to be made*** by the proponent, by the debtor, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in connection with the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable" (emphasis added)). Accordingly, the County intends to submit an estimate prior to the Confirmation Hearing of all amounts anticipated to be paid after the Confirmation Date and before the Effective Date for services or expenses in the Case or incident to the Plan and request that the Bankruptcy Court find that all such amounts are reasonable in connection with the confirmation of the Plan.

5. Other Administrative Expense Claims

The Plan provides for an Administrative Claims Bar Date which shall be no more than ninety (90) calendar days after the Effective Date. Until the Administrative Claims Bar Date has passed, the County cannot provide a meaningful analysis of the Administrative Claims that will be filed or that will be paid pursuant to the Plan.

Many Persons that have already filed proofs of claim against the County asserted purported administrative expense or priority claims pursuant to various subsections of Bankruptcy Code section 507(a). However, section 507(a)(2) is the only applicable section of the Bankruptcy Code that provides for priority claims in chapter 9 cases. The County intends to object to all alleged

priority Claims that are not entitled to priority under section 507(a)(2). To the extent such Claims are Allowed Claims and are not otherwise separately classified and treated in the Plan, such Claims will be treated as General Unsecured Claims under the Plan.

6. General Unsecured Claims

Allowed General Unsecured Claims are classified in Class 6 under the Plan. The Plan defines a General Unsecured Claim as a Claim that is not an Administrative Claim, a Bessemer Lease Claim, a Board of Education Lease Debt Claim, a GO Debt Claim, an Other Unimpaired Claim, a Professional Fee Claim, a Secured Claim, a Special Revenues Claim, or a Subordinated Claim. Among the Claims specifically included in Class 6 under the Plan, to the extent they may be Allowed, are (a) the Asserted Full Recourse Sewer Claims, (b) Rejection Damage Claims, and (c) the Uninsured Portion of General Liability Claims.

The County believes that the total amount of General Unsecured Claims that are due to be Allowed is much smaller than the amount of unsecured Claims listed by the County in its List of Creditors that was Filed months ago in the Case or asserted in proofs of claims Filed in the Case. As discussed in Section IV.I.1 above, the County has paid postpetition many of the unsecured trade Claims that it had scheduled in its List of Creditors, substantially reducing the amount of Claims that would otherwise have been treated as Class 6 Claims under the Plan. In addition, while the Asserted Full Recourse Sewer Claims are classified among Class 6 General Unsecured Claims, the Plan provides that JPMS will waive and release any and all rights to receive any Distribution under the Plan on account of the JPMorgan Asserted Recourse Indemnification Claims upon the Effective Date of the Plan and that the Sewer Warrant Insurers similarly will waive and release any and all rights to receive any Distribution under the Plan on account of their Asserted Full Recourse Claims of the Sewer Warrant Insurers. The Plan further provides that no Distribution will be made on account of the Sewer Warrant Trustee's Asserted Recourse Claim.

With respect to Rejection Damage Claims, the landlords to the Satellite Courthouse leases have Filed proofs of claims for over $1.6 million in rejection damages. These are the only Rejection Damage Claims that have been asserted to date. The County believes that such Claims are or may be subject to reduction in accordance with Bankruptcy Code section 502(b)(6) and other defenses. The County is continuing its review of its executory contracts and unexpired leases and may reject additional contracts and unexpired leases in accordance with the provisions of the Bankruptcy Code and the Plan.

General Liability Claims, including personal injury Claims, civil rights Claims and other tort Claims, were asserted against the County. The County maintains general liability insurance which may provide coverage with respect to certain of these Claims. The County disputes liability for these Claims. To the extent such Claims are Allowed but insurance is not sufficient to pay such Claims in full, the claimants would hold General Unsecured Claims against the County.

The plaintiffs in the Bennett Action have filed a proof of Claim for $1,630,000,000. The plaintiffs in the Wilson Action have also filed a proof of claim in an unliquidated amount pursuant to which they assert the same claims asserted in the Wilson Action. The County disputes both of these Claims and believes that each of them is due to be disallowed in its entirety.

7. Other Unimpaired Claims

Other Unimpaired Claims are classified in Class 8 of the Plan. These claims include any and all Consent Decree Claims, Deposit Refund Claims, Eminent Domain Claims, Employee Compensation Claims, OPEB Plan Claims, Pass-Through Obligation Claims, Retirement System Claims, Tax Abatement Agreement Claims, and Workers Compensation Claims. The Plan provides that, notwithstanding any other term or provision of the Plan, the legal, equitable, and contractual rights of the holders of Class 8 Claims are unaltered by the Plan, and the Plan leaves unaltered the legal, equitable, and contract rights of all Persons with respect to the Other Unimpaired Claims. Without limitation, pursuant to the Plan, the County retains all Causes of Action, defenses, deductions, assessments, setoffs, recoupment, and other rights under applicable nonbankruptcy law with respect to any Other Unimpaired Claims.

8. Claim Objections

Except as otherwise provided in Section 2.2(a) and 2.2(b) of the Plan (regarding allowance and payment of Administrative Claims), Section 4.14 of the Plan provides that objections to Claims shall be Filed and served upon the holders of the affected Claims no later than the Claims Objection Deadline: the date that is the later of (a) the first Business Day that is at least 180 days after the Effective Date, unless extended by the Bankruptcy Court, and (b) the first Business Day that is at least 180 days after the date on which a proof of claim in respect of a Claim against the Debtor has been Filed, unless extended by the Bankruptcy Court.

Other than with respect to Claims that are Allowed under the Plan or by prior order of the Bankruptcy Court, Creditors should assume that the County may File an objection to any proof of claim that differs in amount or priority from the amount or priority of Claim as listed on the List of Creditors, or if such Claim is listed as disputed, contingent, or unliquidated. Therefore, in voting on the Plan, other than with respect to Claims that are treated as Allowed Claims under the Plan, no Creditor may rely on the absence of an objection to its proof of claim as any indication that the County will not object to the amount, priority, security, or allowability of any Claim that may be held by such Creditor. Moreover, other than with respect to Claims that are treated as Allowed Claims under the Plan, the GO Released Claims and the Sewer Released Claims, the County reserves all rights with respect to all objections to Claims and counterclaims it may have with respect to any Claims and, except as specifically set forth in the Plan or the Confirmation Order, reserve its rights to prosecute all Preserved Claims or other rights (including rights to affirmative recoveries, rights to subordinate Claims, rights of setoff and recoupment, as well as any other rights that may exist today or in the future).

9. Trade Claims and Avoidance Actions

The County has determined not to pursue Avoidance Actions with respect to payments to certain trade creditors made within the 90 days before the Petition Date. Specifically, the County has determined not to pursue Avoidance Actions to recover payments made within 90 days of the Petition Date in respect of trade debt duly authorized by the County Commission or validly incurred by the County. Bankruptcy Code sections 547 and 550 provide that a debtor may avoid and recover certain payments to or for the benefit of a creditor, on account of antecedent debt, that are made

while the debtor is insolvent and within 90 days of the bankruptcy filing. To avoid a transfer, the debtor must also prove that the payment enabled the defendant-creditor to receive more than it would have received if the payment had not been made and the creditor received payment under chapter 7 of the Bankruptcy Code. Although section 901 of the Bankruptcy Code incorporates sections 547 and 550 into chapter 9, application of Bankruptcy Code section 547(b) in chapter 9 is problematic. Without limitation, chapter 7 is not an option for a municipal debtor, even hypothetically, and proving that a payment enabled a creditor to receive more than it would have received in a liquidation would be difficult. Moreover, Bankruptcy Code section 547(c) provides an affirmative defense to creditors who received payment in the ordinary course of business on debts incurred by the debtor in the ordinary course of business. Prior to the Petition Date, the County generally remained current on its normal trade obligations, and the County generally incurred and paid trade claims in the ordinary course of business. Accordingly, on information and belief, trade creditors would assert the ordinary course of business defense to actions by the County to recover payments made to trade creditors within 90 days of the Petition Date. Although the County reserves all rights, claims, and defenses, the costs and risks associated with litigating such actions materially would reduce the value of any recoveries to other Creditors under the Plan. In addition, pursuant to a resolution approved by the County Commission on November 9, 2011, and as authorized by Bankruptcy Code section 904, the County has honored prepetition and postpetition continuing obligations to trade vendors that have provided and continue to provide goods and services to the County in the ordinary course of business and according to the credit terms agreed by such vendors and the County. Pursuing avoidance actions against trade vendors paid immediately prior to the Petition Date would be inconsistent with the County's policy to remain current on its trade debt as set forth in the County Commission's resolution. Remaining current on trade debt on the terms set forth in the resolution is necessary for the County to maintain essential services, preserve the efficiency of County operations, and to manage the cost of trade credit. Accordingly, pursuing avoidance actions against trade vendors would not provide a net benefit to the County. The County reserves all rights to recover payments made on account of any debt that was not duly authorized by the County Commission or validly incurred by the County.

J. Other Automatic Stay Disputes

During the course of the Case, several parties have filed motions requesting relief from the automatic stays of Bankruptcy Code sections 362(a) and 922(a) to proceed with lawsuits and appeals pending in other courts in order to liquidate General Unsecured Claims. The County has stipulated to the granting of such relief with respect to several of these proceedings, including the appeals pending as of the Petition Date before the Supreme Court of Alabama regarding the Edwards Claims and the Weissman Claims. Additionally, the County consented to modification of the automatic stays to allow a pending appeal by the Fraternal Order of Police, Lodge No. 64, to continue in the Supreme Court of Alabama and also to allow the Personnel Board to provide procedural due process for disciplinary and other employment-related matters for County employees.

The Bankruptcy Court has considered other motions for relief filed by creditors or other parties in interest. First, Patricia Working, Rick Erdemir, Floyd McGinnis, Albert L. Jordan, and the law firm of Wallace Jordan Ratliff & Brandt, LLC (collectively, the "Working Parties") filed a motion for relief seeking to continue a State Court proceeding against the County Sheriff, the County Probate Judge, and the County Circuit Clerk, in which they sought to compel mediation of their

claims for attorneys' fees against the defendants. The Bankruptcy Court granted limited relief but precluded the Working Parties from collecting any judgment from funds that were budgeted by the County. The Working Parties appealed, arguing they should not be limited to collecting solely from funds not budgeted by the County. The District Court dismissed the appeal for lack of justiciable dispute. *See Working v. Jefferson County (In re Jefferson County)*, No. 12-J-787-S, 2012 U.S. Dist. LEXIS 60220 (N.D. Ala. Apr. 30, 2012).

In February 2012, Assured filed a motion seeking a determination that the automatic stays did not apply to the Assured Lawsuit pending against JPMS and JPMorgan Chase in New York State Supreme Court, or, alternatively, seeking relief from those automatic stays to proceed with that action against JPMS and JPMorgan Chase. The County, JPMS, and JPMorgan Chase objected to this motion, and the Bankruptcy Court conducted a hearing on Assured's requested relief. On April 15, 2013, the Bankruptcy Court entered an order denying Assured's motion for relief. *See In re Jefferson County*, 491 B.R. 277 (Bankr. N.D. Ala. 2013).

Maralyn Mosley filed a motion for relief seeking to, among other things, enforce an alleged settlement agreement that segregated certain County funds for the benefit of Cooper Green, the County's indigent hospital. The County objected to Ms. Mosley's motion. The Bankruptcy Court sustained the County's objection and denied Ms. Mosley's motion. Ms. Mosley appealed the Bankruptcy Court's ruling to the District Court. The District Court affirmed the Bankruptcy Court's order, finding that any prepetition obligations the County had to fund Cooper Green were subject to adjustment in the Case and therefore denying relief to enforce the alleged settlement agreement. *See Mosley v. Jefferson County (In re Jefferson County)*, No. 12-J-2203-S, 2012 U.S. Dist. LEXIS 121961 (N.D. Ala. Aug. 28, 2012). Ms. Mosley did not appeal the District Court's order.

K. Rejection Motions

Bankruptcy Code section 365(a), which is incorporated into chapter 9, allows the County to file motions to assume or reject executory contracts and unexpired nonresidential real property leases to which the County is a party. Thus far, the County has filed several rejection motions in the Case.

1. Satellite Courthouse Leases

Prior to the Petition Date, the County operated satellite courthouses at locations on Main Street in Gardendale, on Forestdale Boulevard in Birmingham, and on Green Springs Highway in Homewood (collectively, the "Satellite Courthouses"). The County leased each of the properties upon which it operated these Satellite Courthouses. The County Commission decided to close each of these locations prior to the Petition Date in order to conserve County resources.

On November 30, 2011, the County moved to reject all of the leases for the Satellite Courthouses. Each of the affected landlords objected to the County's rejection motion. The Bankruptcy Court overruled their objections and approved the County's rejection of the Satellite Courthouse leases.

2. Bessemer Courthouse Lease

As of the Petition Date, the County's rent obligations under the Bessemer Lease exceeded over $8 million per year on an annualized basis. After evaluating its options, the County concluded that, given its cash flow constraints, it could no longer continue to maintain its obligations under the Bessemer Lease as it was structured. The County engaged in good faith settlement discussions with the Bessemer Trustee and the Bessemer Insurer regarding, among other things, possible modifications to the Bessemer Lease and the rent schedule thereunder.

The County's negotiations with the Bessemer Insurer and the Bessemer Trustee did not result in a settlement before the end of August 2012. With the September 27, 2012 rejection deadline of Bankruptcy Code section 365(d)(4)(A) looming, the County moved to reject the Bessemer Lease on August 22, 2012.

The Bessemer Insurer, the Bessemer Trustee, and the City of Bessemer each objected to the County's rejection motion. The County continued to pursue negotiations with these parties regarding a possible restructuring of the Bessemer Lease. To facilitate these negotiations, the County again sought and obtained Bankruptcy Court approval for the Bessemer Trustee to use monies in the Bessemer DSR Fund to make the October 1, 2012, scheduled debt service payments on the Bessemer Lease Warrants. The County also obtained the Bankruptcy Court's approval of the consensual termination of a "forward agreement" regarding the funds held in the Bessemer DSR Fund, which resulted in a termination payment in the amount of $831,142.00, which amount was transferred into the Bessemer DSR Fund.

The County's negotiations proved successful. On November 27, 2012, the County filed a motion to approve its settlement and stipulation regarding the Bessemer Lease (the "Bessemer Stipulation Motion"). The Bessemer Stipulation Motion sought approval of a stipulation entered into by and among the County, the PBA, the Bessemer Trustee, and the Bessemer Insurer (the "Bessemer Stipulation"). The Bessemer Stipulation contemplated, among other things, the execution of the New Bessemer Lease, which would extend the term of the Bessemer Lease from 2026 to 2037 and substantially reduce the annual rent payments due from the County.

National Public Finance Guarantee Corporation ("National") filed an objection to the Bessemer Stipulation Motion. The County, the Bessemer Trustee, and the Bessemer Insurer filed replies in further support of the Bessemer Stipulation Motion. On December 20, 2012, the Court held a hearing on the Bessemer Stipulation Motion and entered an order granting the Bessemer Stipulation Motion and approving the Bessemer Stipulation. Subsequently, the County and the Authority entered into the New Bessemer Lease.

L. Creditors' Committee

On May 9, 2012, the Bankruptcy Administrator for the Northern District of Alabama (the "BA")[11] filed a notice with the Bankruptcy Court recommending the appointment of a three-

[11] The Bankruptcy Administrator's office in the Northern District of Alabama oversees the administration of bankruptcy cases within the jurisdiction, and monitors the transactions and conduct of parties in bankruptcy. Congress established *(FOOTNOTE CONTINUED)*

member, official committee of unsecured creditors (the "BA Notice"). The County filed a response to the BA's recommendation, in which it advised the Bankruptcy Court that two of the proposed committee members either had been paid or soon would be paid in full on their prepetition claims. The County further advocated that the lone remaining member of the BA's proposed committee – a holder of certain GO Warrants – was adequately represented in the Case by its own counsel and by the GO Warrant Trustee. The County suggested to the Bankruptcy Court that, under these circumstances, appointment of an unsecured creditors committee was not warranted.

After a hearing on the BA Notice and the County's response thereto, the Bankruptcy Court ordered the BA to solicit additional unsecured creditors to determine if there was further interest in serving on a committee. The BA did so, with only two additional parties expressing any interest and willingness to serve on such a committee.

On July 12, 2012, another hearing was held with regard to the appointment of an official unsecured creditors' committee. The Bankruptcy Court heard the arguments of counsel for the County, counsel for the proposed committee, and the BA. The BA advised the Bankruptcy Court that his office did not believe that appointment of a creditors' committee would be warranted or beneficial in the Case. Accordingly, the Bankruptcy Court ruled that the BA Notice was moot. Consequently, no official committee of unsecured creditors was appointed in the Case, and no other official committees have been proposed.

M. The New Sewer Rate Structure

Under Amendment 73 to the Alabama Constitution and Act 619, the County Commission is responsible for managing, operating, controlling, and administering the Sewer System. In 2012, the County Commission scheduled a series of public hearings to solicit information that could assist the County Commission and the public in understanding the ratemaking process for the Sewer System, and at which members of the community and parties in interest in the Case would have the chance to share their input and concerns. These public hearings were held on June 12, 2012, July 24, 2012, and August 20, 2012. In each case, the County provided notice of the hearing in local newspapers and on the Bankruptcy Court's docket. In addition, the County also filed periodic status reports summarizing the events at each hearing, and made transcripts, presentations, and other materials from the hearings available free of charge on a website created by the County – www.jeffcosewerhearings.org – at which members of the public could submit comments for consideration by the County Commission.

Following this series of public hearings, and on the advice of the County's utility system consultant Mr. Rothstein, the Administrative Services Committee of the County Commission voted to place a *Resolution of the Jefferson County Commission* (the "November Resolution") on the agenda for the November 6, 2012, regular meeting of the full Commission. The November Resolution provided for, among other things: (1) the repeal of the *Jefferson County Sewer Use/Pretreatment Ordinance* adopted May 11, 1982, including all amendments thereto; (2) the

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the United States Bankruptcy Administrator Program (USBA) in 1986. The USBA program is separate and distinct from the United States Trustee program operated by the Department of Justice.

repeal of the *Grease Control Program Ordinance* adopted October 3, 2006, including all amendments thereto; (3) the repeal of *Resolution No. Feb-12-1997-Bess-1*, adopted February 12, 1997; (4) the adoption of a new *Jefferson County Sewer Use Administrative Ordinance, Ordinance No. 1808*; and (5) the adoption of a new *Jefferson County Sewer Use Charge Ordinance, Ordinance No. 1809*.

The November Resolution and accompanying ordinances provided for the implementation of an interim sewer rate structure and accompanying rates and charges (the "Interim Rate Structure"). The Interim Rate Structure was modeled on Mr. Rothstein's recommendations and provided for, among other things: (1) fundamentally changing the sewer rate structure from charges based almost entirely on volumetric usage to one that relies on a combination fixed charge and an inclining block structure of residential volumetric rates; (2) setting a monthly base charge for all accounts; (3) markedly increasing the charges for septage and grease disposal; and (4) markedly increasing certain industrial waste surcharges. Specifically, the sewer rates and charges featured in the Interim Rate Structure included, *inter alia*, a $10 fixed charge for all accounts with standard 5/8" meters (scaled upward for other meter sizes), a marginal residential volumetric rate of $4.50 per CCF for all users' first three CCF, a marginal residential volumetric rate of $7 per CCF for all users' next three CCF, a marginal residential volumetric rate of $8 per CCF for all additional usage, a non-residential volumetric rate of $7.60 per CCF, a septic hauling charge of $60 per thousand gallons for septage and $75 per thousand gallons for grease, and approximately doubling the industrial waste surcharges. A 15% discount for water not returned to the Sewer System was retained for residential customers.

At the final County Commission hearing on the November Resolution, a representative of the Attorney General read a letter expressing the Attorney General's position regarding the November Resolution. The County Commission then voted to adopt the November Resolution on November 6, 2012, and the Interim Rate Structure went into effect on March 1, 2013.

As discussed in Section IV.E above, in response to the adoption of the Interim Rate Structure, the Sewer Warrant Trustee, FGIC, the Ad Hoc Sewer Warrantholders, and Assured filed the Rate-Related Stay Relief Motions. Their motions requested, among other things, relief from the automatic stay to enforce rights under Sewer Warrant Indenture in state court for the purpose of setting sewer rates or to compel the County to raise its sewer rates higher through mandamus or other procedure. An objection from the County, along with subsequent trial briefs from the various parties, was filed, and the Bankruptcy Court heard the presentation of the case-in-chief and oral argument regarding the Rate-Related Stay Relief Motions in the first quarter of 2013. On June 12, 2013, in accordance with the Sewer Plan Support Agreements, the County filed a motion to stay all proceedings on the Rate-Related Stay Relief Motions. By order dated June 28, 2013, the Bankruptcy Court stayed all proceedings on the Rate-Related Stay Relief Motions until the earlier of (1) the Effective Date of the Plan, or the effective date of an alternative chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the Sewer Plan Support Agreements, and (2) the date of termination of any Sewer Plan Support Agreement.

The County Commission intends to keep the overall rate structure created by the November Resolution – with its fixed charges, inclining block residential volumetric rates, and other components – in effect. The specific amounts of the various fees and charges that generate System revenues, however, will be adjusted by further action of the County Commission to satisfy the

County's obligations under the Plan and the Approved Rate Structure. Specifically, the County Commission anticipates holding additional rate hearings contemplated by Amendment 73 and Act 619 in the fall of 2013, with the resulting rates to be effective November 1, 2013.

N. Adoption of the Fiscal Year 2012-2013 Budget

1. The County Budget Process

The County operates pursuant to an annual budget (the "Budget"), which aggregates the budgets of each of the many operating funds maintained by the County. The Budget projects the receipts, disbursements, and transfers from all sources for the forthcoming fiscal year. Each fiscal year runs from October 1 through September 30.

Pursuant to Alabama Code section 11-8-3, the County Commission, at a meeting in September of each calendar year, must prepare and adopt a Budget for the fiscal year commencing on October 1 of such calendar year. State law requires that the Budget be a balanced budget. Section 11-8-3(b) specifically requires that the "appropriations made in [a county commission's] budget shall not exceed the estimated total revenue of the county available for appropriations." The Budget must, at a minimum, include any revenue required to be included in the Budget under the provisions of Alabama law, as well as reasonable expenditures for the operation of the offices of the Judge of Probate, the County's tax officials, the Sheriff, the County Treasurer, the County jail, the County courthouse, and other offices as required by law.

Once the County has approved its Budget, no obligation incurred by any County official or office over and above the amounts approved and appropriated by the County Commission shall be an obligation of the County unless the obligation is approved by an affirmative vote of a majority of the members of the County Commission.

The County's approved Budgets for recent years are available on the County's website at http://jeffconline.jccal.org/bmo/main/PastBudgetDocs.html.

2. The Fiscal Year 2012-2013 Budget

On September 26, 2012, the County Commission approved a budget for the fiscal year beginning on October 1, 2012 (the "Fiscal Year 2012-2013 Budget"). A true and correct copy of the Fiscal Year 2012-2013 Budget is attached hereto as **Exhibit 4**. The Fiscal Year 2012-2013 Budget is a balanced budget that conforms to all the requirements of Alabama Code section 11-8-3. The Fiscal Year 2012-2013 Budget contemplates a total operating and capital budget for all County operations of $570.2 million, of which approximately $205 million constitutes General Fund expenditures.[12] The Fiscal Year 2012-2013 Budget balances the County's enterprise funds, which include the Cooper Green Hospital Fund and the Sanitary Operations Fund, which relates to the Sewer System.

[12] The 2012-2013 Budget includes $15 million in projected professional expenses relating to the County's chapter 9 Case. Prior budgets did not contain any similar allocations.

The Fiscal Year 2012-2013 Budget reflects a significant decrease in projected spending compared to previous years. In contrast, the Budget for the fiscal year beginning on October 1, 2011, provided for $217.8 million in General Fund expenditures and $638.5 million for the overall operating and capital budget. The Budget for the fiscal year beginning on October 1, 2010 provided for $312.4 million in General Fund expenses and $817.4 million in total operating and capital expenses.

O. The Adoption of a New Indigent Care Model for the County: Cooper Green Mercy Health Services

During 2012, the County Commission evaluated a new model for the delivery of indigent healthcare. Several factors prompted this evaluation, including Cooper Green's chronic operating shortfalls and the tremendous strain placed on the County's General Fund reserves by its loss of its Occupational Tax revenues. The County Commission's research revealed that the County is spending significantly more on indigent healthcare than any other county in Alabama, and more than many other large counties across the nation. For example, in 2012, the County concluded that it was spending $543.64 on indigent healthcare for each of its residents living in poverty, while Mobile County (the next largest county in the State) was spending $189.49 per resident living in poverty and the counties in the metropolitan Atlanta, Georgia region were spending $304.98 per resident living in poverty.

In September 2012, the County Commission passed a resolution to stop providing inpatient care and close the emergency room at Cooper Green. All inpatient and emergency room operations ceased during December 2012. The resolution also adopted a new "hub and spokes" model for delivering indigent healthcare within the County under the auspices of Cooper Green Mercy Health Services. Under this model, which is now being implemented, the former hospital facility will serve as the hub for providing diagnostic care, urgent care, specialty care, and primary care to indigent patients. The new model emphasizes primary care services, with Cooper Green maintaining additional outreach clinics throughout the County to provide primary care treatment. The County through Cooper Green Mercy Health Services continues to provide urgent care seven days a week to patients needing immediate care but not suffering from life-threatening issues; patients with life-threatening conditions are routed to emergency rooms at local private hospitals. The changes have resulted in substantial reductions in force and cost savings at Cooper Green. A timetable for completing the transition to the "hub and spokes" model is currently under development.

P. Sales of County Properties

1. Sale of the Nursing Home and Cooper Green Geriatric / Psychiatric Beds

Since the Petition Date, the County has sold all of its interests in the Nursing Home. Earlier this year, the County, pursuant to two separate transactions, sold the real estate on which the Nursing Home was located for approximately $2.95 million and the 238 licensed beds at the facility for approximately $8.3 million.

The County also recently sold a number of geriatric/psychiatric bed licenses formerly used by Cooper Green. The County sold these licenses in two separate transactions for a combined purchase price of over $160,000.

2. Sales of Non-Essential Properties

The County has worked actively and judiciously during the Case to identify opportunities to sell or otherwise dispose of County-owned property that is not essential to the County's operations and for which commercially reasonable purchase offers are made. Since the Petition Date, the County has sold its interests in several real estate holdings, with the proceeds from such sales approximating $2.6 million. During that same time period, the County has sold at auction various motor vehicles and equipment, the sales proceeds from which have exceeded $800,000. These sales offer very limited, short-term relief to the County's General Fund problems, providing the County with modest additional revenues to help fund the provision of critical County services.

Q. Efforts to Obtain General Fund Legislation

1. Postpetition Efforts to Obtain General Fund Relief

In 2012, a legislative effort was made by the County to obtain unrestricted General Fund revenues to replace the revenues previously generated by the Occupational Tax. The County's effort resulted in the introduction of several bills that sought to authorize the levy by the County of a new occupational tax. Senate Bill 567 was introduced by State Senator Jabo Waggoner of Vestavia Hills and passed in the Senate on May 3, 2012. Senate Bill 567 titled "The Alabama Financially Distressed Counties Act" proposed a new occupational tax of not more than 0.5% of the wages earned by people working in the County or a sales and use tax of not more than 1.0%. If passed, Senate Bill 567 would have generated as much as $62 million in revenue for the County in its first year.

After the State Senate approved Senate Bill 567, the Alabama House of Representatives considered it. The bill was scheduled to come before the House for vote in the final day of the 2012 Regular Session. However, the Alabama House of Representatives voted instead to remove consideration of Senate Bill 567 from the calendar of final bills to be debated.

Other legislation was introduced in the House of Representatives seeking to restore the County's occupational tax in modified form. The House did not pass any of these bills. House Bill 745, a companion bill to Senate Bill 567, was proposed by Representative of Jack Williams of Vestavia Hills in April 2012. His bill proposed to authorize the County to levy and collect an estimated $62 million a year in occupational taxes, sales taxes, gasoline taxes, and other levies. The Municipal Government Committee of the House moved House Bill 745 to the full House for debate. However, the full House of Representatives never considered House Bill 745, and the legislation died. Representative Demetrius Newton of Birmingham introduced two bills to restore an occupational tax to the County – House Bill 184 and House Bill 235 – but neither of his bills received the requisite support from the County's legislative delegation. Representative Arthur Payne of Trussville authored House Bill 586, a local bill that would have applied only to the County and contemplated the levying an occupational tax of not more than 0.45 percent of the wages earned by

people working in the County; however, the bill was regarded by the County's advisors and attorneys as unlikely to survive a legal challenge. Consideration of House Bill 586 was blocked by legislators representing communities outside the County, who objected to the County's collection of a tax on people who lived outside, but worked within, the County. The Regular Session ended in May 2012 without the House approving any General Fund relief to the County.

Governor Robert Bentley indicated a willingness to call a Special Session of the Alabama Legislature in 2012 to address the County's General Fund needs, but only if the County's legislative delegation first reached agreement on a plan. The County's legislators could not reach any such agreement, so no Special Session was convened.

In 2013 the County advanced another occupational tax bill and engaged in substantive discussions with several legislators representing districts within the County regarding possible measures to enhance General Fund revenues. However, no significant efforts were undertaken by the full Alabama Legislature during the 2013 Regular Session to restore the occupational tax or to provide the County with other significant General Fund relief.

2. Future Prospects for General Fund Relief

The County continues to evaluate its potential legislative options for obtaining General Fund relief; however, based upon its past experiences, the County is not confident that any such authorizing legislation will be approved by the Alabama Legislature and cannot predict the likelihood of any such legislation being passed in the future.

Among the options the County has considered pursuing with the Alabama Legislature are bills providing for or permitting increases in other existing County tax levies or authorizing the levy by the County of new taxes other than occupational or business license taxes, *e.g.*, additional transient occupancy taxes, additional gas taxes, additional County-wide or unincorporated area general sales and use taxes, as well as bills authorizing a vote of the County's qualified electors under Amendment No. 373 to the Alabama Constitution on the question of increasing the rate of the *ad valorem* property taxes levied for the benefit of the General Fund. Over the past few years, none of these options have been embraced by the Alabama Legislature to any material effect.

The County is uncertain whether relief may be forthcoming in future legislative sessions. The Alabama Legislature convenes annually in Regular Session beginning in the first quarter of each calendar year for a period not exceeding 30 legislative days within 120 consecutive calendar days, and meets in Special Session for shorter periods at the call of the Governor upon occasions that the Governor determines to be extraordinary. The Governor has not called, and is not expected to call, a Special Session in 2013 to address any issues concerning the County's revenue-raising authority, and the Alabama Legislature lacks the power under the Alabama Constitution to convene on its own initiative. Accordingly, the County does not expect the Alabama Legislature will reconvene until January 2014 when the next Regular Session is scheduled to begin.

R. The County's Negotiation and Approval of the Plan Support Agreements

Throughout the Case, the County has pursued negotiations with Creditors with the aim of developing a confirmable, and preferably a consensual, chapter 9 Plan. The County's efforts have resulted in the negotiation of the Plan Support Agreements.

On February 14, 2013, the County Commission approved the Depfa Plan Support Agreement. A true and correct copy of the Depfa Plan Support Agreement is attached hereto as **Exhibit 5** and is incorporated herein by reference. Additional discussion of the compromises and settlements contained in the Depfa Plan Support Agreement is provided in Section V.A.2.a below.

On May 16, 2013, the County Commission approved the GO Plan Support Agreement. A true and correct copy of the GO Plan Support Agreement is attached hereto as **Exhibit 6** and is incorporated herein by reference. Additional discussion of the compromises and settlements contained in the GO Plan Support Agreement is provided in Section V.A.2.b below.

On June 4, 2013, the County Commission approved three Sewer Plan Support Agreements effective as of June 6, 2013, with the JPMorgan Parties, the Sewer Warrant Insurers, and the Supporting Sewer Warrantholders. On June 27, 2013, the County Commission approved a fourth Sewer Plan Support Agreement with the Sewer Liquidity Banks. These Sewer Plan Support Agreements form the basis of the Plan's treatment of all the Sewer Debt Claims. True and correct copies of the Sewer Plan Support Agreements are attached hereto collectively as **Exhibit 7** and are incorporated herein by reference. Additional discussion of the compromises and settlements contained in the Sewer Plan Support Agreements is provided in Section V.A.1 below.

On June 27, 2013, the County Commission approved the National Plan Support Agreement. A true and correct copy of the National Plan Support Agreement is attached hereto as **Exhibit 8** and is incorporated herein by reference. Additional discussion of the compromises and settlements contained in the National Plan Support Agreement is provided in Section V.A.2.c below.

The County has limited and discrete obligations under the Depfa Plan Support Agreement, the GO Plan Support Agreement, and the National Plan Support Agreement. In contrast, the County is obligated under the Sewer Plan Support Agreements to take various actions. Without limitation, and in each case subject to all terms and conditions of the Sewer Plan Support Agreements and based on the meanings given to capitalized terms in the Sewer Plan Support Agreements, the County has agreed to:

- file and exercise all reasonable efforts to expeditiously prosecute, confirm, and consummate a chapter 9 plan of adjustment that incorporates the provisions of, and is otherwise materially consistent with, the Sewer Plan Support Agreements;

- not take any action (directly or indirectly) that is inconsistent with the Sewer Plan Support Agreements or an Acceptable Plan, or that would delay or otherwise impede approval of the Disclosure Statement or an Acceptable Plan, or the expeditious confirmation and consummation of an Acceptable Plan including consummation of the Restructuring;

- not file, support, or seek confirmation of any plan of adjustment with respect to the Sewer Warrants under Bankruptcy Code section 1129(b) unless such plan of adjustment is an Acceptable Plan;

- not commence any new Litigation against any Sewer Plan Support Party and not prosecute, and exercise all reasonable efforts to suspend, any existing Litigation against any Sewer Plan Support Party and in connection with any such Litigation, take no action inconsistent with the Restructuring contemplated by the Sewer Plan Support Agreements and an Acceptable Plan;

- prosecute the Disclosure Statement and an Acceptable Plan and implement all steps necessary or appropriate to obtain from the Bankruptcy Court the Confirmation Order prior to November 25, 2013, unless such date is extended by each of the Sewer Plan Support Parties in their sole and absolute discretion;

- cause the Effective Date of an Acceptable Plan to occur prior to December 20, 2013, or, if extended under the Supporting Sewer Warrantholder Plan Support Agreement, prior to December 31, 2013; and

- negotiate in good faith with the Sewer Plan Support Parties each of the definitive agreements and documents referenced in, or reasonably necessary or desirable to effectuate the transactions contemplated by an Acceptable Plan or the Restructuring.

Each of the Sewer Plan Support Agreements includes numerous interlinking "Trigger Events" that would allow some or all of the parties thereto, including the County, to terminate those agreements. Without limitation, the termination of one of the Sewer Plan Support Agreements is grounds for the termination of the other Sewer Plan Support Agreements. If one or more of the Sewer Plan Support Agreements is terminated in accordance with its terms, then it is very unlikely that the County would be able to (or willing to) proceed with the Plan in its current form. All parties to the Sewer Plan Support Agreements understood and agreed that specific performance, mandamus, and injunctive relief would be the sole and exclusive sole remedies for any breach of the Sewer Plan Support Agreements, and each party further agrees to waive, and to cause each of their representatives to waive, any requirement for the securing or posting of any bond in connection with requesting such remedy.

V.
SETTLEMENTS UNDER THE PLAN

A. The Comprehensive Sewer-Related and Other Compromises and Settlements Under the Plan

The Plan includes and is predicated on several sets of compromises and settlements between and among the County and various Creditors, most notably with respect to numerous complex and interwoven issues concerning the Sewer System and its financing. The County intends to seek approval of all such compromises and settlements in connection with confirmation of the Plan, and

submits that each of the compromises and settlements is fair, reasonable, and in the best interests of the County and its Creditors.

1. The Disputes Resolved by the Sewer Plan Support Agreements

The Plan contains the materials terms of the Sewer Plan Support Agreements and represents a full compromise and settlement of hotly contested claims relating to the control of, and the rates for, the Sewer System. These myriad disputes include:

• ***Who Runs the Sewer System?*** Prior to the County's bankruptcy filing, the Sewer System was under the control of the Receiver, who claimed authority to raise rates and operate the Sewer System independent of the County's elected officials. The County disputed the Receiver's asserted authority to raise rates, and (upon the filing of the Case) argued that the Receiver was prohibited from interfering with the County's control of the Sewer System. The Bankruptcy Court held that the filing of the Case automatically stayed the Receiver's ability to operate the Sewer System or raise sewer rates, and denied relief from the automatic stays. The Bankruptcy Court's decision is on appeal. Absent consummation of the Plan, the appellate court's decision could dictate who controls the Sewer System and who sets sewer rates, now and for decades into the future.

• ***How Much Does the County Owe?*** The Sewer Warrant Trustee claims that the County must repay in full over $3 billion in Sewer Warrants. The County disputes this claim, and asserts that the actual amount owed may be significantly lower. This dispute has not yet been presented to the Bankruptcy Court, and any decision by the Bankruptcy Court could result in years of appeals in multiple appellate courts on several issues of first impression.

• ***How Much Should Sewer Service Cost?*** Last year the County Commission approved the first sewer rate increases in many years. The Sewer Warrant Trustee and certain Creditors challenged the County Commission's action, claiming that it violated applicable law and that the rates set were far too low. As more particularly described in Section IV.E above, the Sewer Warrant Trustee and such Creditors have asked the Bankruptcy Court to grant relief from stay so the Receiver can attempt to implement additional rate and revenue increases, and the County has opposed that request. The Bankruptcy Court has not yet ruled on this request, but any ruling will be appealed (potentially through multiple layers of appellate courts) and the matter could remain undecided for years.

• ***When and How Much Should Sewer Creditors Get Paid?*** The Sewer System generates more than $150 million of gross revenue per year. The County contends that a portion of that revenue may be used to pay for necessary capital improvements to the Sewer System. The Sewer Warrant Trustee and other parties assert that all funds in excess of what the parties' prepetition contract refers to as "Operating Expenses" must be remitted in full to the Sewer Warrant Trustee each month, and that capital maintenance costs cannot be paid from Sewer System revenues in preference to debt service. Additionally, the County contends that revenues from the Sewer System should be held in an interest-bearing account during the Case, while the holders of the Sewer Warrants assert that funds generated by the Sewer System must continue to be remitted to the Sewer Warrant Trustee monthly. The Bankruptcy Court ruled in the creditors' favor on both issues, but the County has appealed those rulings to the Eleventh Circuit. If the appellate court reverses the

Bankruptcy Court's decisions, less money (and possibly no money) would be remitted each month to creditors during the pendency of the Case. Relatedly, as a result of inter-creditor disputes, the Sewer Warrant Trustee ceased making payments to warrantholders effective February 1, 2013, triggering substantial additional litigation that could take years to finally resolve. In the meantime, Sewer Warrant holders may or may not be paid.

• ***What Are the Rights and Priorities Among the Different Sewer Creditors?*** There are many potential issues that could be raised by the County or by certain creditors regarding the rights of the sewer creditors between and among themselves with respect to distributions of sewer revenues or to property distributed under any plan. For example, an argument could be made that some or all of the claims asserted by the Sewer Warrant Insurers should be subject to contractual subordination or statutory subordination under Bankruptcy Code section 509(c). The Sewer Warrant Insurers dispute such arguments. Consequently, a non-negotiated resolution would require litigation over highly complex and unprecedented issues, which litigation would be time-consuming, costly and contentious. Similarly, if some or all of the Sewer Debt Claims are undersecured (as alleged by the County), there is the potential for litigation over extremely complex allocative and reallocative issues arising from the fact that the Sewer Warrant Trustee used Sewer System revenues to pay certain interest and principal maturing during the period of November 11, 2011 and January 31, 2013, in full, despite the pendency of the Case. In addition, there are other highly complex issues that could be litigated, some of which have been raised in the Declaratory Judgment Action, including (i) whether the maturity of all the Sewer Warrants may be accelerated absent the consent of the applicable Sewer Warrant Insurer, (ii) the effect of acceleration on certain rights and obligations of the County, the Sewer Warrant Trustee, and holders of the Sewer Warrants, (iii) the effect of acceleration on the application of funds under the Sewer Warrant Indenture, and (iv) the effect of acceleration on the rights and obligations of the Sewer Warrant Insurers under the Sewer Insurance Policies. Further, insurance issues could in turn require litigation in connection with complex reinsurance and related agreements between and among the Sewer Warrant Insurers. The potential exists for other litigation between and among the sewer creditors; for example, Syncora and Assured both have pending lawsuits against certain of the JPMorgan Parties, and it is possible that additional sewer creditors could sue each other or the Sewer Warrant Trustee in reaction to events in the Case or rulings in associated litigation. Any one of these intercreditor disputes could require significant litigation and take years to resolve, and it is possible that, absent a settlement, all of these (and other) issues could be raised and pursued by the parties in interest, which could lead to series of rulings and appeals to different courts, all with the ultimate effect of delaying or inhibiting distributions to some or all holders of Sewer Debt Claims.

• ***What Remedies Does the County Have Against the JPMorgan Parties and Others?*** The County believes that certain of the JPMorgan Parties' agents engaged in actions that inflicted harm on the County and its inhabitants and that the JPMorgan Parties should be held accountable for those actions. The County believes that the series of settlements and significant concessions made by the JPMorgan Parties under the Plan fairly and equitably addresses the JPMorgan Parties' actions without the need for further litigation. For example, the concessions made by the JPMorgan Parties under the Plan, including through the reallocation to other holders of Sewer Warrants of a substantial portion of the Plan consideration that would otherwise be distributed to the JPMorgan Parties on a Pro Rata basis, serves to increase the recovery received by all other holders of Sewer Warrants and

reduce the amount of Sewer System indebtedness following the County's emergence from chapter 9. Absent a settlement, however, the County would pursue claims for damages and might pursue other relief against the JPMorgan Parties. Among other things, the County might seek to attempt to equitably subordinate or disallow all of the JPMorgan Parties' Claims in the Case under Bankruptcy Code section 510(c). The JPMorgan Parties dispute the County's contentions and undoubtedly would strongly resist any effort by the County to recover damages or equitably subordinate the JPMorgan Parties' Claims. Litigation over these issues would likely be highly-factual, requiring significant discovery and a full trial. The process of litigation at the trial level would likely take months or even years to complete, and it is likely that there would be subsequent appeals following any ruling.

• ***Is Any of the Sewer Debt or the Existing Rates Subject to Invalidation or Undoing Under Applicable Law?*** Certain third parties have purported to assert challenges to the existing sewer rates and to the claims arising under the Sewer Warrant Indenture and related documents, including challenges based on the assertion of rights by or on behalf of the County. Other parties have suggested that they may also pursue relief in respect of the existing sewer rates or to challenge some of the Sewer Debt Claims. Each of these pending and potential litigations raises complex legal issues regarding standing, the statute of limitations, and the like, while further implicating factual issues from ten or more years in the past. Resolving these issues through the trial and appellate process could be a costly and time-consuming process.

In short, the extant disputes concern every aspect of the Sewer System's operations and financing. Each of the matters described above is currently unsettled, and no one can predict with certainty what will ultimately be decided – or even when the final decisions will be made. There is little or no controlling authority on many of these issues. The risks of litigation are high for all parties. Litigation of sewer-related disputes during the Case has been expensive for all sides, and would continue to be expensive if the disputes were not settled under the Plan. Notably, the litigation expenses of the Sewer Warrant Trustee are paid from certain of the Sewer Warrant Indenture Funds, so further litigation could deplete those funds and eliminate their ability to be used in connection with any refinancing or for purposes of paying sewer creditors.

To give effect to the comprehensive compromise and settlement contemplated by the Sewer Plan Support Agreements, Section 4.8(a) of the Plan provides that, pursuant to Bankruptcy Code sections 1123(a)(5), 1123(b)(3), and 1123(b)(6), as well as Bankruptcy Rule 9019, the Plan incorporates and is expressly conditioned upon the approval and effectiveness of such a compromise and settlement by and among the County and the Sewer Plan Support Parties of numerous issues related to the Sewer System, the Sewer Released Claims, and the allowance and treatment of the Sewer Debt Claims. The Plan accordingly represents a full, final, and complete compromise, settlement, release, and resolution of, among other matters, disputes and pending or potential litigation (including any appeals) regarding the following: (i) the allowability, amount, priority, and treatment of the Sewer Debt Claims; (ii) the validity or enforceability of the Sewer Warrants; (iii) the valuation of the Sewer System and of the stream of net sewer revenues pledged under the Sewer Warrant Indenture; (iv) the appropriate rates that have been or can be charged to users of the Sewer System; (v) any Causes of Action or Avoidance Actions that the County has asserted or could potentially assert against the JPMorgan Parties or against other of the Sewer Plan Support Parties, including any subordination claims (including equitable subordination claims and statutory

subordination claims) relating to any Sewer Debt Claims held by any of the Sewer Plan Support Parties; (vi) the Sewer Released Claims that (A) some of the Sewer Plan Support Parties have asserted or (B) the Sewer Plan Support Parties could potentially assert against other Sewer Plan Support Parties, including, in each case, any subordination claims (including equitable subordination claims and statutory subordination claims) relating to any Sewer Debt Claims held by any of the Sewer Plan Support Parties; (vii) how the Sewer Warrant Trustee has applied revenues of the Sewer System to payment of certain Sewer Debt Claims both before and during the Case, including any Causes of Action related to the reapplication to principal of any interest payments made on the Sewer Warrants during the Case or reallocation of any payments made on the Sewer Warrants both before and during the Case among the holders of various series and subseries of Sewer Warrants; (viii) the various issues raised by the Declaratory Judgment Action; (ix) the scope and extent of any liens or other property rights under the Sewer Warrant Indenture; (x) the allowance and amount of any Bank Warrant Default Interest Claims; (xi) the various issues raised by the Receivership Actions; and (xii) other historical and potential issues associated with the Sewer System and its financing. This comprehensive compromise and settlement will be binding on the County and on all Persons who have asserted or could assert any potential Causes of Action or Avoidance Actions for or on behalf of the County in any fashion, including derivatively or directly, and in any pending or potential litigation (including any appeals) before any court or agency. This comprehensive compromise and settlement is a critical component of the Plan and is designed to provide a resolution of disputed Sewer Released Claims inextricably bound with the Plan. As such, the approval and consummation of the Plan will conclusively bind all Creditors and other parties in interest, and the releases and settlements effected under the Plan will be operative as of the Effective Date and subject to enforcement by the Bankruptcy Court from and after the Effective Date, including pursuant to the injunctive provisions of Sections 6.2 and 6.3 of the Plan. In order to give effect to this comprehensive compromise and settlement, (i) any adversary proceedings or contested matters involving Sewer Released Claims shall be dismissed effective as of the Effective Date; and (ii) in connection with the occurrence of the Effective Date, each of the County, the Sewer Plan Support Parties, and the Sewer Warrant Trustee (as applicable) shall file in other appropriate courts stipulations of dismissal among the applicable parties or motions to dismiss any pending litigation (including any appeals) commenced by the County, any of the Sewer Plan Support Parties, or the Sewer Warrant Trustee against the County or any of the Sewer Plan Support Parties with prejudice, with such dismissal to be effective on and contingent upon the occurrence of the Effective Date.

In addition, the Plan gives effect to the comprehensive sewer-related compromises and settlements by providing that under the Plan and as of the Effective Date, all Sewer Released Parties will forever waive and release all other Sewer Released Parties from any and all Sewer Released Claims. **Moreover, the Plan provides that any Person who votes to accept the Plan or who makes or is deemed to make the Commutation Election described in Section XII.B below will be conclusively deemed to have forever waived and released all Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims.**

The sewer-related compromises and settlements under the Plan have been crafted not only to resolve all of the pending litigation involving the County, but also to eliminate the need for internecine litigation between and among the various parties holding Sewer Debt Claims. Absent the

comprehensive resolution provided by the Plan, it is likely that there would be continuing litigation regarding some or all of the potential sewer-related disputes for years.

2. Other Settlements

The Plan also includes other compromises and settlements that the County has reached with its Creditors.

a. The Depfa Plan Support Agreement

The classification and treatment of Class 2-C Claims under the Plan reflects the terms negotiated in the Depfa Plan Support Agreement. The treatment set forth in the Plan eliminates the need for litigation regarding the proper amount of interest payable on the 2005-B School Warrants and Standby School Warrant Claims held by Depfa. Under the Depfa Plan Support Agreement, the parties agreed to compromise on the New Bank Rate of interest; Depfa agreed to waive certain School Warrant Events of Default; and the County agreed to direct the Future Tax Proceeds to be used for the mandatory redemption of the Series 2005-B School Warrants held by Depfa. These compromises obviated the need for litigation regarding the Class 2-C Claims, including the proper treatment of those claims under a plan of adjustment.

b. The GO Plan Support Agreement

The classification and treatment of Class 5-A Claims under the Plan reflects the terms negotiated in the GO Plan Support Agreement. The treatment set forth in the Plan eliminates the need for litigation regarding the allowance of asserted Claims on account of default rate interest, the GO Banks' fees and expenses, and postpetition interest. This treatment further eliminates the need for litigation regarding the restructuring of the Series 2001-B GO Claims and the interest rate payable on that restructured debt.

The classification and treatment of Class 5-E Claims under the Plan also reflects the terms negotiated in the GO Plan Support Agreement. JPMorgan Chase and the County agreed to settle and compromise all issues associated with the GO Swap Agreement Claims through the County's payment of ten dollars ($10.00) to JPMorgan Chase, in satisfaction of an asserted general obligation Claim in the aggregate amount of $7,893,762.30, plus interest accrued thereon at the applicable rate as set forth in the GO Swap Agreement.

In addition, the Plan gives effect to the compromises and settlements contemplated by the GO Plan Support Agreement by providing that under the Plan and as of the Effective Date, all GO Released Parties will forever waive and release all other GO Released Parties and their respective Related Parties from any and all GO Released Claims. Moreover, the Plan provides that any Person who votes to accept the Plan will be conclusively deemed to have forever waived and released all GO Released Parties and their respective Related Parties from any and all GO Released Claims.

c. The National Plan Support Agreement

The classification and treatment of Class 5-B, 5-C, and 5-D Claims under the Plan reflect the terms negotiated in the National Plan Support Agreement.

One important aspect of the National Plan Support Agreement relates to the County's obligations with respect to the underlying Series 2003-A GO Warrants and Series 2004-A GO Warrants that are insured by National. Consistent with the National Plan Support Agreement, the Plan provides that, as part of the settlement between National and the County, (i) the holders of the Series 2003-A GO Claims and the Series 2004-A GO Claims will retain their legal, equitable, and contractual rights under the GO Resolutions and pursuant to their warrants, provided that any GO Events of Default that occurred prior to or that were continuing on the Effective Date shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such GO Events of Default; and (ii) based on such treatment and National's payment during the Case of all regularly scheduled principal and interest due on the Series 2003-A GO Warrants and on the Series 2004-A GO Warrants, the Series 2003-A GO Claims and Series 2004-A GO Claims shall be deemed unimpaired under the Plan and accordingly the holders of such claims will not be solicited.

The treatment for Class 5-D Claims under the Plan represents a settlement and compromise of numerous potential claim allowance and priority disputes between National and the County. The Plan provides that National will receive a full recovery on the principal that National paid to holders of the Series 2003-A GO Warrants and Series 2004-A GO Warrants during the Case, which recovery is split between two payments in 2014 and 2015. The Plan provides that the County will repay approximately $8.5 million of interest that that National paid to holders of the Series 2003-A GO Warrants and Series 2004-A GO Warrants during the Case in three payments in 2025, 2026, and 2027 – these obligations will be non-interest bearing and are subject to the County's right to prepay such amounts in whole or in part using a 4.90% discount rate. Finally, the Plan provides for a compromise and settlement of the National Fees and Expenses Claims, which the County has been informed could exceed $4 million, through a single payment of $1.5 million to National on the Effective Date.

The Plan further provides that from and after the Effective Date, the GO Insurance Policies and the GO Resolutions will remain in effect, subject to all terms and conditions thereof, until the Series 2003-A GO Warrants and the Series 2004-A GO Warrants are paid in full. To the extent the County fails to make a scheduled principal or interest payment on account of the Series 2003-A GO Warrants or the Series 2004-A GO Warrants after the Effective Date, National may exercise all of its rights and remedies against the County as set forth in the GO Insurance Policies and the GO Resolutions and subject to all terms and conditions thereof.

In addition, the Plan gives effect to the compromises and settlements contemplated by the National Plan Support Agreement by providing that under the Plan and as of the Effective Date, all GO Released Parties will forever waive and release all other GO Released Parties and their respective Related Parties from any and all GO Released Claims. **Moreover, the Plan provides that any Person who votes to accept the Plan will be conclusively deemed to have forever waived and released all GO Released Parties and their respective Related Parties from any and all GO Released Claims.**

d. The Bessemer Stipulation

Finally, the classification and treatment of Class 7 Claims under the Plan reflects the terms of the Bessemer Stipulation, which was a heavily negotiated, multiparty settlement that was previously approved by the Bankruptcy Court pursuant to Bankruptcy Rule 9019.

3. The County Will Ask the Bankruptcy Court to Approve the Comprehensive Compromises and Settlements Under the Plan

The compromises and settlements under the Plan described above, particularly the sewer-related compromises, are integral and critical parts of the Plan; absent the approval of these compromises and settlements, the Plan could not go forward. There can be no assurance that any alternative chapter 9 plan of adjustment for the County would include the concessions by the Sewer Plan Support Parties that are an essential component of the Plan and that allow for the significantly enhanced recovery afforded to holders of Sewer Warrants under the Plan. At the Confirmation Hearing, the County will ask the Bankruptcy Court to approve all the compromises and settlements under the Plan. Under Bankruptcy Code section 1123(b)(3)(A), a plan may provide for "the settlement or adjustment of any claim or interest belonging to the debtor or to the estate." Bankruptcy Code sections 1123(b)(6) and 105(a) further allow the County to include "any other appropriate provision not inconsistent with the applicable provisions" of the Bankruptcy Code in the Plan as a method of settlement and compromise, and authorize the Bankruptcy Court to issue orders and judgments approving those provisions. Finally, Bankruptcy Rule 9019(a) provides that "[o]n motion by the trustee[13] and after notice and a hearing, the court may approve a compromise or settlement," which motion may be made on a standalone basis or in a bankruptcy plan. *See, e.g.*, *In re Texaco*, 84 B.R. 893, 901 (Bankr. S.D.N.Y. 1988) ("Compromises may be effected separately during reorganization proceedings or in the body of the reorganization plan itself.").

For all the reasons set forth herein and to be demonstrated at the Confirmation Hearing, the County believes that the compromises and settlements set forth in the Plan clearly satisfy the legal standards for a "fair and equitable" settlement – i.e., one that does not fall beneath the "lowest point in the range of reasonableness." *See, e.g.*, *Martin v. Pahiakos (In re Martin)*, 490 F.3d 1272, 1275-76 (11th Cir. 2007); *Wallis v. Justice Oaks II, Ltd. (In re Justice Oaks II, Ltd.)*, 898 F.2d 1544, 1549 (11th Cir. 1990); *In re Tarrant*, 349 B.R. 870, 893 (Bankr. N.D. Ala. 2006); *In re Aloha Racing Found., Inc*., 257 B.R. 83, 88 & 93 (Bankr. N.D. Ala. 2000). The compromises and settlements embodied by the Plan resolve many highly complex and uncertain issues that could take years and millions of dollars to litigate to finality. The comprehensive and final resolution of these issues under the Plan provides for a fair and equitable result and greater Distributions to the County's Creditors, and offers the County and its Sewer System a "fresh start" from a history plagued by actual and potential litigations.

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[13] Bankruptcy Rule 9019(a)'s reference to "the trustee" means the municipal debtor in a chapter 9 case. *See* Fed. R. Bankr. P. 9001 & 11 U.S.C. § 902(5). As such, bankruptcy courts may appropriately consider and approve settlements that are reached by debtors in chapter 9 cases. *See, e.g.*, *In re Corcoran Hosp. Dist*., 233 B.R. 449, 453-54 (Bankr. E.D. Cal. 1999); *In re County of Orange*, 1995 Bankr. LEXIS 729, at *16-20 (Bankr. C.D. Cal. May 2, 1995).

If approved, the comprehensive compromises and settlements set forth in the Plan will be binding on the County and on all Persons who have asserted or could assert any potential Causes of Action or Avoidance Actions for or on behalf of the County in any fashion, including derivatively or directly, and on all Creditors concerning the Sewer Released Claims and the GO Released Claims compromised and settled under the Plan, including in any pending or potential litigation (including any appeals) before any court or agency. The approval and consummation of the Plan will conclusively bind all Creditors and other parties in interest, and the releases and settlements effected under the Plan will be operative as of the Effective Date and subject to enforcement by the Bankruptcy Court from and after the Effective Date, including pursuant to the injunctive provisions of Sections 6.2 and 6.3 of the Plan. Once approved, the compromises and settlements, along with the treatment of any associated Allowed Claims under the Plan, shall not be subject to any collateral attack or other challenge by any Person in any court or other forum from and after the Effective Date. As such, any Person who opposes the terms of any compromise and settlement set forth in the Plan must challenge such compromise and settlement prior to Confirmation of the Plan, and in connection with such challenge must demonstrate appropriate standing to object and that the subject compromise and settlement does not meet the standards governing bankruptcy settlements under Bankruptcy Rule 9019 and other applicable law.

VI.
THE SEWER FINANCING PLAN

Under the terms of a financing plan approved by the County Commission on June 4, 2013 (the "Financing Plan"), subject to compliance with procedures required by state law, the County expects to generate and distribute approximately $1.835 billion on account of Allowed Class 1-A Claims, Class 1-B Claims, Class 1-C Claims, and Class 1-D Claims from gross refinancing proceeds of approximately $1.963 billion. The Financing Plan is attached to this Disclosure Statement as **Exhibit 9**.

The Financing Plan involves the issuance of a mix of three different types of debt securities: current interest paying warrants (approximately $1.418 billion), capital appreciation warrants (approximately $300 million), and convertible capital appreciation warrants (approximately $175 million). A current interest paying warrant is a debt instrument on which interest payments are made to the holders on a periodic basis. A capital appreciation warrant is a debt instrument on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the holder receives a single payment representing both the initial principal amount and the total investment return. A convertible capital appreciation warrant is a debt instrument with terms similar to a capital appreciation warrant for a fixed period of time, after which interest payments are made to the holders on a periodic basis. The actual amount of each such debt security may differ from what is projected in the Financing Plan. The Financing Plan details the projected pricing of each type of debt instrument.

In addition to the newly issued securities (totaling approximately $1.892 billion), the Financing Plan contemplates the receipt of approximately $71 million as original issue premium/discount (the actual amount of which may vary), and further contemplates use of approximately $96 million in cash available from the Sewer System (i.e., from the Sewer Warrant

Indenture Funds and Remaining Accumulated Sewer Revenues). These sources collectively amount to approximately $2.059 billion.

In addition to distributions of approximately $1.835 billion to the holders of Allowed Class 1-A Claims, Class 1-B Claims, Class 1-C Claims, and Class 1-D Claims under the Plan, the Financing Plan contemplates a deposit into a new debt service reserve fund of approximately $189 million, an underwriters discount of approximately $19 million, the Put Consideration payable under the Put Agreement on account of the committed undertaking by some or all of the Supporting Sewer Warrantholders to purchase New Sewer Warrants pursuant to that agreement in an estimated amount of approximately $13 million (which estimated amount is subject to the final terms of the Put Agreement as included in the Plan Supplement), and costs of issuance of approximately $2.5 million.[14] These uses collectively amount to approximately $2.059 billion.

The Financing Plan depends upon the County Commission enacting the Approved Rate Structure (Exhibit C to the Plan), which contemplates four years of 7.41% Sewer System rate increases and 3.49% annual Sewer System rate increases thereafter. Changes in the market or consumption patterns between the date on which the Financing Plan was adopted and the date on which it is implemented may require or permit higher or lower levels of rate increases, but in no event is the County obligated to increase rates beyond what is necessary to address a market shift of up to a 50 basis point increase in borrowing costs (or the equivalent thereof in declining consumption, or a mixture of market shift and declining consumption). That is, if changes in the market result in borrowing costs of more than 50 basis points or if changes in consumption patterns have an equivalent or greater economic effect, and such changes necessitate higher Sewer System rates than what is specified in the Financing Plan, the County has the right under the Sewer Plan Support Agreements to decline to proceed with the Financing Plan and the Plan itself.

It is possible that the Financing Plan will be revised one or more times before the Confirmation Hearing in light of altered market conditions or actual performance of the Sewer System. The Sewer Plan Support Agreements include certain provisions that may limit the County's ability to modify the Financing Plan. If the County amends the Financing Plan, the County must provide written notice to each Sewer Plan Support Party of any amendment to the Financing Plan within one (1) business day of any such amendment and must make sure that any amendment to the Financing Plan shall be a publicly available document. If the County amends the Financing Plan in any material respect without the written approval of each Sewer Plan Support Party and does not rescind such amendment or obtain the written approval of each Sewer Plan Support Party regarding such amendment within fifteen (15) calendar days of receiving written notice concerning any such amendment from one or more of the Sewer Plan Support Parties (which written notice must be provided by the applicable Sewer Plan Support Party within seven (7) calendar days after the County

[14] In accordance with the Put Agreement, if the underwriter for the offering of the New Sewer Warrants can sell at least 80% of each of a series with the same CUSIP of the New Sewer Warrants but cannot sell the balance then the Supporting Sewer Warrantholders who assume a Put Obligation under the Put Agreement will fund, in proportion to the commitment made by each, 50% of the shortfall by accepting, in lieu of Cash, a principal amount equal to 50% of the shortfall at the lowest price offered by the underwriter to the public for each series of New Sewer Warrants that are being purchased by Supporting Sewer Warrantholders who assume a Put Obligation (with the underwriter to fund the remaining 50% of the shortfall).

provides notice of the amendments), then any of the Sewer Plan Support Parties may terminate the respective Sewer Plan Support Agreement by giving a second written notice within twenty (20) calendar days of the first written notice.

The County may also decline to proceed with the Financing Plan and the Plan if it reasonably determines in good faith that the Plan cannot be confirmed or that the Effective Date cannot occur. Pursuant to the Sewer Plan Support Agreements, the County must confirm the economic viability of the Financing Plan as of the date the Disclosure Statement is approved by the Bankruptcy Court and as of the date on which the Confirmation Hearing begins. As noted above, it is possible that the Financing Plan will be revised after the Disclosure Statement has been approved and distributed to Creditors, but before the Confirmation Hearing begins.

VII.
SUMMARY OF THE PLAN

The following is a narrative description of certain provisions of the Plan, a copy of which is attached hereto as **Exhibit 1** for reference. This summary of the Plan is qualified in its entirety by the actual terms of the Plan. In the event of any conflict, the terms of the Plan will control over any summary set forth in this Disclosure Statement.

The Plan is not based upon or conditioned upon any action of the Alabama Legislature. Without limitation, the Projections underlying the Plan do not assume any enlargement of the County's ability to levy taxes or increase revenues to the General Fund.

A. Classification and Treatment of Claims Under the Plan

The Bankruptcy Code requires that a plan divide the different claims against the debtor into separate classes based upon their legal nature. Claims of a substantially similar legal nature are usually classified together. The Bankruptcy Code does not require the classification of administrative claims and certain priority claims, and they are typically denominated "unclassified claims." Because the County is a municipality, there are no equity interests in the County.

The County believes that the classification of Claims specified in the Plan is appropriate and consistent with the requirements of the Bankruptcy Code. The Bankruptcy Court will determine the appropriateness of the classification of the Claims under the Plan in conjunction with the hearing on confirmation of the Plan, and any dispute regarding the classification of Claims under the Plan should be raised as an objection to confirmation of the Plan.

Under Bankruptcy Code section 1124, a class of claims is "impaired" unless the plan leaves unaltered the legal, equitable, and contractual rights of the holders of claims in that class. In addition, a class of claims is "impaired" unless the plan cures all defaults (other than those arising from the debtor's insolvency, the commencement of the bankruptcy case, or non-performance of a non-monetary obligation, which need not be cured) that occurred before or after the commencement of the case, reinstates the maturity of the claims in the class, compensates the claimants for any actual damages incurred as a result of their reasonable reliance on any acceleration rights, and does not otherwise alter their legal, equitable, and contractual rights. Except for any right to accelerate

the debtor's obligations, the holder of an unimpaired claim will effectively be placed in the position in which it would have been, *inter alia*, if the debtor's case had not been commenced.

A plan must designate each separate class of claims either as "impaired" (affected by the plan) or "unimpaired" (unaffected by the plan). If a class of claims is "impaired," under the Bankruptcy Code, then the holders of claims in that class are entitled to vote to accept or to reject the plan (unless the plan provides for no distribution to the class, in which case the class is deemed to reject the plan). If a class of claims is unimpaired, the holders of claims in that class are deemed to accept the plan and are therefore not entitled to vote on the plan.

The following describes specifically whether and how Claims are classified under the Plan, whether the holders thereof are entitled to vote, and the treatment accorded such Claims under the Plan.

1. Unclassified Claims

Certain types of Claims are not placed into voting classes; instead, they are unclassified. They are not considered impaired, and they do not vote to accept or to reject a plan of adjustment because they are automatically entitled to specific treatment provided for them in the Bankruptcy Code. Therefore, the County has ***not*** placed the following categories of Claims into a Class: Administrative Claims (including 503(b)(9) Claims and Cure Payments) and Professional Fee Claims.

a. Allowance of Administrative Claims

i. Administrative Claims Generally

Unless otherwise expressly provided in the Plan or agreed by the County, Administrative Claims will be Allowed only if:

(A) On or before the Administrative Claims Bar Date, the Person holding such Administrative Claim both Files with the Bankruptcy Court and serves on the County a motion requesting allowance of the Administrative Claim; and

(B) The Bankruptcy Court enters a Final Order finding that such asserted Administrative Claim is an Allowed Claim.

The County or any other party in interest may File an objection to such motion within sixty (60) calendar days after the expiration of the Administrative Claims Bar Date, unless such time period for filing such objection is extended by the Bankruptcy Court. **THE FAILURE TO FILE A MOTION REQUESTING ALLOWANCE OF AN ADMINISTRATIVE CLAIM ON OR BEFORE THE ADMINISTRATIVE CLAIMS BAR DATE, OR THE FAILURE TO SERVE SUCH MOTION TIMELY AND PROPERLY, SHALL RESULT IN THE ADMINISTRATIVE CLAIM BEING FOREVER BARRED AND DISALLOWED WITHOUT FURTHER ORDER OF THE BANKRUPTCY COURT. IF FOR ANY REASON ANY SUCH ADMINISTRATIVE CLAIM IS INCAPABLE OF BEING FOREVER BARRED**

AND DISALLOWED, THEN THE HOLDER OF SUCH CLAIM SHALL IN NO EVENT HAVE RECOURSE TO ANY PROPERTY DISTRIBUTED PURSUANT TO THE PLAN.

ii. Cure Payments

Cure Payments shall be Allowed in accordance with the procedures set forth in Section 3.1(b) of the Plan.

iii. 503(b)(9) Claims

Unless otherwise expressly provided in the Plan or agreed by the County, a 503(b)(9) Claim will be Allowed only if:

(A) The 503(b)(9) Claim is Filed by the 503(b)(9) Bar Date, or is deemed timely Filed; and

(B) If an objection to such 503(b)(9) Claim is Filed by a party in interest on or before the Claim Objection Deadline, the Bankruptcy Court enters a Final Order finding that such asserted 503(b)(9) Claim is an Allowed 503(b)(9) Claim.

PURSUANT TO THE BAR DATE ORDER, ALL PERSONS HOLDING 503(b)(9) CLAIMS THAT DID NOT TIMELY FILE SUCH CLAIMS BY THE 503(b)(9) BAR DATE ARE FOREVER BARRED. ESTOPPED, AND ENJOINED FROM ASSERTING THOSE CLAIMS AGAINST THE COUNTY OR ITS PROPERTY.

b. Treatment of Administrative Claims

i. Administrative Claims Generally

Unless the Person holding an Allowed Administrative Claim agrees to different treatment, or already has been paid the full amount of such Allowed Administrative Claim, the County shall pay to that Person Cash in an amount equal to the Allowed amount of such Administrative Claim, without interest, on or before the later of (A) ten (10) Business Days after the Effective Date, and (B) ten (10) Business Days after the date on which any order determining such Claim is an Allowed Administrative Claim becomes a Final Order.

ii. Cure Payments

Cure Payments will be made to the non-debtor parties to the subject executory contracts or unexpired leases in accordance with Section 3.1 of the Plan.

iii. 503(b)(9) Claims

Unless the Person holding an Allowed 503(b)(9) Claim agrees to different treatment, or already has been paid the full amount of such Allowed 503(b)(9) Claim, the County shall pay to that Person Cash in an amount equal to the Allowed amount of such 503(b)(9) Claim, without interest, on or before the later of (A) ten (10) Business Days after the Effective Date, and (B) ten (10) Business

Days after the date on which any order determining such Claim to be an Allowed 503(b)(9) Claim becomes a Final Order.

c. Professional Fees

Pursuant to Bankruptcy Code section 943(b)(3), all amounts to be paid for services or expenses in the Case or incident to the Plan must be fully disclosed to the Bankruptcy Court and must be reasonable. There shall be paid to each holder of a Professional Fee Claim in full, final, and complete settlement, satisfaction, release, and discharge of such Claim, Cash in an amount equal to the portion of such Professional Fee Claim that the Bankruptcy Court determines is reasonable on or as soon as is reasonably practicable following the date on which the Bankruptcy Court enters an order determining reasonableness. The County, in the ordinary course of its business, and without the requirement for Bankruptcy Court approval, may pay for professional services rendered and expenses incurred following the Effective Date.

d. Administrative Tax Claims

Notwithstanding anything to the contrary in the Plan or in the Confirmation Order, a governmental unit shall not be required to file, make, or submit a request for payment (or any document, including a bill) of an expense described in Bankruptcy Code section 503(b)(1)(B) or (C) as a condition of its being an Allowed Administrative Claim, and the County shall pay in full all Allowed Administrative Claims, including any interest related thereto, when due.

e. No Other Priority Claims

The only category of priority Claim incorporated into a chapter 9 case through Bankruptcy Code section 901(a) are Administrative Claims allowable under Bankruptcy Code section 507(a)(2). The treatment of Allowed Administrative Claims under the Plan is described in Section 2.2(b) of the Plan. No other kinds of priority claims set forth in Bankruptcy Code section 507 are recognized or entitled to priority in chapter 9 or in this Case, but rather are treated in chapter 9 and in this Case and classified in the Plan as General Unsecured Claims.

2. Classified Claims

The following section identifies the Plan's treatment of the classified Claims under the Plan. All descriptions set forth in the following section are qualified in their entirety by the specific treatment provided for each of the classified Claims under the Plan.

a. Class 1-A (Sewer Warrant Claims)

Class 1-A consists of all Sewer Warrant Claims. Class 1-A is Impaired under the Plan. Class 1-A Claims shall be Allowed on the Effective Date in an aggregate amount equal to (i) the Adjusted Sewer Warrant Principal Amount of all Sewer Warrants giving rise to Class 1-A Claims and (ii) the amount of any Reinstated Sewer Warrant Principal Payments and Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) of the Plan with respect to any Sewer Warrants giving rise to Class 1-A Claims, which Allowed Claims shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

Except as set forth in Section 4.9(a) of the Plan with respect to the Allowed Class 1-A Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-A Claim shall receive a Distribution in one of the two amounts specified in Option 1 and Option 2 below. Such a Distribution is higher than such holder's Pro Rata share of the Distributions made to holders of all Allowed Class 1-A Claims would otherwise be as a result of (i) the reallocation of Plan consideration from the JPMorgan Parties to holders of Allowed Class 1-A Claims as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan and (ii) the consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-A Claims on account of such Claims.

The Distributions to be made to holders of Allowed Class 1-A Claims from or on behalf of the County consist of the following two components:

A. Except as set forth in Section 4.9(a) of the Plan with respect to the Allowed Class 1-A Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-A Claim shall receive the right to choose between the following two Distribution options:

Option 1: if such holder makes or is deemed to make the Commutation Election, a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 80% of the Adjusted Sewer Warrant Principal Amount of such holder's Sewer Warrants in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Class 1-A Claims and of all of such holder's other Sewer Released Claims, both against the County and against any of the other Sewer Released Parties and their respective Related Parties (including against the Sewer Warrant Insurers and their respective Related Parties in respect of any of the Sewer Insurance Policies); or

Option 2: if such holder does not make or is deemed not to make the Commutation Election, (i) a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 65% of the Adjusted Sewer Warrant Principal Amount of such holder's Sewer Warrants in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Class 1-A Claims; and (ii) the retention of Sewer Wrap Payment Rights, if any, against the applicable Sewer Warrant Insurer in respect of any Sewer Wrap Policies insuring such holder's Sewer Warrants, which Sewer Wrap Payment Rights shall not be waived or impaired.

B. Regardless of the option selected, each holder of an Allowed Class 1-A Claim shall also receive on the Effective Date a Distribution of Cash on account of any

applicable Reinstated Sewer Warrant Principal Payments and any applicable Reinstated Sewer Warrant Interest Payments in accordance with Section 4.6(a) of the Plan. No Distributions will be made under the Plan to any Person on account of (i) any interest in excess of the non-default rate on any Sewer Warrants after the Petition Date and (ii) any interest on interest on any Sewer Warrants after the Petition Date.

As described in Section 4.9(a) of the Plan, the sources of the incremental recovery to holders of Allowed Class 1-A Claims that make the Commutation Election as provided for in Section 2.3(a) of the Plan result from (i) the agreement of the JPMorgan Parties to reallocate to such holders a substantial portion of the Pro Rata share of the Distribution that otherwise would have been distributed to the JPMorgan Parties on account of the Allowed Class 1-A Claims and Allowed Class 1-B Claims held by the JPMorgan Parties as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan; and (ii) the consideration provided as a result of the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims.

Each of the JPMorgan Parties and each Supporting Sewer Warrantholder has agreed in the applicable Sewer Plan Support Agreement to make, and shall make, the Commutation Election with respect to all Sewer Warrants held by each of the JPMorgan Parties and each Supporting Sewer Warrantholder, subject to the exceptions contained in Section 3(e) of the Supporting Sewer Warrantholder Plan Support Agreement.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-A Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b) of the Plan, no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b) of the Plan, the Distributions under Section 2.3(a) of the Plan shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

b. Class 1-B (Bank Warrant Claims and Primary Standby Sewer Warrant Claims)

Class 1-B consists of all Bank Warrant Claims and (to the extent not otherwise included) all Primary Standby Sewer Warrant Claims. Class 1-B is Impaired under the Plan. Class 1-B Claims shall be Allowed on the Effective Date in an aggregate amount equal to (i) the Adjusted Sewer

Warrant Principal Amount of all Bank Warrants giving rise to Class 1-B Claims; (ii) the amount of any Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) of the Plan with respect to any Bank Warrants giving rise to Class 1-B Claims; and (iii) the Bank Warrant Default Interest Settlement Payments, which Allowed Claims shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

Except as set forth in Section 4.9(a) of the Plan with respect to the Allowed Class 1-B Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-B Claim shall receive a Distribution in one of the two amounts specified in Option 1 and Option 2 below. Such a Distribution is higher than such holder's Pro Rata share of the Distributions made to holders of all Allowed Class 1-B Claims would otherwise be as a result of (i) the reallocation of Plan consideration from the JPMorgan Parties to holders of Allowed Class 1-B Claims as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan and (ii) the consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-B Claims on account of such Claims.

The Distributions to be made to holders of Allowed Class 1-B Claims from or on behalf of the County consist of the following three components:

A. Except as set forth in Section 4.9(a) of the Plan with respect to the Allowed Class 1-B Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-B Claim shall receive the right to choose between the following two Distribution options:

Option 1: if such holder makes the Commutation Election, a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to **80%** of the Adjusted Sewer Warrant Principal Amount of such holder's Bank Warrants in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Class 1-B Claims (including any Bank Warrant Default Interest Claims, provided that Bank Warrant Default Interest Settlements Payments, if applicable, shall be paid pursuant to component C. below) and of all of such holder's other Sewer Released Claims, both against the County and against any of the other Sewer Released Parties and their respective Related Parties; or

Option 2: if such holder does not make or is deemed not to make the Commutation Election, a Distribution (x) on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to **65%** of the Adjusted Sewer Warrant Principal Amount of such holder's Bank Warrants and (y) on the first Business Day that is at least thirty (30) calendar days after the entry of a Final Order allowing such Claims, of Cash from a reserve account to be funded on the Effective

Date from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 65% of any Allowed Bank Warrant Default Interest Claims held by such holder in full, final, and complete settlement, satisfaction, release, and exchange all of such holder's Class 1-B Claims.

B. Regardless of the option selected, each holder of an Allowed Class 1-B Claim shall also receive on the Effective Date a Distribution of Cash on account of any applicable Reinstated Sewer Warrant Interest Payments in accordance with Section 4.6(a) of the Plan. No Distributions will be made under the Plan to any Person on account of (i) any interest in excess of the Sewer Bank Rate on any Bank Warrants after the Petition Date and (ii) any interest on interest on any Bank Warrants after the Petition Date.

C. In addition to the foregoing, each of the Sewer Liquidity Banks shall receive on the Effective Date a Distribution of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to such Sewer Liquidity Bank's respective specified portion of the Bank Warrant Default Interest Settlement Payments. By their acceptance of or non-objection to confirmation of the Plan, each other holder of an Allowed Class 1-B Claim shall have consented and agreed, pursuant to Bankruptcy Code section 1123(a)(4), to the Sewer Liquidity Banks' receipt of the Bank Warrant Default Interest Settlement Payments.

As described in Section 4.9(a) of the Plan, the sources of the incremental recovery to holders of Allowed Class 1-B Claims that make the Commutation Election as provided for in Section 2.3(b) of the Plan result from (i) the agreement of the JPMorgan Parties to reallocate to such holders a substantial portion of the Pro Rata share of the Distribution that otherwise would have been distributed to the JPMorgan Parties on account of the Allowed Class 1-A and Allowed Class 1-B Claims held by the JPMorgan Parties as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan; and (ii) the consideration provided as a result of the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims.

Each of the JPMorgan Parties, each Sewer Liquidity Bank, and each Supporting Sewer Warrantholder has agreed in the applicable Sewer Plan Support Agreement to make, and shall make, the Commutation Election and to waive any Bank Warrant Default Interest Claims held by such JPMorgan Party, Sewer Liquidity Bank, and Supporting Sewer Warrantholder, as applicable, with respect to all Bank Warrants held by each of the JPMorgan Parties, each Sewer Liquidity Bank, and each Supporting Sewer Warrantholder.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-B Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

No additional or other Distributions will be made under the Plan to any Person on account of the Primary Standby Sewer Warrant Claims (to the extent not otherwise included within the Bank Warrant Claims).

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b) of the Plan, no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b) of the Plan, the Distributions under Section 2.3(b) of the Plan shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

c. Class 1-C (Sewer Warrant Insurers Claims)

Class 1-C consists of all Sewer Warrant Insurers Claims. Class 1-C is Impaired under the Plan. Class 1-C Claims shall be Allowed on the Effective Date in an aggregate amount, without duplication, equal to the sum of (i) the amount of the Sewer Warrant Insurers Claims, (ii) the amount of any Reinstated Sewer Warrant Principal Payments or Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) of the Plan with respect to any Sewer Warrants held by the Sewer Warrant Insurers, and (iii) the Sewer Warrant Insurers Outlay Amount, which Allowed Claims shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

The holders of Allowed Class 1-C Claims shall receive from or on behalf of the County on the Effective Date, in full, final, and complete settlement, satisfaction, release, and exchange of each such holder's Class 1-C Claims:

i. an aggregate Distribution of $165,000,000 in Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof, which aggregate amount shall be distributed and allocated among the Sewer Warrant Insurers as set forth in the Sewer Warrant Insurers Agreements;

ii. a separate aggregate Distribution of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof, which aggregate amount shall be equal to the Non-Commutation True-Up Amount attributable to all Sewer Warrants insured by each Sewer Warrant Insurer under a Sewer Wrap Policy and held by Persons that elected not to make or were deemed not to make the Commutation Election;

iii. a payment in full from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal

to each Sewer Warrant Insurer's Covered Tail Risk, to be paid or funded pursuant to each of the Tail Risk Payment Agreements;

iv. Distributions of Cash on account of the Reinstated Sewer Warrant Principal Payments, the Reinstated Sewer Warrant Interest Payments, and the Sewer Warrant Insurers Outlay Amount, in each case if applicable and if any, in accordance with Section 4.6(a) of the Plan.

As part of the global settlement implemented under the Plan, the Sewer Warrant Insurers will be deemed to waive and release all Bank Warrant Default Interest Claims.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-C Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b) of the Plan, no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b) of the Plan, the Distributions under Section 2.3(c) of the Plan shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

d. Class 1-D (Other Specified Sewer Claims)

Class 1-D consists of all JPMorgan Sewer Revenue Indemnification Claims. Class 1-D is Impaired under the Plan.

All Claims in Class 1-D will be Allowed on the Effective Date. In full, final, and complete settlement, satisfaction, release, and exchange of all Class 1-D Claims, and as part of the global settlement between the County and the JPMorgan Parties implemented pursuant to the Plan, on the Effective Date the County shall pay JPMS the sum of ten dollars ($10.00) from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-D Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b) of the Plan, no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b) of the Plan, the Distributions under

Section 2.3(d) of the Plan shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

e. Class 1-E (Sewer Swap Agreement Claims)

Class 1-E consists of all Sewer Swap Agreement Claims. Class 1-E is Impaired under the Plan.

The holders of Sewer Swap Agreement Claims shall neither receive any Distributions nor retain any property under the Plan on account of such Claims. Because no Distributions will be made to holders of Class 1-E Claims nor will such holders retain any property on account of such Claims, Class 1-E is deemed to have rejected the Plan pursuant to Bankruptcy Code section 1126(g), and therefore holders of Claims in Class 1-E are not entitled to vote to accept or reject the Plan on account of such Claims.

f. Class 1-F (Other Standby Sewer Warrant Claims)

Class 1-F consists of all Other Standby Sewer Warrant Claims. Class 1-F is Impaired under the Plan.

The holders of Other Standby Sewer Warrant Claims shall neither receive any Distributions nor retain any property under the Plan on account of such Claims. Because no Distributions will be made to holders of Class 1-F Claims nor will such holders retain any property on account of such Claims, Class 1-F is deemed to have rejected the Plan pursuant to Bankruptcy Code section 1126(g), and therefore holders of Claims in Class 1-F are not entitled to vote to accept or reject the Plan on account of such Claims.

g. Class 2-A (Series 2004-A School Claims)

Class 2-A consists of all Series 2004-A School Claims. Class 2-A is Impaired under the Plan.

All Claims in Class 2-A will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2004-A School Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 2-A Claim will on account of such holder's Class 2-A Claim retain all of such holder's rights and interests in its Series 2004-A School Warrants, which will be repaid on the terms and conditions set forth in the School Warrant Indenture as modified by the Plan. Pursuant to Bankruptcy Code section 1123(a)(5)(F), the School Warrant Indenture shall be modified on the Effective Date in the following respects:

i. Subject to the County having satisfied its payment obligations in respect of the Series 2004-A School Warrants through the Effective Date, all School Warrant Events of Default under the School Warrant Indenture that occurred prior to or that were continuing on the Effective Date generally with respect to all School Warrants or with respect to the Series 2004-A School Warrants shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such School Warrant Events of

Default. For the avoidance of doubt, and except as otherwise provided in clause (ii) immediately below, the fact that a School Warrant Event of Default existed at any time prior to, or at the time of, the Effective Date, shall not give rise to any argument or claim that any future occurrence or recurrence of such type of School Warrant Event of Default has been excused or waived (prospectively or otherwise) under the preceding sentence.

ii. None of the following events shall constitute School Warrant Events of Default under the School Warrant Indenture: (A) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court; (B) the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.; and (C) the subsequent filing of any bankruptcy case or proceeding under any other insolvency regime regarding either of Ambac or Ambac Financial Group Inc., including the appointment of any "orderly liquidation authority" under 12 U.S.C. §§ 5381-5394. For the avoidance of doubt, to the extent that School Warrant Events of Default may have occurred on or prior to the Effective Date due to the foregoing events, such School Warrant Events of Default shall be deemed waived and of no further force or effect.

iii. If and to the extent that Future Tax Proceeds are collected or held by the County after the Effective Date, the County shall comply with the mandatory redemption provisions of the School Warrant Indenture, but for so long as the Series 2005-B School Warrants are outstanding the County shall exercise any discretion and powers the County holds under the School Warrant Indenture to direct the School Warrant Trustee to redeem the Series 2005-B School Warrants, and not the Series 2005-A School Warrants or the Series 2004-A School Warrants, on the next applicable redemption date. In addition, notwithstanding any provision to the contrary in the School Warrant Indenture, including Section 2.1(f) of the First Supplemental Indenture, the County will not direct the School Warrant Trustee to credit any portion of the mandatory redemptions made after the Effective Date of the Series 2005-B School Warrants as against the principal amortization schedule set forth in the School Warrant Indenture (including the First Supplemental Indenture thereto) or otherwise.

To the extent necessary to give effect to the foregoing modifications, each holder of Allowed Class 2-A Claims shall be deemed to consent to the execution of the School Warrant Second Supplemental Indenture by the County and the School Warrant Trustee on the Effective Date.

On the Effective Date, or as soon thereafter as practicable, the County will release any hold on the Retained Amount, and the Retained Amount shall thereafter be available for distribution in accordance with the provisions of the School Warrant Indenture. No compensation, damages, interest, or other amounts will be Allowed or otherwise payable to any holders of Class 2-A Claims on account of the County's retention of the Retained Amount.

Any unpaid portion of the School Warrant Trustee Fee Claims shall be paid in Cash on the Effective Date to the School Warrant Trustee out of funds in the "Jefferson County Limited Obligation School Warrant Revenue Account" established under the School Warrant Indenture. Nothing in the Plan is intended to or will affect the School Warrant Trustee's rights to compensation or its lien, priorities, or any other rights under the School Warrant Indenture.

Nothing in the Plan is intended to release or affect any rights or claims that holders of Series 2004-A School Warrants or the School Warrant Trustee may have against the School Warrant Insurer; *provided, however*, that in no event shall any such rights give rise to any Claims against the County or its property that are not satisfied and released by the treatment provided in the Plan for Allowed Class 2-A Claims.

h. Class 2-B (Series 2005-A School Claims)

Class 2-B consists of all Series 2005-A School Claims. Class 2-B is Impaired under the Plan.

All Claims in Class 2-B will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2005-A School Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 2-B Claim will on account of such holder's Class 2-B Claim retain all of such holder's rights and interests in its Series 2005-A School Warrants, which will be repaid on the terms and conditions set forth in the School Warrant Indenture as modified by the Plan. Pursuant to Bankruptcy Code section 1123(a)(5)(F), the School Warrant Indenture shall be modified on the Effective Date in the following respects:

i. Subject to the County having satisfied its payment obligations in respect of the Series 2005-A School Warrants through the Effective Date, all School Warrant Events of Default under the School Warrant Indenture that occurred prior to or that were continuing on the Effective Date generally with respect to all School Warrants or with respect to the Series 2005-A School Warrants shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such School Warrant Events of Default. For the avoidance of doubt, and except as otherwise provided in clause (ii) immediately below, the fact that a School Warrant Event of Default existed at any time prior to, or at the time of, the Effective Date, shall not give rise to any argument or claim that any future occurrence or recurrence of such type of School Warrant Event of Default has been excused or waived (prospectively or otherwise) under the preceding sentence.

ii. None of the following events shall constitute School Warrant Events of Default under the School Warrant Indenture: (A) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court; (B) the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.; and (C) the subsequent filing of any bankruptcy case or proceeding under any other insolvency regime regarding either of Ambac or Ambac Financial Group Inc., including the appointment of any "orderly liquidation authority" under 12 U.S.C. §§ 5381-5394. For the avoidance of doubt, to the extent that School Warrant Events of Default may have occurred on or prior to the Effective Date due to the foregoing events, such School Warrant Events of Default shall be deemed waived and of no further force or effect.

iii. If and to the extent that Future Tax Proceeds are collected or held by the County after the Effective Date, the County shall comply with the mandatory redemption provisions of the School Warrant Indenture, but for so long as the Series 2005-B School Warrants are outstanding the County shall exercise any discretion and powers the County holds under the School Warrant Indenture to direct the School Warrant Trustee to redeem the Series 2005-B School

Warrants, and not the Series 2005-A School Warrants or the Series 2004-A School Warrants, on the next applicable redemption date. In addition, notwithstanding any provision to the contrary in the School Warrant Indenture, including Section 2.1(f) of the First Supplemental Indenture, the County will not direct the School Warrant Trustee to credit any portion of the mandatory redemptions made after the Effective Date of the Series 2005-B School Warrants as against the principal amortization schedule set forth in the School Warrant Indenture (including the First Supplemental Indenture thereto) or otherwise**.**

To the extent necessary to give effect to the foregoing modifications, each holder of Allowed Class 2-B Claims shall be deemed to consent to the execution of the School Warrant Second Supplemental Indenture by the County and the School Warrant Trustee on the Effective Date.

On the Effective Date, or as soon thereafter as practicable, the County will release any hold on the Retained Amount, and the Retained Amount shall thereafter be available for distribution in accordance with the provisions of the School Warrant Indenture. No compensation, damages, interest, or other amounts will be Allowed or otherwise payable to any holders of Class 2-B Claims on account of the County's retention of the Retained Amount.

Any unpaid portion of the School Warrant Trustee Fee Claims shall be paid in Cash on the Effective Date to the School Warrant Trustee out of funds in the "Jefferson County Limited Obligation School Warrant Revenue Account" established under the School Warrant Indenture. Nothing in the Plan is intended to or will affect the School Warrant Trustee's rights to compensation or its lien, priorities, or any other rights under the School Warrant Indenture.

Nothing in the Plan is intended to release or affect any rights or claims that holders of Series 2005-A School Warrants or the School Warrant Trustee may have against the School Warrant Insurer; *provided, however*, that in no event shall any such rights give rise to any Claims against the County or its property that are not satisfied and released by the treatment provided in the Plan for Allowed Class 2-B Claims.

i. Class 2-C (Series 2005-B School Claims and Standby School Warrant Claims)

Class 2-C consists of all Series 2005-B School Claims and (to the extent not otherwise included) all Standby School Warrant Claims. Class 2-C is Impaired under the Plan.

All Claims in Class 2-C will be Allowed on the Effective Date. Each holder of an Allowed Class 2-C Claim will on account of such holder's Class 2-C Claim retain all of such holder's rights and interests in its Series 2005-B School Warrants, which will be repaid on the terms and conditions set forth in School Warrant Indenture and the Standby School Warrant Purchase Agreement, in each case as modified by the Plan. Pursuant to Bankruptcy Code section 1123(a)(5)(F), the School Warrant Indenture and the Standby School Warrant Purchase Agreement shall be modified on the Effective Date in the following respects:

i. Effective as of August 31, 2013, the "Bank Rate" shall be defined to mean the New Bank Rate.

ii. All School Warrant Events of Default under the School Warrant Indenture or the Standby School Warrant Purchase Agreement (including cross-defaults) that occurred prior to or that were continuing on February 11, 2013, shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such School Warrant Events of Default. For the avoidance of doubt, and except as otherwise provided in clause (iii) immediately below, the fact that a School Warrant Event of Default existed at any time prior to, or at the time of, February 11, 2013, shall not give rise to any argument or claim that any future occurrence or recurrence of such type of School Warrant Event of Default has been excused or waived (prospectively or otherwise) under the preceding sentence.

iii. All School Warrant Events of Default that could result under the School Warrant Indenture or the Standby School Warrant Purchase Agreement (including cross-defaults) due to the occurrence of any of the following events during the period between February 11, 2013, and the Effective Date shall be deemed waived and of no further force or effect: (A) the pendency of the Case; (B) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court and the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.; and (C) the County's retention of the Retained Amount in the Jefferson County Limited Obligation Warrant Revenue Account during the pendency of the Case notwithstanding any contrary provision of the School Warrant Indenture. In addition, all School Warrant Events of Default that could result under the School Warrant Indenture or the Standby School Warrant Purchase Agreement (including cross-defaults) due to the occurrence of any of the following events during the period after the Effective Date shall be deemed waived and of no further force or effect: (x) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court; and (y) the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.

iv. Provided that no School Warrant Events of Default (other than those waived pursuant to clauses (ii) and (iii) immediately above) occur under the School Warrant Indenture or the Standby School Warrant Purchase Agreement after February 11, 2013, each holder of a Class 2-C Claim shall irrevocably waive and release any claim or right to receive interest at a rate higher than the New Bank Rate for any period beginning on or after August 31, 2013, either from the County or from Ambac, including under the School Insurance Policies. For the avoidance of doubt, if any School Warrant Events of Default (other than those waived pursuant to the provisions described in clauses (ii) and (iii) immediately above) occur under the School Warrant Indenture or the Standby School Warrant Purchase Agreement after February 11, 2013, the holders of Class 2-C Claims will not be deemed to have waived any claims or rights against the County or Ambac for interest at the Base Rate plus 3.00% under the Standby School Warrant Purchase Agreement from and after the occurrence of such School Warrant Events of Default. The County will represent at the Confirmation Hearing that no School Warrant Events of Default (other than those waived pursuant to clauses (ii) and (iii) immediately above) have occurred under the School Warrant Indenture or the Standby School Warrant Purchase Agreement during the period between February 11, 2013, and the date on which the Confirmation Hearing begins and will request that the Bankruptcy Court include such a finding in the Confirmation Order.

v. At least five (5) Business Days prior to the first interest payment date after the Effective Date, the County shall provide the True-Up Certificate to the School Warrant Trustee and direct the School Warrant Trustee: (X) to reduce the aggregate outstanding principal balance of the Series 2005-B School Warrants by an amount equal to the True-Up Amount rounded down to the nearest authorized denomination of the Series 2005-B School Warrants, and (Y) to subtract the remainder of the True-Up Amount (after giving effect to the principal reduction referenced in clause (X) of this sentence) from the interest otherwise payable on such interest payment date on account of the Series 2005-B School Warrants. Holders of the Series 2005-B School Warrants shall take such actions as may be reasonably requested by the School Warrant Trustee to implement the principal reduction by the True-Up Amount as described in the Plan.

vi. If and to the extent that Future Tax Proceeds are collected or held by the County after the Effective Date, the County shall comply with the mandatory redemption provisions of the School Warrant Indenture, but for so long as the Series 2005-B School Warrants are outstanding the County shall exercise any discretion and powers the County holds under the School Warrant Indenture to direct the School Warrant Trustee to redeem the Series 2005-B School Warrants, and not the Series 2005-A School Warrants or the Series 2004-A School Warrants, on the next applicable redemption date. In addition, notwithstanding any provision to the contrary in the School Warrant Indenture, including Section 2.1(f) of the First Supplemental Indenture, the County will not direct the School Warrant Trustee to credit any portion of the mandatory redemptions made after the Effective Date of the Series 2005-B School Warrants as against the principal amortization schedule set forth in the School Warrant Indenture (including the First Supplemental Indenture thereto) or otherwise.

vii. If the County causes a remarketing of or restructuring of any of the outstanding Series 2005-B School Warrants under the School Warrant Indenture, such remarketing or restructuring shall be for no less than 100% of such outstanding Series 2005-B School Warrants and the Standby School Warrant Purchase Agreement shall be replaced or cancelled contemporaneously with the closing of such remarketing or restructuring, thereby relieving Depfa Bank PLC from its obligations to provide liquidity support with respect to the Series 2005-B School Warrants. For the avoidance of doubt, the preceding sentence is intended to prohibit the County from remarketing or restructuring a portion of the Series 2005-B Warrants and leaving the Standby School Warrant Purchase Agreement in place; further, the preceding sentence is intended to require the County to remarket or restructure the Series 2005-B School Warrants on an all or none basis

To the extent necessary to give effect to the foregoing modifications, each holder of Allowed Class 2-C Claims shall consent to the execution of the School Warrant Second Supplemental Indenture, in a form acceptable to Depfa Bank PLC, by the County and the School Warrant Trustee on the Effective Date.

On the Effective Date, or as soon thereafter as practicable, the County will release any hold on the Retained Amount, and the Retained Amount shall thereafter be available for distribution in accordance with the provisions of the School Warrant Indenture. No compensation, damages, interest, or other amounts will be Allowed or otherwise payable to any holders of Class 2-C Claims on account of the County's retention of the Retained Amount.

Any unpaid portion of the School Warrant Trustee Fee Claims shall be paid in Cash on the Effective Date to the School Warrant Trustee out of funds in the "Jefferson County Limited Obligation School Warrant Revenue Account" established under the School Warrant Indenture. Nothing in the Plan is intended to or will affect the School Warrant Trustee's rights to compensation or its lien, priorities, or any other rights under the School Warrant Indenture.

j. Class 2-D (School Policy – General Claims)

Class 2-D consists of all School Policy – General Claims. Class 2-D is Impaired under the Plan.

All Claims in Class 2-D will be Allowed on the Effective Date. Notwithstanding anything to the contrary in the School Policy – General, the School Warrant Indenture, or the Standby School Warrant Purchase Agreement, the holders of Class 2-D Claims (including, for the avoidance of doubt, the School Warrant Insurer) will consent to all modifications of the School Warrant Indenture and of the Standby School Warrant Purchase Agreement set forth in the treatment for Class 2-A Claims, Class 2-B Claims, and Class 2-C Claims.

All other legal, equitable, and contractual rights of holders of Allowed Class 2-D Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto.

k. Class 2-E (School Surety Reimbursement Claims)

Class 2-E consists of all School Surety Reimbursement Claims. Class 2-E is Impaired under the Plan.

All Claims in Class 2-E will be Allowed on the Effective Date. Notwithstanding anything to the contrary in (i) the School Surety; (ii) that certain *Guaranty Agreement* dated as of February 2, 2005, by and between the County and Ambac; (iii) the School Warrant Indenture; or (iv) the Standby School Warrant Purchase Agreement, the holders of Class 2-E Claims (including, for the avoidance of doubt, the School Warrant Insurer) will consent to all modifications of the School Warrant Indenture and of the Standby School Warrant Purchase Agreement set forth in the treatment for Class 2-A Claims, Class 2-B Claims, and Class 2-C Claims.

All other legal, equitable, and contractual rights of holders of Allowed Class 2-E Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto.

l. Class 3-A (Board of Education Lease Claims)

Class 3-A consists of all Board of Education Lease Claims. Class 3-A is not Impaired under the Plan.

All Claims in Class 3-A will be Allowed on the Effective Date. The legal, equitable, and contractual rights of holders of Allowed Class 3-A Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment

rights of the County with respect thereto. The holders of Board of Education Lease Warrants shall retain all of their limited payment rights and recourse against the collateral securing obligations under the Board of Education Lease Indenture. Consistent with the Board of Education Lease Indenture, the County has no general liability on account of the Board of Education Lease Claims, which fact will be unaltered by the Plan. To the extent required, the County shall (i) cure any default, other than a default of the kind specified in Bankruptcy Code section 365(b)(2), that Bankruptcy Code section 1124(2) requires to be cured, with respect to the Allowed Class 3-A Claims, without recognition of any default rate of interest or similar penalty or charge, and upon such cure, no default shall exist; (ii) reinstate the maturity of such Allowed Class 3-A Claims as the maturity existed under the Board of Education Lease Indenture before any default, without recognition of any default rate of interest or similar penalty or charge; and (iii) otherwise leave unaltered the legal, equitable, and contractual rights with respect to such Allowed Class 3-A Claims. For the avoidance of doubt, the rights of the Board of Education Lease Trustee under the Board of Education Lease Indenture, including in respect of any unpaid Board of Education Lease Trustee Fee Claims, are unimpaired by the Plan.

m. Class 3-B (Board of Education Lease Policy Claims)

Class 3-B consists of all Board of Education Lease Policy Claims. Class 3-B is not Impaired under the Plan.

All Claims in Class 3-B will be Allowed on the Effective Date. The legal, equitable, and contractual rights of holders of Allowed Class 3-B Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto. To the extent required, the County shall (i) cure any default, other than a default of the kind specified in Bankruptcy Code section 365(b)(2), that Bankruptcy Code section 1124(2) requires to be cured, with respect to the Allowed Class 3-B Claims, without recognition of any default rate of interest or similar penalty or charge, and upon such cure, no default shall exist; (ii) reinstate the maturity of such Allowed Class 3-B Claims as the maturity existed under the Board of Education Lease Indenture before any default, without recognition of any default rate of interest or similar penalty or charge; and (iii) otherwise leave unaltered the legal, equitable, and contractual rights with respect to such Allowed Class 3-B Claims.

n. Class 4 (Other Secured Claims, including Secured Tax Claims)

Class 4 consists of all Other Secured Claims, including all Secured Tax Claims. Each Class 4 Claim shall constitute its own subclass. Class 4 is not Impaired under the Plan.

All Claims in Class 4 will be Allowed on the Effective Date. The legal, equitable, and contractual rights of holders of Allowed Class 4 Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto. Unless the holder of an Allowed Class 4 Claim in a particular Class 4 subclass agrees to other treatment, on or as soon as is reasonably practicable after the Effective Date, such holder shall receive, at the County's option: (i) Cash in the Allowed amount of such holder's Allowed Class 4 Claim; (ii) the return of the collateral securing such Allowed Class 4 Claim, without representation or warranty by or recourse against the County; or (iii) (A) the cure

of any default, other than a default of the kind specified in Bankruptcy Code section 365(b)(2), that Bankruptcy Code section 1124(2) requires to be cured, with respect to such holder's Allowed Class 4 Claim, without recognition of any default rate of interest or similar penalty or charge, and upon such cure, no default shall exist; (B) the reinstatement of the maturity of such Allowed Class 4 Claim as the maturity existed before any default, without recognition of any default rate of interest or similar penalty or charge; and (C) its unaltered legal, equitable, and contractual rights with respect to such Allowed Class 4 Claim.

The Bankruptcy Court shall retain jurisdiction to determine the amount necessary to satisfy any Allowed Class 4 Claim for which treatment is elected under clause (i) or clause (iii) of the immediately foregoing paragraph. With respect to any Allowed Class 4 Claim for which treatment is elected under clause (i), any holder of such Allowed Class 4 Claim shall release (and by the Confirmation Order shall be deemed to release) all liens against property of the County.

o. Class 5-A (Series 2001-B GO Claims and Standby GO Warrant Claims)

Class 5-A consists of all Series 2001-B GO Claims and (to the extent not otherwise included) all Standby GO Warrant Claims. Class 5-A is Impaired under the Plan.

All Claims in Class 5-A will be Allowed on the Effective Date. However, with the exception of Claims on account of principal and prepetition non-default interest in the aggregate amount of $105,123,291.67 (consisting of the BLB GO Claim and the JPMorgan GO Claim), the additional settlement payments set forth in Section 2.3(o) of the Plan, and the reasonable fees and expenses of the GO Warrant Trustee, the GO Warrant Trustee and the GO Banks will waive and release all other asserted Claims in Class 5-A, including on account of default rate interest, the GO Banks' fees and expenses, and postpetition interest, which will receive no Distribution under the Plan.

On the Effective Date each holder of an Allowed Class 5-A Claim shall receive, in full, final, and complete settlement, satisfaction, release, and exchange of such holder's Series 2001-B GO Claims, a Pro Rata Distribution of Replacement 2001-B GO Warrants, which will be repaid on the terms set forth in the Amended and Restated GO Warrant Indenture. In addition, the County shall pay the following amounts in Cash on the Effective Date as consideration for the settlement, waiver, and release of additional prepetition Claims under the Standby GO Warrant Purchase Agreement: (i) $500,000 payable to BLB and (ii) $250,000 payable to JPMorgan Chase Bank, N.A.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the Series 2001-B GO Warrants and the Replacement 2001-B GO Warrants.

In accordance with the GO Warrant Indenture, the County shall pay all reasonable fees and expenses of the GO Warrant Trustee, including the fees and expenses of its agents and counsel, in Cash on or as soon as practicable after the Effective Date, but in any event no more than two (2) Business Days after the Effective Date. Nothing in the Plan is intended to or will affect the rights and priorities granted to the GO Warrant Trustee pursuant to Sections 12.3(b) and 13.7(b) of the GO Warrant Indenture.

p. Class 5-B (Series 2003-A GO Claims)

Class 5-B consists of all Series 2003-A GO Claims. Class 5-B is not Impaired under the Plan.

All Claims in Class 5-B will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2003-A GO Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 5-B Claim shall retain, in full, final, and complete settlement, satisfaction, release, and exchange of such holder's Class 5-B Claims, all of such holder's legal, equitable, and contractual rights and interests under the GO Resolution 2003-A and in its Series 2003-A GO Warrants, provided that any GO Events of Default that occurred prior to or that were continuing on the Effective Date shall be deemed waived and of no further force or effect, without any requirement that the County provide any compensation or take any action to cure or otherwise eliminate any such GO Events of Default. Based on such treatment and National's payment during the Case of all regularly scheduled principal and interest due on the Series 2003-A GO Warrants, the Series 2003-A GO Claims shall be deemed unimpaired under the Plan and accordingly the holders of such Claims will not be solicited.

From and after the Effective Date and without limiting the effects of the waiver of all prior and continuing GO Events of Default under the Plan, the GO Resolution 2003-A and the GO Insurance Policies shall remain in effect, subject to all terms and conditions thereof, until the Series 2003-A GO Warrants are paid in full. The County will pay in the ordinary course the reasonable fees and costs of the GO Paying Agents to the extent unpaid but required to be paid under the GO Resolutions. To the extent the County fails to make a scheduled principal or interest payment on account of the Series 2003-A GO Warrants after the Effective Date, National may exercise all of its rights and remedies against the County as set forth in the GO Insurance Policies and the GO Resolutions and subject to all terms and conditions thereof.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the Series 2003-A GO Warrants.

q. Class 5-C (Series 2004-A GO Claims)

Class 5-C consists of all Series 2004-A GO Claims. Class 5-C is not Impaired under the Plan.

All Claims in Class 5-C will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2004-A GO Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 5-C Claim shall retain, in full, final, and complete settlement, satisfaction, release, and exchange of such holder's Class 5-C Claims, all of such holder's legal, equitable, and contractual rights and interests under the GO Resolution 2004-A and in its Series 2004-A GO Warrants, provided that any GO Events of Default that occurred prior to or that were continuing on the Effective Date shall be deemed waived and of no further force or effect, without any requirement that the County provide any compensation or take any action to cure or otherwise

eliminate any such GO Events of Default. Based on such treatment and National's payment during the Case of all regularly scheduled principal and interest due on the Series 2004-A GO Warrants, the Series 2004-A GO Claims shall be deemed unimpaired under the Plan and accordingly the holders of such Claims will not be solicited.

From and after the Effective Date and without limiting the effects of the waiver of all prior and continuing GO Events of Default under the Plan, the GO Resolution 2004-A and the GO Insurance Policies shall remain in effect, subject to all terms and conditions thereof, until the Series 2004-A GO Warrants are paid in full. The County will pay in the ordinary course the reasonable fees and costs of the GO Paying Agents to the extent unpaid but required to be paid under the GO Resolutions. To the extent the County fails to make a scheduled principal or interest payment on account of the Series 2004-A GO Warrants after the Effective Date, National may exercise all of its rights and remedies against the County as set forth in the GO Insurance Policies and the GO Resolutions and subject to all terms and conditions thereof.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the Series 2004-A GO Warrants.

r. Class 5-D (GO Policy Claims)

Class 5-D consists of all GO Policy Claims. Class 5-D is Impaired under the Plan.

All Claims in Class 5-D will be Allowed on the Effective Date, and National shall receive the following payments, in full, final, and complete settlement, satisfaction, release, and exchange of all Class 5-D Claims:

(i) the County will pay $503,046.53 to reimburse National for the accrued prepetition interest that National paid under the GO Insurance Policies in April 2012 on April 1, 2014;

(ii) the County will pay $2,880,000 to reimburse National for the principal that National paid under the GO Insurance Policies in April 2012 on April 1, 2014;

(iii) the County will pay $2,965,000 to reimburse National for the principal that National paid under the GO Insurance Policies in April 2013 on April 1, 2015;

(iv) as a compromise and settlement of the National Fees and Expenses Claims, the County will pay National $1,500,000 in Cash on the Effective Date;

(v) as a compromise and settlement of the National Reimbursement Claims, including National's contention that the National Reimbursement Claims constitute a right of reimbursement to which National is entitled in accordance with the Bankruptcy Code and applicable law, the County will pay National the National Reimbursement Payments; *provided, however*, that at any time on or after Effective Date, the County shall have the option to prepay the National Reimbursement Payments in whole or in part without premium or penalty, which prepayment option is exercisable by the County paying to National an aggregate amount equal to the nominal sum of the amount of the National Reimbursement Payments that the County elects to prepay discounted to

present value as of the prepayment date using a discount rate of 4.90% back from the date of maturity to the prepayment date; and

(vi) The County's obligations to National under the Plan (other than with respect to payment of the National Reimbursement Payments, which obligations will bear no interest) will bear interest from and after the Effective Date until satisfied at a fixed rate equal to the Wall Street Journal prime rate on the Effective Date plus 1.65% per annum.

