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

In re:

**JEFFERSON COUNTY, ALABAMA,
a political subdivision of the State of
Alabama,**

Debtor.

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Case No. 11-05736-TBB

Chapter 9

**DISCLOSURE STATEMENT REGARDING
CHAPTER 9 PLAN OF ADJUSTMENT FOR JEFFERSON COUNTY, ALABAMA
(DATED JULY 29, 2013)**



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TABLE OF EXHIBITS

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| 1 | <i>Chapter 9 Plan of Adjustment for Jefferson County, Alabama Dated July 29, 2013 [with exhibits]</i> |
| 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 | Amended Financing Plan |
| 10 | Financial Projections for General Fund |
| 11 | Financial Projections for Education Tax |

SUMMARY INFORMATION¹

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 July 29, 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,

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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 <u>by email</u> at JeffersonCountyInfo@kcellc.com , or <u>by telephone</u> at (866) 967-0677, or <u>by mail</u> at Jefferson County Ballot Processing, c/o Kurtzman Carson Consultants LLC, (<u>Attention:</u> 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 July 29, 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.

Accordingly, the County recommends and urges all Creditors who hold Impaired Claims entitled to vote on the Plan 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.

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 currently 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 United States' projected population growth rates are 20.4%, 19.8%, and 27.4%, respectively.

| Year | Jefferson County | Birmingham-Hoover MSA | State of Alabama | United States |
|------|------------------|-----------------------|------------------|---------------|
| 2012 | 660,009 | 1,136,650 | 4,822,023 | 313,914,040 |
| 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

| | <u>Housing Units</u> | | | <u>Percent Change</u> | |
|-----------------------|----------------------|-------------|-------------|-----------------------|------------------|
| | <u>1990</u> | <u>2000</u> | <u>2010</u> | <u>1990-2000</u> | <u>2000-2010</u> |
| 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 | <u>Occupied</u> | | |
|-----------------------|------------------------|-----------------|--------------|---------------|
| | | <u>Total</u> | <u>Owner</u> | <u>Renter</u> |
| 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

| | <u>Total Households</u> | <u>Family Households</u> | <u>Non-Family Households</u> | <u>Mobile Home or Trailer</u> |
|-----------------------|-----------------------------|------------------------------|----------------------------------|-----------------------------------|
| 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 currently 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 principal 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 as 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. Although 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 (as such term is defined below) (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. The County’s books and records reflect that, as of the Petition Date, the balance in the Revenue Account was \$7,172,210 and that, as of July 12, 2013, the balance was \$7,218,574.50.

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. The County's books and records reflect that, as of the Petition Date, the balance in the Debt Service Fund was \$39,877,937 and that, as of July 12, 2013, the balance was \$92,163,005.57.

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. The County's books and records reflect that, as of the Petition Date, the balance in the Depreciation Fund was \$52,549,266 and that, as of July 12, 2013, the balance was \$37,120,202.62.

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). The County's books and records reflect that, as of the Petition Date, the balance in the 2002-D Construction Fund was \$45,569,230 and that, as of July 12, 2013, the balance was \$46,097,313.25.

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. The County's books and records reflect that, as of the Petition Date, the balance in the 2005 Construction Fund was \$29,335,679 and that, as of July 12, 2013, the balance was \$29,663,158.97.

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. The County’s books and records reflect that, as of the Petition Date, the balance of the Released Escrow Funds was \$57,006,375 and that, as of July 12, 2013, the balance was \$24,352,963.32.

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. The County’s books and records reflect that, as of the Petition Date, the balance in the Supplemental Transactions Fund was \$29,741,042 and that, as of July 12, 2013, the balance was \$29,787,985.21.

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. (“LBSF”) on December 15, 2008, with a calculated termination payment amount (including interest and deferred amounts) of \$68,568,285 payable to LBSF. As of the Petition Date, the Series 2002-C LB Sewer Swap termination payment remained outstanding. In addition, the County allegedly owed LBSF \$1,002,754.42 on account of net total periodic payments that had accrued and were due at the time of the termination of the Series 2002-C LB Sewer Swap (such amount, together with interest allegedly accruing thereon, the “LBSF Periodic Payment Claim”). The Plan classifies any Claims arising from the Series 2002-C LB Sewer Swap, other than the LBSF Periodic Payment

Claim, in Class 1-E among the Sewer Swap Agreement Claims; the LBSF Periodic Payment Claim is classified in Class 1-D among the Other Specified Sewer Claims.

LBSF has filed an adversary proceeding in the Case regarding the Series 2002-C LB Sewer Swap and the priority of the LBSF Periodic Payment Claim. 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 as to all defendants, 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 the escrowed tax collections (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 warrant holders received were affected by the improper payment scheme alleged in the SEC Order, and (ii) the harm sustained by original warrant holders 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 \$33,691 in 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. As discussed in Section V.A below, pursuant to the settlements and compromises implemented pursuant to the Plan, this proof of claim filed by the Sewer Warrant Trustee is among the Sewer Released Claims that will be compromised and released upon the Effective Date of the Plan.

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

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.

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 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:

| <u>Net General Revenues from Taxes (in thousands)</u> | |
|--|-----------------|
| Property taxes | \$108,226 |
| Sales tax | \$163,912 |
| Other taxes | \$29,288 |
| Licenses and permits | \$17,830 |
| Unrestricted investment earnings | \$4,159 |
| <u>Miscellaneous</u> | <u>\$52,172</u> |
| 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 |
| | <u>\$39,503</u> | <u>\$163,216</u> | <u>\$1,266</u> | <u>\$10,074</u> | <u>\$637</u> | <u>\$214,696</u> |

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 is set forth 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 currently 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. Although actions previously taken by the County as permitted under Amendment No. 373 currently 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 currently 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 currently 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 compensate 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.

During 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 when 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 include the following:

- \$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

- Claims for substantial legal fees incurred by the County 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. Although 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 warrant holders 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 22, 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

Although 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 System 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 28, 2013, the Bankruptcy Court entered an order granting the County's motion (the "Net Revenues Adversary Proceeding Stay Order").