From and after the Effective Date, the GO Insurance Policies and the GO Resolutions will remain in effect, subject to all terms and conditions thereof, until the Series 2003-A GO Warrants and the Series 2004-A GO Warrants are paid in full. To the extent the County fails to make a scheduled principal or interest payment on account of the Series 2003-A GO Warrants or the Series 2004-A GO Warrants after the Effective Date, National may exercise all of its rights and remedies against the County as set forth in the GO Insurance Policies and the GO Resolutions and subject to all terms and conditions thereof.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the GO Insurance Policies.

s. Class 5-E (GO Swap Agreement Claims)

Class 5-E consists of all GO Swap Agreement Claims. Class 5-E is Impaired under the Plan.

All Claims in Class 5-E will be Allowed on the Effective Date in the aggregate amount of $7,893,762.30, plus interest accrued thereon at the applicable rate as set forth in the GO Swap Agreement. In full, final, and complete settlement, satisfaction, release, and exchange of all Class 5-E Claims, and as part of the global settlement between the County and the JPMorgan Parties implemented pursuant to the Plan, on the Effective Date the County shall pay JPMorgan Chase Bank, N.A. the sum of ten dollars ($10.00).

t. Class 6 (General Unsecured Claims)

Class 6 consists of all General Unsecured Claims. Class 6 is Impaired under the Plan.

Holders of Allowed Class 6 Claims will receive a Pro Rata Distribution from the General Unsecured Claims Pool on the GUC Payment Date.

Notwithstanding the foregoing, on the Effective Date, (i) JPMS will waive and release any and all rights to receive any Distribution under the Plan on account of the JPMorgan Asserted Recourse Indemnification Claims; (ii) the Sewer Warrant Insurers will waive and release any all rights to receive any Distribution under the Plan on account of their respective Asserted Full Recourse Sewer Claims; and (iii) no Distribution will be made under the Plan on account of the Sewer Warrant Trustee's Asserted Recourse Claim. For the avoidance of doubt, no Asserted Full Recourse Sewer Claims shall be allowed under the Plan, and the County reserves all its rights to dispute any Asserted Full Recourse Sewer Claims that are not waived and released under the Plan (including with respect to the allowance, amount, and priority of any such Claims) after the Effective Date.

u. Class 7 (Bessemer Lease Claims)

Class 7 consists of all Bessemer Lease Claims. Class 7 is Impaired under the Plan.

All Claims in Class 7 will be Allowed on the Effective Date. In full, final, and complete settlement, satisfaction, release, and exchange of the Bessemer Lease Claims, the County shall recognize and perform all of its obligations under the Bessemer Stipulation, including with respect to the New Bessemer Lease. The holders of Class 7 Claims will not receive any additional or other Distributions under the Plan beyond those that such holders receive as a result of the County's performance under the Bessemer Stipulation.

v. Class 8 (Other Unimpaired Claims)

Class 8 consists of all Consent Decree Claims, Deposit Refund Claims, Employee Compensation Claims, OPEB Plan Claims, Pass-Through Obligation Claims, Retirement System Claims, Tax Abatement Agreement Claims, and Workers Compensation Claims. Class 8 is not Impaired under the Plan.

Notwithstanding any other term or provision of the Plan, the legal, equitable, and contractual rights of the holders of Class 8 Claims are unaltered by the Plan, and the Plan leaves unaltered the legal, equitable, and contract rights of all Persons with respect to the Other Unimpaired Claims. Without limitation, the County retains all Causes of Action, defenses, deductions, assessments, setoffs, recoupment, and other rights under applicable nonbankruptcy law with respect to any Other Unimpaired Claims.

w. Class 9 (Subordinated Claims)

Class 9 consists of all Subordinated Claims. Class 9 is Impaired under the Plan.

The holders of Subordinated Claims shall neither receive any Distributions nor retain any property under the Plan on account of such Claims. Because no Distributions will be made to holders of Class 9 Claims nor will such holders retain any property on account of such Claims, Class 9 is deemed to have rejected the Plan pursuant to Bankruptcy Code section 1126(g), and therefore holders of Claims in Class 9 are not entitled to vote to accept or reject the Plan on account of such Claims.

B. Treatment of Executory Contracts and Unexpired Leases

1. Assumption of Certain Executory Contracts and Unexpired Leases

a. Assumption of Agreements

On the Effective Date the County shall assume all executory contracts and unexpired leases that are listed on the Schedule of Assumed Agreements.

The County reserves the right to amend the Schedule of Assumed Agreements at any time prior to the Effective Date (i) to delete any executory contract or unexpired lease and provide for its

rejection under the Plan or otherwise, or (ii) to add any executory contract or unexpired lease and provide for its assumption under the Plan. The County will provide notice of any amendment to the Schedule of Assumed Agreements to the party or parties to those agreements affected by the amendment.

Unless otherwise specified on the Schedule of Assumed Agreements, each executory contract and unexpired lease listed or to be listed therein shall include any and all modifications, amendments, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such executory contract or unexpired lease, without regard to whether such agreement, instrument, or other document is also listed on the Schedule of Assumed Agreements.

The Confirmation Order will constitute a Bankruptcy Court order approving the assumption, on the Effective Date, of all executory contracts and unexpired leases identified on the Schedule of Assumed Agreements.

b. Cure Payments

Any amount that must be paid under Bankruptcy Code section 365(b)(1) to cure a default under and compensate the non-debtor party to an executory contract or unexpired lease to be assumed under the Plan is identified as the "Cure Payment" on the Schedule of Assumed Agreements. Unless the parties mutually agree to a different date, such payment shall be made in Cash, within ten (10) Business Days following the later of: (i) the Effective Date and (ii) entry of a Final Order resolving any disputes regarding (A) the amount of any Cure Payment, (B) the ability of the County to provide "adequate assurance of future performance" within the meaning of Bankruptcy Code section 365 with respect to a contract or lease to be assumed, to the extent required, or (C) any other matter pertaining to assumption.

Pending the Bankruptcy Court's ruling on any such dispute, the executory contract or unexpired lease at issue shall be deemed assumed by the County unless otherwise agreed by the parties or ordered by the Bankruptcy Court.

c. Objections to Assumption/Cure Payment Amounts

Any Person that is a party to an executory contract or unexpired lease that will be assumed under the Plan and that objects to such assumption (including the proposed Cure Payment) must File with the Bankruptcy Court and serve upon parties entitled to notice a written statement and supporting declaration stating the basis for its objection. This statement and declaration must be Filed and served on the County on or before **October 21, 2013**. Any Person that fails to timely File and serve such a statement and declaration shall be deemed to waive any and all objections to the proposed assumption (including the proposed Cure Payment) of its contract or lease.

In the absence of a timely objection by a Person that is a party to an executory contract or unexpired lease, the Confirmation Order shall constitute a conclusive determination regarding the amount of any cure and compensation due under the applicable executory contract or unexpired

lease, as well as a conclusive finding that the County has demonstrated adequate assurance of future performance with respect to such executory contract or unexpired lease, to the extent required.

d. Resolution of Claims Relating to Assumed Contracts and Leases

Payment of the Cure Payment established under the Plan, by the Confirmation Order, or by any other order of the Bankruptcy Court, with respect to an assumed executory contract or unexpired lease, shall be deemed to satisfy, in full, any prepetition or postpetition arrearage or other Claim (including any Claim asserted in a Filed proof of Claim or listed on the List of Creditors) with respect to such contract or lease (irrespective of whether the Cure Payment is less than the amount set forth in such proof of Claim or the List of Creditors). Upon the tendering of the Cure Payment, any such Filed or scheduled Claim shall be disallowed with prejudice, without further order of the Bankruptcy Court or action by any Person.

2. Rejection of Executory Contracts and Unexpired Leases

a. Rejected Agreements

On the Effective Date all executory contracts and unexpired leases that the County entered into on or before the Petition Date that (i) have not been previously assumed or rejected by the County and (ii) are not set forth on the Schedule of Assumed Agreements shall be rejected. For the avoidance of doubt, executory contracts and unexpired leases that have been previously assumed or assumed and assigned pursuant to an order of the Bankruptcy Court shall not be affected by the Plan. The Confirmation Order will constitute a Bankruptcy Court order approving the rejection, on the Effective Date, of the executory contracts and unexpired leases to be rejected under the Plan.

b. Rejection Bar Date

Any Rejection Damage Claim or other Claim for damages arising from the rejection under the Plan of an executory contract or unexpired lease must be Filed and served on the County by the Rejection Bar Date. Any such Claims that are not timely Filed and served will be forever barred and unenforceable against the County and its property, and Persons holding such Claims will not receive and be barred from receiving any Distributions on account of such untimely Claims.

3. Postpetition Contracts and Leases

Except as expressly provided in the Plan or the Confirmation Order, all executory contracts and unexpired leases that the County has entered into after the Petition Date with due authorization of the County Commission will be assumed and retained by the County and will remain in full force and effect from and after the Effective Date.

C. Means of Execution and Implementation of the Plan

1. Consent Under Bankruptcy Code Section 904.

Pursuant to and for purposes of Bankruptcy Code section 904, the County consents to entry of the Confirmation Order on the terms and conditions set forth in the Plan and to entry of any

further orders as necessary or required to implement the provisions of the Plan or any and all related transactions.

2. Continued Governance of the County and the Sewer System

From and after the Effective Date, the County Commission shall continue to govern the County and shall continue to administer, control, manage, and operate the property and enterprises of the County (including the Sewer System) in accordance with the Plan, the County's constituent documents, any applicable indentures or other governing contracts, the Alabama Constitution, applicable statutes of the State of Alabama, the EPA Consent Decree, the Personnel Board Consent Decree, and other applicable laws.

3. Application of the Approved Rate Structure

From and after the Effective Date, the Confirmation Order shall constitute a conclusive finding and determination that the Approved Rate Structure complies with the requirements of Bankruptcy Code sections 943(b)(6) and 1129(a)(6) and applicable state law, and is appropriate, reasonable, non-discriminatory, and legally binding on and specifically enforceable against the County in accordance with the Plan and under all applicable state and federal laws. From and after the Effective Date, the County Commission shall adopt and maintain the Approved Rate Structure in accordance with the Rate Resolution and as necessary for the County to satisfy the obligations arising under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System), including increases in sewer rates to the extent necessary to allow the timely satisfaction of the County's obligations under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System).

4. Retention of Assets Generally

Except as otherwise expressly provided in the Plan, all assets and properties of the County shall be retained by the County on the Effective Date, free and clear of all Claims, liens, encumbrances, charges, and interests. From and after the Effective Date, the County may conduct its affairs and use, acquire, and dispose of any assets or property without supervision by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules and in all respects as if there were no pending case under any chapter or provision of the Bankruptcy Code, other than those restrictions expressly imposed by the Plan and the Confirmation Order.

5. Certain Transactions on the Effective Date

(a) On the Effective Date the County shall issue the New Sewer Warrants under the New Sewer Warrant Indenture. The gross proceeds generated by the issuance of the New Sewer Warrants shall first be utilized to pay the Put Consideration.

(b) On the Effective Date the County shall issue and deliver the Replacement 2001-B GO Warrants under in the Amended and Restated GO Warrant Indenture, along with the initial payments

required on the Effective Date pursuant to the Replacement 2001-B GO Warrants and Section 2.3(o) of the Plan.

(c) On or before the Effective Date, the County shall enter into the Tail Risk Payment Agreements with each Sewer Warrant Insurer and on the Effective Date pay or fund in full an amount equal to each Sewer Warrant Insurer's respective Covered Tail Risk.

(d) Only if the County and the School Warrant Trustee agree that such a supplemental indenture is necessary and appropriate and agree on the form and substance of such supplemental indenture prior to the deadline for filing the Plan Supplement, on the Effective Date the County shall execute the School Warrant Second Supplemental Indenture.

6. Disposition of the Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, and Refinancing Proceeds

(a) As a proposed settlement incorporated into the Plan pursuant to Bankruptcy Rule 9019 of any and all Causes of Action and matters raised in or that could have been raised in the Declaratory Judgment Action, and any Causes of Action related to the reapplication to principal of any interest payments made on the Sewer Warrants during the Case or any Causes of Action related to the reallocation of any payments made on the Sewer Warrants both before and during the Case among the holders of various series and subseries of Sewer Warrants, (i) on the Effective Date, Cash in amounts equal to the Reinstated Sewer Warrant Principal Payments (without giving effect to any acceleration or any accelerated redemption schedule), the Reinstated Sewer Warrant Interest Payments, and the Sewer Warrant Insurers Outlay Amount shall be distributed by the Sewer Warrant Trustee to the applicable parties from the Accumulated Sewer Revenues, including with respect to the Sewer Warrants held by the Sewer Plan Support Parties; (ii) for purposes of Distributions under the Plan, no payments made during the Case (other than amounts used to repay Sewer Warrants at maturity or to redeem Sewer Warrants prior to maturity, including, as applicable, making regularly scheduled principal payments on the Sewer Warrants and the Reinstated Sewer Warrant Principal Payments) shall be applied or recharacterized to reduce principal; and (iii) no Distributions shall be made on account of postpetition interest accrued on any Sewer Warrants in excess of pre-default rates or, with respect to Bank Warrants, the Sewer Bank Rate.

(b) On the Effective Date the Sewer Warrant Trustee shall apply any Sewer Warrant Indenture Funds in the Sewer Warrant Trustee's possession to satisfy the Sewer Warrant Trustee Fee Claims to the extent unpaid but permitted to be paid under the Sewer Warrant Indenture and to reserve an amount equal to the Sewer Warrant Trustee Residual Fee Estimate. Any such application and reserve by the Sewer Warrant Trustee shall fully, finally, and completely satisfy, discharge, and release all Sewer Warrant Trustee Fee Claims. If and only if there is an Unused Covered Tail Risk Amount, the Sewer Warrant Trustee shall apply any Sewer Warrant Indenture Funds in the Sewer Warrant Trustee's possession to establish a reserve for Sewer Wrap Payment Rights Administration Expenses to the extent and in the amount of the Unused Covered Tail Risk Amount, which the Sewer Warrant Trustee may thereafter invest in an interest-bearing account and utilize to satisfy Sewer Wrap Payment Rights Administration Expenses as such expenses become due. The County shall have no obligation to pay, fund (including from Accumulated Sewer Revenues, Sewer Warrant Indenture Funds, or Refinancing Proceeds), or otherwise provide for any Sewer Wrap Payment

Rights Administration Expenses beyond the Unused Covered Tail Risk Amount and such interest as may be obtained through the Sewer Warrant Trustee's investment of the reserve established with the Unused Covered Tail Risk Amount. If the Unused Covered Tail Risk Amount is less than the Sewer Wrap Payment Rights Administration Expenses and if any applicable Sewer Warrant Insurers will not provide a source of payment for the Sewer Wrap Payment Rights Administration Expenses in excess of the Unused Covered Tail Risk Amount on terms acceptable to the Sewer Warrant Trustee, then the Sewer Warrant Trustee shall have no obligation or responsibility to perform any action that would give rise to Sewer Wrap Payment Rights Administration Expenses.

(c) On the Effective Date, the Sewer Warrant Trustee or the County, as the case may be, shall apply the following funds in the following order for purposes of making the Distributions provided under the Plan for holders of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D:

(1) first, all Sewer Warrant Indenture Funds remaining after giving effect to the application permitted or required by Section 4.6(b) of the Plan,

(2) second, all Remaining Accumulated Sewer Revenues, and

(3) third, Refinancing Proceeds.

(d) On the Effective Date, all Refinancing Proceeds remaining after giving effect to the usage permitted or required by Section 4.6(c) of the Plan shall be applied in accordance with the New Sewer Warrant Indenture.

7. Commutation Election Protocols and Effect on the Sewer Insurance Policies

a. Presumptions Regarding the Commutation Election

All holders of Claims in Class 1-A and Class 1-B that (i) do not return any Ballot by the Ballot Deadline, (ii) return a Ballot by the Ballot Deadline but do not make any election with respect to the Commutation Election, or (iii) return a Ballot by the Ballot Deadline and indicate both an election to make and an election not to make the Commutation Election, will be conclusively deemed to have made the Commutation Election; *provided, however*, that (x) any holders of the Series 2003-B-8 Sewer Warrants that either do not return a Ballot, do not indicate an election on any Ballot that is returned by the Ballot Deadline, or return a Ballot by the Ballot Deadline and indicate both an election to make and an election not to make the Commutation Election will be conclusively deemed not to have made the Commutation Election, and (y) any holders of the Series 2003-C-9 Through C-10 Sewer Warrants that are deemed to make the Commutation Election will be sent a notice pursuant to the Plan Procedures Order under which such holders will have an opportunity to rescind the deemed Commutation Election and, upon such rescission, shall be deemed not to have made the Commutation Election for all purposes under the Plan and shall have their Series 2003-C-9 Through C-10 Sewer Claims be treated in accordance with Option 2 of Section 2.3(a).

b. Plan's Effect on the Sewer Insurance Policies

As a result of the satisfaction and discharge of all Sewer Debt Claims and the cancellation of the Sewer Warrants and the Sewer Warrant Indenture under the Plan, on the Effective Date (i) the Sewer DSRF Policies and the Sewer DSRF Reimbursement Agreements will be cancelled and of no further force or effect; (ii) the Sewer Warrant Trustee will close the "Jefferson County Sewer System Debt Service Reserve Fund" under the Sewer Warrant Indenture and return any surety bonds or other documentation evidencing the Sewer DSRF Policies to the applicable Sewer Warrant Insurer; and (iii) the Sewer Wrap Policies will be cancelled and of no further force or effect except with respect to any Sewer Wrap Payment Rights, and such Sewer Wrap Policies (in the case of FGIC, as modified by any plan of rehabilitation) shall remain in full force and effect with respect to such Sewer Wrap Payment Rights.

8. Compromise and Settlement of All Sewer Debt-Related Issues

(a) Pursuant to Bankruptcy Code sections 1123(a)(5), 1123(b)(3), and 1123(b)(6), as well as Bankruptcy Rule 9019, in consideration of the settlement and release of all Sewer Released Claims and the treatment and consideration provided under the Plan for Allowed Class 1-A, Class 1-B, Class 1-C, and Class 1-D Claims, the Plan incorporates and is expressly conditioned upon the approval and effectiveness of a comprehensive compromise and settlement by and among the County and the Sewer Plan Support Parties of numerous issues and disputes related to the Sewer System, the Sewer Released Claims, and the allowance and treatment of the Sewer Debt Claims. As of the Effective Date, the Plan accordingly represents a full, final, and complete compromise, settlement, release, and resolution of, among other matters, disputes and pending or potential litigation (including any appeals) regarding the following: (i) the allowability, amount, priority, and treatment of the Sewer Debt Claims; (ii) the validity or enforceability of the Sewer Warrants; (iii) the valuation of the Sewer System and of the stream of net sewer revenues pledged under the Sewer Warrant Indenture; (iv) the appropriate rates that have been or can be charged to users of the Sewer System; (v) any Causes of Action or Avoidance Actions that the County has asserted or could potentially assert against the JPMorgan Parties or against other of the Sewer Plan Support Parties, including any subordination claims (including equitable subordination claims and statutory subordination claims) relating to any Sewer Debt Claims held by any of the Sewer Plan Support Parties; (vi) the Sewer Released Claims that (A) some of the Sewer Plan Support Parties have asserted or (B) the Sewer Plan Support Parties could potentially assert against other Sewer Plan Support Parties, including, in each case, any subordination claims (including equitable subordination claims and statutory subordination claims) relating to any Sewer Debt Claims held by any of the Sewer Plan Support Parties; (vii) how the Sewer Warrant Trustee has applied revenues of the Sewer System to payment of certain Sewer Debt Claims both before and during the Case, including any Causes of Action related to the reapplication to principal of any interest payments made on the Sewer Warrants during the Case or reallocation of any payments made on the Sewer Warrants both before and during the Case among the holders of various series and subseries of Sewer Warrants; (viii) the various issues raised by the Declaratory Judgment Action; (ix) the scope and extent of any liens or other property rights under the Sewer Warrant Indenture; (x) the allowance and amount of any Bank Warrant Default Interest Claims; (xi) the various issues raised by the Receivership Actions; and (xii) other historical and potential issues associated with the Sewer System and its financing.

(b) This comprehensive compromise and settlement will be binding on the County, on all Persons who have asserted or could assert any potential Causes of Action or Avoidance Actions for or on behalf of the County in any fashion, including derivatively or directly, and on all Creditors concerning the Sewer Released Claims compromised and settled under the Plan (including as described in Section 4.8(a) of the Plan) in any pending or potential litigation (including any appeals) before any court or agency. This comprehensive compromise and settlement is a critical component of the Plan and is designed to provide a resolution of disputed Sewer Released Claims inextricably bound with the Plan. As such, the approval and consummation of the Plan will conclusively bind all Creditors and other parties in interest, and the releases and settlements effected under the Plan will be operative as of the Effective Date and subject to enforcement by the Bankruptcy Court from and after the Effective Date, including pursuant to the injunctive provisions of Sections 6.2 and 6.3 of the Plan.

(c) In order to give effect to this comprehensive compromise and settlement, (i) any adversary proceedings or contested matters involving Sewer Released Claims shall be dismissed effective as of the Effective Date; and (ii) in connection with the occurrence of the Effective Date, each of the County, the Sewer Plan Support Parties, and the Sewer Warrant Trustee (as applicable) shall file in other appropriate courts stipulations of dismissal among the applicable parties or motions to dismiss any pending litigation (including any appeals) commenced by the County, any of the Sewer Plan Support Parties, or the Sewer Warrant Trustee against the County or any of the Sewer Plan Support Parties with prejudice, with such dismissals to be effective on and contingent upon the occurrence of the Effective Date.

9. JPMorgan Reallocation of Distributions and Consideration Provided by the Sewer Warrant Insurers

a. The Sewer Warrant Claims and Bank Warrant Claims held by the JPMorgan Parties shall be Allowed on the Effective Date in an aggregate amount equal to (i) the Adjusted Sewer Warrant Principal Amount of all Sewer Warrants held by the JPMorgan Parties and (ii) the amount of any Reinstated Sewer Warrant Principal Payments or Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) of the Plan with respect to such Sewer Warrants, and shall be classified in Class 1-A and Class 1-B, respectively. Notwithstanding the general treatment afforded to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, as part of the global settlement among the County, the JPMorgan Parties, and the other Sewer Plan Support Parties to be implemented pursuant to the Plan pursuant to Bankruptcy Code sections 1123(a)(5), 1123(b)(3), and 1123(b)(6), as well as Bankruptcy Rule 9019, and in consideration of the settlement and release of all Sewer Released Claims against the JPMorgan Parties as provided in the Plan, the JPMorgan Parties have agreed, subject to the terms and conditions set forth in the Plan, to make the Commutation Election with respect to all Sewer Warrants held by the JPMorgan Parties (but without receiving the higher recovery being made available to all other holders of Sewer Warrants that make or are deemed to make the Commutation Election) and to reallocate to the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims a substantial portion of the JPMorgan Parties' Pro Rata share of the Distribution made to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, thereby increasing the recovery received by all other holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims and reducing the amount of Sewer System indebtedness following the County's emergence from chapter 9. As a result of such reallocation by

the JPMorgan Parties and the contributions by the Sewer Warrant Insurers detailed below, each holder of an Allowed Class 1-A Claim or an Allowed Class 1-B Claim (other than the JPMorgan Parties) will receive, in full settlement, satisfaction, release, and exchange of such holder's Claims, a Distribution of Cash from Refinancing Proceeds and other sources of Cash in one of the two amounts specified in Option 1 and Option 2 of Sections 2.3(a) and 2.3(b) of the Plan. Such Distribution is higher than such holders' Pro Rata share of the Distribution made to all holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims as a result of (i) the reallocation of Plan consideration from the JPMorgan Parties to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims; and (ii) the consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims. The sources of the incremental recovery to those holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims that make the Commutation Election will be from (i) the reallocation of Plan consideration that otherwise would have been distributed to the JPMorgan Parties; and (ii) consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims that make the Commutation Election on account of such Claims. The source of the Non-Commutation True-Up Amount and the Covered Tail Risk to be paid to the Sewer Warrant Insurers pursuant to Section 2.3(c) of the Plan shall also be from the reallocation of Plan consideration that otherwise would have been distributed to the JPMorgan Parties.

b. Based upon the agreements of the Supporting Sewer Warrantholders set forth in Section 5 of the Supporting Sewer Warrantholder Plan Support Agreement, which agreement was reached in order to facilitate the various settlements to be implemented pursuant to the Plan and the occurrence of the Effective Date, the JPMorgan Parties have agreed, subject to the terms and conditions set forth in the Plan and in the Supporting Sewer Warrantholder Plan Support Agreement, to reallocate and distribute to each Supporting Sewer Warrantholder a portion of the JPMorgan Parties' Cash recovery under the Plan after giving effect to the reallocations described in Section 4.9(a) of the Plan in an amount (such amount so reallocated and distributed, the "Supporting Sewer Warrantholder Directed Distribution") equal to (i) the principal amount of Eligible Sewer Warrants held by such Supporting Sewer Warrantholder as of the Distribution Record Date, multiplied by (ii) 3.46%; *provided, however,* that the total amount of Eligible Sewer Warrants shall not exceed the total set forth on Schedule 1 of the Supporting Sewer Warrantholder Plan Support Agreement on the date of execution thereof, and the aggregate amount of the Supporting Sewer Warrantholder Directed Distribution shall not exceed the product of the total set forth on Schedule 1 of the Supporting Sewer Warrantholder Plan Support Agreement multiplied by 3.46%. Subject to the

terms and conditions set forth in the Plan and in the Supporting Sewer Warrantholder Plan Support Agreement, on or before the Effective Date, the JPMorgan Parties shall provide irrevocable directions to the County and the Sewer Warrant Trustee to reallocate and Distribute to each Supporting Sewer Warrantholder, instead of to the JPMorgan Parties, such Supporting Sewer Warrantholder's Pro Rata share of the Supporting Sewer Warrantholder Directed Distribution.

c. Accordingly, after giving effect to the reallocations described in Section 4.9(a) of the Plan and the Supporting Sewer Warrantholder Directed Distribution, the JPMorgan Parties shall receive, on the Effective Date, Cash in the amount of approximately 31% (approximately $375 million) of the Adjusted Sewer Warrant Principal Amount of Sewer Warrants held by the JPMorgan Parties (approximately $1.218 billion) plus a Distribution of Cash on account of any applicable Reinstated Sewer Warrant Interest Payments in accordance with Section 4.6(a) of the Plan in full, final, and complete settlement, satisfaction, release, and discharge of all Sewer Debt Claims and Sewer Released Claims held by the JPMorgan Parties. After giving effect to the concessions by the JPMorgan Parties and the Sewer Warrant Insurers described above and the settlements and releases to be implemented pursuant to the Plan, the Sewer Debt Claims held by the JPMorgan Parties and the Sewer Warrant Insurers shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

10. Cancellation of Warrants and Other Documents

a. On the Effective Date, except to the extent otherwise expressly provided in the Plan, all agreements, certificates, indentures, instruments, notes, resolutions, warrants, and other documents evidencing indebtedness of the County, and all liens, mortgages, pledges, grants, trusts, and other interests relating thereto, shall be automatically cancelled, and all obligations of the County thereunder or in any way related thereto shall be discharged. Without limitation and in addition to the provisions of Section 4.7(b) of the Plan, on the Effective Date (i) the Sewer Warrants will be discharged and cancelled, provided that such discharge and cancellation shall not modify, prejudice, or give rise to any defenses in favor of any applicable Sewer Warrant Insurer with respect to any Sewer Wrap Payment Rights; (ii) the Sewer Warrant Indenture will be cancelled and of no further force or effect other than for purposes of allowing the Sewer Warrant Trustee to calculate and make Distributions in accordance with the Plan, to seek and obtain dismissals of the Receivership Actions and other applicable pending litigation, and, if applicable, to pursue and administer the Sewer Wrap Payment Rights after the Effective Date (which, for the avoidance of doubt, will impose no cost or expense on the County beyond any Unused Covered Tail Risk Amount); (iii) the Sewer Swap Agreements will be cancelled and of no further force or effect; (iv) the Standby Sewer Warrant Purchase Agreements will be cancelled and of no further force or effect; (v) the Standby GO Warrant Purchase Agreement will be cancelled and of no further force or effect; (vi) the GO Warrant Indenture will be superseded in all respects by the Amended and Restated GO Warrant Indenture; (vii) the Series 2001-B GO Warrants will be cancelled and superseded in all respects by the Replacement 2001-B GO Warrants; and (viii) the GO Swap Agreement will be cancelled and of no further force or effect. From and after the Effective Date, all Plan Support Agreements will be terminated and superseded in all respects by the Plan, except with respect to any provisions that specifically survive termination of the Plan Support Agreements in accordance with their respective terms.

b. For the avoidance of doubt, the Plan will not cancel or otherwise alter any of the following documents or instruments except to the extent otherwise expressly provided in the Plan: (i) the Board of Education Lease Indenture, (ii) the Board of Education Lease Policy, (iii) the Board of Education Lease Warrants, (iv) the GO Insurance Policies, (v) the GO Resolutions, (vi) the New Bessemer Lease, (vii) the School Insurance Policies, (viii) the School Warrant Indenture, (ix) the School Warrants, (x) the Series 2003-A GO Warrants, (xi) the Series 2004-A GO Warrants, and (xii) the Standby School Warrant Purchase Agreement.

11. Termination of Receiver and Dismissal of Receivership Actions

As a result of the satisfaction and discharge of all Sewer Debt Claims, as well as the cancellation of the Sewer Warrants, the Sewer Warrant Indenture, and the Sewer Insurance Policies (as applicable) under the Plan, from and after the Effective Date, the Receiver's status as receiver of the Sewer System will be terminated and of no further force or effect. On or as soon as reasonably practicable after the Effective Date, the Sewer Warrant Trustee shall pay all of the Receiver's unpaid reasonable fees (including fees of its counsel and experts) and expenses from the Sewer Warrant Indenture Funds and shall dismiss (or obtain any court orders as are necessary to dismiss) each of the Receivership Actions in their entirety and with prejudice.

12. Vesting of Preserved Claims

All Preserved Claims shall be preserved and shall vest in the County on the Effective Date, but only to the extent not expressly released pursuant to the Plan, the Confirmation Order, or any other order of the Bankruptcy Court. From and after the Effective Date, the County shall retain its exclusive right, power, and duty to administer the collection, prosecution, enforcement, settlement, or abandonment of the Preserved Claims in the County's sole and absolute discretion.

13. Exemption From Securities Law

a. The issuance of the Replacement 2001-B GO Warrants and the New Sewer Warrants are exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), and all rules and regulations promulgated thereunder. In general, securities issued by the County, such as general obligation warrants and sewer revenue warrants, are exempt from registration under section 3(a)(2) of the 1933 Act. Obligations issued by the County likewise are exempt from registration under current Alabama securities law. These exemptions from registration apply to the New Sewer Warrants and the Replacement 2001-B GO Warrants.

b. The New Sewer Warrants will be publically offered. Therefore, the County intends to rely on generally applicable securities law exemptions for the offering and sale of the New Sewer Warrants, provided that the County does not expect to offer the New Sewer Warrants in states in which registration of County securities may be required by applicable state securities law, unless first registered or otherwise qualified for sale in such jurisdiction. The Replacement 2001-B GO Warrants will not be publically offered but instead will be issued to the GO Banks pursuant to the Plan. The Replacement 2001-B GO Warrants and the New Sewer Warrants issued in exchange for Sewer Warrants under the Put Agreement will also be exempt from registration under federal or state securities law to the maximum extent provided under Bankruptcy Code section 1145.

c. Like the exemption from registration provided the County under section 3(a)(2) of the 1933 Act, generally applicable securities laws provide an exemption from qualification for certain trust indentures entered into by government entities. The New Sewer Warrant Indenture and the Amended and Restated GO Indenture are each exempt from qualification under section 304(a)(4) of the Trust Indenture Act of 1939.

d. Nothing in the Plan is intended to preclude the Securities and Exchange Commission from performing its statutory duties regarding any Person in any forum with proper jurisdiction.

14. Objections to Claims

a. County's Exclusive Right to Object

The County shall have the right to object to the allowance of Claims as to which liability, amount, priority, classification, or status as secured or unsecured is disputed in whole or in part (except to the extent such Claims have been previously Allowed or are Allowed as set forth in the Plan). Except as otherwise provided in the Plan, the County's rights to object to, oppose, and defend against all Claims on any basis are fully preserved. Unless otherwise ordered by the Bankruptcy Court, the County shall file and serve any such objections on or before the Claims Objection Deadline. After the Effective Date, the County shall have the sole right and authority to control and effectuate the Claims reconciliation process, including to File, settle, compromise, withdraw, or litigate to judgment objections to Claims.

b. Distributions Following Allowance

At such time as a Contingent Claim, a Disputed Claim, or an Unliquidated Claim becomes an Allowed Claim, in whole or in part, including pursuant to the Plan, the County or its agent shall distribute to the holder thereof the Distributions, if any, to which such holder is then entitled under the Plan. Such Distributions, if any, shall be made as soon as practicable after the date on which the order or judgment allowing such Claim becomes a Final Order (or such other date on which the Claim becomes an Allowed Claim, including pursuant to the Plan). Unless otherwise specifically provided in the Plan or allowed by a Final Order of the Bankruptcy Court, no interest shall be paid on Contingent Claims, Disputed Claims, or Unliquidated Claims that later become Allowed Claims.

15. Distributions Under the Plan

Unless otherwise provided in the Plan, the following procedures apply to Distributions.

a. Responsibility for Making Distributions

The County or its designated agents, including the Indenture Trustees and the GO Paying Agents under Section 4.15(e)(iv) of the Plan, shall be responsible for distributing all Distributions made to them for the benefit of the holders of the respective underlying warrants as required under the Plan and, unless otherwise specified in the Plan, pursuant to the applicable operative documents. To the extent applicable, the County or its designated agents shall comply with all tax withholding

and reporting requirements imposed on them by any governmental unit with respect to such Distributions, and all Distributions shall be subject to such withholding and reporting requirements.

b. No *De Minimis* Distributions

Notwithstanding anything to the contrary in the Plan, with the exception of Distributions on account of Class 1-D Claims and Class 5-E Claims, no Cash payment of less than fifty dollars ($50.00) will be made to any Person; *provided, however*, that solely with respect to Distributions from the General Unsecured Claims Pool, if the right to payment of a holder of Allowed Class 6 Claims does not exceed fifty dollars ($50.00) on the GUC Payment Date, then such holder will receive a Cash payment in an amount equal to such holder's entitlement. No consideration will be provided in lieu of the *de minimis* Distributions that are not made pursuant to Section 4.15(b) of the Plan, and the County shall be authorized and empowered to retain such *de minimis* amounts for its own benefit.

c. No Distributions With Respect to Certain Claims

Notwithstanding anything to the contrary in the Plan, no Distributions or other consideration of any kind shall be made on account of any Contingent Claim, Disputed Claim, or Unliquidated Claim unless and until such Claim becomes an Allowed Claim, or is deemed to be such for purposes of distribution, and then only to the extent that such Claim becomes, or is deemed to be for distribution purposes, an Allowed Claim.

d. Distributions to Holders as of the Distribution Record Date

i. **General Principles**

At the close of business on the Distribution Record Date, the claims register shall be closed, and there shall be no further changes in the record holder of any Claim. The County or any other Person responsible for making Distributions shall have no obligation to recognize any transfer of any Claim occurring or purportedly occurring after the Distribution Record Date, and shall instead be authorized and entitled to recognize and deal for all purposes under the Plan with only those record holders stated on the claims register as of the close of business on the Distribution Record Date.

ii. **Specific Exceptions**

The general principles set forth in Section 4.15(d)(i) of the Plan will not apply to Claims arising from the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants (other than any GO Policy Claims), or the Series 2004-A GO Warrants (other than any GO Policy Claims). Subject in all cases to the treatment provided under the Plan, nothing in the Plan will limit the rights of a holder of the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants, or the Series 2004-A GO Warrants to assign, sell, pledge, hypothecate, or otherwise transfer its warrants to the extent permitted by such warrants, any other applicable operative agreements, and applicable nonbankruptcy law. Subject to the terms of the applicable operative agreements and any requirements under applicable nonbankruptcy law, the County and any applicable Indenture Trustee or GO Paying Agent shall recognize and give effect to assignments,

sales, pledges, hypothecations, or other transfers of the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants, or the Series 2004-A GO Warrants regardless whether such assignments, sales, pledges, hypothecations, or other transfers were made or settled before, on, or after the Distribution Record Date.

e. Delivery of Distributions; Undeliverable/Unclaimed Distributions

i. Delivery of Distributions in General

The County or its designated agents shall make Distributions to each holder of an Allowed Claim as follows: (A) by mail at the address set forth on the proof of Claim Filed by such holder in respect of such Allowed Claim, unless such holder has provided written notice of address change to the County; (B) by mail at the address set forth in any written notice of address change delivered to the County after the date of any related proof of Claim; (C) by mail at the address reflected in the List of Creditors if no proof of Claim is filed and the County has not received a written notice of a change of address; or (D) through the facilities of DTC for the benefit of the holders of Allowed Sewer Debt Claims. Notwithstanding the foregoing, the County shall make Distributions on account of Allowed Class 1-C Claims directly to holders of Class 1-C Claims pursuant to directions provided to the County by the Sewer Warrant Insurers, and the County and Sewer Warrant Insurers shall provide such information as is necessary in order to prevent the Sewer Warrant Trustee or DTC from making any additional or other Distributions on account of any Allowed Class 1-C Claims.

ii. Undeliverable and Unclaimed Distributions

If the County tenders an Undeliverable Distribution, the issuing entity may cancel the distribution check and need not re-attempt delivery, unless the County timely receives notification of the holder's new address before the deadlines described below. If the County tenders an Unclaimed Distribution, the issuer may cancel the distribution check, and need not attempt redelivery, except as otherwise provided in the Plan.

The County shall reserve the funds with respect to all Undeliverable Distributions and Unclaimed Distributions for one (1) year following the Effective Date. If the County does not receive prior to that date a written request from the holder of the applicable Allowed Claim asserting entitlement to an Undeliverable Distribution or Unclaimed Distribution and providing a current address, then the County shall be authorized and empowered to retain such funds for its own benefit.

Any holder of an Allowed Claim that does not assert in writing its entitlement to an Undeliverable Distribution or Unclaimed Distribution, by the applicable dates set forth in the foregoing paragraphs, shall no longer have any interest in or be entitled to such undelivered or unclaimed Distribution and shall be barred forever from receiving any Distributions under the Plan, or from asserting a Claim against the County or its property, and the right to such undeliverable or unclaimed Distribution will be discharged.

For the avoidance of doubt, the foregoing provisions regarding Undeliverable Distributions or Unclaimed Distributions will not apply to Distributions made on account of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D.

Nothing contained in the Plan shall require the County or its designated agents to attempt to locate any holder of an Allowed Claim.

iii. Estimation of Certain Claims for Distribution Purposes

The County may move for a Bankruptcy Court order estimating any Contingent Claim, Disputed Claim, or Unliquidated Claim. The estimated amount of any Claim so determined by the Bankruptcy Court shall constitute the maximum recovery that the holder thereof may recover after the ultimate liquidation of its Claim, irrespective of the actual amount that is ultimately Allowed.

iv. Certain Distributions to be Made to the Indenture Trustees or the GO Paying Agents

(A) Sewer Warrant Trustee

All Distributions to be made to or for the benefit of individual holders of Sewer Warrant Claims, Bank Warrant Claims, and Primary Standby Sewer Warrant Claims shall be made by the County in aggregate, lump-sum payments to the Sewer Warrant Trustee, and will in turn be distributed by the Sewer Warrant Trustee in accordance with the Plan and the applicable operative agreements and without any deduction or reduction on account of any unpaid expenses, fees, indemnities, or other amounts (all of which will be deemed satisfied pursuant to Section 4.6(b) of the Plan).

(B) GO Warrant Trustee

All Distributions to be made to or for the benefit of individual holders of Series 2001-B GO Claims and Standby GO Warrant Claims shall be made by the County in aggregate, lump-sum payments to the GO Warrant Trustee, and will in turn be distributed by the GO Warrant Trustee in accordance with the Plan and the applicable operative agreements and without any deduction or reduction on account of any unpaid expenses, fees, indemnities, or other amounts.

(C) Other Indenture Trustees and Paying Agents

With respect to all preexisting warrants that will remain outstanding under the Plan (i.e., the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants, and the Series 2004-A GO Warrants), the County will make post-Effective Date payments on account of such warrants to the applicable Indenture Trustee or GO Paying Agent, which Indenture Trustee or Paying Agent shall thereafter distribute such payments to holders of such warrants in accordance with the applicable operative agreements.

v. Surrender of Instruments

On the Effective Date, each holder of a certificated instrument, warrant, or note that (A) gives rise to any Sewer Debt Claims or (B) arises from or in connection with the Series 2001-B GO Warrants, the GO Warrant Indenture, the Standby GO Warrant Purchase Agreement, or the GO Swap Agreement shall be deemed to have surrendered such instrument, warrant, or note to the appropriate indenture trustee, paying agent, or designee, and as a result of such deemed surrender,

such instrument, warrant, or note shall be cancelled without the need for any action by such holder. On the Effective Date, each holder of a global certificated instrument, warrant, or note that is held pursuant to the book-entry system operated by DTC and that (X) gives rise to any Sewer Debt Claims or (Y) arises from or in connection with the Series 2001-B GO Warrants, the GO Warrant Indenture, the Standby GO Warrant Purchase Agreement, or the GO Swap Agreement shall be deemed to have surrendered such instrument, warrant, or note to the appropriate indenture trustee, paying agent, or designee in accordance with the Rules and Operational Arrangements of DTC, and as a result of such deemed surrender, such instrument, warrant, or note shall be cancelled without the need for any action by such holder. Upon issuance and delivery of the New Sewer Warrants and completion of Distributions required under the Plan, the Sewer Warrant Trustee shall cancel all outstanding Sewer Warrants on the records of DTC and destroy all associated original physical certificates, provided that such cancellation and destruction shall not modify, prejudice, or give rise to any defenses in favor of any applicable Sewer Warrant Insurer with respect to any Sewer Wrap Payment Rights. Upon issuance and delivery of the Replacement 2001-B GO Warrants, the GO Warrant Trustee shall cancel all outstanding Series 2001-B GO Warrants on the records of DTC and destroy all associated original physical certificates.

f. Full, Final, and Complete Settlement and Satisfaction

The Distributions and other treatment provided under the Plan for each holder of an Allowed Claim shall be in full, final, and complete settlement, satisfaction, discharge, and release of such holder's Claims against the County, against the County's property, or any Claims released under the Plan.

g. Limitations on Distributions Payable to Persons Liable to County

No Distribution will be made on account of any Claim of any Person against which the County has any affirmative Causes of Action (excluding all GO Released Claims and all Sewer Released Claims), and such Person's Claim shall be deemed to be a Disallowed Claim pursuant to the Plan, unless and until such time as all Causes of Action (excluding all GO Released Claims and all Sewer Released Claims) against that Person have been settled or resolved by a Final Order and such Person has paid the entire amount for which such Person is liable to the County.

h. Deemed Acceleration of the Sewer Warrants

For all purposes, including Distributions under the Plan, all series and subseries of the Sewer Warrants shall be deemed accelerated as of the Effective Date, which shall occur immediately before the Distribution of consideration on the Effective Date; *provided, however*, that such acceleration will not be deemed to release any of the Sewer Wrap Policies with respect to Sewer Wrap Payment Rights except as a result of any Sewer Warrant Insurer's payment of the Outstanding Amount on the applicable series or subseries of non-commuted Sewer Warrants as set forth in the last sentence of this paragraph. With respect to any series or subseries of Sewer Warrants as to which the Commutation Election is not made or deemed not to have been made, and solely to the extent that any Sewer Warrant Insurer voluntarily elects (irrespective of the terms of the applicable Sewer Wrap Policy), in its sole and absolute discretion, to pay the Outstanding Amount on such series or subseries of Sewer Warrants, the Sewer Warrant Trustee shall be deemed as of the Effective Date or,

if later, as of the date on which the applicable Sewer Warrant Insurer makes such election as to such series or subseries of Sewer Warrants, to have submitted a draw request under each applicable Sewer Wrap Policy in respect of the Outstanding Amount on such non-commuted series or subseries of Sewer Warrants, and each such Sewer Warrant Insurer shall be entitled (irrespective of the terms of the applicable Sewer Wrap Policy), in its sole and absolute discretion, to treat the Outstanding Amount as "Due for Payment" (as such term is defined in the applicable Sewer Wrap Policy and for purposes of such Sewer Wrap Policy) as of the Effective Date or as of such later date on which the applicable Sewer Warrant Insurer elects to pay such Outstanding Amount. Payment, as provided in the applicable Sewer Wrap Policy, of the Outstanding Amount on any series or subseries of non-commuted Sewer Warrants shall be deemed to fully discharge the applicable Sewer Warrant Insurer's obligations under the applicable Sewer Wrap Policy and to fully release all Sewer Wrap Payment Rights with respect to such Sewer Warrants.

16. Setoff, Recoupment, and Other Rights

Notwithstanding anything to the contrary contained in the Plan and except as otherwise agreed by the County, the County may, but shall not be required to, setoff against or recoup from any Claim and the Distributions to be made in respect of such Claim (other than with respect to Claims previously Allowed or Allowed as set forth in the Plan) any Causes of Action of any nature whatsoever that the County may have against the claimant and that is not a GO Released Claim or a Sewer Released Claim. If the County elects to so setoff or recoup, the Allowed amount of the subject Claim shall be limited to the net amount after giving effect to the County's setoff or recoupment; *provided, however*, that the claimant will be provided with written notice of the proposed setoff or recoupment at least ten (10) Business Days prior thereto, and, if the claimant files a written objection to such proposed setoff or recoupment, the County shall not proceed with the setoff or recoupment absent the withdrawal of the claimant's objection or the entry of an order overruling the objection, but the County may in all events withhold any Distributions on account of such Claim pending resolution of the claimant's objection; *provided further, however*, that neither the failure to setoff against or recoup from any Claim nor the allowance of any Claim shall constitute a waiver or release by the County of any Causes of Action the County may have against the subject claimant.

17. Motion Under Bankruptcy Code Section 364

The Plan constitutes a motion by the County seeking the Bankruptcy Court's approval of the incurrence of all indebtedness and extensions of credit necessary to implement the Plan pursuant to Bankruptcy Code section 364, including the offering of New Sewer Warrants under the Plan, the incurrence of any underwriting or other transaction fees to be paid at closing, and payment of the Put Consideration. Confirmation of the Plan shall constitute a conclusive determination that the protections of Bankruptcy Code section 364(e) will apply to all such indebtedness or extensions of credit to the maximum extent permitted by law. Confirmation of the Plan shall also constitute a conclusive determination that all such indebtedness or extensions of credit were extended and incurred in good faith and in compliance with all applicable provisions of the Bankruptcy Code and the Bankruptcy Rules.

18. The Effective Date

The Plan shall not become binding unless and until the Effective Date occurs. The Effective Date will be a Business Day selected by the County, after consultation with the Sewer Plan Support Parties, that is on or after the date on which all of the following conditions have been satisfied as set forth below, or waived as set forth in Section 4.18(b) of the Plan. Unless waived pursuant to Section 4.18(b) of the Plan, the Effective Date of the Plan shall not occur until each of the following conditions precedent has occurred or will occur simultaneously with the Effective Date of the Plan.

a. Conditions to the Effective Date

i. The Confirmation Order shall (A) be entered and in full force and effect in form and substance acceptable to (1) the County, (2) the Sewer Plan Support Parties to the extent the relevant provisions of the Confirmation Order (or provisions excluded from the proposed Confirmation Order) would affect the rights of the applicable Sewer Plan Support Party, and (3) the GO Plan Support Parties to the extent the relevant provisions of the Confirmation Order (or provisions excluded from the proposed Confirmation Order) would affect the rights of the applicable GO Plan Support Party; and (B) not be subject to any stay;

ii. The County shall have entered into the Closing Agreement; *provided, however*, that if any settlement payment is required to be made to the Internal Revenue Service, such payment shall be payable exclusively from Accumulated Sewer Revenues or gross Sewer System revenues received by the County; *provided further, however*, that any such settlement payment shall not reduce the aggregate consideration to be paid to holders of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D, or any other payments described in the Plan to be paid to the Sewer Plan Support Parties;

iii. The aggregate Tail Risk and the aggregate Covered Tail Risk shall each not exceed $25.0 million;

iv. No Sewer Warrant Insurer will be subject to any Tail Risk on or after the Effective Date in an amount in excess of its Covered Tail Risk;

v. The issuance of the New Sewer Warrants has closed (or will close simultaneously with the occurrence of the Effective Date), and the aggregate Refinancing Proceeds and other Cash consideration required to make the payments to (A) holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims shall be available and shall have been paid under the Plan to the Sewer Warrant Trustee for Distribution in accordance with the Plan on the Effective Date; and (B) holders of Allowed Class 1-C Claims (including the Sewer Warrant Insurers Outlay Amount) shall be available and shall have been paid under the Plan to the applicable Sewer Warrant Insurer in accordance with the Plan and the Sewer Warrant Insurers Agreements on the Effective Date;

vi. The Sewer Plan Support Agreements, the Sewer Warrant Insurers Agreements, and the Tail Risk Payment Agreements shall be in full force and effect and any and all payments required under (A) the Sewer Warrant Insurers Agreements shall have been made to the applicable Sewer Warrant Insurer (or are paid simultaneously with the other payments to the Sewer Warrant Insurers required under the Plan); and (B) the Tail Risk Payment Agreements and the Plan shall have been paid or placed into escrow, as the case may be, in accordance with such Tail Risk Payment Agreements;

vii. All of the settlements, releases, and injunctions contemplated by the Plan (including the settlement and release under the Plan of the Causes of Action asserted in the Bennett Action and the Wilson Action) shall have been approved pursuant to the Confirmation Order, and any pending litigation (including any appeals) commenced by the County or any of the Sewer Plan Support Parties against any of the Sewer Plan Support Parties shall have been (or simultaneously with the occurrence of the Effective Date will be) dismissed with prejudice;

viii. The Effective Date shall have occurred on or before December 31, 2013;

ix. The Plan (as confirmed by the Confirmation Order), the Plan Supplement, and all other documents, instruments, agreements, writings, and undertakings required under the Plan (A) shall be in form and substance satisfactory to the County (and, to the extent required by any applicable Plan Support Agreement or the Plan, approved by the applicable Plan Support Party or Parties); (B) shall have been executed and delivered by the parties thereto, unless such execution or delivery has been waived by the parties benefited thereby; and (C) and, to the extent required by any applicable Plan Support Agreement or the Plan, shall be (or simultaneously with the occurrence of the Effective Date will be) effective;

x. The Supporting Sewer Warrantholder Directed Distribution and the Put Consideration shall have been approved pursuant to the Confirmation Order and paid to the Supporting Sewer Warrantholders; and

xi. The County, the Sewer Liquidity Banks, the Sewer Warrant Insurers, the Supporting Sewer Warrantholders, and the JPMorgan Parties shall have each acknowledged in writing (which writing may take the form of an email exchange among their respective counsel) that all conditions to the Effective Date have been satisfied or waived (or will be satisfied or waived simultaneously with the occurrence of the Effective Date).

b. Waiver of Conditions

The requirement that the conditions to the occurrence of the Effective Date be satisfied may be waived in whole or in part by mutual written agreement by (i) the County and each Sewer Plan Support Party (or, in the case of the Supporting Sewer Warrantholders, the "Majority Eligible Warrantholders" as defined in the Supporting Sewer Warrantholder Plan Support Agreement if such waiver may be effected by the Majority Eligible Warrantholders under the Supporting Sewer Warrantholder Plan Support Agreement) that is affected by the subject condition; or (ii) the County and each GO Plan Support Party that is affected by the subject condition, solely with respect to

conditions (i), (vii), and (ix). Any such waiver may be effected at any time, without advance notice, leave, or order of the Bankruptcy Court and without any formal action, other than the filing of a notice of such waiver with the Bankruptcy Court.

c. Effect of Failure of Conditions

In the event that the conditions to the occurrence of the Effective Date have not been timely satisfied or waived pursuant to Section 4.18(b) of the Plan, and upon notification Filed by the County with the Bankruptcy Court, (i) the Confirmation Order shall be vacated; (ii) no Distributions shall be made; (iii) the County and all Creditors shall be restored to the *status quo* as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred; (iv) the County, the Plan Support Parties, the Sewer Warrant Trustee, and the School Warrant Trustee will be restored to their rights as if the Plan, the Plan Support Agreements, any Plan Term Sheets referenced therein, and the Sewer Warrant Insurers Agreements were never entered into, and all claims and defenses of the County, the Plan Support Parties, the Sewer Warrant Trustee, and the School Warrant Trustee shall be fully reserved; (v) any and all Ballots with respect to the Plan delivered by each of the Plan Support Parties shall be immediately withdrawn, and such Ballots shall be null and void for all purposes and shall not be considered or otherwise used in any manner; and (vi) all of the County's obligations with respect to Claims shall remain unchanged and nothing contained in the Plan shall constitute a waiver or release of any Causes of Action by or against the County or any other Person or to prejudice in any manner the rights, claims, or defenses of the County or any other Person in any further proceedings involving the County. Nothing in the foregoing portion of the Plan shall alter or limit any Person's rights under any Plan Support Agreement.

d. Notice of the Effective Date

Promptly after the occurrence of the Effective Date, the County or its agents shall mail or cause to be mailed to all Creditors a notice that informs such Creditors of (i) entry of the Confirmation Order and the resulting confirmation of the Plan; (ii) the occurrence of the Effective Date; (iii) the assumption and rejection of executory contracts and unexpired leases pursuant to the Plan, as well as the deadline for the filing of resulting Rejection Damage Claims; (iv) the deadline established under the Plan for the filing of Administrative Claims; and (v) such other matters as the County finds appropriate..

D. Exculpation of GO Released Parties, Sewer Released Parties, and the School Warrant Trustee Regarding the Bankruptcy and Plan Process

To the maximum extent permitted by law, neither the GO Released Parties, nor the Sewer Released Parties, nor the School Warrant Trustee, nor any of their respective Related Parties shall have or incur any liability to any Person, including any holders of GO Warrants, Sewer Warrants, or School Warrants, for any act or omission occurring on or before the Effective Date in connection with, related to, or arising out of the Case, the Plan Support Agreements, the formulation, preparation, dissemination, implementation, confirmation, or approval of the Plan or any compromises or settlements contained in the Plan, the Disclosure Statement, or any contract, instrument, release, or other agreement or document provided for or contemplated in connection with

the consummation of the transactions set forth in the Plan; *provided, however*, that the foregoing provisions shall not affect the liability of any Person that otherwise would result from any such act or omission occurring on or prior to the Effective Date to the extent that such act or omission is determined in a Final Order to have constituted willful misconduct or fraud. For purposes of the foregoing, it is expressly understood that any act or omission effected with the approval of the Bankruptcy Court will conclusively be deemed not to constitute willful misconduct or fraud unless the approval of the Bankruptcy Court was obtained by fraud or misrepresentation, and in all respects, the GO Released Parties, the Sewer Released Parties, the School Warrant Trustee, and their respective Related Parties shall be entitled to rely on the advice of their respective counsel with respect to their duties and responsibilities in connection with the Case and the Plan.

E. Validations Under the Plan

As set forth below, the Plan provides for binding judicial determinations and validations of the New Sewer Warrants to be issued under the Plan, of the associated Approved Rate Structure and Rate Resolution, and of the allowance of certain Sewer Debt Claims. These binding judicial determinations and validations are integral parts of the Plan that are (i) necessary to facilitate the issuance of the New Sewer Warrants and the resulting generation of Refinancing Proceeds for the satisfaction of Sewer Debt Claims under the Plan, and (ii) a critical component of the compromises and settlements among the County and the Sewer Plan Support Parties. Pursuant to the power granted under the Bankruptcy Code, the Plan provides and the County will request that the Confirmation Order make clear that each of these binding judicial determinations and validations under the Plan will be full, final, complete, binding, and conclusive under Alabama law as to the County and all Persons, including all Persons that could assert or purport to assert any rights by or on behalf of the County.

1. Validation of the New Sewer Warrants

Pursuant Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6), from and after the Effective Date, confirmation of the Plan shall be a binding judicial determination that the New Sewer Warrants, the New Sewer Warrant Indenture, the Rate Resolution, and the covenants made by the County for the benefit of the holders thereof (including the revenue and rate covenants in the New Sewer Warrant Indenture) will constitute valid, binding, legal, and enforceable obligations of the County under Alabama law and that the provisions made to pay or secure payment of such obligations are valid, binding, legal, and enforceable security interests or liens on or pledges of revenues, which validation will be set forth in the Confirmation Order as follows:

> The New Sewer Warrants were authorized and will be issued as of the Effective Date as a means of implementing the Plan and providing for the satisfaction of Sewer Debt Claims in accordance with the Bankruptcy Code.
>
> The County has the authority under the constitution and laws of the State of Alabama and the Plan to adopt the Rate Resolution, to execute, deliver and perform its obligations under the New Sewer Warrant Indenture, and to issue, execute and deliver the New Sewer Warrants pursuant to the Plan.

All actions and things required under the provisions of applicable law to be had and done in this proceeding preliminary to the entry of this Confirmation Order have been had and done in the manner provided by law. This Confirmation Order will be forever conclusive against, among others, the County and all taxpayers and citizens of the County.

The indebtedness evidenced and ordered paid by the New Sewer Warrants shall be a limited obligation of the County, payable solely from the System Revenues derived from the operation of the Sewer System. The general faith and credit of the County shall not be pledged to the payment of the principal of or the interest or premium (if any) on the New Sewer Warrants, and the New Sewer Warrants shall not be general obligations of the County.

The New Sewer Warrants shall not constitute a debt or indebtedness of the County under the provisions of Section 224 of the Constitution of the State of Alabama, as amended, because the principal of and interest on the New Sewer Warrants will be payable solely from the System Revenues derived from the operation of the Sewer System, and will not be a charge on the general credit of the County.

The Bankruptcy Court does hereby validate and confirm all proceedings had and taken in connection with the following (i) the Plan; (ii) all covenants, agreements, provisions and obligations of the County set forth in the Plan; (iii) the Rate Resolution; (iv) all covenants, agreements, provisions and obligations of the County set forth in the New Sewer Warrant Indenture; and (v) the New Sewer Warrants and the provisions made to pay and secure payment of such obligations. When the New Sewer Warrants have been executed and delivered in accordance with the Plan, then the New Sewer Warrants and the pledges, covenants, agreements and obligations set forth therein and in the New Sewer Warrant Indenture shall stand validated and confirmed.

At the time of the delivery of the New Sewer Warrants, the County is hereby directed to cause to be stamped or written on each of the New Sewer Warrants a legend substantially as follows:

> "VALIDATED AND CONFIRMED BY JUDGMENT AND CONFIRMATION ORDER OF THE UNITED STATES BANKRUPTCY COURT FOR THE NORTHERN DISTRICT OF ALABAMA, ENTERED ON THE ___ DAY OF _____, 2013."

This validation under the Plan will be full, final, complete, binding, and conclusive as to the County and all Persons, including all Persons that could assert or purport to assert any rights by or on behalf of the County. Accordingly, the validity and enforceability of the Rate Resolution, the New Sewer Warrants, the New Sewer Warrant Indenture, and the covenants made by the County for the benefit of the holders thereof (including the revenue and rate covenants in the New Sewer Warrant Indenture) shall not be subject to any collateral attack or other challenge by any Person in any court or other forum from and after the Effective Date.

2. Validation of the Approved Rate Structure

Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6), from and after the Effective Date, the Confirmation Order shall be a binding judicial determination that (i) the Approved Rate Structure is a valid provision made to pay or secure payment of the New Sewer Warrants and is appropriate, reasonable, non-discriminatory, and legally binding on and specifically enforceable against the County, in accordance with the Plan and under applicable law; and (ii) the County Commission shall adopt and maintain the Approved Rate Structure in accordance with the Rate Resolution and as necessary for the County to satisfy the obligations arising under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System), including increases in sewer rates to the extent necessary to allow the timely satisfaction of the County's obligations under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System). Without limitation, from and after the Effective Date, (a) the Confirmation Order shall constitute a consent decree binding upon, specifically enforceable against, and a basis for mandamus against the County, the County Commission, and all other Persons in accordance with the Plan; (b) the validity and enforceability of the Approved Rate Structure and the Rate Resolution shall not be subject to any collateral attack or other challenge by any Person in any court or other forum from and after the Effective Date; and (c) the Bankruptcy Court shall retain exclusive jurisdiction to enforce the Approved Rate Structure and the Rate Resolution, to require the County to otherwise comply with the New Sewer Warrants and the New Sewer Warrant Indenture, and to hear and adjudicate any action or proceeding enforcing, challenging, or collaterally attacking the Approved Rate Structure or the Rate Resolution.

3. Validation of Allowance of Sewer Debt Claims

Confirmation of the Plan shall be a binding judicial determination that the allowance on the Effective Date of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D is appropriate and binding on, specifically enforceable against, and a basis for mandamus against the County, the County Commission, and all other Persons in accordance with the Plan, because, among other things, the allowance of such Claims, along with treatment of those Allowed Claims under the Plan, is a necessary predicate to the issuance of the New Sewer Warrants. This validation under the Plan will be full, final, complete, binding, and conclusive as to the County and all Persons, including all Persons that could assert or purport to assert any rights by or on behalf of the County. Accordingly, the validity and enforceability of the allowance of the Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D along with the treatment of those Allowed Claims under the Plan, shall (i) moot any pending Causes of Action challenging the validity or enforceability of the Sewer Warrants or the issuance thereof, payments of principal and interest made in respect of the Sewer Warrants, or any Sewer System rates or charges established or collected by the County in connection with the issuance or the payment of debt service in respect of the Sewer Warrants, or seeking the return to the County of any payment made by the County in connection with the Sewer Warrants or any financing or other transaction regarding the Sewer System; and (ii) not be subject to any collateral attack or other challenge by any Person in any court or other forum from and after the Effective Date.

F. Effects of Confirmation of the Plan

1. Binding Effect

Upon the Effective Date and pursuant to Bankruptcy Code section 944(a), the Plan, the Distributions and transactions contemplated by the Plan, and the compromises and settlements contained in the Plan shall be binding upon the County, all Creditors, all special tax payers (as such term is defined in Bankruptcy Code section 902(3)), all customers and rate payers of the Sewer System, all parties in interest, and all other Persons. Confirmation of the Plan binds each holder of a Claim to all the terms and conditions of the Plan, whether or not such holder's Claim is Allowed, whether or not such holder is in a Class that is Impaired under the Plan, and whether or not such holder has accepted the Plan. The County reserves all rights to seek appropriate relief against any Person under Bankruptcy Code section 1142(b) to the extent necessary for the consummation of the Plan.

2. Discharge and Injunctions

The rights afforded in the Plan and the treatment of all Claims by the Plan shall be in exchange for and in complete settlement, satisfaction, discharge, and release of, and injunction against, all Claims of any nature whatsoever arising prior to the Effective Date against the County or its property, including any interest accrued on such Claims from and after the Petition Date.

Except as otherwise provided in the Plan or the Confirmation Order, on the Effective Date, (a) the County and its property will be discharged and released to the fullest extent permitted by Bankruptcy Code section 944(b) from all Claims and rights that arose before the Effective Date, including all debts, obligations, demands, and liabilities, and all debts of the kind specified in Bankruptcy Code sections 502(g), 502(h), or 502(i), regardless whether (i) a proof of Claim based on such debt is Filed or deemed Filed, (ii) a Claim based on such debt is allowed pursuant to Bankruptcy Code section 502, or (iii) the holder of a Claim based on such debt has or has not accepted the Plan; (b) any judgment underlying a Claim discharged hereunder will be void; and (c) all Persons will be precluded from asserting against the County or its property, whether directly or on behalf of the County, any Claims or rights based on any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date.

Except as otherwise provided in the Plan or the Confirmation Order, on and after the Effective Date, all Persons who have held, currently hold, or may hold a Claim that is based on any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, that otherwise arose or accrued prior to the Effective Date, or that otherwise is discharged pursuant to the Plan, will be permanently and completely enjoined from taking any of the following actions on account of any such discharged Claim (the "Permanent Injunction"): (a) commencing, conducting, or continuing in any manner any suit, action, or other proceeding of any kind against or affecting the County, its property, its obligations, or any of its Related Parties that is inconsistent with the Plan or the Confirmation Order; (b) attaching, collecting, enforcing, levying, or otherwise recovering in any manner any

award, decree, judgment, or order against or affecting the County, its property, its obligations, or any of its Related Parties other than as expressly permitted under the Plan; (c) creating, perfecting, or otherwise enforcing in any manner any lien or encumbrance of any kind against or affecting property of the County, other than as expressly permitted under the Plan; (d) asserting any right of recoupment, setoff, or subrogation of any kind against any obligation due to the County with respect to any such discharged Claim, except as otherwise permitted by Bankruptcy Code section 553; (e) acting or proceeding in any manner, in any place whatsoever, that does not comply with or is inconsistent with the provisions of the Plan, the Confirmation Order, or the discharge provisions of Bankruptcy Code section 944; and (f) taking any actions to interfere with the implementation or consummation of the Plan. The County and any other Person injured by any willful violation of the Permanent Injunction shall recover actual damages, including costs, expenses, and attorneys' fees, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

Except as otherwise provided in the Plan, all injunctions or stays in effect in the Case under Bankruptcy Code sections 105, 362(a), or 922(a), or otherwise, on the Confirmation Date shall remain in full force and effect through and including the Effective Date.

3. Releases and Injunctions

a. Sewer Releases and Injunctions.

Under the Plan and as of the Effective Date, each Sewer Released Party, on behalf of itself, and to the maximum extent permitted by law, on behalf of each of its Related Parties, in exchange for and upon receipt of the treatment and consideration set forth in the Plan for the Sewer Released Parties, including the compromises and settlements among the Sewer Released Parties implemented pursuant to the Plan, will forever waive and release all other Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims.

Under the Plan and as of the Effective Date, all Persons who voted to accept the Plan or who made or are deemed to have made the Commutation Election will be conclusively deemed to have irrevocably and unconditionally, fully, finally, and forever waived and released and discharged on their own behalf, and on behalf of any Person claiming through them, all Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims.

From and after the Effective Date, the County, any Person seeking to exercise the rights of the County (including in respect of the County's Causes of Action purportedly asserted in the Bennett Action and the Wilson Action), all Persons holding any Sewer Released Claims that are waived and released pursuant to Section 6.3(a) of the Plan, and all Persons acting or purporting to act on behalf of any Persons holding any Sewer Released Claims that are waived and released pursuant to Section 6.3(a) of the Plan, will be permanently and completely enjoined from commencing or continuing any action, directly or indirectly and in any manner, to assert, pursue, litigate, or otherwise seek any recovery on or on account of such Sewer Released Claims.

From and after the Effective Date, the Sewer Warrant Trustee, any holders of Sewer Warrants, or any other Person will be permanently and completely enjoined from pursuing any right of payment under (i) any of the Sewer DSRF Policies, which will be cancelled and of no further force or effect pursuant to Section 4.7 of the Plan; or (ii) any of the Sewer Wrap Policies with respect to any Sewer Warrant holder that made or was deemed to have made the Commutation Election, which Sewer Wrap Policies will be cancelled and of no further force or effect pursuant to Section 4.7 of the Plan; *provided, however*, that such injunction shall not enjoin any holders of Sewer Warrants that did not make or were deemed not to make the Commutation Election, or, if applicable, the Sewer Warrant Trustee on their behalf, from pursuing any Sewer Wrap Payment Rights.

b. GO Releases and Injunctions.

Under the Plan and as of the Effective Date, each GO Released Party, on behalf of itself, and to the maximum extent permitted by law, on behalf of each of its Related Parties, in exchange for and upon receipt of the treatment and consideration set forth in the Plan for the GO Released Parties, including the compromises and settlements among the GO Released Parties implemented pursuant to the Plan, will forever waive and release all other GO Released Parties and their respective Related Parties from any and all GO Released Claims.

Under the Plan and as of the Effective Date, all Persons who voted to accept the Plan will be conclusively deemed to have irrevocably and unconditionally, fully, finally, and forever waived and released and discharged on their own behalf, and on behalf of any Person claiming through them, all GO Released Parties and their respective Related Parties from any and all GO Released Claims.

From and after the Effective Date, the County, any Person seeking to exercise the rights of the County, all Persons holding any GO Released Claims that are waived and released pursuant to Section 6.3(b) of the Plan, and all Persons acting or purporting to act on behalf of any Persons holding any GO Released Claims that are waived and released pursuant to Section 6.3(b) of the Plan, will be permanently and completely enjoined from commencing or continuing any action, directly or indirectly and in any manner, to assert, pursue, litigate, or otherwise seek any recovery on or on account of such GO Released Claims.

c. Necessity and Approval of Releases and Injunctions.

The releases and injunctions set forth in Section 6.3 of the Plan are integral and critical parts of the Plan and the settlements implemented pursuant to the Plan, the approval of such releases pursuant to the Confirmation Order is a condition to the occurrence of the Effective Date, and all Sewer Released Parties and all GO Released Parties have relied on the efficacy and conclusive effects of such releases and injunctions and on the Bankruptcy Court's retention of jurisdiction to enforce such releases and injunctions when making concessions pursuant to the Plan and by agreeing to, accepting, and supporting the settlement and treatment of their respective Claims, Causes of Action, and other rights under the Plan.

Pursuant to Bankruptcy Code sections 1123(a)(5), 1123(b)(3), and 1123(b)(6), as well as Bankruptcy Rule 9019, entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the releases and injunctions set forth in Section 6.3 of the Plan, which includes by reference each of the related provisions and definitions contained in the Plan, and further, shall constitute the Bankruptcy Court's finding that such releases and injunctions are: (1) in exchange for the good and valuable consideration provided by the Sewer Released Parties, the GO Released Parties, and their respective Related Parties; (2) a good faith settlement and compromise of the Claims and Causes of Action released by such releases; (3) in the best interests of the County and all Creditors; (4) fair, equitable, and reasonable; (5) given and made after due notice and opportunity for hearing; and (6) a bar to any of the releasing parties as set forth in the Plan asserting any Claims or Causes of Action released pursuant to such release.

4. Retention of Jurisdiction

Notwithstanding the entry of the Confirmation Order or the occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction over the Case after the Effective Date to the fullest extent provided by law, including the jurisdiction to:

(a) Except as otherwise Allowed pursuant to the Plan or in the Confirmation Order, Allow, classify, determine, disallow, establish the priority or secured or unsecured status of, estimate, limit, liquidate, or subordinate any Claim, in whole or in part;

(b) Resolve any motions pending on the Effective Date to assume, assume and assign, or reject any executory contract or unexpired lease to which the County is a party or with respect to which the County may be liable and to hear, determine and, if necessary, liquidate, any Claims arising therefrom;

(c) Resolve any and all other applications, motions, adversary proceedings, and other contested or litigated matters involving the County that may be pending on the Effective Date or that may be instituted thereafter in accordance with the terms of the Plan;

(d) Ensure that all Distributions are accomplished pursuant to the provisions of the Plan;

(e) Enter such orders as may be necessary or appropriate to implement or consummate the Plan and all contracts, instruments, releases, and other agreements or documents entered into in connection with or related to the Plan;

(f) Resolve any and all controversies, suits, or issues that may arise in connection with the implementation, consummation, interpretation, or enforcement of the Plan or the Confirmation Order, or any Person's rights, obligations, or interests under the Plan or the Confirmation Order;

(g) Remedy any defect or omission or reconcile any inconsistency in any order of the Bankruptcy Court, the Plan, the Disclosure Statement or any contract, instrument, release, or other agreement or document created in connection with the Plan or the Disclosure Statement, in such

manner as may be necessary or appropriate to consummate the Plan, to the extent authorized by the Bankruptcy Code;

(h) Adjudicate any Preserved Claims;

(i) Implement and enforce the Commutation Election, and implement and enforce all settlements, releases, exculpations, and injunctions associated with the Plan;

(j) Issue injunctions, enter and implement other orders, or take any other actions as may be necessary or appropriate to restrain interference by any Person with consummation or enforcement of the Plan or the Confirmation Order;

(k) Enter and implement such orders as may be necessary or appropriate if the Confirmation Order is for any reason modified, reversed, revoked, stayed, or vacated;

(l) Adjudicate any and all controversies, suits, or issues that may arise regarding the validity of any actions taken by any Person pursuant to or in furtherance of the Plan, including implementation or enforcement of the Approved Rate Structure and issuance of the New Sewer Warrants under the New Sewer Warrant Indenture, and enter any necessary or appropriate orders or relief (including mandamus) in connection with such adjudication;

(m) Hear and determine any actions brought against the County, the GO Released Parties, the Sewer Released Parties, or any of their respective Related Parties in connection with all compromises and settlements, exculpations and releases, the Plan, or the Case;

(n) Determine any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order, or any contract, instrument, release, or other agreement or document created in connection with the Plan; and

(o) Enter an order closing the Case pursuant to Bankruptcy Code section 945(b).

If the Bankruptcy Court abstains from exercising jurisdiction, declines to exercise jurisdiction, or is otherwise without jurisdiction over any matter, then Section 6.4 of the Plan shall have no effect upon and shall not control, limit, or prohibit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

G. Other Plan Provisions

1. Revocation of the Plan; No Admissions

Subject to each of the Sewer Plan Support Agreements, the County reserves the right to revoke or withdraw the Plan at any time prior to the Confirmation Date. Notwithstanding anything to the contrary in the Plan, if the Plan is not confirmed or if the Effective Date does not occur, the Plan (and the Confirmation Order, if entered) will be null and void and inadmissible as evidence in any proceeding, and nothing contained in the Plan, the Disclosure Statement, or the Confirmation Order (if entered) will (a) be an admission by the County, any of the Plan Support Parties, the Sewer Warrant Trustee, or the School Warrant Trustee with respect to any matter set forth therein,

including liability on any Claim or the propriety of any Claim's classification; (b) constitute a waiver, acknowledgment, or release of any Claims against the County or its property, or of any Causes of Action; or (c) prejudice in any manner the rights of any Person in any further proceedings. Nothing in Section 5.2 of the Plan shall limit the rights or remedies available to any Person under any applicable Plan Support Agreement. In addition, nothing in the Plan, the comprehensive compromise and settlement described in Section 4.8(a) of the Plan, or any other compromises and settlements implemented under the Plan shall be deemed to be an admission or evidence of wrongdoing or, except with respect to obligations created under or pursuant to the Plan, liability on the part of any GO Released Party, any Sewer Released Party, or any of their respective Related Parties.

2. Modification of the Plan

Subject to the restrictions set forth in Bankruptcy Code section 942 and in each of the Sewer Plan Support Agreements, the County reserves the right to alter, amend, or modify the Plan at any time before the Confirmation Date.

3. Severability of Plan Provisions

If, before the Confirmation Date, the Bankruptcy Court holds that any Plan term or provision is invalid, void, or unenforceable, the Bankruptcy Court may alter or interpret that term or provision so that it is valid and enforceable to the maximum extent possible consistent with the original purpose of that term or provision. That term or provision will then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the Plan's remaining terms and provisions will remain in full force and effect and will in no way be affected, impaired, or invalidated. All rights of each Plan Support Party under the applicable Plan Support Agreement are fully reserved if any such holding, alteration, or interpretation means that the Plan is no longer an "Acceptable Plan" for purposes of the applicable Plan Support Agreement. The Confirmation Order will constitute a judicial determination providing that each Plan term and provision, as it may have been altered or interpreted in accordance with Section 5.4 of the Plan, is valid and enforceable under its terms.

4. Inconsistencies

To the extent of any inconsistencies between the Plan, on the one hand, and the Disclosure Statement, any Plan Support Agreement, or any Ballot, on the other hand, the terms and provisions contained in the Plan shall govern.

5. Governing Law

Unless a rule of law or procedure is supplied by (a) federal law (including the Bankruptcy Code and the Bankruptcy Rules), or (b) an express choice of law provision in any agreement, contract, instrument, or document provided for in, or executed in connection with, the Plan, the rights and obligations arising under the Plan and any agreements, contracts, instruments, and documents executed in connection with the Plan shall be governed by, and construed and enforced in

accordance with, the laws of the State of Alabama without giving effect to the principles of conflict of laws thereof.

6. Transactions on Business Days

If the Effective Date or any other date on which a transaction may occur under the Plan shall occur on a day that is not a Business Day, any transactions or other actions contemplated by the Plan to occur on such day shall instead occur on the next succeeding Business Day.

7. Good Faith

Confirmation of the Plan shall constitute a conclusive determination that: (a) the Plan, and all the transactions and settlements contemplated thereby, have been proposed in good faith and in compliance with all applicable provisions of the Bankruptcy Code and the Bankruptcy Rules; and (b) the solicitation of acceptances or rejections of the Plan has been in good faith and in compliance with all applicable provisions of the Plan Procedures Order, the Bankruptcy Code, and the Bankruptcy Rules, and, in each case, that the County, all the Plan Support Parties, the Sewer Warrant Trustee, the School Warrant Trustee, the FGIC Rehabilitator, and all their respective Related Parties have acted in good faith in connection therewith.

8. Effectuating Documents and Further Transactions

Each of the officials and employees of the County is authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and to take such actions as may be necessary or appropriate to effectuate and further evidence the terms and provisions of the Plan.

9. Sewer Warrant Trustee Residual Fee Estimate.

The County will have the right to challenge the amount of the Sewer Warrant Trustee Residual Fee Estimate by filing an action in the Bankruptcy Court within five (5) calendar days after receipt of the Sewer Warrant Trustee Residual Fee Estimate, provided that prior to filing such an action, the County will make good faith efforts to resolve any dispute with the Sewer Warrant Trustee. Any challenge by the County to the amount of the Sewer Warrant Trustee Residual Fee Estimate will be resolved by the Bankruptcy Court on an expedited basis before the Effective Date.

VIII.
CERTAIN TAX CONSEQUENCES OF THE PLAN

A. Federal Income Tax Aspects of Plan

The implementation of the Plan may have federal, state or local tax consequences to the County's Creditors. As the County is a political subdivision duly organized and existing under the laws of the State of Alabama and is treated as a political subdivision of the State of Alabama for federal income tax purposes, the County believes that it will not be subject to any federal or state income tax liability from implementation of the Plan, except as specified below in Section VIII.A.2 of this Disclosure Statement.

Because individual circumstances may differ and the federal income tax consequences of a chapter 9 case are complex, this summary does not address all federal income tax consequences that may be relevant to the creditors of the County as a result of implementation of the Plan. In addition, this summary does not address any state tax consequences resulting from the Plan. Creditors of the County should consult their own tax advisors regarding the federal, state or local income tax consequences of the Plan, including the effect, if any, applicable provisions of the Plan may have on outstanding obligations of the County the interest component of which County creditors may have treated as excludable from gross income for federal income tax purposes.

With respect to certain of the transactions that form a part of the Plan, the following information may be relevant to holders of County warrants affected thereby:

1. Future Legislation Could Affect Tax-Exempt Obligations

The federal government is considering various proposals to reduce federal budget deficits and the amount of federal debt, including proposals that would eliminate or reduce indirect expenditures made through various deductions and exemptions currently allowed by the income tax laws.

The exemption for interest on tax-exempt debt is one of the indirect expenditures that could be affected by a deficit reduction initiative. Some deficit reduction proposals would completely eliminate the exemption for interest on tax-exempt bonds. Other proposals would place an aggregate cap on the total amount of exemption and deductions that may be claimed by a taxpayer, or a cap on the exemption for interest on tax-exempt bonds. Changes in the rate of the federal income tax, including so-called flat tax proposals, could also reduce the value of the exemption.

Changes affecting the exemption for interest on tax-exempt obligations, if enacted, could apply to outstanding County warrants. It is not possible to predict whether the U.S. Congress will adopt legislation affecting the exemption for tax-exempt obligations, with the provision of such legislation may be, whether any such legislation will be retroactive in effect, or what effect any such legislation may have on holders of County warrants. Holders of County obligations should consult their tax advisors in the event any such legislation is enacted into law.

2. Sewer Warrants

a. Negotiation of a Closing Agreement with the IRS

Under federal tax law, the IRS is authorized to enter into written agreements with any person to settle outstanding issues with respect to any federal tax issue for any period. Absent a showing of fraud, malfeasance or misrepresentation of a material fact, matters covered by a closing agreement may not be reopened by the IRS or set aside or disregarded by a court. However, a change in federal tax law can render a settlement reached in a closing agreement moot (with respect to future tax periods only) should a specific change in law contradict the terms of a closing agreement.

In June of 2011, the IRS placed the Series 2003-B Sewer Warrants and the Series 2003-C Sewer Warrants under examination. By agreement of the County and the IRS, the examination was

broadened to include all Sewer Warrants. In connection with this examination, the County and the IRS have been in discussions to resolve various potential violations of section 103 of title 26 of the United States Code (the "Internal Revenue Code") with respect to the Sewer Warrants through a closing agreement. The County has not conceded that violations of the Internal Revenue Code have occurred.

As a result of ongoing negotiations, the County expects to present a proposed Closing Agreement between the County and the IRS for approval by the County Commission. The County expects the Closing Agreement to extend to all series of the Sewer Warrants. The proposed Closing Agreement has not yet been finally approved by the IRS or the County Commission. If the Closing Agreement is approved and executed, a material event notice will be provided by the County to holders of the Sewer Warrants via the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") service. EMMA may be accessed via the internet at http://emma.msrb.org.

It is a condition to the Effective Date that the County enter into the Closing Agreement with the IRS.

b. Payments Received During the Pendency of the County's Bankruptcy Case

Holders of existing Sewer Warrants have received numerous debt service payments from the County on the Sewer Warrants from the date the County defaulted under the Sewer Warrant Indenture. Because the Plan involves paying the existing Sewer Warrants with the proceeds of New Sewer Warrants in an aggregate principal amount that is less than the amount currently outstanding on the Sewer Warrants, the holders of the Sewer Warrants will not recover 100% of the principal amount of the Sewer Warrants they hold.

While the Sewer Warrant Indenture provides that payments made post-default are to be allocated first to interest where no acceleration has been declared by the Sewer Warrant Trustee, the IRS may not recognize that allocation for tax purposes. Instead, the IRS has determined[15] in analogous rulings that all payments received in settlement of a tax-exempt obligation of an insolvent debtor post-default, where the holder is receiving a lesser principal amount than originally invested, may be characterized as a return of principal, and not interest, which could affect such holder's basis in its holdings. This characterization of post-default debt service may be applicable to holders of the Sewer Warrants and those holders should consult their tax advisors to determine if such characterization is appropriate

c. Refunding of Sewer Warrants

Pursuant to the Plan, the existing Sewer Warrants will be refunded with the proceeds of the New Sewer Warrants and canceled, except for certain Sewer Warrants held by certain Supporting

[15] These conclusions were reached in private letter rulings, which according to the Internal Revenue Code, may not be cited or used as precedent. *See* 26 U.S.C. § 6110(k)(3). However, such rulings are instructive as they may provide evidence of the IRS's approach in similar situations.

Sewer Warrantholders, which warrants may be exchanged for New Sewer Warrants if the option available under the Put Agreement is utilized. Under generally applicable federal tax principles, either transaction may be a realization event for the holders of the existing Sewer Warrants. Holders of existing Sewer Warrants should consult their tax advisors to determine the appropriate amount of gain or loss applicable to their holdings on the Effective Date.

d. Payments to Non-Commuting Holders of Sewer Warrants

The Plan provides for a Commutation Election with respect to the Sewer Warrants, as described in Section XII.B of this Disclosure Statement. Holders of Class 1-A Claims and Class 1-B Claims who elect, or are deemed to elect, to retain their existing rights under the applicable Sewer Wrap Policy may receive future payments from the applicable Sewer Warrant Insurer on the terms provided for in the applicable policy. The IRS has determined in published revenue rulings that interest paid by an insurance company on behalf of an issuer of tax-exempt obligations is excludable from gross income of the holders of such obligations. These IRS rulings were not issued in the context of a debtor in bankruptcy and a plan under the Bankruptcy Code that discharges the underlying obligations of the debt issuer, as will be the case with respect to the Sewer Warrants. Neither the County nor the Sewer Warrant Insurers make any representation about the tax-exempt status of the interest portion of payments under applicable Sewer Wrap Policies made to holders who elect not to make the Commutation Election, or are deemed not to make the Commutation Election. Such warrantholders should consult their tax advisors to determine the tax treatment of any such payments.

3. Holders of the Series 2001-B GO Warrants

a. Exchange of Series 2001-B GO Warrant

Pursuant to the Plan, the existing Series 2001-B GO Warrants will be exchanged for the Replacement 2001-B GO Warrants. Under generally applicable federal tax principles, this exchange will constitute a realization event for the holders of the existing Series 2001-B GO Warrants. Holders of existing Series 2001-B GO Warrants should consult their tax advisors to determine the appropriate amount of gain or loss applicable to their holdings.

b. Tax Status of Replacement 2001-B GO Warrants

The exchange of the Series 2001-B GO Warrants by the County under the Plan effectively constitutes a refinancing of the Series 2001-B GO Warrants, as the Replacement 2001-B GO Warrants contain significantly modified terms, such as interest rate and amortization schedule , from those provided for by the Series 2001-B GO Warrants. Upon exchange, the existing Series 2001-B GO Warrants will be cancelled under the Plan.

While the County expects that, under existing law, interest on the Replacement 2001-B Warrants will be excluded from gross income for federal income tax purposes, the tax status of the Replacement 2001-B Warrants cannot be determined as of the date of this Disclosure Statement. The County expects to cause an opinion of nationally recognized bond counsel addressing the tax status of the Replacement 2001-B Warrants to be delivered with the Replacement 2001-B Warrants

on the Effective Date. Recipients of the Replacement 2001-B Warrants should refer to such opinion for more information on the tax status of the Replacement 2001-B Warrants.

4. Holders of the Other Outstanding County Warrants

Confirmation of the Plan will not have an effect on the tax status of the Series 2003-A GO Warrants, the Series 2004-A GO Warrants or the Board of Education Lease Warrants.

As of the date of this Disclosure Statement, the County does not expect that confirmation of the Plan will have an effect on the tax status of the Series 2004-A School Warrants, Series 2005-A School Warrants or Series 2005-B School Warrants; however, the County remains in negotiations with respect to potential amendments to the School Warrant Indenture the nature and extent of which cannot be presently determined, including whether such amendments will occur at all. Holders of the Series 2004-A School Warrants, Series 2005-A School Warrants and Series 2005-B School Warrants should consult their tax advisors as of the Effective Date to determine the effect of transactions described in the Plan on those series of County obligations.

THE FOREGOING DISCUSSION OF FEDERAL INCOME TAX CHARACTERISTICS OF THE PLAN IS NOT INTENDED TO BE EXHAUSTIVE. ALL CREDITORS OF THE COUNTY SHOULD CONSULT THEIR OWN TAX ADVISORS FOR COMPLETE INFORMATION REGARDING THE EFFECT OF THE PLAN ON AN INDIVIDUAL CREDITOR'S FEDERAL, STATE AND LOCAL TAX LIABILITY (IF ANY) GENERATED BY THE TRANSACTIONS APPLICABLE TO SUCH CREDITOR TO BE UNDERTAKEN PURSUANT TO THE PLAN.

IX.
CERTAIN CONSEQUENCES UNDER THE FEDERAL SECURITIES LAW

A. Registration of Securities

In general, securities issued by the County, such as general obligation warrants and sewer revenue warrants, are exempt from the registration requirements of the 1933 Act under section 3(a)(2) of the 1933 Act. Furthermore, any insurance issued to guarantee warrants of the County, such as the School Policy – General or the Sewer Wrap Policies, while separate securities from the warrants they insure, are likewise granted an exemption from registration under section 3(a)(8) of the 1933 Act. Obligations issued by the County likewise are exempt from registration under current Alabama securities law.

In addition to exemptions provided to local governments such as the County under the 1933 Act, section 1145(a)(1) of the Bankruptcy Code provides an exemption to all types of debtors from the registration requirements of the 1933 Act and from any requirements arising under state securities laws in conjunction with the offer or sale of securities of the debtor under a plan of adjustment where such securities are issued to a creditor of the debtor. The Bankruptcy Code provides that certain creditors which are deemed "underwriters" within the meaning of the Bankruptcy Code may not resell obligations of a debtor which they receive pursuant to a plan of adjustment without registration. Since obligations of the County are exempt from registration under

generally applicable securities law, this exception is not relevant to securities of the County, although the provisions of Bankruptcy Code section 1145 which suspend operation of state securities laws may not be available to "underwriters" within the meaning of the Bankruptcy Code. Creditors of the County who believe they meet the definition of "underwriter" within the meaning of the Bankruptcy Code should consult qualified counsel with respect to their obligations under relevant state securities laws.

As the New Sewer Warrants are not being issued directly to Creditors of the County in connection with the Plan, but will be publicly offered, the County intends to rely on generally applicable securities law exemptions for the offering and sale of the New Sewer Warrants. The County does not expect to offer the New Sewer Warrants in states where registration of County securities may be required by applicable state securities law, unless first registered. The Replacement 2001-B GO Warrants will not be publicly offered but instead will be issued to the GO Banks pursuant to the Plan. The Replacement 2001-B GO Warrants and the New Sewer Warrants issued in exchange for Sewer Warrants under the Put Agreement will also be exempt from registration under federal or state securities law to the maximum extent provided under Bankruptcy Code section 1145. The remainder of the County's publicly traded securities will not be exchanged, reoffered or refinanced by the Plan, and therefore, the County does not expect implementation of the Plan to implicate federal securities laws with respect to those obligations. Holders of the County's publicly traded securities not specifically mentioned in this paragraph should consult qualified counsel to determine if any state securities laws may be implicated in connection with the Plan.

Like the exemption from registration provided the County under section 3(a)(2) of the 1933 Act, generally applicable securities laws provide an exemption from qualification for certain trust indentures entered into by government entities. Therefore, each trust indenture securing repayment of the County's existing Sewer Warrants or its Series 2001-B GO Warrants is exempt from qualification under section 304(a)(4) of the Trust Indenture Act. Likewise, the New Sewer Warrant Indenture and the Amended and Restated GO Indenture will be exempt from qualification under section 304(a)(4) of the Trust Indenture Act.

B. Market Disclosure

1. Initial Offering

Although exempt from registration, securities issued by the County are subject to the anti-fraud provisions of federal securities laws. Section 10(b) of the 1934 Act and Rule 10b-5 promulgated by the SEC under the 1934 Act generally prohibits fraud in the purchase and sale of securities. Therefore, each publicly offered sale of County obligations typically is accompanied by an offering document that is referred to as an "Official Statement" and contains disclosure of material information regarding the issuer and the securities being sold so that investors may make an informed investment decision regarding whether to purchase the securities being offered. Bankruptcy Code section 1125(d) provides that the adequacy of any disclosure to creditors and hypothetical investors typical of holders of claims in the case is not subject to principles of any otherwise applicable non-bankruptcy law, rule, or regulation, which includes the federal securities laws. Instead, section 1125(d) provides disclosure regulation by requiring that adequate information

be provided to the various classes of creditors of the County and to hypothetical investors in obligations of the County through a disclosure statement such as this document.

However, as described in the Plan, the New Sewer Warrants will be issued to provide cash to pay the holders of the existing Sewer Warrants, which, in exchange therefore, will be retired. In connection with the sale of the New Sewer Warrants in a public offering, the County will prepare an Official Statement for the New Sewer Warrants. That document will be made publicly available prior to the Effective Date.

2. Continuing Disclosure

Publicly offered securities of the County generally are subject to the requirements of Rule 15c2-12 (the "Rule") promulgated by the SEC under the 1934 Act unless such securities meet certain exemptions provided for in the Rule. Among other requirements, the Rule requires underwriters participating in an offering to obtain an agreement imposing ongoing market disclosure requirements upon an issuer of municipal securities, such as the County. The Rule will apply to the issuance and sale of the New Sewer Warrants by the County, and the County intends to comply with the Rule by delivering a continuing disclosure undertaking in customary form contemporaneously with the delivery of the New Sewer Warrants.

The delivery of the Replacement 2001-B GO Warrants pursuant to the Plan is not covered by the Rule as the Replacement 2001-B GO Warrants are proposed to be issued in exchange for the existing Series 2001-B GO Warrants without involvement of an underwriter, as defined in the Rule. However, the County intends to voluntarily execute and deliver, for the benefit of the holders of the Replacement 2001-B GO Warrants, a new continuing disclosure undertaking (the "Replacement 2001-B CDA") containing certain disclosure obligations. The Replacement 2001-B CDA will be delivered on the Effective Date.

X.
FINANCIAL INFORMATION AND PROJECTIONS

A. Audited Financial Statements

The County's most recent audited financial statements are the 2011 Audited Financial Statements attached hereto as **Exhibit 2**. Audited financial statements for prior fiscal years are available for inspection on the County's website at http://jeffconline.jccal.org/investorrelations/DocumentManager/library/audits/.

The County's outside accountants currently are auditing the County's financial statements for the fiscal year ending September 30, 2012. The County does not know when that audit will be completed. Once completed, the County will post its September 30, 2012 audited financial statements on the website referenced immediately above.

B. Financial Projections

The County believes that the Plan meets the feasibility requirement set forth in Bankruptcy Code section 943(b)(7). In connection with the development of the Plan and for the purposes of

determining whether the Plan would satisfy the feasibility standard, the County has analyzed its ability to perform its financial obligations under the Plan while maintaining sufficient liquidity and capital resources to provide services to its constituents and community in accordance with its legal obligations. The County's financial projections for the Sewer System are provided in the Financing Plan. The County also has prepared cash flow projections for its General Fund (the "General Fund Projections") and for the Education Tax (the "Education Tax Projections"). The Financing Plan, the General Fund Projections, and the Education Tax Projections (collectively, the "Projections") are attached hereto respectively as **Exhibits 9, 10, and 11**, and are each incorporated herein by reference.

The Projections were prepared by the County with the assistance of its professionals to present the anticipated impact of the Plan. The Projections all assume that the Plan will be confirmed and implemented on the Effective Date in accordance with its stated terms. In addition, the Projections and the Plan are premised upon other assumptions, including the anticipated future performance of the County, general economic and business conditions, no material changes in the laws and regulations applicable to the operation of municipalities such as the County, and other matters largely or completely outside of the County's control.

Each of the Projections should be read in conjunction with the significant assumptions, qualifications, and notes set forth in the Disclosure Statement, the Plan, the Plan Supplement, the Projections themselves, the historical financial information for the County contained or referenced herein, and other information submitted to the Bankruptcy Court during the course of the County's Case.

The County believes that the Projections are reasonable based on the information currently available to it and its professionals and that the Plan is feasible. Unanticipated events and circumstances may affect the County's actual financial results, and those actual results may vary materially from the Projections. The risks relating to the Plan and the Projections are discussed in greater detail in Article XI below. Because of these uncertainties and risks, the County cannot make any representation regarding the accuracy of the Projections or the ability of the County to achieve the projected results.

XI.
RISKS AND OTHER FACTORS TO CONSIDER

The County's ability to perform its obligations under the Plan is subject to various factors and contingencies, some of which are described in this section. The following discussion summarizes only some of the material risks associated with the Plan and the County, and is not exhaustive. Moreover, this section should be read in connection with the Plan and the other disclosures contained throughout this Disclosure Statement.

PRIOR TO VOTING TO ACCEPT OR TO REJECT THE PLAN, ALL HOLDERS OF CLAIMS THAT ARE IMPAIRED SHOULD, WITH THEIR OWN ADVISORS, READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH HEREIN, AS WELL AS ALL OTHER INFORMATION SET FORTH OR OTHERWISE REFERENCED IN THIS DISCLOSURE STATEMENT AND THE PLAN. THE RISKS ASSOCIATED WITH THE

PLAN AND THE COUNTY MUST BE CAREFULLY CONSIDERED WHEN DETERMINING WHETHER TO VOTE TO ACCEPT THE PLAN.

A. Bankruptcy Considerations

1. Parties in Interest May Object to the County's Classification of Claims

Bankruptcy Code section 1122 provides that a plan may place a claim in a particular class only if the claim is substantially similar to the other claims in that class. The County believes that the classification of holders of Claims under the Plan complies with the requirements set forth in the Bankruptcy Code because the classes established under the Plan each encompass Claims that are substantially similar to similarly classified Claims. Nevertheless, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

2. Failure to Secure Confirmation of the Plan

Bankruptcy Code sections 943(b) and 1129 (in its incorporated parts) set forth the requirements for confirmation of a chapter 9 plan, and require the Bankruptcy Court to make a series of specified, independent findings. There can be no assurance that the Bankruptcy Court will find that the Plan meets all of these requirements and confirm the Plan. If the Plan is not confirmed, it is unclear what Distributions, if any, holders of Allowed Claims would receive with respect to their Allowed Claims. If the Plan is not confirmed, it is possible that a party could request and the Bankruptcy Court could decide that the Case should be dismissed under Bankruptcy Code section 930.

Subject to the restrictions set forth in Bankruptcy Code section 942 and in each of the Sewer Plan Support Agreements, the County reserves the right to alter, amend, or modify the Plan at any time before the Confirmation Date. Any such modifications could result in a less favorable treatment of any non-accepting Class, as well as of any Classes junior to such non-accepting Class, than the treatment currently provided in the Plan. Such a less favorable treatment could include a Distribution to the Class affected by the modification of a lesser value than currently provided in the Plan or no Distribution whatsoever under the Plan.

3. Non-Consensual Confirmation

In the event that any impaired class of claims does not accept a chapter 9 plan, the Bankruptcy Court may nevertheless confirm the plan under the procedure for non-consensual confirmation (or "cramdown"), which is described in Section XIV.E of this Disclosure Statement. Because Classes 1-E, 1-F, and 9 are deemed to reject the Plan, these requirements must be satisfied with respect to these Classes. The County believes that the Plan will satisfy the requirements for non-consensual confirmation. Nevertheless, there can be no assurance that the Bankruptcy Court will reach this conclusion.

4. The County May Object to the Amount or Classification of Claims

Except as otherwise provided in the Plan, the County reserves the right to object regarding liability, amount, priority, classification, or status as secured or unsecured with respect to any Claim,

in whole or in part. The estimates set forth in this Disclosure Statement cannot be relied on by any holder of a Claim.

5. The Effective Date Might Not Occur

Even if the Bankruptcy Court confirms the Plan, the Plan shall not become binding until the Effective Date occurs. The Effective Date is the first Business Day on which the conditions set forth in Section 4.18(a) of the Plan have been satisfied or waived pursuant to Section 4.18(b) of the Plan. Among these conditions to the Effective Date of the Plan is the successful marketing and sale of the New Sewer Warrants and the generation of sufficient Refinancing Proceeds therefrom to enable the County to fulfill its obligations under the Plan. The ability to market the New Sewer Warrants successfully will depend upon market conditions and other factors that are not within the County's control. Other conditions to the Effective Date relate to the amount of the Tail Risk, notably that the Tail Risk and Covered Tailed Risk may each not exceed $25 million in the aggregate and that each Sewer Warrant Insurer will not be subject to any Tail Risk on or after the Effective Date in an amount in excess of its respective Covered Tail Risk. Whether these conditions are satisfied will depend upon the aggregate amount of Commutation Elections made or deemed to be made by the holders of the Sewer Warrants pursuant to the Plan. If too many holders of Sewer Warrants do not make or are deemed not to make the Commutation Election, then the Plan will not become effective as the Tail Risk will exceed those limitations. There can be no assurances as to whether the conditions to the Effective Date will be timely satisfied or waived, or whether and when the Effective Date will occur.

6. The County May Withdraw or Modify the Plan

Subject to each of the Sewer Plan Support Agreements, the County reserves the right to revoke or withdraw the Plan at any time prior to the Confirmation Date. Notwithstanding anything to the contrary in the Plan, if the Plan is not confirmed or if the Effective Date does not occur, the Plan (and the Confirmation Order, if entered) will be null and void and inadmissible as evidence in any proceeding, and nothing contained in the Plan, this Disclosure Statement, or the Confirmation Order (if entered) will (a) be an admission by the County, any of the Plan Support Parties, the Sewer Warrant Trustee, or the School Warrant Trustee with respect to any matter set forth herein or therein, including liability on any Claim or the propriety of any Claim's classification; (b) constitute a waiver, acknowledgment, or release of any Claims against the County or its property, or of any Causes of Action; or (c) prejudice in any manner the rights of any Person in any further proceedings.

Additionally, subject to the restrictions set forth in Bankruptcy Code section 942 and in each of the Sewer Plan Support Agreements, the County reserves the right to alter, amend, or modify the Plan at any time before the Confirmation Date.

B. Risks Relating to Making or Declining to Make the Commutation Election

The Plan provides holders of Class 1-A and Class 1-B Claims with an option to choose whether to, among other things, commute their insurance or to retain insurance (to the extent insurance is applicable to such claimant's Sewer Warrants), as described in Section XII.B hereof. Once the Plan is confirmed and the Effective Date occurs, holders of Class 1-A and Class 1-B

Claims who returned a Ballot declining to make the Commutation Election or who were deemed not to make the Commutation Election will receive under the Plan from or on behalf of the County a Cash Distribution of only sixty-five percent (65%) of the Adjusted Sewer Warrant Principal Amount of the Sewer Warrants they hold, rather than the eighty percent (80%) Cash Distribution that will be paid under the Plan from or on behalf of the County to those holders who make or are deemed to make the Commutation Election. Holders of Class 1-A and Class 1-B Claims who decline or are deemed not to make the Commutation Election will retain their rights after the Effective Date to look to the Sewer Warrant Insurer that issued the applicable Sewer Wrap Policy for additional recovery with respect to the unpaid amounts of principal and interest on their Sewer Warrant Claims in accordance with the terms and conditions of such Sewer Wrap Policy. There are risks, however, to recovering such amounts.

The ability of a non-commuting holder of a Sewer Warrant Claim to recover on account of Sewer Wrap Payment Rights is subject to the collection risk associated with its applicable Sewer Warrant Insurer. The holders of Sewer Warrant Claims should investigate the financial condition of each applicable Sewer Warrant Insurer prior to determining whether to make the Commutation Election under the Plan. Holders of Sewer Warrant Claims are advised that FGIC, which insures approximately $1.6 billion of the Sewer Warrants, has been placed in a rehabilitation proceeding in New York state court (the "FGIC Rehabilitation Proceeding"). The Superintendent of Financial Services of the State of New York, solely in his capacity as Rehabilitator of FGIC (the "FGIC Rehabilitator"), has concluded that FGIC ***will not*** have sufficient assets to pay policy claims in full.[16] The FGIC Rehabilitator filed, and the New York State Court approved, a plan of rehabilitation for FGIC (the "FGIC Rehabilitation Plan").[17] The County is of the opinion that the amount of any policy claim that the non-commuting holder of a FGIC-insured Sewer Warrant Claim might have under the FGIC Rehabilitation Plan with respect to such FGIC-insured Sewer Warrant Claim should be calculated only after taking into account any Distribution that such holder received from or on behalf of the County pursuant to its chapter 9 Plan. The County further understands that the FGIC Rehabilitation Plan, once effective, provides for payment to policyholders of a cash payment percentage ("CPP") of permitted policy claims, estimated initially to be 17.25% (subject to adjustment by the FGIC Rehabilitator on or before the effective date of the FGIC Rehabilitation Plan).[18] The FGIC Rehabilitator estimates that additional payments may be made on policy claims throughout FGIC's 40 year expected wind down period, but that the average ultimate recovery to policyholders will be approximately 27% to 30% (inclusive of the initial estimated 17.25% recovery) of each permitted policy claim on a net present value basis, using a discount rate of 20% and 10%.[19]

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[16] *See Disclosure Statement for Plan of Rehabilitation for Financial Guaranty Insurance Company*, at p. 2, *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012 (N.Y. Sup. Ct. filed Sept. 27, 2012).

[17] All discussions and descriptions of the FGIC Rehabilitation Plan contained herein are for summary purposes only and are qualified in their entirety by the terms of the FGIC Rehabilitation Plan.

[18] *See Plan Approval Order, In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012 (N.Y. Sup. Ct. June 11, 2013).

[19] *See Affidavit of Michael W. Miller in Further Support of Approval of First Amended Plan of Rehabilitation, In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012 (N.Y. Sup. Ct. filed Dec. 12, 2012).

Moreover, the County understands that, pursuant to the FGIC Rehabilitation Plan, such amounts (other than the initial CPP) would be paid by FGIC in periodic installments over a long period of time. As such, the County believes it is highly likely that the retention of rights under Sewer Wrap Policies issued by FGIC would result in a smaller recovery to holders of Sewer Warrants (with such recovery being received over a longer period of time) than would be received by such holders if they instead made the Commutation Election. Based on the foregoing, the County believes that it would be rational for every holder of FGIC-insured Sewer Warrants to make the Commutation Election under the Plan and receive an additional 15% Cash Distribution on the Effective Date. Holders of Sewer Warrants should refer to the terms of the FGIC Rehabilitation Plan and consult with their own advisors as to the effect of such plan.

In addition, although the County has no reason to believe that Syncora is presently unable to meet its obligations under the applicable Sewer Wrap Policies, in April 2009, the New York Insurance Department issued an order (the "1310 Order") stating that, without limiting its power to institute rehabilitation or liquidation at an earlier date, Syncora must take such steps as contemplated by Syncora's plan to remediate its policyholders' surplus deficit and restore its minimum surplus to policyholders, which required Syncora to complete a remediation plan sufficient to meet its minimum statutory policyholder surplus requirements and address previously announced short and medium term liquidity issues. Syncora completed that remediation plan in July 2010, and the 1310 Order was withdrawn.

Future events could occur that could give rise to payment or other counterparty risks with respect to each of the Sewer Warrant Insurers. Such risks would attach to the rights retained by any holder of Sewer Warrants that does not make or is deemed not to make the Commutation Election, and the County can make no guarantee that any holder would be able to realize any particular level of recovery from any Sewer Warrant Insurer.

Also, while Section 4.15(h) of the Plan provides that the Sewer Warrants will be deemed accelerated as of the Effective Date, this deemed acceleration of the Sewer Warrants does not mean that the Sewer Warrant Insurers are then obligated to pay off all principal on the non-commuted Sewer Warrants in full on an accelerated basis. Instead, the Sewer Warrant Insurers will simply have the right, *in their sole and absolution discretion* (irrespective of the terms of the applicable Sewer Wrap Policy), to pay off such principal on an accelerated basis at a date of their choosing. The Sewer Warrant Insurers are under no obligation to do so, however, and may decide instead to continue to pay scheduled debt service on such Sewer Warrants as and when it comes due and owing pursuant to the applicable Sewer Wrap Policy. In most cases, the scheduled maturity of the applicable Sewer Warrants occurs in 2041 or 2042. Moreover, in FGIC's case, even if FGIC were to elect to give effect to such deemed acceleration of the Sewer Warrants under the County's chapter 9 Plan, the County understands that FGIC could only initially pay a small portion of such accelerated claims under the terms of the FGIC Rehabilitation Plan and likely would never pay the balance in full.

Furthermore, there may be collection or other risks associated with the retention of rights under the applicable Sewer Wrap Policies. For example, while the County would expect that the Sewer Warrant Insurers would honor claims made by a policyholder under the Sewer Wrap Policies (to the extent the Sewer Warrant Insurers were legally permitted and financially able to do so)

without the need for a holder of Sewer Warrants to make demand or initiate litigation, a Sewer Warrant Insurer might nevertheless dispute its obligation to pay claims to particular holders (including with respect to the amount and timing of any obligations, as well as with respect to the standing of individual holders to pursue claims). As such, it is possible that a holder not making the Commutation Election might need to engage their own counsel at their own expense or incur other expenses in order to realize on any rights that such holder retains by not making the Commutation Election. Once again, there are potential future risks associated with declining or being deemed not to make the Commutation Election that will not exist for all the holders of Sewer Warrants that make the Commutation Election.

On the other hand, holders of Sewer Warrant Claims that make or were deemed to make the Commutation Election will receive on the Effective Date (which, under the terms of the Plan, shall be no later than December 31, 2013) from or on behalf of the County under the Plan a Cash Distribution of eighty percent (80%) of the Adjusted Sewer Warrant Principal Amount of the Sewer Warrants they hold. Holders of Sewer Warrant Claims who make or are deemed to make the Commutation Election will release the Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims and will not be entitled to receive any amounts or make any claims under any of the insurance policies covering their Sewer Warrants.

C. Risks Associated with the County

The risks described above in Section XI.A titled "Bankruptcy Considerations" are risks relating to the County's ability to obtain Confirmation of its Plan and to consummate the transactions described in the Plan on the Effective Date. Other risk factors may affect the County's ability to perform its obligations under the Plan after the Effective Date. The following discussion is not an exhaustive list of those risks and does not reflect the relative importance of those risks. It is possible that risk factors not discussed herein may become material in the future.

1. Risks Applicable to the County Generally

a. Control by the Alabama Legislature

Alabama counties, including the County, have no home rule authority except as specifically granted by the Alabama Legislature. As a result, the County is subject to the total control of the Alabama Legislature, which in the past has restricted the County's access to revenues and declined to adopt proposed County legislation.

The Plan is not based upon or conditioned upon any action of the Alabama Legislature. Without limitation, the Projections underlying the Plan do not assume any enlargement of the County's ability to levy taxes or increase revenues to the General Fund.

b. County Credit May be Viewed Negatively By Market

Purchasers of New Sewer Warrants, recipients of the Replacement 2001-B GO Warrants, or holders of existing GO Warrants and School Warrants may encounter limited market acceptance of County credit upon any attempt to sell County debt obligations, making sales at or near par

potentially difficult. Holders of County debt after the Effective Date may not be able to sell debt they hold for any price for some time. Alternatively, potential purchasers may demand discounts to the par amount of obligations before a potential purchaser would be willing to purchase County debt of any type. There can be no assurance that a secondary market will exist for any County debt.

c. Lack of Population Growth

The County has experienced population changes that can best be described as stagnant or slightly declining. According to the 1980 U.S. Census, the County reached its peak population with 671,324 residents. This number declined to 651,525 in 1990, increased to 662,047 in 2000 and declined again to 658,466 in 2010. In addition to its inability to increase tax rates, the lack of steady population growth experienced by the County over the last 30 years limits the County's ability to grow tax revenues or increase the number of sewer customers it serves.

d. Risks with Respect to Tax Exemption for Interest Payments on County Obligations

The continued exemption from taxation for interest payments on County debt obligations is contingent on the County's compliance (and, in the case of the Bessemer Lease Warrants, the PBA's compliance in addition to the County's compliance) with federal tax laws applicable to such obligations. The County has covenanted to comply with all such obligations. Any failure to comply with these requirements could cause interest on the affected County obligation to be deemed not excludable from gross income for federal income tax purposes as of the date of issuance of the obligation, or as of some later date.

No assurances can be given that federal legislation will not be introduced and enacted which could adversely affect the exclusion of interest on obligations of the County the interest on which is currently exempt from gross income for federal income taxation or the tax treatment of certain owners of tax-exempt obligations of the County as a result of the receipt of such interest. None of the County's outstanding debt obligations contains, and the New Sewer Warrants and the Replacement 2001-B GO Warrants will not contain, any provision for an increase in the rate of interest applicable to such obligations or for the mandatory redemption of such obligations, in the event the interest thereon should become includable in gross income for federal income taxation after their date of issuance, whether in whole or in part.

In addition, proposed, pending or future tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of the interest on County debt obligations. Future legislation could directly or indirectly reduce or eliminate the value of certain deductions and exclusions, including the benefit of the exclusion of tax-exempt interest on County debt obligations from gross income for federal income tax purposes. Any such proposed legislation, actions or decisions, whether or not enacted, taken or rendered, could also adversely affect the value and liquidity of County debt obligations. Creditors of the County should consult their own tax advisors regarding the forgoing matters.

2. General Fund Risks

a. Inability to Increase Tax Rates

As discussed above in Section III.A.11, the County generally lacks authority under Alabama law to increase revenues on its own initiative and is dependent upon the Alabama Legislature for the approval of any new or increased taxes to be levied by the County. While the County's ability to raise revenues to support its General Fund is limited, state and federally-mandated expenditures for justice, health and welfare programs continue to increase. Meanwhile, state and federal funds available to fund such mandated programs generally have remained stagnant or decreased.

In proposing its Plan, the County has assumed that the Alabama Legislature will not approve either the increase of any existing taxes currently levied by the County or the imposition of any new taxes by the County, including any occupational tax. The County's projections also make assumptions about future increases in the costs of the County performing its mandatory obligations. If County revenues are less than its total obligations, the County's ability to perform its obligations under the Plan could be jeopardized.

b. Additional Earmarking of Existing Revenue Sources

As discussed above in Section III.A.11, the Alabama Legislature has the ability to "earmark" certain County revenue sources. An "earmark" restricts the use of tax revenues for limited, specific purposes generally determined by the legislative body imposing the restriction. The County generally disfavors the earmarking of its revenue sources as it limits the County Commission's ability to exercise its judgment as to the best use of County resources. The County has tried to convince the Alabama Legislature to remove earmarks from certain of the County's remaining revenue sources, but the County legislative delegation, as a body, has so far declined. Therefore, no action was taken. Although the County is hopeful that the Alabama Legislature will not place additional earmarks on the County's existing revenue sources, additional earmarks nevertheless could be adopted over the opposition of the County. The imposition of additional earmarks on County tax revenue could have an adverse effect on the County's ability to perform its obligations under the Plan.

c. Fluctuations in *Ad Valorem* Tax Collections

The General Fund of the County depends, to a significant degree, on *ad valorem* tax collections. In the past, the system of *ad valorem* taxation in Alabama has been under revision by constitutional amendments, legislation and court orders relating to the reappraisal of taxable property, reclassification of taxable property, variation of assessment ratios, and limitations on the expected increase in *ad valorem* taxes resulting from reappraisal and proposals respecting current use valuations. Because of additional revisions that may be made to the system of *ad valorem* taxation in Alabama, the County cannot predict what effect past or future revisions may have on the future collections of *ad valorem* taxes in the County.

There can be no assurance that the total assessed value of taxable property in the County will remain at its present level. Adverse trends in the economy of the County could adversely affect

property values and the collection of *ad valorem* taxes. Future population trends affecting the County may also have an adverse effect on the County's ability to grow its *ad valorem* tax revenue.

3. Risks Relating to the New Sewer Warrants

a. The New Sewer Warrants are Limited Obligations

The New Sewer Warrants will not be general obligations of the County or a charge against the general credit or taxing powers of the County, the State of Alabama, or any political subdivision of the State of Alabama. Instead, the New Sewer Warrants will be limited obligations of the County payable solely from and secured by a pledge and assignment of the gross revenues from the operation of the Sewer System.

The sufficiency of the gross revenues from the operation of the Sewer System to pay debt service on the New Sewer Warrants, to pay operating expenses of the Sewer System, and to make capital expenditures necessary to maintain or expand the Sewer System may be affected by events and conditions relating to, among other things, population and employment trends, weather conditions, and political and economic conditions in the County, the nature and extent of which are not presently determinable.

b. The Interim Rate Structure and Its Impact on Sewer Revenues

The Interim Rate Structure adopted by the County Commission became effective on March 1, 2013. The Interim Rate Structure increased many of the rates charged for services provided by the Sewer System and made other material changes to the Sewer System's billing system. As the Interim Rate Structure has been in effect only for a few months, the County has had little time within which to evaluate the overall impact the Interim Rate Structure has had on the Sewer System's revenues. The analyses conducted to date, however, indicate that the Interim Rate Structure has been implemented correctly, as the average amount billed per CCF of usage is approximately 6.9% higher than under the previous rate structure. The overall effect on revenues, however, is also a function of sewer use, which varies from month to month and year to year depending on many variables, including weather. Sewer use is normally higher in the summer months, when the weather is normally hotter and drier.

The Sewer System Projections predict that the implementation of and adherence to the Interim Rate Structure and the Approved Rate Structure will generate sufficient revenues to service the debt obligations on the New Sewer Warrants, pay operating expenses, and to provide for a certain level of capital improvements to the Sewer System. Those financial projections are premised upon various assumptions about usage of the Sewer System's services and, particularly, the response its customers may have to increasing charges for services. The County believes that its assumptions regarding the impact that the implementation of and adherence to the Interim Rate Structure and the Approved Rate Structure on future sewer revenues are reasonable; however, the nature and extent of the Interim Rate Structure or the Approved Rate Structure's effect on the Sewer System's revenues are not presently determinable.

c. The EPA Consent Decree and Other Compliance Obligations

The County has complied and continues to comply with its commitments and obligations under the EPA Consent Decree. While five of the Sewer System's basins have been released from the EPA Consent Decree, four other basins have not. The County's financial projections for the Sewer System are premised upon reasonable estimates for the continued cost of complying with the terms of the EPA Consent Decree. There can be no assurance that the actual cost of compliance will not exceed the County's estimates, however, nor can any assurances be given that the County will be able to comply fully with its remaining obligations under the EPA Consent Decree.

d. Additional Regulatory Requirements

Periodically, the federal or state government imposes additional regulatory requirements upon operators of public sanitary sewer systems. The timing and impact of such future regulatory action cannot be predicted with certainty, and the impact of such action on the accuracy of the financial projections for the Sewer System contained in the Financing Plan cannot be presently determined.

e. Additional Sewer Indebtedness

The New Sewer Indenture is expected to permit the County to issue or incur additional indebtedness secured on a parity of lien with respect to the gross revenues of the Sewer System as that provided in favor of the New Sewer Warrants. Such indebtedness would increase debt service requirements and could adversely affect debt service coverage on the New Sewer Warrants or could adversely affect the ability of the County to meet operating expenses or to pay for necessary capital improvements. The New Sewer Indenture will contain specific conditions that the County must meet prior to issuing additional parity obligations under the New Sewer Indenture.

4. Risks Relating to the School Warrants

a. School Warrants are Limited Obligations

The School Warrants are not general obligations of the County or a charge against the general credit or taxing powers of the County, the State of Alabama, or any political subdivision of the State of Alabama. The School Warrants are limited obligations of the County payable solely from and secured by a pledge and assignment of the Education Tax and certain amounts held in designated funds created under the School Warrant Indenture.

The sufficiency of the Education Tax proceeds to pay debt service on the School Warrants may be affected by events and conditions relating to, among other things, population and employment trends and economic conditions in the County, the nature and extent of which are not presently determinable.

b. Online Commerce and Other Factors Contributing to Erosion of Tax Base

The amount of Education Tax revenues is subject to increase or decrease due to (i) increases or decreases in the dollar volume of taxable sales within the County, (ii) legislative changes relating to the Education Tax, which may include changes in the scope of taxable sales, and (iii) other factors that may be beyond the control of the County, including, but not limited to, the continuing increased use of electronic commerce and other internet-related sales activity that has had an adverse effect upon the amount of Education Tax revenues.

Federal law currently prohibits states and municipalities from levying and collecting sales taxes on internet sales. While products purchased from internet retailers are not exempt from use taxation, taxpayer compliance is low, and the County has no effective means of enforcing use tax law, especially given the financial restraints imposed upon it. On May 6, 2013, the U.S. Senate passed the Marketplace Fairness Act (Senate Bill 743) which, if enacted, would allow states to require online retailers to collect sales and use taxes without a physical presence nexus requirement. The U.S. House has referred the Senate bill to the House Committee on the Judiciary. The County cannot predict the likelihood of the Marketplace Fairness Act, or similar legislation, being enacted. In the meantime, online sales remain exempt from sales taxes.

5. Risks Relating to the New Bessemer Lease

a. Right of County Not to Renew the New Bessemer Lease

The County may elect not to renew the New Bessemer Lease for a successive one-year term at the end of any fiscal year of the County. However, pursuant to the terms of the New Bessemer Lease and the Bessemer Stipulation, the County has covenanted that if any office or storage space in the facilities subject to the New Bessemer Lease shall become vacant after acquisition or construction thereof, then neither the County nor any officer, department or agency of the County may thereafter enter into any lease or rental agreement for additional office or storage space or renew any existing lease or rental agreement for office or storage space in or about the municipality where such leased facilities are located until after all such vacant space in the leased facilities shall have been filled. Additionally, the County has covenanted in the New Bessemer Lease and the Bessemer Stipulation that, so long as the Bessemer Lease Warrants are outstanding and rental payments under the New Bessemer Lease remain to be paid, the County will not relocate the County's Bessemer courthouse or jail to any alternative facility unless the New Bessemer Lease is expressly amended to provide that such alternative facility made a part of the leased premises thereunder. The parties agreed that these covenants shall survive the termination of the New Bessemer Lease.

If the County elects not to renew the New Bessemer Lease for a successive one-year term prior to the payment in full of the Bessemer Claims, it is possible that the facilities financed by the Bessemer Lease Warrants could not be sold for an amount sufficient to satisfy in full the Bessemer Claims or be re-let for sufficient rentals to make the regularly-scheduled debt service payments on account of the Bessemer Lease Warrants. If such event occurs, then no assurances can be given that sufficient funds will be available from the PBA to satisfy in full the Bessemer Lease Warrants.

b. Other Risk Factors Discussed in the Official Statement relating to the Bessemer Lease Warrants Issued by the PBA

The PBA issued an official statement in connection with its issuance of the Bessemer Lease Warrants. That official statement included a discussion of risk factors relating to such warrants. Among the risk factors discussed by the PBA therein was the tax-exempt status of the Bessemer Lease Warrants and the possibility that the tax status of such warrants could be affected by post-issuance events. The County is not the issuer of the Bessemer Lease Warrants and has no knowledge of any such post-issuance events that have adversely affected or may have adversely affected the tax-exempt status of such warrants; however, as discussed in such official statement, this has been and remains a risk factor with respect to such Bessemer Lease Warrants. Any party with an interest in any of the Bessemer Lease Warrants is encouraged to refer to such official statement of the PBA for the discussion of this risk factor contained therein.

D. Additional Factors to Be Considered

1. The County Has No Duty to Update

The statements contained in this Disclosure Statement are made by the County as of [[date], 2013], unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has been no change in the information set forth herein since that date. The County has no duty to update this Disclosure Statement unless otherwise ordered to do so by the Bankruptcy Court.

2. No Representations Outside This Disclosure Statement Are Authorized

No representations concerning or related to the County, the Case, or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement and any other Plan solicitation materials that accompany this Disclosure Statement. Any representations or inducements made to secure your acceptance or rejection of the Plan that are other than as contained in, or included with, this Disclosure Statement should not be relied upon by you in arriving at your decision.

3. Claims Could Be More Than Projected

The Allowed amount of Claims in Classes (including Class 6 General Unsecured Claims) could be significantly more than projected, which could, in turn, cause the ratable value of Distributions to be reduced substantially. In addition, certain Claims may accrue postpetition interest such that delays in Distributions could reduce the Distributions available for other Creditors.

NO LEGAL OR TAX ADVICE IS PROVIDED TO YOU BY THIS DISCLOSURE STATEMENT. THE CONTENTS OF THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED AS BUSINESS, LEGAL, OR TAX ADVICE. EACH CREDITOR AND OTHER PARTY IN INTEREST SHOULD CONSULT HIS, HER, OR ITS OWN LEGAL COUNSEL AND ACCOUNTANTS OR FINANCIAL ADVISORS AS TO LEGAL, TAX, AND OTHER MATTERS CONCERNING HIS, HER, OR ITS CLAIMS. THIS

DISCLOSURE STATEMENT IS NOT LEGAL ADVICE TO YOU. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN OR OBJECT TO CONFIRMATION OF THE PLAN.

XII.
VOTING AND ELECTION PROCEDURES

A. Solicitation of Votes with Respect to the Plan

1. The County Will Solicit Votes From Holders of Claims in Classes 1-A, 1-B, 1-C, 1-D, 2-A, 2-B, 2-C, 2-D, 2-E, 5-A, 5-D, 5-E, 6, and 7

The County believes that the Classes on the following chart are Impaired and will receive Distributions under the Plan and, therefore, will solicit votes on the Plan from holders of Claims in these Classes (collectively, the "Voting Classes"):[20]

Class	Description
Class 1-A	Sewer Warrant Claims
Class 1-B	Bank Warrant Claims and Primary Standby Sewer Warrant Claims
Class 1-C	Sewer Warrant Insurers Claims
Class 1-D	Other Specified Sewer Claims
Class 2-A	Series 2004-A School Claims
Class 2-B	Series 2005-A School Claims
Class 2-C	Series 2005-B School Claims and Standby School Warrant Claims
Class 2-D	School Policy – General Claims
Class 2-E	School Surety Reimbursement Claims
Class 5-A	Series 2001-B GO Claims and Standby GO Warrant Claims
Class 5-D	GO Policy Claims
Class 5-E	GO Swap Agreement Claims

[20] Holders of Claims in Classes 1-A and 1-B are also permitted to make certain elections with respect to the Plan, as discussed in Sections 2.3(a), 2.3(b), and 4.7 of the Plan, as well as in Section XII.B hereof.

Class 6	General Unsecured Claims
Class 7	Bessemer Lease Claims

2. Classes 3-A, 3-B, 4, 5-B, 5-C, and 8 Will Be Deemed to Accept the Plan, While Classes 1-E, 1-F, and 9 Will Be Deemed to Reject the Plan

The Plan provides that legal, equitable, and contractual rights of holders of Allowed Class 3-A Claims (Board of Education Lease Claims), Allowed Class 3-B Claims (Board of Education Policy Lease Claims), Allowed Class 4 Claims (Other Secured Claims, including Secured Tax Claims), Allowed Class 5-B Claims (Series 2003-A GO Claims), Allowed Class 5-C Claims (Series 2004-A GO Claims), and Allowed Class 8 Claims (Other Unimpaired Claims) are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, setoff or recoupment rights of the County with respect thereto. Accordingly, such Claims are not Impaired by the Plan, are deemed to accept the Plan, and thus will not receive Ballots.

Any party that disputes the County's characterization of its Claim as not Impaired may request a finding of impairment from the Bankruptcy Court in order to obtain the right to vote, but such party must promptly take action to request such a finding and arrange for the Bankruptcy Court to hold a hearing and adjudicate such request no later than [seven (7)] calendar days prior to the Ballot Deadline (*i.e.*, no later than [September 30, 2013]).

Holders of Class 1-E Claims (Sewer Swap Agreement Claims), Class 1-F Claims (Other Standby Sewer Warrant Claims), and Class 9 Claims (Subordinated Claims) shall neither receive any Distributions nor retain any property under the Plan on account of such Claims. Therefore, these holders of such Claims are deemed to reject the Plan and will not receive Ballots.

3. Voting Rights with Respect to Contingent Claims and Unliquidated Claims

If a Claim for which a proof of Claim has been timely filed is (a) marked or identified as Contingent or Unliquidated on its face or (b) does not otherwise specify a fixed or liquidated amount, then, in accordance with the Plan Procedures Order, such Contingent or Unliquidated Claim will be temporarily allowed for voting purposes in the amount of $1.00. If a Claim has been estimated or otherwise allowed for voting purposes by an order of the Bankruptcy Court, or by an agreement between the County and the Creditor estimating or otherwise allowing a Claim for voting purposes, then, in accordance with the Plan Procedures Order, such Claim will be temporarily allowed for voting purposes in the amount so estimated or allowed by the Bankruptcy Court. If the automatic stay has been modified by an order of the Bankruptcy Court at least fifteen (15) calendar days before the Ballot Deadline to permit a Claim to be adjudicated, in whole or in part, in another court (including an appellate court), then such Claim will be temporarily allowed in the amount of $1.00.

4. Voting Rights with Respect to Disputed Claims

If, among other things, the County has Filed an objection to or request for estimation of a Claim on or before [September 13, 2013], then, in accordance with the Plan Procedures Order, such Claim will be temporarily allowed or disallowed for voting purposes in accordance with the relief sought in the objection. If an objection does not identify the proposed amount of a Claim (e.g., if the Claim remains subject to estimation or liquidation), then such Claim will be temporarily allowed in the amount of $1.00. If such objection seeks to disallow the Claim in full and such objection is not resolved prior to [September 13, 2013], such Claim will be temporarily disallowed for voting purposes.

5. Solicitation, Balloting, Tabulation, Notices, and Confirmation Procedures

On August __, 2013, after due notice and a hearing, the Bankruptcy Court entered its *Order Approving: (a) the Form, Scope, and Nature of Solicitation, Balloting, Tabulation, and Notices with Respect to the "Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated June 30, 2013)"; and (b) Related Confirmation Procedures, Deadlines, and Notices* [Docket No. ____] (the "Plan Procedures Order"). The Plan Procedures Order sets forth, among other things, the procedures pursuant to which votes and certain elections with respect to the Plan will be solicited and tabulated. The County and its designated agents shall solicit and tabulate the votes and elections with respect to its Plan in accordance with the procedures approved in the Plan Procedures Order.

6. Ballot Record Date

The Ballot Record Date for determining which Creditors are entitled to vote on and make elections under the Plan is [**August 6], 2013**. Therefore, only those Creditors in a Class entitled to vote on the Plan (in accordance with the provisions of the Plan and the Plan Procedures Order) and holding Claims against the County as of the Ballot Record Date are entitled to vote on the Plan and make elections with respect to the Plan.

7. Ballots

If your Claim is not classified in one of the Voting Classes, you are **not** entitled to vote on the Plan and you will not receive a Ballot. If your Claim is in a Voting Class and you are otherwise eligible to vote on the Plan, you will receive a Ballot with respect to that Claim.

In voting to accept or to reject the Plan, please use only the Ballot sent to you with this Disclosure Statement, and please carefully read the voting instructions on the Ballot for an explanation of the applicable voting and election procedures and deadlines.

If, after reviewing this Disclosure Statement, you believe that you hold an Impaired Claim and that you are entitled to vote on the Plan, or if you are a holder of a Claim in one of the Voting Classes and did not receive a Ballot, received a damaged or illegible Ballot, or lost your Ballot, or if you are a party in interest and have any questions concerning this Disclosure Statement, any exhibit hereto, the Plan, or the voting procedures in respect thereof, please contact the Ballot Tabulator by email at JeffersonCountyInfo@kccllc.com, or by telephone at (866) 967-0677, or by mail at

Jefferson County Ballot Processing, c/o Kurtzman Carson Consultants LLC, (Attention: Jefferson County Ballot Processing), 2335 Alaska Avenue, El Segundo, CA 90245, or by accessing the website of the Ballot Tabulator at www.jeffersoncountyrestructuring.com. The cost of additional copies must be paid by the person ordering them.

Please note that counsel for the County cannot and will not provide Creditors or other third parties with any legal advice, including advice regarding how to vote on the Plan or the effects of confirmation of the Plan.

8. Ballot Deadline

In order to vote to accept or to reject the Plan or to make an election with respect to the Commutation Election, your Ballot must be completed and returned to the Ballot Tabulator so that it is actually received by the Ballot Tabulator no later than 5:00 p.m. prevailing Central time, on [October 7, 2013] (the "Ballot Deadline"). If your Ballot is not timely received by the Ballot Tabulator, it will not be counted. Ballots sent by facsimile or by email will not be accepted by the Ballot Tabulator and will not be counted in tabulating votes accepting or rejecting the Plan or tabulating Commutation Elections under the Plan. Neither Ballots received after the Ballot Deadline, nor Ballots returned directly to the County, the County's counsel, or the Bankruptcy Court rather than to the Ballot Tabulator, shall be counted in connection with confirmation of the Plan or any Commutation Elections under the Plan.

If you are instructed by an Institutional Nominee to return your Ballot to the Institutional Nominee, then you must return such Ballot to the Institutional Nominee by the deadline (if any) set by such Institutional Nominee so that such Institutional Nominee may process your Ballot and return it to the Ballot Tabulator by the Ballot Deadline. If your Ballot is not returned, or if you are required to return your Ballot to an Institutional Nominee and your Ballot is not received by such Institutional Nominee by the deadline (if any) set by such Institutional Nominee, or if your Ballot is otherwise received by the Ballot Tabulator after the Ballot Deadline, your Ballot will not be counted and, if you are a holder of a Class 1-A Claim or a Class 1-B Claim, depending upon which series or subseries of Sewer Warrants you hold, you may be deemed to have made the Commutation Election in accordance with the terms of the Plan

DO NOT RETURN YOUR WARRANTS, SECURITIES, OR ANY OTHER DOCUMENTS WITH YOUR BALLOT.

Any executed Ballot that is timely received but does not indicate either an acceptance or a rejection of the Plan or indicates both an acceptance and a rejection of the Plan shall be deemed to constitute an acceptance of the Plan.

It is important that holders of Claims exercise their rights to vote to accept or reject the Plan. **Even if you do not vote to accept the Plan, you will be bound by it if, among other things, it is accepted by the requisite holders of Claims.** The amount and number of votes required for confirmation of the Plan are computed, in part, on the basis of the total amount of Claims actually voting to accept or reject the Plan.

With respect to Commutation Elections under the Plan, subject to the exceptions noted below, if you hold Claims in Class 1-A or Class 1-B and you either (a) do not return your Ballot by the Ballot Deadline, (b) return your Ballot by the Ballot Deadline but do not make any election with respect to the Commutation Election, or (c) return a Ballot by the Ballot Deadline and indicate on such Ballot both an election to make and an election not to make the Commutation Election, then you will be conclusively deemed to have made the Commutation Election. Notwithstanding the foregoing, any holders of the Series 2003-B-8 Sewer Warrants that either (i) do not return a Ballot, (ii) do not indicate an election on any Ballot that is returned by the Ballot Deadline, or (iii) return a Ballot by the Ballot Deadline and indicate both an election to make and an election not to make the Commutation Election will be conclusively deemed not to have made the Commutation Election. Additionally, notwithstanding the foregoing, any holders of the Series 2003-C-9 Through C-10 Sewer Warrants that are deemed to make the Commutation Election because they either (1) do not return a Ballot, (2) do not indicate an election on any Ballot that is returned by the Ballot Deadline, or (3) return a Ballot by the Ballot Deadline and indicate both an election to make and an election not to make the Commutation Election, will be notified by their Institutional Nominee of their right to rescind such Commutation Election by providing timely written notice thereof to their Institutional Nominee in accordance with the procedures established by the Plan Procedures Order. For the avoidance of doubt, holders of the Series 2003-C-9 Through C-10 Sewer Warrants that affirmatively checked the applicable box on their respective Ballot indicating whether or not they were making the Commutation Election will not be given this opportunity to rescind their elections.

THE COUNTY BELIEVES THAT PROMPT CONFIRMATION AND IMPLEMENTATION OF THE PLAN ARE IN THE BEST INTERESTS OF THE COUNTY AND ITS CREDITORS AND SUPERIOR TO ANY POTENTIALLY FEASIBLE ALTERNATIVE. THE COUNTY RECOMMENDS THAT HOLDERS OF CLAIMS IN ALL SOLICITED CLASSES VOTE TO ACCEPT THE PLAN. THE COUNTY ALSO RECOMMENDS THAT HOLDERS OF ALL ALLOWED CLASS 1-A CLAIMS (SEWER WARRANT CLAIMS) AND CLASS 1-B CLAIMS (BANK WARRANT CLAIMS AND PRIMARY STANDBY SEWER WARRANT CLAIMS) MAKE THE COMMUTATION ELECTION BY CHECKING THE BOX LABELED "MAKE COMMUTATION ELECTION (OPTION 1)" ON THEIR BALLOTS; PROVIDED, HOWEVER, THAT WITH RESPECT TO THOSE CLASS 1-A CLAIMS IN THE AGGREGATE OUTSTANDING PRINCIPAL AMOUNT OF APPROXIMATELY $62 MILLION THAT ARE ON ACCOUNT OF SERIES 2003-B-8 SEWER WARRANTS, THE COUNTY MAKES NO RECOMMENDATION TO SUCH HOLDERS REGARDING THE COMMUTATION ELECTION, BUT REQUESTS THAT SUCH HOLDERS ALSO EVALUATE THOROUGHLY THE INFORMATION CONTAINED HEREIN (INCLUDING, WITHOUT LIMITATION, SECTIONS XI.B AND XII.B OF THIS DISCLOSURE STATEMENT) AND DECIDE WHETHER TO MAKE THE COMMUTATION ELECTION.

B. The Commutation Election

A key feature of the Plan is the Commutation Election that the Plan makes available to all holders of Allowed Claims in Classes 1-A and 1-B. The ability of the Plan to go effective and,

therefore, the amount of consideration available under the Plan for all holders of Sewer Warrant Claims, Bank Warrant Claims, and (to the extent not otherwise included) Primary Standby Sewer Warrant Claims is dependent on and varies materially based on whether those Creditors make or are deemed to make the Commutation Election.

The following discussion provides more detail regarding the Commutation Election, the procedures associated with the Commutation Election, the Rescission of Deemed Election, and the County's position regarding why holders of Sewer Warrant Claims should make the Commutation Election. The Commutation Election or deemed Commutation Election is independent of the Holder's vote to accept or reject the Plan.

The JPMorgan Parties, the Supporting Sewer Warrantholders, and the Sewer Liquidity Banks have all agreed to make the Commutation Election in accordance with and subject to the terms of their respective Sewer Plan Support Agreements. The JPMorgan Parties, the Supporting Sewer Warrantholders, and the Sewer Liquidity Banks collectively hold in excess of $2.2 billion of the outstanding principal amount of the Sewer Warrants.

1. What Is the Commutation Election?

The Commutation Election is one of the two options offered to holders of Sewer Warrants as alternative treatments under the Plan. The Commutation Election is available irrespective of whether a holder votes to accept or reject the Plan.

Any Person who makes or is deemed to make the Commutation Election (which is referenced herein from time to time, and on the applicable Ballots, as "Option 1") and, if applicable, does not rescind the Commutation Election, is electing to unconditionally commute, waive, and forever release, discharge, and forgo three things, in each case to the extent applicable to the Sewer Warrants held by such Person, in exchange for a Distribution by the County of an additional fifteen (15) cents (i.e., 80 cents rather than 65 cents) on the dollar on account of such Person's Allowed Class 1-A or 1-B Claim:

(1) any and all rights (if any) against the applicable Sewer Warrant Insurer insuring such holder's Sewer Warrants to receive any payments from or on account of such Sewer Warrant Insurer's Sewer Wrap Policies,

(2) any and all Bank Warrant Default Interest Claims (except with respect to the Bank Warrant Default Interest Settlement Payments), and

(3) any and all other Claims or Causes of Action against the County, against any of the Sewer Released Parties, or against any of their respective Related Parties.

The relevance of some or all of these three items may differ by series of Sewer Warrants.[21] As discussed in Section XI.B above, a material consideration for holders of certain Sewer Warrants is that FGIC, the insurer of $1.6 billion of the Sewer Warrants, is itself in a rehabilitation proceeding in New York state court. The FGIC Rehabilitation Proceeding is discussed in Section XI.B above. As discussed in greater detail in Section XI.B above, the FGIC Rehabilitation Plan approved in the FGIC Rehabilitation Proceeding provides for payment to policyholders of only a fraction of their permitted policy claims over an extended period of time.[22] With respect to non-commuting holders of Sewer Warrants insured by FGIC, the County is of the opinion that the amounts of their permitted policy claims under the FGIC Rehabilitation Plan should be calculated only after taking into account the amount of the Distributions these non-commuting holders receive under the County's Plan, meaning that any payment they may receive under the FGIC Rehabilitation Plan should be a fraction of their "deficiency claim" remaining after receipt of the Distribution paid to them under the County's Plan.

Also, while the Bank Warrant Claims include Bank Warrant Default Interest Claims, the holders of other Claims are not entitled to seek payment of any interest accruing prepetition on their Sewer Warrants at a "default" rate of interest, because no default rate exists and all non-default interest was timely paid. Each holder of Sewer Warrants should consult with its own advisors to determine which of the three items listed above that must be commuted, waived, and released as part of the Commutation Election are applicable to its Sewer Warrants.

In exchange for granting the above described releases, each holder of Sewer Warrants that makes or is deemed to make the Commutation Election and, if applicable, does not rescind the Commutation Election, will receive under the Plan a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof, in ***an amount equal to 80% of the Adjusted Sewer Warrant Principal Amount of such holder's Sewer Warrants*** in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Claims, both against the County and against any of the Sewer Released Parties and their respective Related Parties (including against the Sewer Warrant Insurers and their respective Related Parties in respect of any of the Sewer Insurance Policies and with respect to any Sewer Warrant Default Interest Claims).

In contrast, each holder of Sewer Warrants that does not make or is deemed not to make the Commutation Election and, if applicable, does not rescind the Commutation Election, will retain all rights against the applicable Sewer Warrant Insurer in respect of any Sewer Wrap Policies insuring such holder's Sewer Warrants, but will only receive under the Plan a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof, in ***an amount equal to 65% of (x) the Adjusted Sewer Warrant Principal Amount of such holder's Sewer Warrants and (y) the amount of any***

[21] For example, Syncora submits that it has performed all of its obligations under the Syncora Settlement Agreement to the holders of Bank Warrants. Certain of the holders of Bank Warrants dispute this contention. This dispute is resolved under the Plan.

[22] *See supra* notes 16, 18 and 19.

Allowed Bank Warrant Default Interest Claims held by such holder in full, final, and complete settlement, satisfaction, release, and exchange of all of the holder's Claims against the County.

Thus, the option to make or not make the Commutation Election essentially offers a choice between receiving (1) **80 cents** in Cash on every dollar of Adjusted Sewer Warrant Principal Amount of a holder's Sewer Warrants immediately on the Effective Date, in exchange for the commutation, waiver, and release of rights against the applicable Sewer Warrant Insurer in respect of any Sewer Wrap Policies insuring such holder's Sewer Warrants and the release of claims against all the Sewer Released Parties and their respective Related Parties; ***or*** (2) only **65 cents** on every dollar of (x) the Adjusted Sewer Warrant Principal Amount of a holder's Sewer Warrants on the Effective Date, and (y) the amount of any Allowed Bank Warrant Default Interest Claims held by such holder. Regardless of the option selected or deemed to be selected, each holder of an Allowed Class 1-A Claim or an Allowed Class 1-B Claim shall also receive on the Effective Date a Distribution of Cash on account of any applicable Reinstated Sewer Warrant Principal Payments and any applicable Reinstated Sewer Warrant Interest Payments in accordance with Section 4.6(a) of the Plan.

Numerous Creditors have already committed themselves to make the Commutation Election. The holders of all Allowed Class 1-B Claims (Bank Warrant Claims and Primary Standby Sewer Warrant Claims) have committed to make the Commutation Election and to vote in favor of confirmation of the Plan, subject to the terms of their Plan Support Agreements. Additionally, holders of Allowed Class 1-A Claims (Sewer Warrant Claims) representing over 75% of the dollar amount of Allowed Class 1-A Claims have also committed to vote in favor of confirmation of the Plan and to make the Commutation Election, subject to the terms of their respective Plan Support Agreements.

2. What Are the Procedures Whereby One Can Make or Will Be Deemed to Have Made the Commutation Election or, If Applicable, Can Rescind a Deemed Commutation Election?

In the Plan Procedures Order, the Bankruptcy Court approved certain procedures regarding both the Commutation Election and the associated Rescission of Deemed Election that is available to certain holders of the Series 2003-C-9 Through C-10 Sewer Warrants.

a. Commutation Election Procedures

The Commutation Election is described on the Ballot being sent to beneficial holders of Sewer Warrants. The Commutation Election will be available to, and may be made by, only those beneficial holders of Sewer Warrants that hold such Sewer Warrants as of the Ballot Record Date. The Commutation Election results will be tallied by the Ballot Tabulator contemporaneously with the tabulation of votes to accept or reject the Plan.

The Ballots for each series of Sewer Warrants include a pair of boxes on which each holder of Sewer Warrants may indicate its choice to make or not make the Commutation Election by checking the appropriate box. In addition to checking the appropriate box and timely returning the applicable Ballot in accordance with the instructions that are on such Ballot and that may be

provided by the applicable Institutional Nominee, the following actions are necessary with respect to the Commutation Election so that the Ballot Tabulator and the County are able to administratively track who has made or not made the Commutation Election and to administer the procedures relating to the Rescission of Deemed Election:

- All holders of the Bank Warrant Claims, Series 1997-A Sewer Claims, Series 2001-A Sewer Claims, Series 2002-A Sewer Claims, Series 2002-C-1 & C-5 Sewer Claims, Series 2003-A Sewer Claims, Series 2003-B-1 Sewer Claims, and Series 2003-C-1 Through C-8 Sewer Claims, that return a Ballot by the Ballot Deadline with an indication under Item 3 of the Ballot to "DO NOT MAKE COMMUTATION ELECTION (OPTION 2)", will be instructing their Institutional Nominee to "tender" their Sewer Warrants into the election account established at DTC for that purpose in order for the election to be effective.

- All holders of the Series 2003-B-8 Sewer Claims that return a Ballot by the Ballot Deadline with an indication under Item 3 of the Ballot to "MAKE COMMUTATION ELECTION (OPTION 1)", will be instructing their Institutional Nominee to "tender" their Sewer Warrants into the election account established at DTC for that purpose.

- All holders of the Series 2003-C-9 Through C-10 Sewer Claims that return a Ballot by the Ballot Deadline with an indication under Item 3 of the Ballot to either "MAKE COMMUTATION ELECTION (OPTION 1)" **or** "DO NOT MAKE COMMUTATION ELECTION (OPTION 2)", will be instructing their Institutional Nominee to "tender" their Sewer Warrants into the election account established at DTC for that purpose.

Except to the extent set forth in the next sentence with respect to the particular series of Sewer Warrants described therein, all holders of Class 1-A Claims or Class 1-B Claims that (i) do not return any Ballot by the Ballot Deadline, (ii) return a Ballot by the Ballot Deadline but do not make any election with respect to the Commutation Election, or (iii) return a Ballot by the Ballot Deadline and indicate both an election to make and an election not to make the Commutation Election, ***will be conclusively deemed to have made the Commutation Election.*** Notwithstanding the immediately preceding sentence, (a) any holder of the Series 2003-B-8 Sewer Warrants that either does not return a Ballot, does not indicate an election on any Ballot that is returned by the Ballot Deadline, or returns a Ballot by the Ballot Deadline and indicates both an election to make and an election not to make the Commutation Election will be conclusively deemed ***not*** to have made the Commutation Election; and (b) any holders of the Series 2003-C-9 Through C-10 Sewer Warrants that are deemed to make the Commutation Election because they either do not return a Ballot, do not indicate an election on any Ballot that is returned by the Ballot Deadline, or return a Ballot by the Ballot Deadline and indicates both an election to make and an election not to make the Commutation Election will be notified by their Institutional Nominee of their right to rescind such deemed Commutation Election (the "Rescission of Deemed Election") as discussed further below.

If any holder of Class 1-A or Class 1-B Claims casts more than one Ballot regarding the same Sewer Warrants before the Ballot Deadline, then the latest-dated properly executed Ballot received by the Ballot Tabulator before the Ballot Deadline will be deemed to reflect the voter's intent with

respect to the Commutation Election and, thus, will supersede any other Ballots with respect to the Commutation Election.

Holders of Class 1-A or Class 1-B Claims who make the Commutation Election must do so with respect to all of their Sewer Warrants within a particular series or subseries and may not split their making of the Commutation Election within the same series or subseries, if applicable, of Sewer Warrants, and thus if a holder of Class 1-A or Class 1-B Claims casts a Ballot purporting to split its Commutation Election with respect to a particular series or subseries of Sewer Warrants, in part to make the Commutation Election and in part not to make the Commutation Election, that Ballot shall not be counted and such holder shall be deemed to have made the Commutation Election as to all Sewer Warrants within a particular series or subseries based on the conclusive presumptions set forth above (subject, only in the case of the Series 2003-C-9 Through C-10 Sewer Warrants, to the subsequent making of the Rescission of Deemed Election). Holders may, however, make different elections with respect to the Commutation Election in respect of different series or subseries of Sewer Warrants on their respective separate Ballots.

If conflicting elections or "over-elections" are submitted by an Institutional Nominee with respect to the making of the Commutation Election by such Institutional Nominee's beneficial holders, then the County or the Ballot Tabulator shall use reasonable efforts to reconcile discrepancies with the Institutional Nominee.

The transfer of any Sewer Warrants after the Ballot Deadline shall not constitute "cause" or otherwise provide a basis under Bankruptcy Rule 3018(a) for the transferee of such Sewer Warrants to change the effects, including any deemed effects, with respect to the Commutation Election as a result of a Ballot returned by the transferor. **Such transferee shall be bound by the Commutation Election made or not made (or deemed to be made or not made) by the transferor.**

Sewer Warrant Claims may not be withdrawn from the election account after your Institutional Nominee has tendered them at DTC. Once your Sewer Warrants have been tendered, no further trading will be permitted with any Sewer Warrant Claims held in the election account. If the Plan is not confirmed, DTC will, in accordance with its customary practices and procedures, return all Sewer Warrants held in the election account to the applicable Institutional Nominee for credit to the account of the underlying beneficial owner.

b. Rescission of Deemed Election Procedures

The Plan includes a Rescission of Deemed Election that is available **only** to Creditors that (a) held Claims with respect to the Series 2003-C-9 Through C-10 Sewer Warrants as of the Ballot Record Date and (b) would otherwise be deemed to have made the Commutation Election because they either do not return a Ballot, do not indicate an election on any Ballot that is returned by the Ballot Deadline, or return a Ballot by the Ballot Deadline and indicates both an election to make and an election not to make the Commutation Election ("Deemed Commuting Holders"). Deemed Commuting Holders that satisfy these two requirements will receive a Rescission of Deemed Election Notice through their Institutional Nominee, which (i) will inform them of their option to effect the Rescission of Deemed Election and (ii) will include a form to allow the Deemed Commuting Holders to make the Rescission of Deemed Election. Deemed Commuting Holders that

wish to effect the Rescission of Deemed Election will be instructed to fully execute the Rescission of Deemed Election form as soon as practicable after the Ballot Deadline and to forward copies of such Rescission of Deemed Election form to their Institutional Nominee in sufficient time to allow such Institutional Nominee in turn to process and deliver the Rescission of Deemed Election to the Ballot Tabulator, to the County, and to Assured, so that the Rescission of Deemed Election form is actually received by each of them on or before **[November 5], 2013 at 5:00 p.m. (prevailing Central time)** (the "Rescission Deadline").

The Rescission of Deemed Election Notice will be disseminated only to Deemed Commuting Holders that (i) held such Claims as of the Ballot Record Date and (ii) would otherwise be deemed to have made the Commutation Election. The Rescission of Deemed Election will be available only with respect to the Commutation Election and will not affect any votes on the Plan or any other releases or certifications that the Deemed Commuting Holders may have effected through the execution of Ballots. Holders of Series 2003-C-9 Through C-10 Sewer Warrants that affirmatively checked the applicable box on their respective Ballot indicating whether or not they were making the Commutation Election on or before the Ballot Deadline will not receive the Rescission of Deemed Election Notice and will not be permitted to exercise any Rescission of Deemed Election.

If you make the Rescission of Deemed Election, your Institutional Nominee must "tender" your Sewer Warrant Claims into the election account established at DTC for that purpose. Sewer Warrant Claims may not be withdrawn from the election account after your Institutional Nominee has tendered them at DTC. Once your Sewer Warrant Claims have been tendered no further trading will be permitted with any Sewer Warrant Claims held in the election account. If the Plan is not confirmed, DTC will, in accordance with its customary practices and procedures, return all Sewer Warrant Claims held in the election account to the applicable Institutional Nominee for credit to the account of the underlying beneficial owner.

Any Person that makes the Rescission of Deemed Election with respect to its Series 2003-C-9 Through C-10 Sewer Warrants will receive the treatment set forth in Option 2 of Section 2.3(a) of the Plan – i.e., (i) a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in ***an amount equal to 65% of the Adjusted Sewer Warrant Principal Amount of such holder's Sewer Warrants*** in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Class 1-A Claims; and (ii) the retention of Sewer Wrap Payment Rights, if any, against the applicable Sewer Warrant Insurer in respect of any Sewer Wrap Policies insuring such holder's Sewer Warrants, which Sewer Wrap Payment Rights shall not be waived or impaired.

3. What Is the County's Position on the Commutation Election?

The County strongly encourages all holders of Sewer Warrants to independently analyze the desirability of making or not making the Commutation Election based on each holder's specific circumstances. Nevertheless, the County's view and recommendation is that all holders of Allowed Class 1-A and Class 1-B Claims should make the Commutation Election on their Ballots; provided, however, with respect to Allowed Class 1-A Claims in the aggregate outstanding principal amount of approximately $62 million that are on account of Series 2003-B-8 Sewer Warrants, the County makes no recommendation to such holders regarding the Commutation Election, but requests that

such holders also evaluate thoroughly the information contained herein, decide whether to make such Commutation Election. **The discussion below provides the reasoning behind the County's views and recommendations, all of which is the County's opinion alone and has not been endorsed or approved by any other Person, including any of the Sewer Warrant Insurers and the Sewer Warrant Trustee.**

First, although the economic analysis is potentially quite complicated, with the possible exception of the Series 2003-B-8 Sewer Claims that arise from Sewer Warrants maturing in February 2014, 2015, and 2016, the County's opinion is that making the Commutation Election would be an economically rational decision for the holders of Sewer Warrants even if one ignores the collection and credit risk that may be associated with retaining insurance claims against the Sewer Warrant Insurers. Using what are, in the County's opinion, reasonable assumptions about discount rates, future interest rates, and the timing and amount of future interest and principal payment obligations on the Sewer Warrants, and assuming for illustrative purposes a holder of an Allowed Class 1-A Claim is entitled to receive a Distribution under the Plan on account of an Adjusted Sewer Warrant Principal Amount of $1.00, a comparison of the net present value of that holder receiving 15 cents today (i.e., obtaining the incremental consideration available by making the Commutation Election and being paid 80 cents on the $1.00 Adjusted Sewer Warrant Principal Amount instead of taking the 65 cents paid to holders who do not make the Commutation Election) versus potentially receiving 35 cents over time (i.e., obtaining deferred payment from the applicable Sewer Warrant Insurer through the scheduled maturity of the applicable Sewer Warrants, which in most cases occurs in 2041 or 2042[23]) suggests that it would be better to receive 80 cents today by making the Commutation Election than to wait years to receive the remaining unpaid amounts on the applicable series of Sewer Warrants over a period that could exceed 28 years. Based on this economic analysis,[24] a holder of Sewer Warrants could reasonably conclude that to make the Commutation Election is the superior economic alternative.

Second, the County's opinion is that there are potentially significant collection, credit, and other risks associated with retaining claims against the Sewer Warrant Insurers. The County has described some of these risks in Section XI.B above titled "*Risks Relating to Making or Declining*

[23] Section 4.15(h) of the Plan provides that all series of the Sewer Warrants shall be deemed accelerated as of the Effective Date, which shall occur immediately before the distribution of consideration on the Effective Date, *provided, however*, that such acceleration will not be deemed to release any of the Sewer Wrap Policies with respect to Sewer Wrap Payment Rights except as a result of any Sewer Warrant Insurer's payment of the Outstanding Amount on the applicable series or subseries of non-commuted Sewer Warrants as set forth in the last sentence of this paragraph. Thus, each Sewer Warrant Insurer has the option to voluntarily elect, in its sole and absolute discretion (irrespective of terms of the applicable Sewer Wrap Policy) to pay accelerated principal on such Sewer Warrants; however, there is no guarantee that any of the Sewer Warrant Insurers will do this. Moreover, even if FGIC were to elect to give effect to such acceleration, the County understands that, pursuant to the FGIC Rehabilitation Plan, FGIC can only initially pay a portion of such accelerated claim and likely never will pay such claim in full.

[24] Differing assumptions about discount rates, interest rates, and other factors may be appropriate for each series or subseries of Sewer Warrants and based on each individual holder's circumstances, including risk preferences and views about the future. Although relevant, the economic analysis summarized in the text above is illustrative only and should not be relied on by any holder of Sewer Warrants in determining whether to make or not to make the Commutation Election.

the Commutation Election". If you are a holder of Class 1-A Claim or a Class 1-B Claim, you are urged to read Section XI.B above thoroughly and to take into account the risks described therein as you decide whether to make or decline the Commutation Election.

Third, the Plan will succeed only if a sufficient number of Sewer Warrant holders make the Commutation Election. It is a condition to the Effective Date that the aggregate Tail Risk remaining for the Sewer Warrant Insurers after giving effect to the Commutation Election not exceed $25.0 million, because no Sewer Warrant Insurer shall incur Tail Risk that is not Covered Tail Risk. Thus, if the holders of more than $125 million in aggregate principal amount of Sewer Warrants do not make the Commutation Election, these conditions to the Effective Date will not occur and, unless they are waived by mutual written agreement by the County and by any Sewer Plan Support Party that is affected, the Plan will not become effective or be consummated. Although the County believes that this condition to the Effective Date should be satisfied through sufficient holders making or being deemed to make the Commutation Election, a failure to satisfy the condition and resulting failure of the Plan to go effective and be consummated could return all parties to fend for themselves in numerous pending and highly uncertain litigations. *See* Section III.E and Article IV above for a discussion of the prepetition and postpetition litigation concerning the Sewer Warrants, and Article V above for a discussion of the global settlement of such disputes. The ultimate outcome of a litigation-driven or other non-consensual resolution of the Case likely would be substantially decreased recoveries for ***all*** holders of Sewer Warrants – i.e., recoveries that are far less than the Distributions available under the Plan, and that are realized at a date that is potentially years in the future. Thus, it is in the collective interest of all holders of Sewer Warrants that as many holders as possible make the Commutation Election so that the Plan can succeed.

Fourth, in recognition of the benefits provided under the Plan and the Commutation Election, numerous holders of Class 1-A Claims and Class 1-B Claims have committed themselves already to make the Commutation Election under the Plan. The holders of all Allowed Class 1-B Claims (Bank Warrant Claims and Primary Standby Sewer Warrant Claims) have committed to make the Commutation Election and to vote in favor of confirmation of the Plan, subject to the terms of their respective Plan Support Agreements. Additionally, holders of Allowed Class 1-A Claims (Sewer Warrant Claims) representing over 75% of the dollar amount of Allowed Class 1-A Claims have also committed to vote in favor of confirmation of the Plan and to make the Commutation Election, subject to the terms of their respective Plan Support Agreements.

In summary, the Commutation Election provides the certainty of receiving 80 cents on every dollar of Adjusted Sewer Warrant Principal Amount of a holder's Sewer Warrants immediately on the Effective Date and avoids the various risks and uncertainties that may be associated with retaining and pursuing claims against the applicable Sewer Warrant Insurers. Moreover, if the Commutation Election is not made or deemed to be made by the holders of sufficient Sewer Warrants, then the conditions to the Effective Date will not be satisfied, and all holders of Sewer Warrants could ultimately receive a far lower recovery than is offered under the Plan. For these reasons, **the County recommends that holders of Allowed Class 1-A Claims (Sewer Warrant Claims) and Class 1-B Claims (Bank Warrant Claims and Primary Standby Sewer Warrant Claims) make the Commutation Election on their Ballots; provided, however, with respect to those Class 1-A Claims in the approximate outstanding principal amount of $62 million that are on account of Series 2003-B-8 Sewer Warrants, the County makes no recommendation to**

such holders regarding the Commutation Election, but requests that such holders also evaluate thoroughly the information contained herein (including, without limitation, Sections XI.B and XII.B of this Disclosure Statement) and decide whether to make the Commutation Election. The County makes no representations or warranties with respect to the foregoing analysis and urges holders of Sewer Warrants to analyze the Commutation Election based on their own specific circumstances and in consultation with their respective advisors.

C. Requests for Additional Information

Any interested party desiring further information with respect to the Plan or seeking an additional copy of this Disclosure Statement should contact the Ballot Tabulator by email at JeffersonCountyInfo@kccllc.com, or by telephone at (866) 967-0677, or by mail at Jefferson County Ballot Processing, c/o Kurtzman Carson Consultants LLC, (Attention: Jefferson County Ballot Processing), 2335 Alaska Avenue, El Segundo, CA 90245, or by accessing the website of the Ballot Tabulator at www.jeffersoncountyrestructuring.com. The cost of additional copies must be paid by the person ordering them. Please note that counsel for the County cannot and will not provide Creditors or other third parties with any legal advice, including advice regarding how to vote on the Plan or the effects of confirmation of the Plan.

All pleadings and other papers Filed in this Case may be inspected free of charge during regular court hours at the Office of the Clerk, United States Bankruptcy Court, 505 20th Street North, Room 412, Birmingham, Alabama 35203-2111. Documents may be accessed for a fee through the Bankruptcy Court's "PACER" electronic records system at https://ecf.alnb.uscourts.gov, and certain documents pertaining to the Case are available without charge on the website of the County's Claims Agent at www.jeffersoncountyrestructuring.com.

XIII.
ALTERNATIVES TO THE PLAN

The County has evaluated numerous alternatives to the Plan. After studying these alternatives, the County has concluded that the Plan, incorporating the compromises and settlements integrated in the Plan, including the concessions which result in the increased Distributions provided herein, is the best alternative and will maximize recoveries to parties in interest, assuming confirmation and consummation of the Plan. If the Plan is not confirmed and consummated, the alternatives to the Plan are (A) an alternative chapter 9 plan proposed by the County,[25] and (B) dismissal of the County's bankruptcy Case.

A. Alternative Plan of Adjustment

If the Plan is not confirmed, the County could attempt to formulate a different plan. Such a plan might involve many different provisions for adjusting the County's indebtedness. Prosecution of an alternative plan would necessarily involve delay, uncertainty, and additional expense.

[25] Under Bankruptcy Code section 941, only the municipal debtor may file a plan for the adjustments of debts in a chapter 9 case. Creditors may not propose plans in chapter 9 cases.

There is no assurance that the County could formulate and propose an acceptable alternative plan of adjustment. The settlements with the County's Creditors that are the foundation of the Plan are time-sensitive, requiring the Plan to become effective no later than December 31, 2013. At this juncture, the County does not believe it could propose an alternative plan that would preserve the favorable settlements the County has negotiated with its Creditors and be confirmed and become effective within this time frame. Moreover, the Financing Plan for the County's issuance of the New Sewer Warrants assumes that the Plan will be confirmed and substantially consummated on or before December 31, 2013, and that market conditions for the issuance and sale of such warrants will remain generally stable throughout this period. Were the County to pursue an alternative plan of adjustment, the attendant delay would subject the County and its Financing Plan to additional market risk, including potential interest rate increases, which could jeopardize the County's ability to refinance or restructure its obligations in the amounts and on the terms proposed under the Plan.

As noted herein, since 2008, in consultation with its professionals and after substantial negotiation with its Creditors, the County has explored various alternatives to restructure its debts. The Plan is the culmination of those years of analysis and negotiations. The County believes that the Plan enables Creditors to realize the most value under the circumstances and that there is no better, feasible alternative chapter 9 plan of adjustment available to the County and its Creditors.

B. Dismissal of the County's Case

If the Plan or an alternative chapter 9 plan of the County is not confirmed, the County could elect or the Bankruptcy Court could determine to dismiss the County's Case for "cause" under Bankruptcy Code section 930(a). In addition, if the Plan is not confirmed and the Bankruptcy Court were to conclude that the County cannot confirm an alternative plan as a matter of law, then it is possible that the Bankruptcy Court could conclude that dismissal of the Case is mandatory under Bankruptcy Code section 930(b). The County reserves all its rights in the event that any Person seeks to dismiss the Case.

Dismissal of the Case would return the County, its Creditors, and its constituents to the highly litigious, chaotic, and uncertain environment they all confronted prior to the Petition Date. Upon dismissal of the Case, the automatic stay of all litigation pending as of the Petition Date would terminate. With respect to the State Court Receivership Action, the County anticipates the Receiver would resume its efforts initiated prepetition to raise rates precipitously for services provided by and through the Sewer System. The Receiver's rate-raising attempts would be challenged not only by the County, but also most likely by various rate payers as well as the Alabama Attorney General, on grounds the Receiver lacks legal and legislative authority to raise sewer rates unilaterally and the rates proposed by the Receiver are unreasonable and discriminatory. The ensuing legal battles would be contentious, prolonged, uncertain and expensive, and would likely be renewed each time the Receiver proposed any additional rate increases over the course of its tenure.

Other contentious prepetition litigation regarding the Sewer Debt Claims and the Sewer System, such as the Wilson Action, the Syncora Lawsuit, the Assured Lawsuit, and the JPMorgan Lawsuit, would also resume in earnest if the County's Case were dismissed. Like the State Court Receivership Action, these lawsuits would be hotly contested by all parties involved, both at the trial

and appellate court levels. Neither the County, nor any of the other litigants, would be assured of success in these lawsuits.

Meanwhile, upon a dismissal of the Case, the County expects that holders of unsecured Claims against the County, including the holders of GO Warrant Claims and trade Claims, would pursue legal action against the County Commission to try to compel the County to pay their respective Claims from the General Fund. Given the County Commission's inability to raise revenues, these collection efforts could significantly and adversely affect the County's ability to provide fundamental public services to the County's constituents and to operate within a balanced budget as required by state law. Because of these uncertainties, the County can offer no estimate of what recovery, if any, Creditors would receive if the Case were dismissed.

XIV.
CONFIRMATION OF THE PLAN

Because the law with respect to confirmation of a chapter 9 plan of adjustment is complex, Creditors concerned with issues regarding confirmation of the Plan should consult with their own attorneys or financial advisors. The following discussion is intended solely for the purpose of providing basic information concerning certain confirmation issues. Many separate legal requirements must be met before the Bankruptcy Court may confirm the Plan. Some of the requirements discussed in this Disclosure Statement include acceptance of the Plan by the requisite number of creditors, whether the Plan is in the "best interests" of creditors, and whether the plan is "feasible." These requirements, however, are not the only requirements for confirmation, and the Bankruptcy Court will not confirm the Plan unless and until it determines that the Plan satisfies all applicable requirements, including requirements not referenced in this Disclosure Statement. The County cannot and does not represent that the discussion contained below is a complete summary of the law on this topic.

A. Necessary Votes

Under the Bankruptcy Code, a bankruptcy court may confirm a plan if at least one class of impaired claims has voted to accept that plan (without counting the votes of any "insiders" whose claims are classified within that class) and if certain statutory requirements are met both as to non-consenting members within a consenting class and as to dissenting classes.

A Class of Claims has accepted the Plan only when the holders of at least a majority in number and at least two-thirds in dollar amount of the Allowed Claims actually voting in that Class vote to accept the Plan.

B. The "Best Interests" Test

Regardless of whether the Plan is accepted by each impaired Class of Claims, the Bankruptcy Court also must determine that the Plan is in the "best interests of creditors" pursuant to Bankruptcy Code section 943(b)(7).

There are very few legal authorities defining what constitutes the "best interests of creditors" under chapter 9 of the Bankruptcy Code. The leading bankruptcy treatise, however, provides the following explanation:

> The concept should be interpreted to mean that the plan must be better than the alternative that creditors have. ***In the chapter 9 context, the alternative is dismissal of the case,*** permitting every creditor to fend for itself in the race to obtain the mandamus remedy and to collect the proceeds. Clearly, such a result is chaos, especially in those cases where the debt burden of the municipality is too high to support on the taxes that the lands of the municipality will bear or the taxes or fees that the inhabitants or the users of municipal services will pay. However, since the test is designed to protect the dissenting minority of a class that has accepted the plan, one must not be so carried away with the potentially adverse consequences of the alternative to a chapter 9 plan that one reaches the conclusion that any plan is better than the alternative. A plan that makes little or no effort to repay creditors over a reasonable period of time may not be in the best interest of creditors. . . .
>
> The other extreme is equally to be avoided. An interpretation of the best interest of creditors test that required the municipality to devote all resources available to the repayment of creditors equals or exceeds the fair and equitable standard, which is a higher standard than the best interest test. Creditors cannot expect that all excess cash go to the payment of their claims. ***The debtor must retain sufficient funds with which to operate and to make necessary improvements in and to maintain its facilities.*** The courts must find a middle ground between those extremes, and must apply the test to require a reasonable effort by the municipal debtor that is a better alternative to its creditors than dismissal of the case. On this basis of a flexible standard, creditors can hope to receive a reasonable recovery in a chapter 9 case, and the municipality can retain sufficient tax revenues to provide the services that its inhabitants require. The municipal debtor is not required to meet too strict a standard, and the plan can go forward with the consent of all classes of creditors. The court must also temper its examination into the debtor's ability to pay with due regard for the debtor's exercise of its political and governmental powers.

6 COLLIER ON BANKRUPTCY ¶ 943.03[7][a] (16th ed. rev. 2012) (footnotes omitted; emphasis added).

In addition, the County believes that the "best interest" test does not require a creditor-specific inquiry. Rather, the plain language of the statute contemplates that the test invites an examination of how dismissal of the Case would affect the County's creditor body as a whole. Specifically Bankruptcy Code section 943(b)(7) requires the Plan to be in the "best interests of ***creditors***," not in the individual interest of each individual creditor viewed in isolation. 11 U.S.C. § 943(b)(7) (emphasis added); *cf.* 11 U.S.C. § 1129(a)(7)(A)(ii) (requiring an analysis of what "each holder of a claim or interest" would receive in a chapter 7 case); *see also generally In re Connector 2000 Ass'n*, 447 B.R. 752, 765-66 (Bankr. D.S.C. 2011) (finding that chapter 9 plan was in the best interests of creditors and was feasible because "the Plan affords ***all creditors*** the potential for the greatest economic return from Debtor's assets," particularly in light of "the complex nature of this Case" (emphasis added)).

Put simply, in the chapter 9 context, the "best interests of creditors" standard means that treatment under the Plan must be better for the County's Creditors generally than the only alternative available, which is dismissal of the Case. Dismissal permits every creditor to fend for itself in the proverbial "race to the courthouse," armed only with its state law rights, since a municipality such as the County is not eligible under the Bankruptcy Code for a court-supervised liquidation under chapter 7 of the Bankruptcy Code.

The County submits that the Plan is in the best interests of all Creditors because significant payments will be made to all Impaired Classes entitled to vote under the Plan, including Class 6 General Unsecured Claims. The Plan provides that holders of Allowed Class 6 General Unsecured Claims will receive a Pro Rata Distribution from the $5,000,000 General Unsecured Claims Pool to be created and funded under the Plan. In contrast, in the absence of the financial adjustments contemplated by the Plan, the County's Creditors, including the holders of General Unsecured Claims in particular, would be left to fend for themselves. Even the swiftest of creditors would likely find its ability to collect on a judgment stymied by the inability of the County to pay substantial amounts and by creditors' inability to attach or execute on property of the County under Alabama law. In addition, outside of a bankruptcy proceeding, the County may be unable to fund necessary capital expenditures of the Sewer System from the Sewer System's revenues, which could require that the County pay for such expenses from the General Fund or from the Bridge and Public Building Fund. Such a result would likely leave the County's general creditors, including those with rights in the context of the application of Section 215 of the Alabama Constitution with respect to the proceeds of the Special Tax, significantly worse off than those same Creditors will be under the Plan. Also, many of the disputes that are resolved under the Plan with respect to the Sewer Debt Claims (both longstanding and of a more recent vintage) would be intractable and potentially unresolvable outside of bankruptcy. Put simply, the County's situation is one fraught with enormous complexity, uncertainty, and potential for delayed or eradicated recoveries for all Creditors. Only the bankruptcy process offers the tools to build a solution to many of these problems, and solving these problems benefits all of the County's Creditors.

In short, the County simply cannot afford to make meaningful distributions to many of its Creditors – including holders of Sewer Debt Claims and general Creditors – absent the debt relief afforded by the Plan, and dismissal of the Case could well result in unprecedented chaos, with Creditors receiving far less than proposed by the Plan. The avoidance of a highly uncertain and volatile result, with all the attendant costs and delays, easily renders the Plan one that is in the best interests of creditors for purposes of Bankruptcy Code section 943(b)(7).

C. Feasibility

Bankruptcy Code section 943(b)(7) also requires that the Plan be feasible. To satisfy the requirement that the Plan be feasible, the County must demonstrate the ability to make the payments required under the Plan and still maintain its operations at the levels that it deems necessary to the continued viability of the County.

The County submits that the Plan is feasible. As set forth more fully in Section X.B above, the Projections foresee a sustainable matching of the County's revenues and expenses, including the obligations created by or modified in the Plan.

D. Compliance with Other Applicable Provisions of the Bankruptcy Code

In addition to the foregoing, the Bankruptcy Court must find that the Plan complies with various other applicable provisions of the Bankruptcy Code, including the following:

1. the Plan must comply with the provisions of the Bankruptcy Code made applicable by Bankruptcy Code sections 103(e) and 901 (11 U.S.C. § 943(b)(1));

2. the Plan must comply with the provisions of chapter 9 (*id.* § 943(b)(2));

3. all amounts to be paid by the County or by any person for services or expenses in the Case or incident to the Plan must be fully disclosed and be reasonable (*id.* § 943(b)(3));

4. the County must not be prohibited by law from taking any action necessary to carry out the Plan (*id.* § 943(b)(4));

5. except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan must provide that on the Effective Date each holder of a Claim of a kind specified in Bankruptcy Code section 507(a)(2) (*i.e.*, Administrative Claims) will receive on account of such Claim cash equal to the Allowed amount of such Claim (*id.* § 943(b)(5)); and

6. any regulatory or electoral approval necessary under applicable nonbankruptcy law in order to carry out any provision of the Plan must be obtained, or such provision must be expressly conditioned on such approval (*id.* § 943(b)(6)).

The County believes that the Plan complies with each of these requirements.

E. Cramdown

The Bankruptcy Code provides that the Bankruptcy Court may confirm a plan of adjustment that is not accepted by all Impaired Classes if at least one Impaired Class of Claims accepts the Plan and the so-called "cramdown" provisions set forth in Bankruptcy Code section 1129(b)(l), (b)(2)(A), and (b)(2)(B) are satisfied. Based on the Plan Support Agreements and other settlements negotiated by the County, the County anticipates that several Impaired Classes of Claims will accept the Plan, including Classes 1-A, 1-B, 1-C, 1-D, 2-C, 5-A, 5-D, 5-E, and 7, thereby permitting a potential cramdown, if necessary, of the remaining Impaired Classes under the Plan.

The Plan may be confirmed under the cramdown provisions if, in addition to satisfying the other requirements of Bankruptcy Code section 943(b), it (a) is "fair and equitable," and (b) does not discriminate unfairly with respect to each Class of Claims that is Impaired under and has not accepted the Plan.

The "fair and equitable" standard, also known as the "absolute priority rule," requires, among other things, that unless a dissenting unsecured Class of Claims will receive payment in full for its Allowed Claims, no holder of Allowed Claims in any Class junior to that Class may receive or retain

any property on account of such Claims. With respect to a dissenting Class of secured Claims, the "fair and equitable" standard requires, among other things, that holders of such Claims (i) retain their liens and receive deferred cash payments with a value as of the Effective Date equal to the value of their interest in property or (ii) otherwise receive the "indubitable equivalent" of their secured claims. The "fair and equitable" standard also has been interpreted to prohibit any Class senior to a dissenting Impaired Class from receiving more than 100% of its Allowed Claims under the Plan.

The County believes that, if necessary, the Plan satisfies the "fair and equitable" standard and therefore may be "crammed down" over the dissent of certain Classes based upon the treatment or alternative treatment proposed for such Classes. More specifically,

- With respect to Class 1-E, the Sewer Swap Agreement Claims are secured by a lien that is subordinate to the lien securing the Sewer Warrant Claims and certain other Claims under the Sewer Warrant Indenture. Because the Sewer Warrant Claims are receiving substantially less than a full recovery under the Plan and because the value of the collateral securing those Claims is less than the amount of the Claims, the subordinated liens are underwater and the associated nonrecourse Sewer Swap Agreements Claims are not allowable claims under the Bankruptcy Code. *See* 11 U.S.C. §§ 502(b)(1), 506(a), 506(d) & 927. Accordingly, the Plan properly provides that Class 1-E Claims will neither receive any Distributions nor retain any property under the Plan on account of such Claims, and the Plan can be confirmed notwithstanding the deemed rejection of the Plan by Class 1-E. *See* 11 U.S.C. § 1129(b)(2)(A)(i) & (iii).

- With respect to Class 1-F, the Other Standby Sewer Warrant Claims are secured by a lien that is subordinate to the lien securing the Sewer Warrant Claims, the Primary Standby Sewer Warrant Claims, and certain other Claims under the Sewer Warrant Indenture. Because the Sewer Warrant Claims and the Primary Standby Sewer Warrant Claims are receiving substantially less than a full recovery under the Plan and because the value of the collateral securing those Claims is less than the amount of the Claims, the subordinated liens are underwater and the associated nonrecourse Other Standby Sewer Warrant Claims are not allowable claims under the Bankruptcy Code. *See* 11 U.S.C. §§ 502(b)(1), 506(a), 506(d) & 927. Accordingly, the Plan properly provides that Class 1-F Claims will neither receive any Distributions nor retain any property under the Plan on account of such Claims, and the Plan can be confirmed notwithstanding the deemed rejection of the Plan by Class 1-F. *See* 11 U.S.C. § 1129(b)(2)(A)(i) & (iii).

- With respect to Class 2-A, the Series 2004-A School Claims will continue to be secured by the liens granted under the School Warrant Indenture and applicable law, and holders of those Claims will receive payment in full under their Series 2004-A School Warrants in an amount totaling at least the allowed amount of those Claims and of a value of at least the value of the interest in property under the School Warrant Indenture and applicable law. As such, the Plan can be confirmed even if Class 2-A does not accept the Plan. *See* 11 U.S.C. § 1129(b)(2)(A)(i).

- With respect to Class 2-B, the Series 2005-A School Claims will continue to be secured by the liens granted under the School Warrant Indenture and applicable law, and holders

of those Claims will receive payment in full under their Series 2005-A School Warrants in an amount totaling at least the allowed amount of those Claims and of a value of at least the value of the interest in property under the School Warrant Indenture and applicable law. As such, the Plan can be confirmed even if Class 2-B does not accept the Plan. *See* 11 U.S.C. § 1129(b)(2)(A)(i).

- With respect to Class 2-D, the Plan largely leaves unaltered the legal, equitable, and contractual rights with respect to School Policy – General Claims, including any associate liens and rights to payment, and accordingly can be confirmed even if Class 2-D does not accept the Plan. *See* 11 U.S.C. § 1129(b)(2)(A)(i), (b)(2)(A)(iii) & (B)(2)(i).

- With respect to Class 2-E, the Plan largely leaves unaltered the legal, equitable, and contractual rights with respect to School Surety Reimbursement Claims, including any associate liens and rights to payment, and accordingly can be confirmed even if Class 2-E does not accept the Plan. *See* 11 U.S.C. § 1129(b)(2)(A)(i), (b)(2)(A)(iii) & (B)(2)(i).

- With respect to Class 6, no holder of any Claim junior to the General Unsecured Claims will receive or retain under the Plan any property on account of such junior Claim. Accordingly, the Plan can be confirmed even if Class 6 does not accept the Plan. *See* 11 U.S.C. § 1129(b)(2)(B)(ii).

- With respect to Class 9, the holders of Subordinated Claims possess payment or lien rights that are subordinated to other Creditors which are receiving less than full recovery under the Plan, and thus the Subordinated Claims are "out of the money" and entitled to no distribution. In addition, no holder of any Claim junior to any Subordinated Claim will receive or retain under the Plan any property on account of such junior Claim. Accordingly, the Plan can be confirmed even if Class 9 does not accept the Plan. *See* 11 U.S.C. § 1129(b)(2)(A)(i), (b)(2)(A)(iii) & (b)(2)(B).

The County does not believe that the Plan discriminates unfairly against any Class that may not accept or otherwise consent to the Plan. More specifically,

- With respect to Class 1-E, no Class of equal rank shall receive any Distributions or retain any property under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 1-E Claims.

- With respect to Class 1-F, no Class of equal rank shall receive any Distributions or retain any property under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 1-F Claims.

- With respect to Class 2-A, all Classes of equal rank shall receive similar or identical treatment under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 2-A Claims.

- With respect to Class 2-B, all Classes of equal rank shall receive similar or identical treatment under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 2-B Claims.

- With respect to Class 2-D, all Classes of equal rank shall receive similar or identical treatment under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 2-D Claims.

- With respect to Class 2-E, all Classes of equal rank shall receive similar or identical treatment under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 2-E Claims.

- With respect to Class 6, no Class of equal rank shall receive any Distributions or retain any property under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 6 Claims. Notably, the treatment of Claims in Classes 5-A, 5-B, 5-C, and 5-D under the Plan is not unfairly discriminatory vis-à-vis Class 6 because General Unsecured Claims do not enjoy any rights in the context of the application of section 215 of the Alabama Constitution with respect to the proceeds of the Special Tax, and that material difference in nonbankruptcy rights justifies the separate classification and differing treatment of Claims in Classes 5-A, 5-B, 5-C, and 5-D under the Plan.

- With respect to Class 9, no Class of equal rank shall receive any Distributions or retain any property under the Plan on account of Claims in such Class, and thus there is no prospect of unfair discrimination against Class 9 Claims.

As noted above, the County has reserved the right to request that the Bankruptcy Court confirm the Plan by "cramdown" in accordance with Bankruptcy Code sections 1129(b)(1), (b)(2)(A), and (b)(2)(B). The County also has reserved the right to modify the Plan to the extent, if any, that confirmation of the Plan under Bankruptcy Code sections 943(b) and 1129(b) requires such modifications.

F. Confirmation Hearing and Process for Objections to Confirmation

The Bankruptcy Code requires that the Bankruptcy Court hold a hearing regarding whether the County has fulfilled the confirmation requirements of Bankruptcy Code section 943(b). The Confirmation Hearing has been scheduled to begin on [November 12, 2013], at [] a.m. (prevailing Central time) before the Honorable Thomas B. Bennett, United States Bankruptcy Court, 505 20th Street, Birmingham, Alabama 35203. This Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the continuation date made at the Confirmation Hearing, at any subsequent continued Confirmation Hearing, or pursuant to a notice filed on the docket for the Case.

Any party in interest in the Case – including any Creditor that voted (or was deemed to have voted) to accept or to reject the Plan – may File an objection to or a statement in support of confirm Objections, if any, to the confirmation of the Plan must (a) be in writing; (b) be in the English

language; (c) state the name and address of the objecting party and the amount and nature of the claim or interest of such party; (d) state with particularity the basis and nature of any objection to the Plan; (e) include any evidence in support of any objection; and (f) be filed, together with proof of service, with the Bankruptcy Court and served on the County and the Special Notice Parties so that they are actually received no later than [**October 7, 2013 at 4:00 p.m. (prevailing Central time)]**. **IF ANY OBJECTION TO CONFIRMATION OF THE PLAN IS NOT FILED AND SERVED STRICTLY AS PRESCRIBED HEREIN, THE OBJECTING PARTY MAY BE BARRED FROM OBJECTING TO CONFIRMATION OF THE PLAN AND MAY NOT BE HEARD AT THE CONFIRMATION HEARING.**

The County and other parties in interest will have the opportunity to file their respective responses to objections to confirmation of the Plan, if any, on or before **[November 5], 2013**, and the County shall file and serve the Plan Ballot Summary, the County's documentary evidence in support of confirmation of the Plan, and any supplement to the County's omnibus reply to any objections to confirmation of the Plan on or before **[November 8], 2013**.

Information about the Plan solicitation procedures, and additional copies of the Plan, Disclosure Statement, Disclosure Statement Order, the approved forms of Ballots, the Plan Procedures Motion, and the Plan Procedures Order, are available at www.jeffersoncountyrestructuring.com. Copies of the Plan, Disclosure Statement, Disclosure Statement Order, the approved forms of Ballots, the Plan Procedures Motion, and the Plan Procedures Order are available upon request by contacting KCC either by email at JeffersonCountyInfo@kccllc.com, or by telephone at (866) 967-0677, or by mail at Jefferson County Ballot Processing, c/o Kurtzman Carson Consultants LLC, (Attention: Jefferson County Ballot Processing), 2335 Alaska Avenue, El Segundo, CA 90245. Copies of the Plan, the Disclosure Statement, the Disclosure Statement Order, the Plan Procedures Motion, and the Plan Procedures Order are also available for review and download at the Bankruptcy Court's website, www.alnb.uscourts.gov. Alternatively, these documents may be accessed through the Bankruptcy Court's "PACER" website, https://ecf.alnb.uscourts.gov. A PACER password and login are needed to access documents on the Court's "PACER" website. A PACER password can be obtained at http://www.pacer.gov.

XV.
RECOMMENDATION AND CONCLUSION

For the reasons more fully set forth above, the County believes that Plan confirmation and implementation are superior to any potentially feasible alternative. Accordingly, the County recommends and urges all Creditors who hold Impaired Claims to vote to accept the Plan by checking the box marked "Accept" on their Ballots. The County also recommends that holders of Allowed Class 1-A Claims (Sewer Warrant Claims) and Class 1-B Claims (Bank Warrant Claims and Primary Standby Sewer Warrant Claims) make the Commutation Election on their Ballots; provided, however, with respect to those Class 1-A Claims in the approximate outstanding principal amount of $62 million that are on account of Series 2003-B-8 Sewer Warrants, the County makes no recommendation to such holders regarding the Commutation Election, but requests that such holders also evaluate thoroughly the information contained herein (including, without limitation, Sections XI.B and XII.B of this Disclosure Statement) and decide whether to make the Commutation Election. The County

urges all Creditors, after marking on their Ballots their votes and, if applicable, their decisions regarding the Commutation Elections, to return those Ballots as directed on their respective Ballots.

DATED AS OF: June 30, 2013

JEFFERSON COUNTY, ALABAMA

By: W.D. Carrington
Its: County Commission President

Filed by:

/s/ J. Patrick Darby

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EXHIBIT NO. 1

Chapter 9 Plan of Adjustment for Jefferson County, Alabama
(Dated June 30, 2013)

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ALABAMA
SOUTHERN DIVISION

In re:	)	
	)	
JEFFERSON COUNTY, ALABAMA,	)	**Case No. 11-05736-TBB**
a political subdivision of the State of	)	
Alabama,	)	**Chapter 9**
	)	
Debtor.	)	

CHAPTER 9 PLAN OF ADJUSTMENT FOR JEFFERSON COUNTY, ALABAMA
(DATED June 30, 2013)

Pursuant to 11 U.S.C. § 941, Jefferson County, Alabama, files this plan of adjustment.

ARTICLE I
DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.1. Definitions.

As used in the Plan and the Plan's Exhibits, the following Defined Terms shall have the respective meanings specified below:

1. **"503(b)(9) Bar Date"** means June 4, 2012, which is the date established by the Bankruptcy Court as the deadline to file 503(b)(9) Claims.

2. **"503(b)(9) Claim"** means a Claim that is entitled to treatment as an administrative expense under Bankruptcy Code section 503(b)(9).

3. **"Accumulated Sewer Revenues"** means all revenues of the Sewer System that are deposited and retained by the Sewer Warrant Trustee in either the "Jefferson County Sewer System Revenue Account" or the "Jefferson County Sewer System Debt Service Fund" through the Effective Date, in each case without deducting any amounts that may be subject to deduction as "Operating Expenses" under the Sewer Warrant Indenture as a result of any ruling by the Bankruptcy Court regarding the pending dispute about actually incurred professional fees in Adversary Proceeding Number 12-00016-TBB.

4. **"Act 619"** means Act 619 of the Alabama Legislature, 1949 Ala. Acts 949, *et seq.* (Sept. 19, 1949).

5. **"Adjusted Sewer Warrant Principal Amount"** means the amount of principal considered to be outstanding on each of the Sewer Warrants as of January 31, 2013, based upon the records maintained by the Sewer Warrant Trustee, *less* all payments of principal of Sewer Warrants (including principal included within the Sewer Warrant Insurers Outlay Amount) to be made on the Effective Date from the Accumulated Sewer Revenues as set forth in Section 4.6(a) of the Plan. The aggregate Adjusted Sewer Warrant Principal Amount with respect to all Sewer Warrants as of the Effective Date is anticipated to be approximately $3.078 billion.

6. **"Administrative Claim"** means a Claim for administrative costs or expenses that is entitled to priority in payment under Bankruptcy Code sections 503(b), 507(a)(2), and 901.

7. **"Administrative Claims Bar Date"** means, unless otherwise ordered by the Bankruptcy Court, the date established by the Bankruptcy Court and set forth in the Confirmation Order as the last day to file proof of an Administrative Claim, which date shall be no more than ninety (90) calendar days after the Effective Date, after which date any Administrative Claim not timely Filed shall be forever barred, and the County shall have no obligation with respect thereto; *provided, however*, that no proof of an Administrative Claim shall be required to be filed if such Administrative Claim shall have been incurred (a) in accordance with an order of the Bankruptcy Court or (b) with the written consent of the County and in the ordinary course of the County's operations.

8. **"Alabama Constitution"** means the Constitution of Alabama of 1901, as amended from time to time thereafter.

9. **"Allowed"** or **"Allowed _____ Claim"** means:

(a) with respect to a Claim arising prior to the Petition Date (including a 503(b)(9) Claim):

(i) either (A) a proof of Claim was timely Filed by the applicable Claims Bar Date, or (B) a proof of Claim is deemed timely Filed either as a result of such Claim being listed on the List of Creditors or by a Final Order; and

(ii) either (A) the Claim is not a Contingent Claim, a Disputed Claim, an Unliquidated Claim, or a Disallowed Claim; or (B) the Claim is expressly allowed by a Final Order or under the Plan;

(b) with respect to a Claim arising on or after the Petition Date (excluding a 503(b)(9) Claim), a Claim that has been allowed pursuant to Section 2.2(a) of the Plan.

Unless otherwise specified in the Plan or by a Final Order of the Bankruptcy Court, an "Allowed Administrative Claim" or "Allowed Claim" shall not, for any purpose under the Plan, include interest, penalties, or late charges on such Administrative Claim or Claim from and after the Petition Date. Moreover, any portion of a Claim that is satisfied, released, or waived during the Case is not an Allowed Claim. For the avoidance of doubt, any and all Claims allowed solely for the purpose of voting to accept or reject the Plan pursuant to an order of the Bankruptcy Court shall not be considered "Allowed Claims" hereunder.

10. **"Ambac"** means Ambac Assurance Corporation.

11. **"Amended and Restated GO Warrant Indenture"** means the GO Warrant Indenture as amended and restated by the Plan pursuant to Bankruptcy Code section 1123(a)(5)(F), the form of which indenture will be included in the Plan Supplement and which will include the material terms specified in Section 1(c) of the GO Plan Support Agreement.

12. **"Amended List Bar Date"** means, with respect to a claimant affected by the County's amendment of the List of Creditors subsequent to the mailing and publication of the Bar Date Notice that reduces the undisputed, non-contingent, or liquidated amount or changes the nature or classification of such claimant's Claim, the later of (a) either (i) the General Bar Date or (ii) if such claimant is a governmental unit, the Governmental Unit Bar Date; and (b) thirty (30) calendar days after the date that such claimant is served with notice of the amendment to the List of Creditors altering the amount, nature, or classification of such claimant's Claim.

13. **"Approved Rate Structure"** means the structure of sewer rates and charges approved by the County Commission pursuant to Amendment 73 of the Alabama Constitution and Act 619 to be charged by the County to users of the Sewer System to support the repayment of the New Sewer Warrants so long as any portion of the New Sewer Warrants remain outstanding, which structure is set forth as Exhibit C to the Plan and shall be approved by the Bankruptcy Court pursuant to the Confirmation Order.

14. **"Asserted Full Recourse Sewer Claims"** means any and all Claims based on or related to any Sewer Debt Claims that any Person asserts are general obligations of the County payable from the General Fund, including (a) the Sewer Warrant Trustee's Asserted Recourse Claim; (b) the unliquidated proofs of Claim for indemnity, fraud, fraud in the inducement, and the like Filed by FGIC; (c) the unliquidated proofs of Claim for indemnity Filed by Assured; (d) the unliquidated proofs of Claim for indemnity Filed by Syncora; and (e) the JPMorgan Asserted Recourse Indemnification Claims.

15. **"Assured"** means Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance, Inc.

16. **"Avoidance Actions"** means all causes of action, claims, remedies, or rights that may be brought by or on behalf of the County under any section contained within chapter 5 of the Bankruptcy Code, or under related state or federal statutes or common law, regardless whether such action has been commenced prior to the Effective Date.

17. **"Avoidance Claim Bar Date"** means, with respect to any Person asserting Claims arising from the avoidance of a transfer under chapter 5 of the Bankruptcy Code, the first Business Day that is at least thirty (30) calendar days after entry of the order or judgment authorizing avoidance of the transfer.

18. **"Ballot"** means the ballot forms distributed to each holder of an Impaired Claim that is entitled to vote to accept or reject the Plan, on which form the holder may cast its vote in respect of the Plan in accordance with the Plan and the Plan Procedures Order, and which must be actually received by the Ballot Tabulator on or before the Ballot Deadline in order to be counted.

19. **"Ballot Deadline"** means the deadline established by the Bankruptcy Court in the Plan Procedures Order for the delivery of executed Ballots to the Ballot Tabulator.

20. **"Ballot Record Date"** means the date established by the Bankruptcy Court in the Plan Procedures Order to determine which Creditors are entitled to vote on the Plan.

21. **"Ballot Tabulator"** means the Claims Agent, or any other Person designated by the County to tabulate Ballots in accordance with the Plan Procedures Order.

22. **"Bank Warrant Claims"** means any and all Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Claims and Series 2003-B-2 Through B-7 Sewer Claims. For the avoidance of doubt, (i) any Claims on account of Bank Warrants held by any of the Sewer Warrant Insurers are Sewer Warrant Insurers Claims, not Bank Warrant Claims; and (ii) Bank Warrant Claims do not include the Other Standby Sewer Warrant Claims.

23. **"Bank Warrant Default Interest Claims"** means any Claims based on interest that is alleged to have accrued on any Bank Warrants on or before the Petition Date at a "default" rate or as interest on interest, including under the Standby Sewer Warrant Purchase Agreements, and that remained unpaid on the Petition Date.

24. **"Bank Warrant Default Interest Settlement Payments"** means, collectively, (a) $1,164,307.11 to be paid to State Street as consideration for the settlement, release, and waiver under the Plan of asserted Bank Warrant Default Interest Claims of approximately $8.5 million; (b) $953,295.41 to be paid to Scotia Bank as consideration for the settlement, release, and waiver under the Plan of asserted Bank Warrant Default Interest Claims of approximately $7.2 million; and (c) $646,694.23 to be paid to BNY as consideration for the settlement, release, and waiver under the Plan of asserted Bank Warrant Default Interest Claims of approximately $4.3 million.

25. **"Bank Warrants"** means, collectively, the Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Warrants and the Series 2003-B-2 Through B-7 Sewer Warrants.

26. **"Bankruptcy Code"** means title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as the same may be amended from time to time to the extent applicable to the Case.

27. **"Bankruptcy Court"** means the United States Bankruptcy Court for the Northern District of Alabama, Southern Division, or any other court that exercises competent jurisdiction over the Case.

28. **"Bankruptcy Rules"** means the Federal Rules of Bankruptcy Procedure promulgated by the Supreme Court of the United States under 28 U.S.C. § 2075, as the same may be amended from time to time to the extent applicable to the Case.

29. **"Bar Date Notice"** means the *Notice of (A) Entry of Order for Relief and (B) Deadlines for Filing Proofs of Claim and Requests for Allowance of Section 503(b)(9) Administrative Expense Claims*, which sets forth certain dates, deadlines, and procedures relevant to filing proofs of Claims in the Case pursuant to the *Order (I) Setting Bar Dates and Procedures for Filing Proofs of Claim; (II) Setting the Bar Date and Procedures for Filing Requests for Allowance of Section 503(b)(9) Claims; and (III) Approving Form and Manner of Serving and Publishing the Notices of Bar Dates and the Entry of the Order for Relief*, as subsequently amended [Docket Nos. 889 & 933].

30. **"Bennett Action"** means that certain adversary proceeding styled as *Andrew Bennett, et al. v. Jefferson County, Alabama and The Bank of New York Mellon, as Indenture Trustee (In re Jefferson County, Alabama)*, Adv. Proc. No. 12-00120 (Bankr. N.D. Ala.).

31. **"Bessemer Indenture"** means that certain *Trust Indenture* dated as of August 1, 2006, between the PBA and the Bessemer Trustee.

32. **"Bessemer Insurer"** means Ambac.

33. **"Bessemer Lease"** means that certain *Lease Agreement* dated August 1, 2006, by and between the County and the PBA.

34. **"Bessemer Lease Claims"** means, collectively, (a) any and all Claims arising from or in connection with the Bessemer Lease, including all Claims resulting from the rejection of the Bessemer Lease under Bankruptcy Code section 365; and (b) any and all Claims that could be asserted (directly or indirectly) by any Person under or in connection with the Bessemer

Indenture and the Bessemer Policy, including by any reinsurer regarding the Bessemer Policy or by any holder of warrants issued under the Bessemer Indenture; *provided, however*, that for the avoidance of doubt, the "Bessemer Lease Claims" do not include any Claims arising under the New Bessemer Lease, under the Bessemer Stipulation, or under any Related Documents (as defined in the Bessemer Stipulation) on and after the Effective Date.

35. **"Bessemer Policy"** means that certain *Financial Guaranty Insurance Policy* number 25645BE issued by Ambac on or around August 17, 2006, and insuring certain of the PBA's obligations under the Bessemer Indenture.

36. **"Bessemer Stipulation"** means that certain *Stipulation and Agreement Regarding the Settlement and Resolution of Certain Disputes* dated as of November 27, 2012, by and among the County, the PBA, the Bessemer Trustee, and the Bessemer Insurer, which Bessemer Stipulation was approved by order of the Bankruptcy Court on December 20, 2012 [Docket No. 1537].

37. **"Bessemer Trustee"** means First Commercial Bank, in its capacity as Indenture Trustee under the Bessemer Indenture.

38. **"BLB"** means Bayerische Landesbank, New York Branch, formerly known as Bayerische Landesbank Girozentrale.

39. **"BLB GO Claim"** means $52,937,479.17, which sum represents the amount of principal and prepetition non-default interest due and owing by the County on account of the Series 2001-B GO Warrants held by BLB.

40. **"BNY"** means The Bank of New York Mellon in its capacity as a Sewer Liquidity Bank and not in any other capacity.

41. **"Board of Education Lease Claims"** means any and all Claims arising from or in connection with the Board of Education Lease Warrants or the Board of Education Lease Indenture other than Board of Education Lease Policy Claims.

42. **"Board of Education Lease Debts"** means, together, all Board of Education Lease Claims and all Board of Education Lease Policy Claims.

43. **"Board of Education Lease Indenture"** means that certain *Mortgage and Trust Indenture* dated as of July 1, 2000, between the County and the Board of Education Lease Trustee.

44. **"Board of Education Lease Insurer"** means Assured.

45. **"Board of Education Lease Policy"** means that certain *Municipal Bond Insurance Policy* number 26420-N issued by Assured on or around July 25, 2000.

46. **"Board of Education Lease Policy Claims"** means any and all Claims arising from or in connection with the Board of Education Lease Policy, as well as any and all Claims of the Board of Education Lease Insurer or any Transferee of the Board of Education Lease Insurer

arising from or in connection with the Board of Education Lease Indenture, including all Claims arising in connection with any Board of Education Lease Warrants held by the Board of Education Lease Insurer or by any Transferee of the Board of Education Lease Insurer as a result of the Board of Education Lease Insurer's satisfaction of any claims under the Board of Education Lease Policy, and including any related Reinsurance Claims.

47. **"Board of Education Lease Trustee"** means U.S. Bank National Association, in its capacity as Indenture Trustee under the Board of Education Lease Indenture and as successor to SouthTrust Bank.

48. **"Board of Education Lease Trustee Fee Claims"** means any and all Claims of the Board of Education Lease Trustee for compensation, disbursements, expenses, fees, or indemnification pursuant to the Board of Education Lease Indenture.

49. **"Board of Education Lease Warrants"** means those certain Limited Obligation School Warrants, Series 2000 issued in the original principal amount of $45,210,000 and insured by the Board of Education Lease Insurer.

50. **"Business Day"** means any day other than a Saturday, a Sunday, a "legal holiday" (as defined in Bankruptcy Rule 9006(a)), or any other day on which commercial banks in New York, New York are required or authorized to close by law or executive order.

51. **"Case"** means the voluntary case commenced by the County under chapter 9 of the Bankruptcy Code and pending before the Bankruptcy Court.

52. **"Cash"** means cash and cash equivalents, including bank deposits, wire transfers, checks representing good funds, and legal tender of the United States of America or instrumentalities thereof.

53. **"Causes of Action"** means any and all claims, rights, actions, causes of action, liabilities, obligations, suits, debts, remedies, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, rights of setoff, third-party claims, subordination claims (including equitable subordination claims and statutory subordination claims), subrogation claims, contribution claims, reimbursement claims, indemnity claims, counterclaims, and cross claims, damages, or judgments whatsoever, whether known or unknown, reduced to judgment, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, foreseen or unforeseen, asserted or unasserted, existing or hereafter arising, in law, at equity, by statute, whether for tort, fraud, contract, or otherwise.

54. **"Claim"** means any "claim" as that word is defined by Bankruptcy Code section 101(5) against the County or against property of the County, whether or not asserted in the Case.

55. **"Claims Agent"** means Kurtzman Carson Consultants LLC, the County's court-appointed claims, noticing, and balloting agent pursuant to the *Order Appointing Kurtzman Carson Consultants LLC as Claims, Noticing and Balloting Agent Pursuant to 28 U.S.C. § 156(c) and Rule 2002 of the Federal Rules of Bankruptcy Procedure* [Docket No. 291].

56. **"Claims Bar Date"** means, as applicable, the 503(b)(9) Bar Date, the Administrative Claim Bar Date, the Amended List Bar Date, the Avoidance Claim Bar Date, the General Bar Date, the Governmental Unit Bar Date, and the Rejection Bar Date.

57. **"Claims Objection Deadline"** means, unless extended by the Bankruptcy Court upon a motion Filed by the County, the date that is the later of (a) the first Business Day that is at least 180 calendar days after the Effective Date, and (b) the first Business Day that is at least 180 calendar days after the date on which a proof of Claim in respect of a Claim has been Filed. For the avoidance of doubt, the Claims Objection Deadline may be extended one or more times by the Bankruptcy Court.

58. **"Class"** means a group of Claims as designated in Section 2.3 of the Plan, or any subclass thereof.

59. **"Closing Agreement"** means an agreement between the County and the Internal Revenue Service which, in form and substance acceptable to the County and each of the Sewer Plan Support Parties, resolves the pending audit regarding certain of the Sewer Warrants and confirms the tax-free status of all the Sewer Warrants, with no taxes, costs, or other liabilities to the existing holders of the Sewer Warrants.

60. **"Commutation Election"** means the election or deemed election under the Plan of a holder of Sewer Warrants to unconditionally commute, waive, and forever release, discharge, and forgo (a) any and all Sewer Wrap Payment Rights; (b) any and all Bank Warrant Default Interest Claims (except with respect to the Bank Warrant Default Interest Settlement Payments); and (c) any and all other Claims or Causes of Action against the County, against any of the Sewer Released Parties, or against any of their respective Related Parties.

61. **"Confirmation Date"** means the date on which the Confirmation Order is entered on the docket of the Bankruptcy Court in the Case.

62. **"Confirmation Hearing"** means the hearing held by the Bankruptcy Court to consider confirmation of the Plan as required by Bankruptcy Code section 1128(a), as such hearing may be continued from time to time.

63. **"Confirmation Order"** means the order of the Bankruptcy Court confirming the Plan under Bankruptcy Code section 943(b).

64. **"Consent Decree Claims"** means any and all Claims arising from or in connection with either of the Consent Decrees.

65. **"Consent Decrees"** means the EPA Consent Decree and the Hiring Practices Consent Decree.

66. **"Contingent Claim"** means a Claim that is listed on the List of Creditors as contingent.

67. **"County"** means Jefferson County, Alabama, a political subdivision of the State of Alabama and the chapter 9 debtor in the Case.

68. **"County Commission"** means the duly elected five member Jefferson County Commission, which serves as the governing body of the County pursuant to Alabama Code sections 11-1-5 and 11-3-11.

69. **"Covered Tail Risk"** means Cash equal to each Sewer Warrant Insurer's Tail Risk to be paid or funded by the County on the Effective Date pursuant to the applicable Tail Risk Payment Agreement, the amount of which Cash shall not exceed $25 million in the aggregate.

70. **"Creditor"** means a Person holding a Claim.

71. **"Cure Payment"** means the payment of Cash or the distribution of other property (as the parties may agree or the Bankruptcy Court may order) that is necessary to cure any and all defaults under an executory contract or unexpired lease so that such contract or lease may be assumed, or assumed and assigned, pursuant to Bankruptcy Code section 1123(b)(2).

72. **"Declaratory Judgment Action"** means that certain adversary proceeding commenced by the Sewer Warrant Trustee against the County, Syncora, and Assured on or about February 6, 2013, and styled as *The Bank of New York Mellon, as Indenture Trustee v. Jefferson County, Alabama, et al. (In re Jefferson County, Alabama)*, Adv. Proc. No. 13-00019 (Bankr. N.D. Ala.).

73. **"Defined Term"** means any capitalized term that is defined in this Section 1.1 of the Plan.

74. **"Depfa Plan Support Agreement"** means that certain *Plan Support Agreement* dated as of February 11, 2013, by and between the County and Depfa Bank PLC.

75. **"Deposit Refund Claims"** means any and all Claims for the refund of any deposits paid to and held by the County, including deposits made with respect to applications for permits issued by the County and security deposits paid to the County with respect to the provision of services by the County.

76. **"Disallowed Claim"** means a Claim that (a) is not listed on the List of Creditors, or is listed thereon as contingent, unliquidated, disputed, or in an amount equal to zero, and whose holder failed to timely File a proof of Claim by the applicable Claims Bar Date; or (b) has been disallowed pursuant to an order of the Bankruptcy Court.

77. **"Disclosure Statement"** means that certain disclosure statement relating to the Plan, including all exhibits and schedules thereto, as approved by the Bankruptcy Court pursuant to Bankruptcy Code section 1125, as it subsequently may be amended, modified, or supplemented by the County.

78. **"Disputed Claim"** means a Claim:

(a) as to which a proof of Claim is Filed or is deemed Filed as a result of such Claim being listed on the List of Creditors; and

(b) as to which:

(i) an objection or request for estimation (A) has been timely Filed, and (B) has not been denied by a Final Order or withdrawn; or

(ii) is a Claim that is listed on the List of Creditors as disputed; or

(iii) is disputed in whole or in part under the Plan.

79. **"Distribution"** means any initial or subsequent issuance, payment, or transfer of consideration made under the Plan.

80. **"Distribution Record Date"** means (a) the first Business Day that is at least ten (10) calendar days after the Confirmation Date; or (b) such later date before the Effective Date as the County (i) reasonably determines, after consultation with the Sewer Plan Support Parties and the Sewer Warrant Trustee, is feasible in light of the anticipated date of the Effective Date and (ii) specifies in a notice Filed with the Bankruptcy Court.

81. **"DTC"** means The Depository Trust Company.

82. **"Effective Date"** means a Business Day selected by the County, after consultation with the Sewer Plan Support Parties, that is on or after the date on which the conditions set forth in Section 4.18(a) of the Plan have been satisfied or waived by the County and by any other necessary parties in accordance with Section 4.18(b) of the Plan.

83. **"Eligible Sewer Warrants"** means the Sewer Warrants held by the Supporting Sewer Warrantholders as of the date of execution of the Supporting Sewer Warrantholder Plan Support Agreement and set forth opposite each such Supporting Sewer Warrantholder's name on Schedule 1 thereto.

84. **"Eminent Domain Claims"** means any and all Claims for actual damages arising directly from the County's exercise of its power of eminent domain or condemnation.

85. **"Employee Compensation Claims"** means any and all Claims of Persons employed by the County or the State of Alabama as of the Petition Date that the County is required to compensate by agreement or applicable law, for all forms of compensation including unpaid wages, salaries, accrued vacation, compensation or "comp" time, pension contributions, health insurance premiums, and sick pay arising prior to the Petition Date and remaining outstanding on the Effective Date.

86. **"EPA Consent Decree"** means that certain Consent Decree entered by the United States District Court for the Northern District of Alabama on December 9, 1996, in the litigation styled as *Kipp, et al. v. Jefferson County, Alabama,* Civil Action No. 93-G-2492-S (N.D. Ala.) and *United States v. Jefferson County, Alabama*, Civil Action No. 94-G-2947-S (N.D. Ala.).

87. **"Federal Court Receivership Action"** means *The Bank of New York Mellon, as Trustee v. Jefferson County, Alabama, et al.*, Case No. 2:08-cv-1703-RDP, pending in the United States District Court for the Northern District of Alabama, Southern Division.

88. **"FGIC"** means Financial Guaranty Insurance Company.

89. **"FGIC Assured-Insured Warrant Claims"** means any and all Claims arising from or in connection with the Series 2003-B-8 Sewer Warrants held by FGIC as an investment as of the date of the execution of the Sewer Plan Support Agreement among the County and the Sewer Warrant Insurers.

90. **"FGIC Rehabilitator"** means Benjamin M. Lawsky, Superintendent of Financial Services of the State of New York, solely in his capacity as the rehabilitator of FGIC in the matter styled as *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012 (N.Y. Sup. Ct.).

91. **"File"** or **"Filed"** means duly and properly filed with the Bankruptcy Court and reflected on the docket of the Bankruptcy Court in the Case, except with respect to proofs of claim that must be filed with the Claims Agent pursuant to the Bar Date Notice, in which case "File" or "Filed" means duly and properly filed with the Claims Agent and reflected on the official claims register maintained by the Claims Agent.

92. **"Final Order"** means an order or judgment of the Bankruptcy Court entered on the docket of the Bankruptcy Court in the Case:

(a) that has not been reversed, rescinded, stayed, modified, or amended;

(b) that is in full force and effect; and

(c) with respect to which (i) the time to appeal or to seek review, rehearing, remand, or a writ of certiorari has expired and as to which no timely filed appeal or petition for review, rehearing, remand, or writ of certiorari is pending; or (ii) any such appeal or petition has been dismissed or resolved by the highest court to which the order or judgment was appealed or from which review, rehearing, remand, or a writ of certiorari was sought.

For the avoidance of doubt, no order shall fail to be a Final Order solely because of the possibility that a motion pursuant to Bankruptcy Code section 502(j), Rule 59 or Rule 60 of the Federal Rules of Civil Procedure, or Bankruptcy Rules 9023 or 9024 may be filed with respect to such order.

93. **"Future Tax Proceeds"** means any future excess tax proceeds available for mandatory redemptions under the School Warrant Indenture.

94. **"General Bar Date"** means June 4, 2012, which is the date established by the Bankruptcy Court as the general deadline for Creditors to file proofs of Claims against the County.

95. **"General Fund"** means the County's general operating fund.

96. **"General Liability Claim"** means a Claim, arising in tort or otherwise, for damages arising from or relating to death, injury to a Person, damage to or loss of property, or

any other injury that a Person may suffer to his, her, or its Person, reputation, character, feelings, or estate.

97. **"General Unsecured Claim"** means a Claim that is not an Administrative Claim, a Bessemer Lease Claim, a Board of Education Lease Debt Claim, a GO Debt Claim, an Other Unimpaired Claim, a Professional Fee Claim, a Secured Claim, a Special Revenues Claim, or a Subordinated Claim. General Unsecured Claims include the Asserted Full Recourse Sewer Claims, Rejection Damage Claims, and the Uninsured Portion of General Liability Claims.

98. **"General Unsecured Claims Pool"** means the sum of $5 million, which will be contributed from the General Fund to a segregated, interest-bearing account on the Effective Date, plus all interest paid by the depositary institution with respect to such sum through and including the GUC Payment Date.

99. **"GO Acknowledgment"** means the provisions set forth in Exhibit D to the Plan, which the County will include in the proposed form of Confirmation Order.

100. **"GO Banks"** means, together, BLB and JPMorgan Chase Bank, N.A.

101. **"GO Debt Claims"** means, collectively, all GO Policy Claims, all GO Swap Agreement Claims, and all GO Warrant Claims.

102. **"GO Events of Default"** means all defaults or breaches by the County of either of the GO Resolutions, including any failure of the County to pay amounts due and owing on any of the Series 2003-A GO Warrants or the Series 2004-A GO Warrants when due.

103. **"GO Insurance Policies"** means, together, (a) that certain *Financial Guaranty Insurance Policy* number 40587 issued by National on or around March 19, 2003; and (b) that certain *Financial Guaranty Insurance Policy* number 44671 issued by National on or around August 10, 2004.

104. **"GO Paying Agents"** means, together, (a) The Bank of New York Mellon Trust Company, N.A., in its capacity as paying agent with respect to the Series 2003-A GO Warrants; and (b) U.S. Bank National Association, in its capacity as successor paying agent with respect to the Series 2004-A GO Warrants.

105. **"GO Plan Support Agreement"** means that certain *Plan Support Agreement* dated as of May 13, 2013, by and among the County, the GO Banks, and the GO Warrant Trustee.

106. **"GO Plan Support Parties"** means, collectively, the GO Banks, the GO Warrant Trustee, and National.

107. **"GO Policy Claims"** means any and all Claims arising from or in connection with the GO Insurance Policies, as well as any and all Claims of the GO Warrant Insurer or any Transferee of the GO Warrant Insurer arising from or in connection with the GO Resolutions, including all Claims arising in connection with any Series 2003-A GO Warrants or Series 2004-A GO Warrants held by the GO Warrant Insurer or by any Transferee of the GO Warrant Insurer

as a result of the GO Warrant Insurer's satisfaction of any claim under any of the GO Insurance Policies, including the National Fees and Expenses Claims and the National Reimbursement Claims, and including any related Reinsurance Claims.

108. **"GO Released Claims"** means any and all Claims, Causes of Action, and Avoidance Actions (including those arising under the Bankruptcy Code or nonbankruptcy law) based in whole or in part on any act, event, omission, transaction, or other occurrence taking place on or before the Effective Date, in connection with, relating to, or arising from: the County, the Case, the negotiation, formulation and preparation of the Plan and any related documents or the implementation of the transactions contemplated hereby or thereby, the GO Insurance Policies, the GO Resolutions, the GO Warrants, the GO Warrant Indenture, the Standby GO Warrant Purchase Agreement, or the GO Swap Agreement, but excluding (a) all obligations imposed by the Plan, the Amended and Restated GO Indenture, and the Replacement 2001-B GO Warrants; and (b) any Claim held by a GO Released Party or any of its Related Parties in a fiduciary, agency, or other representative capacity for third-party customers, clients, or accountholders, but only to the extent any such customers, clients, or accountholders are not also GO Released Parties.

109. **"GO Released Parties"** means each of the County, the GO Banks, the GO Warrant Trustee, and National.

110. **"GO Resolution 2003-A"** means that certain *Resolution and Order*, including any documents annexed thereto, adopted by the County Commission at a meeting held on March 6, 2003, and authorizing the issuance of the Series 2003-A GO Warrants.

111. **"GO Resolution 2004-A"** means that certain *Resolution and Order Authorizing the Issuance of General Obligation Warrants, Series 2004-A*, including any documents annexed thereto, adopted by the County Commission at a meeting held on July 27, 2004, and authorizing the issuance of the Series 2004-A GO Warrants.

112. **"GO Resolutions"** means, together, the GO Resolution 2003-A and the GO Resolution 2004-A.

113. **"GO Swap Agreement"** means that certain *ISDA Master Agreement* dated as of March 23, 2001, between the County and JPMorgan Chase Bank, N.A., as amended, supplemented, or otherwise modified, including by the *Schedule* thereto dated as of March 23, 2001, and collectively with the *Confirmation* dated April 26, 2001 and any other schedules, annexes, or confirmations related thereto

114. **"GO Swap Agreement Claims"** means any and all Claims arising under the GO Swap Agreement, including with respect to all "Transactions" (as defined in the GO Swap Agreement) thereunder.

115. **"GO Warrant Claims"** means any and all Series 2001-B GO Claims, Series 2003-A GO Claims, and Series 2004-A GO Claims.

116. **"GO Warrant Indenture"** means that certain *Trust Indenture* dated as of July 1, 2001, between the County and the GO Warrant Trustee.

117. **"GO Warrant Insurer"** means National.

118. **"GO Warrant Trustee"** means Wells Fargo Bank, National Association, in its capacity as Indenture Trustee under the GO Warrant Indenture and as successor to The Bank of New York.

119. **"GO Warrant Trustee Fee Claims"** means any and all Claims of the GO Warrant Trustee for compensation, disbursements, expenses, fees, or indemnification pursuant to the GO Warrant Indenture.

120. **"GO Warrants"** means, collectively, the Series 2001-B GO Warrants, the Series 2003-A GO Warrants, and the Series 2004-A GO Warrants.