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"* on June 27, 2013, and its amended *Memorandum Opinion on Professional Fees and Expenses, the Indenture's Operating Expenses, and 11 U.S.C. § 928(b)'s "Necessary Operating Expenses"* on July 3, 2013 (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 System 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 Fee Opinion did not resolve certain objections that had been pursued by the Sewer Warrant Trustee, including that insufficient information had been provided about the amount and nature of the County's professional fees to allow for an evaluation of whether such fees were reasonable; instead, the Bankruptcy Court noted that "these contentions by the [Sewer Warrant] Trustee are not capable of resolution at this time and as part of this adversary proceeding," and accordingly dismissed such objections without prejudice (in the process observing that they "hopefully, need not be addressed by this Court on another day in another proceeding"). On July 11, 2013, consistent with the terms of the Net Revenues Adversary Proceeding Stay Order and the Sewer Plan Support Agreements, the Sewer Warrant Trustee and other parties in interest filed with the Bankruptcy Court a consolidated notice of appeal of the Fee Opinion. In response, on July 12, 2013, the Clerk of the Bankruptcy Court entered a notice of deficient filing, stating that "[n]o order has been entered and the Notice of Appeal is premature." On that same day, the Clerk of the Bankruptcy Court also made an entry on the docket that stated: "matters docketed in error as no

order has been entered and the Notice of Appeal was premature. (RE: related document(s) [198] Service of Notice of Appeal by Court, [199] Notice to Parties Regarding Designations).” The parties have agreed not to take any further action on the potential appeal unless: (i) such action is consistent with the terms of the Net Revenues Adversary Proceeding Stay Order and the Sewer Plan Support Agreements, (ii) the party believes action is necessitated by further action by either the Bankruptcy Court or the District Court (including the entry of an order with respect to the Fee Opinion), or (iii) the party believes action is necessary to preserve the appeal. Notwithstanding the Fee Opinion, 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, during the summer of 2012, 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 during the first half of 2013. 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

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).

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.

In lieu of answering the Sewer Warrant Trustee's complaint, Assured moved to dismiss the Declaratory Judgment Action for lack of 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 Action¹⁰ 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

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.

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 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. LBSF Adversary Proceeding

LBSF filed a complaint in the Bankruptcy Court against the Sewer Warrant Trustee and the County, thereby commencing Adversary Proceeding No. 12-00149-TBB (the "LBSF Adversary Proceeding"). In its complaint, LBSF requests that the Bankruptcy Court enter a judgment declaring the LBSF Periodic Payment Claim, 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 LBSF of that entire principal sum, plus interest.

LBSF, 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 LBSF complaint, but shall be bound by any ruling in the LBSF 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 LBSF 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 LBSF against the County. The Sewer Warrant Trustee has filed its answer to the LBSF complaint, and the County understands that discovery is underway.

The County entered into a Sewer Plan Support Agreement with LBSF on July 23, 2013. That Sewer Plan Support Agreement provides for the settlement and resolution of the disputes in the LBSF Adversary Proceeding under and pursuant to the Plan. More specifically, as contemplated by the referenced Sewer Plan Support Agreement, the Plan classifies any Claims arising from the Series 2002-C LB Sewer Swap, other than the LBSF Periodic Payment Claim, in Class 1-E among the Sewer Swap Agreement Claims; the LBSF Periodic Payment Claim is classified in Class 1-D among the Other Specified Sewer Claims. As part of the treatment of Allowed Class 1-D Claims, LBSF will receive a Cash recovery of \$1,250,000.00 on the Effective Date in full, final, and complete settlement, satisfaction, release, and exchange of the LBSF Periodic Payment Claim and, consistent with the settlement of all Sewer Released Claims, the LBSF Adversary Proceeding will be resolved and dismissed with prejudice in connection with the Effective Date. As contemplated by the Sewer Plan Support Agreement, the County and LBSF intend to request that the Bankruptcy Court stay all proceedings in the LBSF Adversary Proceeding until the earlier of (a) 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 Agreement with LBSF, and (b) the date of termination of the Sewer Plan Support Agreement between the County and LBSF. The Sewer Warrant Trustee supports the requested stay.

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 approved a settlement of this matter, subject to execution of a release. The parties have consummated the settlement, and the Bankruptcy Court has entered an order dismissing the Dr. Farah Adversary Proceeding with prejudice.

6. Johnson Adversary Proceeding

Merrienne 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, although 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 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 currently 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 otherwise validly incurred by the County. Bankruptcy Code sections 547 and 550 provide that a debtor may avoid and recover certain payments of property of the debtor 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 chapter 7 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 neither duly authorized by the County Commission nor otherwise 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 non-residential 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. Prior to the Petition Date, the County Commission decided to close each of these locations 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-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

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 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.

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 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) increasing the charges for septage and grease disposal; and (4) 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. The process by which the County Commission will make such adjustments is described in detail in Exhibit C to the Plan. Among other things, the County Commission anticipates holding additional rate hearings contemplated by Amendment 73 and Act 619 in October 2013. After such rate hearings are concluded, the County Commission will meet in October 2013 to vote on the approval of such adjustments. Any resulting rate and base charge adjustments approved by the County Commission would be made 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 a valid 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.

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.

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.

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 making average expenditures of \$543.64 on healthcare for each of its residents living in poverty, while Mobile County (the next largest county in the State) was making average expenditures of \$189.49 per resident living in poverty and the counties in the metropolitan Atlanta, Georgia region were making average expenditures of \$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 did 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, to grant the County limited home rule to raise its own revenue, 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 accurately 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 extent.