121. **"Governmental Unit Bar Date"** means August 31, 2012, which is the date established by the Bankruptcy Court as the deadline for governmental units to file proofs of Claims.

122. **"GUC Payment Date"** means the later of (a) the third (3rd) annual anniversary of the Effective Date, and (b) the date on which all objections that the County Files regarding any General Unsecured Claims on or before the Claims Objection Deadline have been settled or resolved by Final Orders.

123. **"Hiring Practices Consent Decree"** means that certain Consent Decree entered by the United States District Court for the Northern District of Alabama on December 29, 1982, in the litigation styled as *United States of America v. Jefferson County, et al.*, Civil Action No. 2:75-cv-00666-CLS (N.D. Ala.).

124. **"Impaired"** means "impaired" within the definition of Bankruptcy Code section 1124.

125. **"Indenture Trustees"** means, collectively, the Board of Education Lease Trustee, the GO Warrant Trustee, the School Warrant Trustee, and the Sewer Warrant Trustee.

126. **"Insured Portion"** means that portion of an Allowed General Liability Claim that is covered by insurance by one or more policies providing coverage to or on behalf of the County or any of its employees, including any excess coverage policies.

127. **"JPMorgan Asserted Recourse Indemnification Claims"** means any and all Claims arising from or in connection with any of those certain *Warrant Purchase Agreements*, dated as of March 6, 2002, September 18, 2002, October 24, 2002, April 30, 2003, and August 5, 2003, in each case by and between the County and JPMS.

128. **"JPMorgan GO Claim"** means $52,185,812.50, which sum represents the amount of principal and prepetition non-default interest due and owing by the County on account of the Series 2001-B GO Warrants held by JPMorgan Chase Bank, N.A.

129. **"JPMorgan Parties"** means, collectively, JPMorgan Chase Bank, N.A., JPMS, and any of their respective affiliates holding Sewer Warrant Claims or Bank Warrant Claims,

and for purposes of the definition of Sewer Released Parties, the term JPMorgan Parties shall also include Bear Stearns Capital Markets Inc.

130. **"JPMorgan Sewer Revenue Indemnification Claims"** means any and all Claims arising from or in connection with any of those certain *Remarketing and Interest Services Agreements*, dated as of February 1, 2002, May 1, 2003, and May 1, 2003, in each case by and between the County and JPMS.

131. **"JPMS"** means J.P. Morgan Securities LLC, formerly known as J.P. Morgan Securities Inc.

132. **"List of Creditors"** means the list of Creditors Filed by the County in the Case pursuant to Bankruptcy Code section 924 and Bankruptcy Rule 1007(e), as it has been or subsequently may be modified or amended by the County [Docket Nos. 410 & 932].

133. **"Liquidity Agent Standby Sewer Warrant Claims"** means any and all Claims of JPMorgan Chase Bank, N.A. in its capacity as liquidity agent under the Standby Sewer Warrant Purchase Agreements, including any and all Claims for reimbursement or indemnification in such capacity.

134. **"National"** means National Public Finance Guarantee Corporation, together with and as reinsurer of and administrator for MBIA Insurance Corporation.

135. **"National Fees and Expenses Claims"** means any and all Claims on account of fees, expenses, or costs incurred by National prior to the Effective Date that arise from or are related to the Case, the Series 2003-A GO Warrants, the Series 2004-A GO Warrants, the GO Resolutions, or the GO Insurance Policies, including National's attorneys' and other professionals' fees and expenses.

136. **"National Plan Support Agreement"** means that certain *Plan Support Agreement* dated as of June 27, 2013, by and between the County and National.

137. **"National Reimbursement Claims"** means any and all Claims arising under the GO Insurance Policies or the GO Resolutions from or in connection with the County's failure to pay interest accruing on the Series 2003-A GO Warrants or on the Series 2004-A GO Warrants during the period from the Petition Date through the Effective Date.

138. **"National Reimbursement Payments"** means the following amounts that are payable, subject to the County's prepayment rights under Section 2.3(r) of the Plan, on the following dates: (a) $2,854,321.62 payable on April 1, 2025; (b) $2,854,321.62 payable on April 1, 2026; and (c) $2,854,321.63 payable on April 1, 2027.

139. **"New Bank Rate"** means the Prime Rate (as defined in the Standby School Warrant Purchase Agreement) plus 2.25%.

140. **"New Bessemer Lease"** means that certain *Lease Agreement* dated as of January 1, 2013, which the County and the PBA entered into pursuant to the Bessemer Stipulation.

141. **"New Sewer Warrant Indenture"** means the indenture under which the County will issue the New Sewer Warrants, the form of which indenture will be included in the Plan Supplement.

142. **"New Sewer Warrants"** means the new sewer warrants issued by the County under the Plan, secured by the collateral specified in the New Sewer Warrant Indenture, and governed by the New Sewer Warrant Indenture, the form of which sewer warrants will be included in the Plan Supplement.

143. **"Non-Commutation True-Up Amount"** means an aggregate amount equal to, with respect to each Sewer Warrant held by a Person that elects not to make or is deemed not to make the Commutation Election, the difference between (a) 80% of the Adjusted Sewer Warrant Principal Amount of such Sewer Warrant, and (b) 65% of the Adjusted Sewer Warrant Principal Amount of such Sewer Warrant.

144. **"OPEB Plan"** means the single-employer, post-retirement welfare benefit plan sponsored by the County in accordance with the resolution of the County Commission first approved on September 25, 1990, and approved from time to time thereafter.

145. **"OPEB Plan Claims"** means any and all Claims of the OPEB Plan.

146. **"Other Secured Claims"** means any Secured Claims that are not otherwise expressly classified under the Plan.

147. **"Other Specified Sewer Claims"** means any and all JPMorgan Sewer Revenue Indemnification Claims.

148. **"Other Standby Sewer Warrant Claims"** means any and all Claims arising from or in connection with the Standby Sewer Warrant Purchase Agreements other than any Claims on account of principal, interest, or the Facility Fee (as defined in the Standby Sewer Warrant Purchase Agreements). For the avoidance of doubt, the Other Standby Sewer Warrant Claims include the Liquidity Agent Standby Sewer Warrant Claims and any and all other Claims for reimbursement or indemnification, including with respect to any fees or expenses (including professional fees), of any party (other than the County) to the Standby Sewer Warrant Purchase Agreements.

149. **"Other Unimpaired Claims"** means any and all Consent Decree Claims, Deposit Refund Claims, Eminent Domain Claims, Employee Compensation Claims, OPEB Plan Claims, Pass-Through Obligation Claims, Retirement System Claims, Tax Abatement Agreement Claims, and Workers Compensation Claims.

150. **"Outstanding Amount"** means, with respect to any series or subseries of non-commuted Sewer Warrants, (a) if the applicable Sewer Warrant Insurer elects (irrespective of the terms of the applicable Sewer Wrap Policy) to make payments under Section 4.15(h) of the Plan on the Effective Date, the outstanding principal (after giving effect to all Distributions contemplated by the Plan) owing on such series or subseries of Sewer Warrants as of the Effective Date; or (b) if the applicable Sewer Warrant Insurer elects (irrespective of the terms of the applicable Sewer Wrap Policy) to make payments under Section 4.15(h) of the Plan on a date

after the Effective Date, the sum of (i) the outstanding principal (after giving effect to all Distributions contemplated by the Plan and any principal payments theretofore made by the applicable Sewer Warrant Insurer on or after the Effective Date) owing on such series or subseries of Sewer Warrants as of the date on which the applicable Sewer Warrant Insurer elects to pay outstanding accelerated principal and interest, and (ii) all interest accrued and unpaid on such series or subseries of Sewer Warrants after the Effective Date through the date on which the applicable Sewer Warrant Insurer makes such election as to such series or subseries.

151. **"Pass-Through Obligation Claims"** means any and all Claims of the Birmingham-Jefferson Civic Center Authority, the State of Alabama, cities, towns, school districts, school boards, and other municipalities for taxes and other funds due to them or to any applicable trustee on their behalf that the County, under applicable state law, has collected on their behalf and is obligated to remit to them or to any applicable trustee on their behalf.

152. **"PBA"** means the Jefferson County Public Building Authority.

153. **"Permanent Injunction"** has the meaning set forth in Section 6.2 of the Plan.

154. **"Person"** means any person or organization created or recognized by law, including any association, company, cooperative, corporation, entity, estate, individual, joint stock company, joint venture, limited liability company, partnership, trust, unincorporated organization, or government or any political subdivision thereof.

155. **"Petition Date"** means November 9, 2011.

156. **"Plan"** means this *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated June 30, 2013)*, either in its present form or as it may be amended, supplemented, or otherwise modified from time to time by the County in accordance with the terms hereof and Bankruptcy Code section 942.

157. **"Plan Procedures Order"** means an order that is entered by the Bankruptcy Court and, among other things, establishes procedures and deadlines with respect to the solicitation and tabulation of votes to accept or reject the Plan.

158. **"Plan Supplement"** means a compilation of any document, form of document, schedule, or exhibit identified in the Plan or the Disclosure Statement for Filing with the Bankruptcy Court on or before the deadline specified in the Plan Procedures Order, including the Amended and Restated GO Warrant Indenture, the New Sewer Warrant Indenture, the Put Agreement, the Schedule of Assumed Agreements, the School Warrant Second Supplemental Indenture (if applicable), the Tail Risk Payment Agreements, the form of the New Sewer Warrants, and the form of the Replacement 2001-B GO Warrants.

159. **"Plan Support Agreements"** means, collectively, the Depfa Plan Support Agreement, the GO Plan Support Agreement, the National Plan Support Agreement, and the Sewer Plan Support Agreements, in each case collectively with all exhibits and schedules thereto.

160. **"Plan Support Parties"** means, collectively, Depfa Bank PLC, the GO Plan Support Parties, and the Sewer Plan Support Parties.

161. **"Preserved Claims"** means all Causes of Action of the County, including the Avoidance Actions and other Causes of Action identified on Exhibit A to the Plan, against the Persons identified thereon, but excluding all Causes of Action that are expressly waived, relinquished, released, compromised, or settled in the Plan, pursuant to the Confirmation Order, or pursuant to any other order of the Bankruptcy Court. The failure to specifically identify in the Disclosure Statement or the Plan any potential or existing Causes of Action as a Preserved Claim is not intended to and shall not limit the rights of the County to pursue any such Causes of Action. The County expressly reserves all Causes of Action, other than those Causes of Action that are expressly waived, relinquished, released, compromised, or settled in the Plan, pursuant to the Confirmation Order, or pursuant to any other order of the Bankruptcy Court, as Preserved Claims for later adjudication, and no preclusion doctrine (including the doctrines of *res judicata*, collateral estoppel, judicial estoppel, equitable estoppel, issue preclusion, claim preclusion, and laches) shall apply to such Causes of Action as Preserved Claims on or after the Effective Date.

162. **"Primary Standby Sewer Warrant Claims"** means any and all Claims arising from or in connection with the Standby Sewer Warrant Purchase Agreements on account of principal, interest, or the Facility Fee (as defined in the Standby Sewer Warrant Purchase Agreements).

163. **"Pro Rata"** means proportionately so that the ratio of (a) the amount of consideration distributed on account of a particular Allowed Claim to (b) the amount of that Allowed Claim, is the same as the ratio of (x) the amount of consideration available for Distribution on account of all Allowed Claims in the Class in which the particular Allowed Claim is included to (y) the amount of all Allowed Claims of that Class.

164. **"Professional Fee Claim"** means a Claim required to be filed pursuant to Section 2.2(c) of the Plan with respect to amounts to be paid to a professional Person that has been duly retained by the County for services or expenses in the Case or incident to the Plan. For the avoidance of doubt, no Professional Fee Claim will be Allowed or paid by the County if the underlying professional's retention was by or on behalf of any Person other than the County or was otherwise not properly authorized by the County Commission.

165. **"Put Agreement"** means an agreement between the County and those Supporting Sewer Warrantholders undertaking a Put Obligation, the form of which agreement will be included in the Plan Supplement.

166. **"Put Consideration"** means an amount to be paid on the Effective Date under the Put Agreement to those Supporting Sewer Warrantholders undertaking a Put Obligation equal to 1.5% of the Adjusted Sewer Warrant Principal Amount of the Eligible Sewer Warrants held by each such Supporting Sewer Warrantholder.

167. **"Put Obligation"** means an undertaking by some or all of the Supporting Sewer Warrantholders to purchase a specified portion of the New Sewer Warrants on the terms and conditions set forth in the Put Agreement.

168. **"Rate Resolution"** means the resolution adopted by the County Commission to implement the Approved Rate Structure.

169. **"Receiver"** means John S. Young, Jr., LLC, the receiver appointed in the State Court Receivership Action, and any successor thereto or replacement thereof.

170. **"Receivership Actions"** means the Federal Court Receivership Action and the State Court Receivership Action.

171. **"Refinancing Proceeds"** means the net proceeds generated by the issuance of New Sewer Warrants after the payment of the Put Consideration.

172. **"Reinstated Sewer Warrant Interest Payments"** means all non-default rate interest (with respect to the Bank Warrants, including the Bank Warrants held by the Sewer Warrant Insurers, the Sewer Bank Rate) accrued and unpaid on account of any Sewer Warrants through and including the Effective Date, without providing for any interest on interest; *provided, however*, that any non-default rate interest paid by any of the Sewer Warrant Insurers during the period starting on February 1, 2013, and continuing through and including the Effective Date is not included within the "Reinstated Sewer Warrant Interest Payments," but instead is part of the "Sewer Warrant Insurers Outlay Amount."

173. **"Reinstated Sewer Warrant Principal Payments"** means all principal amounts that have become due and payable and remain unpaid (by the County, any Sewer Warrant Insurer, or otherwise) on account of any of the Sewer Warrants during the period starting on February 1, 2013, and continuing through and including the Effective Date, without giving effect to any acceleration or any accelerated redemption schedule (including any accelerated redemption schedule applicable to any Bank Warrants). Any principal amounts that have become or will become due and owing on any of the Sewer Warrants during the period starting on February 1, 2013, and continuing through and including the Effective Date, and that have been paid or are paid by any of the Sewer Warrant Insurers are not included within the "Reinstated Sewer Warrant Principal Payments," but instead are part of the "Sewer Warrant Insurers Outlay Amount."

174. **"Reinsurance Claim"** means, with respect to any particular bond or warrant insurance policy, any Claim that has been or could be asserted (directly or indirectly) by any Person that has acted or is acting as a "reinsurer" or in any similar capacity with respect to such insurance policy.

175. **"Rejection Bar Date"** means, with respect to any Rejection Damage Claim, the latest of (a) the first Business Day that is at least thirty (30) calendar days after the later of either (i) the date on which a Rejection Order is entered by the Bankruptcy Court or (ii) the effective date of such Rejection Order; (b) either (i) the General Bar Date or (ii) if the claimant is a governmental unit, the Governmental Unit Bar Date; and (c) solely as to those Rejection Damage Claims arising from the rejection of an unexpired lease or an executory contract under the Plan, the first Business Day that is at least thirty (30) calendar days after the Effective Date.

176. **"Rejection Damage Claim"** means a Claim arising under Bankruptcy Code section 365(g) from the rejection of an unexpired lease or an executory contract.

177. **"Rejection Order"** means an order of the Bankruptcy Court entered prior to the Effective Date and authorizing the County's rejection of an unexpired lease or an executory contract.

178. **"Related Parties"** means, collectively, (a) any affiliates of a Person, and (b) all of the respective accountants, affiliates, agents, assigns, attorneys, authorities, bankers, consultants, directors, employees, executors, financial advisors, heirs, investment bankers, managers, members, officers, officials, parent entities, partners, predecessors, principals, professional persons, representatives, shareholders, subsidiaries, and successors, whether past or present, of such Person and of such Person's affiliates; *provided, however*, that the County's Related Parties shall include the County Commission and its members, but shall not include any former County Commissioners or any former employees or officials of the County against which the County has any Preserved Claims.

179. **"Remaining Accumulated Sewer Revenues"** means the amount of Accumulated Sewer Revenues, if any, remaining after providing for the payment of all Reinstated Sewer Warrant Principal Payments, all Reinstated Sewer Warrant Interest Payments, and all Sewer Warrant Insurers Outlay Amount as required by Section 4.6(a) of the Plan.

180. **"Replacement 2001-B GO Warrants"** means replacement warrants to be issued under the Plan, governed by the Amended and Restated GO Indenture, and named the "General Obligation Warrants, Series 2013," the form of which warrants will be included in the Plan Supplement and which will include the material terms specified in Section 1(c) of the GO Plan Support Agreement.

181. **"Retained Amount"** means the sum of $3,756,625.75 of Education Tax Revenues (as defined in the School Warrant Indenture) retained by the County during the pendency of the Case in the "Jefferson County Limited Obligation Warrant Revenue Account" established under the School Warrant Indenture.

182. **"Retirement System"** means the General Retirement System for Employees of Jefferson County, Alabama, which was established by the Alabama Legislature pursuant to Act Number 497, Acts of Alabama 1965, page 717, and is the administrator of a single-employer, defined benefit pension plan covering substantially all employees of the County.

183. **"Retirement System Claims"** means any and all Claims of the Retirement System.

184. **"Schedule of Assumed Agreements"** means the schedule of executory contracts and unexpired leases that the County will assume on the Effective Date. As part of the Plan Supplement, the County shall File its initial Schedule of Assumed Agreements and serve it on the parties to contracts and leases listed on that schedule. Upon filing, such schedule shall become Exhibit B to the Plan (subject to any modifications made prior to the Confirmation Date).

185. **"School Debt Claims"** means, collectively, all School Policy – General Claims, all School Surety Reimbursement Claims, all School Warrant Claims, all School Warrant Trustee Fee Claims, and all Subordinated School Claims.

186. **"School Insurance Policies"** means, together, the School Policy – General and the School Surety.

187. **"School Policy – General"** means that certain *Financial Guaranty Insurance Policy* number 23545BE issued by Ambac on or around February 2, 2005.

188. **"School Policy – General Claims"** means any and all Claims arising from or in connection with the School Policy – General, as well as any and all Claims of the School Warrant Insurer or any Transferee of the School Warrant Insurer arising from or in connection with the School Warrant Indenture, including all Claims arising in connection with any Series 2005-A School Warrants or Series 2005-B School Warrants held by the School Warrant Insurer or by any Transferee of the School Warrant Insurer as a result of the School Warrant Insurer's satisfaction of any claims under the School Policy – General, and including any related Reinsurance Claims.

189. **"School Surety"** means that certain *Surety Bond* number SB1982BE issued by Ambac on or around February 2, 2005.

190. "**School Surety Reimbursement Claims"** means any and all Claims arising from or in connection with (a) the School Surety or (b) that certain *Guaranty Agreement* dated as of February 2, 2005, by and between the County and Ambac, including all Claims arising in connection with any School Warrants held by the School Warrant Insurer or by any Transferee of the School Warrant Insurer as a result of the School Warrant Insurer's satisfaction of any claims under the School Surety, and including any related Reinsurance Claims.

191. **"School Warrant Claims"** means any and all Series 2004-A School Claims, Series 2005-A School Claims, and Series 2005-B School Claims.

192. **"School Warrant Event of Default"** shall have the meaning ascribed to the term "Event of Default" in, as applicable, the School Warrant Indenture or the Standby School Warrant Purchase Agreement, and **"School Warrant Events of Default"** shall mean more than one such "Event of Default."

193. **"School Warrant Indenture"** means that certain *Trust Indenture* dated as of December 1, 2004, between the County and the School Warrant Trustee, as subsequently supplemented by that certain *First Supplemental Indenture* dated as of January 1, 2005.

194. **"School Warrant Insurer"** means Ambac.

195. **"School Warrant Second Supplemental Indenture"** means that certain supplement to the School Warrant Indenture to be executed as of the Effective Date of the Plan, which shall contain the amendments to the School Warrant Indenture effected by the Plan; *provided, however*, that such School Warrant Second Supplemental Indenture shall be executed only if the County and the School Warrant Trustee agree that such a supplemental indenture is necessary and appropriate and agree on the form and substance of such supplemental indenture prior to the deadline for filing the Plan Supplement.

196. **"School Warrant Trustee"** means U.S. Bank National Association, in its capacity as successor Indenture Trustee under the School Warrant Indenture.

197. **"School Warrant Trustee Fee Claims"** means any and all Claims of the School Warrant Trustee for compensation, disbursements, expenses, fees, or indemnification pursuant to the School Warrant Indenture.

198. **"School Warrants"** means, collectively, the Series 2004-A School Warrants, the Series 2005-A School Warrants, and the Series 2005-B School Warrants.

199. **"Scotia Bank"** means The Bank of Nova Scotia.

200. **"Secured Claim"** means a Claim, including a Secured Tax Claim and Other Secured Claim, that is secured by a lien on property of the County, which lien is valid, perfected, and enforceable under applicable law and not subject to avoidance under the Bankruptcy Code or applicable non-bankruptcy law. A Claim is a Secured Claim only to the extent of the value of the claimholder's interest in the County's interest in the collateral or to the extent of the amount subject to setoff against a Claim held by the County, whichever is applicable, and as determined under Bankruptcy Code section 506(a); to the extent that the value of such interest is less than the amount of the Claim which has the benefit of such security, in the case of a Claim that is not a Special Revenues Claim, the unsecured portion of such Claim shall be treated as a General Unsecured Claim unless, in any such case, the Class of which Secured Claim is a part makes a valid and timely election in accordance with Bankruptcy Code section 1111(b) to have such Claim treated as a Secured Claim to the extent Allowed.

201. **"Secured Tax Claim"** means a governmental unit's Secured Claim for unpaid taxes.

202. **"Series 1997-A Sewer Claims"** means any and all Claims arising from or in connection with the Series 1997-A Sewer Warrants, other than any Series 1997-A Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies.

203. **"Series 1997-A Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 1997-A issued in the original principal amount of $211,040,000 and insured by FGIC.

204. **"Series 2001-A Sewer Claims"** means any and all Claims arising from or in connection with the Series 2001-A Sewer Warrants, other than any Series 2001-A Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies.

205. **"Series 2001-A Sewer Warrants"** means those certain Sewer Revenue Capital Improvement Warrants, Series 2001-A issued in the original principal amount of $275,000,000 and insured by FGIC.

206. **"Series 2001-B GO Claims"** means any and all Claims arising from or in connection with the Series 2001-B GO Warrants or the GO Warrant Indenture, including all Standby GO Warrant Claims and all GO Warrant Trustee Fee Claims, but excluding the GO Swap Agreement Claims.

207. **"Series 2001-B GO Warrants"** means those certain General Obligation Warrants, Series 2001-B issued in the original principal amount of $120,000,000.

208. **"Series 2002-A Sewer Claims"** means any and all Claims arising from or in connection with the Series 2002-A Sewer Warrants together with any and all Claims arising from or in connection with that certain *Standby Warrant Purchase Agreement* dated as of February 1, 2002, among the County, the Sewer Warrant Trustee, and JPMorgan Chase Bank, N.A., other than any Series 2002-A Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies.

209. **"Series 2002-A Sewer Warrants"** means those certain Sewer Revenue Capital Improvement Warrants, Series 2002-A issued in the original principal amount of $110,000,000 and insured by FGIC.

210. **"Series 2002-C-1 & C-5 Sewer Claims"** means any and all Claims arising from or in connection with the Series 2002-C-1 Sewer Warrants or the Series 2002-C-5 Sewer Warrants, other than any Series 2002-C-1 Sewer Warrants or Series 2002-C-5 Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies.

211. **"Series 2002-C-1 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2002-C designated as subseries C-1-A, C-1-B, C-1-C, and C-1-D, issued in the original principal amount of $298,800,000, and insured by Syncora.

212. **"Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Claims"** means any Claims arising from or in connection with the Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Warrants, including any Primary Standby Sewer Warrant Claims asserted with respect to the Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Warrants, other than any Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction or commutation of any claim under or in connection with any of the Sewer Insurance Policies.

213. **"Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2002-C designated as subseries C-2, C-3, C-4, C-6, and C-7, issued in the original principal amount of $442,400,000, and previously insured by Syncora.

214. **"Series 2002-C-5 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2002-C designated as subseries C-5, issued in the original principal amount of $98,300,000, and insured by Syncora.

215. **"Series 2003-A GO Claims"** means any and all Claims arising from or in connection with the Series 2003-A GO Warrants, other than any Series 2003-A GO Warrants held or acquired by the GO Warrant Insurer or by any Transferee of the GO Warrant Insurer as a result of the GO Warrant Insurer's satisfaction of any claim under any of the GO Insurance Policies.

216. **"Series 2003-A GO Warrants"** means those certain General Obligation Capital Improvement and Refunding Warrants, Series 2003-A issued in the original principal amount of $94,000,000 and insured by National.

217. **"Series 2003-A Sewer Claims"** means any and all Claims arising from or in connection with the Series 2003-A Sewer Warrant.

218. **"Series 2003-A Sewer Warrant"** means that certain Sewer Revenue Refunding Warrant, Series 2003-A issued in the original principal amount of $41,820,000 and presently held by Alabama Water Pollution Control Authority.

219. **"Series 2003-B-1 Sewer Claims"** means any and all Claims arising from or in connection with the Series 2003-B-1 Sewer Warrants, other than any Series 2003-B-1 Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies.

220. **"Series 2003-B-1 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2003-B designated as subseries B-1-A, B-1-B, B-1-C, B-1-D, and B-1-E, issued in the original principal amount of $735,800,000, and insured by FGIC.

221. **"Series 2003-B-2 Through B-7 Sewer Claims"** means any and all Claims arising from or in connection with the Series 2003-B-2 Through B-7 Sewer Warrants, including any Primary Standby Sewer Warrant Claims asserted with respect to the Series 2003-B-2 Through B-7 Sewer Warrants, other than any Series 2003-B-2 Through B-7 Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction or commutation of any claim under or in connection with any of the Sewer Insurance Policies.

222. **"Series 2003-B-2 Through B-7 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2003-B designated as subseries B-2, B-3, B-4, B-5, B-6, and B-7, issued in the original principal amount of $300,000,000, and previously insured by Syncora.

223. **"Series 2003-B-8 Sewer Claims"** means any and all Claims arising from or in connection with the Series 2003-B-8 Sewer Warrants, other than any Series 2003-B-8 Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies. For the avoidance of doubt, the Series 2003-B-8 Sewer Claims include the FGIC Assured-Insured Warrant Claims.

224. **"Series 2003-B-8 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2003-B designated as subseries B-8, issued in the original principal amount of $119,965,000, and insured by Assured.

225. **"Series 2003-C-1 Through C-8 Sewer Claims"** means any and all Claims arising from or in connection with the Series 2003-C-1 Through C-8 Sewer Warrants, other than any Series 2003-C-1 Through C-8 Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies.

226. **"Series 2003-C-1 Through C-8 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2003-C designated as subseries C-1, C-2, C-3, C-4, C-5, C-6, C-7, and C-8, issued in the original principal amount of $820,000,000, and insured by FGIC.

227. **"Series 2003-C-9 Through C-10 Sewer Claims"** means any and all Claims arising from or in connection with the Series 2003-C-9 Through C-10 Sewer Warrants, other than any Series 2003-C-9 Through C-10 Sewer Warrants held or acquired by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under any of the Sewer Insurance Policies.

228. **"Series 2003-C-9 Through C-10 Sewer Warrants"** means those certain Sewer Revenue Refunding Warrants, Series 2003-C designated as subseries C-9 and C-10, issued in the original principal amount of $232,025,000, and insured by Assured.

229. **"Series 2004-A GO Claims"** means any and all Claims arising from or in connection with the Series 2004-A GO Warrants, other than any Series 2004-A GO Warrants held or acquired by the GO Warrant Insurer or by any Transferee of the GO Warrant Insurer as a result of the GO Warrant Insurer's satisfaction of any claim under any of the GO Insurance Policies.

230. **"Series 2004-A GO Warrants"** means those certain General Obligation Warrants, Series 2004-A issued in the original principal amount of $51,020,000 and insured by National.

231. **"Series 2004-A School Claims"** means any and all Claims arising from or in connection with the Series 2004-A School Warrants, other than any Series 2004-A School Warrants held or acquired by the School Warrant Insurer or by any Transferee of the School Warrant Insurer as a result of the School Warrant Insurer's satisfaction of any claim under any of the School Insurance Policies.

232. **"Series 2004-A School Warrants"** means those certain Limited Obligation School Warrants, Series 2004-A issued in the original principal amount of $650,000,000.

233. **"Series 2005-A School Claims"** means any and all Claims arising from or in connection with the Series 2005-A School Warrants, other than any Series 2005-A School Warrants held or acquired by the School Warrant Insurer or by any Transferee of the School Warrant Insurer as a result of the School Warrant Insurer's satisfaction of any claim under any of the School Insurance Policies.

234. **"Series 2005-A School Warrants"** means those certain Limited Obligation School Warrants, Series 2005-A issued in the original principal amount of $200,000,000 and insured by Ambac.

235. **"Series 2005-B School Claims"** means any and all Claims arising from or in connection with the Series 2005-B School Warrants, including all Standby School Warrant Claims, other than any Series 2005-B School Warrants held or acquired by the School Warrant Insurer as a result of the School Warrant Insurer's satisfaction of any claim under any of the School Insurance Policies.

236. **"Series 2005-B School Warrants"** means those certain Limited Obligation School Warrants, Series 2005-B issued in the original principal amount of $200,000,000 and insured by Ambac.

237. **"Sewer Bank Rate"** means the "Bank Rate" as that term is defined in the applicable Standby Sewer Warrant Purchase Agreement.

238. **"Sewer Debt Claims"** means, collectively, all Bank Warrant Claims, all Other Specified Sewer Claims, all Other Standby Sewer Warrant Claims, all Primary Standby Sewer Warrant Claims, all Sewer Swap Agreement Claims, all Sewer Warrant Claims, all Sewer Warrant Insurers Claims, all Sewer Warrant Trustee Fee Claims, and all Subordinated Sewer Claims.

239. **"Sewer DSRF Policies"** means, collectively, (a) that certain *Municipal Bond Debt Service Reserve Fund Policy* number 01010226 issued by FGIC on or around March 22, 2001; (b) that certain *Municipal Bond Debt Service Reserve Fund Policy* number 02010252 issued by FGIC on or around March 6, 2002; (c) that certain *Debt Service Reserve Insurance Policy* number CA01568A issued by Syncora on or around December 30, 2004; and (d) that certain *Municipal Bond Debt Service Reserve Insurance Policy* number 201371-R issued by Assured on or around April 1, 2005.

240. **"Sewer DSRF Reimbursement Agreements"** means, collectively, (a) that certain *Debt Service Reserve Fund Policy Agreement* dated as of March 22, 2001, by and between the County and FGIC; (b) that certain *Debt Service Reserve Fund Policy Agreement* dated as of March 6, 2002, by and between the County and FGIC; (c) that certain *Financial Guaranty Agreement* dated as of December 30, 2004, by and between the County and Syncora; and (d) that certain *Insurance Agreement* dated as of April 1, 2005, by and between the County and Assured.

241. **"Sewer DSRF Reimbursement Claims"** means any and all Claims arising from or in connection with the Sewer DSRF Reimbursement Agreements or the Sewer DSRF Policies, including all Claims arising in connection with any Sewer Warrants held by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction of any claim under or in connection with any of the Sewer DSRF Policies, and including any related Reinsurance Claims.

242. **"Sewer Insurance Policies"** means, collectively, the Sewer DSRF Policies and the Sewer Wrap Policies.

243. **"Sewer Liquidity Banks"** means, collectively, BNY, Scotia Bank, and State Street, each in its capacity as a liquidity bank with respect to Sewer Warrants, the Bank Warrant Claims, the Primary Standby Sewer Warrant Claims, the Other Standby Sewer Warrant Claims, and the Bank Warrant Default Interest Claims, and not in any other capacity.

244. **"Sewer Plan Support Agreements"** means, collectively, (i) those certain *Plan Support Agreements* among the County and each of the JPMorgan Parties, the Sewer Warrant Insurers, and the Supporting Sewer Warrantholders, dated as of June 6, 2013; and (ii) that certain *Plan Support Agreement* among the County and the Sewer Liquidity Banks dated as of June 27, 2013, in each case as the same may have been amended, modified, or supplemented in accordance with their respective terms.

245. **"Sewer Plan Support Parties"** means, collectively, the JPMorgan Parties, the Sewer Liquidity Banks, the Sewer Warrant Insurers, and the Supporting Sewer Warrantholders.

246. **"Sewer Released Claims"** means any and all Claims, Causes of Action, and Avoidance Actions (including those arising under the Bankruptcy Code or nonbankruptcy law) based in whole or in part on any act, event, omission, transaction, or other occurrence taking place on or before the Effective Date, in connection with, relating to, or arising from: the County, the Case, the negotiation, formulation and preparation of the Plan and any related documents or the implementation of the transactions contemplated hereby or thereby, the Sewer Warrants, the Sewer Warrant Indenture, the Sewer Insurance Policies, the Sewer DSRF Reimbursement Agreements, the Standby Sewer Warrant Purchase Agreements, the Sewer Swap Agreements, the Syncora Settlement Agreement, the Asserted Full Recourse Sewer Claims, the Bank Warrant Default Interest Claims, the Sewer System, or any swap, financing, or other transaction relating to the Sewer System, including any and all Claims or Causes of Action challenging the validity or enforceability of the Sewer Warrants or the issuance thereof, payments of principal and interest made in respect of the Sewer Warrants, acceleration of the Sewer Warrants, the manner in which Sewer Warrant Trustee has applied revenues of the Sewer System to payment of Sewer Debt Claims both before and during the Case, including any Causes of Action related to the reapplication to principal of any interest payments made on the Sewer Warrants during the Case, issues raised by the Declaratory Judgment Action, or any Sewer System rates or charges established or collected by the County in connection with the issuance or the payment of debt service in respect of the Sewer Warrants, or seeking the return to the County of any payment made by the County in connection with the Sewer Warrants or any swap, financing, or other transaction relating to the Sewer System. The Sewer Released Claims do not include (a) any obligations under or reserved by the Plan (including the payment of Covered Tail Risk, the Sewer Warrant Insurers Outlay Amount, and the Non-Commutation True-Up Amount), the New Sewer Warrant Indenture, the New Sewer Warrants, the Put Agreement, the Tail Risk Payment Agreements, and the Sewer Warrant Insurers Agreements; (b) any rights of the Sewer Warrant Insurers vis-à-vis each other to the extent not released in or reserved in any of the Sewer Warrant Insurers Agreements; (c) any Sewer Wrap Payment Rights of FGIC against Assured on account of any unpaid FGIC Assured-Insured Warrant Claims; (d) any rights of the Supporting Sewer Warrantholders vis-à-vis each other to the extent contained in agreements among themselves; (e) any Claim held by a Sewer Released Party or any of its Related Parties in a fiduciary, agency, or other representative capacity for third-party customers, clients, or accountholders, but only to the extent any such customers, clients, or accountholders are not also Sewer Released Parties (for the

avoidance of doubt, this clause (e) shall not exclude from the scope of the Sewer Released Claims any Claims arising from (i) any "Covered Sewer Warrants" as defined in the Supporting Sewer Warrantholder Plan Support Agreement, (ii) the Sewer Warrants set forth on Schedule 1 to the Sewer Plan Support Agreement among the County and the JPMorgan Parties, (iii) the Sewer Warrants referenced in Section 3(a) of the Sewer Plan Support Agreement among the County and the Sewer Warrant Insurers, or (iv) the Bank Warrants referenced in Section 3(a) of the Sewer Plan Support Agreement among the County and the Sewer Liquidity Banks); and (f) any Sewer Wrap Payment Rights of a holder of Sewer Warrants that did not make or was deemed not to make the Commutation Election against the applicable Sewer Warrant Insurer.

247. **"Sewer Released Parties"** means each of the County, the FGIC Rehabilitator, the Receiver, the Sewer Plan Support Parties, and the Sewer Warrant Trustee.

248. **"Sewer Swap Agreement Claims"** means any and all Claims arising from or in connection with the Sewer Swap Agreements, including with respect to all "Transactions" (as defined in the Sewer Swap Agreements) thereunder.

249. **"Sewer Swap Agreements"** means, collectively, (a) that certain *ISDA Master Agreement* dated as of October 23, 2002, between the County and Lehman Brothers Special Financing Inc., as subsequently amended via an amendment dated as of September 14, 2006, together with all schedules, annexes, and confirmations related thereto; (b) that certain *ISDA Master Agreement* dated as of October 18, 2002, between the County and Bank of America, N.A., as subsequently amended via an amendment dated as of July 14, 2003, together with all schedules, annexes, and confirmations related thereto; and (c) that certain *ISDA Master Agreement* dated as of May 1, 2004, between the County and Bear Stearns Capital Markets Inc., together with all schedules, annexes, and confirmations related thereto.

250. **"Sewer System"** means the entire sanitary sewer system owned by the County.

251. **"Sewer Warrant Claims"** means any and all Series 1997-A Sewer Claims, Series 2001-A Sewer Claims, Series 2002-A Sewer Claims, Series 2002-C-1 & C-5 Sewer Claims, Series 2003-A Sewer Claims, Series 2003-B-1 Sewer Claims, Series 2003-B-8 Sewer Claims, Series 2003-C-1 Through C-8 Sewer Claims, and Series 2003-C-9 Through C-10 Sewer Claims. For the avoidance of doubt, (i) the FGIC Assured-Insured Warrant Claims are Sewer Warrant Claims; (ii) any Claims on account of Sewer Warrants held by any of the Sewer Warrant Insurers (other than the FGIC Assured-Insured Warrant Claims) are Sewer Warrant Insurers Claims; and (iii) the Bank Warrant Claims, the Other Standby Sewer Warrant Claims, and the Primary Standby Sewer Warrant Claims are not Sewer Warrant Claims.

252. **"Sewer Warrant Indenture"** means that certain *Trust Indenture* dated as of February 1, 1997, between the County and the Sewer Warrant Trustee, as subsequently supplemented by eleven supplemental indentures dated as of March 1, 1997, March 1, 1999, March 1, 2001, February 1, 2002, September 1, 2002, October 1, 2002, November 1, 2002, January 1, 2003, April 1, 2003, August 1, 2003, and May 1, 2004.

253. **"Sewer Warrant Indenture Funds"** means any funds or accounts that are established by or have any connection to the Sewer Warrant Indenture regardless of the

pendency of any dispute concerning whether the Sewer Warrant Trustee has property rights in, or a lien on, such fund or account (including in Adversary Proceeding No. 12-00067).

254. **"Sewer Warrant Insurers"** means, collectively, Assured, FGIC, and Syncora.

255. **"Sewer Warrant Insurers Agreements"** means those certain written agreements of the Sewer Warrant Insurers (to which the County is not a party), each dated as of June 6, 2013, and concerning, among other things, the agreed allocation of certain of the consideration payable under Section 2.3(c) of the Plan and certain commutations and settlements between and among the Sewer Warrant Insurers in respect of the Sewer Warrant Insurers Claims.

256. **"Sewer Warrant Insurers Claims"** means any and all Claims held by the Sewer Warrant Insurers, whatever the origin or nature, including all Sewer Wrap Policy Claims, all Sewer DSRF Reimbursement Claims, and all other Claims held by any Sewer Warrant Insurer arising from or in connection with the Sewer Warrants, the Sewer Warrant Indenture, or the Standby Sewer Warrant Purchase Agreements, but excluding the FGIC Assured-Insured Warrant Claims and the Asserted Full Recourse Sewer Claims. For the avoidance of doubt, Sewer Warrant Insurers Claims include any and all Claims that could be asserted in respect of (a) the Series 2002-A Sewer Warrants in the principal amount of $101,465,000 owned by FGIC, or (b) the Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Warrants and Series 2003-B-2 Through B-7 Sewer Warrants in the aggregate principal amount of $214,191,875.11 owned by Syncora.

257. **"Sewer Warrant Insurers Outlay Amount"** means a sum equal to the amount of any and all payments made by any of the Sewer Warrant Insurers to or for the benefit of holders of Sewer Warrants under any of the Sewer Insurance Policies on or after February 1, 2013, and through the Effective Date, plus interest on the principal portion of such payments, calculated at the underlying Sewer Warrant rate (e.g., 5.25% on the Series 2003-B-8 Sewer Warrants and two (2) times the one month LIBOR rate on the Series 2003-C-9 Through C-10 Sewer Warrants). For the avoidance of doubt, no additional interest will be paid on the portion of such payments related to interest accrued on any Sewer Warrant.

258. **"Sewer Warrant Trustee"** means The Bank of New York Mellon, in its capacity as Indenture Trustee under the Sewer Warrant Indenture and as successor to AmSouth Bank of Alabama.

259. **"Sewer Warrant Trustee Fee Claims"** means any and all Claims of the Sewer Warrant Trustee for compensation, disbursements, expenses, fees (including fees of its counsel and experts), or indemnification pursuant to the Sewer Warrant Indenture.

260. **"Sewer Warrant Trustee Residual Fee Estimate"** means (a) the anticipated aggregate amount of reasonable expenses and fees (including reasonable fees of its counsel) that will be incurred by the Sewer Warrant Trustee in connection with the completion of the actions that the Sewer Warrant Trustee is required to take pursuant to Sections 4.6(a), 4.6(b), 4.6(c), 4.7(b), 4.8(c), 4.11 (only with respect to last sentence thereof), 4.15(e)(iv)(A), and 4.15(e)(v) of the Plan (and only such actions), which anticipated amount shall be provided in writing to the County's counsel on or before the seventh (7th) calendar day after the Confirmation Date; plus

(b) an amount not to exceed $100,000 in respect of any indemnification rights, which amount shall be returned to the County if not used by the tenth (10th) annual anniversary of the Effective Date. The Sewer Warrant Trustee Residual Fee Estimate shall not include (i) any anticipated amounts in respect of the Sewer Wrap Payment Rights Administration Expenses; or (ii) except as set forth above, any amounts or reserves in respect of indemnification rights.

261. **"Sewer Warrant Trustee's Asserted Recourse Claim"** means the proof of Claim filed by the Sewer Warrant Trustee "in an amount not less than $85,562,828.31."

262. **"Sewer Warrants"** means, collectively, the Series 1997-A Sewer Warrants, the Series 2001-A Sewer Warrants, the Series 2002-A Sewer Warrants, the Series 2002-C-1 Sewer Warrants, the Series 2002-C-2 Through C-4 & C-6 Through C-7 Sewer Warrants, the Series 2002-C-5 Sewer Warrants, the Series 2003-A Sewer Warrant, the Series 2003-B-1 Sewer Warrants, the Series 2003-B-2 Through B-7 Sewer Warrants, the Series 2003-B-8 Sewer Warrants, the Series 2003-C-1 Through C-8 Sewer Warrants, and the Series 2003-C-9 Through C-10 Sewer Warrants. For the avoidance of doubt, all Bank Warrants are also Sewer Warrants.

263. **"Sewer Wrap Payment Rights"** means any rights of a holder of Sewer Warrants against the applicable Sewer Warrant Insurer insuring such holder's Sewer Warrants to receive any payments under, in connection with, or on account of such Sewer Warrant Insurer's Sewer Wrap Policies, but only with respect to any Sewer Warrants as to which such holder did not make or was deemed not to make the Commutation Election against the applicable Sewer Warrant Insurer.

264. **"Sewer Wrap Payment Rights Administration Expenses"** means the reasonable expenses and fees of the Sewer Warrant Trustee, if any, associated with the pursuit and administration of any Sewer Wrap Payment Rights after the Effective Date, including making demands on the applicable Sewer Warrant Insurer, calculating any amounts due under the applicable Sewer Wrap Policies, and receiving or distributing any funds payable on account of any Sewer Wrap Payment Rights. The Sewer Warrant Trustee shall provide an estimate in writing of the Sewer Wrap Payment Rights Administration Expenses to counsel for the County and each of the Sewer Warrant Insurers on or before the seventh (7th) calendar day after the Confirmation Date.

265. **"Sewer Wrap Policies"** means, collectively, (a) that certain *Municipal Bond New Issue Insurance Policy* number 97010082 issued by FGIC on or around February 27, 1997, as it may be amended by FGIC's plan of rehabilitation; (b) that certain *Municipal Bond New Issue Insurance Policy* number 01010225 issued by FGIC on or around March 22, 2001, as it may be amended by FGIC's plan of rehabilitation; (c) that certain *Municipal Bond New Issue Insurance Policy* number 02010251 issued by FGIC on or around March 6, 2002, as it may be amended by FGIC's plan of rehabilitation; (d) that certain *Municipal Bond Insurance Policy* number CA00370A issued by Syncora on or around October 25, 2002; (e) that certain *Municipal Bond New Issue Insurance Policy* number 03010448 issued by FGIC on or around May 1, 2003, as it may be amended by FGIC's plan of rehabilitation; (f) that certain *Municipal Bond Insurance Policy* number 200777-N issued by Assured on or around May 1, 2003; (g) that certain *Municipal Bond Insurance Policy* number CA00522A issued by Syncora on or around May 1, 2003; (h) that certain *Municipal Bond New Issue Insurance Policy* number 03010824 issued by

FGIC on or around August 7, 2003, as it may be amended by FGIC's plan of rehabilitation; and (i) that certain *Municipal Bond Insurance Policy* number 201371-N issued by Assured on or around August 7, 2003.

266. **"Sewer Wrap Policy Claims"** means any and all Claims arising from or in connection with the Sewer Wrap Policies, as well as any and all Claims of any of the Sewer Warrant Insurers or any Transferee of any of the Sewer Warrant Insurers arising from or in connection with the Sewer Warrant Indenture, including all Claims arising in connection with any Sewer Warrants held by any of the Sewer Warrant Insurers or by any Transferee of any of the Sewer Warrant Insurers as a result of a Sewer Warrant Insurer's satisfaction or commutation of any claims under or in connection with any of the Sewer Wrap Policies, and including any related Reinsurance Claims. For the avoidance of doubt, the Sewer Wrap Policy Claims do not include the Sewer DSRF Reimbursement Claims.

267. **"Special Revenues Claim"** means a Claim payable solely from "special revenues" (as defined in Bankruptcy Code section 902(2)) under applicable nonbankruptcy law, including all School Debt Claims and all Sewer Debt Claims.

268. **"Standby GO Warrant Claims"** means any and all Claims arising from or in connection with the Standby GO Warrant Purchase Agreement.

269. **"Standby GO Warrant Purchase Agreement"** means that certain *Standby Warrant Purchase Agreement* dated as of July 1, 2001, among the County, the GO Warrant Trustee, and the GO Banks, as subsequently amended by that certain *First Amendment to Standby Warrant Purchase Agreement* dated as of September 1, 2004.

270. **"Standby School Warrant Claims"** means any and all Claims of Depfa Bank PLC arising from or in connection with the Standby School Warrant Purchase Agreement.

271. **"Standby School Warrant Purchase Agreement"** means that certain *Standby Warrant Purchase Agreement* dated as of January 1, 2005, among the County, the School Warrant Trustee, and Depfa Bank PLC.

272. **"Standby Sewer Warrant Purchase Agreements"** means, collectively, (a) that certain *Standby Warrant Purchase Agreement* dated as of February 1, 2002, among the County, the Sewer Warrant Trustee, and JPMorgan Chase Bank, N.A.; (b) those certain *Standby Warrant Purchase Agreements* dated as of October 1, 2002, among the County, the Sewer Warrant Trustee, JPMorgan Chase Bank, N.A. (as liquidity agent), and each of JPMorgan Chase Bank, N.A., Bank of America, N.A., Scotia Bank, Société Générale, New York Branch, and Regions Bank; and (c) those certain *Standby Warrant Purchase Agreements* dated as of May 1, 2003, among the County, the Sewer Warrant Trustee, JPMorgan Chase Bank, N.A. (as liquidity agent), and each of Société Générale, New York Branch, BNY, State Street, and Lloyds TSB Bank plc.

273. **"State Court Receivership Action"** means *The Bank of New York Mellon, as Indenture Trustee v. Jefferson County, Alabama, et al.*, Civil Action No. CV-2009-02318, pending in the Circuit Court of Jefferson County, Alabama.

274. **"State Street"** means State Street Bank and Trust Company.

275. **"Subordinated Claim"** means a Claim that is determined pursuant to contract, the Plan, or the Confirmation Order to be subordinated in accordance with Bankruptcy Code section 510(b) or 510(c), including all Subordinated General Claims, Subordinated School Claims, and Subordinated Sewer Claims.

276. **"Subordinated General Claims"** means any and all Claims that represent general obligations of the County and are determined pursuant to contract, the Plan, or the Confirmation Order to be subordinated in accordance with Bankruptcy Code section 510(b) or 510(c). For the avoidance of doubt, all Claims in Class 5-A, Class 5-B, Class 5-C, Class 5-D, or Class 5-E that are Allowed under the Plan are not Subordinated General Claims or subject to subordination.

277. **"Subordinated School Claims"** means any and all School Debt Claims that are determined pursuant to contract, the Plan, or the Confirmation Order to be subordinated in accordance with Bankruptcy Code section 510(b) and 510(c). For the avoidance of doubt, all Claims in Class 2-A, Class 2-B, Class 2-C, Class 2-D, or Class 2-E that are Allowed under the Plan are not Subordinated School Claims or subject to subordination.

278. **"Subordinated Sewer Claims"** means any and all Sewer Debt Claims that are determined pursuant to contract, the Plan, or the Confirmation Order to be subordinated in accordance with Bankruptcy Code section 510(b) or 510(c). For the avoidance of doubt, all Claims in Class 1-A, Class 1-B, Class 1-C, or Class 1-D that are Allowed under the Plan are not Subordinated Sewer Claims or subject to subordination.

279. **"Supporting Sewer Warrantholder Directed Distribution"** has the meaning set forth in Section 4.9(b) of the Plan.

280. **"Supporting Sewer Warrantholder Plan Support Agreement"** means that certain *Plan Support Agreement* dated as of June 6, 2013, by and among County, JPMorgan Chase Bank, N.A., and the Supporting Sewer Warrantholders from time to time party thereto.

281. **"Supporting Sewer Warrantholders"** means each of those Persons that owns, or manages or advises accounts or funds that own, Sewer Warrants and that is or becomes a signatory to the Supporting Sewer Warrantholder Plan Support Agreement.

282. **"Syncora"** means Syncora Guarantee Inc., formerly known as XL Capital Assurance Inc.

283. **"Syncora Settlement Agreement"** means that certain *Settlement Agreement* by and among JPMorgan Chase Bank, N.A., Bank of America, N.A., Scotia Bank, Société Générale, New York Branch, Regions Bank, BNY, State Street, Lloyds TSB Bank, plc, as liquidity banks under the Standby Sewer Warrant Purchase Agreements, and Syncora, dated as of April 7, 2010, collectively with any exhibits thereto and any ancillary documents associated therewith.

284. **"Tail-Coverage Escrow Accounts"** means individual escrow accounts established with respect to each of the Sewer Warrant Insurers that will be funded by the County

on the Effective Date in an amount equal to the respective Covered Tail Risk for each of the Sewer Warrant Insurers, plus any interest or investment returns accruing thereon.

285. **"Tail-Coverage Protocols"** means the protocols to be set forth in the Tail Risk Payment Agreements regarding the process for disbursement of funds from each Sewer Warrant Insurer's Tail-Coverage Escrow Account to such Sewer Warrant Insurer to reimburse such Sewer Warrant Insurer for payments made by the applicable Sewer Warrant Insurer on account of its Tail Risk, which protocol will also include provisions for the reallocation of funds between and among Tail-Coverage Escrow Accounts and the return of any remaining funds in each Tail-Coverage Escrow Account to the County, in each case, if the subject Sewer Warrant Insurer no longer requires the remaining funds in its Tail-Coverage Escrow Account, including the interest or any investment return thereon, to pay its respective Tail Risk (a) over the entire term that any Tail Risk claims can be presented for payment to such Sewer Warrant Insurer (including any additional or subsequent cash payments that may be made by a Sewer Warrant Insurer on account of previously submitted Tail Risk claims that received prior payments) or (b) in each Sewer Warrant Insurer's sole discretion, on an accelerated basis.

286. **"Tail Risk"** means the claim exposure of each of the Sewer Warrant Insurers under the applicable Sewer Wrap Policies that remains after the Effective Date (after giving effect to the County's payment of the Non-Commutation True-Up Amount to the Sewer Warrant Insurers, but without taking into account any reduction in FGIC's payment obligations pursuant to any plan of rehabilitation for FGIC) based on (a) the aggregate Adjusted Sewer Warrant Principal Amount of the Sewer Warrants held by holders that elected not to make or were deemed not to make the Commutation Election, *less* the Distributions made to such holders pursuant to Option 2 of Section 2.3(a) of the Plan; and (b) the aggregate Adjusted Sewer Warrant Principal Amount of the Sewer Warrants held by holders of Series 2003-C-9 Through C-10 Sewer Warrants insured by Assured that are deemed to make the Commutation Election but nonetheless object to such deemed commutation and thereafter timely file a notice of appeal of the Confirmation Order overruling such objection, *less* the Distributions made to such holders pursuant to Option 1 of Section 2.3(a) of the Plan.

287. **"Tail Risk Payment Agreements"** means individual agreements between the County and each of the Sewer Warrant Insurers setting forth the Tail Risk with respect to such Sewer Warrant Insurer, providing the mechanisms for the payment in full of an amount equal to such Sewer Warrant Insurer's Covered Tail Risk, and incorporating the Tail-Coverage Escrow Accounts and Tail-Coverage Protocols, the forms of which agreements will be included in the Plan Supplement.

288. **"Tax Abatement Agreement Claims"** means any and all Claims arising from or in connection with the Tax Abatement Agreements.

289. **"Tax Abatement Agreements"** means any agreement pursuant to which any sales tax, use tax, recording tax, non-educational *ad valorem* tax, or other tax has been or currently is being abated under the Tax Incentive Reform Act of 1992, codified at Alabama Code section 40-9B-1, *et seq.*

290. **"Transferee"** means any Person that, after the Petition Date, obtained or obtains any beneficial interest in all or any part of a particular Claim, whether by way of assignment, bequest, foreclosure, hypothecation, lien, mortgage, pledge, sale, or other method of "transfer" as that word is defined in Bankruptcy Code section 101(54).

291. **"True-Up Amount"** means a sum equal to the aggregate amount of any interest paid on account of any Series 2005-B School Claims during the period between August 31, 2013, and the Effective Date at a rate higher than the New Bank Rate, as agreed by and acceptable to Depfa Bank PLC and the County.

292. **"True-Up Amount Certificate"** means a certificate delivered to the School Warrant Trustee pursuant to Section 2.3(i) of the Plan confirming the amount of the True-Up Amount and directing the School Warrant Trustee to implement the provisions of the Plan reducing the principal balance of the Series 2005-B School Warrants by an amount equal to the True-Up Amount rounded down to the nearest authorized denomination of the Series 2005-B School Warrants.

293. **"Unclaimed Distribution"** means any Distribution other than an Undeliverable Distribution with respect to which the County tenders a distribution check and that distribution check is not cashed within forty-five (45) calendar days after its issuance date.

294. **"Undeliverable Distribution"** means any Distribution with respect to which the County tenders a distribution check and that distribution check is returned as undeliverable.

295. **"Uninsured Portion"** means the portion of an Allowed General Liability Claim that is not the Insured Portion.

296. **"Unliquidated Claim"** means a Claim that is listed on the List of Creditors as unliquidated.

297. **"Unused Covered Tail Risk Amount"** means an amount equal to the positive difference, if any, between $25 million and the aggregate Covered Tail Risk that the County is required to pay or fund on the Effective Date pursuant to the Plan and the Tail Risk Payment Agreements; *provided, however*, that the Unused Covered Tail Risk Amount shall in no event exceed the lesser of (a) $750,000 and (b) the estimated amount of the Sewer Wrap Payment Rights Administration Expenses to be provided by the Sewer Warrant Trustee to counsel for the County and each of the Sewer Warrant Insurers on or before the seventh (7th) calendar day after the Confirmation Date.

298. **"Wilson Action"** means, together, that certain adversary proceeding styled as *Charles E. Wilson, et al. v. JPMorgan Chase & Co., et al. (In re Jefferson County, Alabama)*, Adv. Proc. No. 11-00433 (Bankr. N.D. Ala.), and the counts remaining in that certain action styled as *Wilson v. Bank of America, et al.* Circuit Court of Jefferson County, Alabama, Birmingham Division, Case No. CV-2008-901907.00.

299. **"Workers Compensation Claims"** means any and all Claims pursuant to Alabama workers compensation law of current and former County employees who have suffered an eligible injury while employed by the County.

Section 1.2. Interpretation; Rules of Construction; Computation of Time.

(a) Defined Terms. Any term used in the Plan or the Plan's Exhibits that is not a Defined Term, but that is used in the Bankruptcy Code or Bankruptcy Rules has the meaning assigned to such term in the Bankruptcy Code or Bankruptcy Rules, as applicable, unless the context requires otherwise.

(b) Rules of Interpretation and Construction.

1. The definition given to any term or provision in the Plan or the Plan's Exhibits supersedes and controls any different meaning that may be given to that term or provision in the Disclosure Statement, on any Ballot, or in any Plan Support Agreement.

2. Whenever appropriate from the context, each term, whether stated in the singular or the plural, includes both the singular and the plural.

3. All references in the Plan and the Plan's Exhibits to any one of the feminine, masculine, or neuter genders shall be deemed to include references to all other such genders.

4. Whenever the Plan or the Plan's Exhibits use the word "including," such reference shall be deemed to mean "including, without limitation,".

5. Any reference to a document or instrument being in a particular form or on particular terms means that the document or instrument will be substantially in that form or on those terms.

6. Any reference to an existing document or instrument means the document or instrument as it has been, or may be, amended or supplemented prior to the Effective Date not in violation of any agreements applicable to such amendment or supplement (including the Plan Support Agreements as they may be applicable to any amendment or supplement of the Plan).

7. Any reference to a specific Person includes any successors or assigns of such Person, and all rights, benefits, interests, and obligations of any Person named or referred to in the Plan shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, trustee, liquidator, rehabilitator, conservator, successor, or assign of such Person.

8. Unless otherwise indicated, the phrase "under the Plan" and similar words or phrases refer to the Plan in its entirety rather than to only a portion of the Plan.

9. Unless otherwise specified, all references to "Articles," "Exhibits," "Schedules," or "Sections" are references to articles, exhibits, schedules, and sections of or to the Plan.

10. The words "herein," "hereof," "hereto," "hereunder," "herewith," and other words of similar import refer to the Plan in its entirety rather than to only a particular portion of the Plan.

11. Captions and headings to articles and sections are inserted for convenience of reference only, do not constitute a portion of the Plan, and are not intended to affect in any manner the interpretation of the Plan.

12. Whenever the Plan or the Plan's Exhibits provides that a document or thing must be "acceptable" or "satisfactory" to any Person, such requirement shall in each case be subject to a reasonableness qualifier.

13. All other rules of construction set forth in Bankruptcy Code section 102 apply to the Plan and the Plan's Exhibits to the extent not inconsistent with this Section 1.2.

(c) Time Periods. In computing any period of time prescribed or allowed by the Plan or the Plan's Exhibits, the provisions of Bankruptcy Rule 9006(a) shall apply.

ARTICLE II
DESIGNATION OF CLASSES AND TREATMENT OF CLAIMS

Section 2.1. Summary and Classification of Claims.

This Section classifies Claims – except for Administrative Claims, which are not classified – for all purposes, including confirmation, Distributions, and voting. A Claim is classified in a particular Class only to the extent that the Claim falls within the Class description. To the extent that part of a Claim falls within a different Class description, that part of the Claim is classified in that different Class. The following table summarizes the Classes of Claims under the Plan:

CLASS	DESCRIPTION	IMPAIRED/ UNIMPAIRED	VOTING STATUS
None	Administrative Claims	Unimpaired	Not Entitled to Vote
Class 1-A	Sewer Warrant Claims	Impaired	Entitled to Vote
Class 1-B	Bank Warrant Claims and Primary Standby Sewer Warrant Claims	Impaired	Entitled to Vote
Class 1-C	Sewer Warrant Insurers Claims	Impaired	Entitled to Vote
Class 1-D	Other Specified Sewer Claims	Impaired	Entitled to Vote
Class 1-E	Sewer Swap Agreement Claims	Impaired	Not Entitled to Vote (deemed to reject)
Class 1-F	Other Standby Sewer Warrant Claims	Impaired	Not Entitled to Vote (deemed to reject)
Class 2-A	Series 2004-A School Claims	Impaired	Entitled to Vote
Class 2-B	Series 2005-A School Claims	Impaired	Entitled to Vote

CLASS	DESCRIPTION	IMPAIRED/ UNIMPAIRED	VOTING STATUS
Class 2-C	Series 2005-B School Claims and Standby School Warrant Claims	Impaired	Entitled to Vote
Class 2-D	School Policy – General Claims	Impaired	Entitled to Vote
Class 2-E	School Surety Reimbursement Claims	Impaired	Entitled to Vote
Class 3-A	Board of Education Lease Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 3-B	Board of Education Lease Policy Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 4	Other Secured Claims, including Secured Tax Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 5-A	Series 2001-B GO Claims and Standby GO Warrant Claims	Impaired	Entitled to Vote
Class 5-B	Series 2003-A GO Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 5-C	Series 2004-A GO Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 5-D	GO Policy Claims	Impaired	Entitled to Vote
Class 5-E	GO Swap Agreement Claims	Impaired	Entitled to Vote
Class 6	General Unsecured Claims	Impaired	Entitled to Vote
Class 7	Bessemer Lease Claims	Impaired	Entitled to Vote
Class 8	Other Unimpaired Claims	Unimpaired	Not Entitled to Vote (deemed to accept)
Class 9	Subordinated Claims	Impaired	Not Entitled to Vote (deemed to reject)

NOTWITHSTANDING ANY OTHER TERM OR PROVISION OF THE PLAN, NO DISTRIBUTIONS WILL BE MADE AND NO RIGHTS WILL BE RETAINED ON ACCOUNT OF ANY CLAIM THAT IS NOT AN ALLOWED CLAIM.

The treatment in the Plan is in full, final, and complete satisfaction of the legal, contractual, and equitable rights (including any liens, encumbrances, charges, and interests) that each Person holding a Claim may have or assert against the County or its property. This treatment supersedes and replaces any agreements or rights that any holder of a Claim may

otherwise have or assert against the County or its property. Other than the Reinstated Sewer Warrant Interest Payments and the Bank Warrant Default Interest Settlement Payments, all Distributions in respect of Allowed Claims will be allocated first to the principal amount of such Allowed Claim, as determined for federal income tax purposes, and thereafter to the remaining portion of such Allowed Claim, if any; *provided, however*, that the County's treatment of any Distributions for its tax purposes will not be binding on any Creditor as to the treatment of such Distributions for any regulatory, tax, or other purposes.

Section 2.2. Allowance and Treatment of Administrative Claims.

(a) Allowance of Administrative Claims.

(i) Administrative Claims Generally.

Unless otherwise expressly provided in the Plan or agreed by the County, Administrative Claims will be Allowed only if:

(A) On or before the Administrative Claims Bar Date, the Person holding such Administrative Claim both Files with the Bankruptcy Court and serves on the County a motion requesting allowance of the Administrative Claim; and

(B) The Bankruptcy Court enters a Final Order finding that such asserted Administrative Claim is an Allowed Claim.

The County or any other party in interest may File an objection to such motion within sixty (60) calendar days after the expiration of the Administrative Claims Bar Date, unless such time period for filing such objection is extended by the Bankruptcy Court. **THE FAILURE TO FILE A MOTION REQUESTING ALLOWANCE OF AN ADMINISTRATIVE CLAIM ON OR BEFORE THE ADMINISTRATIVE CLAIMS BAR DATE, OR THE FAILURE TO SERVE SUCH MOTION TIMELY AND PROPERLY, SHALL RESULT IN THE ADMINISTRATIVE CLAIM BEING FOREVER BARRED AND DISALLOWED WITHOUT FURTHER ORDER OF THE BANKRUPTCY COURT. IF FOR ANY REASON ANY SUCH ADMINISTRATIVE CLAIM IS INCAPABLE OF BEING FOREVER BARRED AND DISALLOWED, THEN THE HOLDER OF SUCH CLAIM SHALL IN NO EVENT HAVE RECOURSE TO ANY PROPERTY DISTRIBUTED PURSUANT TO THE PLAN.**

(ii) Cure Payments.

Cure Payments shall be Allowed in accordance with the procedures set forth in Section 3.1(b).

(iii) 503(b)(9) Claims.

Unless otherwise expressly provided in the Plan or agreed by the County, a 503(b)(9) Claim will be Allowed only if:

(A) The 503(b)(9) Claim is Filed by the 503(b)(9) Bar Date, or is deemed timely Filed; and

(B) If an objection to such 503(b)(9) Claim is Filed by a party in interest on or before the Claim Objection Deadline, the Bankruptcy Court enters a Final Order finding that such asserted 503(b)(9) Claim is an Allowed 503(b)(9) Claim.

PURSUANT TO THE BAR DATE ORDER, ALL PERSONS HOLDING 503(b)(9) CLAIMS THAT DID NOT TIMELY FILE SUCH CLAIMS BY THE 503(b)(9) BAR DATE ARE FOREVER BARRED. ESTOPPED, AND ENJOINED FROM ASSERTING THOSE CLAIMS AGAINST THE COUNTY OR ITS PROPERTY.

(b) Treatment of Administrative Claims.

(i) Administrative Claims Generally.

Unless the Person holding an Allowed Administrative Claim agrees to different treatment, or already has been paid the full amount of such Allowed Administrative Claim, the County shall pay to that Person Cash in an amount equal to the Allowed amount of such Administrative Claim, without interest, on or before the later of (A) ten (10) Business Days after the Effective Date, and (B) ten (10) Business Days after the date on which any order determining such Claim is an Allowed Administrative Claim becomes a Final Order.

(ii) Cure Payments.

Cure Payments will be made to the non-debtor parties to the subject executory contracts or unexpired leases in accordance with Section 3.1.

(iii) 503(b)(9) Claims.

Unless the Person holding an Allowed 503(b)(9) Claim agrees to different treatment, or already has been paid the full amount of such Allowed 503(b)(9) Claim, the County shall pay to that Person Cash in an amount equal to the Allowed amount of such 503(b)(9) Claim, without interest, on or before the later of (A) ten (10) Business Days after the Effective Date, and (B) ten (10) Business Days after the date on which any order determining such Claim to be an Allowed 503(b)(9) Claim becomes a Final Order.

(c) Professional Fees.

Pursuant to Bankruptcy Code section 943(b)(3), all amounts to be paid for services or expenses in the Case or incident to the Plan must be fully disclosed to the Bankruptcy Court and must be reasonable. There shall be paid to each holder of a Professional Fee Claim in full, final, and complete settlement, satisfaction, release, and discharge of such Claim, Cash in an amount equal to the portion of such Professional Fee Claim that the Bankruptcy Court determines is reasonable on or as soon as is reasonably practicable following the date on which the Bankruptcy Court enters an order determining reasonableness. The County, in the ordinary course of its business, and without the requirement for Bankruptcy Court approval, may pay for professional services rendered and expenses incurred following the Effective Date.

(d) Administrative Tax Claims.

Notwithstanding anything to the contrary in the Plan or in the Confirmation Order, a governmental unit shall not be required to file, make, or submit a request for payment (or any document, including a bill) of an expense described in Bankruptcy Code section 503(b)(1)(B) or (C) as a condition of its being an Allowed Administrative Claim, and the County shall pay in full all such Allowed Administrative Claims, including any interest related thereto, when due.

(e) No Other Priority Claims.

The only category of priority Claim incorporated into a chapter 9 case through Bankruptcy Code section 901(a) are Administrative Claims allowable under Bankruptcy Code section 507(a)(2). The treatment of Allowed Administrative Claims under the Plan is described in Section 2.2(b) above. No other kinds of priority claims set forth in Bankruptcy Code section 507 are recognized or entitled to priority in chapter 9 or in this Case, but rather are treated in chapter 9 and in this Case and classified in the Plan as General Unsecured Claims.

Section 2.3. Classification and Treatment of Classified Claims.

(a) Class 1-A (Sewer Warrant Claims).

Class 1-A consists of all Sewer Warrant Claims. Class 1-A is Impaired under the Plan. Class 1-A Claims shall be Allowed on the Effective Date in an aggregate amount equal to (i) the Adjusted Sewer Warrant Principal Amount of all Sewer Warrants giving rise to Class 1-A Claims and (ii) the amount of any Reinstated Sewer Warrant Principal Payments and Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) with respect to any Sewer Warrants giving rise to Class 1-A Claims, which Allowed Claims shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

Except as set forth in Section 4.9(a) with respect to the Allowed Class 1-A Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-A Claim shall receive a Distribution in one of the two amounts specified in Option 1 and Option 2 below. Such a Distribution is higher than such holder's Pro Rata share of the Distributions made to holders of all Allowed Class 1-A Claims would otherwise be as a result of (i) the reallocation of Plan consideration from the JPMorgan Parties to holders of Allowed Class 1-A Claims as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan and (ii) the consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-A Claims on account of such Claims.

The Distributions to be made to holders of Allowed Class 1-A Claims from or on behalf of the County consist of the following two components:

A. Except as set forth in Section 4.9(a) with respect to the Allowed Class 1-A Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-A Claim shall receive the right to choose between the following two Distribution options:

Option 1: if such holder makes or is deemed to make the Commutation Election, a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 80% of the Adjusted Sewer Warrant Principal Amount of such holder's Sewer Warrants in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Class 1-A Claims and of all of such holder's other Sewer Released Claims, both against the County and against any of the other Sewer Released Parties and their respective Related Parties (including against the Sewer Warrant Insurers and their respective Related Parties in respect of any of the Sewer Insurance Policies); or

Option 2: if such holder does not make or is deemed not to make the Commutation Election, (i) a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 65% of the Adjusted Sewer Warrant Principal Amount of such holder's Sewer Warrants in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Class 1-A Claims; and (ii) the retention of Sewer Wrap Payment Rights, if any, against the applicable Sewer Warrant Insurer in respect of any Sewer Wrap Policies insuring such holder's Sewer Warrants, which Sewer Wrap Payment Rights shall not be waived or impaired.

B. Regardless of the option selected, each holder of an Allowed Class 1-A Claim shall also receive on the Effective Date a Distribution of Cash on account of any applicable Reinstated Sewer Warrant Principal Payments and any applicable Reinstated Sewer Warrant Interest Payments in accordance with Section 4.6(a). No Distributions will be made under the Plan to any Person on account of (i) any interest in excess of the non-default rate on any Sewer Warrants after the Petition Date and (ii) any interest on interest on any Sewer Warrants after the Petition Date.

As described in Section 4.9(a), the sources of the incremental recovery to holders of Allowed Class 1-A Claims that make the Commutation Election as provided for in this Section 2.3(a) result from (i) the agreement of the JPMorgan Parties to reallocate to such holders a substantial portion of the Pro Rata share of the Distribution that otherwise would have been distributed to the JPMorgan Parties on account of the Allowed Class 1-A Claims and Allowed Class 1-B Claims held by the JPMorgan Parties as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan; and (ii) the consideration provided as a result of the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro

Rata share of such reallocated consideration from the JPMorgan Parties to be made available to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims.

Each of the JPMorgan Parties and each Supporting Sewer Warrantholder has agreed in the applicable Sewer Plan Support Agreement to make, and shall make, the Commutation Election with respect to all Sewer Warrants held by each of the JPMorgan Parties and each Supporting Sewer Warrantholder, subject to the exceptions contained in Section 3(e) of the Supporting Sewer Warrantholder Plan Support Agreement.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-A Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b), no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b), the Distributions under this Section 2.3(a) shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

(b) Class 1-B (Bank Warrant Claims and Primary Standby Sewer Warrant Claims).

Class 1-B consists of all Bank Warrant Claims and (to the extent not otherwise included) all Primary Standby Sewer Warrant Claims. Class 1-B is Impaired under the Plan. Class 1-B Claims shall be Allowed on the Effective Date in an aggregate amount equal to (i) the Adjusted Sewer Warrant Principal Amount of all Bank Warrants giving rise to Class 1-B Claims; (ii) the amount of any Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) with respect to any Bank Warrants giving rise to Class 1-B Claims; and (iii) the Bank Warrant Default Interest Settlement Payments, which Allowed Claims shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

Except as set forth in Section 4.9(a) with respect to the Allowed Class 1-B Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-B Claim shall receive a Distribution in one of the two amounts specified in Option 1 and Option 2 below. Such a Distribution is higher than such holder's Pro Rata share of the Distributions made to holders of all Allowed Class 1-B Claims would otherwise be as a result of (i) the reallocation of Plan consideration from the JPMorgan Parties to holders of Allowed Class 1-B Claims as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan and (ii) the consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such

reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-B Claims on account of such Claims.

The Distributions to be made to holders of Allowed Class 1-B Claims from or on behalf of the County consist of the following three components:

A. Except as set forth in Section 4.9(a) with respect to the Allowed Class 1-B Claims held by the JPMorgan Parties, each holder of an Allowed Class 1-B Claim shall receive the right to choose between the following two Distribution options:

Option 1: if such holder makes the Commutation Election, a Distribution on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 80% of the Adjusted Sewer Warrant Principal Amount of such holder's Bank Warrants in full, final, and complete settlement, satisfaction, release, and exchange of all of such holder's Class 1-B Claims (including any Bank Warrant Default Interest Claims, provided that Bank Warrant Default Interest Settlements Payments, if applicable, shall be paid pursuant to component C. below) and of all of such holder's other Sewer Released Claims, both against the County and against any of the other Sewer Released Parties and their respective Related Parties; or

Option 2: if such holder does not make or is deemed not to make the Commutation Election, a Distribution (x) on the Effective Date of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 65% of the Adjusted Sewer Warrant Principal Amount of such holder's Bank Warrants and (y) on the first Business Day that is at least thirty (30) calendar days after the entry of a Final Order allowing such Claims, of Cash from a reserve account to be funded on the Effective Date from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to 65% of any Allowed Bank Warrant Default Interest Claims held by such holder in full, final, and complete settlement, satisfaction, release, and exchange all of such holder's Class 1-B Claims.

B. Regardless of the option selected, each holder of an Allowed Class 1-B Claim shall also receive on the Effective Date a Distribution of Cash on account of any applicable Reinstated Sewer Warrant Interest Payments in accordance with Section 4.6(a). No Distributions will be made under the Plan to any Person on account of (i) any interest in excess of the Sewer Bank Rate on any Bank Warrants after the Petition Date and (ii) any interest on interest on any Bank Warrants after the Petition Date.

C. In addition to the foregoing, each of the Sewer Liquidity Banks shall receive on the Effective Date a Distribution of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to such Sewer Liquidity Bank's

respective specified portion of the Bank Warrant Default Interest Settlement Payments. By their acceptance of or non-objection to confirmation of the Plan, each other holder of an Allowed Class 1-B Claim shall have consented and agreed, pursuant to Bankruptcy Code section 1123(a)(4), to the Sewer Liquidity Banks' receipt of the Bank Warrant Default Interest Settlement Payments.

As described in Section 4.9(a), the sources of the incremental recovery to holders of Allowed Class 1-B Claims that make the Commutation Election as provided for in this Section 2.3(b) result from (i) the agreement of the JPMorgan Parties to reallocate to such holders a substantial portion of the Pro Rata share of the Distribution that otherwise would have been distributed to the JPMorgan Parties on account of the Allowed Class 1-A and Allowed Class 1-B Claims held by the JPMorgan Parties as part of the global settlement of Sewer Released Claims against the JPMorgan Parties implemented pursuant to the Plan; and (ii) the consideration provided as a result of the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims.

Each of the JPMorgan Parties, each Sewer Liquidity Bank, and each Supporting Sewer Warrantholder has agreed in the applicable Sewer Plan Support Agreement to make, and shall make, the Commutation Election and to waive any Bank Warrant Default Interest Claims held by such JPMorgan Party, Sewer Liquidity Bank, and Supporting Sewer Warrantholder, as applicable, with respect to all Bank Warrants held by each of the JPMorgan Parties, each Sewer Liquidity Bank, and each Supporting Sewer Warrantholder.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-B Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

No additional or other Distributions will be made under the Plan to any Person on account of the Primary Standby Sewer Warrant Claims (to the extent not otherwise included within the Bank Warrant Claims).

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b), no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b), the Distributions under this Section 2.3(b) shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

(c) Class 1-C (Sewer Warrant Insurers Claims).

Class 1-C consists of all Sewer Warrant Insurers Claims. Class 1-C is Impaired under the Plan. Class 1-C Claims shall be Allowed on the Effective Date in an aggregate amount, without duplication, equal to the sum of (i) the amount of the Sewer Warrant Insurers Claims, (ii) the amount of any Reinstated Sewer Warrant Principal Payments or Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) with respect to any Sewer Warrants held by the Sewer Warrant Insurers, and (iii) the Sewer Warrant Insurers Outlay Amount, which Allowed Claims shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

The holders of Allowed Class 1-C Claims shall receive from or on behalf of the County on the Effective Date, in full, final, and complete settlement, satisfaction, release, and exchange of each such holder's Class 1-C Claims:

(i) an aggregate Distribution of $165,000,000 in Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof, which aggregate amount shall be distributed and allocated among the Sewer Warrant Insurers as set forth in the Sewer Warrant Insurers Agreements;

(ii) a separate aggregate Distribution of Cash from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof, which aggregate amount shall be equal to the Non-Commutation True-Up Amount attributable to all Sewer Warrants insured by each Sewer Warrant Insurer under a Sewer Wrap Policy and held by Persons that elected not to make or were deemed not to make the Commutation Election;

(iii) a payment in full from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof in an amount equal to each Sewer Warrant Insurer's Covered Tail Risk, to be paid or funded pursuant to each of the Tail Risk Payment Agreements;

(iv) Distributions of Cash on account of the Reinstated Sewer Warrant Principal Payments, the Reinstated Sewer Warrant Interest Payments, and the Sewer Warrant Insurers Outlay Amount, in each case if applicable and if any, in accordance with Section 4.6(a).

As part of the global settlement implemented under the Plan, the Sewer Warrant Insurers will be deemed to waive and release all Bank Warrant Default Interest Claims.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-C Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b), no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b), the Distributions under this Section

2.3(c) shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

(d) Class 1-D (Other Specified Sewer Claims).

Class 1-D consists of all JPMorgan Sewer Revenue Indemnification Claims. Class 1-D is Impaired under the Plan.

All Claims in Class 1-D will be Allowed on the Effective Date. In full, final, and complete settlement, satisfaction, release, and exchange of all Class 1-D Claims, and as part of the global settlement between the County and the JPMorgan Parties implemented pursuant to the Plan, on the Effective Date the County shall pay JPMS the sum of ten dollars ($10.00) from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof.

As part of the global settlement implemented under the Plan, on the Effective Date the holders of Class 1-D Claims will be deemed to have assigned any and all rights of recovery on account of the Sewer Warrant Trustee's Asserted Recourse Claim to the County, without any warranty, representation, or recourse whatsoever.

With the exception of the Sewer Warrant Trustee Fee Claims, which shall be satisfied, discharged, and released in accordance with Section 4.6(b), no additional or other Distributions will be made under the Plan to any Person on account of any Claims with respect to the professional fees or expenses of any holder of Sewer Debt Claims. Because the Sewer Warrant Trustee Fee Claims are paid separately under Section 4.6(b), the Distributions under this Section 2.3(d) shall not be reduced by any deduction on account of any Sewer Warrant Trustee Fee Claims.

(e) Class 1-E (Sewer Swap Agreement Claims).

Class 1-E consists of all Sewer Swap Agreement Claims. Class 1-E is Impaired under the Plan.

The holders of Sewer Swap Agreement Claims shall neither receive any Distributions nor retain any property under the Plan on account of such Claims. Because no Distributions will be made to holders of Class 1-E Claims nor will such holders retain any property on account of such Claims, Class 1-E is deemed to have rejected the Plan pursuant to Bankruptcy Code section 1126(g), and therefore holders of Claims in Class 1-E are not entitled to vote to accept or reject the Plan on account of such Claims.

(f) Class 1-F (Other Standby Sewer Warrant Claims).

Class 1-F consists of all Other Standby Sewer Warrant Claims. Class 1-F is Impaired under the Plan.

The holders of Other Standby Sewer Warrant Claims shall neither receive any Distributions nor retain any property under the Plan on account of such Claims. Because no Distributions will be made to holders of Class 1-F Claims nor will such holders retain any

property on account of such Claims, Class 1-F is deemed to have rejected the Plan pursuant to Bankruptcy Code section 1126(g), and therefore holders of Claims in Class 1-F are not entitled to vote to accept or reject the Plan on account of such Claims.

(g) Class 2-A (Series 2004-A School Claims).

Class 2-A consists of all Series 2004-A School Claims. Class 2-A is Impaired under the Plan.

All Claims in Class 2-A will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2004-A School Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 2-A Claim will on account of such holder's Class 2-A Claim retain all of such holder's rights and interests in its Series 2004-A School Warrants, which will be repaid on the terms and conditions set forth in the School Warrant Indenture as modified by the Plan. Pursuant to Bankruptcy Code section 1123(a)(5)(F), the School Warrant Indenture shall be modified on the Effective Date in the following respects:

(i) Subject to the County having satisfied its payment obligations in respect of the Series 2004-A School Warrants through the Effective Date, all School Warrant Events of Default under the School Warrant Indenture that occurred prior to or that were continuing on the Effective Date generally with respect to all School Warrants or with respect to the Series 2004-A School Warrants shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such School Warrant Events of Default. For the avoidance of doubt, and except as otherwise provided in clause (ii) immediately below, the fact that a School Warrant Event of Default existed at any time prior to, or at the time of, the Effective Date, shall not give rise to any argument or claim that any future occurrence or recurrence of such type of School Warrant Event of Default has been excused or waived (prospectively or otherwise) under the preceding sentence.

(ii) None of the following events shall constitute School Warrant Events of Default under the School Warrant Indenture: (A) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court; (B) the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.; and (C) the subsequent filing of any bankruptcy case or proceeding under any other insolvency regime regarding either of Ambac or Ambac Financial Group Inc., including the appointment of any "orderly liquidation authority" under 12 U.S.C. §§ 5381-5394. For the avoidance of doubt, to the extent that School Warrant Events of Default may have occurred on or prior to the Effective Date due to the foregoing events, such School Warrant Events of Default shall be deemed waived and of no further force or effect.

(iii) If and to the extent that Future Tax Proceeds are collected or held by the County after the Effective Date, the County shall comply with the mandatory redemption provisions of the School Warrant Indenture, but for so long as the Series 2005-B

School Warrants are outstanding the County shall exercise any discretion and powers the County holds under the School Warrant Indenture to direct the School Warrant Trustee to redeem the Series 2005-B School Warrants, and not the Series 2005-A School Warrants or the Series 2004-A School Warrants, on the next applicable redemption date. In addition, notwithstanding any provision to the contrary in the School Warrant Indenture, including Section 2.1(f) of the First Supplemental Indenture, the County will not direct the School Warrant Trustee to credit any portion of the mandatory redemptions made after the Effective Date of the Series 2005-B School Warrants as against the principal amortization schedule set forth in the School Warrant Indenture (including the First Supplemental Indenture thereto) or otherwise.

To the extent necessary to give effect to the foregoing modifications, each holder of Allowed Class 2-A Claims shall be deemed to consent to the execution of the School Warrant Second Supplemental Indenture by the County and the School Warrant Trustee on the Effective Date.

On the Effective Date, or as soon thereafter as practicable, the County will release any hold on the Retained Amount, and the Retained Amount shall thereafter be available for distribution in accordance with the provisions of the School Warrant Indenture. No compensation, damages, interest, or other amounts will be Allowed or otherwise payable to any holders of Class 2-A Claims on account of the County's retention of the Retained Amount.

Any unpaid portion of the School Warrant Trustee Fee Claims shall be paid in Cash on the Effective Date to the School Warrant Trustee out of funds in the "Jefferson County Limited Obligation School Warrant Revenue Account" established under the School Warrant Indenture. Nothing in the Plan is intended to or will affect the School Warrant Trustee's rights to compensation or its lien, priorities, or any other rights under the School Warrant Indenture.

Nothing in the Plan is intended to release or affect any rights or claims that holders of Series 2004-A School Warrants or the School Warrant Trustee may have against the School Warrant Insurer; *provided, however*, that in no event shall any such rights give rise to any Claims against the County or its property that are not satisfied and released by the treatment provided herein for Allowed Class 2-A Claims.

(h) Class 2-B (Series 2005-A School Claims).

Class 2-B consists of all Series 2005-A School Claims. Class 2-B is Impaired under the Plan.

All Claims in Class 2-B will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2005-A School Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 2-B Claim will on account of such holder's Class 2-B Claim retain all of such holder's rights and interests in its Series 2005-A School Warrants, which will be repaid on the terms and conditions set forth in the School Warrant Indenture as modified by the Plan. Pursuant to Bankruptcy Code section 1123(a)(5)(F), the School Warrant Indenture shall be modified on the Effective Date in the following respects:

(i) Subject to the County having satisfied its payment obligations in respect of the Series 2005-A School Warrants through the Effective Date, all School Warrant Events of Default under the School Warrant Indenture that occurred prior to or that were continuing on the Effective Date generally with respect to all School Warrants or with respect to the Series 2005-A School Warrants shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such School Warrant Events of Default. For the avoidance of doubt, and except as otherwise provided in clause (ii) immediately below, the fact that a School Warrant Event of Default existed at any time prior to, or at the time of, the Effective Date, shall not give rise to any argument or claim that any future occurrence or recurrence of such type of School Warrant Event of Default has been excused or waived (prospectively or otherwise) under the preceding sentence.

(ii) None of the following events shall constitute School Warrant Events of Default under the School Warrant Indenture: (A) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court; (B) the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.; and (C) the subsequent filing of any bankruptcy case or proceeding under any other insolvency regime regarding either of Ambac or Ambac Financial Group Inc., including the appointment of any "orderly liquidation authority" under 12 U.S.C. §§ 5381-5394. For the avoidance of doubt, to the extent that School Warrant Events of Default may have occurred on or prior to the Effective Date due to the foregoing events, such School Warrant Events of Default shall be deemed waived and of no further force or effect.

(iii) If and to the extent that Future Tax Proceeds are collected or held by the County after the Effective Date, the County shall comply with the mandatory redemption provisions of the School Warrant Indenture, but for so long as the Series 2005-B School Warrants are outstanding the County shall exercise any discretion and powers the County holds under the School Warrant Indenture to direct the School Warrant Trustee to redeem the Series 2005-B School Warrants, and not the Series 2005-A School Warrants or the Series 2004-A School Warrants, on the next applicable redemption date. In addition, notwithstanding any provision to the contrary in the School Warrant Indenture, including Section 2.1(f) of the First Supplemental Indenture, the County will not direct the School Warrant Trustee to credit any portion of the mandatory redemptions made after the Effective Date of the Series 2005-B School Warrants as against the principal amortization schedule set forth in the School Warrant Indenture (including the First Supplemental Indenture thereto) or otherwise.

To the extent necessary to give effect to the foregoing modifications, each holder of Allowed Class 2-B Claims shall be deemed to consent to the execution of the School Warrant Second Supplemental Indenture by the County and the School Warrant Trustee on the Effective Date.

On the Effective Date, or as soon thereafter as practicable, the County will release any hold on the Retained Amount, and the Retained Amount shall thereafter be available for

distribution in accordance with the provisions of the School Warrant Indenture. No compensation, damages, interest, or other amounts will be Allowed or otherwise payable to any holders of Class 2-B Claims on account of the County's retention of the Retained Amount.

Any unpaid portion of the School Warrant Trustee Fee Claims shall be paid in Cash on the Effective Date to the School Warrant Trustee out of funds in the "Jefferson County Limited Obligation School Warrant Revenue Account" established under the School Warrant Indenture. Nothing in the Plan is intended to or will affect the School Warrant Trustee's rights to compensation or its lien, priorities, or any other rights under the School Warrant Indenture.

Nothing in the Plan is intended to release or affect any rights or claims that holders of Series 2005-A School Warrants or the School Warrant Trustee may have against the School Warrant Insurer; *provided, however*, that in no event shall any such rights give rise to any Claims against the County or its property that are not satisfied and released by the treatment provided herein for Allowed Class 2-B Claims.

(i) Class 2-C (Series 2005-B School Claims and Standby School Warrant Claims).

Class 2-C consists of all Series 2005-B School Claims and (to the extent not otherwise included) all Standby School Warrant Claims. Class 2-C is Impaired under the Plan.

All Claims in Class 2-C will be Allowed on the Effective Date. Each holder of an Allowed Class 2-C Claim will on account of such holder's Class 2-C Claim retain all of such holder's rights and interests in its Series 2005-B School Warrants, which will be repaid on the terms and conditions set forth in School Warrant Indenture and the Standby School Warrant Purchase Agreement, in each case as modified by the Plan. Pursuant to Bankruptcy Code section 1123(a)(5)(F), the School Warrant Indenture and the Standby School Warrant Purchase Agreement shall be modified on the Effective Date in the following respects:

(i) Effective as of August 31, 2013, the "Bank Rate" shall be defined to mean the New Bank Rate.

(ii) All School Warrant Events of Default under the School Warrant Indenture or the Standby School Warrant Purchase Agreement (including cross-defaults) that occurred prior to or that were continuing on February 11, 2013, shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such School Warrant Events of Default. For the avoidance of doubt, and except as otherwise provided in clause (iii) immediately below, the fact that a School Warrant Event of Default existed at any time prior to, or at the time of, February 11, 2013, shall not give rise to any argument or claim that any future occurrence or recurrence of such type of School Warrant Event of Default has been excused or waived (prospectively or otherwise) under the preceding sentence.

(iii) All School Warrant Events of Default that could result under the School Warrant Indenture or the Standby School Warrant Purchase Agreement (including cross-

defaults) due to the occurrence of any of the following events during the period between February 11, 2013, and the Effective Date shall be deemed waived and of no further force or effect: (A) the pendency of the Case; (B) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court and the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.; and (C) the County's retention of the Retained Amount in the Jefferson County Limited Obligation Warrant Revenue Account during the pendency of the Case notwithstanding any contrary provision of the School Warrant Indenture. In addition, all School Warrant Events of Default that could result under the School Warrant Indenture or the Standby School Warrant Purchase Agreement (including cross-defaults) due to the occurrence of any of the following events during the period after the Effective Date shall be deemed waived and of no further force or effect: (x) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court; and (y) the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.

(iv) Provided that no School Warrant Events of Default (other than those waived pursuant to clauses (ii) and (iii) immediately above) occur under the School Warrant Indenture or the Standby School Warrant Purchase Agreement after February 11, 2013, each holder of a Class 2-C Claim shall irrevocably waive and release any claim or right to receive interest at a rate higher than the New Bank Rate for any period beginning on or after August 31, 2013, either from the County or from Ambac, including under the School Insurance Policies. For the avoidance of doubt, if any School Warrant Events of Default (other than those waived pursuant to the provisions described in clauses (ii) and (iii) immediately above) occur under the School Warrant Indenture or the Standby School Warrant Purchase Agreement after February 11, 2013, the holders of Class 2-C Claims will not be deemed to have waived any claims or rights against the County or Ambac for interest at the Base Rate plus 3.00% under the Standby School Warrant Purchase Agreement from and after the occurrence of such School Warrant Events of Default. The County will represent at the Confirmation Hearing that no School Warrant Events of Default (other than those waived pursuant to clauses (ii) and (iii) immediately above) have occurred under the School Warrant Indenture or the Standby School Warrant Purchase Agreement during the period between February 11, 2013, and the date on which the Confirmation Hearing begins and will request that the Bankruptcy Court include such a finding in the Confirmation Order.

(v) At least five (5) Business Days prior to the first interest payment date after the Effective Date, the County shall provide the True-Up Certificate to the School Warrant Trustee and direct the School Warrant Trustee: (X) to reduce the aggregate outstanding principal balance of the Series 2005-B School Warrants by an amount equal to the True-Up Amount rounded down to the nearest authorized denomination of the Series 2005-B School Warrants, and (Y) to subtract the remainder of the True-Up Amount (after giving effect to the principal reduction referenced in clause (X) of this sentence) from the interest otherwise payable on

such interest payment date on account of the Series 2005-B School Warrants. Holders of the Series 2005-B School Warrants shall take such actions as may be reasonably requested by the School Warrant Trustee to implement the principal reduction by the True-Up Amount as described herein.

(vi) If and to the extent that Future Tax Proceeds are collected or held by the County after the Effective Date, the County shall comply with the mandatory redemption provisions of the School Warrant Indenture, but for so long as the Series 2005-B School Warrants are outstanding the County shall exercise any discretion and powers the County holds under the School Warrant Indenture to direct the School Warrant Trustee to redeem the Series 2005-B School Warrants, and not the Series 2005-A School Warrants or the Series 2004-A School Warrants, on the next applicable redemption date. In addition, notwithstanding any provision to the contrary in the School Warrant Indenture, including Section 2.1(f) of the First Supplemental Indenture, the County will not direct the School Warrant Trustee to credit any portion of the mandatory redemptions made after the Effective Date of the Series 2005-B School Warrants as against the principal amortization schedule set forth in the School Warrant Indenture (including the First Supplemental Indenture thereto) or otherwise.

(vii) If the County causes a remarketing of or restructuring of any of the outstanding Series 2005-B School Warrants under the School Warrant Indenture, such remarketing or restructuring shall be for no less than 100% of such outstanding Series 2005-B School Warrants and the Standby School Warrant Purchase Agreement shall be replaced or cancelled contemporaneously with the closing of such remarketing or restructuring, thereby relieving Depfa Bank PLC from its obligations to provide liquidity support with respect to the Series 2005-B School Warrants. For the avoidance of doubt, the preceding sentence is intended to prohibit the County from remarketing or restructuring a portion of the Series 2005-B Warrants and leaving the Standby School Warrant Purchase Agreement in place; further, the preceding sentence is intended to require the County to remarket or restructure the Series 2005-B School Warrants on an all or none basis

To the extent necessary to give effect to the foregoing modifications, each holder of Allowed Class 2-C Claims shall consent to the execution of the School Warrant Second Supplemental Indenture, in a form acceptable to Depfa Bank PLC, by the County and the School Warrant Trustee on the Effective Date.

On the Effective Date, or as soon thereafter as practicable, the County will release any hold on the Retained Amount, and the Retained Amount shall thereafter be available for distribution in accordance with the provisions of the School Warrant Indenture. No compensation, damages, interest, or other amounts will be Allowed or otherwise payable to any holders of Class 2-C Claims on account of the County's retention of the Retained Amount.

Any unpaid portion of the School Warrant Trustee Fee Claims shall be paid in Cash on the Effective Date to the School Warrant Trustee out of funds in the "Jefferson County Limited Obligation School Warrant Revenue Account" established under the School Warrant Indenture.

Nothing in the Plan is intended to or will affect the School Warrant Trustee's rights to compensation or its lien, priorities, or any other rights under the School Warrant Indenture.

(j) Class 2-D (School Policy – General Claims).

Class 2-D consists of all School Policy – General Claims. Class 2-D is Impaired under the Plan.

All Claims in Class 2-D will be Allowed on the Effective Date. Notwithstanding anything to the contrary in the School Policy – General, the School Warrant Indenture, or the Standby School Warrant Purchase Agreement, the holders of Class 2-D Claims (including, for the avoidance of doubt, the School Warrant Insurer) will consent to all modifications of the School Warrant Indenture and of the Standby School Warrant Purchase Agreement set forth in the treatment for Class 2-A Claims, Class 2-B Claims, and Class 2-C Claims.

All other legal, equitable, and contractual rights of holders of Allowed Class 2-D Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto.

(k) Class 2-E (School Surety Reimbursement Claims).

Class 2-E consists of all School Surety Reimbursement Claims. Class 2-E is Impaired under the Plan.

All Claims in Class 2-E will be Allowed on the Effective Date. Notwithstanding anything to the contrary in (i) the School Surety; (ii) that certain *Guaranty Agreement* dated as of February 2, 2005, by and between the County and Ambac; (iii) the School Warrant Indenture; or (iv) the Standby School Warrant Purchase Agreement, the holders of Class 2-E Claims (including, for the avoidance of doubt, the School Warrant Insurer) will consent to all modifications of the School Warrant Indenture and of the Standby School Warrant Purchase Agreement set forth in the treatment for Class 2-A Claims, Class 2-B Claims, and Class 2-C Claims.

All other legal, equitable, and contractual rights of holders of Allowed Class 2-E Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto.

(l) Class 3-A (Board of Education Lease Claims).

Class 3-A consists of all Board of Education Lease Claims. Class 3-A is not Impaired under the Plan.

All Claims in Class 3-A will be Allowed on the Effective Date. The legal, equitable, and contractual rights of holders of Allowed Class 3-A Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto. The holders of Board of Education Lease Warrants shall retain all of their limited payment rights and recourse against the collateral securing obligations under the Board of Education Lease Indenture. Consistent with the Board

of Education Lease Indenture, the County has no general liability on account of the Board of Education Lease Claims, which fact will be unaltered by the Plan. To the extent required, the County shall (i) cure any default, other than a default of the kind specified in Bankruptcy Code section 365(b)(2), that Bankruptcy Code section 1124(2) requires to be cured, with respect to the Allowed Class 3-A Claims, without recognition of any default rate of interest or similar penalty or charge, and upon such cure, no default shall exist; (ii) reinstate the maturity of such Allowed Class 3-A Claims as the maturity existed under the Board of Education Lease Indenture before any default, without recognition of any default rate of interest or similar penalty or charge; and (iii) otherwise leave unaltered the legal, equitable, and contractual rights with respect to such Allowed Class 3-A Claims. For the avoidance of doubt, the rights of the Board of Education Lease Trustee under the Board of Education Lease Indenture, including in respect of any unpaid Board of Education Lease Trustee Fee Claims, are unimpaired by the Plan.

(m) Class 3-B (Board of Education Lease Policy Claims).

Class 3-B consists of all Board of Education Lease Policy Claims. Class 3-B is not Impaired under the Plan.

All Claims in Class 3-B will be Allowed on the Effective Date. The legal, equitable, and contractual rights of holders of Allowed Class 3-B Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto. To the extent required, the County shall (i) cure any default, other than a default of the kind specified in Bankruptcy Code section 365(b)(2), that Bankruptcy Code section 1124(2) requires to be cured, with respect to the Allowed Class 3-B Claims, without recognition of any default rate of interest or similar penalty or charge, and upon such cure, no default shall exist; (ii) reinstate the maturity of such Allowed Class 3-B Claims as the maturity existed under the Board of Education Lease Indenture before any default, without recognition of any default rate of interest or similar penalty or charge; and (iii) otherwise leave unaltered the legal, equitable, and contractual rights with respect to such Allowed Class 3-B Claims.

(n) Class 4 (Other Secured Claims, including Secured Tax Claims).

Class 4 consists of all Other Secured Claims, including all Secured Tax Claims. Each Class 4 Claim shall constitute its own subclass. Class 4 is not Impaired under the Plan.

All Claims in Class 4 will be Allowed on the Effective Date. The legal, equitable, and contractual rights of holders of Allowed Class 4 Claims are unaltered by the Plan, provided that all such Claims shall remain subject to any and all defenses, counterclaims, and setoff or recoupment rights of the County with respect thereto. Unless the holder of an Allowed Class 4 Claim in a particular Class 4 subclass agrees to other treatment, on or as soon as is reasonably practicable after the Effective Date, such holder shall receive, at the County's option: (i) Cash in the Allowed amount of such holder's Allowed Class 4 Claim; (ii) the return of the collateral securing such Allowed Class 4 Claim, without representation or warranty by or recourse against the County; or (iii) (A) the cure of any default, other than a default of the kind specified in Bankruptcy Code section 365(b)(2), that Bankruptcy Code section 1124(2) requires to be cured, with respect to such holder's Allowed Class 4 Claim, without recognition of any default rate of

interest or similar penalty or charge, and upon such cure, no default shall exist; (B) the reinstatement of the maturity of such Allowed Class 4 Claim as the maturity existed before any default, without recognition of any default rate of interest or similar penalty or charge; and (C) its unaltered legal, equitable, and contractual rights with respect to such Allowed Class 4 Claim.

The Bankruptcy Court shall retain jurisdiction to determine the amount necessary to satisfy any Allowed Class 4 Claim for which treatment is elected under clause (i) or clause (iii) of the immediately foregoing paragraph. With respect to any Allowed Class 4 Claim for which treatment is elected under clause (i), any holder of such Allowed Class 4 Claim shall release (and by the Confirmation Order shall be deemed to release) all liens against property of the County.

(o) Class 5-A (Series 2001-B GO Claims and Standby GO Warrant Claims).

Class 5-A consists of all Series 2001-B GO Claims and (to the extent not otherwise included) all Standby GO Warrant Claims. Class 5-A is Impaired under the Plan.

All Claims in Class 5-A will be Allowed on the Effective Date. However, with the exception of Claims on account of principal and prepetition non-default interest in the aggregate amount of $105,123,291.67 (consisting of the BLB GO Claim and the JPMorgan GO Claim), the additional settlement payments set forth in this Section 2.3(o), and the reasonable fees and expenses of the GO Warrant Trustee, the GO Warrant Trustee and the GO Banks will waive and release all other asserted Claims in Class 5-A, including on account of default rate interest, the GO Banks' fees and expenses, and postpetition interest, which will receive no Distribution under the Plan.

On the Effective Date each holder of an Allowed Class 5-A Claim shall receive, in full, final, and complete settlement, satisfaction, release, and exchange of such holder's Series 2001-B GO Claims, a Pro Rata Distribution of Replacement 2001-B GO Warrants, which will be repaid on the terms set forth in the Amended and Restated GO Warrant Indenture. In addition, the County shall pay the following amounts in Cash on the Effective Date as consideration for the settlement, waiver, and release of additional prepetition Claims under the Standby GO Warrant Purchase Agreement: (i) $500,000 payable to BLB and (ii) $250,000 payable to JPMorgan Chase Bank, N.A.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the Series 2001-B GO Warrants and the Replacement 2001-B GO Warrants.

In accordance with the GO Warrant Indenture, the County shall pay all reasonable fees and expenses of the GO Warrant Trustee, including the fees and expenses of its agents and counsel, in Cash on or as soon as practicable after the Effective Date, but in any event no more than two (2) Business Days after the Effective Date. Nothing in the Plan is intended to or will affect the rights and priorities granted to the GO Warrant Trustee pursuant to Sections 12.3(b) and 13.7(b) of the GO Warrant Indenture.

(p) Class 5-B (Series 2003-A GO Claims).

Class 5-B consists of all Series 2003-A GO Claims. Class 5-B is not Impaired under the Plan.

All Claims in Class 5-B will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2003-A GO Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 5-B Claim shall retain, in full, final, and complete settlement, satisfaction, release, and exchange of such holder's Class 5-B Claims, all of such holder's legal, equitable, and contractual rights and interests under the GO Resolution 2003-A and in its Series 2003-A GO Warrants, provided that any GO Events of Default that occurred prior to or that were continuing on the Effective Date shall be deemed waived and of no further force or effect, without any requirement that the County provide any compensation or take any action to cure or otherwise eliminate any such GO Events of Default. Based on such treatment and National's payment during the Case of all regularly scheduled principal and interest due on the Series 2003-A GO Warrants, the Series 2003-A GO Claims shall be deemed unimpaired under the Plan and accordingly the holders of such Claims will not be solicited.

From and after the Effective Date and without limiting the effects of the waiver of all prior and continuing GO Events of Default under the Plan, the GO Resolution 2003-A and the GO Insurance Policies shall remain in effect, subject to all terms and conditions thereof, until the Series 2003-A GO Warrants are paid in full. The County will pay in the ordinary course the reasonable fees and costs of the GO Paying Agents to the extent unpaid but required to be paid under the GO Resolutions. To the extent the County fails to make a scheduled principal or interest payment on account of the Series 2003-A GO Warrants after the Effective Date, National may exercise all of its rights and remedies against the County as set forth in the GO Insurance Policies and the GO Resolutions and subject to all terms and conditions thereof.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the Series 2003-A GO Warrants.

(q) Class 5-C (Series 2004-A GO Claims).

Class 5-C consists of all Series 2004-A GO Claims. Class 5-C is not Impaired under the Plan.

All Claims in Class 5-C will be Allowed on the Effective Date; *provided, however*, that for the avoidance of doubt, any Series 2004-A GO Claims subject to subordination under Bankruptcy Code section 510(b) will not be Allowed and are separately classified as Subordinated Claims. Each holder of an Allowed Class 5-C Claim shall retain, in full, final, and complete settlement, satisfaction, release, and exchange of such holder's Class 5-C Claims, all of such holder's legal, equitable, and contractual rights and interests under the GO Resolution 2004-A and in its Series 2004-A GO Warrants, provided that any GO Events of Default that occurred prior to or that were continuing on the Effective Date shall be deemed waived and of no further force or effect, without any requirement that the County provide any compensation or take any action to cure or otherwise eliminate any such GO Events of Default. Based on such

treatment and National's payment during the Case of all regularly scheduled principal and interest due on the Series 2004-A GO Warrants, the Series 2004-A GO Claims shall be deemed unimpaired under the Plan and accordingly the holders of such Claims will not be solicited.

From and after the Effective Date and without limiting the effects of the waiver of all prior and continuing GO Events of Default under the Plan, the GO Resolution 2004-A and the GO Insurance Policies shall remain in effect, subject to all terms and conditions thereof, until the Series 2004-A GO Warrants are paid in full. The County will pay in the ordinary course the reasonable fees and costs of the GO Paying Agents to the extent unpaid but required to be paid under the GO Resolutions. To the extent the County fails to make a scheduled principal or interest payment on account of the Series 2004-A GO Warrants after the Effective Date, National may exercise all of its rights and remedies against the County as set forth in the GO Insurance Policies and the GO Resolutions and subject to all terms and conditions thereof.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the Series 2004-A GO Warrants.

(r) Class 5-D (GO Policy Claims).

Class 5-D consists of all GO Policy Claims. Class 5-D is Impaired under the Plan.

All Claims in Class 5-D will be Allowed on the Effective Date, and National shall receive the following payments, in full, final, and complete settlement, satisfaction, release, and exchange of all Class 5-D Claims:

(i) the County will pay $503,046.53 to reimburse National for the accrued prepetition interest that National paid under the GO Insurance Policies in April 2012 on April 1, 2014;

(ii) the County will pay $2,880,000 to reimburse National for the principal that National paid under the GO Insurance Policies in April 2012 on April 1, 2014;

(iii) the County will pay $2,965,000 to reimburse National for the principal that National paid under the GO Insurance Policies in April 2013 on April 1, 2015;

(iv) as a compromise and settlement of the National Fees and Expenses Claims, the County will pay National $1,500,000 in Cash on the Effective Date;

(v) as a compromise and settlement of the National Reimbursement Claims, including National's contention that the National Reimbursement Claims constitute a right of reimbursement to which National is entitled in accordance with the Bankruptcy Code and applicable law, the County will pay National the National Reimbursement Payments; *provided, however*, that at any time on or after Effective Date, the County shall have the option to prepay the National Reimbursement Payments in whole or in part without premium or penalty, which prepayment option is exercisable by the County paying to National an aggregate amount equal to the nominal sum of the amount of the National Reimbursement Payments that the County elects to prepay discounted to present value as of the prepayment date using a discount rate of 4.90% back from the date of maturity to the prepayment date; and

(vi) The County's obligations to National under the Plan (other than with respect to payment of the National Reimbursement Payments, which obligations will bear no interest) will bear interest from and after the Effective Date until satisfied at a fixed rate equal to the Wall Street Journal prime rate on the Effective Date plus 1.65% per annum.

From and after the Effective Date, the GO Insurance Policies and the GO Resolutions will remain in effect, subject to all terms and conditions thereof, until the Series 2003-A GO Warrants and the Series 2004-A GO Warrants are paid in full. To the extent the County fails to make a scheduled principal or interest payment on account of the Series 2003-A GO Warrants or the Series 2004-A GO Warrants after the Effective Date, National may exercise all of its rights and remedies against the County as set forth in the GO Insurance Policies and the GO Resolutions and subject to all terms and conditions thereof.

The form of Confirmation Order proposed by the County will include the GO Acknowledgement with respect to the GO Insurance Policies.

(s) Class 5-E (GO Swap Agreement Claims).

Class 5-E consists of all GO Swap Agreement Claims. Class 5-E is Impaired under the Plan.

All Claims in Class 5-E will be Allowed on the Effective Date in the aggregate amount of $7,893,762.30, plus interest accrued thereon at the applicable rate as set forth in the GO Swap Agreement. In full, final, and complete settlement, satisfaction, release, and exchange of all Class 5-E Claims, and as part of the global settlement between the County and the JPMorgan Parties implemented pursuant to the Plan, on the Effective Date the County shall pay JPMorgan Chase Bank, N.A. the sum of ten dollars ($10.00).

(t) Class 6 (General Unsecured Claims).

Class 6 consists of all General Unsecured Claims. Class 6 is Impaired under the Plan.

Holders of Allowed Class 6 Claims will receive a Pro Rata Distribution from the General Unsecured Claims Pool on the GUC Payment Date.

Notwithstanding the foregoing, on the Effective Date, (i) JPMS will waive and release any and all rights to receive any Distribution under the Plan on account of the JPMorgan Asserted Recourse Indemnification Claims; (ii) the Sewer Warrant Insurers will waive and release any all rights to receive any Distribution under the Plan on account of their respective Asserted Full Recourse Sewer Claims; and (iii) no Distribution will be made under the Plan on account of the Sewer Warrant Trustee's Asserted Recourse Claim. For the avoidance of doubt, no Asserted Full Recourse Sewer Claims shall be allowed under the Plan, and the County reserves all its rights to dispute any Asserted Full Recourse Sewer Claims that are not waived and released under the Plan (including with respect to the allowance, amount, and priority of any such Claims) after the Effective Date.

(u) Class 7 (Bessemer Lease Claims).

Class 7 consists of all Bessemer Lease Claims. Class 7 is Impaired under the Plan.

All Claims in Class 7 will be Allowed on the Effective Date. In full, final, and complete settlement, satisfaction, release, and exchange of the Bessemer Lease Claims, the County shall recognize and perform all of its obligations under the Bessemer Stipulation, including with respect to the New Bessemer Lease. The holders of Class 7 Claims will not receive any additional or other Distributions under the Plan beyond those that such holders receive as a result of the County's performance under the Bessemer Stipulation.

(v) Class 8 (Other Unimpaired Claims).

Class 8 consists of all Consent Decree Claims, Deposit Refund Claims, Employee Compensation Claims, OPEB Plan Claims, Pass-Through Obligation Claims, Retirement System Claims, Tax Abatement Agreement Claims, and Workers Compensation Claims. Class 8 is not Impaired under the Plan.

Notwithstanding any other term or provision of the Plan, the legal, equitable, and contractual rights of the holders of Class 8 Claims are unaltered by the Plan, and the Plan leaves unaltered the legal, equitable, and contract rights of all Persons with respect to the Other Unimpaired Claims. Without limitation, the County retains all Causes of Action, defenses, deductions, assessments, setoffs, recoupment, and other rights under applicable nonbankruptcy law with respect to any Other Unimpaired Claims.

(w) Class 9 (Subordinated Claims).

Class 9 consists of all Subordinated Claims. Class 9 is Impaired under the Plan.

The holders of Subordinated Claims shall neither receive any Distributions nor retain any property under the Plan on account of such Claims. Because no Distributions will be made to holders of Class 9 Claims nor will such holders retain any property on account of such Claims, Class 9 is deemed to have rejected the Plan pursuant to Bankruptcy Code section 1126(g), and therefore holders of Claims in Class 9 are not entitled to vote to accept or reject the Plan on account of such Claims.

Section 2.4. Impaired Classes to Vote.

Except to the extent a Class of Claims is deemed to have rejected the Plan, each holder of a Claim in an Impaired Class as of the Ballot Record Date shall be entitled to vote to accept or reject the Plan as provided in the Plan Procedures Order, or in any other order or orders of the Bankruptcy Court.

Section 2.5. Classification Controversies.

(a) If a controversy arises regarding whether any Claim is properly classified under the Plan, the Bankruptcy Court shall, upon proper motion and notice, determine such controversy at the Confirmation Hearing.

(b) If the Bankruptcy Court finds that the classification of any Claim other than a Sewer Debt Claim is improper, then such Claim shall be reclassified and the Ballot previously cast by the holder of such Claim shall be counted in, and the Claim shall receive the treatment prescribed in, the Class in which the Bankruptcy Court determines such Claim should have been classified, without the necessity of resoliciting any votes on the Plan.

(c) If the Bankruptcy Court finds that the classification of any Sewer Debt Claim is improper, then, subject to Section 2.5(d), such Claim shall be reclassified and the Ballot previously cast by the holder of such Claim shall be counted in the Class (which may or may not be a Class presently set forth in Section 2.3) in which the Bankruptcy Court determines such Claim should have been classified, without the necessity of resoliciting any votes on the Plan, and the holder of such Claim shall receive the same treatment under the Plan as is presently set forth in the Class from which such Claim was reclassified.

(d) If as a result of the reclassification of any Sewer Debt Claim pursuant to Section 2.5(c), or in connection with any amendment to the Plan or otherwise, the Plan is no longer an "Acceptable Plan" for purposes of any Sewer Plan Support Agreement, then notwithstanding Section 2.5(c), all Ballots cast as required by such Sewer Plan Support Agreement shall be deemed withdrawn, null, and void unless the voting party to the applicable Sewer Plan Support Agreement has reaffirmed its Ballot in writing. Nothing in this Section 2.5 shall limit the rights or remedies available to any Person under any applicable Plan Support Agreement.

Section 2.6. No Section 1111(b)(2) Elections.

Pursuant to Bankruptcy Code section 927, the election under Bankruptcy Code section 1111(b)(2) is not available to holders of Special Revenues Claims under the Plan.

Section 2.7. Acceptance by Class of Claims.

An Impaired Class of Claims shall have accepted the Plan if the Plan is accepted by at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Allowed Claims of such Class that have voted to accept or reject the Plan. Classes that are not Impaired under the Plan are presumed to have accepted the Plan.

Section 2.8. Cramdown.

With respect to any Impaired Class of Claims that fails to accept the Plan, the County requests that the Bankruptcy Court confirm the Plan pursuant to Bankruptcy Code section 1129(b), subject to any applicable Plan Support Agreement.

ARTICLE III
TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

Section 3.1. Assumption of Certain Executory Contracts and Unexpired Leases.

(a) Assumption of Agreements.

On the Effective Date the County shall assume all executory contracts and unexpired leases that are listed on the Schedule of Assumed Agreements.

The County reserves the right to amend the Schedule of Assumed Agreements at any time prior to the Effective Date (i) to delete any executory contract or unexpired lease and provide for its rejection under the Plan or otherwise, or (ii) to add any executory contract or unexpired lease and provide for its assumption under the Plan. The County will provide notice of any amendment to the Schedule of Assumed Agreements to the party or parties to those agreements affected by the amendment.

Unless otherwise specified on the Schedule of Assumed Agreements, each executory contract and unexpired lease listed or to be listed therein shall include any and all modifications, amendments, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such executory contract or unexpired lease, without regard to whether such agreement, instrument, or other document is also listed on the Schedule of Assumed Agreements.

The Confirmation Order will constitute a Bankruptcy Court order approving the assumption, on the Effective Date, of all executory contracts and unexpired leases identified on the Schedule of Assumed Agreements.

(b) Cure Payments.

Any amount that must be paid under Bankruptcy Code section 365(b)(1) to cure a default under and compensate the non-debtor party to an executory contract or unexpired lease to be assumed under the Plan is identified as the "Cure Payment" on the Schedule of Assumed Agreements. Unless the parties mutually agree to a different date, such payment shall be made in Cash, within ten (10) Business Days following the later of: (i) the Effective Date and (ii) entry of a Final Order resolving any disputes regarding (A) the amount of any Cure Payment, (B) the ability of the County to provide "adequate assurance of future performance" within the meaning of Bankruptcy Code section 365 with respect to a contract or lease to be assumed, to the extent required, or (C) any other matter pertaining to assumption.

Pending the Bankruptcy Court's ruling on any such dispute, the executory contract or unexpired lease at issue shall be deemed assumed by the County unless otherwise agreed by the parties or ordered by the Bankruptcy Court.

(c) Objections to Assumption/Cure Payment Amounts.

Any Person that is a party to an executory contract or unexpired lease that will be assumed under the Plan and that objects to such assumption (including the proposed Cure

Payment) must File with the Bankruptcy Court and serve upon parties entitled to notice a written statement and supporting declaration stating the basis for its objection. This statement and declaration must be Filed and served on the County on or before **October 21, 2013**. Any Person that fails to timely File and serve such a statement and declaration shall be deemed to waive any and all objections to the proposed assumption (including the proposed Cure Payment) of its contract or lease.

In the absence of a timely objection by a Person that is a party to an executory contract or unexpired lease, the Confirmation Order shall constitute a conclusive determination regarding the amount of any cure and compensation due under the applicable executory contract or unexpired lease, as well as a conclusive finding that the County has demonstrated adequate assurance of future performance with respect to such executory contract or unexpired lease, to the extent required.

(d) Resolution of Claims Relating to Assumed Contracts and Leases.

Payment of the Cure Payment established under the Plan, by the Confirmation Order, or by any other order of the Bankruptcy Court, with respect to an assumed executory contract or unexpired lease, shall be deemed to satisfy, in full, any prepetition or postpetition arrearage or other Claim (including any Claim asserted in a Filed proof of Claim or listed on the List of Creditors) with respect to such contract or lease (irrespective of whether the Cure Payment is less than the amount set forth in such proof of Claim or the List of Creditors). Upon the tendering of the Cure Payment, any such Filed or scheduled Claim shall be disallowed with prejudice, without further order of the Bankruptcy Court or action by any Person.

Section 3.2. Rejection of Executory Contracts and Unexpired Leases.

(a) Rejected Agreements.

On the Effective Date all executory contracts and unexpired leases that the County entered into on or before the Petition Date that (i) have not been previously assumed or rejected by the County and (ii) are not set forth on the Schedule of Assumed Agreements shall be rejected. For the avoidance of doubt, executory contracts and unexpired leases that have been previously assumed or assumed and assigned pursuant to an order of the Bankruptcy Court shall not be affected by the Plan. The Confirmation Order will constitute a Bankruptcy Court order approving the rejection, on the Effective Date, of the executory contracts and unexpired leases to be rejected under the Plan.

(b) Rejection Bar Date.

Any Rejection Damage Claim or other Claim for damages arising from the rejection under the Plan of an executory contract or unexpired lease must be Filed and served on the County by the Rejection Bar Date. Any such Claims that are not timely Filed and served will be forever barred and unenforceable against the County and its property, and Persons holding such Claims will not receive and be barred from receiving any Distributions on account of such untimely Claims.

Section 3.3. Postpetition Contracts and Leases.

Except as expressly provided in the Plan or the Confirmation Order, all executory contracts and unexpired leases that the County has entered into after the Petition Date with due authorization of the County Commission will be assumed and retained by the County and will remain in full force and effect from and after the Effective Date.

ARTICLE IV
MEANS OF EXECUTION AND IMPLEMENTATION OF THE PLAN

Section 4.1. Consent Under Bankruptcy Code Section 904.

Pursuant to and for purposes of Bankruptcy Code section 904, the County consents to entry of the Confirmation Order on the terms and conditions set forth herein and to entry of any further orders as necessary or required to implement the provisions of the Plan or any and all related transactions.

Section 4.2. Continued Governance of the County and the Sewer System.

From and after the Effective Date, the County Commission shall continue to govern the County and shall continue to administer, control, manage, and operate the property and enterprises of the County (including the Sewer System) in accordance with the Plan, the County's constituent documents, any applicable indentures or other governing contracts, the Alabama Constitution, applicable statutes of the State of Alabama, the EPA Consent Decree, the Personnel Board Consent Decree, and other applicable laws.

Section 4.3. Application of the Approved Rate Structure.

From and after the Effective Date, the Confirmation Order shall constitute a conclusive finding and determination that the Approved Rate Structure complies with the requirements of Bankruptcy Code sections 943(b)(6) and 1129(a)(6) and applicable state law, and is appropriate, reasonable, non-discriminatory, and legally binding on and specifically enforceable against the County in accordance with the Plan and under all applicable state and federal laws. From and after the Effective Date, the County Commission shall adopt and maintain the Approved Rate Structure in accordance with the Rate Resolution and as necessary for the County to satisfy the obligations arising under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System), including increases in sewer rates to the extent necessary to allow the timely satisfaction of the County's obligations under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System).

Section 4.4. Retention of Assets Generally.

Except as otherwise expressly provided in the Plan, all assets and properties of the County shall be retained by the County on the Effective Date, free and clear of all Claims, liens, encumbrances, charges, and interests. From and after the Effective Date, the County may conduct its affairs and use, acquire, and dispose of any assets or property without supervision by

the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules and in all respects as if there were no pending case under any chapter or provision of the Bankruptcy Code, other than those restrictions expressly imposed by the Plan and the Confirmation Order.

Section 4.5. Certain Transactions on the Effective Date.

(a) On the Effective Date the County shall issue the New Sewer Warrants under the New Sewer Warrant Indenture. The gross proceeds generated by the issuance of the New Sewer Warrants shall first be utilized to pay the Put Consideration.

(b) On the Effective Date the County shall issue and deliver the Replacement 2001-B GO Warrants under in the Amended and Restated GO Warrant Indenture, along with the initial payments required on the Effective Date pursuant to the Replacement 2001-B GO Warrants and Section 2.3(o).

(c) On or before the Effective Date, the County shall enter into the Tail Risk Payment Agreements with each Sewer Warrant Insurer and on the Effective Date pay or fund in full an amount equal to each Sewer Warrant Insurer's respective Covered Tail Risk.

(d) Only if the County and the School Warrant Trustee agree that such a supplemental indenture is necessary and appropriate and agree on the form and substance of such supplemental indenture prior to the deadline for filing the Plan Supplement, on the Effective Date the County shall execute the School Warrant Second Supplemental Indenture.

Section 4.6. Disposition of the Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, and Refinancing Proceeds.

(a) As a proposed settlement incorporated into the Plan pursuant to Bankruptcy Rule 9019 of any and all Causes of Action and matters raised in or that could have been raised in the Declaratory Judgment Action, and any Causes of Action related to the reapplication to principal of any interest payments made on the Sewer Warrants during the Case or any Causes of Action related to the reallocation of any payments made on the Sewer Warrants both before and during the Case among the holders of various series and subseries of Sewer Warrants, (i) on the Effective Date, Cash in amounts equal to the Reinstated Sewer Warrant Principal Payments (without giving effect to any acceleration or any accelerated redemption schedule), the Reinstated Sewer Warrant Interest Payments, and the Sewer Warrant Insurers Outlay Amount shall be distributed by the Sewer Warrant Trustee to the applicable parties from the Accumulated Sewer Revenues, including with respect to the Sewer Warrants held by the Sewer Plan Support Parties; (ii) for purposes of Distributions under the Plan, no payments made during the Case (other than amounts used to repay Sewer Warrants at maturity or to redeem Sewer Warrants prior to maturity, including, as applicable, making regularly scheduled principal payments on the Sewer Warrants and the Reinstated Sewer Warrant Principal Payments) shall be applied or recharacterized to reduce principal; and (iii) no Distributions shall be made on account of postpetition interest accrued on any Sewer Warrants in excess of pre-default rates or, with respect to Bank Warrants, the Sewer Bank Rate.

(b) On the Effective Date the Sewer Warrant Trustee shall apply any Sewer Warrant Indenture Funds in the Sewer Warrant Trustee's possession to satisfy the Sewer Warrant Trustee Fee Claims to the extent unpaid but permitted to be paid under the Sewer Warrant Indenture and to reserve an amount equal to the Sewer Warrant Trustee Residual Fee Estimate. Any such application and reserve by the Sewer Warrant Trustee shall fully, finally, and completely satisfy, discharge, and release all Sewer Warrant Trustee Fee Claims. If and only if there is an Unused Covered Tail Risk Amount, the Sewer Warrant Trustee shall apply any Sewer Warrant Indenture Funds in the Sewer Warrant Trustee's possession to establish a reserve for Sewer Wrap Payment Rights Administration Expenses to the extent and in the amount of the Unused Covered Tail Risk Amount, which the Sewer Warrant Trustee may thereafter invest in an interest-bearing account and utilize to satisfy Sewer Wrap Payment Rights Administration Expenses as such expenses become due. The County shall have no obligation to pay, fund (including from Accumulated Sewer Revenues, Sewer Warrant Indenture Funds, or Refinancing Proceeds), or otherwise provide for any Sewer Wrap Payment Rights Administration Expenses beyond the Unused Covered Tail Risk Amount and such interest as may be obtained through the Sewer Warrant Trustee's investment of the reserve established with the Unused Covered Tail Risk Amount. Notwithstanding anything to the contrary in this Section 4.6(b), if the Unused Covered Tail Risk Amount is less than the Sewer Wrap Payment Rights Administration Expenses and if any applicable Sewer Warrant Insurers will not provide a source of payment for the Sewer Wrap Payment Rights Administration Expenses in excess of the Unused Covered Tail Risk Amount on terms acceptable to the Sewer Warrant Trustee, then the Sewer Warrant Trustee shall have no obligation or responsibility to perform any action that would give rise to Sewer Wrap Payment Rights Administration Expenses.

(c) On the Effective Date, the Sewer Warrant Trustee or the County, as the case may be, shall apply the following funds in the following order for purposes of making the Distributions provided under the Plan for holders of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D:

(1) first, all Sewer Warrant Indenture Funds remaining after giving effect to the application permitted or required by Section 4.6(b),

(2) second, all Remaining Accumulated Sewer Revenues, and

(3) third, Refinancing Proceeds.

(d) On the Effective Date, all Refinancing Proceeds remaining after giving effect to the usage permitted or required by Section 4.6(c) shall be applied in accordance with the New Sewer Warrant Indenture.

Section 4.7. Commutation Election Protocols and Effect on the Sewer Insurance Policies.

(a) Presumptions Regarding the Commutation Election.

All holders of Claims in Class 1-A and Class 1-B that (i) do not return any Ballot by the Ballot Deadline, (ii) return a Ballot by the Ballot Deadline but do not make any election with respect to the Commutation Election, or (iii) return a Ballot by the Ballot Deadline and indicate both an election to make and an election not to make the Commutation Election, will be

conclusively deemed to have made the Commutation Election; *provided*, *however*, that (x) any holders of the Series 2003-B-8 Sewer Warrants that either do not return a Ballot, do not indicate an election on any Ballot that is returned by the Ballot Deadline, or return a Ballot by the Ballot Deadline and indicate both an election to make and an election not to make the Commutation Election will be conclusively deemed not to have made the Commutation Election, and (y) any holders of the Series 2003-C-9 Through C-10 Sewer Warrants that are deemed to make the Commutation Election will be sent a notice pursuant to the Plan Procedures Order under which such holders will have an opportunity to rescind the deemed Commutation Election and, upon such rescission, shall be deemed not to have made the Commutation Election for all purposes under the Plan and shall have their Series 2003-C-9 Through C-10 Sewer Claims be treated in accordance with Option 2 of Section 2.3(a).

(b) Plan's Effect on the Sewer Insurance Policies.

As a result of the satisfaction and discharge of all Sewer Debt Claims and the cancellation of the Sewer Warrants and the Sewer Warrant Indenture under the Plan, on the Effective Date (i) the Sewer DSRF Policies and the Sewer DSRF Reimbursement Agreements will be cancelled and of no further force or effect; (ii) the Sewer Warrant Trustee will close the "Jefferson County Sewer System Debt Service Reserve Fund" under the Sewer Warrant Indenture and return any surety bonds or other documentation evidencing the Sewer DSRF Policies to the applicable Sewer Warrant Insurer; and (iii) the Sewer Wrap Policies will be cancelled and of no further force or effect except with respect to any Sewer Wrap Payment Rights, and such Sewer Wrap Policies (in the case of FGIC, as modified by any plan of rehabilitation) shall remain in full force and effect with respect to such Sewer Wrap Payment Rights.

Section 4.8. Compromise and Settlement of All Sewer Debt-Related Issues.

(a) Pursuant to Bankruptcy Code sections 1123(a)(5), 1123(b)(3), and 1123(b)(6), as well as Bankruptcy Rule 9019, in consideration of the settlement and release of all Sewer Released Claims and the treatment and consideration provided under the Plan for Allowed Class 1-A, Class 1-B, Class 1-C, and Class 1-D Claims, the Plan incorporates and is expressly conditioned upon the approval and effectiveness of a comprehensive compromise and settlement by and among the County and the Sewer Plan Support Parties of numerous issues and disputes related to the Sewer System, the Sewer Released Claims, and the allowance and treatment of the Sewer Debt Claims. As of the Effective Date, the Plan accordingly represents a full, final, and complete compromise, settlement, release, and resolution of, among other matters, disputes and pending or potential litigation (including any appeals) regarding the following: (i) the allowability, amount, priority, and treatment of the Sewer Debt Claims; (ii) the validity or enforceability of the Sewer Warrants; (iii) the valuation of the Sewer System and of the stream of net sewer revenues pledged under the Sewer Warrant Indenture; (iv) the appropriate rates that have been or can be charged to users of the Sewer System; (v) any Causes of Action or Avoidance Actions that the County has asserted or could potentially assert against the JPMorgan Parties or against other of the Sewer Plan Support Parties, including any subordination claims (including equitable subordination claims and statutory subordination claims) relating to any Sewer Debt Claims held by any of the Sewer Plan Support Parties; (vi) the Sewer Released Claims that (A) some of the Sewer Plan Support Parties have asserted or (B) the Sewer Plan

Support Parties could potentially assert against other Sewer Plan Support Parties, including, in each case, any subordination claims (including equitable subordination claims and statutory subordination claims) relating to any Sewer Debt Claims held by any of the Sewer Plan Support Parties; (vii) how the Sewer Warrant Trustee has applied revenues of the Sewer System to payment of certain Sewer Debt Claims both before and during the Case, including any Causes of Action related to the reapplication to principal of any interest payments made on the Sewer Warrants during the Case or reallocation of any payments made on the Sewer Warrants both before and during the Case among the holders of various series and subseries of Sewer Warrants; (viii) the various issues raised by the Declaratory Judgment Action; (ix) the scope and extent of any liens or other property rights under the Sewer Warrant Indenture; (x) the allowance and amount of any Bank Warrant Default Interest Claims; (xi) the various issues raised by the Receivership Actions; and (xii) other historical and potential issues associated with the Sewer System and its financing.

(b) This comprehensive compromise and settlement will be binding on the County, on all Persons who have asserted or could assert any potential Causes of Action or Avoidance Actions for or on behalf of the County in any fashion, including derivatively or directly, and on all Creditors concerning the Sewer Released Claims compromised and settled under the Plan (including as described in Section 4.8(a)) in any pending or potential litigation (including any appeals) before any court or agency. This comprehensive compromise and settlement is a critical component of the Plan and is designed to provide a resolution of disputed Sewer Released Claims inextricably bound with the Plan. As such, the approval and consummation of the Plan will conclusively bind all Creditors and other parties in interest, and the releases and settlements effected under the Plan will be operative as of the Effective Date and subject to enforcement by the Bankruptcy Court from and after the Effective Date, including pursuant to the injunctive provisions of Sections 6.2 and 6.3.

(c) In order to give effect to this comprehensive compromise and settlement, (i) any adversary proceedings or contested matters involving Sewer Released Claims shall be dismissed effective as of the Effective Date; and (ii) in connection with the occurrence of the Effective Date, each of the County, the Sewer Plan Support Parties, and the Sewer Warrant Trustee (as applicable) shall file in other appropriate courts stipulations of dismissal among the applicable parties or motions to dismiss any pending litigation (including any appeals) commenced by the County, any of the Sewer Plan Support Parties, or the Sewer Warrant Trustee against the County or any of the Sewer Plan Support Parties with prejudice, with such dismissals to be effective on and contingent upon the occurrence of the Effective Date.

Section 4.9. JPMorgan Reallocation of Distributions and Consideration Provided by the Sewer Warrant Insurers.

(a) The Sewer Warrant Claims and Bank Warrant Claims held by the JPMorgan Parties shall be Allowed on the Effective Date in an aggregate amount equal to (i) the Adjusted Sewer Warrant Principal Amount of all Sewer Warrants held by the JPMorgan Parties and (ii) the amount of any Reinstated Sewer Warrant Principal Payments or Reinstated Sewer Warrant Interest Payments payable under Section 4.6(a) with respect to such Sewer Warrants, and shall be classified in Class 1-A and Class 1-B, respectively. Notwithstanding the general treatment afforded to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, as part of the

global settlement among the County, the JPMorgan Parties, and the other Sewer Plan Support Parties to be implemented pursuant to the Plan pursuant to Bankruptcy Code sections 1123(a)(5), 1123(b)(3), and 1123(b)(6), as well as Bankruptcy Rule 9019, and in consideration of the settlement and release of all Sewer Released Claims against the JPMorgan Parties as provided herein, the JPMorgan Parties have agreed, subject to the terms and conditions set forth herein, to make the Commutation Election with respect to all Sewer Warrants held by the JPMorgan Parties (but without receiving the higher recovery being made available to all other holders of Sewer Warrants that make or are deemed to make the Commutation Election) and to reallocate to the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims a substantial portion of the JPMorgan Parties' Pro Rata share of the Distribution made to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, thereby increasing the recovery received by all other holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims and reducing the amount of Sewer System indebtedness following the County's emergence from chapter 9. As a result of such reallocation by the JPMorgan Parties and the contributions by the Sewer Warrant Insurers detailed below, each holder of an Allowed Class 1-A Claim or an Allowed Class 1-B Claim (other than the JPMorgan Parties) will receive, in full settlement, satisfaction, release, and exchange of such holder's Claims, a Distribution of Cash from Refinancing Proceeds and other sources of Cash in one of the two amounts specified in Option 1 and Option 2 of Sections 2.3(a) and 2.3(b). Such Distribution is higher than such holders' Pro Rata share of the Distribution made to all holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims as a result of (i) the reallocation of Plan consideration from the JPMorgan Parties to holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims; and (ii) the consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims on account of such Claims. The sources of the incremental recovery to those holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims that make the Commutation Election will be from (i) the reallocation of Plan consideration that otherwise would have been distributed to the JPMorgan Parties; and (ii) consideration provided by the Sewer Warrant Insurers (x) settling and releasing any and all of their Sewer Released Claims against the County and the JPMorgan Parties pursuant to the Plan, (y) agreeing to receive an aggregate Pro Rata Distribution on account of their Allowed Sewer Warrant Insurer Claims that is less than the Pro Rata share of the Distribution received by the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims, and (z) allowing their Pro Rata share of such reallocated consideration from the JPMorgan Parties to be made available to the holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims that make the Commutation Election on account of such Claims. The source of the Non-Commutation True-Up Amount and the Covered Tail Risk to be paid to the Sewer Warrant Insurers pursuant to Section 2.3(c) shall also be from the reallocation of Plan consideration that otherwise would have been distributed to the JPMorgan Parties.

(b) Based upon the agreements of the Supporting Sewer Warrantholders set forth in Section 5 of the Supporting Sewer Warrantholder Plan Support Agreement, which agreement was reached in order to facilitate the various settlements to be implemented pursuant to the Plan

and the occurrence of the Effective Date, the JPMorgan Parties have agreed, subject to the terms and conditions set forth herein and in the Supporting Sewer Warrantholder Plan Support Agreement, to reallocate and distribute to each Supporting Sewer Warrantholder a portion of the JPMorgan Parties' Cash recovery under the Plan after giving effect to the reallocations described in Section 4.9(a) above in an amount (such amount so reallocated and distributed, the "Supporting Sewer Warrantholder Directed Distribution") equal to (i) the principal amount of Eligible Sewer Warrants held by such Supporting Sewer Warrantholder as of the Distribution Record Date, multiplied by (ii) 3.46%; *provided, however,* that the total amount of Eligible Sewer Warrants shall not exceed the total set forth on Schedule 1 of the Supporting Sewer Warrantholder Plan Support Agreement on the date of execution thereof, and the aggregate amount of the Supporting Sewer Warrantholder Directed Distribution shall not exceed the product of the total set forth on Schedule 1 of the Supporting Sewer Warrantholder Plan Support Agreement multiplied by 3.46%. Subject to the terms and conditions set forth herein and in the Supporting Sewer Warrantholder Plan Support Agreement, on or before the Effective Date, the JPMorgan Parties shall provide irrevocable directions to the County and the Sewer Warrant Trustee to reallocate and Distribute to each Supporting Sewer Warrantholder, instead of to the JPMorgan Parties, such Supporting Sewer Warrantholder's Pro Rata share of the Supporting Sewer Warrantholder Directed Distribution.

(c) Accordingly, after giving effect to the reallocations described in Section 4.9(a) and the Supporting Sewer Warrantholder Directed Distribution, the JPMorgan Parties shall receive, on the Effective Date, Cash in the amount of approximately 31% (approximately $375 million) of the Adjusted Sewer Warrant Principal Amount of Sewer Warrants held by the JPMorgan Parties (approximately $1.218 billion) plus a Distribution of Cash on account of any applicable Reinstated Sewer Warrant Interest Payments in accordance with Section 4.6(a) in full, final, and complete settlement, satisfaction, release, and discharge of all Sewer Debt Claims and Sewer Released Claims held by the JPMorgan Parties. After giving effect to the concessions by the JPMorgan Parties and the Sewer Warrant Insurers described above and the settlements and releases to be implemented pursuant to the Plan, the Sewer Debt Claims held by the JPMorgan Parties and the Sewer Warrant Insurers shall not be subject to any Causes of Action, Avoidance Action, defense, counterclaim, subordination, or offset of any kind.

Section 4.10. Cancellation of Warrants and Other Documents.

(a) On the Effective Date, except to the extent otherwise expressly provided in the Plan, all agreements, certificates, indentures, instruments, notes, resolutions, warrants, and other documents evidencing indebtedness of the County, and all liens, mortgages, pledges, grants, trusts, and other interests relating thereto, shall be automatically cancelled, and all obligations of the County thereunder or in any way related thereto shall be discharged. Without limitation and in addition to the provisions of Section 4.7(b), on the Effective Date (i) the Sewer Warrants will be discharged and cancelled, provided that such discharge and cancellation shall not modify, prejudice, or give rise to any defenses in favor of any applicable Sewer Warrant Insurer with respect to any Sewer Wrap Payment Rights; (ii) the Sewer Warrant Indenture will be cancelled and of no further force or effect other than for purposes of allowing the Sewer Warrant Trustee to calculate and make Distributions in accordance with the Plan, to seek and obtain dismissals of the Receivership Actions and other applicable pending litigation, and, if applicable, to pursue and administer the Sewer Wrap Payment Rights after the Effective Date (which, for the

avoidance of doubt, will impose no cost or expense on the County beyond any Unused Covered Tail Risk Amount); (iii) the Sewer Swap Agreements will be cancelled and of no further force or effect; (iv) the Standby Sewer Warrant Purchase Agreements will be cancelled and of no further force or effect; (v) the Standby GO Warrant Purchase Agreement will be cancelled and of no further force or effect; (vi) the GO Warrant Indenture will be superseded in all respects by the Amended and Restated GO Warrant Indenture; (vii) the Series 2001-B GO Warrants will be cancelled and superseded in all respects by the Replacement 2001-B GO Warrants; and (viii) the GO Swap Agreement will be cancelled and of no further force or effect. From and after the Effective Date, all Plan Support Agreements will be terminated and superseded in all respects by the Plan, except with respect to any provisions that specifically survive termination of the Plan Support Agreements in accordance with their respective terms.

(b) For the avoidance of doubt, the Plan will not cancel or otherwise alter any of the following documents or instruments except to the extent otherwise expressly provided in the Plan: (i) the Board of Education Lease Indenture, (ii) the Board of Education Lease Policy, (iii) the Board of Education Lease Warrants, (iv) the GO Insurance Policies, (v) the GO Resolutions, (vi) the New Bessemer Lease, (vii) the School Insurance Policies, (viii) the School Warrant Indenture, (ix) the School Warrants, (x) the Series 2003-A GO Warrants, (xi) the Series 2004-A GO Warrants, and (xii) the Standby School Warrant Purchase Agreement.

Section 4.11. Termination of Receiver and Dismissal of Receivership Actions.

As a result of the satisfaction and discharge of all Sewer Debt Claims, as well as the cancellation of the Sewer Warrants, the Sewer Warrant Indenture, and the Sewer Insurance Policies (as applicable) under the Plan, from and after the Effective Date, the Receiver's status as receiver of the Sewer System will be terminated and of no further force or effect. On or as soon as reasonably practicable after the Effective Date, the Sewer Warrant Trustee shall pay all of the Receiver's unpaid reasonable fees (including fees of its counsel and experts) and expenses from the Sewer Warrant Indenture Funds and shall dismiss (or obtain any court orders as are necessary to dismiss) each of the Receivership Actions in their entirety and with prejudice.

Section 4.12. Vesting of Preserved Claims.

All Preserved Claims shall be preserved and shall vest in the County on the Effective Date, but only to the extent not expressly released pursuant to the Plan, the Confirmation Order, or any other order of the Bankruptcy Court. From and after the Effective Date, the County shall retain its exclusive right, power, and duty to administer the collection, prosecution, enforcement, settlement, or abandonment of the Preserved Claims in the County's sole and absolute discretion.

Section 4.13. Exemption from Securities Law.

(a) The issuance of the Replacement 2001-B GO Warrants and the New Sewer Warrants are exempt from registration under the Securities Act of 1933, as amended (the "1933 Act"), and all rules and regulations promulgated thereunder. In general, securities issued by the County, such as general obligation warrants and sewer revenue warrants, are exempt from registration under section 3(a)(2) of the 1933 Act. Obligations issued by the County likewise are

exempt from registration under current Alabama securities law. These exemptions from registration apply to the New Sewer Warrants and the Replacement 2001-B GO Warrants.

(b) The New Sewer Warrants will be publically offered. Therefore, the County intends to rely on generally applicable securities law exemptions for the offering and sale of the New Sewer Warrants, provided that the County does not expect to offer the New Sewer Warrants in states in which registration of County securities may be required by applicable state securities law, unless first registered or otherwise qualified for sale in such jurisdiction. The Replacement 2001-B GO Warrants will not be publically offered but instead will be issued to the GO Banks pursuant to the Plan. The Replacement 2001-B GO Warrants and the New Sewer Warrants issued in exchange for Sewer Warrants under the Put Agreement will also be exempt from registration under federal or state securities law to the maximum extent provided under Bankruptcy Code section 1145.

(c) Like the exemption from registration provided the County under section 3(a)(2) of the 1933 Act, generally applicable securities laws provide an exemption from qualification for certain trust indentures entered into by government entities. The New Sewer Warrant Indenture and the Amended and Restated GO Indenture are each exempt from qualification under section 304(a)(4) of the Trust Indenture Act of 1939.

(d) Nothing in the Plan is intended to preclude the Securities and Exchange Commission from performing its statutory duties regarding any Person in any forum with proper jurisdiction.

Section 4.14. Objections to Claims.

(a) County's Exclusive Right to Object.

The County shall have the right to object to the allowance of Claims as to which liability, amount, priority, classification, or status as secured or unsecured is disputed in whole or in part (except to the extent such Claims have been previously Allowed or are Allowed as set forth in the Plan). Except as otherwise provided herein, the County's rights to object to, oppose, and defend against all Claims on any basis are fully preserved. Unless otherwise ordered by the Bankruptcy Court, the County shall file and serve any such objections on or before the Claims Objection Deadline. After the Effective Date, the County shall have the sole right and authority to control and effectuate the Claims reconciliation process, including to File, settle, compromise, withdraw, or litigate to judgment objections to Claims.

(b) Distributions Following Allowance.

At such time as a Contingent Claim, a Disputed Claim, or an Unliquidated Claim becomes an Allowed Claim, in whole or in part, including pursuant to the Plan, the County or its agent shall distribute to the holder thereof the Distributions, if any, to which such holder is then entitled under the Plan. Such Distributions, if any, shall be made as soon as practicable after the date on which the order or judgment allowing such Claim becomes a Final Order (or such other date on which the Claim becomes an Allowed Claim, including pursuant to the Plan). Unless otherwise specifically provided in the Plan or allowed by a Final Order of the Bankruptcy Court,

no interest shall be paid on Contingent Claims, Disputed Claims, or Unliquidated Claims that later become Allowed Claims.

Section 4.15. Distributions Under the Plan.

Unless otherwise provided in the Plan, the following procedures apply to Distributions.

(a) Responsibility for Making Distributions.

The County or its designated agents, including the Indenture Trustees and the GO Paying Agents under Section 4.15(e)(iv), shall be responsible for distributing all Distributions made to them for the benefit of the holders of the respective underlying warrants as required under the Plan and, unless otherwise specified in the Plan, pursuant to the applicable operative documents. To the extent applicable, the County or its designated agents shall comply with all tax withholding and reporting requirements imposed on them by any governmental unit with respect to such Distributions, and all Distributions shall be subject to such withholding and reporting requirements.

(b) No *De Minimis* Distributions.

Notwithstanding anything to the contrary in the Plan, with the exception of Distributions on account of Class 1-D Claims and Class 5-E Claims, no Cash payment of less than fifty dollars ($50.00) will be made to any Person; *provided, however*, that solely with respect to Distributions from the General Unsecured Claims Pool, if the right to payment of a holder of Allowed Class 6 Claims does not exceed fifty dollars ($50.00) on the GUC Payment Date, then such holder will receive a Cash payment in an amount equal to such holder's entitlement. No consideration will be provided in lieu of the *de minimis* Distributions that are not made pursuant to this Section 4.15(b), and the County shall be authorized and empowered to retain such *de minimis* amounts for its own benefit.

(c) No Distributions With Respect to Certain Claims.

Notwithstanding anything to the contrary in the Plan, no Distributions or other consideration of any kind shall be made on account of any Contingent Claim, Disputed Claim, or Unliquidated Claim unless and until such Claim becomes an Allowed Claim, or is deemed to be such for purposes of distribution, and then only to the extent that such Claim becomes, or is deemed to be for distribution purposes, an Allowed Claim.

(d) Distributions to Holders as of the Distribution Record Date.

(i) General Principles.

At the close of business on the Distribution Record Date, the claims register shall be closed, and there shall be no further changes in the record holder of any Claim. The County or any other Person responsible for making Distributions shall have no obligation to recognize any transfer of any Claim occurring or purportedly occurring after the Distribution Record Date, and shall instead be authorized and entitled to recognize and deal for all purposes under the Plan with

only those record holders stated on the claims register as of the close of business on the Distribution Record Date.

(ii) Specific Exceptions.

The general principles set forth in Section 4.15(d)(i) will not apply to Claims arising from the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants (other than any GO Policy Claims), or the Series 2004-A GO Warrants (other than any GO Policy Claims). Subject in all cases to the treatment provided under the Plan, nothing in the Plan will limit the rights of a holder of the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants, or the Series 2004-A GO Warrants to assign, sell, pledge, hypothecate, or otherwise transfer its warrants to the extent permitted by such warrants, any other applicable operative agreements, and applicable nonbankruptcy law. Subject to the terms of the applicable operative agreements and any requirements under applicable nonbankruptcy law, the County and any applicable Indenture Trustee or GO Paying Agent shall recognize and give effect to assignments, sales, pledges, hypothecations, or other transfers of the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants, or the Series 2004-A GO Warrants regardless whether such assignments, sales, pledges, hypothecations, or other transfers were made or settled before, on, or after the Distribution Record Date.

(e) Delivery of Distributions; Undeliverable/Unclaimed Distributions.

(i) Delivery of Distributions in General.

The County or its designated agents shall make Distributions to each holder of an Allowed Claim as follows: (A) by mail at the address set forth on the proof of Claim Filed by such holder in respect of such Allowed Claim, unless such holder has provided written notice of address change to the County; (B) by mail at the address set forth in any written notice of address change delivered to the County after the date of any related proof of Claim; (C) by mail at the address reflected in the List of Creditors if no proof of Claim is filed and the County has not received a written notice of a change of address; or (D) through the facilities of DTC for the benefit of the holders of Allowed Sewer Debt Claims. Notwithstanding the foregoing, the County shall make Distributions on account of Allowed Class 1-C Claims directly to holders of Class 1-C Claims pursuant to directions provided to the County by the Sewer Warrant Insurers, and the County and Sewer Warrant Insurers shall provide such information as is necessary in order to prevent the Sewer Warrant Trustee or DTC from making any additional or other Distributions on account of any Allowed Class 1-C Claims.

(ii) Undeliverable and Unclaimed Distributions.

If the County tenders an Undeliverable Distribution, the issuing entity may cancel the distribution check and need not re-attempt delivery, unless the County timely receives notification of the holder's new address before the deadlines described below. If the County tenders an Unclaimed Distribution, the issuer may cancel the distribution check, and need not attempt redelivery, except as otherwise provided herein.

The County shall reserve the funds with respect to all Undeliverable Distributions and Unclaimed Distributions for one (1) year following the Effective Date. If the County does not

receive prior to that date a written request from the holder of the applicable Allowed Claim asserting entitlement to an Undeliverable Distribution or Unclaimed Distribution and providing a current address, then the County shall be authorized and empowered to retain such funds for its own benefit.

Any holder of an Allowed Claim that does not assert in writing its entitlement to an Undeliverable Distribution or Unclaimed Distribution, by the applicable dates set forth in the foregoing paragraphs, shall no longer have any interest in or be entitled to such undelivered or unclaimed Distribution and shall be barred forever from receiving any Distributions under the Plan, or from asserting a Claim against the County or its property, and the right to such undeliverable or unclaimed Distribution will be discharged.

For the avoidance of doubt, the foregoing provisions regarding Undeliverable Distributions or Unclaimed Distributions will not apply to Distributions made on account of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D.

Nothing contained in the Plan shall require the County or its designated agents to attempt to locate any holder of an Allowed Claim.

(iii) Estimation of Certain Claims for Distribution Purposes.

The County may move for a Bankruptcy Court order estimating any Contingent Claim, Disputed Claim, or Unliquidated Claim. The estimated amount of any Claim so determined by the Bankruptcy Court shall constitute the maximum recovery that the holder thereof may recover after the ultimate liquidation of its Claim, irrespective of the actual amount that is ultimately Allowed.

(iv) Certain Distributions to be Made to the Indenture Trustees or the GO Paying Agents.

(A) Sewer Warrant Trustee.

All Distributions to be made to or for the benefit of individual holders of Sewer Warrant Claims, Bank Warrant Claims, and Primary Standby Sewer Warrant Claims shall be made by the County in aggregate, lump-sum payments to the Sewer Warrant Trustee, and will in turn be distributed by the Sewer Warrant Trustee in accordance with the Plan and the applicable operative agreements and without any deduction or reduction on account of any unpaid expenses, fees, indemnities, or other amounts (all of which will be deemed satisfied pursuant to Section 4.6(b)).

(B) GO Warrant Trustee.

All Distributions to be made to or for the benefit of individual holders of Series 2001-B GO Claims and Standby GO Warrant Claims shall be made by the County in aggregate, lump-sum payments to the GO Warrant Trustee, and will in turn be distributed by the GO Warrant Trustee in accordance with the Plan and the applicable operative agreements and without any deduction or reduction on account of any unpaid expenses, fees, indemnities, or other amounts.

(C) Other Indenture Trustees and Paying Agents.

With respect to all preexisting warrants that will remain outstanding under the Plan (i.e., the Board of Education Lease Warrants, the School Warrants, the Series 2003-A GO Warrants, and the Series 2004-A GO Warrants), the County will make post-Effective Date payments on account of such warrants to the applicable Indenture Trustee or GO Paying Agent, which Indenture Trustee or Paying Agent shall thereafter distribute such payments to holders of such warrants in accordance with the applicable operative agreements.

(v) Surrender of Instruments.

On the Effective Date, each holder of a certificated instrument, warrant, or note that (A) gives rise to any Sewer Debt Claims or (B) arises from or in connection with the Series 2001-B GO Warrants, the GO Warrant Indenture, the Standby GO Warrant Purchase Agreement, or the GO Swap Agreement shall be deemed to have surrendered such instrument, warrant, or note to the appropriate indenture trustee, paying agent, or designee, and as a result of such deemed surrender, such instrument, warrant, or note shall be cancelled without the need for any action by such holder. On the Effective Date, each holder of a global certificated instrument, warrant, or note that is held pursuant to the book-entry system operated by DTC and that (X) gives rise to any Sewer Debt Claims or (Y) arises from or in connection with the Series 2001-B GO Warrants, the GO Warrant Indenture, the Standby GO Warrant Purchase Agreement, or the GO Swap Agreement shall be deemed to have surrendered such instrument, warrant, or note to the appropriate indenture trustee, paying agent, or designee in accordance with the Rules and Operational Arrangements of DTC, and as a result of such deemed surrender, such instrument, warrant, or note shall be cancelled without the need for any action by such holder. Upon issuance and delivery of the New Sewer Warrants and completion of Distributions required under the Plan, the Sewer Warrant Trustee shall cancel all outstanding Sewer Warrants on the records of DTC and destroy all associated original physical certificates, provided that such cancellation and destruction shall not modify, prejudice, or give rise to any defenses in favor of any applicable Sewer Warrant Insurer with respect to any Sewer Wrap Payment Rights. Upon issuance and delivery of the Replacement 2001-B GO Warrants, the GO Warrant Trustee shall cancel all outstanding Series 2001-B GO Warrants on the records of DTC and destroy all associated original physical certificates.

(f) Full, Final, and Complete Settlement and Satisfaction.

The Distributions and other treatment provided under the Plan for each holder of an Allowed Claim shall be in full, final, and complete settlement, satisfaction, discharge, and release of such holder's Claims against the County, against the County's property, or any Claims released under the Plan.

(g) Limitations on Distributions Payable to Persons Liable to County.

No Distribution will be made on account of any Claim of any Person against which the County has any affirmative Causes of Action (excluding all GO Released Claims and all Sewer Released Claims), and such Person's Claim shall be deemed to be a Disallowed Claim pursuant to the Plan, unless and until such time as all Causes of Action (excluding all GO Released

Claims and all Sewer Released Claims) against that Person have been settled or resolved by a Final Order and such Person has paid the entire amount for which such Person is liable to the County.

(h) Deemed Acceleration of the Sewer Warrants.

For all purposes, including Distributions under the Plan, all series and subseries of the Sewer Warrants shall be deemed accelerated as of the Effective Date, which shall occur immediately before the Distribution of consideration on the Effective Date; *provided, however*, that such acceleration will not be deemed to release any of the Sewer Wrap Policies with respect to Sewer Wrap Payment Rights except as a result of any Sewer Warrant Insurer's payment of the Outstanding Amount on the applicable series or subseries of non-commuted Sewer Warrants as set forth in the last sentence of this paragraph. With respect to any series or subseries of Sewer Warrants as to which the Commutation Election is not made or deemed not to have been made, and solely to the extent that any Sewer Warrant Insurer voluntarily elects (irrespective of the terms of the applicable Sewer Wrap Policy), in its sole and absolute discretion, to pay the Outstanding Amount on such series or subseries of Sewer Warrants, the Sewer Warrant Trustee shall be deemed as of the Effective Date or, if later, as of the date on which the applicable Sewer Warrant Insurer makes such election as to such series or subseries of Sewer Warrants, to have submitted a draw request under each applicable Sewer Wrap Policy in respect of the Outstanding Amount on such non-commuted series or subseries of Sewer Warrants, and each such Sewer Warrant Insurer shall be entitled (irrespective of the terms of the applicable Sewer Wrap Policy), in its sole and absolute discretion, to treat the Outstanding Amount as "Due for Payment" (as such term is defined in the applicable Sewer Wrap Policy and for purposes of such Sewer Wrap Policy) as of the Effective Date or as of such later date on which the applicable Sewer Warrant Insurer elects to pay such Outstanding Amount. Payment, as provided in the applicable Sewer Wrap Policy, of the Outstanding Amount on any series or subseries of non-commuted Sewer Warrants shall be deemed to fully discharge the applicable Sewer Warrant Insurer's obligations under the applicable Sewer Wrap Policy and to fully release all Sewer Wrap Payment Rights with respect to such Sewer Warrants.

Section 4.16. Setoff, Recoupment, and Other Rights.

Notwithstanding anything to the contrary contained in the Plan and except as otherwise agreed by the County, the County may, but shall not be required to, setoff against or recoup from any Claim and the Distributions to be made in respect of such Claim (other than with respect to Claims previously Allowed or Allowed as set forth in the Plan) any Causes of Action of any nature whatsoever that the County may have against the claimant and that is not a GO Released Claim or a Sewer Released Claim. If the County elects to so setoff or recoup, the Allowed amount of the subject Claim shall be limited to the net amount after giving effect to the County's setoff or recoupment; *provided, however*, that the claimant will be provided with written notice of the proposed setoff or recoupment at least ten (10) Business Days prior thereto, and, if the claimant files a written objection to such proposed setoff or recoupment, the County shall not proceed with the setoff or recoupment absent the withdrawal of the claimant's objection or the entry of an order overruling the objection, but the County may in all events withhold any Distributions on account of such Claim pending resolution of the claimant's objection; *provided further, however*, that neither the failure to setoff against or recoup from any Claim nor the

allowance of any Claim shall constitute a waiver or release by the County of any Causes of Action the County may have against the subject claimant.

Section 4.17. Motion Under Bankruptcy Code Section 364.

The Plan constitutes a motion by the County seeking the Bankruptcy Court's approval of the incurrence of all indebtedness and extensions of credit necessary to implement the Plan pursuant to Bankruptcy Code section 364, including the offering of New Sewer Warrants under the Plan, the incurrence of any underwriting or other transaction fees to be paid at closing, and payment of the Put Consideration. Confirmation of the Plan shall constitute a conclusive determination that the protections of Bankruptcy Code section 364(e) will apply to all such indebtedness or extensions of credit to the maximum extent permitted by law. Confirmation of the Plan shall also constitute a conclusive determination that all such indebtedness or extensions of credit were extended and incurred in good faith and in compliance with all applicable provisions of the Bankruptcy Code and the Bankruptcy Rules.

Section 4.18. The Effective Date.

The Plan shall not become binding unless and until the Effective Date occurs. The Effective Date will be a Business Day selected by the County, after consultation with the Sewer Plan Support Parties, that is on or after the date on which all of the following conditions have been satisfied as set forth below, or waived as set forth in Section 4.18(b). Unless waived pursuant to Section 4.18(b), the Effective Date of the Plan shall not occur until each of the following conditions precedent has occurred or will occur simultaneously with the Effective Date of the Plan.

(a) Conditions to the Effective Date.

(i) The Confirmation Order shall (A) be entered and in full force and effect in form and substance acceptable to (1) the County, (2) the Sewer Plan Support Parties to the extent the relevant provisions of the Confirmation Order (or provisions excluded from the proposed Confirmation Order) would affect the rights of the applicable Sewer Plan Support Party, and (3) the GO Plan Support Parties to the extent the relevant provisions of the Confirmation Order (or provisions excluded from the proposed Confirmation Order) would affect the rights of the applicable GO Plan Support Party; and (B) not be subject to any stay;

(ii) The County shall have entered into the Closing Agreement; *provided, however,* that if any settlement payment is required to be made to the Internal Revenue Service, such payment shall be payable exclusively from Accumulated Sewer Revenues or gross Sewer System revenues received by the County; *provided further, however*, that any such settlement payment shall not reduce the aggregate consideration to be paid to holders of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D, or any other payments described herein to be paid to the Sewer Plan Support Parties;

(iii) The aggregate Tail Risk and the aggregate Covered Tail Risk shall each not exceed $25.0 million;

(iv) No Sewer Warrant Insurer will be subject to any Tail Risk on or after the Effective Date in an amount in excess of its Covered Tail Risk;

(v) The issuance of the New Sewer Warrants has closed (or will close simultaneously with the occurrence of the Effective Date), and the aggregate Refinancing Proceeds and other Cash consideration required to make the payments to (A) holders of Allowed Class 1-A Claims and Allowed Class 1-B Claims shall be available and shall have been paid under the Plan to the Sewer Warrant Trustee for Distribution in accordance with the Plan on the Effective Date; and (B) holders of Allowed Class 1-C Claims (including the Sewer Warrant Insurers Outlay Amount) shall be available and shall have been paid under the Plan to the applicable Sewer Warrant Insurer in accordance with the Plan and the Sewer Warrant Insurers Agreements on the Effective Date;

(vi) The Sewer Plan Support Agreements, the Sewer Warrant Insurers Agreements, and the Tail Risk Payment Agreements shall be in full force and effect and any and all payments required under (A) the Sewer Warrant Insurers Agreements shall have been made to the applicable Sewer Warrant Insurer (or are paid simultaneously with the other payments to the Sewer Warrant Insurers required under the Plan); and (B) the Tail Risk Payment Agreements and the Plan shall have been paid or placed into escrow, as the case may be, in accordance with such Tail Risk Payment Agreements;

(vii) All of the settlements, releases, and injunctions contemplated by the Plan (including the settlement and release under the Plan of the Causes of Action asserted in the Bennett Action and the Wilson Action) shall have been approved pursuant to the Confirmation Order, and any pending litigation (including any appeals) commenced by the County or any of the Sewer Plan Support Parties against any of the Sewer Plan Support Parties shall have been (or simultaneously with the occurrence of the Effective Date will be) dismissed with prejudice;

(viii) The Effective Date shall have occurred on or before December 31, 2013;

(ix) The Plan (as confirmed by the Confirmation Order), the Plan Supplement, and all other documents, instruments, agreements, writings, and undertakings required under the Plan (A) shall be in form and substance satisfactory to the County (and, to the extent required by any applicable Plan Support Agreement or the Plan, approved by the applicable Plan Support Party or Parties); (B) shall have been executed and delivered by the parties thereto, unless such execution or delivery has been waived by the parties benefited thereby; and (C) and, to the extent required by any applicable Plan Support Agreement or the Plan, shall be (or simultaneously with the occurrence of the Effective Date will be) effective;

(x) The Supporting Sewer Warrantholder Directed Distribution and the Put Consideration shall have been approved pursuant to the Confirmation Order and paid to the Supporting Sewer Warrantholders; and

(xi) The County, the Sewer Liquidity Banks, the Sewer Warrant Insurers, the Supporting Sewer Warrantholders, and the JPMorgan Parties shall have each acknowledged in writing (which writing may take the form of an email exchange among their respective counsel)

that all conditions to the Effective Date have been satisfied or waived (or will be satisfied or waived simultaneously with the occurrence of the Effective Date).

(b) Waiver of Conditions.

The requirement that the conditions to the occurrence of the Effective Date be satisfied may be waived in whole or in part by mutual written agreement by (i) the County and each Sewer Plan Support Party (or, in the case of the Supporting Sewer Warrantholders, the "Majority Eligible Warrantholders" as defined in the Supporting Sewer Warrantholder Plan Support Agreement if such waiver may be effected by the Majority Eligible Warrantholders under the Supporting Sewer Warrantholder Plan Support Agreement) that is affected by the subject condition; or (ii) the County and each GO Plan Support Party that is affected by the subject condition, solely with respect to conditions (i), (vii), and (ix). Any such waiver may be effected at any time, without advance notice, leave, or order of the Bankruptcy Court and without any formal action, other than the filing of a notice of such waiver with the Bankruptcy Court.

(c) Effect of Failure of Conditions.

In the event that the conditions to the occurrence of the Effective Date have not been timely satisfied or waived pursuant to Section 4.18(b), and upon notification Filed by the County with the Bankruptcy Court, (i) the Confirmation Order shall be vacated; (ii) no Distributions shall be made; (iii) the County and all Creditors shall be restored to the *status quo* as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred; (iv) the County, the Plan Support Parties, the Sewer Warrant Trustee, and the School Warrant Trustee will be restored to their rights as if the Plan, the Plan Support Agreements, any Plan Term Sheets referenced therein, and the Sewer Warrant Insurers Agreements were never entered into, and all claims and defenses of the County, the Plan Support Parties, the Sewer Warrant Trustee, and the School Warrant Trustee shall be fully reserved; (v) any and all Ballots with respect to the Plan delivered by each of the Plan Support Parties shall be immediately withdrawn, and such Ballots shall be null and void for all purposes and shall not be considered or otherwise used in any manner; and (vi) all of the County's obligations with respect to Claims shall remain unchanged and nothing contained in the Plan shall constitute a waiver or release of any Causes of Action by or against the County or any other Person or to prejudice in any manner the rights, claims, or defenses of the County or any other Person in any further proceedings involving the County. Nothing in the foregoing sentence shall alter or limit any Person's rights under any Plan Support Agreement.

(d) Notice of the Effective Date.

Promptly after the occurrence of the Effective Date, the County or its agents shall mail or cause to be mailed to all Creditors a notice that informs such Creditors of (i) entry of the Confirmation Order and the resulting confirmation of the Plan; (ii) the occurrence of the Effective Date; (iii) the assumption and rejection of executory contracts and unexpired leases pursuant to the Plan, as well as the deadline for the filing of resulting Rejection Damage Claims; (iv) the deadline established under the Plan for the filing of Administrative Claims; and (v) such other matters as the County finds appropriate.

ARTICLE V
OTHER PLAN PROVISIONS

Section 5.1. Exculpation of GO Released Parties, Sewer Released Parties, and the School Warrant Trustee Regarding the Bankruptcy and Plan Process.

To the maximum extent permitted by law, neither the GO Released Parties, nor the Sewer Released Parties, nor the School Warrant Trustee, nor any of their respective Related Parties shall have or incur any liability to any Person, including any holders of GO Warrants, Sewer Warrants, or School Warrants, for any act or omission occurring on or before the Effective Date in connection with, related to, or arising out of the Case, the Plan Support Agreements, the formulation, preparation, dissemination, implementation, confirmation, or approval of the Plan or any compromises or settlements contained herein, the Disclosure Statement, or any contract, instrument, release, or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Plan; *provided, however*, that the foregoing provisions shall not affect the liability of any Person that otherwise would result from any such act or omission occurring on or prior to the Effective Date to the extent that such act or omission is determined in a Final Order to have constituted willful misconduct or fraud. For purposes of the foregoing, it is expressly understood that any act or omission effected with the approval of the Bankruptcy Court will conclusively be deemed not to constitute willful misconduct or fraud unless the approval of the Bankruptcy Court was obtained by fraud or misrepresentation, and in all respects, the GO Released Parties, the Sewer Released Parties, the School Warrant Trustee, and their respective Related Parties shall be entitled to rely on the advice of their respective counsel with respect to their duties and responsibilities in connection with the Case and the Plan.

Section 5.2. Revocation of the Plan; No Admissions.

Subject to each of the Sewer Plan Support Agreements, the County reserves the right to revoke or withdraw the Plan at any time prior to the Confirmation Date. Notwithstanding anything to the contrary in the Plan, if the Plan is not confirmed or if the Effective Date does not occur, the Plan (and the Confirmation Order, if entered) will be null and void and inadmissible as evidence in any proceeding, and nothing contained in the Plan, the Disclosure Statement, or the Confirmation Order (if entered) will (a) be an admission by the County, any of the Plan Support Parties, the Sewer Warrant Trustee, or the School Warrant Trustee with respect to any matter set forth therein, including liability on any Claim or the propriety of any Claim's classification; (b) constitute a waiver, acknowledgment, or release of any Claims against the County or its property, or of any Causes of Action; or (c) prejudice in any manner the rights of any Person in any further proceedings. Nothing in this Section 5.2 shall limit the rights or remedies available to any Person under any applicable Plan Support Agreement. In addition, nothing in the Plan, the comprehensive compromise and settlement described in Section 4.8(a), or any other compromises and settlements implemented under the Plan shall be deemed to be an admission or evidence of wrongdoing or, except with respect to obligations created under or pursuant to the Plan, liability on the part of any GO Released Party, any Sewer Released Party, or any of their respective Related Parties.

Section 5.3. Modification of the Plan.

Subject to the restrictions set forth in Bankruptcy Code section 942 and in each of the Sewer Plan Support Agreements, the County reserves the right to alter, amend, or modify the Plan at any time before the Confirmation Date.

Section 5.4. Severability of Plan Provisions.

If, before the Confirmation Date, the Bankruptcy Court holds that any Plan term or provision is invalid, void, or unenforceable, the Bankruptcy Court may alter or interpret that term or provision so that it is valid and enforceable to the maximum extent possible consistent with the original purpose of that term or provision. That term or provision will then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the Plan's remaining terms and provisions will remain in full force and effect and will in no way be affected, impaired, or invalidated. All rights of each Plan Support Party under the applicable Plan Support Agreement are fully reserved if any such holding, alteration, or interpretation means that the Plan is no longer an "Acceptable Plan" for purposes of the applicable Plan Support Agreement. The Confirmation Order will constitute a judicial determination providing that each Plan term and provision, as it may have been altered or interpreted in accordance with this Section 5.4, is valid and enforceable under its terms.

Section 5.5. Inconsistencies.

To the extent of any inconsistencies between the Plan, on the one hand, and the Disclosure Statement, any Plan Support Agreement, or any Ballot, on the other hand, the terms and provisions contained in the Plan shall govern.

Section 5.6. Governing Law.

Unless a rule of law or procedure is supplied by (a) federal law (including the Bankruptcy Code and the Bankruptcy Rules), or (b) an express choice of law provision in any agreement, contract, instrument, or document provided for in, or executed in connection with, the Plan, the rights and obligations arising under the Plan and any agreements, contracts, instruments, and documents executed in connection with the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Alabama without giving effect to the principles of conflict of laws thereof.

Section 5.7. Transactions on Business Days.

If the Effective Date or any other date on which a transaction may occur under the Plan shall occur on a day that is not a Business Day, any transactions or other actions contemplated by the Plan to occur on such day shall instead occur on the next succeeding Business Day.

Section 5.8. Good Faith.

Confirmation of the Plan shall constitute a conclusive determination that: (a) the Plan, and all the transactions and settlements contemplated thereby, have been proposed in good faith and in compliance with all applicable provisions of the Bankruptcy Code and the Bankruptcy

Rules; and (b) the solicitation of acceptances or rejections of the Plan has been in good faith and in compliance with all applicable provisions of the Plan Procedures Order, the Bankruptcy Code, and the Bankruptcy Rules, and, in each case, that the County, all the Plan Support Parties, the Sewer Warrant Trustee, the School Warrant Trustee, the FGIC Rehabilitator, and all their respective Related Parties have acted in good faith in connection therewith.

Section 5.9. Effectuating Documents and Further Transactions.

Each of the officials and employees of the County is authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and to take such actions as may be necessary or appropriate to effectuate and further evidence the terms and provisions of the Plan.

Section 5.10. Validation of the New Sewer Warrants.

Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6), from and after the Effective Date, confirmation of the Plan shall be a binding judicial determination that the New Sewer Warrants, the New Sewer Warrant Indenture, the Rate Resolution, and the covenants made by the County for the benefit of the holders thereof (including the revenue and rate covenants in the New Sewer Warrant Indenture) will constitute valid, binding, legal, and enforceable obligations of the County under Alabama law and that the provisions made to pay or secure payment of such obligations are valid, binding, legal, and enforceable security interests or liens on or pledges of revenues, which validation will be set forth in the Confirmation Order as follows:

> The New Sewer Warrants were authorized and will be issued as of the Effective Date as a means of implementing the Plan and providing for the satisfaction of Sewer Debt Claims in accordance with the Bankruptcy Code.
>
> The County has the authority under the constitution and laws of the State of Alabama and the Plan to adopt the Rate Resolution, to execute, deliver and perform its obligations under the New Sewer Warrant Indenture, and to issue, execute and deliver the New Sewer Warrants pursuant to the Plan.
>
> All actions and things required under the provisions of applicable law to be had and done in this proceeding preliminary to the entry of this Confirmation Order have been had and done in the manner provided by law. This Confirmation Order will be forever conclusive against, among others, the County and all taxpayers and citizens of the County.
>
> The indebtedness evidenced and ordered paid by the New Sewer Warrants shall be a limited obligation of the County, payable solely from the System Revenues derived from the operation of the Sewer System. The general faith and credit of the County shall not be pledged to the payment of the principal of or the interest or premium (if any) on the New Sewer Warrants, and the New Sewer Warrants shall not be general obligations of the County.

The New Sewer Warrants shall not constitute a debt or indebtedness of the County under the provisions of Section 224 of the Constitution of the State of Alabama, as amended, because the principal of and interest on the New Sewer Warrants will be payable solely from the System Revenues derived from the operation of the Sewer System, and will not be a charge on the general credit of the County.

The Bankruptcy Court does hereby validate and confirm all proceedings had and taken in connection with the following (i) the Plan; (ii) all covenants, agreements, provisions and obligations of the County set forth in the Plan; (iii) the Rate Resolution; (iv) all covenants, agreements, provisions and obligations of the County set forth in the New Sewer Warrant Indenture; and (v) the New Sewer Warrants and the provisions made to pay and secure payment of such obligations. When the New Sewer Warrants have been executed and delivered in accordance with the Plan, then the New Sewer Warrants and the pledges, covenants, agreements and obligations set forth therein and in the New Sewer Warrant Indenture shall stand validated and confirmed.

At the time of the delivery of the New Sewer Warrants, the County is hereby directed to cause to be stamped or written on each of the New Sewer Warrants a legend substantially as follows:

> "VALIDATED AND CONFIRMED BY JUDGMENT AND CONFIRMATION ORDER OF THE UNITED STATES BANKRUPTCY COURT FOR THE NORTHERN DISTRICT OF ALABAMA, ENTERED ON THE ___ DAY OF _____, 2013."

This validation under the Plan will be full, final, complete, binding, and conclusive as to the County and all Persons, including all Persons that could assert or purport to assert any rights by or on behalf of the County. Accordingly, the validity and enforceability of the Rate Resolution, the New Sewer Warrants, the New Sewer Warrant Indenture, and the covenants made by the County for the benefit of the holders thereof (including the revenue and rate covenants in the New Sewer Warrant Indenture) shall not be subject to any collateral attack or other challenge by any Person in any court or other forum from and after the Effective Date.

Section 5.11. Validation of the Approved Rate Structure.

Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6), from and after the Effective Date, the Confirmation Order shall be a binding judicial determination that (i) the Approved Rate Structure is a valid provision made to pay or secure payment of the New Sewer Warrants and is appropriate, reasonable, non-discriminatory, and legally binding on and specifically enforceable against the County, in accordance with the Plan and under applicable law; and (ii) the County Commission shall adopt and maintain the Approved Rate Structure in accordance with the Rate Resolution and as necessary for the County to satisfy the obligations arising under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System), including increases in sewer rates to the extent necessary to

allow the timely satisfaction of the County's obligations under the New Sewer Warrants and the New Sewer Warrant Indenture (and to otherwise comply with all applicable state and federal laws regarding the maintenance and operation of the Sewer System). Without limitation, from and after the Effective Date, (a) the Confirmation Order shall constitute a consent decree binding upon, specifically enforceable against, and a basis for mandamus against the County, the County Commission, and all other Persons in accordance with the Plan; (b) the validity and enforceability of the Approved Rate Structure and the Rate Resolution shall not be subject to any collateral attack or other challenge by any Person in any court or other forum from and after the Effective Date; and (c) the Bankruptcy Court shall retain exclusive jurisdiction to enforce the Approved Rate Structure and the Rate Resolution, to require the County to otherwise comply with the New Sewer Warrants and the New Sewer Warrant Indenture, and to hear and adjudicate any action or proceeding enforcing, challenging, or collaterally attacking the Approved Rate Structure or the Rate Resolution.

Section 5.12. Validation of Allowance of Sewer Debt Claims.

Confirmation of the Plan shall be a binding judicial determination that the allowance on the Effective Date of Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D is appropriate and binding on, specifically enforceable against, and a basis for mandamus against the County, the County Commission, and all other Persons in accordance with the Plan, because, among other things, the allowance of such Claims, along with treatment of those Allowed Claims under the Plan, is a necessary predicate to the issuance of the New Sewer Warrants. This validation under the Plan will be full, final, complete, binding, and conclusive as to the County and all Persons, including all Persons that could assert or purport to assert any rights by or on behalf of the County. Accordingly, the validity and enforceability of the allowance of the Allowed Claims in Class 1-A, Class 1-B, Class 1-C, and Class 1-D along with the treatment of those Allowed Claims under the Plan, shall (i) moot any pending Causes of Action challenging the validity or enforceability of the Sewer Warrants or the issuance thereof, payments of principal and interest made in respect of the Sewer Warrants, or any Sewer System rates or charges established or collected by the County in connection with the issuance or the payment of debt service in respect of the Sewer Warrants, or seeking the return to the County of any payment made by the County in connection with the Sewer Warrants or any financing or other transaction regarding the Sewer System; and (ii) not be subject to any collateral attack or other challenge by any Person in any court or other forum from and after the Effective Date.

Section 5.13. Notices.

Any notices to or requests of the County by parties in interest under or in connection with the Plan shall be in writing and served either by (a) certified mail, return receipt requested, postage prepaid; (b) hand delivery; or (c) reputable overnight delivery service, all charges prepaid, and shall be deemed to have been given when actually received by the following parties:

Jefferson County, Alabama
Attn: County Manager
Room 251, Jefferson County Courthouse
716 Richard Arrington Jr. Boulevard North
Birmingham, Alabama 35203

-and-

Jefferson County, Alabama
Attn: County Attorney
Room 280, Jefferson County Courthouse
716 Richard Arrington Jr. Boulevard North
Birmingham, Alabama 35203

-and-

Bradley Arant Boult Cummings LLP
Attn: J. Patrick Darby, Esq.
One Federal Place
1819 Fifth Avenue North
Birmingham, Alabama 35203
Re: Jefferson County

-and-

Klee, Tuchin, Bogdanoff & Stern LLP
Attn: Kenneth N. Klee, Esq.
1999 Avenue of the Stars, 39th Floor
Los Angeles, California 90067
Re: Jefferson County

Section 5.14. Sewer Warrant Trustee Residual Fee Estimate.

The County will have the right to challenge the amount of the Sewer Warrant Trustee Residual Fee Estimate by filing an action in the Bankruptcy Court within five (5) calendar days after receipt of the Sewer Warrant Trustee Residual Fee Estimate, provided that prior to filing such an action, the County will make good faith efforts to resolve any dispute with the Sewer Warrant Trustee. Any challenge by the County to the amount of the Sewer Warrant Trustee Residual Fee Estimate will be resolved by the Bankruptcy Court on an expedited basis before the Effective Date.

ARTICLE VI
EFFECTS OF CONFIRMATION OF THE PLAN

Section 6.1. Binding Effect.

Upon the Effective Date and pursuant to Bankruptcy Code section 944(a), the Plan, the Distributions and transactions contemplated by the Plan, and the compromises and settlements contained in the Plan shall be binding upon the County, all Creditors, all special tax payers (as such term is defined in Bankruptcy Code section 902(3)), all customers and rate payers of the Sewer System, all parties in interest, and all other Persons. Confirmation of the Plan binds each holder of a Claim to all the terms and conditions of the Plan, whether or not such holder's Claim is Allowed, whether or not such holder is in a Class that is Impaired under the Plan, and whether

or not such holder has accepted the Plan. The County reserves all rights to seek appropriate relief against any Person under Bankruptcy Code section 1142(b) to the extent necessary for the consummation of the Plan.

Section 6.2. Discharge and Injunctions.

The rights afforded in the Plan and the treatment of all Claims by the Plan shall be in exchange for and in complete settlement, satisfaction, discharge, and release of, and injunction against, all Claims of any nature whatsoever arising prior to the Effective Date against the County or its property, including any interest accrued on such Claims from and after the Petition Date.

Except as otherwise provided in the Plan or the Confirmation Order, on the Effective Date, (a) the County and its property are discharged and released to the fullest extent permitted by Bankruptcy Code section 944(b) from all Claims and rights that arose before the Effective Date, including all debts, obligations, demands, and liabilities, and all debts of the kind specified in Bankruptcy Code sections 502(g), 502(h), or 502(i), regardless whether (i) a proof of Claim based on such debt is Filed or deemed Filed, (ii) a Claim based on such debt is allowed pursuant to Bankruptcy Code section 502, or (iii) the holder of a Claim based on such debt has or has not accepted the Plan; (b) any judgment underlying a Claim discharged hereunder is void; and (c) all Persons are precluded from asserting against the County or its property, whether directly or on behalf of the County, any Claims or rights based on any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date.

Except as otherwise provided in the Plan or the Confirmation Order, on and after the Effective Date, all Persons who have held, currently hold, or may hold a Claim that is based on any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, that otherwise arose or accrued prior to the Effective Date, or that otherwise is discharged pursuant to the Plan, are permanently and completely enjoined from taking any of the following actions on account of any such discharged Claim (the "Permanent Injunction"): (a) commencing, conducting, or continuing in any manner any suit, action, or other proceeding of any kind against or affecting the County, its property, its obligations, or any of its Related Parties that is inconsistent with the Plan or the Confirmation Order; (b) attaching, collecting, enforcing, levying, or otherwise recovering in any manner any award, decree, judgment, or order against or affecting the County, its property, its obligations, or any of its Related Parties other than as expressly permitted under the Plan; (c) creating, perfecting, or otherwise enforcing in any manner any lien or encumbrance of any kind against or affecting property of the County, other than as expressly permitted under the Plan; (d) asserting any right of recoupment, setoff, or subrogation of any kind against any obligation due to the County with respect to any such discharged Claim, except as otherwise permitted by Bankruptcy Code section 553; (e) acting or proceeding in any manner, in any place whatsoever, that does not comply with or is inconsistent with the provisions of the Plan, the Confirmation Order, or the discharge provisions of Bankruptcy Code section 944; and (f) taking any actions to interfere with the implementation or consummation of the Plan. The County and any other Person injured by any willful violation of the Permanent Injunction shall recover actual damages,

including costs, expenses, and attorneys' fees, and, in appropriate circumstances, may recover punitive damages, from the willful violator.

Except as otherwise provided in the Plan, all injunctions or stays in effect in the Case under Bankruptcy Code sections 105, 362(a), or 922(a), or otherwise, on the Confirmation Date shall remain in full force and effect through and including the Effective Date.

Section 6.3. Releases and Injunctions.

(a) Sewer Releases and Injunctions.

Under the Plan and as of the Effective Date, each Sewer Released Party, on behalf of itself, and to the maximum extent permitted by law, on behalf of each of its Related Parties, in exchange for and upon receipt of the treatment and consideration set forth in the Plan for the Sewer Released Parties, including the compromises and settlements among the Sewer Released Parties implemented pursuant to the Plan, forever waives and releases all other Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims.

Under the Plan and as of the Effective Date, all Persons who voted to accept the Plan or who made or are deemed to have made the Commutation Election will be conclusively deemed to have irrevocably and unconditionally, fully, finally, and forever waived and released and discharged on their own behalf, and on behalf of any Person claiming through them, all Sewer Released Parties and their respective Related Parties from any and all Sewer Released Claims.

From and after the Effective Date, the County, any Person seeking to exercise the rights of the County (including in respect of the County's Causes of Action purportedly asserted in the Bennett Action and the Wilson Action), all Persons holding any Sewer Released Claims that are waived and released pursuant to this Section 6.3(a), and all Persons acting or purporting to act on behalf of any Persons holding any Sewer Released Claims that are waived and released pursuant to this Section 6.3(a), are permanently and completely enjoined from commencing or continuing any action, directly or indirectly and in any manner, to assert, pursue, litigate, or otherwise seek any recovery on or on account of such Sewer Released Claims.

From and after the Effective Date, the Sewer Warrant Trustee, any holders of Sewer Warrants, or any other Person are permanently and completely enjoined from pursuing any right of payment under (i) any of the Sewer DSRF Policies, which will be cancelled and of no further force or effect pursuant to Section 4.7; or (ii) any of the Sewer Wrap Policies with respect to any Sewer Warrant holder that made or was deemed to have made the Commutation Election, which Sewer Wrap Policies will be cancelled and of no further force or effect pursuant to Section 4.7; *provided, however*, that such injunction shall not enjoin any holders of Sewer Warrants that did not make or were deemed not to make the Commutation Election, or, if applicable, the Sewer Warrant Trustee on their behalf, from pursuing any Sewer Wrap Payment Rights.

(b) GO Releases and Injunctions.

Under the Plan and as of the Effective Date, each GO Released Party, on behalf of itself, and to the maximum extent permitted by law, on behalf of each of its Related Parties, in exchange for and upon receipt of the treatment and consideration set forth in the Plan for the GO Released Parties, including the compromises and settlements among the GO Released Parties implemented pursuant to the Plan, forever waives and releases all other GO Released Parties and their respective Related Parties from any and all GO Released Claims.

Under the Plan and as of the Effective Date, all Persons who voted to accept the Plan will be conclusively deemed to have irrevocably and unconditionally, fully, finally, and forever waived and released and discharged on their own behalf, and on behalf of any Person claiming through them, all GO Released Parties and their respective Related Parties from any and all GO Released Claims.

From and after the Effective Date, the County, any Person seeking to exercise the rights of the County, all Persons holding any GO Released Claims that are waived and released pursuant to this Section 6.3(b), and all Persons acting or purporting to act on behalf of any Persons holding any GO Released Claims that are waived and released pursuant to this Section 6.3(b), are permanently and completely enjoined from commencing or continuing any action, directly or indirectly and in any manner, to assert, pursue, litigate, or otherwise seek any recovery on or on account of such GO Released Claims.

(c) Necessity and Approval of Releases and Injunctions.

The releases and injunctions set forth in this Section 6.3 are integral and critical parts of the Plan and the settlements implemented pursuant to the Plan, the approval of such releases pursuant to the Confirmation Order is a condition to the occurrence of the Effective Date, and all Sewer Released Parties and all GO Released Parties have relied on the efficacy and conclusive effects of such releases and injunctions and on the Bankruptcy Court's retention of jurisdiction to enforce such releases and injunctions when making concessions pursuant to the Plan and by agreeing to, accepting, and supporting the settlement and treatment of their respective Claims, Causes of Action, and other rights under the Plan.

Pursuant to Bankruptcy Code sections 1123(a)(5), 1123(b)(3), and 1123(b)(6), as well as Bankruptcy Rule 9019, entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the releases and injunctions set forth in this Section 6.3, which includes by reference each of the related provisions and definitions contained in the Plan, and further, shall constitute the Bankruptcy Court's finding that such releases and injunctions are: (1) in exchange for the good and valuable consideration provided by the Sewer Released Parties, the GO Released Parties, and their respective Related Parties; (2) a good faith settlement and compromise of the Claims and Causes of Action released by such releases; (3) in the best interests of the County and all Creditors; (4) fair, equitable, and reasonable; (5) given and made after due notice and opportunity for hearing; and (6) a

bar to any of the releasing parties as set forth herein asserting any Claims or Causes of Action released pursuant to such release.

Section 6.4. Retention of Jurisdiction.

Notwithstanding the entry of the Confirmation Order or the occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction over the Case after the Effective Date to the fullest extent provided by law, including the jurisdiction to:

(a) Except as otherwise Allowed pursuant to the Plan or in the Confirmation Order, Allow, classify, determine, disallow, establish the priority or secured or unsecured status of, estimate, limit, liquidate, or subordinate any Claim, in whole or in part;

(b) Resolve any motions pending on the Effective Date to assume, assume and assign, or reject any executory contract or unexpired lease to which the County is a party or with respect to which the County may be liable and to hear, determine and, if necessary, liquidate, any Claims arising therefrom;

(c) Resolve any and all other applications, motions, adversary proceedings, and other contested or litigated matters involving the County that may be pending on the Effective Date or that may be instituted thereafter in accordance with the terms of the Plan;

(d) Ensure that all Distributions are accomplished pursuant to the provisions of the Plan;

(e) Enter such orders as may be necessary or appropriate to implement or consummate the Plan and all contracts, instruments, releases, and other agreements or documents entered into in connection with or related to the Plan;

(f) Resolve any and all controversies, suits, or issues that may arise in connection with the implementation, consummation, interpretation, or enforcement of the Plan or the Confirmation Order, or any Person's rights, obligations, or interests under the Plan or the Confirmation Order;

(g) Remedy any defect or omission or reconcile any inconsistency in any order of the Bankruptcy Court, the Plan, the Disclosure Statement or any contract, instrument, release, or other agreement or document created in connection with the Plan or the Disclosure Statement, in such manner as may be necessary or appropriate to consummate the Plan, to the extent authorized by the Bankruptcy Code;

(h) Adjudicate any Preserved Claims;

(i) Implement and enforce the Commutation Election, and implement and enforce all settlements, releases, exculpations, and injunctions associated with the Plan;

(j) Issue injunctions, enter and implement other orders, or take any other actions as may be necessary or appropriate to restrain interference by any Person with consummation or enforcement of the Plan or the Confirmation Order;

(k) Enter and implement such orders as may be necessary or appropriate if the Confirmation Order is for any reason modified, reversed, revoked, stayed, or vacated;

(l) Adjudicate any and all controversies, suits, or issues that may arise regarding the validity of any actions taken by any Person pursuant to or in furtherance of the Plan, including implementation or enforcement of the Approved Rate Structure and issuance of the New Sewer Warrants under the New Sewer Warrant Indenture, and enter any necessary or appropriate orders or relief (including mandamus) in connection with such adjudication;

(m) Hear and determine any actions brought against the County, the GO Released Parties, the Sewer Released Parties, or any of their respective Related Parties in connection with all compromises and settlements, exculpations and releases, the Plan, or the Case;

(n) Determine any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order, or any contract, instrument, release, or other agreement or document created in connection with the Plan; and

(o) Enter an order closing the Case pursuant to Bankruptcy Code section 945(b).

If the Bankruptcy Court abstains from exercising jurisdiction, declines to exercise jurisdiction, or is otherwise without jurisdiction over any matter, then this Section 6.4 shall have no effect upon and shall not control, limit, or prohibit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

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ARTICLE VII
RECOMMENDATION AND CONCLUSION

The County believes that confirmation and implementation of the Plan are the best alternative under the circumstances and urges all its Impaired Creditors entitled to vote on the Plan to vote in favor of and support confirmation of the Plan.

DATED AS OF: June 30, 2013

JEFFERSON COUNTY, ALABAMA

By: W.D. Carrington
Its: County Commission President

Filed by:

/s/ J. Patrick Darby

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wholt@ktbslaw.com

Counsel for Jefferson County, Alabama

Exhibit A

Preserved Claims

1. All Causes of Action and Avoidance Actions against British Petroleum arising out of the fire, explosions, and oil leak that occurred on the Deepwater Horizon, whether or not asserted in connection with the consolidated cases collectively styled *In re Oil Spill by the Oil Rig "Deepwater Horizon" in the Gulf of Mexico*, on April 20, 2010, MDL No. 2179, pending in the United States District Court for the Eastern District of Louisiana.

2. All Causes of Action and Avoidance Actions against Bank of America, Bank of Tokyo - Mitsubishi UFJ, Barclays Bank plc, Citibank NA, Credit Suisse, Deutsche Bank AG, HSBC, Lloyds TSB Bank plc, Rabobank, Royal Bank of Canada, The Norinchukin Bank, The Royal Bank of Scotland Group, UBS AG, BNP Paribas, Credit Agricole Corporate Investment Bank, Sumitomo Mitsui Banking Corporation, and Société Générale regarding manipulation of the London Interbank Offered Rate and effect on the County's variable-rate obligations, including obligations under interest rate swap agreements.

3. All Causes of Action and Avoidance Actions against Chris McNair; Gary White; Mary Buckelew; Jack Swann; Harry Chandler; Ronald Wilson; Clarence Barber; Larry Creel; Sohan Singh; Ed Key; U.S. Infrastructure; Civil Engineering Design Services; Pat Dougherty; Dougherty Engineering; Bobby Rast; Danny Rast; Rast Construction; William Dawson; Dawson Engineering; Grady Pugh, Jr; Roland Pugh; Roland Pugh Construction; and Eddie Yessick arising out of these parties' conduct in connection with bribery, corruption, or the construction of the Sewer System. The County's Causes of Action include claims for unpaid fines or restitution.

4. All Causes of Action and Avoidance Actions against Wachovia Bank, N.A. ("Wachovia") and Wells Fargo Bank, N.A. ("Wells Fargo") arising from Wachovia's violation of state and federal antitrust laws in connection with the marketing, sale, and placement of municipal bond derivatives, whether or not included in the settlement between Wachovia, Wells Fargo, and the Attorneys General of twenty six states and whether or not asserted in the case styled *In re Municipal Derivatives Antitrust Litigation* (or other related actions) filed in the United States District Court for the Southern District of New York.

5. All Causes of Action and Avoidance Actions against UBS AG arising from USB AG's violations of state and federal antitrust and other laws by UBS and others in connection with the marketing, sale, and placement of municipal bond derivatives, whether or not included in the settlement between UBS AG and the Attorneys General of twenty six states and whether or not asserted in the case styled *In re Municipal Derivatives Antitrust Litigation* (or other related actions) filed in the United States District Court for the Southern District of New York.

6. All Causes of Action and Avoidance Actions against Jefferson Clinic, P.C. related to services provided to Cooper Green Mercy Hospital and payments made to Jefferson Clinic P.C. with respect to such services.

7. All Causes of Action and Avoidance Actions against any contractors, vendors, and former employees related to services provided to Cooper Green Mercy Hospital, including claims for refunds of payments made pursuant to void contracts.

8. All Causes of Action and Avoidance Actions against Health Assurance, LLC for refunds of premiums paid on or behalf of the County.

9. All Causes of Action and Avoidance Actions against Greater McAdory Athletic Association related to advances from the County earmarked for specific use.

10. All Causes of Action and Avoidance Actions against Hendon Engineering in connection with design and construction defects at the Five Mile Waste Water Treatment Plant.

11. All Causes of Action and Avoidance Actions for payment of any taxes, including sales taxes, use taxes, ad valorem taxes, occupational taxes, privilege taxes, or any other kind of tax; whether or not such claim for taxes are currently in litigation.

12. All Causes of Action and Avoidance Actions related to services provided by the County to third parties, including municipalities and related municipal boards, authorities and other entities, sewer customers, and hospital and clinic patients.

13. All Causes of Action and Avoidance Actions relating to reimbursements from the State of Alabama and the federal government, including the Federal Emergency Management Agency, for County expenditures following the tornadoes of April 2011.

14. All Causes of Action and Avoidance Actions related to deposits, bonds, or other forms of security posted in connection with construction projects or other contracts in which the counterparty failed to timely or satisfactorily perform.

15. All Causes of Action and Avoidance Actions related to subrogation rights against third parties arising from property and worker's compensation claims.

16. All Causes of Action and Avoidance Actions against any holder of Sewer Warrants that is not a Sewer Released Party or a Related Party of such Sewer Released Party.

17. All Causes of Action, Avoidance Actions, defenses, deductions, assessments, setoffs, recoupment, and other rights under applicable nonbankruptcy law with respect to any Creditor or any Person that are not otherwise released under or pursuant to the Plan.

Exhibit B

Schedule of Assumed Agreements

[Initial Schedule of Assumed Agreements will be included in the Plan Supplement]

Exhibit C

Approved Rate Structure

Rates and charges for sewer service are embodied in the *Jefferson County Sewer Use Charge Ordinance*, adopted November 6, 2012 (as amended from time to time, the "Charge Ordinance"), the current version of which is appended to and incorporated into this Approved Rate Structure. The Charge Ordinance sets out pertinent defined terms and describes in detail the policies and procedures by which bills are calculated. This Approved Rate Structure details how further changes in rates and charges contemplated by the Plan will be implemented.

User Charges

Under the Charge Ordinance, each user pays: (i) a monthly base charge that varies depending on meter size; and (ii) volumetric charges (measured on a per-CCF basis) that vary depending on whether the user is classified as residential or non-residential, and (for residential users) that vary based on the level of the user's consumption. In addition, the Charge Ordinance specifies certain industrial waste surcharges and the fees for discharging hauled wastewater (septage and domestic wastewater, as well as grease trap waste) into the system. Finally, the Charge Ordinance sets out certain miscellaneous fees and charges, including fees for inspections, permits, returned checks, and the like. These fees and charges are collectively referred to as the "User Charges," and they are set out immediately below.

Effective March 1, 2013, the User Charges are as follows:

Category	Amount
Monthly Base Charge (5/8" Meter)	$10.00
Monthly Base Charge (3/4" Meter)	$11.00
Monthly Base Charge (1" Meter)	$14.00
Monthly Base Charge (1.5" Meter)	$18.00
Monthly Base Charge (2" Meter)	$29.00
Monthly Base Charge (3" Meter)	$110.00
Monthly Base Charge (4" Meter)	$140.00
Monthly Base Charge (6" Meter)	$210.00
Monthly Base Charge (8" Meter)	$290.00
Monthly Base Charge (10" Meter)	$370.00
Non-Residential Block Volumetric Charge	$7.60 per CCF

Category	Amount
Residential Block Volumetric Charge (first three CCF)	$4.50 per CCF
Residential Block Volumetric Charge (next three CCF)	$7.00 per CCF
Residential Block Volumetric Charge (additional CCF)	$8.00 per CCF
Surcharge for BOD (300 mg/l strength)	$0.8284 per pound
Surcharge for COD (750 mg/l strength)	$0.4142 per pound
Surcharge for TSS (300 mg/l strength)	$0.2734 per pound
Surcharge for FOG (50 mg/l strength)	$0.1715 per pound
Surcharge for TP (4 mg/l strength)	$3.2650 per pound
Septage and Domestic Wastewater	$60.00 per 1,000 gallons
Grease Trap Waste	$75.00 per 1,000 gallons
Private Meter Application Processing Fee	$12.00 per application
Sewer Impact Fees for New Connections to the System	$225.00 per fixture
Connection Fee for Properties Currently on Septic	$100.00
Impact Fee Refund Charge (1 – 10 Fixtures)	$20.00
Impact Fee Refund Charge (11 – 50 Fixtures)	$30.00
Impact Fee Refund Charge (More than 50 Fixtures)	$50.00
Connection Permit (Pre-Installation)	$50.00
Connection Permit (Post-Installation)	$550.00
Repair Permit (Pre-Installation)	$50.00
Repair Permit (Post-Installation)	$550.00
Tap Permit	$150.00
Disconnection Permit	$25.00

Category	Amount
Grease Trap Annual Inspection Fee (1 – 5 Units)	$300.00
Grease Trap Annual Inspection Fee (6 – 10 Units)	$500.00
Grease Trap Annual Inspection Fee (Additional Units)	$200.00 per 5 additional units
Grease Trap Non-Compliance Fee	$400.00
Grease Trap Re-Inspection Fee	$400.00
Grease Trap Exemption Fee	$300.00
Lien Recording Fee	$16.00
Lien Satisfaction Fee	$16.00
Return Check Fee	$30.00
Pay Off Amount	$4.00 per sheet

The County Commission may add, delete, or modify these categories of User Charges by adopting an Adjusting Resolution (defined below), provided that any modification of the categories of User Charges shall be either revenue-neutral or revenue-enhancing as shown by a Revenue Certification (defined below).

Method of Imposing Rate Modifications for User Charges

Pursuant to the Plan and in connection with the issuance of the New Sewer Warrants under the New Sewer Warrant Indenture, the County shall increase the overall User Charges by certain required percentages (the "Required Percentage Increases," as more specifically defined below).

The County shall, unless it otherwise so elects as herein permitted, make the Required Percentage Increases by uniformly increasing the fees and charges in each of the categories of User Charges by the requisite percentage (rounded to the nearest cent except for those fees and charges expressed above in hundredths of a cent increments, which shall be rounded to the nearest hundredth of a cent). This method of making the Required Percentage Increases is the "Uniform Method."

Alternatively, the County may, but is not required to, elect to make the Required Percentage Increases non-uniformly (the "Non-Uniform Method") by increasing, decreasing, or leaving unchanged certain of the fees and charges in each of the categories of User Charges in such manner as the County shall determine in its reasonable discretion. If the County uses the Non-Uniform Method to make a Required Percentage Increase, then the County shall certify to the indenture trustee for the New Sewer Warrants, in accordance with the terms of the New Sewer Warrant Indenture, that the revenues projected to be generated in the fiscal year for which the Required Percentage Increase is applicable will be greater than or equal to the revenues that would be projected to be generated in that same fiscal year if the Uniform Method had instead been used to make the Required Percentage Rate Increase (a "Revenue

Certification"). The New Sewer Warrant Indenture may further condition the use of a Non-Uniform Method and the terms of the Revenue Certification.

Required Percentage Increases

A resolution duly adopted by the County Commission during October 2013 (the "October 2013 Resolution") in compliance with Amendment 73 and Act 619 shall specify the precise First Required Percentage Increase (as defined below), Second Required Percentage Increase (as defined below), Third Required Percentage Increase (as defined below), Fourth Required Percentage Increase (as defined below), and the Residual Annual Required Percentage (as defined below) (together, the "Required Percentage Increases").

First Required Percentage Increase

If the County Commission elects to implement the First Required Percentage Increase using the Non-Uniform Method, the October 2013 Resolution shall: (i) so state; (ii) set out which User Charges will be increased, which (if any) will be decreased, and which will be left unchanged; and (iii) be accompanied by a certification that the revenues projected to be generated in the fiscal year for which the First Required Percentage Increase is applicable will be greater than or equal to the revenues that would be projected to be generated in that same fiscal year if the Uniform Method had instead been used to make the First Required Percentage Rate Increase.

Subject to the entirety of this Approved Rate Structure, the User Charges in effect as of March 1, 2013, shall be increased by the "First Required Percentage Increase." The First Required Percentage Increase shall be given effect no later than November 1, 2013, and shall be enacted via the October 2013 Resolution. The User Charges thereby established will remain in effect unless and until modified in accordance with the October 2013 Resolution, but in no event may such User Charges be lowered prior to October 1, 2014.

The First Required Percentage Increase shall equal 7.41%, unless adjusted upward or downward in the October 2013 Resolution in a manner permitted under the Sewer Plan Support Agreements (*i.e.*, to a level necessary and sufficient to allow the County to issue the New Sewer Warrants in the amounts required by the Sewer Plan Support Agreements and the Plan).

After the First Required Percentage Increase takes effect, no further Required Percentage Increases shall be required to take effect unless and until the Effective Date has occurred. If the Effective Date has not occurred by January 1, 2014, then no further Required Percentage Increases will be implemented absent further action by the County Commission.

Second Required Percentage Increase

Subject to the entirety of this Approved Rate Structure, and only if the Effective Date has occurred by January 1, 2014, the User Charges in effect as of September 30, 2014 shall be increased by the "Second Required Percentage Increase." The Second Required Percentage Increase shall be provided for in the October 2013 Resolution, subject to the occurrence of the Effective Date, and given effect no later than October 1, 2014. The User Charges thereby established will remain in effect through and including September 30, 2015.

The Second Required Percentage Increase shall equal 7.41%, unless adjusted upward or downward by an Adjusting Resolution (as defined below) on the terms and conditions set out in the New

Sewer Warrant Indenture, including the rate and revenue covenants therein. The Second Required Percentage Increase shall be made using the Uniform Method unless the County otherwise elects.

Third Required Percentage Increase

Subject to the entirety of this Approved Rate Structure, and only if the Effective Date has occurred by January 1, 2014, the User Charges in effect as of September 30, 2015, shall be increased by the "Third Required Percentage Increase." The Third Required Percentage Increase shall be provided for in the October 2013 Resolution, subject to the occurrence of the Effective Date, and given effect no later than October 1, 2015. The User Charges thereby established will remain in effect through and including September 30, 2016.

The Third Required Percentage Increase shall equal 7.41%, unless adjusted upward or downward by an Adjusting Resolution on the terms and conditions set out in the New Sewer Warrant Indenture, including the rate and revenue covenants therein. The Third Required Percentage Increase shall be made using the Uniform Method unless the County otherwise elects.

Fourth Required Percentage Increase

Subject to the entirety of this Approved Rate Structure, and only if the Effective Date has occurred by January 1, 2014, the User Charges in effect as of September 30, 2016, shall be increased by the "Fourth Required Percentage Increase." The Fourth Required Percentage Increase shall be provided for in the October 2013 Resolution, subject to the occurrence of the Effective Date, and given effect no later than October 1, 2016. The User Charges thereby established will remain in effect through and including September 30, 2017.

The Fourth Required Percentage Increase shall equal 7.41%, unless adjusted upward or downward by an Adjusting Resolution on the terms and conditions set out in the New Sewer Warrant Indenture, including the rate and revenue covenants therein. The Fourth Required Percentage Increase shall be made using the Uniform Method unless the County otherwise elects.

Residual Annual Required Percentage Increases

Subject to the entirety of this Approved Rate Structure, and only if the Effective Date has occurred by January 1, 2014, for each fiscal year starting with the fiscal year beginning October 1, 2017 and continuing through the remaining term of the New Sewer Warrants, the User Charges in effect as of September 30 of the immediately preceding fiscal year shall be increased by the "Residual Annual Required Percentage Increase." The Residual Annual Required Percentage Increase shall be provided for in the October 2013 Resolution (subject to the occurrence of the Effective Date), and given effect no later than October 1 of each fiscal year starting with the fiscal year beginning October 1, 2017. The User Charges thereby established will remain in effect through and including the following September 30.

The Residual Annual Required Percentage Increase shall equal 3.49% for each remaining fiscal year that the New Sewer Warrants remain outstanding, unless adjusted upward or downward by and Adjusting Resolution on the terms and conditions set out in the New Sewer Indenture, including the rate and revenue covenants therein. The Residual Annual Required Percentage Increase shall be made using the Uniform Method unless the County otherwise elects.

Adjusting Resolutions

Beginning with the Second Required Percentage Increase, the costs of operating the Sewer System and servicing the New Sewer Warrants may permit or require User Charges to decrease or increase other than as specified in the October 2013 Resolution. Moreover, the County Commission may elect to implement some or all of the Required Percentage Increases using the Non-Uniform Method, which will require precise calculations that must be made closer in time to the scheduled adjustments of User Charges.

Accordingly, to preserve the County Commission's flexibility and to ensure that User Charges are neither too high nor too low, the County Commission may from time to time enact a resolution (an "Adjusting Resolution") that may do any or all of the following: (i) modify the Required Percentage Increase for the next fiscal year only; (ii) provide for the implementation of the Required Percentage Increase via the Non-Uniform Method for the next fiscal year only; and (iii) modify the existing categories of User Charges.

An Adjusting Resolution must: (i) be duly enacted in the fiscal year immediately preceding the first fiscal year for which the Adjusting Resolution will take effect; (ii) be enacted at least thirty (30) days prior to the start of the fiscal year for which the Adjusting Resolution will take effect; and (iii) fully comply with the New Sewer Warrant Indenture, including the rate and revenue covenants therein.

Any Adjusting Resolution that provides for the implementation of a Required Percentage Increase by the Non-Uniform Method must: (i) set out which User Charges will be increased, which (if any) will be decreased, and which will be left unchanged; and (ii) be accompanied by a Revenue Certification.

Any Adjusting Resolution that adds, deletes, or modifies any categories of User Charges shall be accompanied by a Revenue Certification.

Notwithstanding anything to the contrary in this Approved Rate Structure, the County Commission may increase User Charges at any time.

[Insert Charge Ordinance as Appendix]

Exhibit D

GO Acknowledgement

(i) The indebtedness evidenced and ordered to be paid on account of the GO Warrants and the GO Insurance Policies constitutes, and with respect to the Replacement 2001-B GO Warrants will constitute, a general obligation of the County in support of which the County irrevocably pledged its full faith and credit. This pledge is a commitment to pay and a commitment of the County's revenue generating powers to produce the funds necessary to pay the principal of and interest on the GO Warrants, and the Replacement 2001-B GO Warrants once issued, as they become due and to reimburse National on account of the GO Insurance Policies.

(ii) Revenues legally available to the County for payment of debt service on the GO Warrants and to reimburse National on account of the GO Insurance Policies include, and with respect to the Replacement 2001-B GO Warrants will include, ad valorem taxes, sales and business license taxes, and other general fund revenues.

(iii) Pursuant to Section 215 of the Alabama Constitution, as amended by Amendment No. 208, and Sections 11-3-11(a)(2), 11-14-11, and 11-14-16 of the Alabama Code (collectively, "Section 215"), the County may levy and collect a 5.1 mill special ad valorem tax (the "Special Tax"), not to exceed one-fourth of one percent per annum, for the purpose of paying any debt or liability against the County due and payable during the year and created for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads, and any remaining proceeds of the Special Tax in excess of amounts payable on bonds, warrants, or other securities issued by the County for such limited purposes may be spent for general county purposes. Section 215 provides that the County may use proceeds of the Special Tax for general county purposes only after all amounts due and payable in any given fiscal year on bonds, warrants, or other securities issued by the County for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads (collectively, "Special Tax Obligations") are paid in full, and such proceeds shall be applied first to Special Tax Obligations.

(iv) The Special Tax is separate and distinct from the County's 5.6 mill general ad valorem tax, the proceeds of which are used for general county purposes and to support the operation of the County's basic governmental functions, including management, personnel, accounting, taxation, purchasing, data processing, law enforcement, the judiciary, and land utilization.

(v) The GO Warrants and the obligations to reimburse National on account of the GO Insurance Policies constitute, and the Replacement 2001-B GO Warrants will constitute, a debt or liability against the County created for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads within the scope and meaning of Section 215. As such, all amounts payable on account of or in connection with the GO Warrants, and the Replacement 2001-B GO Warrants once issued, and to reimburse National on account of the GO Insurance Policies in any given fiscal year must be paid by the County from the proceeds of the Special Tax prior to the County using any such proceeds in such fiscal year for general county purposes, including but not limited to current governmental expenses or any expenditures related to the County's sewer system.

(vi) By virtue of the application of Section 215 with respect to the proceeds of the Special Tax, any and all claims arising from or in connection with the GO Warrants, the GO Warrant Indenture, the GO Insurance Policies, and the Standby GO Warrant Purchase Agreement are properly classified separately under the Plan and properly treated in the fashion provided by the Plan.

EXHIBIT NO. 2

Jefferson County Commission Audited Financial Statements – September 30, 2011

JEFFERSON COUNTY COMMISSION

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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CONTENTS

INDEPENDENT AUDITORS' REPORT

February 22, 2013

To the Commissioners
Jefferson County Commission
Birmingham, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Jefferson County Commission (the Commission) as of and for the year ended September 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Jefferson County Economic and Industrial Development Authority (the Development Authority), a blended component unit, which represent less than one percent of the assets, net assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Development Authority, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

As discussed in Note E, we were unable to obtain a valuation of certain capital assets donated to the Commission related to sewer infrastructure of new subdivisions, and we were unable to satisfy ourselves about the values of such donated assets through alternative procedures.

To the Commissioners
Jefferson County Commission
February 22, 2013

In our opinion, based on our audit and the report of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the valuation of certain donated capital assets, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Jefferson County Commission as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, as of and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Commission will continue as a going concern. As discussed in Notes J, K and V to the financial statements, during the year ended September 30, 2009, and subsequent years, the Commission received Notices and Events of Default from indenture trustees and certain banks for certain debt obligations and has been unable to meet its accelerated debt service obligations as they become due. In addition, the Commission filed a petition for relief under Chapter 9 of the United States Bankruptcy Code on November 9, 2011, in the United States Bankruptcy Court for the Northern District of Alabama. While the terms of the outstanding warrants payable may ultimately be restructured with the creditors through the Bankruptcy Case, under the current Events of Default and potential cross-defaults, the indenture trustees may declare the warrants due and payable on demand. Therefore, the outstanding warrants payable and related accounts have been classified as current liabilities in the accompanying financial statements. As discussed in Note S, subsequent to September 30, 2011, court rulings resulted in the effective repeal of certain occupational taxes and business license fees, which have historically comprised significant revenues to the Commission. It is not possible, at this time, to predict the ultimate outcome resulting from the loss of these revenues. These conditions raise substantial doubt about the Commission's ability to continue as a going concern without the restructuring of debt or other significant reorganization activities. Management's plans regarding those matters are described in Note U. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note U, the Commission has been granted relief under the provisions of Chapter 9 of the United States Bankruptcy Code. Currently, representatives of the Commission are negotiating with creditors to restructure the Commission's outstanding obligations through a Chapter 9 plan of adjustment of debts. However, the outcome of the negotiations is unknown at this time; therefore, these financial statements do not include any adjustments or reclassifications related to the Chapter 9 Bankruptcy Case.