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. On July 23, 2013, the County Commission approved a fifth Sewer Plan Support Agreement with LBSF. 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 a basis 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 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 and, with the agreement of the parties, has been stayed until January 15, 2014. 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 several 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 several 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 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. In its Net Revenues Opinion, the Bankruptcy Court appeared to rule in the creditors' favor on both issues, prompting the County's appeal of those rulings to the Eleventh Circuit. With the agreement of the parties, the appeal has been stayed until January 15, 2014. If the appeal eventually were to proceed and the appellate court were to reverse the Bankruptcy Court's Net Revenues Opinion, less money (and possibly no money) would be remitted each month to creditors during the pendency of the Case. The Fee Opinion, issued by the Bankruptcy Court after the County filed its appeal of the Net Revenues Opinion, authorizes the payment of certain of the County's reasonably incurred professional fees and expenses from the System Revenues ahead of remittance of the Net Revenues to the Sewer Warrant Trustee, subject to the future resolution of objections to such payment pursued by the Sewer Warrant Trustee, if necessary. The Sewer Warrant Trustee and other parties in interest have filed a notice of appeal with respect to the Fee Opinion. Relatedly, as a result of inter-creditor disputes, the Sewer Warrant Trustee ceased making payments to warrant holders

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 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 several 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 several 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 likely would 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. Similarly, the Fee Opinion allows the County to pay certain of its reasonably incurred professional fees and expenses – including certain fees and expenses reasonably incurred in connection with litigation relating to the Sewer System -- from the System Revenues ahead of remittance of the Net Revenues to the Sewer Warrant Trustee, although the Fee Opinion does not resolve potential objections to payment pursued by the Sewer Warrant Trustee, and would be subject to appeal by the Sewer Warrant Trustees and other creditors. Subject to resolution of any unresolved objections and appellate proceedings, it is possible that continued litigation would reduce significantly the funds received by the Sewer Warrant Trustee for the sewer creditors' benefit during the course of such litigation.

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) whether, and the extent to which, the County may recover from Sewer System revenues amounts actually incurred or previously paid by the County on account of professional fees prior to and during the Case; (xi) the allowance and amount of any Bank Warrant Default Interest Claims; (xii) the priority of the LBSF Periodic Payment Claim, the various issues raised by the LBSF Periodic Payment Claim, and the Sewer Warrant Trustee's treatment of and obligations with respect to that Claim; (xiii) the various issues raised by the Receivership Actions; and (xiv) 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 several 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 reasonably believes that the compromises and settlements set forth in the Plan clearly satisfy

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).

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.

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 an amended financing plan approved by the County Commission on July 23, 2013 (the “Amended Financing Plan”¹⁴), subject to compliance with procedures required by state law, the County expects to generate and distribute approximately \$1.836 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 \$2.00 billion. The Amended Financing Plan is attached to this Disclosure Statement as **Exhibit 9**.

The Amended Financing Plan involves the issuance of a mix of three different types of debt securities: current interest paying warrants (approximately \$1.339 billion), capital appreciation warrants (approximately \$180 million), and convertible capital appreciation warrants (approximately

¹⁴ The Amended Financing Plan amended a prior financing plan preliminarily approved by the County Commission on June 4, 2013 (the “Financing Plan”).

\$458 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 Amended Financing Plan. The Amended Financing Plan details the projected pricing of each type of debt instrument.

In addition to the newly issued securities (totaling approximately \$1.977 billion), the Amended Financing Plan contemplates the receipt of approximately \$24 million as original issue premium/discount (the actual amount of which may vary), and further contemplates use of approximately \$62 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 \$2.064 billion.

In addition to distributions of approximately \$1.836 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 Amended Financing Plan contemplates a deposit into a new debt service reserve fund of approximately \$198 million, an underwriters discount of approximately \$13 million, the Put Consideration payable under the Put Agreement¹⁵ in an estimated amount of approximately \$13.5 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. These uses collectively amount to approximately \$2.064 billion.

The Amended Financing Plan depends upon the County Commission enacting the Approved Rate Structure (Exhibit C to the Plan), which contemplates (i) an initial-year \$5 increase in the residential and non-residential base charge (scaled by meter size) and 3.49% increase in non-residential volumetric charges), followed by (ii) four years of 7.89% Sewer System rate increases (residential and non-residential); and (iii) 3.49% annual Sewer System rate increases (residential and non-residential) thereafter. Changes in the market or consumption patterns between the date on which the Amended 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 those set forth in the Amended Financing Plan.¹⁶ That is, if market conditions

¹⁵ The County is negotiating the final terms of the Put Agreement with the Supporting Sewer Warrantholders. In accordance with the Put Agreement, if the underwriter for the offering of the New Sewer Warrants can sell at least 80% of each series and maturity having 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 is being purchased by Supporting Sewer Warrantholders who assume a Put Obligation (with the underwriter to fund the remaining 50% of the shortfall). Once finalized, the County will file the Put Agreement as part of the Plan Supplement.

¹⁶ Among the economic modifications made to the Financing Plan by the Amended Financing Plan are revisions to address a decline in actual or projected revenues having an economic effect that equals or exceeds the economic effect

(FOOTNOTE CONTINUED)

at the time of the financing result in borrowing costs higher than those set forth in the Amended Financing Plan, or if changes in consumption patterns have an equivalent effect, and such changes in turn necessitate higher Sewer System rates than what is specified in the Amended Financing Plan, the County has the right under the Sewer Plan Support Agreements to decline to proceed with the Amended Financing Plan and the Plan itself.

It is possible that the Amended Financing Plan will be revised one or more times before the Confirmation Hearing in light of altered market conditions and/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 Amended Financing Plan. If the County further amends the original 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 other than LBSF 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 other than LBSF (which written notice must be provided by the applicable Sewer Plan Support Party within seven (7) calendar days after the County provides notice of the amendments), then any of the Sewer Plan Support Parties other than LBSF 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 Amended 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 it has been amended, including by the Amended 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 Amended Financing Plan will be further revised after the Disclosure Statement has been approved and distributed to Creditors, but before the Confirmation Hearing begins.

To assist with the implementation of the Amended Financing Plan, the County has selected Citigroup Global Markets, Inc. as the senior managing underwriter for the proposed New Sewer Warrants and has designated Public Resources Advisory Group as financial advisor for the proposed New Sewer Warrants.

that a 50 basis point increase in borrowing rates (yields) over the assumed rates (yields) utilized for purposes of the Financing Plan would have *vis-à-vis* the sewer rate structure underpinning the Financing Plan. The Amended Financing Plan fully utilizes such 50 basis point amount.

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 statement 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 of 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 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 and the LBSF Periodic Payment Claim. 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 Sewer Released Parties implemented pursuant to the Plan, on the Effective Date the County shall pay (i) \$10.00 to JPMS and (ii) \$1,250,000.00 to LBSF, in each case from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof. By its acceptance of or non-objection to confirmation of the Plan, JPMS shall have consented and agreed, pursuant to Bankruptcy Code section 1123(a)(4), to receive less favorable treatment than LBSF on account of its Allowed Class 1-D Claim.

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, the following: (1) Cash in the amount of \$123,291.67, to be distributed as specified in Exhibit A to the GO Plan Support Agreement; and (2) 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 Indentures. 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 reasonable 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. \$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, Eminent Domain Claims, Employee Compensation Claims, Employee Indemnification 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 the Amended and Restated GO Warrant Indentures, 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) whether, and the extent to which, the County may recover from Sewer System revenues amounts actually incurred or previously paid by the County on account of professional fees prior to and during the Case; (xi) the allowance and amount of any Bank Warrant Default Interest Claims; (xii) the priority of the LBSF

Periodic Payment Claim, the various issues raised by the LBSF Periodic Payment Claim, and the Sewer Warrant Trustee's treatment of and obligations with respect to that Claim; (xiii) the various issues raised by the Receivership Actions; and (xiv) 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 Indentures; (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 to 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 Warrant Indentures 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, no longer shall 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, after payment of the Reinstated Sewer Warrant Principal Payments, the Reinstated Sewer Warrant Interest Payments, and the Sewer Warrant Insurers Outlay Amount, which acceleration shall occur immediately and before any other

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 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 be deemed conclusively 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 substantially 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 holds a Claim that 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 or local 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 United States 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.

The County has negotiated the terms of a proposed Closing Agreement with the IRS. The terms of the proposed Closing Agreement require the payment of \$4,500,000 to the IRS, which payment will be paid exclusively from Accumulated Sewer Revenues or gross Sewer System revenues received by the County. The proposed Closing Agreement extends to all series of the Sewer Warrants. On July 23, 2013, the County Commission approved the terms of the proposed Closing Agreement with the IRS. On July 24, 2013, the County filed with the Bankruptcy Court a motion to approve its agreement with the Sewer Warrant Trustee to pay the \$4,500,000 to the IRS from the Revenue Account. If and when the Closing Agreement has been executed and delivered by both the County and the IRS, 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.

Although the Sewer Warrant Indenture provides that payments made post-default are to be allocated first to interest when no acceleration has been declared by the Sewer Warrant Trustee, the IRS may not recognize that allocation for tax purposes. Instead, the IRS has determined¹⁷ in analogous rulings that all payments received in settlement of a tax-exempt obligation of an insolvent debtor post-default, when 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 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 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.

¹⁷ 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.

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.

Although 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 currently 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, although 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 kinds 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 federal and state securities laws.

Because 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 also will 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 prohibit 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 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 therefor, 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 because 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 Amended 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 Amended 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 each is 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 before 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 Obtain 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, or is deemed to reject, 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, including the interest rates prevailing in the market at the time the New Sewer Warrants are offered, which interest rates may be higher than the interest rates that are assumed to be prevailing in the Amended Financing Plan. 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 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.¹⁸ The FGIC Rehabilitator filed, and the New York State Court approved, a plan of rehabilitation for FGIC (the “FGIC Rehabilitation Plan”).¹⁹ 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).²⁰ 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 discount rates of 20% and 10%, respectively.²¹ 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 currently 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

¹⁸ 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).

¹⁹ 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.

²⁰ 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).

²¹ 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).

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, although 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 absolute 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, although 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 its own counsel at its 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 kind. 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. Although 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 declined so far. 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 currently 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. The County believes the Interim Rate Structure has been implemented effectively and that the Sewer System's customers are being billed currently in accordance with the Interim Rate Structure. However, during the period of time the Interim Rate Structure has been in effect, the Sewer System has not generated the amount of revenues the County had projected prior to its implementation. The County attributes these lower than expected Sewer System revenues to changes in customer consumption patterns and to unseasonably wet and cold weather during the first six months of 2013.

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 currently 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. Although 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 Amended Financing Plan currently cannot be 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 currently are not 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. Although 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 United States 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 United States 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 [July 29, 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 be relied upon by you at your own risk 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”):²²

| 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 |
| Class 6 | General Unsecured Claims |
| Class 7 | Bessemer Lease Claims |

²² 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.

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 classes of Claims are deemed to reject the Plan, and the holders of such Claims 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 July 29, 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.²³ 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

²³ 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.

FGIC Rehabilitation Proceeding provides for payment to policyholders of only a fraction of their permitted policy claims over an extended period of time.²⁴ 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, although 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 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

²⁴ See *supra* notes 16, 18 and 19.

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 2042²⁵) 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,²⁶ 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 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

²⁵ 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.

²⁶ 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.

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,²⁷ 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.

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 Amended Financing Plan for the County's issuance

²⁷ 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.

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 with respect to rates and yields for the issuance and sale of such warrants will improve throughout this period. Were the County to pursue an alternative plan of adjustment, the attendant delay would subject the County and its Amended 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)(1), (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, with respect to any Impaired Class of Claims that fails or is deemed not to accept the Plan, the County requests 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 entitled to vote on the Plan 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: July 29, 2013

JEFFERSON COUNTY, ALABAMA


By: W.D. Carrington
Its: County Commission President

Filed by:

/s/ J. Patrick Darby
BRADLEY ARANT BOULT CUMMINGS LLP
J. Patrick Darby
Jay R. Bender
Jennifer H. Henderson
One Federal Place
1819 Fifth Avenue North
Birmingham, Alabama 35203
Telephone: (205) 521-8000
Facsimile: (205) 521-8500
Email: pdarby@babbc.com, jbender@babbc.com,
jhenderson@babbc.com

-and-

KLEE, TUCHIN, BOGDANOFF & STERN LLP
Kenneth N. Klee (*pro hac vice*)
Lee R. Bogdanoff (*pro hac vice*)
David M. Stern (*pro hac vice*)
Robert J. Pfister (*pro hac vice*)
Whitman L. Holt (*pro hac vice*)
1999 Avenue of the Stars, Thirty-Ninth Floor
Los Angeles, California 90067
Telephone: (310) 407-4000
Facsimile: (310) 407-9090
Email: kklee@ktbslaw.com, lbogdanoff@ktbslaw.com,
dstern@ktbslaw.com, rpfister@ktbslaw.com,
wholt@ktbslaw.com

Counsel for Jefferson County, Alabama

EXHIBIT NO. 1

Chapter 9 Plan of Adjustment for Jefferson County, Alabama
Dated July 29, 2013 [with exhibits]

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

In re:

**JEFFERSON COUNTY, ALABAMA,
a political subdivision of the State of
Alabama,**

Debtor.