To the Commissioners
Jefferson County Commission
February 22, 2013

Accounting principles generally accepted in the United States of America for state and local governments require that the budgetary comparison information on pages 151 through 154 and the schedule of funding progress - defined benefit pension plan and other postemployment benefits plan on page 155 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Commission has not presented management's discussion and analysis that the GASB has determined is necessary to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining and individual nonmajor fund financial statements, included in the supplementary information section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States by us and the other auditors. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the valuation of certain donated capital assets, as discussed previously, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Birmingham, Alabama

WARREN AVERETT, LLC
Warren Averett Kimbrough & Marino Division

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and investments	$ 99,323	$ 15,698	$ 115,021
Patient accounts receivable, net	-	7,488	7,488
Estimated third-party payor settlements	-	402	402
Accounts receivable, net	5,940	18,788	24,728
Loans receivable, net	2,212	-	2,212
Taxes receivable, net	132,465	5,096	137,561
Other receivables	-	2,438	2,438
Due from (to) other governments	8,357	240	8,597
Inventories	-	1,303	1,303
Prepaid expenses	-	739	739
Deferred charges - issuance costs	11,970	46,594	58,564
Restricted assets - current	164,513	202,942	367,455
Total Current Assets	424,780	301,728	726,508
Noncurrent Assets			
Deferred charges - issuance costs	-	1	1
Advances due from (to) other funds	42,745	(42,745)	-
Loans receivable, net	21,570	-	21,570
Restricted assets	4,107	5,696	9,803
Assets internally designated for capital improvements or redemption of warrants	-	52,549	52,549
Capital assets:			
Depreciable assets, net	287,866	2,832,006	3,119,872
Nondepreciable assets	39,376	53,443	92,819
	395,664	2,900,950	3,296,614
	$ 820,444	$ 3,202,678	$ 4,023,122

See notes to financial statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Current Liabilities			
Accounts payable	$ 23,981	$ 16,529	$ 40,510
Deposits payable	1,596	-	1,596
Deferred/unearned revenue	113,125	5,268	118,393
Accrued wages and benefits	4,202	1,194	5,396
Accrued interest	13,807	114,468	128,275
Debt service costs	7,894	125,959	133,853
Retainage payable	662	952	1,614
Noncurrent liabilities - portion due or payable within one year:			
Capital lease obligations	143	122	265
Estimated liability for compensated absences	8,418	2,899	11,317
Estimated claims liability	3,077	1,755	4,832
Warrants payable	1,097,095	3,137,413	4,234,508
Add: Unamortized premiums	32,434	6,304	38,738
Less: Deferred loss on refunding	-	(269,079)	(269,079)
	1,129,529	2,874,638	4,004,167
Total Current Liabilities	1,306,434	3,143,784	4,450,218
Noncurrent Liabilities			
Accrued arbitrage rebates	3,040	63	3,103
Capital lease obligations	863	178	1,041
Estimated liability for landfill closure and postclosure care costs	-	9,837	9,837
Estimated liability for other postemployment benefits	3,472	1,886	5,358
Estimated liability for compensated absences	10,043	3,664	13,707
Estimated litigation liability	5,000	-	5,000
Estimated claims liability	2,988	1,775	4,763
Warrants payable	-	415	415
Add: Unamortized premiums (discounts)	-	(1)	(1)
Less: Deferred loss on refunding	-	(3)	(3)
	-	411	411
Total Liabilities	1,331,840	3,161,598	4,493,438
Net Assets (Deficit)			
Investment in capital assets, net of related debt	287,657	174,045	461,702
Restricted for:			
Debt service or capital improvements	-	29,363	29,363
Debt service	115,599	41,500	157,099
Closure and postclosure care	-	1,993	1,993
Other purposes	76,299	1,759	78,058
Unrestricted	(990,951)	(207,580)	(1,198,531)
	$ (511,396)	$ 41,080	$ (470,316)

JEFFERSON COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Expenses	Indirect Expense Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Primary Government: Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets Primary Government: Business-Type Activities	Net (Expenses) Revenues and Changes in Net Assets Primary Government: Total
Primary Government							
Governmental Activities:							
General government	$ 161,580	$ (12,632)	$ 26,036	$ 18,437	$ (104,475)	$ -	$ (104,475)
Public safety	80,576	326	5,372	1,026	(74,504)	-	(74,504)
Highways and roads	26,183	-	214	1,747	(24,222)	-	(24,222)
Health and welfare	41	496	-	1,361	824	-	824
Environmental services	2	-	-	-	(2)	-	(2)
Culture and recreation	286	-	-	-	(286)	-	(286)
Education - other	51	-	-	-	(51)	-	(51)
Interest and fiscal charges	52,369	-	-	-	(52,369)	-	(52,369)
Total Governmental Activities	321,088	(11,810)	31,622	22,571	(255,085)	-	(255,085)
Business-Type Activities:							
Cooper Green Hospital	95,047	4,607	29,845	-	-	(69,809)	(69,809)
Economic and Industrial Development Authority	978	-	-	-	-	(978)	(978)
Nursing Home operations	11,268	1,933	9,865	-	-	(3,336)	(3,336)
Landfill operations	3,055	14	-	-	-	(3,069)	(3,069)
Sanitary operations	299,983	5,256	154,405	-	-	(150,834)	(150,834)
Total Business-Type Activities	410,331	11,810	194,115	-	-	(228,026)	(228,026)
Total Primary Government	$ 731,419	$ -	$ 225,737	$ 22,571	(255,085)	(228,026)	(483,111)
General Revenues							
Taxes:							
Property taxes					103,524	4,702	108,226
Sales tax					163,912	-	163,912
Other taxes					29,288	-	29,288
Licenses and permits					17,830	-	17,830
Unrestricted investment earnings					2,708	1,451	4,159
Miscellaneous					40,961	11,211	52,172
Transfers					(56,184)	56,184	-
Total General Revenues and Transfers					302,039	73,548	375,587
Change in Net Assets					46,954	(154,478)	(107,524)
Net Assets (Deficit) - beginning of year, as previously reported					(552,405)	202,576	(349,829)
Prior Period Adjustments					(5,945)	(7,018)	(12,963)
Net Assets (Deficit) - beginning of year, as restated					(558,350)	195,558	(362,792)
Net Assets (Deficit) - end of year					$ (511,396)	$ 41,080	$ (470,316)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
BALANCE SHEET -
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	General Fund	Limited Obligation School Fund	Indigent Care Fund	Bridge and Public Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	$ 79,880	$ -	$ 544	$ 1,254	$ 17,645	$ 99,323
Accounts receivable, net	5,904	-	-	-	36	5,940
Taxes receivable, net	75,452	14,320	6,624	36,069	-	132,465
Due from (to) other governments	332	-	516	416	7,093	8,357
Loans receivable, net	882	-	-	-	1,330	2,212
Restricted assets	2,354	136,895	1,752	-	27,619	168,620
Advances due from (to) other funds	29,862	-	-	-	12,883	42,745
	$ 194,666	$ 151,215	$ 9,436	$ 37,739	$ 66,606	$ 459,662
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 22,387	$ -	$ -	$ -	$ 1,594	$ 23,981
Deposits payable	1,596	-	-	-	-	1,596
Deferred/unearned revenue	75,294	-	-	37,739	92	113,125
Accrued wages and benefits	4,168	-	-	-	34	4,202
Accrued interest	-	907	-	-	5,898	6,805
Debt service costs	-	-	-	-	7,894	7,894
Retainage payable	347	-	-	-	315	662
Estimated liability for compensated absences	8,418	-	-	-	-	8,418
Estimated claims liability	3,077	-	-	-	-	3,077
Total Liabilities	115,287	907	-	37,739	15,827	169,760
Fund Balances (Deficit)						
Nonspendable	16,199	-	-	-	-	16,199
Restricted	2,354	150,308	9,436	-	44,943	207,041
Committed	38,050	-	-	-	20,271	58,321
Assigned	14,435	-	-	-	-	14,435
Unassigned	8,341	-	-	-	(14,435)	(6,094)
	79,379	150,308	9,436	-	50,779	289,902
	$ 194,666	$ 151,215	$ 9,436	$ 37,739	$ 66,606	$ 459,662

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(IN THOUSANDS)

Total Fund Balances - Governmental Funds		$ 289,902
Amounts reported for governmental activities in the statement of net assets are different due to the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets were added as net capital assets.		327,242
Loans receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		21,570
Deferred amounts related to premiums on long-term liabilities are not reported in the funds.		(32,434)
Deferred amounts related to discounts and bond issuance cost on long-term liabilities are not reported in the funds.		11,970
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Those liabilities consist of:		
Warrants payable	(1,097,095)	
Capital lease obligations	(1,006)	
Accrued arbitrage rebates	(3,040)	
Accrued interest	(7,002)	
Estimated liability for other postemployment benefits	(3,472)	
Estimated liability for compensated absences	(10,043)	
Estimated litigation liability	(5,000)	
Estimated claims liability	(2,988)	
Total long-term liabilities		(1,129,646)
Total Net Assets (Deficit) - Governmental Activities		$ (511,396)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	General Fund	Limited Obligation School Fund	Indigent Care Fund	Bridge and Public Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes	$ 98,969	$ 87,774	$ 43,774	$ 40,405	$ -	$ 270,922
Licenses and permits	17,830	-	-	-	-	17,830
Intergovernmental	35,852	-	-	841	11,680	48,373
Charges for services, net	31,021	-	-	-	601	31,622
Miscellaneous	34,389	-	11	-	12,340	46,740
Interest and investment income	1,871	160	-	51	626	2,708
	219,932	87,934	43,785	41,297	25,247	418,195
Expenditures						
Current:						
General government	136,754	29	-	-	6,461	143,244
Public safety	62,274	-	-	-	18,003	80,277
Highway and roads	19,890	-	-	-	15	19,905
Health and welfare	-	-	-	-	41	41
Environmental services	-	-	-	-	-	-
Culture and recreation	286	-	-	-	-	286
Education - other	1	50	-	-	-	51
Capital outlay	1,607	-	-	-	12,475	14,082
Indirect expenses	(12,632)	-	-	-	822	(11,810)
Debt service:						
Principal retirement	357	31,005	-	-	15,402	46,764
Interest and fiscal charges	25	40,691	-	-	14,263	54,979
	208,562	71,775	-	-	67,482	347,819
Excess (Deficiency) of Revenues over Expenditures	11,370	16,159	43,785	41,297	(42,235)	70,376
Other Financing Sources (Uses)						
Proceeds from capital leases	1,213	-	-	-	-	1,213
Transfers in	50	-	-	2,102	61,183	63,335
Transfers out	(18,735)	-	(42,952)	(43,399)	(14,489)	(119,575)
	(17,472)	-	(42,952)	(41,297)	46,694	(55,027)
Net Changes in Fund Balances	(6,102)	16,159	833	-	4,459	15,349
Fund Balances - beginning of year, as previously reported	84,579	134,149	8,603	-	46,320	273,651
Prior Period Adjustments	902	-	-	-	-	902
Fund Balances - beginning of year, as restated	85,481	134,149	8,603	-	46,320	274,553
Fund Balances - end of year	$ 79,379	$ 150,308	$ 9,436	$ -	$ 50,779	$ 289,902

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

Net Changes in Fund Balances - Governmental Funds		$ 15,349
Amounts reported for governmental activities in the statement of activities are different due to the following		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($18,400,000) exceeded capital outlays ($14,082,000) in the current period.		(4,318)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:		
Change in noncurrent portion of loans receivable		(924)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments of principal exceeded amortization of debt-related items:		
Amortization of bond premiums	2,337	
Amortization of bond issuance costs	(825)	
Arbitrage rebates	785	
Repayments of principal - capital lease obligations	2,569	
Repayments of principal - warrants payable	44,195	49,061
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Decrease in noncurrent portion of accrued interest	315	
Increase in noncurrent portion of other postemployment benefits	(1,817)	
Decrease in noncurrent portion of compensated absences	368	
Increase in noncurrent portion of estimated litigation liability	(5,000)	
Increase in noncurrent portion of claims liability	(69)	(6,203)
Governmental funds report proceeds from capital leases and the sale of capital assets as other financial sources. However, the statement of activities reports disposals, transfers and other activities related to capital assets as gains or losses of capital assets:		
Proceeds from capital leases	(1,213)	
Transfer of capital assets	56	
Gain (loss) on disposal of capital assets	(4,854)	(6,011)
Change in Net Assets - Governmental Activities		$ 46,954

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Current Assets				
Cash and investments	$ 2,576	$ 8,707	$ 4,415	$ 15,698
Patient accounts receivable, net	6,543	-	945	7,488
Accounts receivable, net	-	18,619	169	18,788
Other receivables	2,438	-	-	2,438
Estimated third-party payor settlements	402	-	-	402
Taxes receivable, net	-	5,096	-	5,096
Due from (to) other governments	-	1,540	(1,300)	240
Inventories	1,298	-	5	1,303
Prepaid expenses	739	-	-	739
Deferred charges - issuance costs	-	46,591	3	46,594
Restricted assets - current	-	202,942	-	202,942
Total Current Assets	13,996	283,495	4,237	301,728
Noncurrent Assets				
Restricted assets	1,759	56	3,881	5,696
Assets internally designated for capital improvements or redemption of warrants	-	52,549	-	52,549
Advances due from (to) other funds	-	(10,628)	(32,117)	(42,745)
Deferred charges - issuance costs	-	-	1	1
Capital assets:				
Depreciable assets, net	35,781	2,763,883	32,342	2,832,006
Nondepreciable assets	1,090	31,672	20,681	53,443
	38,630	2,837,532	24,788	2,900,950
	$ 52,626	$ 3,121,027	$ 29,025	$ 3,202,678

See notes to financial statements.

LIABILITIES AND NET ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Current Liabilities				
Accounts payable	$ 8,439	$ 7,407	$ 683	$ 16,529
Accrued wages and benefits	732	396	66	1,194
Accrued interest	-	114,465	3	114,468
Debt service costs	-	125,959	-	125,959
Retainage payable	-	952	-	952
Deferred/unearned revenue	-	5,268	-	5,268
Estimated claims liability	972	620	163	1,755
Estimated liability for compensated absences	1,300	1,458	141	2,899
Current portion of capital lease obligations	122	-	-	122
Warrants payable	-	3,135,978	1,435	3,137,413
Add: Unamortized premiums (discounts)	-	6,305	(1)	6,304
Less: Deferred loss on refunding	-	(269,070)	(9)	(269,079)
	-	2,873,213	1,425	2,874,638
Total Current Liabilities	11,565	3,129,738	2,481	3,143,784
Noncurrent Liabilities				
Warrants payable	-	-	415	415
Add: Unamortized premiums (discounts)	-	-	(1)	(1)
Less: Deferred loss on refunding	-	-	(3)	(3)
	-	-	411	411
Capital lease obligations	178	-	-	178
Accrued arbitrage rebates	-	63	-	63
Estimated liability for landfill closure and postclosure care costs	-	-	9,837	9,837
Estimated claims liability	965	693	117	1,775
Estimated liability for other postemployment benefits	1,074	666	146	1,886
Estimated liability for compensated absences	1,674	1,835	155	3,664
Total Liabilities	15,456	3,132,995	13,147	3,161,598
Net Assets (Deficit)				
Invested in capital assets, net of related debt	36,572	102,900	34,573	174,045
Restricted for:				
Debt service or capital improvements	-	29,363	-	29,363
Debt service	-	39,612	1,888	41,500
Closure and postclosure care	-	-	1,993	1,993
Other purposes	1,759	-	-	1,759
Unrestricted	(1,161)	(183,843)	(22,576)	(207,580)
	$ 37,170	$ (11,968)	$ 15,878	$ 41,080

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Operating Revenues				
Taxes	$ -	$ 4,702	$ -	$ 4,702
Intergovernmental	-	103	-	103
Charges for services, net	29,845	154,302	9,865	194,012
Other operating revenue	9,658	4,109	2,112	15,879
	39,503	163,216	11,977	214,696
Operating Expenses				
Salaries	34,254	19,628	4,117	57,999
Employee benefits and payroll taxes	8,715	7,187	1,332	17,234
Materials and supplies	16,400	2,532	1,059	19,991
Utilities	1,585	8,088	822	10,495
Outside services	12,463	16,238	3,128	31,829
Services from other hospitals	6,281	-	-	6,281
Jefferson Clinic	10,819	-	-	10,819
Office expenses	767	1,485	209	2,461
Depreciation	2,828	131,971	2,545	137,344
Closure and postclosure care	-	-	178	178
Indirect expenses	4,607	5,256	1,947	11,810
Miscellaneous	923	316	723	1,962
	99,642	192,701	16,060	308,403
Operating Loss	(60,139)	(29,485)	(4,083)	(93,707)
Nonoperating Revenues (Expenses)				
Interest expense, net	(12)	(97,624)	(1,068)	(98,704)
Interest revenue	49	1,390	12	1,451
Grant income	1,282	-	-	1,282
Amortization of warrant related costs	-	(14,914)	(120)	(15,034)
Loss on impairment of capital assets	-	-	(4,684)	(4,684)
Gain (loss) on sale or retirement of capital assets	(207)	(1,308)	249	(1,266)
	1,112	(112,456)	(5,611)	(116,955)
Operating Transfers				
Transfers in	53,568	-	2,716	56,284
Transfers out	(44)	-	-	(44)
Capital contributions - transfer of capital assets	-	(56)	-	(56)
	53,524	(56)	2,716	56,184
Change in Net Assets	(5,503)	(141,997)	(6,978)	(154,478)
Net Assets - beginning of year, as previously reported	43,185	138,002	21,389	202,576
Prior Period Adjustments	(512)	(7,973)	1,467	(7,018)
Net Assets - beginning of year, as restated	42,673	130,029	22,856	195,558
Net Assets - end of year	$ 37,170	$ (11,968)	$ 15,878	$ 41,080

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Cash Flows from Operating Activities				
Cash received from services	$ 32,509	$ 155,925	$ 10,702	$ 199,136
Cash payments to employees	(43,031)	(26,972)	(5,719)	(75,722)
Cash payments for goods and services	(48,845)	(30,757)	(6,807)	(86,409)
Other receipts and payments, net	8,372	20,409	(358)	28,423
Net Cash Provided (Used) by Operating Activities	(50,995)	118,605	(2,182)	65,428
Cash Flows from Noncapital Financing Activities				
Grant income	1,282	-	-	1,282
Operating transfers in	53,568	-	2,716	56,284
Operating transfers out	(44)	-	-	(44)
Net Cash Provided by Noncapital Financing Activities	54,806	-	2,716	57,522
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(1,224)	(15,022)	(312)	(16,558)
Repayment of capital lease obligations	(173)	-	-	(173)
Sale of capital assets	-	776	695	1,471
Interest paid	(12)	(73,727)	(1,070)	(74,809)
Principal payments on warrants	-	(26,345)	(1,387)	(27,732)
Net Cash Used by Capital and Related Financing Activities	(1,409)	(114,318)	(2,074)	(117,801)
Cash Flows from Investing Activities				
Interest received	49	1,390	12	1,451
Miscellaneous	(1)	(2)	1,537	1,534
Net Cash Provided by Investing Activities	48	1,388	1,549	2,985
Change in Cash and Investments	2,450	5,675	9	8,134
Cash and Investments - beginning of year	1,885	258,579	8,287	268,751
Cash and Investments - end of year	$ 4,335	$ 264,254	$ 8,296	$ 276,885
Displayed As				
Cash and investments	$ 2,576	$ 8,707	$ 4,415	$ 15,698
Restricted assets - current cash and investments	-	202,942	-	202,942
Restricted assets - noncurrent cash and investments	1,759	56	3,881	5,696
Assets internally designated for capital improvements or redemption of warrants - noncurrent cash	-	52,549	-	52,549
	$ 4,335	$ 264,254	$ 8,296	$ 276,885

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)
(Continued)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	$ (60,139)	$ (29,485)	$ (4,083)	$ (93,707)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	2,828	131,971	2,545	137,344
Provision for bad debts	12,419	747	992	14,158
Change in patient accounts receivable	(9,755)	-	(792)	(10,547)
Change in accounts receivable	-	655	(11)	644
Change in other receivables	(1,286)	-	-	(1,286)
Change in estimated third-party payor settlements	-	-	-	-
Change in taxes receivable, net	-	249	-	249
Change in due from (to) other governments	-	222	-	222
Change in inventories	28	475	35	538
Change in prepaid expenses	16	-	45	61
Change in advances due from (to) other funds	-	10,628	(1,432)	9,196
Change in accounts payable	4,725	2,683	278	7,686
Change in accrued wages and benefits	(902)	(659)	(220)	(1,781)
Change in retainage payable	-	896	-	896
Change in deferred/unearned revenue	-	(280)	-	(280)
Change in estimated claims liability	230	63	(64)	229
Change in estimated liability for compensated absences	279	91	(127)	243
Change in estimated liability for landfill closure and postclosure care costs	-	-	576	576
Change in estimated liability for other postemployment benefits	562	349	76	987
	9,144	148,090	1,901	159,135
Net Cash Provided (Used) by Operating Activities	$ (50,995)	$ 118,605	$ (2,182)	$ 65,428
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
(Loss) gain on sale or retirement of capital assets	$ (207)	$ (1,308)	$ 249	$ (1,266)
Capital assets financed by capital lease obligations	$ 215	$ -	$ -	$ 215
Transfers of capital assets to governmental fund	$ -	$ (56)	$ -	$ (56)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS -
AGENCY FUND
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Agency Fund
Current Assets	
Cash and investments	$ 832
Loans receivable, net	221
	$ 1,053
LIABILITIES	
Due to other governments	$ 1,053

See notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Jefferson County Commission (the Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, except that management has not capitalized certain donated capital assets or included related current disclosures due to the lack of available information. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The Commission is a general purpose local government governed by five separately elected commissioners. The accompanying financial statements present the activities of the Jefferson County Commission (the primary government) and its component units, as required by GAAP. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability is generally defined as the appointment of a voting majority of the component unit's governing body and either (a) the Commission's ability to impose its will on the component unit's governing body or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Commission. Based on the application of the above criteria, the financial position and results of operations for the Jefferson County Public Building Authority (the Building Authority) and the Jefferson County Economic and Industrial Development Authority (the Development Authority) have been included in the accompanying financial statements as blended component units, which are defined as legally separate entities that exist solely to provide services exclusively to the Commission. Complete financial information of the Building Authority and the Development Authority may be reviewed at the Jefferson County Courthouse, Finance Department, Room 810, Birmingham, Alabama.

On September 22, 2010, John S. Young, Jr., LLC was appointed by the Circuit Court of Jefferson County, Alabama, Birmingham Division, as Receiver over the Sanitary Operations Fund. Financial activity throughout the fiscal year is included in the accompanying financial statements. On November 9, 2011, the Commission filed a petition for relief under Chapter 9 of the United States Bankruptcy Code in the United States Bankruptcy Court (the Bankruptcy Case). On January 6, 2012, U.S. Bankruptcy Judge Thomas Bennett ruled that the automatic stay of bankruptcy protection applies to the Receiver. A plan of reorganization has not been submitted to the Bankruptcy Court through the date of these financial statements and no adjustments have been recorded to the assets and liabilities reported herein. See Notes S, U and V for further discussion.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide and Fund Financial Statements
The basic financial statements include both the government-wide (based on the Commission as a whole) and fund financial statements.

Government-Wide Financial Statements
The statement of net assets and the statement of activities display information about the Commission as a whole and its blended component units. These statements include the financial activities of the primary government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between program revenues and direct expenses for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. During 2011, indirect expenses were allocated to the various functions using different bases, as deemed appropriate for the individual expense.

Fund Financial Statements
The fund financial statements provide information about the Commission's funds, including fiduciary funds. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation
The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. As a general rule, revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are both due and collectible and available to fund operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are charges between the government's enterprise functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Commission's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following major governmental funds are included in the Commission's financial statements:

- *General Fund* - This fund is the primary operating fund of the Commission. It is used to account for financial resources except those required to be accounted for in another fund. The Commission primarily receives revenues from collections of property taxes, occupational taxes, county sales taxes and revenues collected by the State of Alabama and shared with the Commission.
- *Limited Obligation School Fund* - This fund is used to account for the sales tax collected for the payment of principal and interest on the Limited Obligation School Warrants.
- *Indigent Care Fund* - This fund is used to account for the expenditure of beverage and sales taxes designated for indigent residents of Jefferson County (the County).
- *Bridge and Public Building Fund* - This fund is used to account for the expenditure of special County property taxes for building and maintaining public buildings, roads and bridges.

Other nonmajor governmental funds are as follows:

- *Debt Service Fund* - This fund is used to account for the accumulation of resources for and the payment of the Commission's principal and interest on governmental bonds.
- *Community Development Fund* - This fund is used to account for the expenditure of federal block grant funds.
- *Capital Improvements Fund* - This fund is used to account for the financial resources used in the improvement of major capital facilities.
- *Public Building Authority* - This fund is used to account for the operations of the Jefferson County Public Building Authority. This authority was incorporated in 1998 for the general purpose of providing public facilities for the use of the Commission and its agencies.
- *Road Construction Fund* - This fund is used to account for the financial resources expended in the construction of roads.
- *Home Grant Fund* - This fund is used to account for the expenditure of funds received to create affordable housing for low income households.
- *Emergency Management Fund* - This fund is used to account for the expenditure of funds received for disaster assistance programs.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Commission currently reports enterprise funds as its only type of proprietary fund. Enterprise funds report the activities for which fees are charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees. Proprietary funds distinguish operating revenues and expenses from nonoperating items in their statement of revenues, expenses and changes in fund net assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise funds are charges to customers for the purchase or use of the proprietary fund's principal product or service. Operating expenses for the Commission's enterprise funds include the cost of providing those products or services, administrative expenses, depreciation on capital assets and closure and postclosure care costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major enterprise funds are included in the Commission's financial statements:

- *Cooper Green Hospital Fund* - This fund is used to account for the operations of Cooper Green Mercy Hospital. Net revenues are derived from patient charges and reimbursements from third parties, including Medicare and Medicaid.
- *Sanitary Operations Fund* - This fund is used to account for the operations of the Commission's sanitary sewer systems. Revenues are generated primarily through user charges, impact fees and designated property and ad valorem taxes.

Other nonmajor enterprise funds are as follows:

- *Landfill Operations Fund* - This fund is used to account for the operations of the Commission's landfill systems. Revenues are generated primarily through user charges and lease payments from a third-party lessee.
- *Jefferson Rehabilitation and Health Center Fund* - This fund is used to account for the operations of in-patient nursing facilities. Net revenues are received from patient charges and reimbursements from third parties, principally Medicaid.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- *Jefferson County Economic and Industrial Development Authority* - This fund is used to account for the operations of the Jefferson County Economic and Industrial Development Authority. This authority was incorporated in 1995 to engage in the solicitation and promotion of industry and industrial development and to induce industrial and commercial enterprises to locate, expand or improve their operations or remain in Jefferson County.

The Commission currently reports fiduciary funds as its only type of agency fund. Fiduciary funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations or other government.

The following fiduciary fund is presented with the Commission's financial statements:

- *City of Birmingham Revolving Loan Fund* - This fund is used to account for resources held by the Commission in a custodial capacity for the City of Birmingham's revolving loan program.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Commission has not elected to follow subsequent private-sector guidance.

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As a governmental unit, the Commission is exempt from federal and state income taxes.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Net Assets/Fund Balances

Deposits and Investments

Cash includes cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows, the proprietary fund type considers all cash and investments to be cash.

State statutes authorize the Commission to invest in obligations of the U.S. Treasury and securities of federal agencies and certificates of deposit.

Investments are reported at fair value, based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost. The Commission reports all money market investments - U.S. Treasury bills and bankers' acceptances having a remaining maturity at time of purchase of one year or less - at amortized cost. Investments held in escrow for retainage on construction contracts and as surety for purchase commitments are stated at fair value.

Receivables

All trade, property tax, loans and patient receivables are shown net of an allowance for uncollectible amounts. Allowances for doubtful accounts are estimated based on historical write-off percentages. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

Sales tax receivables consist of taxes that have been paid by consumers in September. This tax is normally remitted to the Commission within the next 60 days.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Patient receivables in the proprietary funds are from patients, insurance companies and third-party reimbursement contractual agencies and are recorded less an allowance for uncollectible accounts, charity accounts and other uncertainties. Certain third-party insured accounts (Blue Cross Blue Shield, Medicare and Medicaid) are based on contractual agreements, which generally result in collecting less than the established rates. Final determinations of payments under these agreements are subject to review by appropriate authorities. Doubtful accounts are written off against the allowance as deemed uncollectible and recorded as recoveries of bad debts if subsequently collected.

	Enterprise Funds
Patient receivables	$ 27,656,000
Allowance accounts	20,168,000
Net patient receivables	$ 7,488,000

Allowances for uncollectible accounts on accounts receivable totaled $18,516,000 at September 30, 2011.

In previous fiscal years, the Commission issued long-term loans of $16,929,000 to the City of Fultondale (maturity on April 1, 2016, with three-percent interest rate, payable annually) and $5,972,000 to local contractors for special needs housing developments within the County (maturities ranging from September 2017 to November 2039 with interest rates ranging from zero to two percent, payable at maturity). These loans totaled $21,313,000 (net of an allowance of $6,752,000) at September 30, 2011.

The Commission issues long-term loans through the Community Development Office for house repairs of low and moderate-income homeowners and for firms that may not have access to sufficient long-term capital financing. These loans totaled $936,000 at September 30, 2011.

The Commission, as lead agency, administers a joint grant agreement with the City of Birmingham for Title IX Revolving Loans Funds to provide funding for qualifying private enterprises. At September 30, 2011, the balance of these loans receivable for the City of Birmingham totaled $221,000, which is presented in the statement of fiduciary net assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other miscellaneous loans were issued by the Commission with varying maturities and interest rates. These loans totaled $1,533,000 (net of an allowance of $153,000) at September 30, 2011.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed as of October 1 of the preceding fiscal year based on the millage rates established by the Commission. Property taxes are due and payable the following October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

Receivables due from other governments include amounts due from grantors for grants issued for specific programs and capital projects and amounts due from the state and other local governments.

Inventories
Inventories are valued at cost, which approximates realizable value, using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed. In 2011, the government-wide statement of activities includes $966,000 in inventory obsolescence.

Prepaid Items
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets
Certain resources set aside for the repayment of certain general obligation and sewer revenue warrants are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts, and their use is limited by applicable bond agreements. Also, various amounts are classified as restricted because they are limited by warrant documents for the construction on various ongoing projects or improvements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets, which include land, property, equipment and infrastructure assets (e.g., roads, bridges, water and sewer systems and similar items), are reported in the applicable governmental and business-type activities columns in the government-wide financial statements. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Major outlays of capital assets and improvements are capitalized as projects are constructed.

Depreciation on all assets is provided on the straight-line basis over the asset's estimated useful life. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Item	Capitalization Threshold	Estimated Useful Life
Buildings	$ 100,000	40 years
Equipment and furniture	5,000	5-10 years
Roads	250,000	15 years
Bridges	250,000	40 years
Collection sewer system assets	250,000	25-40 years
Treatment plant sewer system assets	250,000	40 years
Landfills and improvements	100,000	25 years

The Commission capitalizes interest cost incurred on funds used to construct property, equipment and infrastructure assets. Interest capitalization ceases when the construction project is substantially complete. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In accordance with authoritative accounting guidance, interest is not capitalized for construction projects of governmental funds. Net interest capitalized during fiscal year 2011 amounted to $990,000.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital assets are reviewed for impairment in accordance with the methodology prescribed in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The Commission determined that a decline in service utility for its nursing home capital assets has occurred and, accordingly, an impairment charge of $4,684,000 has been recorded in the Jefferson Rehabilitation and Health Center Fund's statement of revenues, expenses and changes in fund net assets. The Commission has not determined that any other capital asset impairment exists at September 30, 2011.

Transactions between Funds

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund level balance sheet.

Transactions between funds, which would have been treated as revenues, expenditures or expenses if they involved organizations external to the governmental unit, are accounted for as revenues, expenditures or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expenses in the fund reimbursed. All other nonreciprocal transactions between funds which are not reimbursements and where the funds do not receive equivalent goods or services for the transactions are classified as transfers.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimated Claims Liabilities

The Commission establishes claims liabilities for health insurance, general, auto and workers' compensation self-insured activities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Warrants Payable

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the warrants.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Commission has received Notices of Events of Default from the Trustee(s) on certain warrant obligations under the terms of the related trust indenture(s). In addition, pursuant to its agreements with certain Liquidity Providers, certain Series Warrants are payable on an accelerated schedule. See Note J for a discussion of the Events of Default regarding the warrant agreements and the specific series of warrants where the payments have been accelerated. Also, see Note V for subsequent events.

Derivative Instruments/Interest Rate Swap Agreements

The Commission entered into several interest rate swap agreements in prior years in relation to the warrant agreements. All such agreements were terminated prior to September 30, 2011. As a result, the estimated termination fees plus any related accrued interest (which represents the estimated fair value at the termination date) have been accrued and are included as a liability in the accompanying financial statements. See Note K for a discussion of the interest rate swap agreements.

Compensated Absences

The Commission has a standard leave policy for its full-time employees as to sick and vacation leave.

Vacation Leave

Length of Service	Vacation Leave Earned (Per Month)
0-12 years	1 day
12-25 years	1 ½ days
Over 25 years	2 days

Vacation earned but not used during the calendar year may be accumulated up to a maximum of 40 days. Vacation leave earned in excess of the maximum accumulation must be used by December 31 of each year, or it shall be forfeited. A permanent employee terminating from Commission service in good standing shall be compensated for unused earned vacation not to exceed 40 days.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Sick Leave
Sick leave shall be earned at the rate of one day for each month of service. Sick leave earned but not used during the calendar year may be accumulated with no maximum limit. A permanent employee who resigns or retires from the Commission in good standing after five years of service may, subject to the approval of the appointing authority, receive pay for 50 percent of the accumulated sick leave not to exceed 30 days.

Compensatory Leave
Eligible County employees covered by provisions of the Fair Labor Standards Act are paid for overtime hours worked at the rate of time-and-one-half. In some instances, the employee may be offered compensatory leave.

Maximum limitations of accumulated compensatory time are as follows:

- Public Safety employees may accrue a maximum of 480 hours.
- All other employees may accrue a maximum of 240 hours.

Any employee's accrual of overtime in excess of the maximum limitation shall, within the following pay period, be disposed of by either (a) payment at the current hourly pay rate of the employee or (b) granting equivalent time off. The Commission uses the vesting method to accrue its sick leave liability. Under this method, an accrual for earned sick leave is based on the sick leave accumulated at September 30 each year by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments, reduced to the maximum amount allowed as a termination payment.

As of September 30, 2011, the liability for accrued vacation and compensatory leave included in the government-wide statement of net assets is approximately $16,872,000 of which $12,536,000 is reported in the government activities and $4,336,000 is reported in the business-type activities. Of this amount, an estimated $10,539,000 is payable within a year.

As of September 30, 2011, the liability for accrued sick leave included in the government-wide statement of net assets is approximately $8,152,000. Of this amount, $5,925,000 is reported in the government activities and $2,227,000 is reported in the business-type activities. Due and payable within one year of September 30, 2011, is approximately $778,000.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Legal Fees and Costs Associated with Bankruptcy Proceedings

Legal fees for the Commission and costs associated with bankruptcy proceedings are expensed as incurred and are included in operating expenses in the accompanying financial statements. No estimate is made for costs associated with bankruptcy proceedings or for legal fees that may be incurred related to potential loss contingencies.

Net Assets/Fund Balances

Net assets are reported on the government-wide and proprietary fund financial statements and are required to be classified for accounting and reporting purposes into the following net asset categories:

- *Invested in Capital Assets, Net of Related Debt* - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year end related to capital assets are included in this calculation.
- *Restricted* - Constraints are imposed on net assets by external creditors, grantors, contributors, laws or regulations of other governments or law through constitutional provision or enabling legislation.
- *Unrestricted* - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Commission.

Fund balances are reported in the fund financial statements. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

- *Nonspendable* - Items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts or long-term portions of loans or notes receivable) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- *Restricted* - Constraints are placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- *Committed* - Items can be used only for specific purposes pursuant to constraints imposed by a formal action of the Commissioners. This formal action is the passage of a resolution specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.
- *Assigned* - Constraints are placed upon the use of the resources by a responsible official's request for a specific purpose but are neither restricted nor committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed.
- *Unassigned* - The residual amount of the General Fund that is not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted amounts are available for use, Commission policy is to use restricted amounts first, with unrestricted resources utilized as needed. In the case of unrestricted resources, the policy is to use committed amounts first, followed by assigned amounts, then unassigned amounts as needed.

Reclassifications
Certain amounts in the 2010 financial statements have been reclassified to conform to 2011 presentation. Such reclassifications had no material effect on the previously reported financial position or changes in fund balance.

Subsequent Events
Management has evaluated subsequent events and their potential effects on these financial statements through the date the financial statements were issued.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets
The State Legislature enacted the County Financial Control Act of 1935, which is the present statutory basis for Commission budgeting operations. Under the terms of the County Financial Control Act, each county commission, at a meeting in September of each year, but in any event not later than the first meeting in October, must estimate the County's revenues and expenditures and appropriate for the various purposes the respective amounts that are to be used for each purpose. The budgets must be approved by the Commissioners. The appropriations must not exceed the total revenues available for appropriation. Expenditures may not legally exceed appropriations.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

Budgets may be adjusted during the fiscal year when approved by the Commission. Any changes must be within the revenues and reserves estimated to be available.

Budget and actual comparisons for the General Fund, Limited Obligation School Fund, Indigent Care Fund and Bridge and Public Building Fund are presented in the required supplementary information section.

Deficit Fund Balances/Net Assets of Individual Funds
At September 30, 2011, the Sanitary Operations Fund had a deficit fund balance of $11,968,000.

NOTE C - RESTATEMENTS

The beginning net assets reported on the government-wide financial statements have been restated to correct various prior year errors as listed in the table below:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Net assets, September 30, 2010, as previously reported	$ (552,405)	$ 202,576	$ (349,829)
Record indirect cost allocation	(1,537)	1,537	-
Record other postemployment benefits obligation	(1,655)	(899)	(2,554)
Correct depreciation expense	(2,678)	(7,656)	(10,334)
Other	(75)	-	(75)
Net assets, September 30, 2010, as restated	$ (558,350)	$ 195,558	$ (362,792)

NOTE C - RESTATEMENTS - Continued

The beginning fund balances of the governmental funds reported on the fund financial statements have been restated to correct prior year errors as listed in the table below:

	(In Thousands) General Fund
Fund balance, September 30, 2010, as previously reported	$ 84,579
Record noncurrent portion of estimated claims liability	2,919
Record indirect cost allocation	(1,537)
Other	(480)
Fund balance, September 30, 2010, as restated	$ 85,481

The beginning net assets of the proprietary funds reported on the fund financial statements have been restated to correct prior year errors as listed in the table below:

	(In Thousands)			
	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Net assets, September 30, 2010, as previously reported	$ 43,185	$ 138,002	$ 21,389	$ 202,576
Record other postemployment benefit obligations	(512)	(317)	(70)	(899)
Correct depreciation expense	-	(7,656)	-	(7,656)
Record indirect cost allocation	-	-	1,537	1,537
Net assets, September 30, 2010, as restated	$ 42,673	$ 130,029	$ 22,856	$ 195,558

NOTE D - DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission's deposits at year end were insured by the Federal Deposit Insurance Corporation (FDIC) or protected under the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Investments

As of September 30, 2011, the components of cash and investments and restricted assets are:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Petty cash	$ 100	$ 5	$ 105
Equity in pooled investments	98,517	6,129	104,646
Cash and investments	706	9,564	10,270
Assets internally designated for capital improvements or redemption of warrants	-	52,549	52,549
Restricted assets held for:			
Closure and postclosure care	-	1,993	1,993
Retainage	347	56	403
Debt service	124,736	41,500	166,236
Capital improvements	39,777	133,967	173,744
Debt service or capital improvements	-	29,363	29,363
Other purposes	3,760	1,759	5,519
Total restricted assets	168,620	208,638	377,258
Total cash and investments	$ 267,943	$ 276,885	$ 544,828

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2011, the Commission had the following deposits and investments:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	$ 214,383	$ 78,064	$ 292,447
Investments:			
U.S. Government obligations	48,944	76,114	125,058
Collateralized mortgage obligations	16	2,384	2,400
Mortgage-backed securities	29	4,458	4,487
Guaranteed investment contracts	-	814	814
U.S. corporate bonds	4,224	1,000	5,224
Fixed income money market mutual funds	-	113,995	113,995
Total investments	53,213	198,765	251,978
Restricted assets held for retainage	347	56	403
	$ 267,943	$ 276,885	$ 544,828

The Commission has entered into contracts for construction of various facilities within Jefferson County. Cash deposits were provided by some contractors that were used to purchase certificates of deposits and U.S. Government securities to be held by designated financial institutions in the name of the contractors and the Commission in lieu of retainage. These securities, totaling $403,000, are included as part of restricted assets on the accompanying statement of net assets and are not included in investments discussed below. They are not covered by collateral agreements between financial institutions and the Commission, and the terms of collateralization agreements between the contractors and the financial institutions are not known at this time.

The Commission uses several methods for investing money. The investments managed by the Jefferson County Treasurer are reported at amortized cost. The Commission maintains a portfolio of short-term maturity investments, which are reported at amortized cost. The Commission also maintains a portfolio of intermediate maturity investments that are reported at fair value. The Commission's fiscal agent or custodian provides the fair value to the Commission of all intermediate maturity investments.

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2011, the Commission's investments had the following maturities (in thousands):

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Thereafter
U.S. Government obligations	$ 125,058	$ 62,697	$ 40,151	$ 22,210	$ -
Collateralized mortgage obligations	2,400	-	1,440	840	120
Mortgage-backed securities	4,487	-	-	2,468	2,019
Guaranteed investment contracts	814	814	-	-	-
U.S. corporate bonds	5,224	5,224	-	-	-
Fixed income money market mutual funds	113,995	113,995	-	-	-
	$ 251,978	$ 182,730	$ 41,591	$ 25,518	$ 2,139

Interest Rate Risk

In accordance with its investment policy, the Commission manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 10 months.

Investment Risk

Investment securities are exposed to market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets.

Concentration of Credit Risk

The Commission's investment policy generally does not allow for an investment in any one issuer that is in excess of five percent of the total investments. There were no investments with a balance greater than five percent of total investments at September 30, 2011.

NOTE D - DEPOSITS AND INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Statutes authorize the Commission to invest in obligations of the U.S. Treasury and federal agency securities, along with certain prerefunded public obligations, such as bonds or other obligations of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state. State law requires that prerefunded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state in which the Commission invests, be rated in the highest rating category of Standard & Poor's Ratings Services (S&P) and Moody's Investors Service, Inc. (Moody's). As of September 30, 2011, the Commission's investments in U.S. Government obligations and U.S. corporate bonds were rated "Aaa" by Standard & Poor's. No ratings were available on the other investments.

Of the Commission's $251,978,000 in investments at September 30, 2011, $29,739,000 of the underlying securities are held by the investment's counterparty, not in the name of the Commission.

For collateralized mortgage obligations, actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments of underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligees tend to prepay the mortgages, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the obligation.

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	(In Thousands)				
Governmental Activities	Balance at October 1, 2010 Restated	Additions	Disposals	Transfers/ Reclassifications	Balance at September 30, 2011
Nondepreciable capital assets:					
Land	$ 20,450	$ -	$ -	$ -	$ 20,450
Construction in progress	13,756	11,475	(2,967)	(3,338)	18,926
	34,206	11,475	(2,967)	(3,338)	39,376
Depreciable capital assets:					
Buildings	380,143	9	(44)	16,150	396,258
Improvements other than land/buildings	175,909	-	(77)	(11,635)	164,197
Maintenance equipment	12,565	15	(5,148)	(1,097)	6,335
Motor vehicle (nonfleet)	16,904	-	(206)	-	16,698
Motor vehicle (fleet)	38,941	112	(478)	-	38,575
Equipment under capital lease	14,097	1,213	-	-	15,310
Miscellaneous equipment	48,486	1,230	(9,703)	-	40,013
Office furniture and fixtures	4,279	28	(3,087)	-	1,220
	691,324	2,607	(18,743)	3,418	678,606
Less accumulated depreciation for:					
Buildings	(190,969)	(6,036)	85	(813)	(197,733)
Improvements other than land/buildings	(76,016)	(6,386)	82	610	(81,710)
Maintenance equipment	(12,525)	(110)	5,080	177	(7,378)
Motor vehicle (nonfleet)	(15,252)	(524)	200	78	(15,498)
Motor vehicle (fleet)	(35,568)	(1,806)	474	(308)	(37,208)
Equipment under capital lease	(12,471)	(1,635)	-	-	(14,106)
Miscellaneous equipment	(42,972)	(1,837)	8,393	232	(36,184)
Office furniture and fixtures	(3,399)	(66)	2,542	-	(923)
	(389,172)	(18,400)	16,856	(24)	(390,740)
Total depreciable capital assets, net	302,152	(15,793)	(1,887)	3,394	287,866
Total capital assets, net	$ 336,358	$ (4,318)	$ (4,854)	$ 56	$ 327,242

On October 1, 2010, the Commission adopted a policy to write off capital assets with a cost less than $5,000. As a result, the Commission wrote off costs of $26,222,000, of which government-type activities represent $17,228,000 and business-type activities represent $8,994,000, and reported a loss of $3,346,000, of which government-type activities represent $1,944,000 and business-type activities represent $1,402,000.

NOTE E - CAPITAL ASSETS - Continued

Business-Type Activities	(In Thousands) Balance at October 1, 2010 Restated	Additions	Disposals/ Impairment	Transfers/ Reclassifications	Balance at September 30, 2011
Nondepreciable capital assets:					
Land	$ 44,385	$ 90	$ (1,111)	$ -	$ 43,364
Construction in progress	53,852	11,865	41	(55,679)	10,079
	98,237	11,955	(1,070)	(55,679)	53,443
Depreciable capital assets:					
Buildings	1,089,513	-	(89)	31,325	1,120,749
Improvements other than land/buildings	3,312,394	1,303	(1,254)	24,364	3,336,807
Maintenance equipment	7,438	33	(1,466)	-	6,005
Motor vehicle (nonfleet)	5,080	2	(179)	-	4,903
Motor vehicle (fleet)	12,793	1,735	(160)	-	14,368
Equipment under capital lease	2,263	215	-	-	2,478
Miscellaneous equipment	21,100	1,507	(3,940)	(90)	18,577
Office furniture and fixtures	10,116	23	(2,043)	-	8,096
	4,460,697	4,818	(9,131)	55,599	4,511,983
Less accumulated depreciation for:					
Buildings	(289,479)	(26,534)	(4,656)	(15,984)	(336,653)
Improvements other than land/buildings	(1,204,184)	(107,900)	331	16,216	(1,295,537)
Maintenance equipment	(7,141)	(102)	1,407	-	(5,836)
Motor vehicle (nonfleet)	(4,497)	(170)	158	-	(4,509)
Motor vehicle (fleet)	(10,654)	(994)	157	(50)	(11,541)
Equipment under capital lease	(1,859)	(154)	-	-	(2,013)
Miscellaneous equipment	(17,634)	(1,469)	3,395	(158)	(15,866)
Office furniture and fixtures	(9,989)	(21)	1,988	-	(8,022)
	(1,545,437)	(137,344)	2,780	24	(1,679,977)
Total depreciable capital assets, net	2,915,260	(132,526)	(6,351)	55,623	2,832,006
Total capital assets, net	$ 3,013,497	$ (120,571)	$ (7,421)	$ (56)	$ 2,885,449

Included in the Business-Type Activities' Disposals/Impairment column is impairment of the Jefferson Rehabilitation and Health Center's capital assets of $4,684,000. The net book value of landfill operations capital assets leased to a third party at September 30, 2011, is $33,262,000. See Note H for discussion of operating lease. A valuation of certain capital assets donated to the Commission in prior years related to sewer infrastructure of new subdivisions was not available as of the date of this report. These capital assets are not included in the accompanying financial statements.

NOTE E - CAPITAL ASSETS - Continued

Depreciation expense was charged to functions/programs of the primary government as follows:

	(In Thousands)
Governmental activities:	
General government	$ 11,821
Public safety	299
Highways and roads	6,278
Environmental services	2
Total depreciation expense - governmental activities	$ 18,400
Business-type activities:	
Cooper Green Mercy Hospital	$ 2,828
Jefferson Rehabilitation and Health Center	395
Landfill Operations	1,861
Sanitary Operations	131,971
Industrial Development Authority	289
Total depreciation expense - business-type activities	$ 137,344

NOTE F - DEFERRED REVENUES

Governmental funds and proprietary funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and proprietary funds also defer revenue recognition in connection with resources that have been received but not yet earned. At September 30, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds and proprietary funds were as follows:

	(In Thousands)		
	Unavailable	Unearned	Total
Ad valorem taxes - property	$ 111,614	$ -	$ 111,614
Ad valorem taxes - other	-	4,457	4,457
Grant-related reimbursements	92	-	92
Business privilege tax	2,230	-	2,230
Total deferred/unearned revenue	$ 113,936	$ 4,457	$ 118,393

NOTE G - LEASE OBLIGATIONS

Operating Leases

The Commission is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected as part of the Commission's capital assets. During the fiscal year ended September 30, 2011, amounts paid by the Commission totaled $1,239,000 for governmental activities and $776,000 for business-type activities.

Future minimum lease payments due under operating lease agreements at September 30, 2011, are as follows:

	(In Thousands)		
Year Ending September 30,	Facilities	Equipment	Total
2012	$ 685	$ 891	$ 1,576
2013	656	-	656
2014	664	-	664
2015	672	-	672
2016	680	-	680
2017-2021	3,579	-	3,579
2022-2026	1,075	-	1,075
Thereafter	215	-	215
	$ 8,226	$ 891	$ 9,117

Capital Lease Obligations

On July 1, 2004, the Commission entered into a lease agreement to acquire communications equipment and systems at a cost of $13,847,000. On July 21, 2008, the Commission entered into a lease agreement to acquire office equipment at a cost of $250,000. On April 26, 2011, the Commission entered into a lease agreement to acquire a tax collection software solution at a cost of $1,213,000. The lease agreements qualify as capital leases for accounting purposes and have been recorded in the General Fund and Capital Improvements Fund at the present value of the minimum lease payments as of the inception date of the leases. Under the terms of the communications equipment lease, the Commission is required to make seven equal annual payments of $2,298,458. Under the terms of the office equipment lease, the Commission is required to make monthly payments of $4,727. Under the terms of the tax collection software lease, the Commission is required to make monthly payments of $21,240. Amortization of the capital leases is included in depreciation expense for governmental activities.

NOTE G - LEASE OBLIGATIONS - Continued

The Commission also entered into seven lease agreements at various dates to acquire major medical equipment at a cost of $2,478,000. These lease agreements qualify as capital leases for accounting purposes and have been recorded in the Cooper Green Hospital Fund at the present value of the minimum lease payments as of the inception date of the leases. Under the terms of the leases, the Commission is required to make monthly payments totaling $46,150. Amortization of the capital leases is included in depreciation expense for the fund.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011, are as follows:

	(In Thousands)	
Year Ending September 30,	Governmental Activities	Business-Type Activities
2012	$ 192	$ 135
2013	302	90
2014	255	90
2015	255	13
2016	127	-
Total minimum lease payments	1,131	328
Less amount representing interest	125	28
Present value of minimum lease payments	$ 1,006	$ 300

NOTE H - LANDFILL LEASE

On January 1, 2006, the Commission, as lessor, entered into an agreement with Santek Environmental of Alabama, LLC (Santek) to lease its two landfills, one transfer station and one convenience center until the completion of the operational life of the landfills. The Commission retains its rights to sell methane gas produced naturally at the landfills. Future minimum rental payments to be received are contractually due as follows as of September 30, 2011:

2012	$ 918,000
2013	918,000
2014	918,000
2015	918,000
2016	918,000
Thereafter	45,211,500
	$ 49,801,500

Future minimum rental payments to be received do not include contingent rentals that may be received under the lease because of use in excess of specified amounts. Total rental income during 2011 of $1,266,000 is presented as other operating revenue in the statement of revenues, expenses and changes in net assets.

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the Commission place a final cover on its landfills when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfills, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills' capacity used during the year.

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS - Continued

The recorded liability for landfill closure and postclosure care costs is $9,837,000 as of September 30, 2011. This estimate was based on 87-percent usage (filled) of the Jefferson County Landfill Number 1, 20-percent usage (filled) of the Jefferson County Landfill Number 1 Inert Cell, 91-percent usage (filled) of the Jefferson County Landfill Number 2 and the remaining liability for the Mt. Olive Sanitary and the Turkey Creek Sanitary Landfills, which were both closed October 1997. The total estimated current costs of closure and postclosure care remaining to be recognized and the estimated remaining useful life of the landfill at September 30, 2011, are $2,451,000 and 29 years, respectively.

Santek has agreed to fund $1.28 per ton into a restricted account to fund closure and postclosure care costs of the landfills. To the extent that the funds in the restricted account are not adequate and Santek is unable to fund the closure and postclosure care obligation, the ultimate liability falls back to the Commission. Funds in the account total $1,993,000 as of September 30, 2011, and are presented as noncurrent restricted assets on the accompanying statement of net assets under business-type activities. In accordance with Alabama Department of Environmental Management (ADEM) regulations, the Commission is required to provide financial assurance for closure and postclosure care costs annually. At September 30, 2011, and through the date of the audit report, the Commission was not in compliance with the ADEM requirement.

The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities and services required to close, monitor and maintain the landfills were acquired as of September 30, 2011. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

NOTE J - WARRANTS PAYABLE

Warrants payable include obligations for warrants issued in the name of the Jefferson County Commission for the primary purpose of sewer capital projects and related improvements (Business-Type Activities - Sewer Revenue Warrants), for the primary purpose of general capital projects and related improvements (Governmental Activities - General Obligation Warrants), for the primary purpose of school capital projects and related improvements (Governmental Activities - Limited Obligation School Warrants) and for the primary purpose of the Public Building Authority related capital projects and related improvements (Governmental Activities - Lease Revenue Warrants).

NOTE J - WARRANTS PAYABLE - Continued

Warrants payable also include related amounts of premiums and discounts on the warrants and any losses on advance refunding of warrants, which are deferred and amortized over the life of the warrants.

BUSINESS-TYPE ACTIVITIES

Beginning prior to 1992, the Commission issued various warrants for sewer related capital projects and improvements. The Commission entered into a Trust Indenture (the Indenture) (as supplemented and amended) dated February 1, 1997, between Jefferson County, Alabama and AmSouth Bank of Alabama (AmSouth Bank), as Trustee, for the general purpose of refunding warrants outstanding or obtaining funds for capital sewer projects and improvements. The Indenture provides for the issuance of additional securities secured on a parity of lien with the original issues of warrants. The Bank of New York Mellon, as successor to AmSouth Bank, currently serves as Trustee under the Indenture. The Commission also entered into Standby Warrant Purchase Agreements related to the variable rate warrant offerings, as discussed further below.

The warrants issued under the Indenture are not general obligations of the Commission, but represent limited obligations of the Commission, payable solely out of and secured by a pledge and assignment of the revenues (other than tax revenues) from the Commission's sanitary sewer system remaining after the payment of operating expenses.

Payment of the principal and interest on the warrants when due is insured by municipal warrant insurance policies issued by Financial Guaranty Insurance Company (FGIC), Syncora Guarantee Inc. (Syncora) (formerly known as XL Capital Assurance, Inc.) or Assured Guaranty Municipal Corp. (AGM) (formerly known as Financial Security Assurance, Inc.), simultaneously with the delivery of each series of warrants discussed below, except the Series 2003-A warrants which were issued to an affiliate of the State of Alabama (see discussion below).

Also, see Note V - Subsequent Events, regarding discussion of events subsequent to year end that may impact the warrants payable.

The Indenture includes certain covenants and requires the Commission to comply with certain continuing disclosure requirements pursuant to Rule 15c2-12 of the Securities and Exchange Commission, as discussed further below.

NOTE J - WARRANTS PAYABLE - Continued

GOVERNMENTAL ACTIVITIES

General Obligation Warrants

Beginning in 1984, the Commission issued various warrants for capital projects and improvements, including construction of a new jail facility located in Bessemer (Jefferson County), purchase of 200 school buses for the Jefferson County Board of Education, acquisition of land and landfills for the disposal of waste, additions and improvements to the sanitary sewer system, improving and building certain roads, waste transfer system and various other capital equipment, buildings and facilities for use by the County. The General Obligation Warrants are general obligations of the Commission and are payable out of the general fund from the Commission. Repayment of the outstanding general obligation warrants is secured by the full faith and credit of Jefferson County.

Payment of the principal and interest on the warrants when due is insured by a municipal warrant insurance policy issued by Ambac Assurance Corp. (Ambac) or National Public Finance Guarantee Corp. (National) (formerly known as MBIA Corporation, Inc. (MBIA)). Ambac incurred a series of ratings downgrades and filed Chapter 11 bankruptcy in November 2010 as discussed further below.

Limited Obligation School Warrants

Beginning in 2004, the Commission issued various warrants for school capital projects and improvements. The Commission entered into a Trust Indenture dated December 1, 2004, between Jefferson County, Alabama and SouthTrust Bank (on November 1, 2004, SouthTrust Corporation was acquired by Wachovia Corporation, and on December 31, 2008, Wachovia Corporation was acquired by Wells Fargo & Company), as Trustee, for the general purpose of obtaining funds for school capital projects and improvements. The Trust Indenture provides for the issuance of additional securities secured on a parity of lien with the original warrant issues. U.S. Bank National Association (U.S. Bank), as successor to SouthTrust Bank, currently serves as Trustee under the Trust Indenture.

The Limited Obligation School Warrants were subject to extraordinary mandatory redemption under the Trust Indenture, which required the Commission to make certain certifications regarding the warrants on or before October 20, 2006. No grants were made to any school board until the warrants were no longer subject to extraordinary mandatory redemption, which occurred during fiscal 2007. There were no grants to the school boards expended during fiscal 2011, 2010 or 2009.

NOTE J - WARRANTS PAYABLE - Continued

The warrants issued under the Trust Indenture are not general obligations of the Commission, but represent limited obligations of the Commission, payable solely out of and secured by a pledge of the gross proceeds of the Education Tax as adopted on December 16, 2004, through Ordinance No. 1769.

Lease Revenue Warrants
In 2006, the Jefferson County Public Building Authority (the Building Authority) issued warrants under the August 1, 2006 Trust Indenture for related capital projects and improvements. The warrants are special, limited obligations of the Authority, payable solely from and secured by a pledge of the revenues and receipts delivered by the Authority from the leasing to Jefferson County of the warrant-financed facilities.

Jefferson County Economic and Industrial Development Authority
Also, see Note P for warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund.

Statement of Cash Flows
For statement of cash flow purposes, the face amount of warrants issued is reported as other financing sources. Premiums received on warrant issuances are reported as other financing sources while discounts on warrant issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual warrant proceeds received, are reported as debt (warrant) service expenditures.

Warrants payable consist of the following at September 30, 2011 (in thousands):

Business-Type Activities:		
Sewer Revenue Refunding Warrants, Series 1997-A, with interest paid semiannually at fixed rates ranging from 5.375% to 5.650% and annual principal payments from year 2017 to 2027	$	57,030
Sewer Revenue Capital Improvement Warrants, Series 2001-A, with interest paid semiannually at fixed rates ranging from 4.50% to 5.00% and annual principal payments through 2020		11,010

NOTE J - WARRANTS PAYABLE - Continued

Sewer Revenue Capital Improvement Warrants, Series 2002-A, with interest paid monthly at variable interest rates (6.25% at September 30, 2011) and accelerated principal payments due in four equal quarterly payments beginning April 2008	101,465
Sewer Revenue Refunding Warrants, Series 2002-C, with interest paid monthly at variable interest rates or 35-day auction rates (average rate of 3.51% at September 30, 2011) and accelerated principal payments of $436,900 over 16 equal quarterly payments beginning April 2008 and annual principal payments through year 2040 for the balance	806,738
Sewer Revenue Refunding Warrant, Series 2003-A, with interest paid semiannually at a fixed rate of 3.10% and annual principal payments through year 2015	15,280
Sewer Revenue Refunding Warrants, Series 2003-B, with interest paid monthly at a fixed rate of 5.25% on $95,845, a variable interest rate on $281,260 and 35-day auction rates on $723,725 (average rate of 2.51% at September 30, 2011) with accelerated principal payments of $300,000 over 16 equal quarterly payments beginning April 2008 and annual principal payments from year 2010 through year 2042 for the balance	1,100,830

NOTE J - WARRANTS PAYABLE - Continued

Sewer Revenue Refunding Warrants, Series 2003-C, with interest paid monthly at 35-day auction rates (average rate of 0.57% at September 30, 2011) and annual principal payments from year 2010 through year 2042	1,043,625
	3,135,978

Governmental Activities:

General Obligation Warrants, Series 2001-B, with interest paid monthly at variable weekly rates, computed using the Weekly Rate Mode (average rate of 5.32% at September 30, 2011) and accelerated principal payments due in six equal semiannual installments beginning September 2008	105,000
General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, with interest paid semiannually at fixed rates ranging from 3.25% to 5.25% and annual principal payments through year 2023	46,185
General Obligation Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 3.40% to 5.00% and annual principal payments from years 2011 to 2024	49,335
Limited Obligation School Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 4.75% to 5.50% and annual principal payments from years 2007 to 2025	534,400

NOTE J - WARRANTS PAYABLE - Continued

Limited Obligation School Warrants, Series 2005-A and 2005-B, with interest paid monthly at a variable rate (Series 2005-A) or auction rate (Series 2005-B) (average rate of 2.224% at September 30, 2011) and annual principal payments from years 2006 to 2027	279,675
Lease Revenue Warrants, Series 2006, with interest paid semiannually at fixed rates ranging from 4.00% to 5.125% and annual principal payments through year 2026	82,500
	1,097,095
	4,233,073
Add unamortized net premiums (discounts) (net of current portion of $38,739)	-
Less deferred loss from early extinguishment (net of current portion of $269,070)	-
Less amounts due within one year (including acceleration of certain warrant payments and all warrants in default that may be payable on demand)	4,233,073
Warrants payable - noncurrent, net	$ -

Also see Note P for warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund within the Business-Type activities.

NOTE J - WARRANTS PAYABLE - Continued

The following is a summary of the warrants issued by the Commission, including those outstanding as of September 30, 2011.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Sewer Capital Improvement and Refunding Warrants

Series 1997-A Warrants

The Commission issued $211,040 of tax-exempt Sewer Revenue Refunding Warrants, Series 1997-A under the Indenture, dated February 1, 1997. These warrants were issued to refund a portion of the Commission's outstanding sewer revenue indebtedness, other than the Sewer Revenue Warrant (SRF Warrant) referred to below.

Funds were deposited to escrow for the ultimate repayment of the Series 1992 and 1993 Warrants, and the Series 1995-A Warrants were purchased and retired with this issue. The Series 1997-A Warrants were partially refunded by the Series 2003-B and Series 2003-C Warrants, as described below. The Series 1997-A Warrants have an outstanding balance of $57,030 at September 30, 2011.

The Series 1997-A Warrants are subject to redemption at the option of the Commission and mature or are subject to mandatory redemption in years 2017 through 2027. The Series 1997-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

NOTE J - WARRANTS PAYABLE - Continued

Simultaneous with the above issue, the Commission issued the Taxable Sewer Revenue Refunding Warrants, Series 1997-C for $52,880. The Series 1997-C Warrants were not issued to the public but were sold to the Alabama Water Pollution Control Authority in exchange for an outstanding SRF Warrant of the same principal amount. The Series 1997-C Warrants were subsequently refunded by the Series 2003-A issue described below.

Series 1997-D and Series 1999-A Warrants

Under the First Supplemental Indenture dated March 1, 1997, between Jefferson County and AmSouth Bank and the Second Supplemental Indenture dated March 1, 1999, between Jefferson County and The Bank of New York Mellon, as successor to AmSouth Bank, the Commission issued the tax-exempt Sewer Revenue Warrants and Sewer Revenue Capital Improvement Warrants, Series 1997-D and Series 1999-A in principal amounts of $296,395 and $952,695, respectively. The purpose of the issues was for sewer system capital improvements. Both issues were subsequently refunded by Series 2002-C, Series 2003-B and Series 2003-C Warrants (described below).

Series 2001-A Warrants

Under the Third Supplemental Indenture dated March 1, 2001, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $275,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2001-A. These warrants were issued for the purpose of funding various sewer system capital improvements.

The warrants were partially refunded by the Series 2002-C, Series 2003-B and Series 2003-C Warrants, as described below. The Series 2001-A Warrants have an outstanding balance of $11,010 at September 30, 2011. The Series 2001-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

Series 2002-A Warrants

Under the Fourth Supplemental Indenture dated as of February 1, 2002, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $110,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2002-A. These warrants were issued for the purpose of funding various sewer capital improvements. The Series 2002-A Warrants have an outstanding balance of $101,465 at September 30, 2011. The Series 2002-C Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

NOTE J - WARRANTS PAYABLE - Continued

A Standby Warrant Purchase Agreement with JPMorgan Chase Bank (Liquidity Provider), as discussed further below, provides for the purchase of Series 2002-A Warrants tendered for purchase in accordance with the terms of the agreement. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Provider repurchased the Series 2002-A Warrants during March 2008.

Pursuant to its agreement with the Liquidity Provider under the Standby Warrant Purchase Agreement, the Commission was required to redeem the repurchased Series 2002-A Warrants on an accelerated schedule of 12 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 1, 2008. During 2009, FGIC repaid the Liquidity Provider on behalf of the Commission and acquired all rights of redemption under the original warrant indenture and the Standby Warrant Purchase Agreement. The entire outstanding balance is currently payable to FGIC as of September 30, 2011.

Series 2002-B Warrants
Under the Fifth Supplemental Indenture dated as of September 1, 2002, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $540,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2002-B. These warrants were issued for the purpose of funding various sewer capital improvements and were fully refunded by the Series 2003-B and Series 2003-C Warrants as described below.

Series 2002-C Warrants
The Commission issued $839,500 of tax-exempt Sewer Revenue Refunding Warrants, Series 2002-C as evidenced by the Sixth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon, dated as of October 1, 2002. These warrants were issued for the purpose of refunding $724,600 of outstanding warrants ($180,655 of the Series 1997-D Warrants, $445,785 of the Series 1999-A Warrants and $98,160 of the Series 2001-A Warrants).

Of the proceeds, $825,919 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $112,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years).

NOTE J - WARRANTS PAYABLE - Continued

The Series 2002-C Warrants issued included $442,400 of Variable Rate Demand Warrants and $397,100 of auction rate warrants. The warrants are insured by Syncora pursuant to a bond insurance policy issued simultaneously with the warrants.

The Series 2002-C Warrants have an outstanding balance of $806,738 at September 30, 2011 ($409,638 Variable Rate Demand Warrants and $397,100 of auction rate warrants).

Standby Warrant Purchase Agreements with various banks (Liquidity Providers), as discussed further below, provide for the purchase of Series 2002-C Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreement. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Providers repurchased $436,900 of the Series 2002-C Variable Rate Demand Warrants in March 2008.

Pursuant to its agreement with the Liquidity Providers, the Commission was required to redeem the repurchased Series 2002-C Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 1, 2008. During fiscal year 2009, Syncora repaid the Liquidity Provider $81,934 of the outstanding warrants on behalf of the Commission acquiring the associated rights of redemption under the original warrant indentures and the Standby Warrant Purchase Agreements. The total amount currently payable at September 30, 2011, to Syncora and the Liquidity Providers is $358,433.

Series 2002-D Warrants

The Commission issued $475,000 of Sewer Revenue Capital Improvement Warrants, Series 2002-D dated as of November 1, 2002, for the purpose of funding various sewer improvements as evidenced by the Seventh Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon. This issue was refunded with $27,780 from the Series 2003-B Warrants and $447,220 from the Series 2003-C Warrants within the same fiscal year, and there was no gain or loss recorded on the refunding.

NOTE J - WARRANTS PAYABLE - Continued

Series 2003-A Warrants

The Commission issued a $41,820 taxable Sewer Revenue Refunding Warrant, Series 2003-A as evidenced by the Eighth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated as of January 1, 2003. This warrant was issued for the purpose of refunding $41,820 (remaining balance) of the Series 1997-C Warrants. The Series 1997-C Warrant was canceled and, due to the warrant being issued to the State of Alabama (Alabama Water Pollution Control Authority) with no issuance costs involved, there was no loss on early retirement recorded. The Series 2003-A Warrant has an outstanding balance of $15,280 at September 30, 2011.

Series 2003-B Warrants

The Commission issued $1,155,765 of tax-exempt Sewer Revenue Refunding Warrants, Series 2003-B as evidenced by the Ninth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated as of April 1, 2003. These warrants were issued for the purpose of refunding $922,635 of outstanding warrants ($128,770 of the 1997-A Warrants, $71,980 of the Series 1997-D Warrants, $373,320 of the Series 1999-A Warrants, $113,865 of the Series 2001-A Warrants, $206,920 of the Series 2002-B Warrants and $27,780 of the Series 2002-D Warrants).

Of the proceeds, $1,144,919 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $122,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2003-B Warrants issued included $119,965 of fixed rate warrants, $300,000 of Variable Rate Demand Warrants and $735,800 of auction rate warrants. The warrants are insured by AGM (fixed rate), Syncora (variable rate) and FGIC (auction rate) pursuant to bond insurance policies issued simultaneously with the warrants.

The Series 2003-B Warrants have an outstanding balance of $1,100,830 at September 30, 2011.

Standby Warrant Purchase Agreements with various banks (Liquidity Providers), as discussed further below, provide for the purchase of Series 2003-B Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreements. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Providers repurchased the $300,000 Series 2003-B Variable Rate Demand Warrants in March 2008.

NOTE J - WARRANTS PAYABLE - Continued

Pursuant to its agreement with the Liquidity Providers, the Commission was required to redeem the repurchased Series 2003-B Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 2008. During fiscal year 2009, Syncora repaid the Liquidity Provider $56,255 of the outstanding warrants on behalf of the Commission, thus acquiring the associated rights of redemption under the original warrant indentures and the Standby Warrant Purchase Agreements. The total amount payable as of September 30, 2011, to Syncora and the Liquidity Providers is $246,103.

Series 2003-C Warrants

The Commission issued $1,052,025 of tax-exempt Sewer Revenue Refunding Warrants, Series 2003-C as evidenced by the Tenth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated August 1, 2003. These warrants were issued for the purpose of refunding $1,027,800 of outstanding warrants ($22,540 of the Series 1997-A Warrants, $43,760 of the Series 1997-D Warrants, $133,590 of the Series 1999-A Warrants, $47,610 of the Series 2001-A Warrants, $333,080 of the Series 2002-B Warrants and $447,220 of the Series 2002-D Warrants). The Series 2003-C Warrants are auction rate warrants and are insured by AGM and FGIC under bond insurance policies issued simultaneously with the warrants.

Of the proceeds, $71,300 was placed in escrow for future debt service requirements, and $956,500 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $124,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2003-C Warrants have an outstanding balance of $1,043,625 at September 30, 2011.

NOTE J - WARRANTS PAYABLE - Continued

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants

General Obligation Warrants, Series 2001-A
The Commission issued $82,000 of tax-exempt General Obligation Warrants, Series 2001-A (GO Series 2001-A Warrants) dated April 1, 2001. These warrants were issued for the purpose of refunding the Commission's General Obligation Warrants, Series 2000, for the purpose of acquiring, constructing and equipping various capital improvements to Jefferson County's facilities and for the related warrant issuance costs. The GO Series 2001-A Warrants were repaid during the year, and there was no outstanding balance at September 30, 2011.

General Obligation Warrants, Series 2001-B
On July 19, 2001, the Commission issued $120,000 of tax-exempt General Obligation Warrants, Series 2001-B (GO Series 2001-B Warrants). These warrants were issued for the purpose of refunding the County's General Obligation Warrants, Series 1996 (Landfill Operations) and Series 1999 and related issuance costs. The GO Series 2001-B Warrants have an outstanding balance of $105,000 at September 30, 2011. Approximately $19,200 of the original issue was used to refund debt for the Landfill Operations Fund, of which $16,800 is the outstanding balance at September 30, 2011. The interfund balance due from the Landfill Operations Fund to the Debt Service Fund, related to interest expense, at September 30, 2011, is $900.

Standby Warrant Purchase Agreements with Morgan Guaranty Trust Company of New York (a wholly-owned subsidiary of JPMorgan Chase & Co.) and Bayerische Landesbank Gironzentrale (GO Liquidity Providers), as discussed further below, provide for the purchase of Series 2001-B Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreement. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the GO Liquidity Providers repurchased the GO Series 2001-B Warrants during March 2008.

NOTE J - WARRANTS PAYABLE - Continued

Pursuant to its agreements with the GO Liquidity Providers, the Commission was required to redeem the GO Series 2001-B Warrants on an accelerated schedule of six equal semiannual payments beginning six months from the date of purchase (2008). During fiscal year 2009, the Commission paid a total of $15,000 of the outstanding obligations to the GO Liquidity Providers. No additional payments have been made on the warrants. As a result, the Commission received a notice of Event of Default dated September 15, 2008, from JP Morgan Chase under the Standby Warrant Purchase Agreement and from The Bank of New York Mellon, Trustee, dated July 30, 2009, as discussed in detail below.

General Obligation Capital Improvement and Refunding Warrants, Series 2003-A

On March 1, 2003, the Commission issued $94,000 of tax-exempt General Obligation Capital Improvement and Refunding Warrants, Series 2003-A (GO Series 2003-A Warrants). These warrants were issued for the purpose of refunding the Commission's outstanding General Obligation Warrants, Series 1993, for capital expenditures and payment of related issuance costs. The GO Series 2003-A Warrants are insured by a bond insurance policy issued by National (formerly known as MBIA). The GO Series 2003-A Warrants have an outstanding balance of $46,185 at September 30, 2011.

General Obligation Warrants, Series 2004-A

On August 1, 2004, the Commission issued $51,020 of tax-exempt General Obligation Warrants, Series 2004-A (GO Series 2004-A Warrants). These warrants were issued for the purpose of various capital improvements for the Commission and payment of the related issuance costs. The GO Series 2004-A Warrants are insured by a bond insurance policy issued by National (formerly known as MBIA). The GO Series 2004-A Warrants have an outstanding balance of $49,335 at September 30, 2011.

NOTE J - WARRANTS PAYABLE - Continued

Limited Obligation School Warrants

Limited Obligation School Warrants, Series 2004-A

The Commission issued $650,000 of tax-exempt Limited Obligation School Warrants, Series 2004-A (LO Series 2004-A Warrants) under the Trust Indenture dated December 1, 2004 (Trust Indenture), between the Commission and U.S. Bank. These warrants were issued for the purpose of making grants to 11 local school boards operating in Jefferson County for capital improvement projects and for retirement of certain debt of the school boards. The repayment obligations related to the LO Series 2004-A Warrants are secured by the gross proceeds of a special education tax (Pledged Education Tax Proceeds). The LO Series 2004-A Warrants have an outstanding balance of $534,400 at September 30, 2011.

A Notice of Default was issued by U.S. Bank dated December 28, 2009, as discussed below.

Limited Obligation School Warrants, Series 2005-A and 2005-B

The Commission issued $400,000 ($200,000 for each of the Series 2005-A and Series 2005-B) of tax-exempt Limited Obligation School Warrants, Series 2005-A and 2005-B (LO Series 2005-A and 2005-B Warrants) under the First Supplemental Indenture between Jefferson County and Wells Fargo Bank (formerly Wachovia Bank, N.A.), dated January 1, 2005. These warrants were issued for the purpose of making grants to 11 local school boards operating in Jefferson County for capital improvement projects and school board debt retirement. The repayment obligations related to the LO Series 2005-A and 2005-B Warrants are secured by the gross proceeds of a special education tax (Pledged Education Tax Proceeds).

The LO Series 2005-A and 2005-B Warrants have an outstanding balance of $279,675 at September 30, 2011.

A Standby Warrant Purchase Agreement dated January 1, 2005, with Depfa Bank PLC (LO Liquidity Provider), as discussed further below, provides for the purchase of LO Series 2005-B Warrants tendered for purchase in accordance with the terms of the agreement. Depfa Bank became a holder of approximately $179,750 of tendered warrants on February 14, 2008, pursuant to the Standby Warrant Purchase Agreement for the LO Series 2005-B Variable Rate Demand Warrants.

NOTE J - WARRANTS PAYABLE - Continued

The LO Series 2005-A and 2005-B Warrants are insured by a bond insurance policy issued by Ambac (Ambac filed bankruptcy in November 2010 - see discussion below).

The Trust Indenture requires mandatory redemption on March 1 of each year to the extent of any excess monies accumulated in the Redemption Fund. No redemptions were made during fiscal 2011.

A Notice of Default was issued by U.S. Bank dated December 28, 2009, related to the LO Series 2005-A and 2005-B Warrants, as discussed below. The LO Liquidity Provider also notified the Commission of certain Events of Default related to the Series 2005-B Warrants under the Standby Warrant Purchase Agreement, including the failure to give priority to redemption of Bank Warrants for the excess pledged education Tax Revenues, as further discussed below.

Lease Revenue Warrants, Series 2006

On August 1, 2006, the Jefferson County Public Building Authority (the Building Authority) issued $86,745 of tax-exempt Lease Revenue Warrants, Series 2006 (LR Series 2006 Warrants). These warrants were issued for the purposes of financing capital projects for the Jefferson County Public Building Authority, including a new courthouse in Bessemer, renovation of the existing courthouse and county jail in Bessemer and construction of an E911 communications center office building, providing a debt service reserve fund and paying related issuance costs.

While the Commission is not the issuer of the LR Series 2006 Warrants, the Building Authority's payment obligations under the LR Series 2006 Warrants are secured by lease revenues generated by the Commission's lease of the above-referenced buildings from the Building Authority.

The LR Series 2006 Warrants are secured by a bond insurance policy issued by Ambac (Ambac filed bankruptcy in November 2010 - see below). The outstanding principal balance of the LR Series 2006 Warrants was $82,500 at September 30, 2011. Also, see Note V for subsequent events related to the lease.

NOTE J - WARRANTS PAYABLE - Continued

The following is a summary of warrant transactions for the Commission for the year ended September 30, 2011. Activity related to the long-term debt is as follows:

Issue	Balance at September 30, 2010	Additions	Payments	Balance at September 30, 2011	Due within One Year
Business-Type Activities:					
Series 1997-A Warrants	$ 57,030	$ -	$ -	$ 57,030	$ 57,030
Series 2001-A Warrants	11,960	-	950	11,010	11,010
Series 2002-A Warrants	101,465	-	-	101,465	101,465
Series 2002-C Warrants	806,738	-	-	806,738	806,738
Series 2003-A Warrants	18,730	-	3,450	15,280	15,280
Series 2003-B Warrants	1,120,875	-	20,045	1,100,830	1,100,830
Series 2003-C Warrants	1,045,525	-	1,900	1,043,625	1,043,625
	3,162,323	-	26,345	3,135,978	3,135,978
Governmental Activities:					
Series 2001-A GO Warrants	9,810	-	9,810	-	-
Series 2001-B GO Warrants	105,000	-	-	105,000	105,000
Series 2003-A GO Warrants	46,745	-	560	46,185	46,185
Series 2004-A GO Warrants	51,020	-	1,685	49,335	49,335
Series 2004-A LO Warrants	559,830	-	25,430	534,400	534,400
Series 2005-A&B LO Warrants	285,250	-	5,575	279,675	279,675
Series 2006 Lease Warrants	83,635	-	1,135	82,500	82,500
	1,141,290	-	44,195	1,097,095	1,097,095
	$ 4,303,613	$ -	$ 70,540	$ 4,233,073	$ 4,233,073

Also, see Note P for warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund.

Payments above do not include any payments made on behalf of the Commission by the municipal insurers or banks under the Standby Warrant Purchase Agreements as these amounts are still outstanding at September 30, 2011.

Standby Warrant Purchase Agreements
Under the terms of the Indenture and Trust Indenture, holders of certain Variable Rate Demand Warrants (Business-Type Activities - Series 2002-A, 2002-C and 2003-B and Governmental Activities - Series 2001-B and 2005-B) had the right to tender such warrants for purchase in whole or in part on any business day at a purchase price equal to 100 percent of the principal amounts of such warrants.

NOTE J - WARRANTS PAYABLE - Continued

The Commission entered into Standby Warrant Purchase Agreements between 2001 and 2005 with various banks (Liquidity Providers), which provide for the purchase of such Variable Rate Demand Warrants that are subject to purchase pursuant to the optional tender terms and conditions of the related Sewer Warrants Indenture or Governmental Warrants Trust Indentures, but not remarketed. Under the terms of these Standby Warrant Purchase Agreements, substantially all of the warrants subject to such agreements were tendered during 2008 by the warrant holders for repurchase by the banks (Liquidity Providers).

The repurchase of warrants by the Liquidity Providers resulted in the acceleration of certain warrant payments (under optional and mandatory tender of warrants), as these warrants (with the exception of the LO Series 2005-B Warrants) basically were payable over a three- or four-year period from the date of optional tender.

The Commission entered into certain Forbearance Agreements to forbear any action while efforts were made to restructure the warrant obligations. However, such Forbearance Agreements (and any related extensions) expired in June and July 2009 rendering certain payments due to the Liquidity Providers under the terms of the various Standby Warrant Purchase Agreements.

Ultimately, the accelerated schedules have resulted in notices of default and events of default on certain warrant and related agreements, as neither the Commission nor the majority of bond insurers have been able to repay the warrants on the accelerated maturity schedules.

See discussion below regarding the Forbearance Agreements and Events of Default on the Standby Warrant Purchase Agreements.

NOTE J - WARRANTS PAYABLE - Continued

Events of Default
The Trustees issued Notices of Default for the Indenture and Trust Indenture that stated the circumstances described therein will become Events of Default if not cured within 30 days of the date of the notices, as follows:

Business-Type Activities

Trustee Notices of Default

October 15, 2008 - The Trustee delivered a Notice of Default to the Commission by letter dated October 15, 2008, pursuant to Section 13.1(c) of the Indenture. The Trustee gave notice that covenant defaults have occurred and are continuing as a result of the failure of the Commission (a) to apply the monies in the Revenue Account that remain after the payment of Operating Expenses for payment into the Debt Service Fund, the Reserve Fund, the Rate Stabilization Fund and the Depreciation Fund, in such order and in such amounts and at such times as required by the Indenture, (b) to fix, revise and maintain such rates for services furnished by the Sewer System as shall be sufficient (i) to provide for the payment of the interest and premium (if any) on and the principal of the parity securities, as and when the same shall become due and payable, (ii) to provide for the payment of the Operating Expenses and (iii) to enable the Commission to perform and comply with all of its covenants contained in the Indenture, in each case as required by Section 12.5(a) of the Indenture and (c) to make from time to time, to the extent permitted by law, such increases and other changes in such rates and charges as may be necessary to comply with the provision of Section 12.5(a) of the Indenture, as required by Section 12.5(b) of the Indenture. These covenant defaults became Events of Default under Section 13.1(c) when not cured within 30 days of the date of the Notice of Default.

The Notice of Default also states that certain Events of Default under the Indenture have occurred and are continuing (a) under Section 13.1(a) of the indenture as a result of the failure of the Commission to make payment of approximately $87,473 in principal installments due on parity securities previously called for redemption on June 1, August 1 and October 1, 2008, pursuant to the terms of the Indenture and certain Standby Warrant Purchase Agreements executed by the Commission and certain liquidity banks in connection with the issue of certain of the parity securities outstanding under the Indenture and (b) under Section 13.1(b) of the Indenture as a result of the failure of the Commission to comply with the Rate Covenant set forth in Section 12.5(b) of the Indenture.

NOTE J - WARRANTS PAYABLE - Continued

As discussed in the September 22, 2008, Material Event Notice, the Trustee, at the direction of FGIC and Syncora, filed a lawsuit against the Commission seeking, among other relief, the appointment of a receiver over the County Sewer System. The lawsuit is pending in the U.S. District Court, Northern District of Alabama. A receiver was appointed for the Commission in fiscal 2011 but subsequently dismissed after the Commission filed bankruptcy in November 2011. See Notes S and V for Contingent Liabilities and Litigation and Subsequent Events, respectively, for further discussion.

November 14, 2008 - The Trustee delivered a Notice of Default to the Commission by letter dated November 14, 2008, pursuant to Section 13.1(c) of the Indenture. The Trustee gave notice that covenant defaults have occurred and are continuing as a result of the failure of the Commission to (a) pay into the Reserve Fund on or before September 15, 2008 and October 15, 2008, amounts required by Section 11.3 of the Indenture for the purpose of restoring the balance of the Reserve Fund to the Reserve Fund Requirement and (b) to pay into the Reserve Fund monthly payments for the months of September and October 2008, required by Section 11.11 of the Indenture as a result of the downgrade in the respective ratings of Syncora and FGIC. These covenant defaults became Events of Default under Section 13.1(c) of the Indenture when not cured within 30 days of the date of the notice.

December 19, 2008 - The Trustee delivered a Notice of Default to the Commission by letter dated December 19, 2008, pursuant to Section 13.1(c) of the Indenture. The Notice of Default states that Jefferson County is in violation of certain covenants set forth in the Indenture (including failure to comply with Section 12.5(c) of the Indenture which requires certain calculations to determine compliance with the Rate Covenant) and that such covenant defaults became Events of Default, as defined in Section 13.1(c) of the Indenture, when not cured within 30 days of the date of the Notice of Default.

The Notice of Default also states that certain Events of Default have occurred, resulting from failure to comply with Sections 11.3 and 11.11 of the Indenture which requires the Reserve Fund balance to be restored on or before November and December 2008, as a result of the downgrade in the respective ratings of Syncora and FGIC.

The Notice also disclosed that the net sewer revenues have not been sufficient to meet the debt service requirements on the Warrants in recent months, prior to December 19, 2008, due to the extraordinary increases in interest cost experienced by the Commission on the Variable Rate Demand and Auction Rate Warrants, as described in prior Notices.

NOTE J - WARRANTS PAYABLE - Continued

The Trustee was required to draw on the Debt Service Reserve Funds established under the Indenture, including the surety bonds held therein, to pay a portion of the debt service on the Warrants that were due in September, October, November and December 2008 totaling $40,918 of draws on the Reserve Fund. If net sewer revenues continue to be insufficient to meet the debt service obligations of the Warrants, the Trustee will be required to draw first on the Reserve Fund and then, if necessary, on the municipal bond insurance policies insuring the warrants to cover any deficiency.

February 17, 2009 - The Trustee delivered a Notice of Default to the Commission dated February 17, 2009, pursuant to Section 13.1(c) of the Indenture. The Notice of Default states that the Commission is in violation of certain covenants set forth in the Indenture and such covenant defaults became Events of Default when not cured within 30 days of the notice date. The Trustee gave notice that a covenant default has occurred and is continuing as a result of the failure of the Commission to comply with Section 12.5(c) of the Indenture that requires the review and adjustment of customer sewer rates and charges and the implementation of a rate increase no later than January 1, 2009, to allow compliance with the Rate Covenant of the Indenture.

The Trustee further notified the Commission of the covenant default that occurred and is continuing as a result of failure to comply with the provisions of the Indenture to restore the Reserve Fund to the levels required under the Indenture. In addition, the covenant defaults discussed in the Notices dated October 15, 2008 and December 19, 2008 (discussed above), have continued and are Events of Default under Section 13.1(c) of the Indenture when not cured within 30 days of the dates of those notices.

Events of Default under the Indenture have occurred and are continuing under Section 13.1(a) of the Indenture as a result of the failure of the Commission to make payment of approximately $158,885 in principal payments due on Warrants called for redemption on June 1, August 1 and October 1, 2008 and January 1, 2009, pursuant to the terms of the Indenture and certain Standby Warrant Purchase Agreements (discussed above) and under Section 13.1(b) of the Indenture as a result of the failure to comply with the Rate Covenant set forth in Section 12.5(b) of the Indenture.

NOTE J - WARRANTS PAYABLE - Continued

March 24, 2009 - The Trustee delivered a Notice of Default to the Commission dated March 24, 2009, that covenant defaults have occurred and are continuing as a result of the failure to comply with the provisions of Section 4.4 of the Third Supplemental Indenture requiring the repayment of draws under the Reserve Policy and related expenses incurred by the bond insurer (plus any accrued interest) and requiring that the Rate Covenant in the Indenture provide at least one times coverage of the Commission's obligations. These covenant defaults became Events of Default when not cured within 30 days of the date of the Notice.

The Trustee further notified the Commission of the covenant default that occurred as a result of failure to comply with the provisions of the Indenture to restore the Reserve Fund to the levels required under Section 11.3 of the Indenture and to pay into the Reserve Fund monthly payments required by Section 11.11 of the Indenture as a result of the downgrade in the respective ratings of Syncora and FGIC.

February 3, 2010 - The Trustee delivered a Notice of Default to the Commission dated February 3, 2010, pursuant to Section 13.1(c) of the Indenture. The Trustee issued a demand for the Commission to cure its covenant defaults and the Events of Default which continue unabated. The Trustee notified the Commission of failure to comply with Sections 11.3 and 11.11 for failure to restore the Reserve Fund to the Reserve Fund Requirement; failure to comply with Section 12.2 and to furnish the audit within 180 days of year end; failure to comply with Section 12.5 to increase the rates and charges to comply with the Rate Covenant on January 1, 2010, and the continuation of other notices given on March 24, 2009, February 17, 2009, December 19, 2008 and October 15, 2008 (as discussed above).

In addition, as a result of the notices of events of default, the interest rates on certain warrants and related agreements have increased to the default rate of interest, which is a much higher rate than that previously incurred by the Commission. See below for a discussion of the impact on interest rates and payments.

NOTE J - WARRANTS PAYABLE - Continued

Events of Default under Standby Warrant Purchase Agreements
The holders of the Variable Rate Demand Sewer Revenue Warrants had the right to tender such warrants for purchase at par plus accrued interest upon seven days' notice. Also, under certain circumstances, the holders of Variable Rate Demand Sewer Revenue Warrants are required to surrender such warrants for purchase (i.e., a mandatory tender) at par, plus accrued interest. To provide a source of funds for the payment of the purchase price of such tendered warrants, the Commission entered into Standby Warrant Purchase Agreements (each, a Liquidity Facility) with JPMorgan Chase Bank (Liquidity Agent) and various banks (each, a Liquidity Provider).

Any tendered Variable Rate Demand Sewer Revenue Warrant that is purchased by the applicable Liquidity Provider (a Bank Warrant) will bear interest at a higher rate (either the Bank Rate or the Default Rate) during the period in which it is held by such Liquidity Provider. The Bank Rates specified under the Liquidity Facilities range from one percent to three percent over the Liquidity Provider's Base Rate, depending on how long the warrant is held as a Bank Warrant. The Base Rate is generally the greater of the federal funds rate plus one-half of one percent, or the prime rate adopted by the Liquidity Provider. Upon the occurrence and during the continuation of an event of default under a Liquidity Facility, interest on Bank Warrants purchased by such Liquidity Provider accrues at the Default Rate, which ranges from two percent to three percent over the Bank Rate under the Liquidity Facilities.

Also, the Commission covenanted in each Liquidity Facility to effect an optional redemption of Bank Warrants in 12 or 16 equal quarterly principal installments, with the first installment being payable on the first business day of January, April, July or October that first occurs on or following the purchase date for the Bank Warrants in question. Such obligation to redeem a particular Bank Warrant will terminate when that warrant is remarketed or refinanced.

The ratings downgrades reported in the Material Event Notices below for FGIC and Syncora constitute an event of default under the Standby Warrant Purchase Agreement for each of the Liquidity Facilities. As a result of the reported event of default, each Liquidity Provider has the right to terminate its respective Liquidity Facility upon at least 25 days' notice. On September 11, 2008, a termination notice was delivered on the Series 2002-A Standby Warrant Purchase Agreement to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility. See Termination of Standby Warrant Purchase Agreement - Series 2002-A below for further discussion.

NOTE J - WARRANTS PAYABLE - Continued

The ratings downgrade and event of default, among other events, have resulted in holders of the Variable Rate Demand Sewer Revenue Warrants tendering such warrants to the Liquidity Providers for payment. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Providers have repurchased all of the Variable Rate Demand Sewer Revenue Warrants (Series 2002-A Warrants, Series 2002-C Warrants and Series 2003-B Warrants) as of October 31, 2008, none of which have been remarketed as of such date.

The Liquidity Facility Agreement with the Liquidity Providers for certain of these warrants (Series 2002-C and Series 2003-B) expired during fiscal 2008 (Series 2002-A was to expire in February 2009 but was terminated in September 2008 - see below). The Commission received a Notice of Redemption of Bank Warrants dated April 15, 2008, relating to the Standby Warrant Purchase Agreements. The tendered warrants were to be repaid by the Commission, if such warrants are not remarketed, over an accelerated schedule equal to 16 equal semiannual installments from the date the banks (Liquidity Providers) purchased such warrants (2008) (except for the Series 2002-A Warrants as discussed below under Termination of Standby Warrant Purchase Agreement - Series 2002-A).

The Liquidity Agent (JPMorgan Chase Bank) entered into Redemption Date Deferral Agreements with the Commission related to the Series 2002-C-2 warrants to defer the payments due to the Liquidity Agent and Providers to February 20, 2009, if a partial payment of $4,605 (originally due on December 8, 2008) was made by the Commission on or before January 2, 2009.

In addition, the Commission entered into forbearance agreements with the Liquidity Providers (Liquidity Agreement Forbearance Agreements - discussed below) and repaid a portion of the outstanding obligation for the tendered warrants. However, all Forbearance Agreements subsequently expired. The Commission defaulted on its obligation to redeem the Variable Rate Demand Sewer Revenue Warrants (Series 2002-A, Series 2002-C and Series 2003-B Warrants) on the accelerated 12 or 16 installment timeframe. As a result, Syncora purchased Variable Rate Demand Sewer Revenue Warrants (Series 2002-C Warrants and Series 2003-B Warrants) from the Liquidity Providers in an aggregate principal amount of $109,196 pursuant to claims on bond insurance policies provided by Syncora for those Warrants.

NOTE J - WARRANTS PAYABLE - Continued

Syncora and the Liquidity Providers subsequently entered into a Settlement Agreement dated as of April 7, 2010, whereby Syncora was relieved of further payments under its bond insurance policies for the Variable Rate Demand Sewer Revenue Warrants (Series 2002-C Warrants and Series 2003-B Warrants) in exchange for multiple lump-sum payments to the Liquidity Providers. The outstanding balance for the Variable Rate Demand Sewer Revenue Warrants (Series 2002-C and Series 2003-B Warrants) is payable to the Liquidity Providers and Syncora as of September 30, 2011.

Termination of Standby Warrant Purchase Agreement - Series 2002-A
The holders of the Series 2002-A Warrants had the right to tender the warrants for purchase at par plus accrued interest with seven days' notice. Under certain circumstances, the holders of the Series 2002-A Warrants are required to surrender the warrants for the purchase at par plus accrued interest. The Series 2002-A Warrants were insured by FGIC.

On September 11, 2008, the Liquidity Provider delivered a Termination Notice to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility. The notice cited the occurrence and continuation of an Event of Default specified in Section 8.01(o) of the Liquidity Facility, relating to the downgrade of FGIC, as the grounds for the termination of the Liquidity Facility. Pursuant to the Termination Notice and Section 8.02(b) of the Liquidity Facility, the Liquidity Facility terminated 20 days after the receipt by the Trustee of the Termination Notice. As a result of the Termination Notice, the holders of the Series 2002-A Warrants were required to tender such warrants for the purchase pursuant to the mandatory tender provisions of the Indenture prior to the termination of the Liquidity Facility.

Pursuant to the Liquidity Facility and related Event of Default, the Commission was required to redeem all Series 2002-A Warrants held by the Liquidity Provider in four equal quarterly installments, beginning October 1, 2008. During 2009, FGIC repaid the Liquidity Provider on behalf of the Commission, and the entire outstanding balance for Series 2002-A Warrants is currently payable to FGIC.

NOTE J - WARRANTS PAYABLE - Continued

Liquidity Facility Forbearance Agreements
As a result of certain events of default, which are described above related to the Standby Warrant Purchase Agreement (Liquidity Facility), on March 31, 2008, the Commission entered into separate Forbearance Agreements and Reservation of Rights (collectively, the Liquidity Facility Forbearance Agreements) with each bank (Liquidity Provider), JPMorgan Chase Bank (Liquidity Agent), The Bank of New York Mellon (Trustee), Syncora and FGIC.

The Liquidity Facility Forbearance Agreements generally provided that, during the forbearance period, the Liquidity Providers will forbear from exercising any rights or remedies that the Liquidity Providers have or may have, now or hereafter, arising during the forbearance period as a result of any and all defaults and events of default existing under the Liquidity Facilities. The initial forbearance period expired on April 15, 2008, and was extended over multiple periods and ultimately expired on July 31, 2009 (JPMorgan Chase Bank) or June 30, 2009 (all others), subject to termination at any time at the discretion of the Liquidity Providers.

Certain warrants incur interest at variable rates of interest based on current market rates or auction rates, which are reset every 35 days.

The Maximum Auction Rate under the Indenture is the lower of 18 percent or the Applicable Percentage (shown below) times the higher of (a) the one-month LIBOR rate or (b) the After-Tax Equivalent Rate. The ratings used to determine the "Applicable Percentage" are those assigned by S&P and Moody's, with the lower rating controlling if those two ratings are at different levels.

Prevailing Rating	Applicable Percentage
AAA/Aaa	125%
AA/Aa	150%
A/A	200%
BBB/Baa	250%
Below BBB/Baa	275%

In addition, the defaults on certain warrants or the Standby Warrant Purchase Agreements have resulted in default rates of interest incurred by the Commission. See separate discussion regarding the Events of Default.

NOTE J - WARRANTS PAYABLE - Continued

Governmental Activities

Notice of Event of Default - General Obligation Warrants, Series 2001-B
The holders of the GO Series 2001-B Warrants had the right to tender such Warrants for purchase at par, plus accrued interest. In order to provide a source of funds for the payment of the GO Series 2001-B Warrants that are subject to an optional or mandatory tender, the Commission entered into Standby Warrant Purchase Agreements (the GO Series 2001-B Liquidity Facility) with two banks, each of which are a GO Liquidity Provider. The GO Series 2001-B Warrant holders began tendering the Warrants for purchase in March 2008. Subsequent to that date, all of the $120,000 principal amount of the GO Series 2001-B Warrants were tendered to the GO Liquidity Providers, none of which was subsequently remarketed.

The GO Series 2001-B Warrants held by the GO Liquidity Providers bear interest as provided in the Series 2001-B Liquidity Facility at the rate equal to the Liquidity Provider's prime rate plus one percent until the earlier of (a) the date they are remarketed and (b) the expiration date of the Series 2001-B Liquidity Facility and, thereafter, the rate equal to the Liquidity Provider's prime rate plus three percent. As of July 31, 2008, interest on the tendered warrants accrues at the default rate of interest.

Pursuant to the agreements with the GO Liquidity Providers under the Standby Warrant Purchase Agreements, the Commission was required to redeem the tendered GO Series 2001-B Warrants in six equal semiannual installments beginning six months from the date of tender (2008) since such Warrants were not remarketed prior to the redemption dates.

The Commission received a Notice of Event of Default on the Standby Warrant Purchase Agreement related to the GO Series 2001-B Warrants from JPMorgan Chase Bank dated September 15, 2008, under Sections 8.01(l) and 2.08(b) of the Standby Warrant Purchase Agreement, as a result of the failure of the Commission to make the principal installment payments due to each GO Liquidity Provider that were due on September 15, 2008.

On September 15, 2008, the Commission entered into separate forbearance agreements with the GO Liquidity Providers to forbear the warrants that were due until September 30, 2008 (subsequently extended to September 14, 2009). The forbearance agreements, among other items, state that the GO Liquidity Providers will not exercise their rights under the agreement. On March 13, 2008, pursuant to the agreement, the Liquidity Providers repurchased Warrants in the aggregate principal amount of $118,740.

NOTE J - WARRANTS PAYABLE - Continued

Of the $105,000 balance outstanding at September 30, 2011, $103,740 is currently due and payable, with the remaining $1,260 due in fiscal year 2021.

The Commission received a Notice of Event of Default dated July 30, 2009, from The Bank of New York Mellon, as Indenture Trustee, stating that an event of default had occurred under the Indenture due to the Commission's failure to pay certain principal payments due on the GO Series 2001-B Variable Rate Demand Warrants under the accelerated repayment terms for warrants repurchased by the Liquidity Providers per the Standby Warrant Purchase Agreement.

Liquidity Facility Forbearance Agreements
As a result of certain Notices of Events of Default, which are described in the Material Event Notices section below and under the Notices of Events of Default section above, the Liquidity Providers were allowed to immediately terminate without notice or demand.

On September 15, 2008 (as amended and extended), the Commission entered into a separate Forbearance Agreement and Reservation of Rights Agreements (Forbearance Agreements) with the Liquidity Providers (JPMorgan Chase Bank and Bayerische Landesbank, both as the Liquidity Providers and Liquidity Agent). The Forbearance Agreement generally provided that, during the forbearance period, the counterparties will forbear from exercising any rights or remedies that the Liquidity Provider has or may have, now or hereafter arising during the forbearance period. The Commission subsequently entered into separate agreements with each party to extend the Forbearance Agreements to September 14, 2009, at which time all such agreements were terminated.

Covenant Violations and Notices of Default - Limited Obligation School Warrants
Pursuant to Section 17.1(b) of the Indenture, U.S. Bank (successor Trustee) provided a written Notice of Default dated December 28, 2009, to the Commission for the Limited Obligation School Warrants, Series 2004-A, 2005-A and B whereby notice was given that the Commission failed to satisfy all or a portion of the Reserve Fund Requirement set forth in Sections 14.3 and 14.8 of the Indenture. Section 14.3 of the Indenture states that the Reserve Fund Requirement may be satisfied, in whole or in part, by depositing with the Trustee a surety bond or insurance policy that satisfies the requirements specified in Section 14.8. Section 14.8 indicates that the 'claims paying ability' of the issuer of such bond or policy must be rated "AAA" by S&P or "Aaa" by Moody's.

NOTE J - WARRANTS PAYABLE - Continued

Section 14.8 further states that if the claims paying ability of the issuer falls below "A", then the Commission must either deposit a sufficient amount of funds into the Reserve Fund to meet the Reserve Fund Requirement (paid in equal monthly installments over the ensuing year) or replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements within six months.

The Commission failed to deposit either form of funds as required by Section 14.8 of the Indenture. Furthermore, the failure to remedy the covenant default within the 30-day period subsequent to the Notice constitutes an Event of Default under Section 17.1(b) of the Indenture. As of September 24, 2012, the Commission had met its obligations under Section 14.8 of the Indenture and had satisfied the Reserve Fund Requirement.

Events of Default - Standby Warrant Purchase Agreement - LO Series 2005-B
The Commission also received a Notice of Default under Standby Warrant Purchase Agreement dated May 6, 2010, from Depfa Bank PLC (Depfa Bank). Depfa Bank became a holder of approximately $179,750 of tendered warrants on February 14, 2008, pursuant to the Standby Warrant Purchase Agreement for the Limited Obligation School Warrants Series 2005-B.

Depfa Bank claims that the Commission failed to give them priority regarding certain redemptions of warrants with excess tax proceeds on or about March 1, 2008 and 2009. Depfa Bank further notes the defaults described in the December 28, 2009, Notice (discussed above). As a result, Depfa Bank has notified the Commission that it has exercised its right to charge, as of January 27, 2010, the default rate of interest as allowed under the Agreement, which results in a three-percent increase over the current interest rate.

Notice of Event of Default - Lease Revenue Warrants, Series 2006
Under the Trust Indenture dated August 1, 2006, between the Jefferson County Public Building Authority (Authority) and First Commercial Bank, as trustee (Trustee), the Warrants are payable solely from lease payments by the Commission to the Authority pursuant to a Lease Agreement dated August 1, 2006. Under the Lease Agreement, the Commission is required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants.

Principal in the amount of $4,130,000 and interest in the amount of $2,081,297 were due with respect to the Warrants on April 2, 2012.

NOTE J - WARRANTS PAYABLE - Continued

The Commission failed to make the required lease payment when due on March 28, 2012. The Trustee delivered a Notice of Default to the Commission by letter dated March 30, 2012. The Notice of Default states that an "Event of Default," as defined in the Lease Agreement, has occurred under the Lease Agreement as a result of the Commission's failure to make the lease payment on March 28, 2012.

Failure to pay the principal and interest on the Warrants in the amount of $6,211,297 when due on April 2, 2012, resulted in an "Indenture Default," as defined in the Indenture. The Trustee drew upon available monies on deposit in the Reserve Fund established under the Indenture to pay the debt service due on April 2, 2012, in full. The occurrence of an Event of Default under the Lease Agreement also created an additional Indenture Default. See Note V for subsequent events.

Maturity Schedules

The following is a schedule of debt service requirements for the outstanding warrants to maturity, under the original payment and interest terms as specified in the various Indentures (in thousands).

Original Terms

Fiscal Year Ending September 30,	Business-Type Activities		Governmental Activities		Total Principal and Interest Requirements to Maturity		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	$ 48,610	$ 71,106	$ 60,545	$ 47,605	$ 109,155	$ 118,711	$ 227,866
2013	35,035	70,213	57,540	45,084	92,575	115,297	207,872
2014	36,750	69,272	60,230	42,422	96,980	111,694	208,674
2015	38,515	68,285	63,045	39,628	101,560	107,913	209,473
2016	40,345	67,211	65,980	36,698	106,325	103,909	210,234
2017-2021	235,875	323,196	364,730	134,815	600,605	458,011	1,058,616
2022-2026	398,795	280,154	424,175	46,516	822,970	326,670	1,149,640
2027-2031	478,115	225,395	850	-	478,965	225,395	704,360
2032-2036	558,775	174,141	-	-	558,775	174,141	732,916
2037-2041	1,039,163	77,917	-	-	1,039,163	77,917	1,117,080
2042	226,000	3,171	-	-	226,000	3,171	229,171
	$3,135,978	$1,430,061	$1,097,095	$ 392,768	$4,233,073	$1,822,829	$6,055,902

Also, see Note P for warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund.

As discussed above, certain warrants are subject to accelerated repayment schedules from the original terms.

NOTE J - WARRANTS PAYABLE - Continued

The accelerated payments resulted in a revised payment schedule. The following table reflects the debt service requirements for the outstanding principal amounts on the warrants, including the acceleration of certain warrant payments due to repurchase made by the Liquidity Providers under the Standby Warrant Purchase Agreements described in the preceding paragraphs (in thousands).

Accelerated Repayment Schedule

Fiscal Year Ending September 30,	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2012	$ 827,074	$ 154,590	$ 981,664
2013	31,457	47,390	78,847
2014	33,046	49,610	82,656
2015	34,635	51,930	86,565
2016	36,339	54,350	90,689
2017-2021	190,947	314,200	505,147
2022-2026	270,802	424,175	694,977
2027-2031	400,268	850	401,118
2032-2036	373,217	-	373,217
2037-2041	812,658	-	812,658
2042	125,535	-	125,535
	$ 3,135,978	$ 1,097,095	$ 4,233,073

While a restructuring of the warrants payable obligations could result in a revised payment schedule, Notices and Events of Default have occurred related to the outstanding warrants payable, as discussed further throughout Note J. In addition, there are certain series of warrants that are subject to a cross-default under the terms of the various indentures. With the continuance of the Events of Default, the Trustee may declare the outstanding warrants payable due and payable on demand under the terms of the various indentures.

NOTE J - WARRANTS PAYABLE - Continued

As a result, the following table presents the outstanding warrants payable amounts as current liabilities:

Due on Demand Accelerated Repayment Schedule

Fiscal Year Ending September 30,	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2012	$ 3,135,978	$ 1,097,095	$ 4,233,073
Thereafter	-	-	-
	$ 3,135,978	$ 1,097,095	$ 4,233,073

Additionally, the related deferred charges - issuance costs have been classified as current assets.

While the Events of Default changed the status of certain warrants to "demand bonds" (which are deemed callable under *GASB Interpretation No. 1*), the Trustee has not accelerated the payments due on the fixed rate or auction rate warrants. The Variable Rate Demand Warrants were called for redemption during 2008 and were payable over an accelerated period (three or four years) commencing on or around the date of tender (2008) which results in the majority of those Warrants being currently due and payable.

Defeasance of Warrants and Deferred Loss on Refundings (in thousands)
In prior years, the Commission advance refunded certain revenue warrants by placing the proceeds of the new warrants in irrevocable trust accounts to provide for payment of all future debt service requirements, including the ultimate repayment of the warrants outstanding. The refundings pertaining to each warrant issue are noted in the descriptions of the warrants above. These warrants are defeased under the terms of the Indenture.

Accordingly, the trust account assets and the liability for the defeased warrants are not included on the Commission's financial statements. At September 30, 2011, warrants of $1,027,330 ($1,015,000 of Business-Type Activities and $12,330 of Governmental Activities) are outstanding, and the related fair market value of the escrow account balances for these defeased warrants held in trust totals $1,079,567 ($1,065,861 Business-Type Activities and $13,706 Governmental Activities) at September 30, 2011.

NOTE J - WARRANTS PAYABLE - Continued

Warrant Issuance Costs, Premiums and Discounts, and Deferred Loss on Refundings

The Commission has issuance costs, losses on refundings of debt, as well as premiums and discounts, in connection with the issuance of its warrants. The issuance costs, losses on refundings and premiums and discounts are being amortized using the straight-line method. The balances in these accounts for the Commission are as follows:

	(In Thousands)		
	Issuance Costs	Premiums (Discounts) Net	Deferred Loss on Refundings
Business-Type Activities:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 72,853	$ 6,570	$ 360,618
Accreted (amortized), net in prior years	(21,915)	(83)	(80,800)
	50,938	6,487	279,818
Current year (amortization) accretion, net	(4,347)	(182)	(10,748)
Net balance at September 30, 2011	$ 46,591	$ 6,305	$ 269,070
Governmental Activities:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 19,128	$ 51,347	$ 1,793
Accreted (amortized), net in prior years	(6,333)	(16,576)	(1,793)
	12,795	34,771	-
Current year (amortization) accretion, net	(825)	(2,337)	-
Net balance at September 30, 2011	$ 11,970	$ 32,434	$ -
Commission total:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 91,981	$ 57,917	$ 362,411
Accreted (amortized), net in prior years	(28,248)	(16,659)	(82,593)
	63,733	41,258	279,818
Current year (amortization) accretion, net	(5,172)	(2,519)	(10,748)
Net balance at September 30, 2011	$ 58,561	$ 38,739	$ 269,070

Also, see Note P for discounts and deferred loss on refundings attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund. Issuance costs attributable to the Jefferson County Economic and Industrial Development Authority are reflected in the combining statement of net assets - nonmajor enterprise funds.

NOTE J - WARRANTS PAYABLE - Continued

Accrued Arbitrage Rebate (amounts in thousands)
Sections 148(f)(2) and 1.148-1 to 11 of the Internal Revenue Code of 1986, as amended, require any entity issuing tax-exempt warrants to have computations of potential rebate amounts for investment earnings in excess of prescribed allowed amounts for tax-exempt warrants proceeds that have not been expended.

The Commission must make installment payments in an amount equal to 90 percent of the rebatable arbitrage within 60 days of a rebate computation date, which is the end of the fifth bond year and each five-year period thereafter. In addition, certain exceptions may apply that may limit the rebate amount, and special rules exist relating to retired warrant issues.

The Commission has periodic arbitrage rebate calculations performed on tax-exempt bonds and accrues arbitrage rebates based on those calculations. The Commission obtained the arbitrage rebate calculations for the tax-exempt warrants and has recorded accrued arbitrage rebates of $3,103 ($63 for Business-Type Activities and $3,040 for Governmental Activities) as of September 30, 2011.

Restricted Debt Service Accounts (amounts in thousands)

Business-Type Activities
In accordance with the Indenture, the Commission maintains a debt service fund to which it deposits principal and interest amounts due. A reserve fund or surety policies are required to be maintained at the lesser of (a) 125 percent of the average annual debt service on all outstanding parity securities, (b) the maximum annual debt service on all outstanding parity securities or (c) 10 percent of the original principal amount of outstanding parity securities. In addition, the Commission is required to maintain a rate stabilization fund at a balance of 75 percent of the maximum annual debt service on the outstanding parity securities, subject to the availability of cash, and a depreciation fund which will grow to an amount equal to or greater than the accumulated depreciation of the Sanitary Operations Fund, subject to the availability of cash.

In accordance with the terms of the Indenture, the Commission obtained surety policies for the reserve fund for certain warrant issues. The rate stabilization fund has no balance at September 30, 2011.

NOTE J - WARRANTS PAYABLE - Continued

The Trustee can and has authorized disbursements from certain reserve funds held for the Business-Type Activities Warrants for payment of principal and interest due during fiscal 2008 (none in fiscal 2011). The Trustee notified the Commission of the failure to maintain or replenish the reserve funds at the levels required under the warrant agreements which resulted in default for these warrant agreements.

In addition, the proceeds from each warrant issue were placed in an escrow account to be disbursed based on approved expenditures for the proceeds. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. Restricted cash and investments related to the warrant agreements totaled $202,941 at September 30, 2011. See Note D for a discussion of the investments held at year end and Note V for events subsequent to year end.

Governmental Activities
The proceeds from each warrant issue were placed in an escrow account to be disbursed based on approved expenditures. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. The terms of certain warrant agreements require debt reserve funds to be maintained, and funds may be deposited in debt service accounts pending payment to the Trustee. Such accounts are reported as restricted cash and investments.