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)
)
)
)
)

Case No. 11-05736-TBB

Chapter 9

**CHAPTER 9 PLAN OF ADJUSTMENT FOR JEFFERSON COUNTY, ALABAMA
(DATED July 29, 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 Indentures”** means the new trust indentures delivered in exchange for the GO Warrant Indenture pursuant to Bankruptcy Code section 1123(a)(5)(F), the form of which indentures 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*

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 other than LBSF, 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. **“Employee Indemnification Claims”** means any and all Claims for legal representation or indemnification made by Persons currently or formerly employed by either the County or such boards, agencies, and commissions designated by the County Commission, with regard to civil claims for which such Persons may be legally obligated to pay where the incident or occurrence giving rise to such representation or claim was one arising out of and within the

line and scope of their employment, pursuant to the limitations and upon the conditions specified by the County Commission or applicable law.

87. **“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.).

88. **“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.

89. **“FGIC”** means Financial Guaranty Insurance Company.

90. **“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.

91. **“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.).

92. **“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.

93. **“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.

94. **“Future Tax Proceeds”** means any future excess tax proceeds available for mandatory redemptions under the School Warrant Indenture.

95. **“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.

96. **“General Fund”** means the County’s general operating fund.

97. **“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.

98. **“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.

99. **“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 depository institution with respect to such sum through and including the GUC Payment Date.

100. **“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.

101. **“GO Banks”** means, together, BLB and JPMorgan Chase Bank, N.A.

102. **“GO Debt Claims”** means, collectively, all GO Policy Claims, all GO Swap Agreement Claims, and all GO Warrant Claims.

103. **“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.

104. **“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.

105. **“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.

106. **“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.

107. **“GO Plan Support Parties”** means, collectively, the GO Banks, the GO Warrant Trustee, and National.

108. **“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.

109. **“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 Warrant Indentures, 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.

110. **“GO Released Parties”** means each of the County, the GO Banks, the GO Warrant Trustee, and National.

111. **“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.

112. **“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.

113. **“GO Resolutions”** means, together, the GO Resolution 2003-A and the GO Resolution 2004-A.

114. **“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

115. **“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.

116. **“GO Warrant Claims”** means any and all Series 2001-B GO Claims, Series 2003-A GO Claims, and Series 2004-A GO Claims.

117. **“GO Warrant Indenture”** means that certain *Trust Indenture* dated as of July 1, 2001, between the County and the GO Warrant Trustee.

118. **“GO Warrant Insurer”** means National.

119. **“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.

120. **“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.

121. **“GO Warrants”** means, collectively, the Series 2001-B GO Warrants, the Series 2003-A GO Warrants, and the Series 2004-A GO Warrants.

122. **“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.

123. **“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.

124. **“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.).

125. **“Impaired”** means “impaired” within the definition of Bankruptcy Code section 1124.

126. **“Indenture Trustees”** means, collectively, the Board of Education Lease Trustee, the GO Warrant Trustee, the School Warrant Trustee, and the Sewer Warrant Trustee.

127. **“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.

128. **“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.

129. **“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.

130. **“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.

131. **“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.

132. **“JPMS”** means J.P. Morgan Securities LLC, formerly known as J.P. Morgan Securities Inc.

133. **“LBSF”** means Lehman Brothers Special Financing Inc.

134. **“LBSF Periodic Payment Claim”** means an asserted Claim of \$1,002,754.42, which allegedly represents the net total periodic payments that had accrued and were due to LBSF at the time of the termination of the LBSF Swap Agreement, plus interest thereon through the Petition Date for a total asserted Claim of \$1,656,230.21.

135. **“LBSF Swap Agreement”** means that certain *ISDA Master Agreement* dated as of October 23, 2002, between the County and LBSF, as subsequently amended via an amendment dated as of September 14, 2006, and together with all schedules, annexes, and confirmations related thereto.

136. **“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.

137. **“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].

138. **“National”** means National Public Finance Guarantee Corporation, together with and as reinsurer of and administrator for MBIA Insurance Corporation.

139. **“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.

140. **“National Plan Support Agreement”** means that certain *Plan Support Agreement* dated as of June 27, 2013, by and between the County and National.

141. **“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.

142. **“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.

143. **“New Bank Rate”** means the Prime Rate (as defined in the Standby School Warrant Purchase Agreement) plus 2.25%.

144. **“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.

145. **“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.

146. **“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.

147. **“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.

148. **“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.

149. **“OPEB Plan Claims”** means any and all Claims of the OPEB Plan.

150. **“Other Secured Claims”** means any Secured Claims that are not otherwise expressly classified under the Plan.

151. **“Other Specified Sewer Claims”** means any and all JPMorgan Sewer Revenue Indemnification Claims and the LBSF Periodic Payment Claim.

152. **“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.

153. **“Other Unimpaired Claims”** means any and all Consent Decree Claims, Deposit Refund Claims, Eminent Domain Claims, Employee Compensation Claims, Employee Indemnification Claims, OPEB Plan Claims, Pass-Through Obligation Claims, Retirement System Claims, Tax Abatement Agreement Claims, and Workers Compensation Claims.

154. **“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.

155. **“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.

156. **“PBA”** means the Jefferson County Public Building Authority.

157. **“Permanent Injunction”** has the meaning set forth in Section 6.2 of the Plan.