Restricted cash and investments totaled $164,514 at September 30, 2011. See Note D for discussion of the investments held at year end.

Continuing Disclosures
The Commission is required to provide certain continuing disclosures with respect to the Indentures and warrants outstanding in accordance with Rule 15c2-12 of the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934.

Under the continuing disclosure agreements, the Commission has covenanted for the benefit of the holders of certain warrants under the various indentures to provide certain information repositories with certain financial information and operating data relating to the Commission on an annual basis within 180 days after the end of its fiscal year and material events notices of the occurrence of certain events, if deemed material.

NOTE J - WARRANTS PAYABLE - Continued

The Annual Financial Information is required to be filed with the Municipal Securities Rulemaking Board (MSRB), as the central repository for ongoing disclosures by municipal issuers, as designated by the Securities and Exchange Commission and any Alabama state information depository. The disclosures are available to investors by the MSRB's Electronic Municipal Market Access (EMMA).

Material events notices are required to be filed with the MSRB and any Alabama state information depository. Such material events may include delinquency in payments of principal or interest, nonpayment related defaults, unscheduled draws on any debt service reserves reflecting financial difficulties of the Commission, unscheduled draws on any credit enhancements reflecting financial difficulty, substitution of a credit or liquidity provider or the failure of any credit or liquidity provider to perform, existence of any adverse tax opinion or events affecting the tax-exempt status of the warrants, modification of the rights of the holders of the warrants, redemption of any warrants prior to stated or mandatory redemption dates, defeasance of the warrants, release, substitution or sale of the property securing repayment of the warrants, any changes in the ratings of the warrants or bankruptcy, insolvency, receivership or similar event of the Commission.

The Commission has issued numerous material events notices for events that occurred during fiscal 2008 through 2011 (described below) and subsequent to September 30, 2011, including notices of events of default for certain agreements (Note V).

The following is information required for the benefit of the holders of the Sewer Revenue Warrants (unaudited):

	Fiscal Year Ended September 30,			
	2011	2010	2009	2008
Active accounts	139,706	140,092	141,590	143,576
Average daily treatments volume (millions of gallons treated)	98	125	113	92
Sewer charges (000s)	$173,312	$160,467	$166,931	$167,159
% Revenue - largest customer	1.61%	1.49%	1.21%	1.35%
% Revenue - top 10 customers	8.31%	6.40%	6.31%	5.32%

NOTE J - WARRANTS PAYABLE - Continued

2011 Top 10 Customers	Consumption (in Gallons)	Billed
U.S. Steel	540,191	$ 2,783,618
University of Alabama at Birmingham	510,275	3,702,035
Birmingham Housing Authority	258,289	1,911,339
AT&T, Inc.	137,608	1,018,299
Brookwood Medical Center	137,448	1,017,115
Trinity Medical Center	112,663	833,706
SMI Steel, Inc.	112,517	832,626
Samford University	108,415	802,271
Barber's Pure Milk Company	118,621	772,460
Veterans' Administration	97,529	721,715
	2,133,556	$ 14,395,184

Effective January 1, 2008, the Commission implemented sewer rate increases. The rate increases were implemented in accordance with the Commission's resolutions and the Indenture with the trustee for the Sewer Revenue Warrants. However, a rate increase was not implemented as of January 1, 2009, 2010 or 2011. The proper application of the rate covenant is one of the issues in the litigation with the Trustee and bond insurers (see Notes S and V for a discussion of Contingent Liabilities and Litigation and Subsequent Events, respectively).

Municipal Bond Insurance Policy

Concurrent with the issuance of the warrants, National, Ambac, FGIC, Syncora or AGM issued municipal bond (warrant) insurance policies for all revenue warrant issues, except the Business-Type Fund Sewer Warrant Series 2003-A, Governmental Fund General Obligation Warrant 2001-B and certain Limited Obligation School Warrants Series 2004-A.

The insurance policies unconditionally guarantee the payment of that portion of the principal and interest on the warrants, which becomes due and is unpaid by reason of nonpayment by Jefferson County, Alabama. The insurance policies are noncancelable, and the premium is fully paid at the time of delivery of the warrants.

NOTE J - WARRANTS PAYABLE - Continued

The insurance policies cover failure to pay principal of said warrants on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption and cover failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, the insurance company requires, among other things, that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without the insurance company's consent, so long as the insurance company has not failed to comply with its payment obligations under its insurance policy and that any amendment or supplement to or other modification of the principal legal documents be subject to the insurance company's consent.

Certain events occurred during the current year and subsequent to year end, as discussed below, resulting in rating downgrades for the insurers of the warrants. As a result of the deteriorating financial condition of Jefferson County during fiscal 2008 through 2011 and subsequent periods, certain payments of principal and interest were made on behalf of the Commission by the insurers. The amounts paid are disclosed in this report and are currently payable from the Commission to the insurers. As a result, the insurers have assumed certain rights under the terms of the related warrant agreements. In addition, other payments of principal and interest are due on certain warrants but remain unpaid at September 30, 2011, by the Commission or the insurers. As a result, the Commission has a payment Event of Default for certain warrant agreements - see Event of Default section above.

As disclosed in the September 22, 2008, Material Event Notice, FGIC and Syncora directed the Trustee to initiate a lawsuit against the Commission seeking, among other relief, the appointment of a receiver over the Jefferson County Sewer System.

Ambac Bankruptcy
On November 8, 2010, Ambac Financial Group, Inc. petitioned for Chapter 11 bankruptcy. Any reorganization would presumably leave the company's bond insurance subsidiary, Ambac Assurance Corp., untouched and capable of paying claims on defaulted municipal bonds.

NOTE J - WARRANTS PAYABLE - Continued

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Material Event Notices

2008 - During fiscal 2008, Material Event Notices disclosed rating downgrades on long-term ratings assigned to warrants insured by FGIC and Syncora (which comprise substantially all of the Sewer Revenue Warrants) from Standard and Poors Rating Services (S&P), Fitch Ratings Ltd. (Fitch) and Moody's Investor Service, Inc. (Moody's). The rating downgrades were in conjunction with the reductions of the rating agency financial strength and financial enhancement ratings of the underlying insurer (FGIC and Syncora).

The downgrades also resulted in the occurrence of Additional Termination Events under the interest rate swap agreements (see Interest Rate Swap Agreements Termination Events and Swap Forbearance Agreements - Note K).

The downgrades of Syncora and FGIC caused the Syncora and FGIC surety bonds held by the Trustee in the Reserve Fund to fail the ratings requirements of the Indenture (see Substitution of Surety Bonds in Reserve Fund discussion below). Additionally, certain notices of default were received under the Standby Warrant Purchase Agreements. The Commission and all other parties to the Liquidity Facilities entered into forbearance agreements (see Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements - Note K).

Material Event Notices also disclosed ratings downgrades related to Series 1997A, Series 2001-A, Series 2003 B-1-A to B-1-E and Series 2003 C-1 to C-10 Warrants. On September 11, 2008, JPMorgan Chase Bank delivered a Termination Notice to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility for the outstanding Series 2002-A Warrants (as discussed above).

2009 - During fiscal 2009, Material Event Notices disclosed extensions to the Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements dated March 31, 2008, with the Forbearance Agreements expiring either June 30, 2009 or July 31, 2009.

The warrants received further downgrades by S&P, Fitch and Moody's of the long-term ratings assigned to the warrants insured by Syncora, FGIC and AGM.

NOTE J - WARRANTS PAYABLE - Continued

Notices of Default were delivered by the Trustee to the Commission dated October 15, 2008, November 14, 2008, December 19, 2008, February 17, 2009 and March 24, 2009 (discussed in detail above).

In addition, Material Event Notices disclosed the termination notices received on the interest rate swap agreements and resulting swap termination payments due, as further discussed in Note K.

The July 6, 2009, Material Event Notice disclosed that for debt service payments due on July 1, 2009, the Trustee applied net sewer revenues from the Commission to the payment of all interest due on the Warrants on such date. Certain Warrants were purchased by a Liquidity Provider pursuant to a Liquidity Facility and are insured by FGIC.

Such FGIC-insured Warrants were called for redemption on July 1, 2009, pursuant to the accelerated amortization provision of such Liquidity Facility and were paid from a draw on the FGIC bond insurance policy insuring the payment of such Warrants because the Commission's net sewer revenues were not sufficient to make such payment.

Certain other Warrants were purchased by other Liquidity Providers pursuant to Liquidity Facilities and are insured by bond insurance policies issued by Syncora. Such Syncora-insured Warrants were called for redemption in part on July 1, 2009, pursuant to the accelerated amortization provisions of such Liquidity Facilities. The Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants, and Syncora suspended payment on its insurance policies. As a result, $46,056 aggregate principal amount of Syncora-insured Warrants called for redemption on July 1, 2009, was not paid by either the Commission or Syncora.

2010 - During fiscal 2010, Material Event Notices disclosed that debt service payments on certain warrants purchased by Liquidity Providers pursuant to Liquidity Facilities and subject to accelerated amortization provisions were called for redemption in part on October 1, 2009.

Additionally, a Notice of Default was delivered by the Trustee to the Commission dated February 3, 2010 (as discussed above). Material Event Notices also disclosed the withdrawal of long-term insured ratings assigned by Fitch to certain warrants insured by AGM.

NOTE J - WARRANTS PAYABLE - Continued

October 4, 2010 - The October 4, 2010, Material Event Notice disclosed that on October 1, 2010, debt service payments on certain of the Warrants were due. The Commission's net sewer revenues provided to the Trustee were sufficient for payment of all interest due on the Warrants on such date. Certain other Warrants have been purchased by other Liquidity Providers pursuant to Liquidity Facilities and are insured by bond insurance policies issued by Syncora. Such Syncora-insured Warrants were called for redemption in part on October 1, 2010, pursuant to the accelerated amortization provisions of such Liquidity Facilities. Syncora has suspended payment on its insurance policies, and the Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants. As a result, the $46,061 aggregate principal amount of Syncora-insured Warrants called for redemption on October 1, 2010, was not paid by either the Commission or Syncora.

On September 22, 2010, the Circuit Court entered an order granting the Trustee's request for the appointment of a receiver regarding the suit styled *The Bank of New York Mellon, as Indenture Trustee v. Jefferson County, Alabama, et al.,* 01-CV-2009-002318.

November 1, 2010 - The November 1, 2010, Material Event Notice disclosed that on October 25, 2010, the long-term insured rating assigned to those Warrants insured by AGM was reduced from "AAA" to "AA+" by S&P in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of AGM.

June 3, 2011 - The June 3, 2011, Material Event Notice disclosed that on May 2, 2011, the Commission received letters from the Internal Revenue Service (IRS) stating that the Series 2003-B Warrants and the Series 2003-C Warrants have been selected for examination to determine compliance with federal tax requirements. The IRS Letters and the corresponding Information Document Requests delivered to the Commission request certain documents relating to the Series 2003-B Warrants and the Series 2003-C Warrants be forwarded to the IRS.

If the IRS determines that federal tax laws or regulations applicable to the Series 2003-B Warrants or the Series 2003-C Warrants have been violated, interest on the said Warrants could be declared taxable, and a tax liability could be assessed against the holders of all or some portion of the said Warrants.

NOTE J - WARRANTS PAYABLE - Continued

July 19, 2011 - The July 19, 2011, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $46,046,000 in aggregate principal amount of Warrants was due for accelerated redemption on July 1, 2011. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on July 1, 2011.

September 16, 2011 - The September 16, 2011, Material Event Notice disclosed that the Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). Implementation of the settlement and refinancing is contingent upon a number of factors, some of which are referred to in the Term Sheet. The proposed settlement and refinancing was not accomplished, and the Commission filed for Bankruptcy protection in November 2011 (discussed further in Note V - Subsequent Events).

Substitution of Surety Bonds in Reserve Fund

The Indenture requires the Commission to establish and maintain a debt service reserve fund (the Reserve Fund) at a level (the Reserve Fund Requirement) generally equal to the lesser of (a) 125 percent of the average annual debt service on all parity securities outstanding under the Indenture and secured by the Reserve Fund, (b) the maximum annual debt service on all parity securities outstanding under the Indenture and secured by the Reserve Fund or (c) 10 percent of the original principal amount (or in some cases, the issue price) of each series of parity securities outstanding under the Indenture and secured by the Reserve Fund.

The Indenture permits the Commission to satisfy the Reserve Fund Requirement through cash deposits or by delivery of a surety bond, insurance policy or letter of credit that satisfies the requirements of the Indenture. One such requirement is that any surety bond or insurance policy used to satisfy the Reserve Fund Requirement must be rated "AAA" by S&P or "Aaa" by Moody's. As of April 1, 2005, the Reserve Fund was funded by a combination of cash (and eligible federal securities) and surety bonds in the amount of $19,884 provided by FGIC.

NOTE J - WARRANTS PAYABLE - Continued

As permitted by the Indenture, in April 2005, the Commission caused Syncora to deliver to the Trustee a Debt Service Reserve Insurance Policy pursuant to which up to $164,864 may be paid and caused AGM to deliver to the Trustee a Municipal Bond Debt Service Reserve Insurance Policy pursuant to which up to $26,422 may be paid.

Upon the delivery of the foregoing policies to the Trustee, the Commission withdrew $181,415 of cash and investments from the Reserve Fund and directed that the said cash and investments be deposited to a new fund to be held by the Trustee under a Deposit Agreement dated April 1, 2005, between the Commission and the Trustee (the Deposit Agreement). The Deposit Agreement permitted the use of such funds for sewer system improvements and to pay fees and expenses, including charges and expenses of the Trustee, incurred in connection with any of the foregoing.

In January 2007, the Commission and the Trustee entered into an Amendment to Deposit Agreement dated January 1, 2007 (the Amendment), which also permitted the Commission to withdraw such funds for deposit into any account or fund established under the Indenture or otherwise established by the Commission with respect to its sewer system obligations.

On February 1, 2007, the Commission withdrew $32,547 of such funds, and on February 1, 2008, the Commission withdrew an additional $59,800 of such funds for the purpose of debt service on the Sewer Revenue Warrants. As a result of the downgrades to FGIC and related surety bonds, the Commission made monthly cash transfers of $1,657 to the Reserve Fund in fiscal 2008 for the months of April through August (discussed below).

In March 2008, S&P and Moody's downgraded FGIC, resulting in an accelerated replenishment requirement for the FGIC surety bonds (in the aggregate amount of $19,884) currently held by the Trustee in the Reserve Fund (as discussed above). The Indenture requires the Commission to (a) substitute a surety bond, insurance policy or letter of credit that satisfies the requirements of the Indenture within six months or (b) restore the Reserve Fund to a level equal to the Reserve Fund Requirement by making cash deposits to the Reserve Fund over a period of one year in equal monthly installments ($1,657 per month).

NOTE J - WARRANTS PAYABLE - Continued

In June 2008, S&P and Moody's downgraded Syncora, resulting in an accelerated replenishment requirement, subject to the same requirements described in the immediately preceding paragraph, for the Syncora surety bonds (in the aggregate amount of $164,864) currently held by the Trustee in the Reserve Fund.

The Trustee was required to draw on the Reserve Fund to pay a portion of the debt service on the Warrants that were due in September, October, November and December 2008 totaling $40,918. If net sewer revenues continue to be insufficient to meet the debt service obligations of the Warrants, the Trustee will be required to draw first on the Reserve Fund and then, if necessary, on the municipal bond insurance policies insuring the warrants to cover any deficiency. A total of $35,089 was drawn from the surety bond policies in the Reserve Fund while the remainder, or $5,829, was cash. As of September 30, 2011, the Reserve Fund holds four surety bonds with a value of $176,082. The balance in funds restricted for debt service or capital improvements at September 30, 2011, was $29,363.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

Material Event Notices

2008 - During fiscal 2008, Material Event Notices disclosed rating downgrades by S&P, Fitch and Moody's on the long-term ratings assigned to the Limited Obligation School Warrants, General Obligation Warrants and Lease Revenue Warrants insured by Ambac or National. A Notice of Default was disclosed with regards to GO Series 2001-B Warrants and the mandatory redemption on September 15, 2008. Material Event Notices also disclosed the Commission had entered into a Forbearance Agreement with regards to the Warrants that were due.

2009 - During fiscal 2009, Material Event Notices disclosed extensions to the Forbearance Agreements dated September 15, 2008 to September 2009, for the GO Series 2001-B Warrants. Certain Limited Obligation School Warrants, General Obligation Warrants and Lease Revenue Warrants received further downgrades by S&P, Fitch and Moody's of the long-term ratings assigned to the warrants.

A Notice of Default dated July 30, 2009, was disclosed with regards to the GO Series 2001-B Warrants (discussed in detail above).

NOTE J - WARRANTS PAYABLE - Continued

2010 - During fiscal 2010, Material Event Notices disclosed ratings downgrades by S&P on the long-term ratings assigned to certain Limited Obligations School Warrants, General Obligation Warrants and Lease Revenue Warrants.

A Notice of Default dated December 28, 2009, was disclosed related to the LO Series 2004-A, Series 2005-A and Series 2005-B Warrants. Additionally, a Material Event Notice disclosed a payment event of default related to the GO Series 2001-B Warrants after the Forbearance Agreement expired in January 2010, and the Warrants were not redeemed as required by the accelerated redemption provisions of the Standby Warrant Purchase Agreement.

December 13, 2010 - The December 13, 2010, Material Event Notice disclosed a ratings downgrade related to the GO Series 2001-A Warrants, insured by Ambac. On November 30, 2010, the rating assigned to Ambac by S&P was withdrawn. Pursuant to S&P's rating policy, the Ambac insured Warrants are rated to the higher of the Standard & Poor's Underlying Rating (SPUR) or the insurer rating.

The current long-term rating assigned by S&P to the Ambac insured Warrants remains "B" to match the SPUR for those Warrants.

December 13, 2010 - The December 13, 2010, Material Event Notice disclosed a ratings downgrade related to the LO Series 2005-A and Series 2005-B Warrants, insured by Ambac. On November 30, 2010, the rating assigned to Ambac by S&P was withdrawn. Pursuant to S&P's rating policy, the Ambac insured Warrants are rated to the higher of the SPUR or the insurer rating. The current long-term rating assigned by S&P to the Ambac insured Warrants remains "BBB" to match the SPUR for those Warrants.

December 13, 2010 - The December 13, 2010, Material Event Notice disclosed a ratings downgrade related to the LR Series 2006 Warrants. The Warrants are insured by Ambac. On November 30, 2010, the rating assigned to Ambac by S&P was withdrawn. Pursuant to S&P's rating policy, the Ambac insured Warrants are rated to the higher of the SPUR or the insurer rating. The current long-term rating assigned by S&P to the Ambac insured Warrants remains "B-" to match the SPUR for those Warrants.

NOTE J - WARRANTS PAYABLE - Continued

March 29, 2011 - The March 29, 2011, Material Event Notice disclosed that the Supreme Court of Alabama held that Jefferson County's occupational tax and business license tax were unconstitutional and that the Commission has ceased collecting the taxes. The taxes generated approximately 21 percent of the total funds deposited to the general fund for 2009.

In addition, a payment event of default related to the General Obligation Warrants, Series 2001-B was disclosed. On March 15, 2011, General Obligation Warrants, Series 2001-B, were not redeemed by the Commission, as required under the accelerated redemption provisions of the Standby Warrant Purchase Agreement.

April 13, 2011 - The April 13, 2011, Material Event Notice disclosed a ratings downgrade related to the LO Series 2005-A and 2005-B Warrants and LR Series 2006 Warrants. The Warrants are insured by Ambac. On April 7, 2011, the ratings assigned to Ambac by Moody's were withdrawn. Pursuant to Moody's rating policy, the Ambac insured Warrants are rated to the higher of the SPUR or the insurer rating. The current long-term rating assigned by Moody's to the Ambac insured Warrants remains "B3" and "Caa2" for the Limited Obligation School Warrants and Lease Revenue Warrants, Series 2006, respectively, to match the SPUR for these Warrants.

April 27, 2011 - The April 27, 2011, Material Event Notice disclosed a ratings downgrade related to the LO Series 2005-A and 2005-B Warrants and LR Series 2006 Warrants. The Warrants are insured by Ambac. On April 19, 2011, the underlying rating assigned to the Warrants by S&P was reduced from "BBB" to "BBB-".

September 16, 2011 - The September 16, 2011, Material Event Notice disclosed that the Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). Implementation of the settlement and refinancing is contingent upon a number of factors, some of which are referred to in the Term Sheet. The proposed settlement and refinancing was not accomplished, and the Commission filed for Bankruptcy protection in November 2011 (as further discussed in Note V - Subsequent Events).

NOTE J - WARRANTS PAYABLE - Continued

Proposed Terms and Conditions for Settlement and Refinancing

The September 16, 2011, Material Event Notice disclosed that the Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). Implementation of the settlement and refinancing was contingent upon a number of factors, some of which are referred to in the Term Sheet. The Term Sheet stated that the Commission and the participating holders of sewer warrants (the Creditors) would agree to settle and refinance the Commission's outstanding sewer debt based on a number of items and conditions, including settlement in the approximate amount of $2.05 billion to redeem all outstanding sewer warrants (contingent on an additional $0.03 billion in creditor concessions from Creditors to be identified in the future), 40-year term, 1.25X debt service coverage, 10 percent Debt Service Reserve (DSR) - half of which may be funded (at the Commission's option) by a surety bond provided by Assured Guaranty, priority pledge of net sewer revenues, moral obligation covenant by the State of Alabama to seek legislative appropriations to replenish draws, if any, on the DSR, up to $1.0 billion of bond insurance (at the Commission's option) provided by Assured Guaranty, closing no later than July 30, 2012, and projected capital needs covered by existing warrant reserves and future cash flow.

The Term Sheet included formation of a government utility service corporation (GUSC). The GUSC would have the authority to file Chapter 9 with consent of the Governor of the State of Alabama. The GUSC would covenant not to contest treatment of the pledged revenues as "special revenues" as defined in 11 U.S.C. Section 902(2). Once the refinancing bonds were paid or refinanced without credit support from the State of Alabama, the GUSC would be eligible to file Chapter 9 without the Governor's consent. The Receiver was to remain in operating control of the sewer system until closing of the refinancing pursuant to the Receiver order. It was anticipated that the Refinancing would require approximate rate increases of 8.2 percent for each of the first three years beginning November 1, 2011 (or as soon thereafter as possible, and future projected annual increases of no more than 3.25 percent for operating expenses and capital requirements until such time as the debt service requirements related to the refinancing are met). All interest rate swaps still outstanding would be terminated at no cost to the Commission.

NOTE J - WARRANTS PAYABLE - Continued

Regarding the Series 2001-B General Obligation Warrants, JPMorgan would (a) waive approximately $9 million in claims arising from termination of a *pari passu* swap and accrued and unpaid default interest on such General Obligation Warrants and (b) reinstate the original amortization schedule applicable to the General Obligation Warrants.

The Term Sheet was applicable to the Business-Type Activities for the Sewer Revenue Refunding Warrants, Series 1997-A, Sewer Revenue Capital Improvement Warrants, Series 2001-A, Sewer Revenue Capital Improvement, Series 2002-A, Sewer Revenue Refunding Warrants, Series 2002-C, Sewer Revenue Refunding Warrants, Series 2003-B, Sewer Revenue Refunding Warrants, Series 2003-C, for the Governmental Activities for the General Obligation Warrants, Series 2001-B, General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, General Obligation Warrants, Series 2004-A, Limited Obligation School Warrants, Series 2004-A, Limited Obligation School Warrants, Series 2005-A and 2005-B, Lease Revenue Warrants, Series 2006 and for the Alabama Water Pollution Control Authority Revolving Fund Loan Refunding Bonds, Series 2003-B.

While the Commission and Creditors worked towards executing a definitive agreement of the Term Sheet, the proposed settlement and refinancing was not accomplished, and the Commission filed protection under Chapter 9 Bankruptcy in November 2011 (as discussed further in Note V).

Warrant Payments Subsequent to September 30, 2011 (amounts in thousands)

Governmental Activities
Subsequent to September 30, 2011, and through February 4, 2013, the Commission did not make scheduled principal payments of $12,575 and interest payments of approximately $11,600 related to the GO Series 2001-B, 2003-A and 2004-A Warrants.

Business Type Activities
Subsequent to September 30, 2011, and through February 4, 2013, the Commission did not make scheduled principal payments of $29,685 related to the Series 2001-A, 2003-A, 2003-B and 2003-C Sewer Warrants and interest payments of approximately $9,146 related to the Series 1997-A, 2001-A, 2002-A, 2002-C, 2003-A, 2003-B and 2003-C Sewer Warrants.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS

The Commission's asset/liability strategy was to have a mixture of fixed and variable rate debt. During fiscal years ended 2001 to 2003, the Commission decided to synthetically create fixed rate debt by entering into certain interest rate swap agreements that effectively changed the interest rates on certain warrants from variable rates to fixed rates. The Commission subsequently entered into additional interest rate swap agreements and related swap option agreements (swaptions) in an effort to hedge more effectively interest costs on the warrants outstanding.

In connection with the issuance of the Sewer Revenue Warrants, the Commission entered into various separate interest rate swap transactions with Bank of America, NA, Bear Stearns Capital Markets Inc., JPMorgan Chase Bank and Lehman Brothers Special Financing, Inc., all of which were terminated prior to September 30, 2011.

The Commission's obligations to the counterparties under the ISDA Master Agreements and related schedules and annexes (collectively, the Swap Agreements) that govern such transactions are secured by a pledge of the net sewer revenues of the Commission that is on a parity with the pledge of such net revenues for the benefit of the Sewer Revenue Warrants, except with respect to swap termination payments, which are secured by a subordinate pledge.

Terms
The interest rate swap agreements were executed with JPMorgan Chase Bank, Lehman Brothers Special Financing, Bear Stearns and Bank of America, NA, with notional amounts and terms of the agreements generally equal to the amount of the warrants outstanding as further discussed below.

All information presented in this note is as of September 30, 2011.

All of the interest rate swap agreements were terminated prior to September 30, 2009; therefore, the fair value of the interest rate swap agreements as of September 30, 2011, was estimated using the Market Quotation Method (termination payment notice fee plus accrued interest).

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The interest rate swap agreements used the ISDA Master Agreement, which includes standard termination events. Each of the Schedules to the Master Agreement includes an "additional termination event." Under this provision, the interest rate swap agreements may be terminated if the long-term sewer revenue indebtedness of the Commission is rated lower than "BBB" by S&P, or lower than "Baa2" by Moody's, and the Commission has not, within 10 days, either (a) executed and delivered a collateral agreement satisfactory in form and substance to the counterparty providing for the collateralization of the Commission's obligations under the swaps or (b) obtained an insurance policy satisfactory in form and substance to the counterparty by a financial insurer satisfactory to the counterparties insuring the prompt and timely performance of the Commission's obligations under the related agreement.

Furthermore, the interest rate swap agreements may be terminated if the long-term sewer revenue indebtedness of the Commission is rated lower than "BBB-" by S&P or lower than "Baa3" by Moody's, and the Commission has not, within 10 days, obtained an insurance policy satisfactory in form and substance to the counterparty by a substitute credit enhancer insuring the prompt and timely performance of the Commission's obligations under the related agreement.

Each of the interest rate swap agreements was terminated by the counterparty to the agreement prior to fiscal 2011. The following discussion summarizes the transactions and events as of September 30, 2011.

Valuation
Interest rate swap agreements generally have a fair value associated with each agreement, based on the original terms of the agreements and the relationship to interest rates in the current market. However, as noted above, the interest rate swap agreements were terminated, so the reported fair value consists of any termination fees payable plus any related accrued interest.

Material Event Notices
The Commission had certain events during fiscal 2010, 2009 and 2008 that required additional disclosures and were included in Material Event Notices filed by the Commission, including rating downgrades, forbearance agreements (all expired in 2009) and termination notices received for the interest rate swap agreements (as discussed below).

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Following is a summary of the estimated fair value of the interest rate swap agreements that the Commission had executed with counterparties that have amounts payable at September 30, 2011 (all of which have been terminated prior to September 30, 2011) (all amounts reported in thousands):

Issue and Counterparty	Original Notional Amount	Termination Date	Termination Payment Notice - (Payment) Receipt	Amount Waived Per JPMorgan Settlement	Accrued Interest	Estimated Fair Value - (Negative)
Business-Type Activities						
Series 2002-A Warrants:						
JPMorgan Chase Bank	$ 110,000	3/3/2009	$ (37,857)	$ 37,857	$ -	$ -
Bear Stearns	110,000	3/3/2009	(25,835)	NA	(133)	(25,968)
Series 2002-C Warrants:						
JPMorgan Chase Bank	539,446	3/3/2009	(153,756)	153,756	-	-
Bank of America	110,000	7/15/2008	(11,866)	NA	(1,470)	(13,336)
Lehman Brothers	190,054	12/15/2008	(68,568)	NA	(7,504)	(76,072)
Bear Stearns	824,700	3/3/2009	10,524	NA	96	10,620
Series 2003-B Warrants:						
JPMorgan Chase Bank	1,035,800	3/3/2009	(255,717)	255,717	-	-
Bear Stearns	633,078	3/3/2009	6,250	NA	97	6,347
Bank of America	379,847	7/15/2008	(2,560)	NA	(39)	(2,599)
Series 2003-C Warrants:						
JPMorgan Chase Bank	789,019	3/3/2009	(194,224)	194,224	-	-
Bank of America	263,006	7/15/2008	(16,763)	NA	(1,914)	(18,677)
Series 1997-A, 2001-A, 2002-C:						
JPMorgan Chase Bank	200,000	3/3/2009	(3,500)	3,500	-	-
Series 1997-A, 2002-C, 2003-B:						
JPMorgan Chase Bank	175,000	3/3/2009	(2,750)	2,750	-	-
	5,359,950		(756,622)	647,804	(10,867)	(119,685)
Governmental Activities						
Series 2001-B Warrants:						
JPMorgan Chase Bank	120,000	9/4/2008	(7,894)	-	(1,033)	(8,927)
	$5,479,950		$ (764,516)	$ 647,804	$ (11,900)	$ (128,612)

Termination Events

Certain events occurred during fiscal 2009 in connection with the interest rate swap agreements that triggered an additional termination event for the various interest rate swap agreements. The additional termination events gave the counterparty to each agreement the right for early termination of the interest rate swap agreements, and all interest rate swap agreements were terminated prior to September 30, 2009.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

As a result of the additional termination events and related developments affecting the warrants, the Commission entered into separate Forbearance Agreements with each of the counterparties, and payments on the interest rate swap transactions were temporarily suspended. However, all such agreements expired in 2009, and all payments under the swap agreements were due and payable to the counterparties.

The Commission received Early Termination Notices from three of the counterparties (JPMorgan Chase Bank, Lehman Brothers Special Financing, Inc. and Bear Stearns) discussed separately below, which resulted in termination payments due to the counterparty to the agreement.

There were 10 interest rate swap agreements that were terminated during fiscal 2009 for the Business-Type Activities, as set forth in the table on the preceding page.

See the section entitled "Interest Rate Swap Agreements Termination Events" within this note for further disclosures regarding the termination of the interest rate swap agreements.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Swap Forbearance Agreements
As a result of the Additional Termination Event which occurred on March 7, 2008 (see Interest Rate Swap Agreements Termination Events below), the Commission entered into a separate Forbearance Agreement and Reservation of Rights (collectively, the Swap Forbearance Agreements) dated March 31, 2008, with each of the counterparties. The initial swap forbearance period expired on April 15, 2008, and was extended to July 31, 2009, subject to certain conditions (except the Lehman Brothers Special Financing, Inc. agreement, which expired on November 17, 2008, and the Bank of America agreement, which expired on June 30, 2009). Under the Swap Forbearance Agreements, the counterparties had the right to terminate the swap transactions, but the termination payments were not due until the expiration date of the forbearance agreements.

Due to the downgrades of the Commission's underlying ratings on the Sewer Revenue Warrants (as discussed above), along with the failure to post collateral or provide insurance, an Additional Termination Event for each of the Sewer Revenue Warrant Interest Rate Swap Agreements occurred on March 7, 2008.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

With the occurrence of the Additional Termination Events, each counterparty had the right, exercisable at its discretion, to terminate its swap transactions upon notice to the Commission. When the counterparties exercised their rights to terminate, the Commission was obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreements.

The Commission received a notice from Bank of America, N.A. dated July 14, 2008 (amended July 15, 2008), designating July 15, 2008, as the Early Termination Date under the interest rate swap agreements, with regards to each of the interest rate swap transactions between Bank of America, N.A. and the Commission. The termination event resulted in $31,189 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to Bank of America.

The Commission received a notice from Lehman Brothers Special Financing, Inc. dated December 12, 2008, designating December 15, 2008, as the Early Termination Date under the swap agreements, with regards to each of the interest rate swap transactions between Lehman Brothers Special Financing, Inc. and the Commission. The termination event resulted in $68,568 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to Lehman Brothers Special Financing, Inc.

The Commission received a notice from Bear Stearns dated March 2, 2009, designating March 3, 2009, as the Early Termination Date under the swap agreements, with regards to each of the interest rate swap transactions between Bear Stearns and the Commission. The termination event resulted in $9,061 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to Bear Stearns.

The Commission received a notice from JPMorgan Chase Bank dated March 2, 2009, designating March 3, 2009, as the Early Termination Date under the swap agreements, with regards to each of the interest rate swap transactions between JPMorgan Chase Bank and the Commission.

The termination event resulted in $647,804 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to JPMorgan Chase Bank. JPMorgan Chase Bank waived the termination fees on November 4, 2009, and paid the Commission $75,000 as part of a legal settlement with the Securities and Exchange Commission (SEC) and the Commission.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The settlement agreement stated that the payment of $50,000 received by the Commission on November 9, 2009, be to and for the benefit of Jefferson County, Alabama, for the purpose of assisting displaced Commission employees, residents and sewer ratepayers. The second payment of $25,000 was initially payable to the SEC but was subsequently paid to the Commission on February 11, 2011.

The Commission has not made any periodic payments with regards to any of the interest rate swap agreements or the swap termination fees. However, termination events that occurred prior to September 30, 2011, resulted in termination fees and accrued interest of $119,685 that were recorded as of September 30, 2011, and are included in these financial statements.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants, Series 2001-B
The Commission entered into an interest rate swap agreement in connection with its $120,000 variable rate revenue warrants in April 2001 with JPMorgan Chase Bank and was terminated on September 4, 2008.

The Commission's obligations to the counterparties under the ISDA Master Agreements and related schedules and annexes (collectively, the Swap Agreements) govern such transactions. The Swap Agreement provides that a downgrade of the Commission's long-term general obligation indebtedness below "BBB" by S&P or below "Baa2" by Moody's constituted an Additional Termination Event unless the Commission within 10 days of the date of the downgrade (a) executed and delivered a collateral agreement satisfactory to the counterparty providing for the collateralization of the Commission's obligations under such Swap Agreement or (b) obtained an insurance policy by a financial insurer satisfactory to the counterparty insuring the prompt and timely performance of the Commission's obligations under such Swap Agreement.

Furthermore, a downgrade of the Commission's long-term general obligation indebtedness below "BBB-" by S&P or below "Baa3" by Moody's constituted an Additional Termination Event unless the Commission within 10 days of the downgrade obtained an insurance policy satisfactory in form and substance to the counterparty by a substitute credit enhancer insuring the prompt and timely performance of the Commission's obligations under such Swap Agreement.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Due to the downgrades of the Commission's underlying ratings on the long-term general obligation indebtedness (as discussed above in the Material Events Notices section), along with the failure to post collateral or provide insurance, an Additional Termination Event on the Swap Agreement occurred during August 2008.

With the occurrence of the Additional Termination Event, the counterparty had the right, exercisable at its discretion, to terminate its swap transaction upon notice to the Commission. When the counterparty exercised its right to terminate, the Commission was obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreement. The termination of the interest rate swap agreement resulted in an additional termination payment that would be due to the counterparty.

Interest Rate Swap Agreements Termination Events
The Commission received a notice from JPMorgan Chase Bank dated August 27, 2008, designating September 4, 2008, as the Early Termination Date under the 2001 Warrant - Series B General Obligation Warrants Interest Rate Swap Agreement. The termination event resulted in $7,894 of termination fees due to JPMorgan Chase Bank. These termination fees were not part of the SEC legal settlement mentioned above and are still outstanding as of September 30, 2011, and accrued in these financial statements.

A September 5, 2008, notice stated that after applying the Market Quotation Method, as provided for in the swap agreement, the Commission owed JPMorgan Chase Bank a termination amount of $8,086 less unpaid amounts owed to the Commission of $192, or a net payment amount of $7,894. The negative fair value was $8,927 for the JPMorgan Chase Bank interest rate swap agreement as of September 30, 2011, including $1,033 of accrued interest.

NOTE L - CONDUIT DEBT OBLIGATIONS

The Commission issued Limited Obligation School Warrants, Series 2000 in order to finance the costs of acquiring certain public school facilities (the Leased Property) of the Jefferson County Board of Education (the Board) for lease back to the Board. The funds were used to retire the Board's current revenue anticipation warrant dated May 3, 2000. The Board simultaneously executed a capital lease agreement with the Commission for the aforementioned property and pledged tax proceeds for the lease payments which will approximate debt service requirements under the Jefferson County Commission's Limited Obligation School Warrants, Series 2000.

NOTE L - CONDUIT DEBT OBLIGATIONS - Continued

The warrants do not constitute a debt or pledge of the faith and credit of the Jefferson County Commission and, accordingly, have not been reported in the accompanying financial statements. Upon repayment of the warrants, ownership of the leased property will return to the Board. As of September 30, 2011, the principal amount outstanding was $26,255,000.

NOTE M - DEFINED BENEFIT PENSION PLAN

Plan Description

The General Retirement System for Employees of Jefferson County, Alabama (the Retirement System) is the administrator of a single-employer, defined benefit pension plan (the Plan) covering substantially all employees of Jefferson County, Alabama. The Retirement System was established by Act Number 497, Acts of Alabama 1965, page 717, and provides guidelines for benefits to retired and disabled employees of the Commission.

The Plan's financial statements are publicly available in the annual report of the General Retirement System for Employees of Jefferson County, Alabama for the year ended September 30, 2011. The report may be reviewed at the Jefferson County Courthouse, Room 430, Birmingham, Alabama.

Funding Policy

Employees of the Commission are required by statute to contribute six percent of their gross salary to the Retirement System. The Commission is required to contribute amounts equal to participant contributions. The Plan also receives from the Commission a percentage of the proceeds from the sale of pistol permits.

Annual Pension Cost

For the year ended September 30, 2011, the Commission's annual pension contribution of $9,015,000 was equal to the Commission's required and actual contribution. The required contribution was determined using the "entry age normal" method. The actuarial assumptions as of October 1, 2011, the latest actuarial valuation date, were: (a) 7.0-percent investment rate of return on present and future assets and (b) projected salary increases of 4.25 to 7.25 percent. Both (a) and (b) include an inflation component of 3.25 percent.

NOTE M - DEFINED BENEFIT PENSION PLAN - Continued

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The funding excess is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of October 1, 2011, was 14 years.

The following is three-year trend information for the Commission:

Fiscal Year Ending	Annual Pension Cost (APC) (in Thousands)	Percentage of APC Contributed	Net Pension Obligation
09/30/2011	$ 8,923	100%	$ -
09/30/2010	9,297	100%	-
09/30/2009	9,657	100%	-

Funding Progress

For the year ended September 30, 2011, funding progress and related information for the Commission is as follows:

	(In Thousands)					
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percentage of Covered Payroll [(b-a)/c]
09/30/11	$ 949,368	$ 899,516	$ (49,852)	105.54%	$ 138,971	(35.87%)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of pension assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS)

In addition to the pension benefits described in Note M, the Commission sponsors a single-employer postretirement welfare benefit plan (OPEB Plan) in accordance with a resolution first approved by the Commission on September 25, 1990, and approved annually thereafter. The OPEB Plan provides for medical insurance coverage to eligible retirees and their dependents as indicated below:

Benefits are generally available at the earliest of the following:

1. Age 60 and completion of 10 years of paid membership service,
2. 30 years of paid membership service or
3. Age 55 with 30 years of service of which 20 must be paid membership service.

Eligibility: Subject to the operative terms and provisions of the OPEB plan, an individual is eligible who: (a) has not reached age 65, (b) is vested and thus entitled to receive, either currently or in the future, a retirement benefit and (c) is covered by the Jefferson County active employee group health insurance plan for hospital, physician, major medical and prescription drug benefits immediately before the date the retirement benefit becomes payable or, for an employee who is involuntarily retired, is covered by the Jefferson County active employee group health insurance plan as of the employee's date of separation from employment. Regardless of any operative terms or provisions of the OPEB Plan, (a) an individual who is eligible for Medicare enrollment on the date he or she is eligible to receive a retirement benefit shall be ineligible for OPEB Plan enrollment as an eligible retiree (but such individual shall be treated as an eligible employee solely for the purposes of OPEB Plan enrollment of eligible dependents) and (b) an eligible retiree's OPEB Plan coverage shall terminate if he or she becomes eligible for Medicare enrollment.

Eligible Dependent Coverage: Subject to the operative terms and provisions of the OPEB plan, an eligible retiree who is himself or herself eligible for OPEB plan coverage may enroll each eligible dependent of his or hers. However, an eligible dependent will be ineligible for OPEB plan enrollment if he or she has reached age 65 or is eligible for Medicare enrollment on the date he or she otherwise would be eligible for OPEB plan enrollment as an eligible dependent.

Benefit Types: Medical and prescription drug benefits are provided to all eligible retirees. Dependents of eligible retirees are granted the same benefits as the retiree.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits (OPEB) other than Pensions.* GASB Statement No. 45 establishes standards for the measurement, recognition and disclosure of OPEB expenses and related liabilities and is effective for the County for the year ended September 30, 2008. Under this statement, all state and local governmental entities that provide other postemployment benefits are required to report the cost of these benefits on their financial statements. The Commission first adopted the requirements of GASB Statement No. 45 in 2011 and implemented it prospectively.

The statement covers postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees: long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan: and long-term disability insurance for employees. These benefits, referred to as OPEB, are typically financed on a pay-as-you-go basis. The statement requires accrual-basis accounting, thereby recognizing the employer cost of postemployment benefits over an employee's career.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends and other actuarial assumptions. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

As of September 30, 2011, the most recent actuarial valuation date, the OPEB had 542 retired participants. The OPEB Plan had a total of 3,089 and 37 active participants and vested terminated participants, respectively. The Commission subsidizes a portion of the retirees' health care insurance premiums based on the total years of County service and age at retirement. The Commission's subsidy for each covered retired employee ranges from $392 to $1,080 per month, and total insurance premiums range from $450 to $1,280.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

Once the UAAL is determined, the annual required contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made, and any difference is reported as the net OPEB obligation (NOO). In addition, required supplementary information (RSI) must be reported, including historical information about the UAAL and the progress in funding the OPEB Plan.

The OPEB Plan does not issue a stand-alone financial report.

Funding Policy - The Commission has not set aside assets in a qualifying trust fund as of September 30, 2011, and is currently financing the OPEB Plan on a pay-as-you-go basis. Retirees and employees are not required to contribute to the OPEB Plan.

The Commission's OPEB cost is calculated based on the ARC calculated using the projected unit credit method, an allowable cost method under GASB Statement No. 45. The ARC is the basic annual expense recognized under GASB Statement No. 45 that is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years, which is the amortization period used by the OPEB Plan.

The following table shows the components of the Commission's OPEB cost for the year, the amount contributed to the OPEB Plan and the changes in the Commission's net OPEB obligation:

(In Thousands)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution (a)	Interest on Existing NOO (b)	Adjustment to ARC (c)	Annual OPEB Cost (a+b+c = d)	Annual Contribution Amount (e)	Percentage of OPEB Cost Contributed (e/d)	Net Increase (Decrease) in NOO (d-e = f)	NOO at Beginning of Year (g)	NOO at End of Year (f+g)
09/30/10	09/30/11	$ 7,436	$ 102	$ (94)	$ 7,444	$ 4,640	62.3%	$ 2,804	$ 2,554	$ 5,358
09/30/10	09/30/10	7,436	26	(24)	7,438	5,523	74.3%	1,915	639	2,554
09/30/08	09/30/09	5,038	(1)	1	5,038	4,371	86.8%	667	(28)	639
09/30/08	09/30/08	5,038	-	-	5,038	5,066	100.6%	(28)	-	(28)

Funding Status and Funding Progress

As of September 30, 2011, the most recent actuarial valuation date, the OPEB was zero percent funded. The actuarial accrued liability was $80,163,000, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability of $80,163,000. Covered payroll was approximately $138,971,000, resulting in unfunded actuarial liability as a percentage of payroll of 58 percent.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the OPEB and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of OPEB assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the OPEB by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Actuarial Methods and Assumptions
The information presented above was determined as part of the actuarial valuation at the date indicated. Projections of benefits for financial reporting purposes are based on the substantive plan (the OPEB as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

Additional information as of the latest actuarial valuation follows:

Valuation Date	September 30, 2011
Actuarial Cost Method	Projected Unit Credit Method
Amortization Method	Level Percent of Pay, Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value of Assets
Mortality	RP-2000 Employee Mortality Table
Discount Rate	4%
Projected Payroll Increases	3.25%
Inflation Rate	3.25%
Health Care Costs Rates	Pre-Medicare Medical Trend 10.5% graded to 5% over 7 years

NOTE O - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains a risk management program in order to minimize its exposures to loss. Risk financing for these various exposures is accomplished through the following methods:

- *General and Auto Liability* - Self-insured with an established department to finance losses.

- *Workers' Compensation* - Self-insured with a retention of $550,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.

- *Property Insurance* - Commercial insurance coverage purchased in the maximum amount of $1 billion per occurrence, except a separate annual aggregate of $50 million flood and earthquake, to include the following sublimits: (a) the Commission participates in an Owner Controlled Insurance Program with respect to property in the course of construction, builder's risks and installation or erection; (b) $50 million per occurrence as included in the $500 million loss limit subject to the policy terms and conditions; (c) $5 million with respect to extra expense and (d) $500,000 with respect to transit.

NOTE O - RISK MANAGEMENT - Continued

- *Hospital and Nursing Home Medical Malpractice and General Liability* - Certain medical professional employees purchase individual insurance protection that is applicable to their Commission employment. The Commission reimburses premiums for medical malpractice - professional liability insurance coverage for those Commission medical professional employees in amounts up to a stated amount per year. The Commission has also purchased professional and general liability insurance with coverage consisting of $1 million per occurrence and $3 million aggregate.

- *Health Insurance* - Self-insured with excess coverage through a commercial insurance provider. The Commission purchases specific reinsurance coverage with an unlimited benefit for each covered person, subject to a $250,000 deductible per covered person. Employees may obtain health care services through participation in the Commission's group health insurance plan. Risk management administers health insurance and negotiates with private providers to provide health, life, accidental death and dismemberment, vision and dental insurances for its employees and dependents. The Commission pays approximately 75 percent of health, 100 percent of basic life and accidental death and dismemberment, and the employees pay 100 percent of dental and vision insurance and other voluntary insurance plans. The Commission's risk financing activities associated with the Commission group health insurance, such as the risks of loss related to medical and prescription drug claims, are administered through third parties on a paid-claims basis.

For the year ended September 30, 2011, changes in the claims liabilities for the health self-insured activities for the Commission are as follows:

Balance October 1, 2010	Claims Incurred	Claims Paid	Increase/ Decrease in Provision	Balance September 30, 2011
$ 3,831,000	$ 26,874,000	$ (27,496,000)	$ 117,000	$ 3,326,000

NOTE O - RISK MANAGEMENT - Continued

For the year ended September 30, 2011, changes in the claims liabilities for the general, auto and workers' compensation self-insured activities for the Commission are as follows:

	(In Thousands)							
	General Liability		Auto Liability		Workers' Compensation		Totals	
	2011	2010	2011	2010	2011	2010	2011	2010
Unpaid claims and claim adjustment expenses:								
Accrual at beginning of fiscal year	$ 1,335	$ 1,353	$ 269	$ 227	$ 4,230	$ 4,380	$ 5,834	$ 5,960
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal year	915	163	127	8	962	706	2,004	877
Increases/decreases in provision for insured events of prior fiscal years	(150)	37	(88)	43	(18)	338	(256)	418
Total incurred claims and claim adjustment expenses	765	200	39	51	944	1,044	1,748	1,295
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(171)	(218)	(8)	(9)	(1,134)	(995)	(1,313)	(1,222)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	-	-	-	-	-	(199)	-	(199)
Total payments	(171)	(218)	(8)	(9)	(1,134)	(1,194)	(1,313)	(1,421)
Accrual at end of fiscal year	$ 1,929	$ 1,335	$ 300	$ 269	$ 4,040	$ 4,230	$ 6,269	$ 5,834

NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY

The Jefferson County Economic and Industrial Development Authority (the Development Authority) is considered a blended component unit of the Commission. The financial position and results of operations of the Development Authority have been included in the accompanying financial statements as a nonmajor enterprise fund with any significant interfund activity being eliminated. At September 30, 2011, the Development Authority was indebted to the Commission in the amount of $15,317,000, which is presented as advances due to/from other funds in the accompanying statement of net assets. This amount is eliminated in the government-wide statement of net assets.

NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY - Continued

Warrants Payable

The following summarizes the changes in the Development Authority's warrants payable for the year ended September 30, 2011:

	(In Thousands)			
	Beginning Balance	Additions	Reductions	Ending Balance
Warrant issue - 2004 series	$ 3,240	$ -	$ 1,390	$ 1,850
Less amount due in one year				1,435
				$ 415

Warrants payable are comprised of the following at September 30, 2011 (in thousands):

Industrial Park Revenue Bonds, Series 2004, with interest paid semiannually at fixed rates ranging from 1.48% to 3.90% and annual principal payments ranging from $415 to $1,435 through March 1, 2013 (less unamortized discount of $2 and deferred loss on refunding of $12, of which $1 and $9 are current, respectively)	$ 1,836
Less amount due in one year, net	1,425
Warrants payable - noncurrent, net	$ 411

The maturities of long-term obligations are as follows at September 30 (in thousands):

	Principal	Interest	Total
2012	$ 1,435	$ 38	$ 1,473
2013	415	7	422
	$ 1,850	$ 45	$ 1,895

NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY - Continued

As of September 30, 2011, the amount recorded for deferred charges - issuance costs was $4,000 ($3,000 classified as current assets).

Defeased Debt

On February 2, 2004, the Development Authority issued $10,650,000 of Industrial Park Revenue Bonds of which $10,650,000 was placed in an irrevocable trust for the purpose of generating resources for all future debt service payments through 2013 ($11,465,000 principal) of the 1998 bonds. As a result, the refunded bonds are considered to be defeased, and the liability was removed. The outstanding balance of defeased debt as of September 31, 2011, was $2,835,000.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS

Advances to/from Other Funds

The amounts of advances to/from other funds at September 30, 2011, were as follows:

	Advances from Other Funds (in Thousands)			
	Sanitary Operations Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Totals
Advances to other funds:				
General Fund	$ 10,628	$ 3,917	$ 15,317	$ 29,862
Nonmajor Governmental Funds	-	-	16,800	16,800
	$ 10,628	$ 3,917	$ 32,117	$ 46,662

Advances to/from other funds are generally for one of the following reasons: (a) amounts loaned from one fund to another to finance daily operations and are expected to be received within one year, (b) amounts loaned from one fund to another from the refinancing of general obligation warrants in previous years or for the purchase of investment property and are not expected to be repaid within one year or (c) amounts payable from one fund to another for indirect cost allocations and are expected to be received within one year.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS - Continued

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2011, were as follows:

	Transfers in (in Thousands)					
	General Fund	Cooper Green Hospital Fund	Bridge and Public Building Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Totals
Transfers out:						
General Fund	$ -	$ 10,616	$ -	$ 5,403	$ 2,716	$ 18,735
Indigent Care Fund	-	42,952	-	-	-	42,952
Bridge and Public Building Fund	-	-	-	43,399	-	43,399
Cooper Green Hospital Fund	44	-	-	-	-	44
Nonmajor Governmental Funds	6	-	2,102	12,381	-	14,489
	$ 50	$ 53,568	$ 2,102	$ 61,183	$ 2,716	$ 119,619

The Commission typically uses transfers to fund ongoing operating subsidies, to service a portion of current-year debt requirements and to provide for hospital operations. The Commission transferred capital assets from the Sanitary Operations Fund to the Capital Improvements Fund of $56,000 during the year.

NOTE R - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At September 30, 2011, the Commission has commitments of the following:

Name of Commitment	(in Thousands) Amount
Valley Creek wastewater treatment plant	$ 7,579
Village Creek wastewater treatment plant	3,758
Tax administration software	2,750
Bessemer courthouse renovations	1,936
Tornado-related waste disposal	1,703
Brooklane Road improvements	1,500
Cahaba River wastewater treatment plant	1,276
Hickory Ridge housing development	1,018
Jefferson County Council on Aging services	805
Trussville wastewater treatment plant	577
Sewer collection fees	565
Shades Creek sewer improvements	512
Linndale Road improvements	500
	$ 24,479

From time to time, the Commission enters into agreements with developers and vendors to promote economic development within Jefferson County. As of September 30, 2011, the Commission accrued expenses related to these agreements of $3,445,000 into general fund accounts payable in the accompanying balance sheet. On January 27, 2012, the Commission filed a motion in United States Bankruptcy Court to reject five economic development contracts, which is pending approval as of the date of this report. As of September 30, 2011, the following schedule details estimated payments to be made in subsequent years assuming the developers and vendors meet specific criteria within the agreements and the motion in United States Bankruptcy Court to reject the contracts is not approved (in thousands):

2012	$ 2,461
2013	2,175
2014	2,175
2015	2,175
2016	800
	$ 9,786

NOTE S - CONTINGENT LIABILITIES AND LITIGATION

Edwards v. Jefferson County, Case number CV-07-900873, was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, on May 11, 2007. Plaintiffs in this action successfully obtained, on behalf of a class, a declaration that the Commission's occupational, license and privilege taxes were invalid and an injunction against the further collection of those taxes. The Alabama Supreme Court affirmed this ruling.

As a result, the Commission was ordered to refund those taxes in the amount of approximately $37,800,000. To that end, the Commission escrowed occupational tax collections from January 12, 2009 to August 13, 2009. While the case was on its first appeal, the Alabama Legislature reauthorized the Commission to collect occupational, license and privilege taxes. In a subsequent appeal, the Alabama Supreme Court recognized that, under the new legislation, the Commission could levy and collect the new tax for the period covered by the escrow but that the Commission could not simply transfer to itself the amounts that had been escrowed. After this second appeal, the Commission mediated with plaintiffs' counsel and reached a settlement framework applicable to approximately $6,500,000 of the escrowed taxes (the Edwards Preliminary Settlement Amount). On May 19, 2011, the trial court ordered that $31,416,169 be refunded to taxpayers, less any attorneys' fees that may be awarded by the Court.

By order dated August 9, 2011, the trial court gave final approval to the settlement that had been reached between the named class representatives and the Commission. Based on the final settlement, some 900 taxpayers who opted out of the class received their pro rata share of approximately $30,000, which was deducted from the Edwards Preliminary Settlement Amount and received a release from potential retroactive taxation. All other taxpayers, who did not elect to opt out of the class, received a release from the Commission for any potential recollection of occupational, license or privilege taxes for the escrow period, and the taxpayers, in turn, forego the right to receive their pro rata share of the Edwards Preliminary Settlement Amount. Taxpayers who did opt out of the class received their pro rata share of the settlement fund, but the Commission has already paid $1,100,000 to cover the administrative costs of refund administration pursuant to the trial court's order. The final settlement provided an additional $70,000 paid from the Edwards Preliminary Settlement Amount to cover expenses. Based on the final approval, approximately $6,400,000 was returned to the Commission. Two members of the settlement subclass have filed an appeal of the trial court's final approval of the settlement. The Bankruptcy Court granted the County's motion to lift the automatic stays as to such appeal. On November 16, 2012, the Alabama Supreme Court affirmed the trial court's order approving the final settlement.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Weissman v. Jefferson County, Case number CV-09-904022, was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, in December 2009. This case is a certified class action on behalf of occupational, license and privilege taxpayers who paid such taxes pursuant to Alabama Act 2009-811. The taxes levied between August 1 and December 31, 2009, amounted to approximately $31 million, but portions of those taxes (consisting in no small part of taxes attributable to work done outside Jefferson County) may not have to be refunded.

On December 1, 2010, the trial court granted summary judgment for the plaintiffs and enjoined the Commission from collecting any tax under authority of this act but did not order the Commission to refund amounts already collected. On March 16, 2011, the Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional but did not decide the question whether the Commission must refund the taxes collected prior to December 1, 2010. On August 8, 2012, the Bankruptcy Court granted the County's request that the appeal be allowed to proceed. On November 16, 2012, the Supreme Court of Alabama ruled that the County was not required to refund the taxes collected prior to December 1, 2010.

Wilson v. Bank of America, et al, Case number CV-2008-901907.00, was filed on June 16, 2008, in the Circuit Court of Jefferson County, Alabama, Birmingham Division. Plaintiffs, representatives of a putative class, allege that Jefferson County's sewer rates are unconstitutionally high, that the Indenture pursuant to which the Commission issued sewer warrants is invalid and that the chapter of the Alabama Code that authorized the issuance of the Commission's sewer warrants is invalid. Plaintiffs have sued several banks and individuals in addition to the Commission. The Commission, along with numerous other parties, moved to dismiss the action. The Bankruptcy Court subsequently denied all motions to dismiss. Several defendants petitioned the Alabama Supreme Court for writs of mandamus to have the trial court's denial of the motions to dismiss overturned, but the Alabama Supreme Court has not yet ruled on those petitions. In December 2011, one of the counts in this lawsuit was removed to the United States District Court for the Northern District of Alabama, which referred that count to the Bankruptcy Court, where the removed count was assigned Adversary Proceeding Number 11-00433-TBB. The matter remains pending with one count in Bankruptcy Court and one count in state court. The count in state court is stayed by operation of the automatic stays in effect in the Commission's Bankruptcy Case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Bank of New York Mellon as Trustee v. Jefferson County, et al, Case number 2:08-CV-1703-RDP, was filed on September 16, 2008, in the United States District Court for the Northern District of Alabama, Southern Division. This case has been administratively closed and is, therefore, stayed. It is a federal companion case to the state-court receivership case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

Bank of New York Mellon as Trustee v. Jefferson County, et al, Case number CV-09-2318, was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, on August 3, 2009. On September 22, 2010, the Plaintiff obtained the appointment of John S. Young, Jr., LLC as Receiver over the Commission's sewer system. A money judgment was also entered against the Commission in the amount of $515,942,500, but the recourse for that money judgment is limited to the net revenues of the sewer system. Notwithstanding the nonrecourse nature of the sewer warrants and of the money judgment referenced above, the plaintiff and various sewer warrant holders or warrant insurers have filed proofs of claim in the Bankruptcy Case that assert or may assert recourse claims against the Commission's general fund, including, without limitation, proofs of claim in unliquidated amounts filed by The Bank of New York Mellon as indenture trustee, FGIC, Syncora and AGM. The remaining claims in this lawsuit are for mandamus to the Commission and for an accounting of the sewer system revenues. Other than litigation pertaining to the Receiver's powers, there is no active litigation on the claims in this case.

Several additional parties sought to intervene in this matter after the order appointing the Receiver was entered. The potential intervening parties included the Attorney General of the State of Alabama, the plaintiffs from the *Wilson* action (discussed above), a group of Alabama state legislators and another group that includes legislators, Birmingham city officials and citizens. The trial court granted the Attorney General's motion to intervene but denied the motions of the other potential interveners on July 25, 2011. Among the intervention requests that were denied was the request of the Wilson plaintiffs, who subsequently appealed the order denying their motion. That appeal was stayed by the commencement of the Bankruptcy Case.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

After the commencement of the Bankruptcy Case, the plaintiff in the receivership action described herein, along with other parties, filed motions requesting that the Bankruptcy Court find that the automatic stays did not apply to this state court action or that the automatic stays should be lifted to allow the litigation to proceed in state court. The Commission opposed such motions. On November 21-22, 2011, the Bankruptcy Court held evidentiary hearings regarding these motions. On January 6, 2012, the Bankruptcy Court issued its opinion, holding that with one exception, the automatic stays in the Bankruptcy Case did prevent the state court litigation from proceeding and finding that cause did not exist for granting relief from such automatic stays to allow such state court litigation to continue. The one exception noted in the Bankruptcy Court's opinion related to postpetition net system revenues derived from the Commission's sanitary sewer system and the claims of the Commission's sewer warrant holders to such funds. The plaintiff and several other parties to this action appealed the Bankruptcy Court's decision, and the Commission, in turn, filed a cross-appeal. The United States Court of Appeals for the Eleventh Circuit granted the parties' petitions for permission to take direct appeals, and all such appeals and cross-appeals have been consolidated under the Court of Appeals' Case Number 12-13654. The parties have completed their briefing before the Eleventh Circuit on all appeals and cross-appeals. Oral argument has tentatively been scheduled before the Eleventh Circuit for the week of June 3, 2013. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

Jefferson County, Alabama v. JPMorgan, et al, Case number CV-2009-903641.00, was filed on November 13, 2009, in the Circuit Court of Jefferson County, Alabama, Birmingham Division. The Commission brought suit against J.P. Morgan Securities, Inc.; JPMorgan Chase Bank National Association; Blount Parrish & Company; Charles LeCroy; Douglas MacFaddin; Larry Langford; William Blount; and Albert LaPierre asserting fraud, unjust enrichment and conspiracy claims. The claims are alleged to be based, at least in part, on events that took place before September 30, 2011. The Commission seeks damages in excess of a billion dollars, and the JPMorgan defendants have counterclaimed for indemnification. The case is proceeding in discovery, and the state court has scheduled the case for trial in October 2013. The outcome of this case is unknown.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Syncora Guaranty v. Jefferson County, Alabama, et al, Case number 601100/10, was filed on April 29, 2010, in the Supreme Court of New York, County of New York. This litigation was brought by Syncora, one of the insurers of Jefferson County's sewer warrants, against the Commission, JPMorgan Chase Bank, N.A. and J.P. Morgan Securities, Inc. (the two non-Commission defendants, collectively, JPMorgan). The claims are based, at least in part, on events that allegedly took place before September 30, 2011. Syncora alleges that the Commission committed fraud in two ways. First, it alleges that the Commission suppressed the existence of analyses of the Commission's sewer operations that would have shown Syncora that the system's expected revenues were insufficient to meet its debt service obligations. Second, Syncora alleges that the Commission and JPMorgan concealed the bribery scheme that existed between certain former Commissioners and JPMorgan. Syncora claims damages in excess of $400,000,000, and the Commission disputes such claims. Unlike the *Bank of New York Mellon* litigation where the plaintiff's recovery was limited to the net revenues of the sewer system, it is possible that Syncora could seek to collect any damages it is awarded from the Commission's General Fund.

The Commission counterclaimed against Syncora, claiming that Syncora defrauded the Commission by concealing the weakness of Syncora's investment portfolio. Syncora moved to dismiss the Commission's counterclaims, and the Court granted that motion. Moreover, JPMorgan has cross-claimed against the Commission for indemnification, alleging that certain documents executed in connection with the Commission's sewer financing require the Commission to reimburse any of JPMorgan's liability to Syncora. The Commission moved to dismiss JPMorgan's cross-claim, but that motion was denied at a hearing on August 16, 2011. This case is currently stayed as a result of the Commission's commencement of its Chapter 9 Bankruptcy Case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

Assured Guaranty Municipal (AGM) Corp v. JPMorgan, Supreme Court of the State of New York, County of New York, Case number 650642/10, was filed June 16, 2010. AGM brought claims against J.P. Morgan Securities, Inc. and JPMorgan Chase Bank, N.A. (collectively, JPMorgan) for fraud arising out of JPMorgan's involvement in the financing of improvements to the Commission's sewer system.

On February 10, 2011, JPMorgan filed a third-party complaint against the Commission, alleging that certain documents executed in connection with the Commission's sewer financing require the Commission to reimburse any of JPMorgan's liability to AGM arising out of this suit.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Commission moved to dismiss JPMorgan's third-party complaint, but that motion was denied at a hearing on August 16, 2011. The third-party complaint asserted by JPMorgan against the Commission currently is stayed as a result of the Commission's commencement of the Bankruptcy Case. AGM has filed a motion for relief from the automatic stays in the Bankruptcy Case seeking permission to proceed with its claims against JPMorgan. The Commission has opposed such motion, which is under consideration by the Bankruptcy Court. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

CSX Transportation v. Jefferson County, Case number CV-10-1490, and *BNSF v. Jefferson County*, Case number 10-903065, were filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division. These cases seek a refund of Commission sales taxes that were paid on the retail sale of diesel fuel. These cases have been stayed by the trial court pending the outcome of a similar case filed against the State of Alabama which was argued to the Supreme Court of the United States in October 2010. No loss has been recorded by the Commission at September 30, 2011.

In the Matter of J.P. Morgan Securities, Inc., Respondent; Securities and Exchange Commission, Administrative Proceeding, File No. 3-13673: The Commission has received $75,033,692 as the result of a settlement between J.P. Morgan Securities, Inc. (JPMSI) and the SEC that resolved cease and desist proceedings brought by the SEC against JPMSI under Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934.

Pursuant to an order dated November 4, 2009, JPMSI wired $50,000,000 to the Commission. The Commission received such funds on November 10, 2009. As set forth in the order, this payment was "to and for the benefit of Jefferson County, Alabama." Its purpose was to assist displaced Commission employees, residents and sewer ratepayers. Further pursuant to the November 4, 2009, order, JPMSI paid a disgorgement of $1.00 and a civil money penalty in the amount of $25,000,000 to the SEC, which created a "Fair Fund" pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002. The civil money penalty was "treated as penalties paid to the government for all purposes, including tax purposes."

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

On August 18, 2010, the SEC issued a Notice of Proposed Plan of Distribution and Opportunity for Comment pursuant to Rule 1103 of the SEC's Rules on Fair Funds and Disgorgement, 17 C.F.R. Section 201.110. The Notice provided that the pool of potential recipients of the Fair Fund included the Commission and the individuals and entities that purchased securities in the bond offerings underwritten by JPMSI. The SEC determined that the Commission "suffered direct economic harm" as a result of JPMSI's actions, including the cost of improper payments, inflated swap payments and inflated interest rates.

In addition, the SEC found that the Commission "suffered additional harm to its reputation, credit rating and ability to refinance." The SEC further concluded that the purchasers of securities suffered no harm from JPMSI's activities. Accordingly, the SEC concluded the Commission was the eligible recipient of the Fair Fund.

The Notice also provided for a public comment period, but the SEC received no comments. Accordingly, on October 7, 2010, the SEC issued an order approving the payment of the Fair Fund to the Commission. On February 1, 2011, the SEC entered an order directing disbursement of the Fair Fund and providing that validated electronic payment had been received and accepted by the Commission in the amount of $25,033,692.

Both The Bank of New York Mellon as Trustee for the Commission's Sewer Warrants and the Receiver appointed by the Jefferson County Circuit Court for the Commission's sewer system gave notice to the Commission of a claim to the proceeds of the $50,000,000 payment to the Commission by JPMSI under Alabama Code § 6-5-20. The earlier of these presentments was made on November 4, 2010. The claims are alleged to be based, at least in part, on events that took place before September 30, 2011.

By letter dated June 20, 2011, the Receiver demanded $50,000,000 of the funds received by the Commission from JPMSI. The Receiver noted that the purpose of the payment was to assist displaced Commission employees, residents and sewer ratepayers. The Receiver claimed responsibility for protecting sewer system ratepayers and demanded the $50,000,000 for the purpose of "using it to fund the Receiver's low-income assistance program for multiple years" and expressed a willingness "to discuss the possibility of a payment plan that fully funds the low-income assistance program." Also on June 20, 2011, the Receiver presented a claim for the Fair Fund proceeds in the amount of $25,033,692.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Following the filing of the Commission's Bankruptcy Case, the trustee for the Commission's sewer warrants filed a proof of claim in the Bankruptcy Case "in an amount not less than $85,562,828.31," which is predicated on the theory that the Commission was obligated to turn the SEC compensation funds over to the trustee and that the Commission's failure to do so breached purported duties owed by the Commission and created purported general obligations of the Commission payable from the Commission's general fund. Because the SEC orders make clear that all funds were paid to and for the benefit of the Commission, and in compensation of harm suffered by the Commission, the Commission has disputed such claims.

The outcome of this matter is unknown; therefore, the Commission cannot estimate a loss, if any, related to the claim by The Bank of New York Mellon or by the Receiver as of September 30, 2011.

Claim under Financial Guaranty Agreement with Syncora. Prior to the Commission's filing for Chapter 9 bankruptcy, Syncora gave notice of claim to the Commission under Alabama Code § 6-5-20 that it may seek reimbursement of $32,722,119 paid by Syncora on the Commission's behalf under a debt service reserve fund policy from September 2008 to December 2008. The notice of claim was filed on September 10, 2010. The claim is based, at least in part, on events that allegedly took place before September 30, 2011. This claim arises under a financial guaranty agreement between the Commission and Syncora. The amount of the claim may change with time because Syncora claims that it is entitled to receive from the Commission the costs it incurs in attempting to collect any amount owed under the financial guaranty agreement.

After the commencement of the Bankruptcy Case, Syncora filed proofs of claim in the Bankruptcy Case in which it asserted, among other claims, the reimbursement claim made in its September 10, 2010, notice of claim. There is currently no active litigation on this matter. The likely outcome of this matter is unknown.

Claim of Assured Guaranty Municipal Corp. On December 10, 2010, AGM Corp. made demand for reimbursement in the amount of $4,390,146 for draws made on insurance policies relating to the Commission's sewer warrants. The total amount of the claim as of December 10, 2010, was $5,032,109. After the commencement of the Bankruptcy Case, AGM filed a proof of claim in which it asserted, among other claims, its claim for reimbursements with respect to such debt service reserve insurance policy in the amount of $4,390,337, plus accrued interest thereon in the additional amount of $1,010,150.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Payments made on behalf of the Commission are accrued and reported as liabilities in these financial statements. The recourse for this payment is limited to sewer revenue. There is currently no active litigation on this matter.

US Bank Notice of Default Regarding School Warrants. Prior to the commencement of the Commission's Bankruptcy Case, the Commission was unable to replenish the reserve fund for the LO Series 2004-A, 2005-A and 2005-B Warrants as quickly as required by the Trust Indenture as a result of the credit rating downgrade of the issuer of the surety bond (Ambac) held as a part of the reserve fund. On September 24, 2012, after the commencement of the Bankruptcy Case, the Commission fully replenished such reserve fund. After the commencement of the Bankruptcy Case, US Bank filed one or more proofs of claim in the Bankruptcy Case in which it claimed, among other things, $819,650,000 in outstanding principal owing upon such LO Series Warrants, $10,203,964 in accrued and unpaid interest owing thereon and premium to the extent owing under the pertinent indenture. There is currently no active litigation on this matter.

Notice by Bayerische Landesbank and JPMorgan under Standby Warrant Purchase Agreements. The Commission received notice from Bayerische Landesbank on August 10, 2010, and JPMorgan Chase Bank, N.A. on October 25, 2010, that these entities were invoking their rights under their standby warrant purchase agreements relating to certain of the Commission's General Obligation Warrants.

These agreements do not change the principal amount of the pertinent general obligation warrants, but they do provide for acceleration of principal payments and provide for interest to accrue at higher rates to holders of warrants purchased pursuant to those standby agreements. Wells Fargo Bank, the successor indenture trustee with respect to the GO Warrants in question, has filed a proof of claim in the Bankruptcy Case with respect to such warrants in the amount of $105,138,677. Both Bayerische Landesbank and JPMorgan Chase Bank, N.A. have also filed proofs of claims asserting claims with respect to the respective standby warrant purchase agreements. There is currently no active litigation on this matter.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Potential Obligations under Standby Warrant Purchase Agreements Relating to Sewer Warrants (also discussed in Note J). Sewer warrants were purchased by financial institutions under various standby warrant purchase agreements. The total principal amount of sewer warrants purchased under these standby warrant purchase agreements is approximately $850,000,000. These agreements do not change the principal amount of the Commission's sewer warrants, but they do provide for acceleration of principal payments and provide for interest to accrue at higher rates to holders of warrants purchased pursuant to those agreements. The indenture trustee with respect to the sewer warrants has filed a proof of claim in the Bankruptcy Case in which it asserts a claim for all amounts due on account of the Commission's outstanding sewer warrants, which claim encompasses those sewer warrants purchased under such standby warrant purchase agreements. In addition, some, if not all, of the parties that purchased sewer warrants pursuant to such standby warrant purchase agreements (or their assignees) have filed their own proofs of claim in the Bankruptcy Case with respect to the sewer warrants they hold. There is currently no active litigation on this matter.

Claim Against County Regarding Validity of Sewer Warrants. On June 1, 2011, James Hilgers sent a notice of claim to the Commission President that takes the position that the Commission's sewer debt is void and unenforceable because it does not comply with the requirements of Amendment 73 of the Constitution of Alabama. The Commission continues to evaluate the allegations of this claim in connection with its Bankruptcy Case, and there is currently no active litigation with respect to it. The likely outcome of this matter is unknown.

Jefferson County, Alabama v. Unisys Corporation v. Manatron, Inc. United States District Court for the Northern District of Alabama, Southern Division, Case number 2:10-CV-00485-KOB: The Commission filed this suit on March 9, 2010, asserting claims for breach of contract and unjust enrichment against defendant, Unisys Corporation (Unisys), arising from a contract where Unisys contracted to provide an integrated tax system to the Commission. Unisys asserted a counterclaim against the Commission, asserting claims for breach of contract and in quantum meruit, alleging that the Commission wrongfully terminated its contract with Unisys regarding the integrated tax system project. The Commission and Unisys reached a mutually agreeable resolution of the matter resulting in execution of a settlement agreement and mutual release between the Commission and Unisys. After the filing of a Joint Stipulation of Dismissal by the Commission and Unisys, pursuant to an Order Dismissing Party entered on May 4, 2011, the Court dismissed all claims between the Commission and Unisys, with prejudice, with each party to bear its own costs and expenses.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Bank of New York Mellon, as Indenture Trustee, v. Jefferson County, Alabama. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00016: The Trustee for the Commission's sewer warrants commenced this action against the Commission in February 2012 in the Bankruptcy Court. The complaint seeks a declaratory judgment, among other things, that the Trustee is entitled to receive all "System Revenues" from the Commission's sanitary sewer system net only of those items defined as "Operating Expenses" in the pertinent trust indenture and that the Commission was barred from using such "System Revenues" for capital expenditures, payment of professional fees and expenses unrelated to the actual operation and administration of the sewer system, and depreciation and amortization. The Trustee's complaint was subsequently amended to add certain of the warrant holders and warrant insurers as plaintiffs. In addition, one of the warrant insurers, FGIC, filed a complaint in intervention against the Commission. The Bankruptcy Court severed three counts of the plaintiffs' complaint and the Commission's counterclaims into a separate adversary proceeding (see discussion below). The Bankruptcy Court then proceeded to consider the remaining counts of the plaintiffs' complaint based upon the parties' respective trial briefs, evidence and argument presented on April 11-12, 2012, and certain subsequent submissions.

On June 29, 2012, the Bankruptcy Court issued its memorandum opinion and summarized its ruling as follows:

> Operating Expenses as determined under the Indenture do not include (1) a reserve for depreciation, amortization, or future expenditures, or (2) an estimate for professional fees and expenses. At the end of each monthly period, as is determined under the Indenture, the monies remaining in the Revenue Account following payment of the Operating Expenses that were (1) incurred in the then current month or any prior month and (2) due and payable in the then current month or a prior month are to be remitted in the priority and manner as set forth in Article XI of the Indenture without withholding of any monies for depreciation, amortization, reserves, or estimated expenditures that are the subject of this litigation. Additionally, 11 U.S.C. § 928(b) is inapplicable to the pledge of revenues under the Indenture and the distributive scheme in Article XI of the Indenture.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

One issue not addressed by the Bankruptcy Court's memorandum opinion was the Commission's ability to recover actually incurred sewer-related professional fees and expenses from sewer system revenues as "Operating Expenses" under the sewer warrant indenture. In order to preserve and pursue its rights in this respect, the Commission filed a motion seeking reconsideration, clarification or amendment of the Bankruptcy Court's memorandum opinion on July 5, 2012. The Commission's motion was opposed by the Trustee and other plaintiffs in this adversary proceeding. In October 2012, the Bankruptcy Court entered its amended memorandum opinion and an agreed order resolving the Commission's motion for reconsideration, reserving certain issues and directing entry of partial final judgment in the adversary proceeding. The Commission filed a notice of appeal of the Bankruptcy Court's decision and has petitioned for certification of that appeal directly to the U.S. Circuit Court of Appeals for the Eleventh Circuit. The Commission's petition for direct appeal is pending before the Eleventh Circuit. Separately, the Bankruptcy Court has taken under advisement and has not ruled on issues concerning the Commission's ability to recover numerous categories of actually incurred professional fees and expenses from sewer system revenues. The likely outcome of this matter is unknown.

Bank of New York Mellon v. Jefferson County, Alabama. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00067-TBB (the "Severed Sewer Adversary Proceeding"): As referenced above, on April 25, 2012, the Bankruptcy Court entered an order severing three of the plaintiffs' counts, as well as certain counterclaims filed by the Commission, from adversary proceeding number 12-00016 and into a separate adversary proceeding. That severed adversary proceeding remains pending before the Bankruptcy Court as adversary proceeding number 12-00067. The severed claims and the Commission's counterclaims seek a determination about the parties' respective rights, title and interest in three funds commonly referred to as the Released Escrow Funds, the 2005 Construction Fund and the Supplemental Transactions Fund. In its counterclaims, the Commission asserts that it owns each of these three funds free and clear of any lien, pledge or other property interest. The plaintiffs and the Commission have filed respective motions for summary judgment and accompanying briefs. The Bankruptcy Court has not ruled on the summary judgment motions, which were presented at a hearing on January 24, 2013. The likely outcome of this matter is unknown.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Bennett et al. v. Jefferson County, Alabama, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00120: On behalf of a putative class of individual and corporate sewer ratepayers of the Commission, 15 named plaintiffs have sued the Commission (in a nominal capacity) and 14 other organizations. The plaintiffs subsequently dismissed six of the nine counts originally asserted in their complaint. In their remaining counts, the ratepayer-plaintiffs seek injunctive and declaratory relief in addition to damages based on the following theories: (1) declaratory judgment that swap agreements relating to certain of the Commission's sewer warrants violated the pre-issuance requirements of the sewer warrant indenture and are void from the date of issuance (against all defendants other than the Commission); (2) declaratory judgment that such sewer swap agreements violate the Alabama constitutionally mandated debt restrictions (against all defendants other than the Commission); and (3) declaratory judgment that any obligations relating to such sewer swap agreements are not secured by a statutory lien and trust created by Alabama Code Section 11-28-3 and that none of the net revenues and other funds comprising the trust estate under the sewer warrant indenture are secured by a lien on sewer system service fees collected in accordance with Amendment 73 of the Alabama Constitution (presumably against all defendants).

The Commission has moved to strike the class claims and has moved for a more definite statement of the complaint. The other defendants have moved to dismiss the claims against them. Briefing on those motions is not complete. Proofs of claim which appear to be based on similar theories have been filed in the Bankruptcy Case by members of the putative class, including the proofs of claim filed by Roderick Royal on behalf of the putative class in the amount of $1,630,000,000. The likely outcome of this matter is unknown.

City of Birmingham, et al., v. Jefferson County Commission, et al. Circuit Court of Jefferson County, Alabama, Case number CV-2012-902529; and *City of Birmingham, et al., v. Jefferson County Commission, et al.*; United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00133: In August 2012, the City of Birmingham and Mayor William A. Bell, Sr. (the Mayor) filed a complaint in state court against the Commission, seeking a declaratory judgment that the Commission should be barred from terminating inpatient and emergency room care at Cooper Green Mercy Hospital (Cooper Green).

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

In response, the Commission filed with the Bankruptcy Court an emergency motion requesting entry of an order compelling the City of Birmingham and the Mayor to comply with the automatic stays of Bankruptcy Code Sections 362(a) and 922(a). The Bankruptcy Court held a hearing on the Commission's motion on August 30, 2012. On September 11, 2012, the City and the Mayor filed a Notice of Dismissal of their state court lawsuit, without prejudice.

After dismissing their lawsuit in state court, the City and the Mayor then filed a motion with the Bankruptcy Court requesting relief from the automatic stays to file another complaint in state court challenging the Commission's decision to stop providing inpatient care and to close the emergency room at Cooper Green. The City and the Mayor also filed a complaint with the Bankruptcy Court, naming the Commission and three County Commissioners as defendants in the complaint, thereby commencing adversary proceeding number 12-00133. The factual allegations and requested relief in the second complaint were almost identical to those in the original complaint filed in state court. On October 15, 2012, the Commission filed a motion to dismiss with regard to the City's and the Mayor's complaint in the Bankruptcy Court. The Bankruptcy Court has not ruled on the Commission's motion to dismiss.

On October 17, 2012, the Bankruptcy Court held a hearing on the City's and the Mayor's motion for relief from stay to file a complaint in state court. The Bankruptcy Court denied the stay relief motion, holding that state law did not require that the Commission maintain inpatient or emergency services at Cooper Green. The Bankruptcy Court issued its memorandum opinion on December 19, 2012, regarding its denial of the stay relief motion. The time for filing a notice of appeal from the Bankruptcy Court's December 19, 2012, ruling has expired.

Moore Oil Co., Inc. v. Jennifer Champion, as Treasurer of the County. U.S. Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00060: In April 2012, Moore Oil Co., Inc. (Moore Oil) filed a complaint in the Bankruptcy Court against Jennifer Champion, as Treasurer of the Commission, in which it alleged that the Treasurer breached a constructive trust by failing to remit to Moore Oil excess bid proceeds from a tax sale and thereby caused damages to Moore Oil. The Commission moved to dismiss the Moore Oil Adversary Proceeding on the basis that the claims asserted therein were prepetition causes of action that should be handled through the bankruptcy claims administration procedures, not as a separate adversary proceeding. The Bankruptcy Court agreed and dismissed the adversary proceeding.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Moore Oil subsequently filed a proof of claim in the Bankruptcy Case in the amount of $178,916 in which it asserts the claims that it previously asserted in the adversary proceeding. The likely outcome of this matter is unknown.

Lehman Brothers Special Financing Inc. v. The Bank of New York Mellon, as indenture trustee, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00149: In October 2012, Lehman Brothers Special Financing Inc. filed an adversary proceeding in the Bankruptcy Court against the Trustee for the Commission's sewer warrants and the Commission seeking a declaration that certain claims asserted by Lehman Brothers on account of certain swap agreements relating to the sewer warrants to which it was a party were entitled to parity treatment with other nonrecourse sewer warrant obligations. Both the indenture trustee and the Commission have filed answers to this complaint. The likely outcome of this matter is unknown.

Ahmed Farah v. Jefferson County Commission, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 13-00002: In January 2013, Dr. Farah filed suit against the Commission and the Commission's chief executive officer claiming money damages in the amount of $276,000 for alleged breach of contract, unjust enrichment and declaratory judgment. The deadline for the Commission to respond to Dr. Farah's complaint is February 8, 2013. The likely outcome of this matter is unknown.

Claims Relating to County's Lease Agreement with the Public Building Authority. Pursuant to a Lease Agreement dated as of August 1, 2006 (the Lease Agreement), the Commission leased from the Jefferson Commission Public Building Authority (the PBA) a courthouse and jail facility in Bessemer, Alabama (the Facilities). The Lease Agreement was renewable for successive one-year terms continuing to and including September 30, 2026. Payments under the Lease Agreement are used to pay debt service on certain warrants issued by the PBA in the principal amount of $86,745,000 pursuant to a trust indenture dated as of August 1, 2006. In the Bankruptcy Case, the Commission filed a motion to reject the Lease Agreement pursuant to Section 365 of the Bankruptcy Code. Both the indenture trustee regarding the PBA's lease warrants and the insurer of such warrants opposed the Commission's rejection of the Lease Agreement.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The indenture trustee filed a proof of claim in the Bankruptcy Case alleging that the Commission was liable in an amount not less than $86,475,000 on account of the PBA's lease warrant indebtedness, and the insurer of the lease warrants filed a proof of claim asserting a claim for all reimbursements owed or to be owed it for amounts drawn on its insurance policy, plus interest. After substantial negotiations, the Commission reached a settlement agreement with the PBA, the indenture trustee and the lease warrant insurer, pursuant to which the parties agreed to the Commission's rejection and termination of the existing Lease Agreement, with the parties to enter into a new lease agreement for the courthouse and jail facility on modified terms (the New Lease). The settlement allows for the filing of a proof of claim in the Bankruptcy Case for the "Rejection Claim" arising out of the Commission's agreed upon rejection of the Lease Agreement. In accordance with the provisions of the Bankruptcy Code, such "Rejection Claim" should be treated in the Bankruptcy Case as if it arose prior to the commencement of the Bankruptcy Case. By order dated December 20, 2012, the Bankruptcy Court approved this settlement. The "Effective Date" of the settlement occurred on January 9, 2013, and the Commission's rights and obligations with respect to the Facilities are now governed by the New Lease.

United States v. Jefferson County, et al. United States District Court for the Northern District of Alabama, Southern Division, Case number 2:75-CV-00666-CLS: Various private plaintiffs and the United States filed suit against the Jefferson County Personnel Board and other defendants to remedy alleged wrongs in the hiring and promotion of African-American and female applicants and employees. After considerable negotiations, litigation and appeals, the Commission entered into a consent decree on December 29, 1982. This decree, along with other consent decrees executed by other parties, remained the subject of further litigation and negotiations, including, in 2002, the federal district court appointing a receiver for the Jefferson County Personnel Board.

At present, the active portion of the litigation began on October 3, 2007, when two groups of plaintiffs claimed that the Commission had failed to comply with the consent decree's requirements to ensure equal employment for blacks and women and to remedy the effects of prior discrimination. The plaintiffs also allege that the Commission has failed to comply with consent decree requirements regarding hiring specific compliance officers and recordkeeping. The plaintiffs sought to hold the Commission in contempt and sought to modify the consent decree to mandate particular practices that the plaintiffs would like to see implemented. On January 27, 2012, the federal district court found that the automatic stays did not apply to the portions of this lawsuit that concern the Commission.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Claims for Tax Remittances Made by Certain Municipalities. In the Bankruptcy Case, certain municipalities located within Jefferson County have filed proofs of claim, asserting claims against the Commission for the remittance of certain tax collections. Two of these municipalities' proofs of claim are significant: (a) the proof of claim filed by the City of Birmingham in the amount of $10,999,743 for the remittance of road taxes and business privilege taxes and (b) the proofs of claim filed by the City of Bessemer, in the amount of $2,962,250, for the remittance of certain taxes and other alleged damages. The likely outcome of this matter is unknown.

Pending Sewer-Rate-Related Stay Relief Litigation. A series of motions for relief from stay has been filed by FGIC (motion filed on March 28, 2012), the indenture trustee for the Commission's sewer warrants (motion filed on November 5, 2012) and a group of sewer warrant holders (the Ad Hoc Group) (motion filed on November 10, 2012) in the Bankruptcy Court seeking relief from the automatic stays to allow the indenture trustee to enforce contractual remedies relating to sewer rates. Assured has filed a joinder to the indenture trustee's motion. These stay relief motions generally allege that the Commission has failed to adequately protect the interests of the sewer warrant holders and that other "cause" exists to lift the automatic stays. The motions do not seek damages from the Commission. The matter is currently in discovery, and a final hearing commenced on January 30, 2013. The likely outcome of this matter is unknown.

Internal Revenue Service Examinations. The Commission has received and responded to (i) Examination Letters dated May 2, 2011, from the Internal Revenue Service with respect to the Commission's Sewer Revenue Refunding Warrants, Series 2003-B and 2003-C and (ii) an Examination Letter dated June 28, 2012, received from the Internal Revenue Service with respect to The Jefferson County Public Building Authority's Lease Revenue Warrants, Series 2006. In each case, the IRS has undertaken a review of compliance with the federal tax laws and regulations applicable to the excludability of interest on the warrants under examination from gross income of the holders thereof for federal income tax purposes. The likely outcome of this matter is unknown.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Claims Relating to Layoffs at Cooper Green. On or about December 19, 2012, letters were sent to approximately 210 employees of Cooper Green, advising them that they were being placed on administrative leave without pay. On December 27, 2012, the Commission received a letter from Birmingham, Alabama attorney Emory Anthony (the Anthony Letter) in which he asserted, among other things, that the Commission used the incorrect Personnel Board rule to lay off these 210 employees and that the Commission failed to follow appropriate procedures in laying off these employees. The Commission has advised the Personnel Board of the Anthony Letter. The likely outcome of this matter is unknown.

Claims Relating to Landfill Operation. The Commission owns a landfill which it leases to Santek, a private operator. Prior to the commencement of the Bankruptcy Case, the Commission, as a municipality, was excepted from the general requirement that it post a bond or other financial security with the Alabama Department of Environmental Management ("ADEM") as a condition to the operation of such landfill. ADEM has advised the Commission that ADEM does not believe that the Commission is currently entitled to benefit from such exception and, accordingly, has requested that a bond or other financial security be posted with ADEM. The likely outcome of this matter is unknown.

The Commission is currently defending various other lawsuits. In addition, claims against the Commission have been filed that have not yet resulted in lawsuits. The Commission shall continue to consult with legal counsel regarding these lawsuits and claims and defend against them. As of September 30, 2011, the Commission has accrued any estimated litigation costs in the accompanying statement of net assets.

Additionally, a process was established in the Bankruptcy Case pursuant to which any party asserting a claim against the Commission arising before the commencement of the Bankruptcy Case could file a "proof of claim" against the Commission. To date, over one thousand proofs of claim have been filed in the Bankruptcy Case. The Commission has not yet reviewed all of the proofs of claim that have been filed. The Commission is likely to object eventually to many of these proofs of claim on various grounds.

The Commission has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of grants. Management believes such disallowances, if any, will be immaterial.

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

The Commission adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* as of September 30, 2011. GASB Statement No. 54 establishes the criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The statement requires that fund balance reclassifications made to conform to the provisions of this statement should be applied retroactively by restating fund balance for all prior periods presented. The adoption of this statement did not have a material impact on the Commission's financial statements.

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the Commission as of September 30, 2010. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Until a Plan of Adjustment is approved by the court, the Commission does not believe any changes to the financial statements are required. The adoption of this statement did not have a material impact on the Commission's financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is effective for the Commission beginning with the fiscal year ending September 30, 2013. This statement improves financial reporting for governmental organizations to better meet user needs and address current reporting entity issues. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The effect of the application of this statement on the Commission has not been determined.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for the Commission beginning with the fiscal year ending September 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The effect of the implementation of this statement on the Commission has not been determined.

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

In July 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for the Commission beginning with the fiscal year ending September 30, 2013. GASB Statement No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. This statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This statement also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The effect of the implementation of this statement on the Commission has not been determined.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, which is effective for the Commission beginning with the fiscal year ending September 30, 2012. GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of an interest rate swap counterparty or an interest rate swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The adoption of this statement did not have a material impact on the Commission's financial position since the terminated interest rate swap agreements had been previously recorded at their fair values due to their terminations.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for the Commission beginning with the fiscal year ending September 30, 2014. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The effect of the implementation of this statement is not expected to have a material impact on the Commission's financial statements.

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012*, which is effective for the Commission beginning with the fiscal year ending September 30, 2014. This statement was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The effect of the implementation of this statement on the Commission's financial statements has not been determined.

In June 2012, the GASB issued Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*, which are effective for the Commission beginning with the fiscal year ending September 30, 2015. These statements were issued to improve financial reporting by state and local governmental pension plans. GASB Statement No. 67 replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The effect of the implementation of these statements on the Commission's financial statements has not been determined.

NOTE U - UNCERTAINTIES

In the first quarter of calendar 2008, rating agencies downgraded the credit ratings of certain bond insurers that insure portions of the Commission's variable rate and auction rate indebtedness related to the Jefferson County Commission Sewer System (the System). The ratings downgrades of these bond insurers caused the remarketing mechanisms for the System's variable and auction rate debts to fail, resulting in higher interest rates and, in the case of all outstanding variable rate warrants, accelerated amortization of principal on warrants held by the liquidity banks. Prior to these events, the System's cash flows generally were sufficient to meet operating expenses and to service the regularly-scheduled debt on the System.

NOTE U - UNCERTAINTIES - Continued

As a result of these events, debt service on the System debt, taking into account the accelerated payments due to the liquidity banks, has exceeded the net revenues of the System. As of September 30, 2011, the Commission continued to operate the System, collect revenues and plan and carry out needed maintenance and capital improvements.

The System's debt is payable only from the net revenues of the System. The System's debt is nonrecourse to the Commission and is not payable from the Commission's General Fund or any non-System revenues. Nevertheless, the Commission's Finance Committee proposed in 2008 for the Commission to address the System's financial difficulties by filing a petition under Chapter 9 of Title 11 of the United States Code (the Bankruptcy Code); such motion was defeated by vote of the full Commission in October 2008.

The bond insurers have paid a portion of the System's debt service pursuant to policies issued in connection with the System's debt, and such policies provide for the System's reimbursement of the payments made by the bond insurers. Because the System's debt is secured by a pledge of only the net revenues of the System, the Commission is allowed by the governing documents, consistent with applicable law, to pay all operating expenses prior to the payment of debt service. Because of the nonrecourse nature of the System debt, holders of the System debt have no claim against the Commission's General Fund or non-System revenues.

Beginning in fiscal 2009, the Commission engaged in negotiations with various holders of sewer warrants to refinance or restructure the System debt without recourse to a Chapter 9 filing. During 2009 and through September 2010, the Commission continued discussions with various holders of System debt but was unable to reach resolution. On September 22, 2010, the Trustee of the Sewer warrants obtained appointment of a Receiver over the System. See Note S for a discussion of the related litigation. The Receiver had authority with respect to factors that may affect a refinancing or restructure of the System debt, such as System operations and revenues.

Subsequent to the appointment of the Receiver, certain holders of System debt expressed a desire to delay substantive negotiations until they could assess the effect of the receivership on net System revenues. On June 27, 2011, the Receiver and the State Finance Director entered into a 30-day standstill agreement to facilitate negotiations with various holders of the System debt, which was subsequently extended to August 4, 2011, and again to August 12, 2011.

NOTE U - UNCERTAINTIES - Continued

On August 12, 2011, the Receiver and the Finance Director agreed to a further extension of the standstill agreement until September 16, 2011. Pursuant to their agreement, so long as the Commission did not file a petition under Chapter 9, among other things, the Receiver agreed to delay a planned System rate increase for the same period and to give the Commission 10 days' notice of his intent to terminate the forbearance period. On September 16, 2011, the Commission approved a nonbinding term sheet for the restructuring of the System debt. The term sheet was countersigned by the Receiver, who presented himself to the Commission as an intermediary for holders of the vast majority of the System's debt. After more than seven weeks of negotiation, the Commission was unable to obtain the agreement of the majority-holders of the System's debt to enter into a definitive restructuring agreement implementing the economic concessions contemplated in the term sheet.

Meanwhile, the Receiver pushed forward with his efforts to raise sewer rates on System customers and with his demands for $75 million received by the Commission's general funds from JP Morgan Securities pursuant to a settlement with the Securities Exchange Commission. (See Note S)

On November 9, 2011, the Commission approved a resolution authorizing the filing of a petition in the name of Jefferson County for relief under Chapter 9 of the Bankruptcy Code. Such petition for relief was filed on November 9, 2011, in the U.S. Bankruptcy Court for the Northern District of Alabama, Southern Division (the Bankruptcy Court) and is styled *In re: Jefferson County, Alabama*, Case number 11-05736-9 (the Bankruptcy Case). Upon the commencement of the Bankruptcy Case, the automatic stay provisions imposed by the Bankruptcy Code discontinued the Receiver's authority over the System and restored control of the System to the Commission. The Trustee for the sewer warrants, along with other parties, has filed motions in the Bankruptcy Case requesting relief from the automatic stay. See Note S for a discussion of the Bankruptcy Case and related litigation. The Commission is currently negotiating with various holders of the System's debt to restructure the System's nonrecourse obligations through a Chapter 9 plan of adjustment. However, the outcome of those negotiations cannot be assured at this time.

NOTE U - UNCERTAINTIES - Continued

There are also uncertainties relating to the Commission's general fund. On December 1, 2010, the Circuit Court of Jefferson County ruled that Act 2009-811 of the Alabama Legislature, pursuant to which the Commission had levied an occupational and business license tax, was unconstitutional. Prior to the commencement of the Bankruptcy Case, the Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional but did not decide the question whether the Commission would be required to refund the taxes collected prior to December 1, 2010. On November 16, 2012, the Supreme Court of Alabama ruled that the Commission was not required to refund taxes collected prior to December 1, 2010. The Bankruptcy Court subsequently modified the automatic stay under Chapter 9 of the Bankruptcy Code to allow the plaintiffs in the case to file a petition for writ of certiorari to the Supreme Court of the United States. No writ of certiorari has been filed. See Note S for a discussion of the related litigation.

The loss of the occupational and business license tax eliminated over $75 million of annual revenues used to fund the Commission's general operations and payment of long-term general obligations. The Commission lacks "home rule" to allow it to reauthorize these lost tax revenues. Legislative efforts to restore or replace the occupational and business license tax revenues have not been successful to date. Accordingly, the Commission has implemented cuts in staffing and services. The Commission's general fund problem was another factor precipitating the Commission's decision to file for Chapter 9 relief. The loss of this tax revenue could have a material effect on future operations. While the Legislature may take action in the future to enhance the Commission's general fund revenues, the outcome of any legislative efforts cannot be assured at this time.

The Commission depends on financial resources flowing from, or associated with, both the Federal Government and the State of Alabama. Because of this dependency, the Commission is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

NOTE V - SUBSEQUENT EVENTS

On February 22, 2011, the Commission authorized the sale of its nursing home facility to a Birmingham-based nonprofit health care organization for $9,500,000. However, upon expiration of the due diligence period, a satisfactory agreement could not be reached. As a result, on September 13, 2011, the Commission agreed to sell 238 licensed beds at the nursing home to an unrelated Alabama entity for $8,300,000. On May 21, 2012, Healthsouth Corporation filed a "notice of opposition and intervention" with the Alabama State Health Planning and Development Agency opposing the sale of the nursing home beds. On May 24, 2012, the Commission accepted a letter of intent from an unrelated New York-based company to sell the capital assets of the nursing home facility for $2,950,000 contingent on the completion of certain due diligence procedures. On January 17, 2013, Healthsouth Corporation reached a settlement with the unrelated Alabama entity to allow the Commission to sell the licensed beds. As of the date of our audit report, the sale of neither the beds nor the capital assets was certain. At September 30, 2011, an impairment loss of $4,661,000 was recognized due to the decline in service utility of the nursing home capital assets.

On August 28, 2012, the Commission voted to close the inpatient care unit at Cooper Green Mercy Hospital. The Commission continues to work through the details to provide cost-effective healthcare to the indigent residents of Jefferson County. The Commission is currently evaluating the potential impairment of the hospital's capital assets, which have a net book value of $36,871,000 at September 30, 2011.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Material Event Notices

October 4, 2011 - The October 4, 2011, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $46,046,250 in aggregate principal amount of Warrants was due for accelerated redemption on October 1, 2011. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on October 1, 2011.

NOTE V - SUBSEQUENT EVENTS - Continued

November 9, 2011 - The November 9, 2011, Material Event Notice disclosed that the Commission authorized the filing of a petition for relief under Chapter 9 of the United States Bankruptcy Code on behalf of and in the name of Jefferson County. The petition was filed with the United States Bankruptcy Court for the Northern District of Alabama, Southern Division, at 4:29 p.m. CST, November 9, 2011, and is styled *In re: Jefferson County, Alabama,* Case No. 11-05736-9.

January 5, 2012 - The January 5, 2012, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $46,046,250 in aggregate principal amount of Warrants was due for accelerated redemption on January 1, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on January 1, 2012.

February 7, 2012 - The February 7, 2012, Material Event Notice disclosed that the Commission had requested additional information from the Trustee regarding debt service payments made during February 2012, as well as information regarding the application of sewer revenues for December 2011 and January 2012.

February 13, 2012 - The February 13, 2012, Material Event Notice disclosed that the Trustee had disseminated a Notice to Holders dated February 7, 2012, to holders of certain Sewer Warrants to provide an update on the status of current bankruptcy proceedings.

March 9, 2012 - The March 9, 2012, Material Event Notice disclosed that the Commission had retained Kurtzman Carson Consultants LLC as Claims Noticing and Balloting Agent during the pendency of the Commission's Chapter 9 Bankruptcy Case.

April 6, 2012 - The April 6, 2012, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $9,135,000 in aggregate principal amount of Warrants was due for accelerated redemption on April 2, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on April 2, 2012.

NOTE V - SUBSEQUENT EVENTS - Continued

July 9, 2012 - The July 9, 2012, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $20,000 in aggregate principal amount of Warrants was due for accelerated redemption on July 2, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on July 2, 2012.

January 25, 2013 - The January 25, 2013, Material Event Notice disclosed a ratings downgrade related to the Series 2003-B and 2003-C Warrants insured by Ambac. On January 17, 2013, the long-term insured rating assigned to the Warrants was reduced from "Aa3" to "A2" by Moody's in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Ambac. The current reduced rating of the Warrants is classified as "Stable" by Moody's. In addition, the current "AA-" long-term insured rating assigned to the Warrants by S&P is listed as "Stable".

February 1, 2013 - The February 1, 2013, Material Event Notice disclosed that a payment default had occurred on certain Sewer Capital Improvement and Refunding Warrants (Series 1997-A, Series 2001-A, Series 2002-A, Series 2002-C and Series 2003-B Warrants). Debt service payments on certain of the Warrants were due on February 1, 2013. The Trustee has disseminated the Notice of Holders dated February 1, 2013 (the "Trustee Notice"). Pursuant to an order of the Bankruptcy Court filed on July 2, 2012, the Commission had been remitting the net revenues of the Commission's Sewer System to the Trustee in the manner provided by Article XI of the Trust Indenture. The Trustee Notice states that the Trustee has decided to hold such net revenues remitted by the Commission and suspend payment of debt service on the Warrants, as well as any draws on insurance policies securing the Warrants, until further notice. In addition, the Trustee Notice describes the Trustee's intent to (i) file a complaint for declaratory judgment with the Bankruptcy Court to address disputes regarding interpretation of the Trust Indentures and (ii) file with the Bankruptcy Court a motion for relief from automatic stay in the Chapter 9 Proceeding to permit the Trustee in its discretion to accelerate certain of the Warrants effective as of February 1, 2013.

NOTE V - SUBSEQUENT EVENTS - Continued

February 15, 2013 - The February 15, 2013, Material Event Notice disclosed a ratings downgrade related to the Series 1997-A, 2001-A, 2002-A, 2002-C, 2003-B and 2003-C Warrants. On February 13, 2013, the underlying rating assigned to the Warrants by Moody's was reduced from "Caa3" to "Ca". The current underlying rating of the Warrants is classified as "Outlook Negative" by Moody's.

Reduction in Restricted Cash Balances
Payments have been made from restricted cash accounts held by the Trustee subsequent to year end for sewer improvements or debt service on the warrants (principal or interest). Such restricted cash accounts had a balance of $202,941 as of September 30, 2011.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

Material Event Notices

November 9, 2011 - The November 9, 2011 Material Event Notice disclosed that the Commission authorized the filing of a petition for relief under Chapter 9 of the United States Bankruptcy Code on behalf of and in the name of Jefferson County. The petition was filed with the United States Bankruptcy Court for the Northern District of Alabama, Southern Division, at 4:29 p.m. CST, November 9, 2011, and is styled *In re: Jefferson County, Alabama,* Case No. 11-05736-9.

November 18, 2011 - The November 18, 2011, Material Event Notice disclosed a ratings downgrade related to the General Obligation Warrants. Certain of the Warrants are insured by National (GO Series 2003-A and 2004-A Warrants). On November 11, 2011, the underlying rating assigned to the Warrants by S&P was reduced from "B" to "C".

In addition, on November 14, 2011, the Trustee of the GO Series 2001-B Warrants provided notice of its resignation as trustee under Section 13.9(b) of the Trust Indenture, effective upon the appointment of a successor trustee and the delivery of a written acceptance by the successor trustee to the Commission and the Trustee.

November 18, 2011 - The November 18, 2011, Material Event Notice disclosed a ratings downgrade related to the LO School Warrants insured by Ambac (LO Series 2005-A and 20005-B Warrants). On November 11, 2011, the underlying rating assigned to the Warrants by S&P was reduced from "BBB-" to "B". The current underlying rating of the Warrants is classified as "Credit Watch Developing" by S&P.

NOTE V - SUBSEQUENT EVENTS - Continued

November 18, 2011 - The November 18, 2011, Material Event Notice disclosed a ratings downgrade related to the LR Series 2006 Warrants insured by Ambac. On November 11, 2011, the rating assigned to Warrants by S&P was reduced from "B-" to "C". The current underlying rating of the Warrants is classified as "Credit Watch Negative" by S&P.

December 1, 2011 - The December 1, 2011, Material Event Notice disclosed the appointment of Wells Fargo Bank, N.A. as successor trustee (the "Successor Trustee") for the GO Series 2001-B Warrants. The appointment occurred on November 21, 2011, and was subject to the Successor Trustee's written acceptance of appointment. On November 23, 2011, the Successor Trustee's appointment became effective upon delivery of such acceptance to the Commission and the Trustee.

March 9, 2012 - The March 9, 2012, Material Event Notice disclosed that the Commission had retained Kurtzman Carson Consultants LLC as Claims Noticing and Balloting Agent during the pendency of the Commission's Chapter 9 Bankruptcy Case.

March 30, 2012 - The March 30, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission announced that it will not make the principal and interest payments on the GO Series 2001-B, 2003-A and 2004-A Warrants due April 1, 2012. The Commission expects to suspend payment on the Warrants until debt service on the Warrants can be restructured under the Commission's Plan of Adjustment under Chapter 9.

March 30, 2012 - The March 30, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission failed to make the April 1, 2012, required lease principal payment in the amount of $4,130,000 and interest payment in the amount of $2,081,297 related to the LR Series 2006 Warrants. Under the Lease Agreement, the Commission is required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants. The Commission also stated that it does not plan to make a lease payment prior to April 1, 2012. The Commission expects that the Trustee will draw upon available monies on deposit in the Reserve Fund established under the Indenture to pay the principal and interest due on April 1, 2012.

NOTE V - SUBSEQUENT EVENTS - Continued

April 6, 2012 - The April 6, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission adopted a resolution instructing the County Manager to forego paying the April 2, 2012, debt service payments related to the GO Series 2001-B, 2003-A and 2004-A Warrants. Certain of the Warrants are insured by National.

The debt service payments for the National-insured Warrants were paid by draws on the National policies insuring such Warrants. The Commission expects to suspend payment on the Warrants until debt service on the Warrants can be restructured under the Commission's Plan of Adjustment under Chapter 9.

In addition, on April 2, 2012, the underlying rating assigned to the GO Series 2001-B, 2003-A and 2004-A Warrants by Moody's was reduced from "Caa1" to "Caa3". The current underlying rating of the Warrants is classified as "Under Review for Downgrade" by Moody's. On April 4, 2012, the underlying rating assigned to the National-insured Warrants by S&P was reduced from "C" to "D".

April 6, 2012 - The April 6, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission failed to make the April 1, 2012, required lease payment (discussed in the March 30, 2012, Notice above). The Trustee delivered a Notice of Default to the Commission by letter dated March 30, 2012, stating an Event of Default occurred under the Lease Agreement as a result of the Commission's failure to make the lease payment on March 28, 2012.

Failure by the Commission to pay the principal and interest on the LR Series 2006 Warrants in the amount of $6,211,297 when due on April 2, 2012, resulted in an Indenture Default. The Trustee drew upon available monies on deposit in the Reserve Fund established under the Indenture to pay the debt service due on April 2, 2012. The occurrence of an Event of Default under the Lease Agreement also created an additional Indenture Default.

In addition, on April 2, 2012, the underlying rating assigned to the LR Series 2006 Warrants by Moody's was reduced from "Caa2" to "Ca". The current underlying rating of the Warrants is classified as "Under Review for Downgrade" by Moody's.

August 23, 2012 - The August 23, 2012, Material Event Notice disclosed that on August 22, 2012, the Commission filed a motion in the United States Bankruptcy Court for the Northern District of Alabama, Southern Division, to reject the Lease Agreement related to the LR Series 2006 Warrants under Section 365(a) of the Bankruptcy Code.

NOTE V - SUBSEQUENT EVENTS - Continued

September 26, 2012 - The September 26, 2012, Material Event Notice disclosed under the Lease Agreement related to the LR Series 2006 Warrants, the Commission was required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants.