158. **“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.

159. **“Petition Date”** means November 9, 2011.

160. **“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.

161. **“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.

162. **“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 Indentures, 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.

163. **“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.

164. **“Plan Support Parties”** means, collectively, Depfa Bank PLC, the GO Plan Support Parties, and the Sewer Plan Support Parties.

165. **“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.

166. **“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).

167. **“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.

168. **“Professional Fee Claim”** means a Claim to be satisfied 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.

169. **“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.

170. **“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.

171. **“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.

172. **“Rate Resolution”** means the resolution adopted by the County Commission to implement the Approved Rate Structure.

173. **“Receiver”** means John S. Young, Jr., LLC, the receiver appointed in the State Court Receivership Action, and any successor thereto or replacement thereof.

174. **“Receivership Actions”** means the Federal Court Receivership Action and the State Court Receivership Action.

175. **“Refinancing Proceeds”** means the net proceeds generated by the issuance of New Sewer Warrants after the payment of the Put Consideration.

176. **“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.”

177. **“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.”

178. **“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.

179. **“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.

180. **“Rejection Damage Claim”** means a Claim arising under Bankruptcy Code section 365(g) from the rejection of an unexpired lease or an executory contract.

181. **“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.

182. **“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.

183. **“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.

184. **“Replacement 2001-B GO Warrants”** means replacement warrants to be issued in two series under the Plan, governed by the Amended and Restated GO Warrant Indentures, and named the “General Obligation Warrants, Series 2013-A” and the “General Obligation Warrants, Series 2013-B”, 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.

185. **“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.

186. **“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.

187. **“Retirement System Claims”** means any and all Claims of the Retirement System.

188. **“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 Effective Date).

189. **“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.

190. **“School Insurance Policies”** means, together, the School Policy – General and the School Surety.

191. **“School Policy – General”** means that certain *Financial Guaranty Insurance Policy* number 23545BE issued by Ambac on or around February 2, 2005.

192. **“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.

193. **“School Surety”** means that certain *Surety Bond* number SB1982BE issued by Ambac on or around February 2, 2005.

194. **“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.

195. **“School Warrant Claims”** means any and all Series 2004-A School Claims, Series 2005-A School Claims, and Series 2005-B School Claims.

196. **“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.”

197. **“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.

198. **“School Warrant Insurer”** means Ambac.

199. **“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.

200. **“School Warrant Trustee”** means U.S. Bank National Association, in its capacity as successor Indenture Trustee under the School Warrant Indenture.

201. **“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.

202. **“School Warrants”** means, collectively, the Series 2004-A School Warrants, the Series 2005-A School Warrants, and the Series 2005-B School Warrants.

203. **“Scotia Bank”** means The Bank of Nova Scotia.

204. **“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.

205. **“Secured Tax Claim”** means a governmental unit’s Secured Claim for unpaid taxes.

206. **“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.

207. **“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.

208. **“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.

209. **“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.

210. **“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.

211. **“Series 2001-B GO Warrants”** means those certain General Obligation Warrants, Series 2001-B issued in the original principal amount of \$120,000,000.

212. **“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.

213. **“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.

214. **“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.

215. **“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.

216. **“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.

217. **“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.

218. **“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.

219. **“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.

220. **“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.

221. **“Series 2003-A Sewer Claims”** means any and all Claims arising from or in connection with the Series 2003-A Sewer Warrant.

222. **“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.

223. **“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.

224. **“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.

225. **“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.

226. **“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.

227. **“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.

228. **“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.

229. **“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.

230. **“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.

231. **“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.

232. **“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.

233. **“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.

234. **“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.

235. **“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.

236. **“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.

237. **“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.

238. **“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.

239. **“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.

240. **“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.

241. **“Sewer Bank Rate”** means the “Bank Rate” as that term is defined in the applicable Standby Sewer Warrant Purchase Agreement.

242. **“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.

243. **“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.

244. **“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.

245. **“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.

246. **“Sewer Insurance Policies”** means, collectively, the Sewer DSRF Policies and the Sewer Wrap Policies.

247. **“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.

248. **“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; (ii) that certain *Plan Support Agreement* among the County and the Sewer Liquidity Banks dated as of June 27, 2013; and (iii) that certain *Plan Support Agreement* between the County and LBSF dated as of July 24, 2013, in each case as the same may have been amended, modified, or supplemented in accordance with their respective terms.

249. **“Sewer Plan Support Parties”** means, collectively, the JPMorgan Parties, LBSF, the Sewer Liquidity Banks, the Sewer Warrant Insurers, and the Supporting Sewer Warrantholders.

250. **“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 LBSF Periodic Payment Claim, 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, (iv) the Bank Warrants referenced in Section 3(a) of the Sewer Plan Support Agreement among the County and the Sewer Liquidity Banks; or (v) the “LBSF Claims” referenced in Section 3 of the Sewer Plan Support Agreement between the County and LBSF); 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.

251. **“Sewer Released Parties”** means each of the County, the FGIC Rehabilitator, the Receiver, the Sewer Plan Support Parties, and the Sewer Warrant Trustee.

252. **“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, but excluding the LBSF Periodic Payment Claim.

253. **“Sewer Swap Agreements”** means, collectively, (a) the LBSF Swap Agreement; (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.

254. **“Sewer System”** means the entire sanitary sewer system owned by the County.

255. **“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.

256. **“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.

257. **“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).

258. **“Sewer Warrant Insurers”** means, collectively, Assured, FGIC, and Syncora.

259. **“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.

260. **“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.

261. **“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.

262. **“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.

263. **“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.

264. **“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.

265. **“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.”

266. **“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.

267. **“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.

268. **“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.

269. **“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.

270. **“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.

271. **“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.

272. **“Standby GO Warrant Claims”** means any and all Claims arising from or in connection with the Standby GO Warrant Purchase Agreement.

273. **“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.

274. **“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.

275. **“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.

276. **“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.

277. **“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.

278. **“State Street”** means State Street Bank and Trust Company.

279. **“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.

280. **“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.

281. **“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.

282. **“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.