Interest in the amount of $1,978 was due with respect to the Warrants on October 1, 2012. The Commission did not make the required lease payment on September 26, 2012, and does not plan to make a lease payment prior to October 1, 2012. The Commission expects that the Trustee will draw upon available monies on deposit in the Reserve Fund established under the Indenture to pay interest due on October 1, 2012.

September 26, 2012 - The September 26, 2012, Material Event Notice disclosed that on September 25, 2012, the Commission adopted a resolution instructing the County Manager to forego paying the October 1, 2012, debt service payments related to the GO Series 2003-A, 2004-A and 2001-B Warrants. The Commission expects to suspend further debt service payments on the Warrants until such debt service can be restructured under the Commission's Plan of Adjustment under Chapter 9 of the Bankruptcy Code.

October 8, 2012 - The October 8, 2012, Material Event Notice disclosed that the Commission received a letter from the Internal Revenue Service (IRS) stating that an examination has been initiated of the Lease Revenue Warrants, Series 2006 to determine compliance with federal tax requirements. If the IRS determines that federal tax laws or regulations applicable to the Series 2006 Warrants have been violated, interest on the said Warrants could be declared taxable, and a tax liability could be assessed against the holders of all or some portion of the said Warrants.

January 17, 2013 - The January 17, 2013, Material Event Notice disclosed that the Commission had finalized the settlement and restructuring of its obligations with respect to the Warrants as described in the Trustee's *Notice to Warrantholders of Stipulation and Agreement with Jefferson County, Alabama, the Jefferson County Public Building Authority and Ambac Assurance Corporation* (LR Series 2006 Warrants) dated November 28, 2012, and is available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access site. The effective date of the settlement was January 9, 2013, and the Commission's obligations are now governed by the Indenture and a new Lease Agreement dated as of January 1, 2013. Also, see Note J - Warrants Payable, notice of event of default LR Series 2006 Warrants.

NOTE V - SUBSEQUENT EVENTS - Continued

February 15, 2013 - The February 15, 2013, Material Event Notice disclosed that the Commission has entered into a Plan Support Agreement dated as of February 11, 2013 (the Plan Support Agreement) between the Commission and Depfa Bank PLC, as holder of the entire outstanding principal amount of the Commission's LO Series 2005-B Warrants.

Under the terms of the Plan Support Agreement, the Commission has agreed to direct the Indenture Trustee (U.S. Bank) to utilize excess sales tax proceeds on hand and any future excess sales tax proceeds to make mandatory redemption payments for the LO Series 2005-A Warrants held by Depfa Bank PLC (under a standby warrant purchase agreement) in March 2013 and annually thereafter, foregoing any payments against principal amounts scheduled for redemption for such warrants pursuant to the amortization schedule. As part of the proposed plan, Depfa Bank PLC has agreed to reduce the interest rate on the Warrants to prime rate plus 2.25 percent and all Events of Default and cross defaults existing now or through the effective date of this plan for the Standby Warrant Purchase Agreements with Depfa Bank PLC shall be deemed waived without any requirement that the Commission take any action to cure or otherwise eliminate any such Event of Default.

Update on Bankruptcy Filing
While the Commission has ongoing negotiations regarding the warrants payable, a plan of reorganization has not been submitted or approved by the Bankruptcy Court subsequent to year end, and no adjustments have been recorded to the assets and liabilities reported herein through the date of these financial statements.

Lease Agreement
The Commission entered into a replacement lease agreement effective January 1, 2013, for the Jefferson County Public Building Authority related to the LR Series 2006 Warrants. The Lease Agreement is being issued to implement that certain Stipulation and Agreement Regarding the Settlement and Resolution of Certain Disputes entered into by and among the Commission, the Public Building Authority, the Trustee for the LR Series 2006 Warrants and Ambac (the Bond insurer for these warrants). (Also, see Note S.) Simultaneous with the Lease Agreement, the Public Building Authority and Trustee for the LR Series 2006 Warrants have executed and delivered a First Supplemental Trust Indenture dated as of January 1, 2013 (see below). The lease is subject to renewal on an annual basis. Annual lease payments range from $3.2 million to $5.2 million, including partial payments to be made by the bond insurer for years 2016 to 2026.

NOTE V - SUBSEQUENT EVENTS - Continued

First Supplemental Trust Indenture

The LR Series 2006 Warrants were issued pursuant to a Trust Indenture, dated August 1, 2006, between the Public Building Authority and First Commercial Bank. The First Supplemental Trust Indenture dated as of January 1, 2013, was entered into by and between the Jefferson County Public Building Authority and First Commercial Bank. The new agreement modifies certain provisions of the original indenture and establishes a debt service reserve fund, among other modifications.

REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 100,708	$ 100,708	$ 98,969	$ 98,969
Licenses and permits	74,833	74,833	17,830	17,830
Intergovernmental	43,128	32,563	35,852	35,852
Charges for services, net	71,095	70,980	31,021	31,021
Miscellaneous	25,750	25,774	34,389	34,389
Interest and investment income	1,600	1,550	1,871	1,871
	317,114	306,408	219,932	219,932
Expenditures				
Current:				
General government	212,212	211,746	136,754	136,754
Public safety	63,621	65,934	62,274	62,274
Highway and roads	36,164	36,164	19,890	19,890
Culture and recreation	286	286	286	286
Education - other	115	115	1	1
Capital outlay	-	-	1,607	1,607
Indirect expenses	-	-	(12,632)	(12,632)
Debt service:				
Principal retirement	-	-	357	357
Interest and fiscal charges	-	-	25	25
	312,398	314,245	208,562	208,562
Excess of Revenues over Expenditures	4,716	(7,837)	11,370	11,370
Other Financing Sources (Uses)				
Sale of capital assets, net	-	19	-	-
Proceeds from capital leases	-	-	1,213	1,213
Transfers in	-	-	50	50
Transfers out	-	-	(18,735)	(18,735)
	-	19	(17,472)	(17,472)
Net Changes in Fund Balances	4,716	(7,818)	(6,102)	(6,102)
Fund Balances - beginning of year, as restated	85,481	85,481	85,481	85,481
Fund Balances - end of year	$ 90,197	$ 77,663	$ 79,379	$ 79,379

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - LIMITED OBLIGATION SCHOOL FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ -	$ -	$ 87,774	$ 87,774
Interest and investment income	77,174	77,174	160	160
	77,174	77,174	87,934	87,934
Expenditures				
General government	597	50	29	29
Education - other	-	-	50	50
Debt service:				
Principal retirement	31,005	31,005	31,005	31,005
Interest and fiscal charges	45,572	46,119	40,691	40,691
	77,174	77,174	71,775	71,775
Net Changes in Fund Balances	-	-	16,159	16,159
Fund Balances - beginning of year	134,149	134,149	134,149	134,149
Fund Balances - end of year	$ 134,149	$ 134,149	$ 150,308	$ 150,308

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - INDIGENT CARE FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 41,859	$ 41,859	$ 43,774	$ 43,774
Miscellaneous	-	-	11	11
	41,859	41,859	43,785	43,785
Expenditures				
Indirect expenses	-	-	-	-
Excess of Revenues over Expenditures	41,859	41,859	43,785	43,785
Other Financing Sources (Uses)				
Transfers out	-	-	(42,952)	(42,952)
Net Changes in Fund Balances	41,859	41,859	833	833
Fund Balances - beginning of year	8,603	8,603	8,603	8,603
Fund Balances - end of year	$ 50,462	$ 50,462	$ 9,436	$ 9,436

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - BRIDGE AND PUBLIC BUILDING FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 41,496	$ 41,496	$ 40,405	$ 40,405
Intergovernmental	500	500	841	841
Interest and investment income	-	-	51	51
	41,996	41,996	41,297	41,297
Expenditures				
Indirect expenses	-	-	-	-
	-	-	-	-
Excess of Revenues over Expenditures	41,996	41,996	41,297	41,297
Other Financing Sources (Uses)				
Transfers in	-	-	2,102	2,102
Transfers out	-	-	(43,399)	(43,399)
	-	-	(41,297)	(41,297)
Net Changes in Fund Balances	41,996	41,996	-	-
Fund Balances (Deficit) - beginning of year	-	-	-	-
Fund Balances (Deficit) - end of year	$ 41,996	$ 41,996	$ -	$ -

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF FUNDING PROGRESS -
DEFINED BENEFIT PENSION PLAN AND OTHER
POSTEMPLOYMENT BENEFITS PLAN
(UNAUDITED)
SEPTEMBER 30, 2011

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to termination, disability, mortality and the time value of money to the accumulated plan benefits.

Schedule of Funding Progress for Defined Benefit Pension Plan

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percentage of Covered Payroll [(b-a)/c]
10/01/11	$ 949,368	$ 899,516	$ (49,852)	105.54%	$ 138,971	(35.9%)
10/01/10	965,690	885,063	(80,627)	109.11%	152,923	(52.7%)
10/01/09	973,523	909,779	(63,744)	107.01%	158,254	(40.3%)

Schedule of Funding Progress for Other Postemployment Benefits Plan

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percentage of Covered Payroll [(b-a)/c]
09/30/11	$ -	$ 80,163	$ 80,163	0%	$ 138,971	57.7%
09/30/10	-	90,809	90,809	0%	152,923	59.4%
09/30/09	-	90,809	90,809	0%	158,254	57.4%
09/30/08	-	68,052	68,052	0%	163,182	41.7%

See independent auditors' report.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Community Development Fund	Debt Service Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
Cash and investments	$ -	$ -	$ 15,658	$ -	$ 1,986	$ -	$ 1	$ 17,645
Accounts receivable, net	-	-	4	-	-	-	32	36
Due from (to) other governments	-	2,052	-	-	83	-	4,958	7,093
Loans receivable, net	936	-	-	-	-	394	-	1,330
Restricted assets	-	-	-	27,619	-	-	-	27,619
Advances due from (to) other funds	(27)	16,800	-	-	-	(10)	(3,880)	12,883
	$ 909	$ 18,852	$ 15,662	$ 27,619	$ 2,069	$ 384	$ 1,111	$ 66,606
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	$ 372	$ -	$ 10	$ 404	$ 22	$ 284	$ 502	$ 1,594
Deferred/unearned revenue	92	-			-		-	92
Accrued wages and benefits	19	-	-	-	-	2	13	34
Accrued interest	-	3,817	-	2,081	-	-	-	5,898
Debt service costs	-	7,894	-	-	-	-	-	7,894
Retainage payable	-	-	76	239	-	-	-	315
Total Liabilities	483	11,711	86	2,724	22	286	515	15,827
Fund Balances (Deficit								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	426	16,800	-	27,619	-	98	-	44,943
Committed	-	2,052	15,576	-	2,047	-	596	20,271
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	(11,711)	-	(2,724)	-	-	-	(14,435)
	426	7,141	15,576	24,895	2,047	98	596	50,779
	$ 909	$ 18,852	$ 15,662	$ 27,619	$ 2,069	$ 384	$ 1,111	$ 66,606

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Community Development Fund	Debt Service Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
Revenues								
Intergovernmenta	$ 5,582	$ 2,052	$ -	$ -	$ 1,747	$ 1,361	$ 938	$ 11,680
Charges for services, net	-	-	-	-	-	-	601	601
Miscellaneous	121	-	-	-	-	-	12,219	12,340
Interest and investment incom	29	-	-	510	-	87	-	626
	5,732	2,052	-	510	1,747	1,448	13,758	25,247
Expenditures								
Current:								
General governmen	4,972	-	31	-	15	1,443	-	6,461
Public safety	-	-	-	-	-	-	18,003	18,003
Highway and roads	-	-	-	-	15	-	-	15
Health and welfare	41	-	-	-	-	-	-	41
Capital outlay	1,429	-	1,114	6,781	3,151	-	-	12,475
Indirect expenses	474	-	-	-	-	22	326	822
Debt service:								
Principal retirement	-	12,055	2,212	1,135	-	-	-	15,402
Interest and fiscal charges	-	9,984	86	4,193	-	-	-	14,263
	-							
	6,916	22,039	3,443	12,109	3,181	1,465	18,329	67,482
Excess (Deficiency) of Revenues over Expenditure	(1,184)	(19,987)	(3,443)	(11,599)	(1,434)	(17)	(4,571)	(42,235)
Other Financing Sources (Uses								
Transfers in	295	26,129	21,127	5,343	3,181	-	5,108	61,183
Transfers out	-	(5,343)	(2,108)	(7,038)	-	-	-	(14,489)
	295	20,786	19,019	(1,695)	3,181	-	5,108	46,694
Net Changes in Fund Balance:	(889)	799	15,576	(13,294)	1,747	(17)	537	4,459
Fund Balances - beginning of yea	1,315	6,342	-	38,189	300	115	59	46,320
Fund Balances - end of yea	$ 426	$ 7,141	$ 15,576	$ 24,895	$ 2,047	$ 98	$ 596	$ 50,779

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Current Assets				
Cash and investments	$ 664	$ 288	$ 3,463	$ 4,415
Patient accounts receivable, net	-	945	-	945
Accounts receivable, net	108	-	61	169
Due to other governments	-	-	(1,300)	(1,300)
Inventories	5	-	-	5
Deferred charges - issuance costs	-	-	3	3
Total Current Assets	777	1,233	2,227	4,237
Noncurrent Assets				
Restricted assets	1,993	-	1,888	3,881
Advances due from (to) other funds	(16,800)	-	(15,317)	(32,117)
Deferred charges - issuance costs	-	-	1	1
Capital assets:				
Depreciable assets, net	25,147	2,941	4,254	32,342
Nondepreciable assets	8,115	9	12,557	20,681
	18,455	2,950	3,383	24,788
	$ 19,232	$ 4,183	$ 5,610	$ 29,025

See independent auditors' report.

LIABILITIES AND NET ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Current Liabilities				
Accounts payable	$ -	$ 680	$ 3	$ 683
Accrued wages and benefits	-	66	-	66
Accrued interest	-	-	3	3
Estimated claims liability	-	163	-	163
Estimated liability for compensated absences	-	141	-	141
Warrants payable	-	-	1,435	1,435
Add: Unamortized premiums (discounts)	-	-	(1)	(1)
Less: Deferred loss on refunding	-	-	(9)	(9)
	-	-	1,425	1,425
Total Current Liabilities	-	1,050	1,431	2,481
Noncurrent Liabilities				
Warrants payable	-	-	415	415
Add: Unamortized premiums (discounts)	-	-	(1)	(1)
Less: Deferred loss on refunding	-	-	(3)	(3)
	-	-	411	411
Estimated liability for landfill closure and postclosure care costs	9,837	-	-	9,837
Estimated claims liability	-	117	-	117
Estimated liability for other postemployment benefits	-	146	-	146
Estimated liability for compensated absences	-	155	-	155
Total Liabilities	9,837	1,468	1,842	13,147
Net Assets (Deficit)				
Invested in capital assets, net of related debt	33,262	2,950	(1,639)	34,573
Restricted for:				
Debt service	-	-	1,888	1,888
Closure and postclosure care	1,993	-	-	1,993
Unrestricted	(25,860)	(235)	3,519	(22,576)
	$ 9,395	$ 2,715	$ 3,768	$ 15,878

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Operating Revenues				
Charges for services, net	$ -	$ 9,865	$ -	$ 9,865
Other operating revenue	1,266	209	637	2,112
	1,266	10,074	637	11,977
Operating Expenses				
Salaries	-	3,890	227	4,117
Employee benefits and payroll taxes	20	1,295	17	1,332
Materials and supplies	-	1,059	-	1,059
Utilities	-	797	25	822
Outside services	-	3,021	107	3,128
Office expenses	-	97	112	209
Depreciation	1,861	395	289	2,545
Closure and postclosure care	178	-	-	178
Indirect expenses	14	1,933	-	1,947
Miscellaneous	-	714	9	723
	2,073	13,201	786	16,060
Operating Loss	(807)	(3,127)	(149)	(4,083)
Nonoperating Revenues (Expenses)				
Interest expense, net	(900)	-	(168)	(1,068)
Interest revenue	3	-	9	12
Amortization of warrant related costs	(96)	-	(24)	(120)
Loss on impairment of capital assets	-	(4,684)	-	(4,684)
Gain (loss) on sale or retirement of capital assets	(5)	(19)	273	249
	(998)	(4,703)	90	(5,611)
Operating Transfers				
Transfers in	-	2,716	-	2,716
Change in Net Assets	(1,805)	(5,114)	(59)	(6,978)
Net Assets - beginning of year, as previously reported	9,663	7,899	3,827	21,389
Prior Period Adjustments	1,537	(70)	-	1,467
Net Assets - beginning of year, as restated	11,200	7,829	3,827	22,856
Net Assets - end of year	$ 9,395	$ 2,715	$ 3,768	$ 15,878

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities				
Cash received from services	$ -	$ 10,065	$ 637	$ 10,702
Cash payments to employees	(24)	(5,451)	(244)	(5,719)
Cash payments for goods and services	(19)	(6,542)	(246)	(6,807)
Other receipts and payments, net	467	(570)	(255)	(358)
Net Cash Provided (Used) by Operating Activities	424	(2,498)	(108)	(2,182)
Cash Flows from Noncapital Financing Activities				
Operating transfers in	-	2,716	-	2,716
Net Cash Provided by Noncapital Financing Activities	-	2,716	-	2,716
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	-	-	(312)	(312)
Sale of capital assets	-	-	695	695
Interest paid	(900)	-	(170)	(1,070)
Principal payments on warrants	-	-	(1,387)	(1,387)
Net Cash Used by Capital and Related Financing Activities	(900)	-	(1,174)	(2,074)
Cash Flows from Investing Activities				
Interest received	3	-	9	12
Miscellaneous	1,536	4	(3)	1,537
Net Cash Provided by Investing Activities	1,539	4	6	1,549
Change in Cash and Investments	1,063	222	(1,276)	9
Cash and Investments - beginning of year	1,594	66	6,627	8,287
Cash and Investments - end of year	$ 2,657	$ 288	$ 5,351	$ 8,296
Displayed As				
Cash and investments	$ 664	$ 288	$ 3,463	$ 4,415
Restricted assets - noncurrent cash and investments	1,993	-	1,888	3,881
	$ 2,657	$ 288	$ 5,351	$ 8,296

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)
(Continued)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	$ (807)	$ (3,127)	$ (149)	$ (4,083)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	1,861	395	289	2,545
Provision for bad debts	-	992	-	992
Change in patient accounts receivable	-	(792)	-	(792)
Change in accounts receivable	(11)	-	-	(11)
Change in inventories	(5)	40	-	35
Change in prepaid expenses	-	45	-	45
Change in advances due from (to) other funds	(1,186)	-	(246)	(1,432)
Change in accounts payable	-	280	(2)	278
Change in accrued wages and benefits	(4)	(216)	-	(220)
Change in estimated claims liability	-	(64)	-	(64)
Change in estimated liability for compensated absences	-	(127)	-	(127)
Change in estimated liability for landfill closure and postclosure care costs	576	-	-	576
Change in estimated liability for other postemployment benefits	-	76	-	76
	1,231	629	41	1,901
Net Cash Provided (Used) by Operating Activities	$ 424	$ (2,498)	$ (108)	$ (2,182)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Gain (loss) on sale or retirement of capital assets	$ (5)	$ (19)	$ 273	$ 249

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND
SEPTEMBER 30, 2011
(IN THOUSANDS)

	Balance October 1, 2010	Additions	Deductions	Balance September 30, 2011
City of Birmingham Revolving Loan Fund				
Assets				
Cash and investments	$ 769	$ 70	$ (7)	$ 832
Loans receivable, net	269	12	(60)	221
	$ 1,038	$ 82	$ (67)	$ 1,053
Liabilities				
Due to other governments	$ 1,038	$ 16	$ (1)	$ 1,053

See independent auditors' report.

ADDITIONAL INFORMATION

JEFFERSON COUNTY COMMISSION
COMMISSION MEMBERS AND ADMINISTRATIVE PERSONNEL
(UNAUDITED)
SEPTEMBER 30, 2011

Commission Members As of February 22, 2013			Term Expires
Hon. David Carrington	President	Suite 230 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. George T. Bowman	Member	Suite 240 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. Sandra Little Brown	Member	Suite 250 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. T. Joe Knight	Member	Suite 220 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. James A. Stephens	Member	Suite 210 Jefferson County Courthouse Birmingham, AL 35263	2014

Administrative Personnel As of February 22, 2013		
George J. Tablack	Chief Financial Officer	Suite 810 Jefferson County Courthouse Birmingham, AL 35263
Jeffrey M. Sewell	County Attorney	Suite 280 Jefferson County Courthouse Birmingham, AL 35263

EXHIBIT NO. 3

Department of Examiners of Public Accounts of the State of Alabama report dated June 8, 2012

Report on the

Jefferson County Commission

Jefferson County, Alabama

October 1, 2008 through November 9, 2010

Filed: June 8, 2012

Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.alabama.gov

Ronald L. Jones, Chief Examiner

12-181

State of Alabama
Department of
Examiners of Public Accounts
P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the ***Code of Alabama 1975***, Section 41-5-21, we submit this report on the results of the examination of the Jefferson County Commission, Jefferson County, Alabama, for the period October 1, 2008 through November 9, 2010.

Respectfully submitted,

Amanda Hensley
Examiner of Public Accounts

Brian Davis
Examiner of Public Accounts

Sworn to and subscribed before me this the 22nd day of May, 2012.

Notary Public

Sworn to and subscribed before me this the 22nd day of May, 2012.

Notary Public

rb

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Table of Contents

Department of
Examiners of Public Accounts

SUMMARY

Jefferson County Commission
October 1, 2008 through November 9, 2010

The Jefferson County Commission (the "Commission") is a five-member body elected by the citizens of Jefferson County. The members and officials in charge of governance of the Commission are listed on Exhibit 1. The Commission is the governmental agency that provides general administration, public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services and educational services to the citizens of Jefferson County.

This report presents the results of an examination of the Commission and a review of compliance by the Commission with applicable laws and regulations of the State of Alabama in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of the ***Code of Alabama 1975***, Section 41-5-14.

Findings are numbered and reported by the fiscal year in which the finding originally occurred.

Findings that were present in prior examinations have not been resolved and they are summarized below.

UNRESOLVED PRIOR FINDINGS

- 1993-01 relates to the Commission's failure to eliminate deficit fund balances.
- 2008-02 relates to the Commission's failure to make purchases in accordance with its Administrative Order 93-2.
- 2008-03 relates to the Commission's failure to expend mineral severance tax revenues in accordance with Act Number 2004-629, Acts of Alabama.
- 2008-07 relates to the Commission's failure to settle travel costs in accordance with its Administrative Order 93-1.

The following officials/employees were invited to an exit conference to discuss the findings and recommendations appearing in this report: Travis Hulsey, Interim Finance Director; Jeff Hager, Finance Director; and County Commissioners: Bettye Fine Collins, Shelia Smoot, Bobby Humphryes, Jim Carns, William Bell, and George Bowman. The following individuals attended the exit conference, held at the Jefferson County Courthouse: Travis Hulsey, Interim Finance Director: William Bell, Commissioner; and representatives of the Department of Examiners of Public Accounts: Brian Wheeler, Audit Manager; and Amanda Hensley and Brian Davis, Examiners of Public Accounts.

Schedule of State and Local Compliance and Other Findings

Ref. No.	Finding/Noncompliance
1993-01	**Finding:** At September 30, 2009, the following funds had deficit fund balances according to the Commission's audited financial statements. Fund — Rounded Bridge and Public Building Fund — $1,181,000.00 Capital Improvements Fund — $ 965,000.00 Road Construction Fund — $ 448,000.00 **Recommendation:** The Commission should eliminate deficit fund balances.
2008-02	**Finding:** The Commission made payments totaling $705,588.59 for credit card purchases for the period of October 1, 2008 through November 9, 2010. These purchases were made without following normal purchasing procedures which require the use of requisitions and purchase orders. According to Jefferson County Administrative Order 93-2, the County Finance Department is required to submit an encumbrance journal to the Commission weekly for its approval. Since there were no requisitions or purchase orders, the Commission did not approve any of the purchases made using the County's credit cards. Also, numerous purchases made with the County's credit cards were not supported by adequate documentation. **Recommendation:** The Commission should make purchases in accordance with Jefferson County Administrative Order 93-2.

Commission Members and Administrative Personnel

October 1, 2008 through November 9, 2010

Commission Members		**Term Expires**
Hon. Bettye Fine Collins	President	2010
Hon. Shelia Smoot	Member	2010
Hon. Bobby Humphryes	Member	2010
Hon. Jim Carns	Member	2010
Hon. George Bowman (1)	Member	2010
Hon. William A. Bell (2)	Member	2010
Administrative Personnel		
Mr. Travis Hulsey (3)	Interim Finance Director	
Mr. Jeff Hager (4)	Finance Director	

(1) – Appointed November 21, 2007 to fill remainder of Larry Langford's term; Elected in July 2010 to serve the remainder of William Bell's term.

(2) – Elected in November 2008; Resigned January 25, 2010.

(3) – Interim Finance Director from June 2, 2008 through June 15, 2010.

(4) – Finance Director starting June 15, 2010; Resigned December 2, 2011.

EXHIBIT NO. 4

County's Fiscal Year 2012-2013 Budget

Jefferson County Commission

Fiscal Year 2012-2013 Operating/Capital Budget

RESOLUTION

WHEREAS, Section 11-8-3. Code of Alabama, 1975, requires the County Commission of Jefferson County, Alabama to adopt an estimate of income and an estimate of expense of operations for the fiscal year commencing October 1, 2012, and ending September 30, 2013 and to appropriate for the various purposes the respective amounts; and

WHEREAS, the said County Commission has carefully considered requirements for each department in the county government and has estimated the income and expense of operations and has prepared a balanced budget totaling $570,213,495 for the following funds for the ensuing year:

General Fund	159,740,715
General Fund (pass-thrus, grants, state funds)	26,716,525
Road Fund	18,779,271
School Warrant Fund	85,142,513
Community Development Fund	10,459,072
Economic Development Fund	5,304,619
Capital Projects	6,978,050
Capital Road Projects	3,400,000
Public Building Authority	5,482,074
Cooper Green Hospital Fund	65,000,000
Jefferson Rehabilitation and Health Center Fund	8,535,696
Landfill	1,000,000
Sanitary Operations Fund	170,896,330
Community Development Home Program Fund	686,731
Emergency Management Agency Fund	1,445,143
Pension Board Fund	646,756
Debt Service Fund	-
TOTAL OPERATING/CAPITAL BUDGET	570,213,495

APPROVED BY THE
JEFFERSON COUNTY COMMISSION
DATE: 9-26-12
MINUTE BOOK: 163
PAGE(S): 525

NOW, THEREFORE, BE IT RESOLVED, by the County Commission of Jefferson County, Alabama, that the County Operating Budget for Fiscal Year 2012-2013 be and the same is hereby adopted.

Jefferson County Commission
BMO SUMMARY OF OPERATING BUDGETS DEPARTMENTAL REQUESTS
ALL OPERATING FUNDS

Org. No.	Organization Name	Adopted Expenses FY2011	Actual Expenses FY2011	Adopted Expenses FY2012	ESTIMATED ACTUAL EXPENSES FY2012	Adopted Revenues FY2012	Projected Revenue FY2012	Adopted Revenue FY2013	Departments FY2013 Budget Requests					
										Departmental Components				
									Adopted Expenses FY2013	Salary	Oper	Capital Equipment	Filled Positions	Vacant Positions
1001	Commissioner, District 1	360,000	335,453	343,505	325,568				290,000	280,000	10,000		4	-
1002	Commissioner, District 2	360,000	331,976	328,193	254,312				290,000	280,000	10,000		3	1
1003	Commissioner, District 3	360,000	315,276	318,908	240,548				290,000	280,000	10,000		3	1
1004	Commissioner, District 4	360,000	384,820	314,637	263,932				290,000	280,000	10,000		3	1
1005	Commissioner, District 5	360,000	283,236	316,617	252,502				290,000	280,000	10,000		3	1
1006	Commission Support	843,102	575,325	621,353	513,414				47,000	-	47,000		-	-
1007	County Manager			566,039	418,439				495,377	485,377	10,000		3	-
1008	Capital Structure & Investments			101,582	85,428				152,895	152,895	-		-	1
6200	Probate Court	3,983,230	3,463,390	3,133,902	2,774,225	5,187,167	5,481,536	5,655,029	2,832,435	2,747,254	85,181		39	5
6200	Probate Election & Commitment	667,000	371,068	886,000	422,051				844,530		844,530			
6700	Law Library	200,109	126,662	193,121	130,907	193,121	193,121	189,840	189,840	188,072	1,768		2	1
6301	Family Court	7,895,430	6,888,461	6,631,079	5,738,706	2,058,166	1,687,774	1,402,770	6,097,092	5,336,391	760,701		79	1
4200	Youth Detention	4,211,933	3,885,802	3,797,528	3,504,460	674,145	710,000	600,000	3,580,749	3,290,203	270,546	20,000	51	2
6400	State Courts	2,741,559	2,458,737	3,014,962	2,563,084	907,377	830,000	900,000	2,514,962	1,815,559	699,403		60	1
6500	District Attorney - Birmingham	4,742,746	4,143,428	4,427,025	4,341,701	152,607	106,000	146,500	4,472,686	4,372,643	71,590	28,453	20	1
6600	District Attorney - Bessemer	2,637,730	2,547,656	2,263,571	2,450,000	83,000	51,244	60,000	2,331,892	2,306,561	25,331		18	-
6800	Finance/Administration	7,065,823	5,794,677	3,545,055	2,698,424	6,777,882	6,300,000	6,577,882	3,545,055	1,520,867	2,024,188		13	5
6900	Finance - Purchasing & PACA	1,594,181	1,189,140	894,486	860,191	160,000	160,000	160,000	1,017,447	985,006	32,441		12	3
2800	BMO/Payroll	822,181	748,961	629,728	646,913	4,715	5,000	4,715	693,233	663,566	29,667		6	1
6000	Human Resources	3,204,430	2,327,712	2,105,316	1,719,434		659,454	0	1,954,102	1,593,962	280,640	79,500	15	2
1100	Revenue	10,460,556	8,785,747	8,435,971	7,749,587	52,688,468	57,987,582	58,374,447	10,052,132	7,021,659	1,130,012	1,900,461	121	5
1200	County Attorney	2,318,827	1,503,734	1,484,169	1,471,456				1,301,688	1,090,287	211,401		7	-
3101	County Attorney - Outside Legal								15,000,000		15,000,000			
1301	Board of Equalization - Chairman	233,075	248,626	200,900	200,900	75,000	75,000	75,000	227,202	227,202			3	-
1400	Tax Assessor - Birmingham County	880,983	600,601	307,368	267,502	5,992,110	6,100,000	5,666,637	283,152	244,301	38,851		2	1
1410	Tax Assessor - Bessemer County	461,426	374,406	257,520	242,291				253,920	252,555	1,365		3	-
1501	Tax Collector - Birmingham	2,280,172	1,854,453	1,645,622	1,420,993	40,632,092	42,810,609	40,884,541	1,801,128	1,359,074	142,054	300,000	17	4
1502	Tax Collector - Bessemer	678,755	583,727	579,991	474,899				506,794	464,396	42,398		7	-

Org. No.	Organization Name	Adopted Expenses FY2011	Actual Expenses FY2011	Adopted Expenses FY2012	ESTIMATED ACTUAL EXPENSES FY2012	Adopted Revenues FY2012	Projected Revenue FY2012	Adopted Revenue FY2013	Departments FY2013 Budget Requests					
										Departmental Components				
									Adopted Expenses FY2013	Salary	Oper	Capital Equipment	Filled Positions	Vacant Positions
1600	Treasurer	696,618	632,173	599,440	570,466	100,000	150,000	175,000	607,440	566,136	41,304		7	1
1700	Personnel Board	10,162,771	8,574,515	9,838,306	7,481,569	6,444,169	100,000	5,858,336	9,763,893	5,647,787	4,101,106	15,000	56	8
2000	Community Dev. (General Fund)	850,324	408,075	0					0					
2100	Land Development	6,662,200	3,675,845	1,602,320	2,032,907	367,575	300,000	71,000	1,599,302	1,531,553	67,749		17	1
2200	Information Technology	9,037,523	7,513,799	6,585,135	4,604,771	178,970	100,000	100,000	6,268,632	3,092,156	2,609,756	566,720	26	4
2230	IT-Communication	1,509,262	240,549	1,268,325	849,272	400,000	342,000	250,000	1,182,839	327,699	855,140		3	1
2301	General Services - E911	2,739,512	1,757,601	3,385,290	9,169,292	3,385,290	3,375,899	0	956,000		956,000			
2401	General Services	30,102,036	23,014,991	20,033,094	13,427,490	791,726	1,616,739	1,639,251	17,580,024	6,677,699	10,703,325	199,000	92	18
2403	General Services - Elections	1,475,161		3,627,859	1,101,971		40,000	382,000	714,518	236,671	477,847		3	1
2500	Board of Registrars	1,127,331	993,437	927,756	956,539	150,075	150,000	54,650	789,191	689,070	100,121		9	-
3000	Cooperative Extension	115,250	115,877	102,900	102,900				102,860		102,860		-	-
3200	Office of Sr. Citizens Services	1,414,945	1,028,592	1,085,409	764,762				886,921	326,156	560,765		4	-
4100	Sheriff	53,835,283	50,967,772	43,000,000	42,470,370	2,589,925	1,400,000	2,589,925	43,000,000	40,117,989	2,882,011	-	535	111
4100	Sheriff Vehicles								1,295,232			1,295,232		
4100	Sheriff fleet charges								1,500,000		1,500,000			
4300	Coroner / Medical Examiner	2,834,143	2,539,275	2,844,455	2,730,174	9,000	9,000	9,000	2,765,568	1,440,129	1,325,439		16	1
4400	Inspection Services	0	1,382,093	1,796,919	1,815,212	915,000	1,111,000	1,220,000	1,348,887	1,300,131	48,756		14	3
4800	Storm Water Management	0		360,551	354,302		455,000	464,347	895,229	840,604	54,625		8	-
2600	Roads - Fleet Management	9,627,693	8,230,728	3,348,543	2,354,612			125,000	3,497,156	1,921,427	1,575,729		26	-
3101	Fuel & Fleet Charges		0	4,703,882	2,306,517				0				-	-
3131	Delegation Office	66,435	22,720	69,854	0	69,854	0	69,149	69,149	69,149			-	1
3135	Barber Commission	109,019	17,584	31,885	17,315	31,885	17,315	31,330	31,330	31,330			1	-
3101	T.A.S.C. Program	2,000,000	1,605,700	0	0				0					
3101	Animal Control								455,000		455,000			
3101	Sick Leave Conversion								1,256,804	1,256,804				
3101	Non-Departmental (Fund 01)	15,878,362	8,248,470	17,102,037	8,755,243			0	1,219,657	30,000	1,189,657		19	-
3101	Indirect Cost	27,595,776	46,958,213	0	0	3,600,000		6,600,000	0					
7500	Land Fill	10,000							0					
	Merits								309,772	309,772				
Total General Fund		237,572,892	218,051,083	169,658,108	143,897,551	134,619,319	132,324,273	140,336,349	159,740,715	103,930,092	51,406,257	4,404,366	1,330	187
								15,000,000	Transfer In for outside legal					
								4,404,366	Transfer in for capital equipment					
								159,740,715						

Org. No.	Organization Name	Adopted Expenses FY2011	Actual Expenses FY2011	Adopted Expenses FY2012	ESTIMATED ACTUAL EXPENSES FY2012	Adopted Revenues FY2012	Projected Revenue FY2012	Adopted Revenue FY2013	Departments FY2013 Budget Requests					
										Departmental Components				
									Adopted Expenses FY2013	Salary	Oper	Capital Equipment	Filled Positions	Vacant Positions
General Fund Pass Thrus (01)														
1303	Board of Equalization-Bham. State	4,503,118	4,073,370	4,399,675	3,289,692	5,643,721	8,179,791	7,900,000	4,940,317	3,737,982	1,082,335	120,000	50	20
6301	Family Court / Grant							574,000	574,000		574,000		-	-
1401	Tax Assessor - Birmingham State	2,902,320	2,274,571	3,211,142	2,062,926				2,667,152	2,182,370	484,782		29	5
1411	Tax Assessor - Bessemer State	1,248,908	1,099,854	1,472,342	1,129,178				1,530,998	1,386,156	134,842	10,000	16	6
2020	Economic Development	4,424,800		2,820,946	3,531,770	2,820,946	3,531,770							
3200	Office of Senior Citizens / Grants	11,081,347	8,801,788	3,001,596	3,388,596	2,755,013	3,177,910	2,449,158	2,449,158	634,427	1,814,731		6	1
3101	Road Tax Distribution	7,500,000	7,189,172	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000		7,500,000			
3101	Shares Tax	7,000,000	0	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000		7,000,000			
	Decrease State Fund Balance							1,293,367						
	Merits								54,900	54,900				
Total General Fund Pass Thrus (01)		38,660,493	23,438,755	29,405,701	27,902,162	25,719,680	29,389,471	26,716,525	26,716,525	7,995,835	18,590,690	130,000	101	32
Road Fund (13)														
5100	Highway - Administration	851,450	771,923	730,744	778,298	18,744,364	18,502,784	17,142,220	793,598	604,249	189,349		7	1
5200	Highway - Design	368,045	147,353	263,049	0				0					
5300	Highway - Right of Way	987,008	635,454	894,338	574,080				794,338	560,368	233,970		7	-
5400	Highway - Engineering & Const.	2,781,478	2,125,335	2,027,982	1,992,564				2,296,527	2,054,076	236,451	6,000	25	2
5450	Highway - Bridge Maint Const	2,936,035	1,245,432	0	0				0					
5500	Highway - Maint. / Bessemer	13,699,321	6,700,187	6,447,877	3,899,719				6,413,798	3,446,448	2,967,350		56	12
5600	Highway - Maint. / Ketona	10,628,318	5,972,859	5,991,604	3,854,796				6,253,571	3,197,342	3,056,229		48	13
5700	Highway - Traffic Engineering	3,912,168	2,486,519	2,388,770	1,819,842				2,192,532	1,496,792	695,740		21	3
	Decrease Road Fund Balance							1,637,051						
	Merits								34,907	34,907				
Total Road Fund		36,163,823	20,085,062	18,744,364	12,919,299	18,744,364	18,502,784	18,779,271	18,779,271	11,394,182	7,379,089	6,000	164	31
TOTAL GENERAL FUND		312,397,208	261,574,900	217,808,173	184,719,012	179,083,363	180,216,528	205,236,511	205,236,511	123,320,109	77,376,036	4,540,366	1,595	250
Special Revenue Funds														
School Warrant Fund (11)														
6801	Finance/Administration	77,174,000	78,747,759	78,916,332	78,916,332	78,916,332	93,745,780	85,142,513	85,142,513		85,142,513		-	-
Total School Warrant Fund		77,174,000	78,747,759	78,916,332	78,916,332	78,916,332	93,745,780	85,142,513	85,142,513	-	85,142,513	-	-	-
Bridge and Public Bldg Fund (15)														
5100	Roads & Transportation	0	0	0	0	41,430,928	43,290,476	41,253,922	0		-			
	Increase Bridge & Public Bldg Fund Balance							(16,204,179)						
	Transfer Out							(25,049,743)	0		-			
Total Bridge and Public Bldg Fund		0	0	0	0	41,430,928	43,290,476	0	0	-	-	-	-	-

Org. No.	Organization Name	Adopted Expenses FY2011	Actual Expenses FY2011	Adopted Expenses FY2012	ESTIMATED ACTUAL EXPENSES FY2012	Adopted Revenues FY2012	Projected Revenue FY2012	Adopted Revenue FY2013	Departments FY2013 Budget Requests					
									Adopted Expenses FY2013	Departmental Components				
										Salary	Oper	Capital Equipment	Filled Positions	Vacant Positions
Community Development (17)														
2000	Community Development	2,860,821	6,315,042	2,263,300	4,170,062	2,263,300	3,005,027	10,459,072	10,449,121	746,149	9,702,972		11	3
	Merits		474,167	0					9,951	9,951				
Total Community Development Fund		2,860,821	6,789,209	2,263,300	4,170,062	2,263,300	3,005,027	10,459,072	10,459,072	756,100	9,702,972	0	11	3
Economic Development (18)														
2020	Workforce Development		2,927,231	0	0	0	0	5,304,619	5,297,003	1,204,256	4,092,747		12	7
	Merits			0	0	0			7,616	7,616				
Total Economic Development Fund		0	2,927,231	0	0	0	0	5,304,619	5,304,619	1,211,872	4,092,747	0	12	7
Community Development Home Program (62)														
2030	Community Dev. Home Program	1,129,858	1,487,523	1,076,423	841,694	1,076,423	783,880	686,731	686,731	147,987	538,744		1	-
3101	Non-departmental		21,853						0					
Total Home Program		1,129,858	1,509,376	1,076,423	841,694	1,076,423	783,880	686,731	686,731	147,987	538,744	0	1	0
Total Special Revenue Funds		81,164,679	89,973,575	82,256,055	83,928,088	123,686,983	140,825,163	101,592,935	101,592,935	2,115,959	99,476,976	0	24	10
Capital Projects Fund (21)														
1300	Board of Equalization - Bham.	1,947,000	1,000,000	1,292,655	900,000	0			542,655			542,655		
1401	Tax Assessor - Birmingham State	1,771,948		0	600,000				1,271,948			1,271,948		
1411	Tax Assessor - Bessemer State	750,000		750,000	225,226				562,311			562,311		
2601	Fleet Management						435,623		0					
6801	Finance						10,008,780		0					
2810/6000	Payroll / Human Resources	2,000,000		0					0					
2401	General Services	8,545,658	215,894	6,314,981	33,841		258,648		4,101,136		3,674,698	426,438		
2401	General Services - Contingency								500,000			500,000		
	Decrease State Fund Balance							2,376,914						
	Transfer In from Bridge & Pub Bldg Fund							4,601,136						
Total Capital Projects Fund		15,014,606	1,215,894	8,357,636	1,759,067	0	10,703,051	6,978,050	6,978,050	0	3,674,698	3,303,352	0	0
Capital Road Improvements Fund (22)														
5100	Roads & Transportation	7,198,821	3,180,737	6,225,573	1,532,467	1,030,000	1,735,811	1,500,000	3,400,000		3,400,000			
	Transfer In from Bridge & Pub Bldg Fund							1,900,000						
Total Road Improvements Fund		7,198,821	3,180,737	6,225,573	1,532,467	1,030,000	1,735,811	3,400,000	3,400,000	0	3,400,000	0	0	0
Public Building Authority Fund (30)														
2401/6801	General Services / Finance	5,351,000	12,109,482	17,879,580	11,756,137	0	97,672	0	5,482,074		5,482,074			
	Decrease Public Bldg Authority Fund Balance							5,482,074						
Total Public Building Authority Fund		5,351,000	12,109,482	17,879,580	11,756,137	0	97,672	5,482,074	5,482,074	0	5,482,074	0	0	0
TOTAL CAPITAL FUNDS		27,564,427	16,506,113	32,462,789	15,047,671	1,030,000	12,536,534	15,860,124	15,860,124	0	12,556,772	3,303,352	0	0

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Org. No.	Organization Name	Adopted Expenses FY2011	Actual Expenses FY2011	Adopted Expenses FY2012	ESTIMATED ACTUAL EXPENSES FY2012	Adopted Revenues FY2012	Projected Revenue FY2012	Adopted Revenue FY2013	Departments FY2013 Budget Requests					
									Adopted Expenses FY2013	Departmental Components				
										Salary	Oper	Capital Equipment	Filled Positions	Vacant Positions
Enterprise Funds														
Cooper Green Hospital Fund (12/31)														
8500	Cooper Green Hospital	89,168,957	90,133,589	89,083,343	83,014,679	44,705,403	36,225,135	18,075,905	58,000,000	25,000,000	33,000,000		495	153
3101	Non-departmental/Indirect Cost		4,606,537					0	7,000,000		7,000,000			
8500	Indigent Care Funds					44,812,419	45,738,896	46,924,095	0					
								0	0	-				
Total Cooper Green Hospital Fund		89,168,957	94,740,126	89,083,343	83,014,679	89,517,822	81,964,031	65,000,000	65,000,000	25,000,000	40,000,000	0	495	153
Jefferson Rehabilitation & Health Center Fund (32)														
2700	Central Laundry	525,631	354,074	480,020	299,395	510,665	243,613	300,000	373,083	277,480	95,603		69	4
8300	Jeff. Rehab. & Health Center	10,474,369	10,558,212	13,411,681	6,636,662	10,000,000	4,161,119	4,687,089	8,149,718	2,915,813	5,233,905			
3101	Non-departmental		1,932,948	0					0	-	-			
	Transfer In							3,548,607						
	Merits								12,895	12,895				
Total Jeff. Rehab. & Health Ctr. Fund		11,000,000	12,845,234	13,891,701	6,936,057	10,510,665	4,404,732	8,535,696	8,535,696	3,206,188	5,329,508	0	69	4
Landfill Fund (33)														
7501	Landfill		28,134	60,000	61,097	1,125,000	782,789	1,125,000	100,000		100,000		-	-
7501	Interest		0	0					900,000		900,000			
	Increase Landfill Fund Balance							(125,000)						
Total Landfill Fund		0	28,134	60,000	61,097	1,125,000	782,789	1,000,000	1,000,000	0	1,000,000	0	0	0
Sanitary Fund (34)														
6805	Finance - Sewer Services	7,205,599	6,927,060	6,694,077	5,381,744	161,590,000	154,915,220	159,272,875	6,690,856	804,231	5,886,625		13	2
7100	Sanitation Administration	12,173,049	27,936,278	17,041,808	8,377,883				13,233,896	3,283,010	9,950,886		41	7
7200	Sanitation - Eng. & Const.	9,935,555	9,265,885	9,940,166	8,175,612				8,940,594	7,011,524	1,741,070	188,000	117	23
7300	Sanitation - WWT Plants	29,420,228	34,870,504	28,079,082	39,045,267				28,228,396	12,081,335	15,501,786	645,275	193	20
7400	Sanitation - Barton Lab	2,573,159	2,100,321	2,155,167	1,843,742				2,079,730	1,433,630	626,100	20,000	21	-
3101	Non-departmental	0	5,255,567	0					3,600,000		3,600,000			
7319	Capital	19,716,124	3,478,628	32,600,000	1,137,232				10,770,180			10,770,180		
7100	Debt Service	183,928,078	79,749,310	81,396,813	70,867,289				97,158,526		97,158,526			
	Decrease ESD Fund Balance							11,623,455						
	Merits								194,152	194,152				
Total Sanitary Fund		264,951,792	169,583,553	177,907,113	134,828,769	161,590,000	154,915,220	170,896,330	170,896,330	24,807,882	134,464,993	11,623,455	385	52
TOTAL ENTERPRISE FUNDS		365,120,749	277,197,047	280,942,157	224,840,602	262,743,487	242,066,772	245,432,026	245,432,026	53,014,070	180,794,501	11,623,455	949	209

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Org. No.	Organization Name	Adopted Expenses FY2011	Actual Expenses FY2011	Adopted Expenses FY2012	ESTIMATED ACTUAL EXPENSES FY2012	Adopted Revenues FY2012	Projected Revenue FY2012	Adopted Revenue FY2013	Departments FY2013 Budget Requests					
										Departmental Components				
									Adopted Expenses FY2013	Salary	Oper	Capital Equipment	Filled Positions	Vacant Positions
Trust and Agency Funds														
Emergency Management Fund (63)														
4500	Emergency Management Agency	1,342,298	1,968,394	1,200,922	1,631,046	1,200,922	2,068,890	1,201,030	1,133,470	652,998	480,472		8	2
4550	JCC Disaster Recovery - FEMA		13,356,890	0	353,042				0					
4560	EMA Disaster Recover - FEMA		2,206,211	0	422,147				0					
3101	Non-departmental		326,836	0					307,555		307,555			
	Decrease EMA Fund Balance							244,113						
	Merits								4,118	4,118				
Total EMA Fund		1,342,298	17,858,331	1,200,922	2,406,235	1,200,922	2,068,890	1,445,143	1,445,143	657,116	788,027	0	8	2
Pension Fund (71)														
1800	Pension Board	664,501	561,403	661,179	527,273	661,179	527,273	646,756	645,014	643,594	1,420		7	3
3101	Non-departmental		0	0					0					
	Merits								1,742	1,742				
Total Pension Board Fund		664,501	561,403	661,179	527,273	661,179	527,273	646,756	646,756	645,336	1,420	0	7	3
TOTAL TRUST AND AGENCY FUNDS		2,006,799	18,419,734	1,862,101	2,933,508	1,862,101	2,596,163	2,091,899	2,091,899	1,302,452	789,447	0	15	5
Debt Service Fund (95)														
3101	Debt Service	29,162,940	22,600,196	23,207,426	3,916,652	1,500,000	2,051,861	2,000,000	0		-			
	Increase Debt Service Fund Balance							(2,000,000)						
Total Debt Service Fund		29,162,940	22,600,196	23,207,426	3,916,652	1,500,000	2,051,861	0	0	-	-	-	-	-
GRAND TOTAL ALL FUNDS		817,416,802	686,271,565	638,538,701	515,385,533	569,905,934	580,293,021	570,213,495	570,213,495	179,752,590	370,993,732	19,467,173	2,583	474

EXHIBIT NO. 5

Depfa Plan Support Agreement

PLAN SUPPORT AGREEMENT

THIS IS NOT A SOLICITATION OF ACCEPTANCES OR REJECTIONS OF ANY CHAPTER 9 PLAN; ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL THE BANKRUPTCY COURT APPROVES A DISCLOSURE STATEMENT

This PLAN SUPPORT AGREEMENT (as it may be amended and supplemented from time to time, the "Agreement"), dated as of February 11, 2013, is made and entered into by and between Jefferson County, Alabama (the "County"), on the one hand, and Depfa Bank PLC ("Depfa"), on the other hand (each a "Party" and together, the "Parties").

RECITALS

WHEREAS, the County and Depfa are parties to that certain *Standby Warrant Purchase Agreement* dated as of January 1, 2005 (the "Standby Agreement");

WHEREAS, in connection with the performance of obligations under the Standby Agreement, Depfa has acquired and presently holds Limited Obligation School Warrants, Series 2005-B with an outstanding principal balance of $162,475,000 as of the date of this Agreement (the "School Warrants"), which School Warrants were issued under that certain *Trust Indenture* dated as of December 1, 2004 (the "Indenture"), as subsequently supplemented by that certain *First Supplemental Indenture* dated as of January 1, 2005 (the "First Supplemental Indenture");

WHEREAS, the Standby Agreement provides that interest will accrue on the School Warrants at a "Bank Rate" of interest equal to (A) the "Base Rate" plus 2.00%, or (B) from the earlier of (i) the date any amounts owed by the County under the Standby Agreement are not paid and (ii) the occurrence of an event of default, the "Base Rate" plus 3.00% (the "Standby Rate");

WHEREAS, on November 9, 2011, the County filed a voluntary petition for relief under chapter 9 of title 11 of the United States Code (the "Bankruptcy Code"), thereby commencing Bankruptcy Case No. 11-05736-TBB9 (the "Bankruptcy Case") before the United States Bankruptcy Court for the Northern District of Alabama, Southern Division (the "Bankruptcy Court");

WHEREAS, Depfa contends that certain prepetition defaults occurred under the Standby Agreement or the Indenture, and the County disputes such contentions;

WHEREAS, the Indenture Trustee (as defined below) notified the County of certain prepetition Events of Default under the Indenture in 2009, and the County disputes such contentions;

WHEREAS, the County contends that the Standby Rate is an improper rate of interest on the School Warrants under various provisions of the Bankruptcy Code, and Depfa disputes such contentions;

WHEREAS, the County has transferred $21,294,939.38 (the "Early Redemption Amount") to U.S. Bank National Association, a national banking association, as successor to SouthTrust Bank and Wachovia Bank, National Association, in its capacity as indenture trustee under the Indenture and the First Supplemental Indenture (the "Indenture Trustee") for purposes of making mandatory redemption payments on account of either the School Warrants or the Limited Obligation School Warrants, Series 2005-A (the "Series 2005-A Warrants") on or around March 1, 2013, pursuant to Section 9.1 of the Indenture (as modified by Section 1.5 of the First Supplemental Indenture) and Section 2.1(f) of the First Supplemental Indenture; and

WHEREAS, the Parties and their counsel have engaged in good faith, arms' length settlement discussions regarding a consensual resolution of certain disputes among them and have reached agreement concerning, among other matters, the potential treatment of claims arising from the School Warrants in a chapter 9 plan of adjustment for the County and the disposition of the Early Redemption Amount.

NOW, THEREFORE, in consideration of the foregoing and the premises, mutual covenants, and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows.

AGREEMENT

Section 1. Disposition of the Early Redemption Amount.

(a) The County agrees to direct the Indenture Trustee to utilize the Early Redemption Amount to make mandatory redemptions of the School Warrants in March 2013, and not to take any action to interfere with such mandatory redemption by seeking to interpose the automatic stays of Bankruptcy Code sections 362(a) and 922(a) to such utilization.

(b) The County further agrees that, notwithstanding any provision to the contrary in the Indenture or the First Supplemental Indenture, the County will not direct the Indenture Trustee to credit any portion of the Early Redemption Amount against the principal amount of the School Warrants scheduled for redemption pursuant to the amortization schedule set forth in the First Supplemental Indenture or otherwise.

Section 2. Disposition of Certain Future Tax Proceeds During the Chapter 9 Case.

(a) If future excess tax proceeds available for mandatory redemptions under the Indenture and the First Supplemental Indenture ("Future Tax Proceeds") are collected during the pendency of the Bankruptcy Case, the County agrees to direct the Indenture Trustee to utilize such Future Tax Proceeds to make mandatory redemptions of the School Warrants on the next applicable redemption date.

(b) The County further agrees that, notwithstanding any provision to the contrary in the Indenture or the First Supplemental Indenture, the County will not direct the Indenture Trustee to credit any portion of Future Tax Proceeds utilized for mandatory redemptions during the pendency of the Bankruptcy Case against the principal amount of the School Warrants

scheduled for redemption pursuant to the amortization schedule set forth in the First Supplemental Indenture or otherwise.

Section 3. Agreed Terms of an Acceptable Plan.

The County shall propose an Acceptable Plan (as defined below), and Depfa agrees that, so long as it is the legal or beneficial owner of any School Warrants and has been properly solicited pursuant to Bankruptcy Code sections 1125 and 1126, it shall timely vote or cause to be voted (i) any and all claims arising from or in connection with such School Warrants, and (ii) any and all claims arising from or in connection with the Standby Agreement (and not revoke, modify, or withdraw that vote) to accept a chapter 9 plan that includes the following provisions (an "Acceptable Plan"):

(a) A single class will be separately classified and include (i) any and all claims arising from or in connection with the School Warrants, and (ii) any and all claims arising from or in connection with the Standby Agreement (the "Separate Class").

(b) Commencing on the plan's "Effective Date" and except as otherwise provided in the plan, each holder of claims in the Separate Class will on account of such holder's claim retain such holder's preexisting numbered School Warrants, which will be repaid on the terms and conditions set forth in the Standby Agreement, the Indenture, and the First Supplemental Indenture, in each case as modified by the plan in accordance with the terms hereof.

(c) Pursuant to Bankruptcy Code section 1123(a)(5)(F), the Standby Agreement will be modified in the following respects:

(i) Effective as of August 31, 2013, the "Bank Rate" shall be defined to mean the Prime Rate plus 2.25% (the "New Bank Rate").

(ii) All Events of Default under the Standby Agreement (including cross-defaults) that occurred prior to or that were continuing on February 11, 2013, shall be deemed waived and of no further force or effect, without any requirement that the County take any action to cure or otherwise eliminate any such Event of Default. For the avoidance of doubt, and except as otherwise provided in Section 3(c)(iii) of this Agreement, the fact that an Event of Default existed at any time prior to, or at the time of, the effective date of this Agreement shall not give rise to any argument or claim that any future occurrence or re-occurrence of such type of Event of Default has been excused or waived (prospectively or otherwise) under the preceding sentence.

(iii) All Events of Default that could result under the Standby Agreement (including cross-defaults) due to the occurrence of any of the following events during the period between February 11, 2013 and the plan's "Effective Date" shall be deemed waived and of no further force or effect:

(a) the pendency of the Bankruptcy Case, (b) the pendency of a proceeding regarding the "Segregated Account" of Ambac Assurance Corporation ("Ambac") in Wisconsin state court and the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.; and (c) the County's retention of $3,756,625.75 (the "Retained Amount") in the Jefferson County Limited Obligation Warrant Revenue Account during the pendency of the Bankruptcy Case notwithstanding any contrary provision of the Indenture or the First Supplemental Indenture. In addition, all Events of Default that could result under the Standby Agreement (including cross-defaults) due to the occurrence of any of the following events during the period after the plan's "Effective Date" shall be deemed waived and of no further force or effect: (a) the pendency of a proceeding regarding the "Segregated Account" of Ambac in Wisconsin state court and (b) the pendency of a chapter 11 bankruptcy case regarding Ambac Financial Group Inc.

(d) Provided that no Events of Default (other than those waived pursuant to the provisions described in Section 3(c)(ii)-(iii) above) occur under the Standby Agreement, the Indenture, or the First Supplemental Indenture after February 11, 2013, each holder of claims in the Separate Class shall irrevocably waive and release any claim or right to receive interest at a rate higher than the New Bank Rate for any period beginning on or after August 31, 2013, either from the County or from Ambac, including, without limitation, under Ambac's Financial Guaranty Insurance Policy number 23545BE (the "Policy"). For the avoidance of doubt, if any Events of Default (other than those waived pursuant to the provisions described in Section 3(c)(ii)-(iii) above) occur under the Standby Agreement, the Indenture, or the First Supplemental Indenture after February 11, 2013, the holders of claims in the Separate Class will not be deemed to have waived any claims or rights against the County or Ambac for interest at the Base Rate plus 3.00% under the Standby Agreement from and after the occurrence of such Events of Default.

(e) The aggregate amount of any interest paid on account of claims in the Separate Class during the period between August 31, 2013 and the "Effective Date" of the plan at a rate higher than the New Bank Rate will be defined as the "True-Up Amount." On the first interest payment date after the "Effective Date" of the plan, (i) the aggregate outstanding principal balance of the School Warrants will be reduced by an amount equal to the True-Up Amount rounded down to the nearest authorized denomination of the School Warrants, and (ii) the remainder of the True-Up Amount after giving effect to the principal reduction referenced in clause (i) of this sentence will be subtracted from the interest otherwise payable on such interest payment date on account of the School Warrants.

(f) If Future Tax Proceeds are collected after the "Effective Date" of the plan, the County agrees to direct the Indenture Trustee to utilize such Future Tax Proceeds to make mandatory redemptions of the School Warrants on the next applicable redemption date. The County further agrees that, notwithstanding any provision to the contrary in the Indenture or the First Supplemental Indenture, the County will not direct the Indenture Trustee to credit any

portion of Future Tax Proceeds utilized for mandatory redemptions after the "Effective Date" of the plan against the principal amount of the School Warrants scheduled for redemption pursuant to the amortization schedule set forth in the First Supplemental Indenture or otherwise.

(g) On the plan's "Effective Date," or as soon thereafter as practicable, the County will release any hold on the Retained Amount, and the Retained Amount shall thereafter be available for distribution in accordance with the provisions of the Indenture and the First Supplemental Indenture.

(h) Except as otherwise specified above, the plan will not contain any modifications to the Indenture, the First Supplemental Indenture, or the Standby Agreement or anything else that would adversely affect the rights and remedies otherwise available to the holders of claims in the Separate Class.

Section 4. Additional Commitments of the Parties Under the Agreement.

4.1. Support of an Acceptable Plan.

Depfa agrees that, so long as this Agreement has not been terminated in accordance with its terms, Depfa shall:

(a) not directly or indirectly solicit, support, prosecute, encourage, or respond in the affirmative to any other proposal or offer of refinancing, reorganization, or restructuring of the County or the School Warrants, or any other transaction, that could reasonably be expected to hinder, block, prevent, delay, or impede the formulation, proposal, or confirmation of an Acceptable Plan;

(b) not object to, challenge, or otherwise commence or participate in any proceeding opposing any of the terms of the restructuring proposal contemplated by this Agreement and an Acceptable Plan;

(c) not seek or support appointment of a trustee for the County or dismissal of the Bankruptcy Case; and

(d) not take any other action inconsistent with the restructuring proposal contemplated by this Agreement and an Acceptable Plan.

4.2. Transfer of Claims.

(a) Depfa hereby agrees that it shall not sell, transfer, loan, issue, pledge, hypothecate, assign, or otherwise dispose of (each such action, a "Transfer"), directly or indirectly, all or any of its claims against the County, including any of the School Warrants (or any voting rights associated therewith), unless the transferee thereof agrees in writing to assume and be bound by this Agreement, agrees to assume the obligations of Depfa under this Agreement, and delivers such writing to each of the Parties within five (5) business days of the relevant Transfer (each such transferee becoming, upon a Transfer, a Party hereunder). Depfa

may Transfer its claims, rights, and obligations under the Indenture, First Supplemental Indenture, or Standby Agreement to an affiliate as long as such Transfer complies with the procedure set forth in the first sentence of this Section 4.2(a). Such Transfer by Depfa to an affiliate shall satisfy any consent required (if any) by the County under the Indenture, First Supplemental Indenture, or Standby Agreement. Any Transfer of any claim against the County that does not comply with the procedure set forth in the first sentence of this Section 4.2(a) shall be deemed void *ab initio*.

(b) Unless and until all claims against the County are transferred, the transfer of any claim against the County shall not release the transferor from any of its other obligations and duties hereunder.

4.3. Further Acquisition of Claims.

This Agreement shall in no way be construed to preclude Depfa from acquiring additional claims against the County; *provided, however*, that any additional claims against the County acquired by Depfa shall automatically be deemed to be subject to the terms of this Agreement, including, but not limited to, the voting requirements set forth in Section 3 hereof.

4.4. Most Favored Nation Rights.

If the County enters into a settlement or agreement with holders of the Series 2005-A Warrants or holders of the Limited Obligation School Warrants, Series 2004-A (the "Series 2004-A Warrants") regarding the treatment of claims related to the Series 2005-A Warrants or the Series 2004-A Warrants under a chapter 9 plan (an "Other School Warrant PSA"), the County shall inform Depfa in writing of such Other School Warrant PSA within three (3) business days of the effective date of such Other School Warrant PSA. If such Other School Warrant PSA contemplates that a chapter 9 plan will enhance, improve or otherwise benefit the rights of holders of the Series 2005-A Warrants or holders of the Series 2004-A Warrants, then the County will agree to amend this Agreement to provide that any Acceptable Plan must also include provisions that provide equivalent enhancements, improvements, or benefits for the holders of claims in the Separate Class.

Section 5. Mutual Representations, Warranties, and Covenants.

Each Party makes the following representations, warranties, and covenants (on a several basis, with respect to such Party only) to each of the other Parties, each of which are continuing representations, warranties, and covenants:

(a) Subject to the provisions of Bankruptcy Code sections 1125 and 1126, this Agreement is a legal, valid, and binding obligation of such Party, and the actions to be taken by each Party are within such Party's powers and have been duly authorized by all necessary action on its part.

(b) The execution, delivery and performance by such Party of this Agreement does not and shall not: (i) violate the provision of law, rule, or regulations applicable to such

Party or any of its subsidiaries; (ii) violate its certificate of incorporation, bylaws, or other organizational documents or those of any of its subsidiaries; or (iii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it or any of its subsidiaries is a party.

(c) Subject to the provisions of Bankruptcy Code sections 1125 and 1126 and except for the Jefferson County Commission, the execution, delivery, and performance by such Party of this Agreement does not and shall not require any registration or filing with, consent or approval of, or notice to, or other action to, with or by, any Federal, state, or other governmental authority or regulatory body.

Section 6. Reservation of Rights.

This Agreement and any Acceptable Plan are part of a proposed settlement of disputes among the Parties. Except as expressly provided in this Agreement, nothing herein is intended to, does, or shall be deemed in any manner to waive, limit, impair, or restrict the ability of any Party to protect and preserve its rights, remedies, and interests. Nothing herein shall be deemed an admission of any kind. Nothing in this Agreement shall constitute a modification or amendment of the Indenture, the First Supplemental Indenture, or the Standby Agreement.

Section 7. Acknowledgments.

This Agreement is the product of good faith, arm's length negotiations among the Parties and their respective representatives. This Agreement is not and shall not be deemed to be a solicitation of votes for the acceptance of any chapter 9 plan for the purposes of Bankruptcy Code sections 1125 and 1126 or otherwise. Each Party further acknowledges that no securities of the County are being offered or sold hereby and that this Agreement does not constitute an offer to sell or a solicitation of an offer to buy any securities of the County.

Section 8. Termination.

8.1. Termination Events.

The term "Termination Event," wherever used in this Agreement, means the occurrence of any of the following events (whatever the reason for such Termination Event and whether it is voluntary or involuntary):

(i) the Bankruptcy Case shall have been dismissed and a Party delivers written notice (a "Notice of Termination") to the other Party in accordance with Section 10.10 hereof, informing the other Party of its intent to terminate its obligations under this Agreement;

(ii) any court shall enter a final, non-appealable judgment or order declaring this Agreement to be unenforceable and a Party delivers a Notice of Termination to the other Party in accordance with Section 10.10 hereof,

informing the other Party of its intent to terminate its obligations under this Agreement;

(iii) the County determines to file a plan that is not an Acceptable Plan (which, for the avoidance of doubt and notwithstanding anything to the contrary contained in this Agreement, will not constitute a breach of this Agreement); or

(iv) any Party has breached any material provision of this Agreement and any such breach remains uncured or not waived in writing by each of the Parties for a period of ten (10) business days after any non-breaching Party has delivered a Notice of Termination with respect to such breach (specifically referencing this Section 8.1(iv)) to the breaching Party in accordance with Section 10.10 hereof.

If any of the foregoing Termination Events occur, then this Agreement shall terminate as to all Parties.

The foregoing Termination Events are intended solely for the benefit of the Parties; *provided, however*, that no Party may terminate this Agreement based upon a material breach or a failure of a condition (if any) in this Agreement arising solely out of its own actions or omissions.

8.2. Consent to Termination.

This Agreement shall be terminated immediately upon written agreement of all the Parties to terminate this Agreement; *provided, however*, that such termination of the Agreement shall not restrict the Parties' rights and remedies with respect to any prior breach of the Agreement by any Party.

8.3. Effect of Termination.

If this Agreement is terminated, then this Agreement will forthwith become null and void as to all Parties, and there will be no continuing liability or obligation on the part of any Party hereunder as of the date of such termination, except as otherwise provided in Section 8.2; *provided, however*, that termination of this Agreement pursuant to Sections 8.1(iii) and 8.1(iv) hereof (but only, in the case of Section 8.1(iv), to the extent that the County is the breaching Party) shall not terminate the County's obligations under Sections 1, 2, and 3(g) hereof, including, without limitation, regarding not crediting any portion of the Early Redemption Amount or any portion of Future Tax Proceeds utilized for mandatory redemptions during the pendency of the Bankruptcy Case against the principal amount of the School Warrants scheduled for redemption pursuant to the amortization schedule set forth in the First Supplemental Indenture or otherwise; *provided, further*, that the continuation (after a termination of this Agreement) of the County's obligations under Section 3(g) will not preclude the County from proposing a plan of adjustment that modifies or cancels the Indenture or the First Supplemental Indenture and will require only that the County release any hold on the Retained Amount and distribute the Retained Amount to holders of the School Warrants, the Series 2005-A Warrants,

or the Series 2004-A Warrants on the plan's "Effective Date," or as soon thereafter as practicable. Depfa reserves all of its rights and remedies in the event that the County files a plan of adjustment that is not an Acceptable Plan.

Section 9. Effectiveness of the Agreement.

This Agreement shall become effective as of February 11, 2013, once duly executed by each Party. Notwithstanding the foregoing, the provisions of Section 3 hereof shall become effective only as part of a confirmed plan and only upon the date that such plan becomes effective.

Section 10. Miscellaneous Terms.

10.1. Binding Obligation; Savings Clause.

Subject to the provisions of Bankruptcy Code sections 1125 and 1126, this Agreement is a legally valid and binding obligation of the Parties, enforceable in accordance with its terms, and shall inure to the benefit of the Parties and their respective successors, assigns, and representatives. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the Parties and their respective successors, assigns, and representatives, any benefit or any legal or equitable right, remedy, or claim under this Agreement. Notwithstanding anything to the contrary contained in this Agreement, this Agreement shall not constitute an agreement by the County or Depfa to take any step or action that would violate any provision of applicable bankruptcy law or any other applicable laws, and to the extent any provision shall be construed as constituting such a violation, such provision shall be deemed stricken herefrom and of no force and effect without liability to any of the Parties.

10.2. Headings.

The headings of all sections of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit, or aid in the construction or interpretation of any term or provision hereof.

10.3. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE "CHOICE OF LAW" PRINCIPLES OF THAT OR ANY OTHER JURISDICTION. By its execution and delivery of this Agreement, each of the Parties hereby irrevocably and unconditionally agrees that any dispute with respect to this Agreement shall be resolved by the Bankruptcy Court (or, to the extent the Bankruptcy Court declines to exercise jurisdiction, then any court in the state of New York), which shall also have non-exclusive jurisdiction and power to enforce the terms of this Agreement. Each of the Parties hereby irrevocably submits to the personal jurisdiction of the Bankruptcy Court (and, to the extent the Bankruptcy Court declines to exercise jurisdiction, then any court in the state of New York) solely for purposes of the foregoing sentence and irrevocably waives, to the fullest extent it may

effectively do so, the defense of an inconvenient forum to the maintenance of any such action or proceeding. Each of the Parties irrevocably consents to service of process by mail at the addresses listed for such Party in Section 10.10 hereof. Each of the Parties agrees that its submission to jurisdiction and consent to service of process by mail is made for the sole and express benefit of each of the other Parties to this Agreement.

10.4. Complete Agreement; Interpretation; Modification and Waiver.

(a) The Agreement constitutes the complete agreement between the Parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, between or among the Parties with respect thereto.

(b) This Agreement is the product of negotiation by and among the Parties. Any Party enforcing or interpreting this Agreement shall interpret it in a neutral manner. There shall be no presumption concerning whether to interpret the Agreement for or against any Party by reason of that Party having drafted this Agreement, or any portion thereof, or caused it or any portion thereof to be drafted.

(c) This Agreement may only be modified, altered, amended, or supplemented by an agreement in writing signed by each Party. No waiver of any provision of this Agreement or any default, misrepresentation, or breach of any representation, warranty, or covenant hereunder, whether intentional or not, shall be valid unless the same is made in a writing signed by the Party making such waiver, nor will such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of any representation, warranty, or covenant hereunder, or affect in any manner any rights arising by virtue of any prior or subsequent default, misrepresentation, or breach of any representation, warranty, or covenant.

10.5. Specific Performance.

The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, the Parties agree that, in addition to any other remedies, each Party shall be entitled to enforce the terms of this Agreement by a decree of specific performance without the necessity of proving the inadequacy of money damages as a remedy and without regards to anything to the contrary contained in applicable law. Each Party hereby waives any requirement for the securing or posting of any bond in connection with such remedy. Each Party further agrees that the only permitted objection that it may raise in response to any action for equitable relief is that it contests the existence of a breach or threatened breach of this Agreement.

10.6. Execution of the Agreement.

This Agreement may be executed and delivered (by facsimile, PDF, or otherwise) in any number of counterparts, each of which, when executed and delivered, shall be deemed an original, and all of which together shall constitute the same agreement. Each individual

executing this Agreement on behalf of a Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of said Party.

10.7. Independent Due Diligence and Decision-Making.

Each Party hereby confirms that its decision to execute this Agreement has been based upon its independent investigation of the operations, businesses, financial and other conditions and prospect of the County. Each Party acknowledges that any materials or information furnished to it by any other Party has been provided for informational purposes only, without any representation or warranty by such other Party.

10.8. Settlement Discussions.

This Agreement and the restructuring proposal contemplated by an Acceptable Plan are part of a proposed settlement of disputes among the Parties. Nothing herein shall be deemed an admission of any kind. If the transactions contemplated herein are not consummated, or following the occurrence of a Termination Event as set forth herein, if applicable, nothing shall be construed herein as a waiver by any Party of any or all of such Party's rights and the Parties expressly reserve any and all of their respective rights. Pursuant to Federal Rule of Evidence 408 and any applicable state rules of evidence, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce the terms of this Agreement.

10.9. Legal and Other Fees.

All of the Parties shall bear their own respective costs and expenses, including legal and other professional fees, associated with the negotiation and implementation of this Agreement.

10.10. Notices.

All notices hereunder (including, without limitation, any Notice of Termination), shall be deemed given if in writing and delivered, if sent by telecopy, electronic mail, courier, or by registered or certified mail (return receipt requested) to the following addresses and telecopier numbers (or at such other addresses or telecopier numbers as shall be specified by like notice):

If to the County:

Jefferson County, Alabama
Attn: Chief Executive Officer
Room 251, Jefferson County Courthouse
716 Richard Arrington Jr. Boulevard North
Birmingham, Alabama 35203

-and-

Jeffrey M. Sewell, Esq., County Attorney
Room 280, Jefferson County Courthouse
716 Richard Arrington Jr. Boulevard North
Birmingham, Alabama 35203
Facsimile: (205) 325-5840
Email: sewellj@jccal.org

-and-

Bradley Arant Boult Cummings LLP
One Federal Place
1819 Fifth Avenue North
Birmingham, Alabama 35203
Attn: J. Patrick Darby, Esq.
Facsimile: (205) 521-8500
Email: pdarby@babc.com

-and-

Klee, Tuchin, Bogdanoff & Stern LLP
1999 Avenue of the Stars, 39th Floor
Los Angeles, California 90067
Attn: Kenneth N. Klee, Esq.; Lee R. Bogdanoff, Esq.; Whitman L. Holt, Esq.
Facsimile: (310) 407-9090
E-mail: kklee@ktbslaw.com; lbogdanoff@ktbslaw.com; wholt@ktbslaw.com

If to Depfa:

Depfa Bank PLC
Attn: Randy Himelfarb
622 Third Avenue, 29th Floor
New York, NY 10017
Facsimile: (212) 905-4779
E-mail: randy.himelfarb@depfa.com

-and-

Fried, Frank, Harris, Shriver & Jacobson LLP
One New York Plaza
New York, NY 10004
Attn: Israel David, Esq.; Gary L. Kaplan, Esq.
Telecopier: (212) 859-4000
E-mail: israel.david@friedfrank.com; gary.kaplan@friedfrank.com

Any notice given by delivery, mail, or courier shall be effective when received. Any notice given by telecopier shall be effective upon oral or machine confirmation of transmission. Any notice given by electronic mail shall be effective upon oral or machine confirmation of receipt.

[remainder of page intentionally left blank; signature pages follow]

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By: W. D. CARRINGTON
Its: PRESIDENT OF THE COUNTY COMMISSION

DEPFA BANK PLC

By:
Its:

DEPFA BANK PLC

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

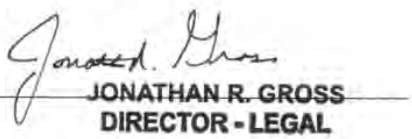
_____

By:
Its:

DEPFA BANK PLC

By:
Its: MANAGING DIRECTOR

DEPFA BANK PLC



By:
Its:

EXHIBIT NO. 6

GO Plan Support Agreement

PLAN SUPPORT AGREEMENT

THIS IS NOT A SOLICITATION OF ACCEPTANCES OR REJECTIONS OF ANY CHAPTER 9 PLAN; ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL THE BANKRUPTCY COURT APPROVES A DISCLOSURE STATEMENT

This PLAN SUPPORT AGREEMENT (as it may be amended and supplemented from time to time, this "Agreement"), dated as of May 13, 2013, is made and entered into by and among Jefferson County, Alabama (the "County"), on the one hand, and Bayerische Landesbank, New York branch (formerly known as Bayerische Landesbank Girozentrale) ("BLB"), JPMorgan Chase Bank, N.A. ("JPMorgan" and together with BLB, the "Banks"), and Wells Fargo Bank, National Association (the "Indenture Trustee"), as indenture trustee, on the other hand (each a "Party" and collectively, the "Parties").

RECITALS

WHEREAS, the County issued those certain General Obligation Warrants, Series 2001-B in the original principal amount of $120,000,000 (the "2001-B GO Warrants") under that certain *Trust Indenture* dated as of July 1, 2001, between the County and the Indenture Trustee, as successor to The Bank of New York (as amended, the "Indenture");

WHEREAS, in connection with the issuance of the 2001-B GO Warrants, the County entered into that certain *Standby Warrant Purchase Agreement* dated as of July 1, 2001, among the County, the Indenture Trustee, and the Banks, as subsequently amended via the *First Amendment to Standby Warrant Purchase Agreement* dated as of September 1, 2004 (as amended, the "Standby Agreement");

WHEREAS, following the tender in 2008 of $119,250,000 (i.e., all but $750,000) of the 2001-B GO Warrants to the Banks pursuant to the Standby Agreement, all such tendered 2001-B GO Warrants became due and payable in six semi-annual installments, commencing on September 15, 2008 and ending on March 11, 2011, and the $750,000 of 2001-B GO Warrants that remained outstanding under the Indenture and that are now held by BLB effectively became accelerated upon the commencement of the Bankruptcy Case referenced below, and as a result there is presently $105,000,000 in principal amount due and owing on account of the 2001-B GO Warrants;

WHEREAS, in connection with the issuance of the 2001-B GO Warrants, the County entered into that certain *ISDA Master Agreement*, dated as of March 23, 2001, between the County and JPMorgan (as amended, supplemented, or otherwise modified, including by the *Schedule* thereto dated as of March 23, 2001, and collectively with the *Confirmation* dated April 26, 2001 and any other schedules, annexes, or confirmations related thereto, the "GO Swap Agreement");

WHEREAS, September 4, 2008 was designated as the "Early Termination Date" under and in accordance with the GO Swap Agreement in respect of all transactions outstanding thereunder, and the termination payment calculated in accordance with the GO Swap Agreement

in respect of such "Early Termination Date" was approximately $7,900,000 (such amount, together with interest accrued thereon, and any and all other claims arising under or in connection with the GO Swap Agreement, the "GO Swap Agreement Claim");

WHEREAS, on November 9, 2011 (the "Petition Date"), the County filed a voluntary petition for relief under chapter 9 of title 11 of the United States Code (the "Bankruptcy Code"), thereby commencing Bankruptcy Case No. 11-05736-TBB9 (the "Bankruptcy Case") before the United States Bankruptcy Court for the Northern District of Alabama, Southern Division (the "Bankruptcy Court");

WHEREAS, the Indenture Trustee and the Banks (as applicable) have filed claims in the Bankruptcy Case asserting rights to be paid, among other things, principal on the 2001-B GO Warrants, pre-bankruptcy non-default and default interest on the 2001-B GO Warrants (including interest thereon), post-bankruptcy interest on the 2001-B GO Warrants, the GO Swap Agreement Claim, and reimbursement of pre- and post-bankruptcy fees and expenses;

WHEREAS, the County disputes the Indenture Trustee's and the Banks' entitlements to certain of the claims asserted against the County in the Bankruptcy Case relating to the 2001-B GO Warrants and the GO Swap Agreement Claim, and the Indenture Trustee and the Banks (as appropriate) dispute such contentions; and

WHEREAS, the Parties and their representatives have engaged in good faith, arms' length settlement discussions regarding a consensual resolution of certain disputes among them and, subject to the terms and conditions set forth herein, have reached agreement concerning, among other matters, the potential treatment of claims arising from or in connection with the 2001-B GO Warrants and the GO Swap Agreement in a chapter 9 plan of adjustment for the County.

NOW, THEREFORE, in consideration of the foregoing and the premises, mutual covenants, and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows.

AGREEMENT

Section 1. Agreed Terms of an Acceptable Plan.

The County shall propose and pursue confirmation of an Acceptable Plan (as defined below). Subject to the terms of this Agreement, BLB and JPMorgan each agrees that, so long as it is the legal or beneficial owner of any 2001-B GO Warrants or the GO Swap Agreement Claim, as applicable, and has been properly solicited pursuant to Bankruptcy Code sections 1125 and 1126, it shall timely vote or cause to be voted its portion of (i) any and all claims arising from or in connection with such 2001-B GO Warrants, (ii) any and all claims arising from or in connection with the Indenture or the Standby Agreement, and (iii) the GO Swap Agreement Claim (and not revoke, modify, or withdraw that vote) to accept a chapter 9 plan that includes the following provisions, and no provisions inconsistent therewith (an "Acceptable Plan"):

(a) A single class will be separately classified and include (i) any and all claims arising from or in connection with the 2001-B GO Warrants, and (ii) any and all claims arising from or in connection with the Indenture and the Standby Agreement (the "Series 2001-B GO Class").

(b) All claims in the Series 2001-B GO Class will be allowed under the Acceptable Plan. However, with the exception of claims on account of principal and prepetition non-default interest in the aggregate amount of $105,123,291.67 (consisting of $52,937,479.17 of BLB claims (the "BLB Claims") and $52,185,812.50 of JPMorgan claims (the "JPMorgan Claims")) and the reasonable fees and expenses of the Indenture Trustee, the Indenture Trustee and the Banks will waive and release all other asserted claims in the Series 2001-B GO Class, including, without limitation, on account of default rate interest, the Banks' fees and expenses, and postpetition interest, which will receive no distribution under the Acceptable Plan, if confirmed and effective.

(c) In full and final satisfaction of all claims in the Series 2001-B GO Class, the Banks will receive their pro rata share of replacement warrants ("New Warrants") issued under the Acceptable Plan and governed by an amended and restated indenture (the "New Indenture"), the form of which New Warrants and New Indenture shall be reasonably acceptable to the Indenture Trustee and the Banks, included in a "plan supplement," and contain the following material terms:

(i) The New Warrants shall be issued in two separate series, one in the amount of the BLB Claims and the other in the amount of the JPMorgan Claims. All of the terms and conditions of the New Indenture will apply equally to each series of the New Warrants.

(ii) The County will make payments on the New Warrants in the amounts and on the dates specified in the amortization schedule attached hereto as **Exhibit A**, which payments represent the reamortized repayment of the pre-bankruptcy principal (after giving effect to the application of $15,000,000 in partial principal payments that the County made on or around October 31, 2008 and January 15, 2009, to outstanding principal) and pre-bankruptcy non-default interest due and owing on account of the 2001-B GO Warrants.

(iii) All debt under the New Indenture will have a final maturity date of April 1, 2021.

(iv) The New Warrants will bear interest starting on and after the date on which an Acceptable Plan becomes effective in accordance with its terms (the "Effective Date"). Interest will be computed on the basis of a 360 day year with 12 months of 30 days each, and will be payable semi-annually on April 1 and October 1 of each year. The non-default interest rate for all New Warrants (the "Base Rate") will be a fixed rate equal to the WSJ Prime Rate on the Effective Date plus 1.65% per annum. The "Default Rate" under the New Indenture will add an additional 100 basis points (1.0%) to the Base Rate.

(v) The New Warrants shall be issued as book entry only securities in authorized denominations of $5,000, and integral multiples thereof, to the extent required.

(vi) The New Warrants will not be subject to optional redemption prior to the fifth anniversary of the Effective Date. Each series of the New Warrants may be redeemed on a pro rata basis, in whole or in part, on or after the fifth anniversary of the Effective Date at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest thereon to the date of redemption plus a redemption premium (expressed as a percentage of principal amount redeemed) equal to whichever of the following shall be applicable: 2% if the date of redemption is on or after the fifth anniversary but prior to the sixth anniversary of the Effective Date; 1% if the date of redemption is on or after the sixth anniversary but prior to the seventh anniversary of the Effective Date; and without premium if the date of redemption is on or after the seventh anniversary of the Effective Date.

(vii) Conditions precedent to the issuance of the New Warrants under the New Indenture and representations, warranties, and covenants of the County in the New Indenture shall in substance replicate the conditions, representations, warranties, and covenants of the County with respect to the 2001-B GO Warrants contained in the Indenture and the Standby Agreement, except for those inapplicable to fixed rate warrants not supported by a standby agreement, and after giving effect to the confirmation and effectiveness of an Acceptable Plan.

(viii) The New Indenture, the New Warrants, and any related documentation shall each include an Alabama choice of law provision substantially similar to Section 1.6 of the Indenture.

(d) The GO Swap Agreement Claim will be classified in a separate class (the "GO Swap Class"), and will be allowed under the Acceptable Plan in the aggregate amount of $7,893,762.30, plus interest accrued thereon at the applicable rate as set forth in the GO Swap Agreement. In full and final satisfaction of all claims in the GO Swap Class, on the Effective Date, the County shall pay JPMorgan the sum of ten dollars ($10.00).

(e) Under the Acceptable Plan and as of the Effective Date, the County will release the Banks, the Indenture Trustee, and their respective accountants, affiliates, agents, assigns, attorneys, bankers, consultants, directors, employees, executors, financial advisors, heirs, mangers, members, officers, parent entities, partners, principals, professional persons, representatives, shareholders, subsidiaries, and successors, whether past or present (collectively, "Related Parties"), from any and all causes of action or avoidance actions (including those arising under the Bankruptcy Code or nonbankruptcy law) based in whole or in part on any act, event, omission, transaction, or other occurrence, in connection with, relating to, or arising from the 2001-B GO Warrants, the Indenture, the Standby Agreement, or the GO Swap Agreement. Except for the obligations imposed on the County by the Acceptable Plan, the New Indenture, and the New Warrants, under the Acceptable Plan and as of the Effective Date, each of BLB, JPMorgan, and the Indenture Trustee will release the County and its Related Parties from any and all causes of action or avoidance actions (including those arising under the Bankruptcy Code or nonbankruptcy law) based in whole or in part on any act, event, omission, transaction, or other

occurrence, in connection with, relating to, or arising from the 2001-B GO Warrants, the Indenture, the Standby Agreement, or the GO Swap Agreement.

(f) On the Effective Date, the Acceptable Plan will deem the Standby Agreement and the GO Swap Agreement cancelled and of no further force or effect. On the Effective Date, the Acceptable Plan will deem the Indenture superseded in all respects by the New Indenture.

(g) In accordance with the Indenture, the County shall pay all reasonable fees and expenses of the Indenture Trustee, including but not limited to the fees and expenses of its agents and counsel, in cash on or as soon as practicable after the Effective Date, but in any event no more than two (2) business days after the Effective Date. Nothing in this paragraph shall affect the rights and priorities granted to the Indenture Trustee pursuant to Sections 12.3(b) and 13.7(b) of the Indenture. Counsel for the Indenture Trustee shall provide counsel for the County with a good faith estimate of the anticipated aggregate fees and expenses of the Indenture Trustee prior to the execution of this Agreement.

Section 2. Additional Agreements Related to an Acceptable Plan.

In connection with the County's proposal of an Acceptable Plan, the Parties agree to the following:

(a) The County will take appropriate steps to cause the interest on the New Warrants to be excluded from gross income of the holders thereof for purposes of federal income taxation and will obtain and deliver a customary opinion letter from bond counsel confirming that tax-exempt status simultaneously with the issuance of the New Warrants.

(b) The County shall include in an Acceptable Plan and, as appropriate, in the disclosure statement accompanying an Acceptable Plan, and the County and the Indenture Trustee will take all reasonable actions and cooperate in good faith to ensure that the order confirming an Acceptable Plan includes as conclusions of law, the following provisions (as modified, *mutatis mutandis*, to utilize defined terms that also encompass other categories of claims to which the following language may equally apply), all of which sets forth and is wholly consistent with applicable law:

(i) The indebtedness evidenced and ordered to be paid by the 2001-B GO Warrants constitutes, and with respect to the New Warrants will constitute, a general obligation of the County in support of which the County irrevocably pledged its full faith and credit. This pledge is a commitment to pay and a commitment of the County's revenue generating powers to produce the funds necessary to pay the principal of and interest on the 2001-B GO Warrants, and the New Warrants once issued, as they become due.

(ii) Revenues legally available to the County for payment of debt service on the 2001-B GO Warrants include, and with respect to the New Warrants will include, ad valorem taxes, sales and business license taxes, and other general fund revenues.

(iii) Pursuant to Section 215 of the Alabama Constitution, as amended by Amendment No. 208, and Sections 11-3-11(a)(2), 11-14-11, and 11-14-16 of the Alabama Code (collectively, "Section 215"), the County may levy and collect a 5.1 mill special ad valorem tax (the "Special Tax"), not to exceed one-fourth of one percent per annum, for the purpose of paying any debt or liability against the County due and payable during the year and created for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads, and any remaining proceeds of the Special Tax in excess of amounts payable on bonds, warrants, or other securities issued by the County for such limited purposes may be spent for general county purposes. Section 215 provides that the County may use proceeds of the Special Tax for general county purposes only after all amounts due and payable in any given fiscal year on bonds, warrants, or other securities issued by the County for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads (collectively, "Special Tax Obligations") are paid in full, and such proceeds shall be applied first to Special Tax Obligations.

(iv) The Special Tax is separate and distinct from the County's 5.6 mill general ad valorem tax, the proceeds of which are used for general county purposes and to support the operation of the County's basic governmental functions, including management, personnel, accounting, taxation, purchasing, data processing, law enforcement, the judiciary, and land utilization.

(v) The 2001-B GO Warrants constitute, and the New Warrants will constitute, a debt or liability against the County created for the erection, repairing, furnishing, or maintenance of public buildings, bridges, or roads within the scope and meaning of Section 215. As such, all amounts payable on account of or in connection with the 2001-B GO Warrants, and the New Warrants once issued, in any given fiscal year must be paid by the County from the proceeds of the Special Tax prior to the County using any such proceeds in such fiscal year for general county purposes, including but not limited to current governmental expenses or any expenditures related to the County's sewer system.

(vi) By virtue of the application of Section 215 with respect to the proceeds of the Special Tax, any and all claims arising from or in connection with the 2001-B GO Warrants, the Indenture, and the Standby Agreement are properly classified separately under the Plan and properly treated in the fashion provided by the Plan.

(c) The County will make reasonable efforts to have the New Warrants rated by one or more nationally recognized credit rating organizations.

(d) The Parties will negotiate reasonably and in good faith all of the relevant documents and transactions described in, contemplated by, or accompanying an Acceptable Plan, including the New Indenture.

Section 3. **Additional Commitments of the Parties Under this Agreement.**

3.1. **Support of an Acceptable Plan.**

Subject to the terms of this Agreement, including, without limitation, Sections 7.1 and 7.2, each of the Indenture Trustee, BLB, and JPMorgan agrees that, so long as this Agreement has not been terminated in accordance with its terms, the Indenture Trustee, BLB, and JPMorgan, as applicable, shall:

(a) not directly or indirectly solicit, support, prosecute, encourage, or respond in the affirmative to any other proposal or offer of refinancing, reorganization, or restructuring of the 2001-B GO Warrants or the GO Swap Agreement Claim that could reasonably be expected to hinder, block, prevent, delay, or impede the formulation, proposal, or confirmation of an Acceptable Plan;

(b) not object to, challenge, or otherwise commence or participate in any proceeding opposing any of the terms of the restructuring proposal contemplated by this Agreement and an Acceptable Plan;

(c) not seek or support appointment of a trustee for the County or dismissal of the Bankruptcy Case; and

(d) not take any other action inconsistent with the restructuring proposal contemplated by this Agreement and an Acceptable Plan.

3.2. **Transfer of Claims.**

(a) Each of BLB and JPMorgan hereby agrees that it shall not sell, transfer, loan, issue, pledge, hypothecate, assign, or otherwise dispose of (each such action, a "Transfer"), directly or indirectly, all or any of its 2001-B GO Warrants or the GO Swap Agreement Claim, or claims against the County directly related thereto (or any voting rights associated therewith), as applicable, unless the transferee thereof agrees in writing to assume and be bound by this Agreement and delivers such writing to each of the Parties within five (5) business days of the relevant Transfer (each such transferee becoming, upon a Transfer, a Party hereunder). Any Transfer of any claim against the County that does not comply with the procedure set forth in the first sentence of this Section 3.2(a) shall be deemed void *ab initio*.

(b) Unless and until all 2001-B GO Warrants or the GO Swap Agreement Claim, or claims against the County directly related thereto are transferred, the transfer of any 2001-B GO Warrant or the GO Swap Agreement Claim or claim directly related thereto against the County shall not release the transferor from any of its other obligations and duties hereunder.

3.3. **Further Acquisition of Claims.**

This Agreement shall in no way be construed to preclude BLB or JPMorgan from acquiring additional 2001-B GO Warrants or claims against the County directly related thereto;

provided, however, that any additional 2001-B GO Warrants or claims against the County directly related thereto acquired by BLB or JPMorgan, as applicable, shall automatically be deemed to be subject to the terms of this Agreement, including, without limitation, the voting requirements set forth in Section 1 hereof.

3.4. Most Favored Nation Rights.

Notwithstanding anything in this Agreement to the contrary, a plan of adjustment will be an Acceptable Plan only if the Series 2001-B GO Class is treated no less favorably than any other class of creditors in which the claims of any insurer of any of the County's other general obligation warrants are classified under the plan, in respect of each of the following categories:

(a) percentage recovery of interest accruing during the period between the Petition Date and the Effective Date, including but not limited to any payment of such interest under a financial guaranty insurance policy and interest accruing on amounts paid under such policies, determined on the basis of each of (i) the non-default interest rate under any agreement, (ii) the default interest rate under any agreement, and (iii) total non-default and default interest payable under any agreement; and

(b) percentage recovery of the aggregate claims that could be asserted by creditors in the applicable class, including principal, interest, and professional fees and expenses, in each case as determined under any pre-bankruptcy agreement.

Section 4. Mutual Representations, Warranties, and Covenants.

Each Party makes the following representations, warranties, and covenants (on a several basis, with respect to such Party only) to each of the other Parties, each of which are continuing representations, warranties, and covenants:

(a) Subject to the provisions of Bankruptcy Code sections 1125 and 1126, this Agreement is a legal, valid, and binding obligation of such Party, and the actions to be taken by each Party are within such Party's powers and have been duly authorized by all necessary action on its part.

(b) The execution, delivery and performance by such Party of this Agreement does not and shall not: (i) violate the provision of law, rule, or regulations applicable to such Party; (ii) violate its certificate of incorporation, bylaws, or other organizational documents; or (iii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it is a party.

(c) Subject to the provisions of Bankruptcy Code sections 1125 and 1126 and except for the Jefferson County Commission, the execution, delivery, and performance by such Party of this Agreement does not and shall not require any registration or filing with, consent or approval of, or notice to, or other action to, with or by, any Federal, state, or other governmental authority or regulatory body. Any registration or filing with, consent or approval of, or notice to, or other action to, with or by, any Federal, state, or other governmental authority or regulatory

body that is required before the Jefferson County Commission can execute, deliver, and perform this Agreement shall have been completed, received, or given, as the case may be, prior to the execution and delivery of this Agreement.

Section 5. Reservation of Rights.

This Agreement and any Acceptable Plan are part of a proposed settlement of disputes among the Parties relating to the 2001-B GO Warrants and the GO Swap Agreement Claim. Except as expressly provided in this Agreement, nothing herein is intended to, does, or shall be deemed in any manner to waive, limit, impair, or restrict the ability of any Party to protect and preserve its rights, remedies, and interests. Without limitation, each of the Indenture Trustee, BLB, and JPMorgan reserves all of its rights and remedies in the event that the County files a plan of adjustment that is not an Acceptable Plan, or if the County withdraws an Acceptable Plan or modifies an Acceptable Plan so that it is no longer an Acceptable Plan. Subject to the provisions of Federal Rule of Bankruptcy Procedure 3018(a) ("Rule 3018(a)"), each of BLB and JPMorgan may revoke, modify, or withdraw its vote to accept an Acceptable Plan upon the occurrence of a Termination Event under Section 7.1 or Section 7.2 hereof, and the County agrees (i) that any request to revoke, modify, or withdraw a vote on such grounds constitutes "cause" for purposes of Rule 3018(a) and (ii) not to oppose any motion or request that may be filed by BLB or JPMorgan under Rule 3018(a) following the occurrence of a Termination Event under Section 7.1 or Section 7.2 hereof. Nothing herein shall be deemed an admission of any kind. Nothing in this Agreement shall constitute a modification or amendment of the Indenture, the Standby Agreement, or the GO Swap Agreement. Without limiting the foregoing, if this Agreement shall terminate in accordance with Section 7.1 or Section 7.2 hereof, JPMorgan reserves all rights to contend (and all other Parties reserve all rights to dispute) that the GO Swap Agreement Claim represents a claim with rights under Section 215 with respect to the proceeds of the Special Tax on a parity with the 2001-B GO Warrants, and that the GO Swap Agreement Claim should receive treatment under any plan of adjustment on parity and consistent with the treatment provided in respect of any other claim with rights under Section 215 with respect to the proceeds of the Special Tax.

Section 6. Acknowledgments.

This Agreement is the product of good faith, arm's length negotiations among the Parties and their respective representatives. This Agreement is not and shall not be deemed to be a solicitation of votes for the acceptance of any chapter 9 plan for the purposes of Bankruptcy Code sections 1125 and 1126 or otherwise. Each Party further acknowledges that no securities of the County are being offered or sold hereby and that this Agreement does not constitute an offer to sell or a solicitation of an offer to buy any securities of the County.

Section 7. Termination.

7.1. General Termination Events.

The term "Termination Event," wherever used in this Agreement, means the occurrence of any of the following events (whatever the reason for such Termination Event and whether it is voluntary or involuntary):

(i) the Bankruptcy Case shall have been dismissed;

(ii) any court shall enter a final, non-appealable judgment or order declaring this Agreement to be unenforceable;

(iii) the Parties are unable to agree on the form of the New Indenture, the New Warrants, and any related documents prior to solicitation of votes on an Acceptable Plan and a Party delivers written notice (a "Notice of Termination") to the other Parties in accordance with Section 9.10 hereof, informing the other Parties of the termination of this Agreement;

(iv) the County (a) determines to or does file a plan that is not an Acceptable Plan, (b) withdraws an Acceptable Plan, or (c) modifies an Acceptable Plan such that it is no longer an Acceptable Plan (none of which, for the avoidance of doubt and notwithstanding anything to the contrary contained in this Agreement, will constitute a breach of this Agreement) and, in the case of clauses (a) and (c) above, the Indenture Trustee or either of the Banks delivers a Notice of Termination to the County in accordance with Section 9.10 hereof, informing the County of the termination of this Agreement;

(v) the Bankruptcy Court denies confirmation of an Acceptable Plan;

(vi) the Effective Date does not occur on or before December 31, 2013, and the Indenture Trustee or either of the Banks delivers a Notice of Termination to the County in accordance with Section 9.10 hereof, informing the County of the termination of this Agreement; or

(vii) any Party has breached any material provision of this Agreement and any such breach remains uncured, or not waived in writing by each of the other Parties, for a period of ten (10) calendar days after any non-breaching Party has delivered a Notice of Termination with respect to such breach (specifically referencing this Section 7.1(vii)) to the breaching Party in accordance with Section 9.10 hereof.

7.2. **JPMorgan Additional Termination Event.**

In addition to the Termination Events set forth in Section 7.1, JPMorgan shall have the right at any time to terminate this Agreement by delivering a Notice of Termination to the other Parties (which termination shall be effective upon receipt of such Notice of Termination in the case of clauses (i), (ii) or (iii) below, and seven (7) calendar days after receipt of such Notice of Termination (subject to the right of JPMorgan to rescind such Notice of Termination) in the case of clause (iv) below) if (i) a plan of adjustment (including an Acceptable Plan) filed by the County fails to provide for (a) the consensual allowance and treatment of the claims of JPMorgan (including claims of its affiliates) against the County other than on account of the 2001-B GO Warrants and the GO Swap Agreement Claim, including, without limitation, claims arising under or in connection with the County's special revenue sewer warrants (the "Sewer Warrants") issued pursuant to that certain *Trust Indenture*, dated as of February 1, 1997, between the County and The Bank of New York Mellon, as indenture trustee (as amended, the "Sewer Warrant Indenture"), and (b) the consensual settlement and release of any litigation, claims, causes of action or avoidance actions (including those arising under the Bankruptcy Code or nonbankruptcy law) against JPMorgan or its affiliates relating to the Sewer Warrants, the County's sewer system, the Sewer Warrant Indenture, or any transactions related thereto, in each case under clauses (a) and (b) that is acceptable to JPMorgan in its sole discretion (such allowance, treatment, settlement, and release, collectively, an "Acceptable Sewer Treatment"); (ii) any plan support agreement between the County and JPMorgan providing for an Acceptable Sewer Treatment is terminated, or the County indicates its intention (or JPMorgan determines that the County intends) to file a plan of adjustment (including an Acceptable Plan) that fails to provide for an Acceptable Sewer Treatment; (iii) the County withdraws a plan of adjustment (including an Acceptable Plan) that provides for an Acceptable Sewer Treatment; or (iv) the County modifies a plan of adjustment (including an Acceptable Plan) so that such plan of adjustment (including an Acceptable Plan) no longer provides for an Acceptable Sewer Treatment.

If any of the foregoing Termination Events set forth in Sections 7.1 or 7.2 occur and, if applicable, a Notice of Termination is delivered to the appropriate Party or Parties in accordance with Section 9.10 hereof, then this Agreement shall terminate as to all Parties. For the avoidance of doubt, if JPMorgan terminates this Agreement under Section 7.2, the County reserves all of its rights with respect to the terms that may be included in any plan of adjustment, including, without limitation, with respect to the classification and treatment of any claims of JPMorgan, BLB, or the Indenture Trustee.

The foregoing Termination Events set forth in Sections 7.1 or 7.2 are intended solely for the benefit of the Parties; *provided, however*, that no Party may terminate this Agreement based upon a material breach arising solely out of its own actions or omissions.

7.3. **Consent to Termination.**

This Agreement shall be terminated immediately upon written agreement of all the Parties to terminate this Agreement; *provided, however*, that such termination of this Agreement

shall not restrict the Parties' rights and remedies with respect to any prior breach of this Agreement by any Party.

7.4. Effect of Termination.

If this Agreement is terminated, then this Agreement will forthwith become null and void as to all Parties, and there will be no continuing liability or obligation on the part of any Party hereunder as of the date of such termination, except as otherwise provided in Section 7.3.

Section 8. Effectiveness of this Agreement.

This Agreement shall become effective once duly executed by each Party. Notwithstanding the foregoing, the provisions of any Acceptable Plan shall become effective only on the Effective Date.

Section 9. Miscellaneous Terms.

9.1. Binding Obligation; Savings Clause.

Subject to the provisions of Bankruptcy Code sections 1125 and 1126, this Agreement is a legally valid and binding obligation of the Parties, enforceable in accordance with its terms, and shall inure to the benefit of the Parties and their respective successors, assigns, and representatives. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the Parties and their respective successors, assigns, and representatives, any benefit or any legal or equitable right, remedy, or claim under this Agreement. Notwithstanding anything to the contrary contained in this Agreement, this Agreement shall not constitute an agreement by the Parties to take any step or action that would violate any provision of applicable bankruptcy law or any other applicable laws, and to the extent any provision shall be construed as constituting such a violation, such provision shall be deemed stricken herefrom and of no force and effect without liability to any of the Parties.

9.2. Headings.

The headings of all sections of this Agreement are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit, or aid in the construction or interpretation of any term or provision hereof.

9.3. Governing Law; Venue and Service.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE "CHOICE OF LAW" PRINCIPLES OF THAT OR ANY OTHER JURISDICTION. By its execution and delivery of this Agreement, each of the Parties hereby irrevocably and unconditionally agrees that any dispute with respect to this Agreement shall be resolved by the Bankruptcy Court, which shall have non-exclusive jurisdiction and power to enforce the terms of this Agreement. Each of the Parties hereby irrevocably submits to the personal jurisdiction of

the Bankruptcy Court solely for purposes of the foregoing sentence and irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any such action or proceeding. Each of the Parties irrevocably consents to service of process by mail at the addresses listed for such Party in Section 9.10 hereof. Each of the Parties agrees that its submission to jurisdiction and consent to service of process by mail is made for the sole and express benefit of each of the other Parties to this Agreement.

9.4. Complete Agreement; Interpretation; Modification and Waiver.

(a) This Agreement constitutes the complete agreement among the Parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, among the Parties with respect thereto; *provided, however*, that the Indenture, the Standby Agreement, and the GO Swap Agreement shall remain in full force and effect in accordance with their terms (but subject to all limitations now existing under the Bankruptcy Code or otherwise as a result of the commencement of the Bankruptcy Case) until the Effective Date.

(b) This Agreement is the product of negotiation by and among the Parties. Any Party enforcing or interpreting this Agreement shall interpret it in a neutral manner. There shall be no presumption concerning whether to interpret this Agreement for or against any Party by reason of that Party having drafted this Agreement, or any portion thereof, or caused it or any portion thereof to be drafted.

(c) This Agreement may only be modified, altered, amended, or supplemented by an agreement in writing signed by each Party. No waiver of any provision of this Agreement or any default, misrepresentation, or breach of any representation, warranty, or covenant hereunder, whether intentional or not, shall be valid unless the same is made in a writing signed by the Party making such waiver, nor will such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of any representation, warranty, or covenant hereunder, or affect in any manner any rights arising by virtue of any prior or subsequent default, misrepresentation, or breach of any representation, warranty, or covenant.

9.5. Specific Performance.

The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, the Parties agree that, in addition to any other remedies, each Party shall be entitled to enforce the terms of this Agreement by a decree of specific performance without the necessity of proving the inadequacy of money damages as a remedy and without regard to anything to the contrary contained in applicable law. Each Party hereby waives any requirement for the securing or posting of any bond in connection with such remedy. Each Party further agrees that the only permitted objection that it may raise in response to any action for equitable relief is that it contests that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached.

9.6. **Execution of this Agreement.**

This Agreement may be executed and delivered (by facsimile, PDF, or otherwise) in any number of counterparts, each of which, when executed and delivered, shall be deemed an original, and all of which together shall constitute the same agreement. Each individual executing this Agreement on behalf of a Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of said Party.

9.7. **Independent Due Diligence and Decision-Making.**

Each Party hereby confirms that its decision to execute this Agreement has been based upon its independent investigation of the operations, businesses, financial and other conditions and prospects of the County. Each Party acknowledges that any materials or information furnished to it by any other Party has been provided for informational purposes only, without any representation or warranty by such other Party.

9.8. **Settlement Discussions.**

This Agreement and the restructuring proposal contemplated by an Acceptable Plan are part of a proposed settlement of disputes among the Parties relating to the 2001-B GO Warrants and the GO Swap Agreement Claim. Nothing herein shall be deemed an admission of any kind. If the transactions contemplated herein are not consummated, or following the occurrence of a Termination Event as set forth herein, if applicable, nothing shall be construed herein as a waiver by any Party of any or all of such Party's rights and the Parties expressly reserve any and all of their respective rights. Pursuant to Federal Rule of Evidence 408 and any applicable state rules of evidence, this Agreement and all negotiations relating hereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce the terms of this Agreement.

9.9. **Legal and Other Fees.**

Except as set forth in Section 1(g) of this Agreement with respect to the Indenture Trustee, all of the Parties shall bear their own respective costs and expenses, including legal and other professional fees, associated with the negotiation and implementation of this Agreement.

9.10. **Notices.**

All notices hereunder (including, without limitation, any Notice of Termination), shall be deemed given if in writing and delivered, if sent by telecopy, electronic mail, courier, or by registered or certified mail (return receipt requested) to the following addresses and telecopier numbers (or at such other addresses or telecopier numbers as shall be specified by like notice):

If to the County:

Jefferson County, Alabama
Attn: County Manager
Room 251, Jefferson County Courthouse
716 Richard Arrington Jr. Boulevard North
Birmingham, Alabama 35203
Facsimile: (205) 731-2879

-and-

Jefferson County, Alabama
Attn: County Attorney
Room 280, Jefferson County Courthouse
716 Richard Arrington Jr. Boulevard North
Birmingham, Alabama 35203
Facsimile: (205) 325-5840

-and-

Bradley Arant Boult Cummings LLP
One Federal Place
1819 Fifth Avenue North
Birmingham, Alabama 35203
Attn: J. Patrick Darby, Esq.
Facsimile: (205) 521-8500
Email: pdarby@babc.com

-and-

Klee, Tuchin, Bogdanoff & Stern LLP
1999 Avenue of the Stars, 39th Floor
Los Angeles, California 90067
Attn: Kenneth N. Klee, Esq.; Lee R. Bogdanoff, Esq.; Whitman L. Holt, Esq.
Facsimile: (310) 407-9090
E-mail: kklee@ktbslaw.com; lbogdanoff@ktbslaw.com; wholt@ktbslaw.com