283. **“Supporting Sewer Warrantholder Directed Distribution”** has the meaning set forth in Section 4.9(b) of the Plan.

284. **“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.

285. **“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.

286. **“Syncora”** means Syncora Guarantee Inc., formerly known as XL Capital Assurance Inc.

287. **“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.

288. **“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.

289. **“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.

290. **“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.

291. **“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.

292. **“Tax Abatement Agreement Claims”** means any and all Claims arising from or in connection with the Tax Abatement Agreements.

293. **“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.*

294. **“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).

295. **“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.

296. **“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.

297. **“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.

298. **“Undeliverable Distribution”** means any Distribution with respect to which the County tenders a distribution check and that distribution check is returned as undeliverable.

299. **“Uninsured Portion”** means the portion of an Allowed General Liability Claim that is not the Insured Portion.

300. **“Unliquidated Claim”** means a Claim that is listed on the List of Creditors as unliquidated.

301. **“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.

302. **“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.

303. **“Workers Compensation Claims”** means any and all Claims pursuant to Alabama workers compensation law of Persons who suffered an eligible injury while employed by the County or by the State of Alabama and for which Claims the County is liable for payment by agreement or applicable law.

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 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 | DESCRIPTION | IMPAIRED/ UNIMPAIRED | VOTING STATUS |
|--------------|---|---------------------------------|---|
| 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 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 of 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 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 and the LBSF Periodic Payment Claim. 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 Sewer Released Parties implemented pursuant

to the Plan, on the Effective Date the County shall pay (i) \$10.00 to JPMS and (ii) \$1,250,000.00 to LBSF, in each case from Refinancing Proceeds, Remaining Accumulated Sewer Revenues, the Sewer Warrant Indenture Funds, or a combination thereof. By its acceptance of or non-objection to confirmation of the Plan, JPMS shall have consented and agreed, pursuant to Bankruptcy Code section 1123(a)(4), to receive less favorable treatment than LBSF on account of its Allowed Class 1-D Claim.

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, the following: (1) Cash in the amount of \$123,291.67, to be distributed as specified in Exhibit A to the GO Plan Support Agreement; and (2) 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 Indentures. 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 reasonable 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. \$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, Eminent Domain Claims, Employee Compensation Claims, Employee Indemnification 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 the Amended and Restated GO Warrant Indentures, 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) whether, and the extent to which, the County may recover from Sewer System revenues amounts actually incurred or previously paid by the County on account of professional fees prior to and during the Case; (xi)

the allowance and amount of any Bank Warrant Default Interest Claims; (xii) the priority of the LBSF Periodic Payment Claim, the various issues raised by the LBSF Periodic Payment Claim, and the Sewer Warrant Trustee's treatment of and obligations with respect to that Claim; (xiii) the various issues raised by the Receivership Actions; and (xiv) 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 Indentures; (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 to 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 Warrant Indentures 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, no longer shall 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, after payment of the Reinstated Sewer Warrant Principal Payments, the Reinstated Sewer Warrant Interest Payments,

and the Sewer Warrant Insurers Outlay Amount, which acceleration shall occur immediately and before any other 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 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 conclusively will 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 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 substantially 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 holds a Claim that 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.

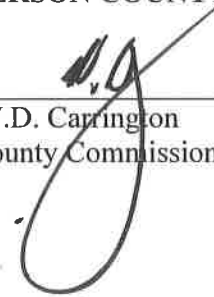
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ARTICLE VII
RECOMMENDATION AND CONCLUSION

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: July 29, 2013

JEFFERSON COUNTY, ALABAMA


By: W.D. Carrington
Its: County Commission President

Filed by:

/s/ J. Patrick Darby
BRADLEY ARANT BOULT CUMMINGS LLP

J. Patrick Darby
Jay R. Bender
Jennifer H. Henderson
One Federal Place
1819 Fifth Avenue North
Birmingham, Alabama 35203
Telephone: (205) 521-8000
Facsimile: (205) 521-8500
Email: pdarby@babco.com, jbender@babco.com,
jhenderson@babco.com

-and-

KLEE, TUCHIN, BOGDANOFF & STERN LLP

Kenneth N. Klee (*pro hac vice*)
Lee R. Bogdanoff (*pro hac vice*)
David M. Stern (*pro hac vice*)
Robert J. Pfister (*pro hac vice*)
Whitman L. Holt (*pro hac vice*)
1999 Avenue of the Stars, Thirty-Ninth Floor
Los Angeles, California 90067
Telephone: (310) 407-4000
Facsimile: (310) 407-9090
Email: kklee@ktbslaw.com, lbogdanoff@ktbslaw.com,
dstern@ktbslaw.com, rpfister@ktbslaw.com,
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 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 UBS 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 taxes are currently the subject of any 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 as to 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, a resolution duly adopted by the County Commission during October 2013 (the “October 2013 Resolution”) in compliance with Amendment 73 and Act 619 shall, upon approval, enact the revised User Charges set out in the next section (entitled “November 1, 2013 Increase”), effective November 1, 2013.

Pursuant to the October 2013 Resolution, the County shall each year thereafter increase the overall User Charges by certain required percentages (the “Required Percentage Increases,” as more specifically defined below). Pursuant to the October 2013 Resolution, 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, 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.

November 1, 2013 Increase

The October 2013 Resolution shall, upon approval, enact the following User Charges, effective November 1, 2013. (Categories with changed amounts from the User Charges in effect as of March 1, 2013 are italicized; the remaining categories are unchanged.)

| Category | Amount |
|---|-----------------------|
| <i>Monthly Base Charge (5/8” Meter)</i> | <i>\$15.00</i> |
| <i>Monthly Base Charge (3/4” Meter)</i> | <i>\$16.50</i> |
| <i>Monthly Base Charge (1” Meter)</i> | <i>\$21.00</i> |
| <i>Monthly Base Charge (1.5” Meter)</i> | <i>\$27.00</i> |
| <i>Monthly Base Charge (2” Meter)</i> | <i>\$43.50</i> |
| <i>Monthly Base Charge (3” Meter)</i> | <i>\$165.00</i> |
| <i>Monthly Base Charge (4” Meter)</i> | <i>\$210.00</i> |
| <i>Monthly Base Charge (6” Meter)</i> | <i>\$315.00</i> |
| <i>Monthly Base Charge (8” Meter)</i> | <i>\$435.00</i> |
| <i>Monthly Base Charge (10” Meter)</i> | <i>\$555.00</i> |
| <i>Non-Residential Block Volumetric Charge</i> | <i>\$7.87 per CCF</i> |
| 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 |

| Category | Amount |
|--|---------------------------------|
| 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 |
| 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 |

| Category | Amount |
|---------------------------|------------------|
| 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 |

Required Percentage Increases

In addition to enacting the User Charges effective November 1, 2013, the October 2013 Resolution shall, upon approval, 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

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 November 1, 2013, shall, pursuant to the October 2013 Resolution, be increased by the “First Required Percentage Increase.” The First Required Percentage Increase shall be given effect no later than November 1, 2014, 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, 2015.

The First Required Percentage Increase shall equal 7.89%, 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 First Required Percentage Increase shall be made using the Uniform Method unless the County otherwise elects.

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, 2015 shall, pursuant to the October 2013 Resolution, be increased by the “Second Required Percentage Increase.” The Second Required Percentage Increase shall be provided 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 Second Required Percentage Increase shall equal 7.89%, 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, 2016, shall, pursuant to the October 2013 Resolution, be increased by the "Third Required Percentage Increase." The Third Required Percentage Increase shall be provided 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 Third Required Percentage Increase shall equal 7.89%, 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, 2017, shall, pursuant to the October 2013 Resolution, be increased by the "Fourth Required Percentage Increase." The Fourth Required Percentage Increase shall be provided in the October 2013 Resolution, subject to the occurrence of the Effective Date, and given effect no later than October 1, 2017. The User Charges thereby established will remain in effect through and including September 30, 2018.

The Fourth Required Percentage Increase shall equal 7.89%, 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, 2018 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, pursuant to the October 2013 Resolution, be increased by the "Residual Annual Required Percentage Increase." The Residual Annual Required Percentage Increase shall be provided 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, 2018. 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 an 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 First 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 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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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 |
| | <u>\$ 820,444</u> | <u>\$ 3,202,678</u> | <u>\$ 4,023,122</u> |

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) |
| | <u>1,129,529</u> | <u>2,874,638</u> | <u>4,004,167</u> |
| 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) |
| | <u>-</u> | <u>411</u> | <u>411</u> |
| 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 | <u>(990,951)</u> | <u>(207,580)</u> | <u>(1,198,531)</u> |
| | <u>\$ (511,396)</u> | <u>\$ 41,080</u> | <u>\$ (470,316)</u> |

**JEFFERSON COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)**

| | Net (Expenses) Revenues and Changes in Net Assets Primary Government | | | | | | |
|---|--|-----------------------------------|-------------------------|---------------------------------------|----------------------------|-----------------------------|---------------------|
| | Expenses | Indirect Expense Allocation | Program Revenues | | Governmental Activities | Business-Type Activities | Total |
| | | | Charges for Services | Operating Grants and Contributions | | | |
| 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 |
| | <u>\$ 194,666</u> | <u>\$ 151,215</u> | <u>\$ 9,436</u> | <u>\$ 37,739</u> | <u>\$ 66,606</u> | <u>\$ 459,662</u> |
| 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) |
| | <u>79,379</u> | <u>150,308</u> | <u>9,436</u> | <u>-</u> | <u>50,779</u> | <u>289,902</u> |
| | <u>\$ 194,666</u> | <u>\$ 151,215</u> | <u>\$ 9,436</u> | <u>\$ 37,739</u> | <u>\$ 66,606</u> | <u>\$ 459,662</u> |

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) | (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 benefit | (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 |
| | <u>\$ 52,626</u> | <u>\$ 3,121,027</u> | <u>\$ 29,025</u> | <u>\$ 3,202,678</u> |

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) |
| | <u>-</u> | <u>2,873,213</u> | <u>1,425</u> | <u>2,874,638</u> |
| 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) |
| | <u>-</u> | <u>-</u> | <u>411</u> | <u>411</u> |
| 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 |
| | <u>15,456</u> | <u>3,132,995</u> | <u>13,147</u> | <u>3,161,598</u> |
| 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) |
| | <u>\$ 37,170</u> | <u>\$ (11,968)</u> | <u>\$ 15,878</u> | <u>\$ 41,080</u> |

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 |
| | <u>39,503</u> | <u>163,216</u> | <u>11,977</u> | <u>214,696</u> |
| 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 |
| | <u>99,642</u> | <u>192,701</u> | <u>16,060</u> | <u>308,403</u> |
| Operating Loss | <u>(60,139)</u> | <u>(29,485)</u> | <u>(4,083)</u> | <u>(93,707)</u> |
| 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) |
| | <u>1,112</u> | <u>(112,456)</u> | <u>(5,611)</u> | <u>(116,955)</u> |
| Operating Transfers | | | | |
| Transfers in | 53,568 | - | 2,716 | 56,284 |
| Transfers out | (44) | - | - | (44) |
| Capital contributions - transfer of capital assets | - | (56) | - | (56) |
| | <u>53,524</u> | <u>(56)</u> | <u>2,716</u> | <u>56,184</u> |
| Change in Net Assets | <u>(5,503)</u> | <u>(141,997)</u> | <u>(6,978)</u> | <u>(154,478)</u> |
| Net Assets - beginning of year, as previously reported | 43,185 | 138,002 | 21,389 | 202,576 |
| Prior Period Adjustments | <u>(512)</u> | <u>(7,973)</u> | <u>1,467</u> | <u>(7,018)</u> |
| Net Assets - beginning of year, as restated | <u>42,673</u> | <u>130,029</u> | <u>22,856</u> | <u>195,558</u> |
| Net Assets - end of year | <u>\$ 37,170</u> | <u>\$ (11,968)</u> | <u>\$ 15,878</u> | <u>\$ 41,080</u> |
| 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 | <u>\$ 4,335</u> | <u>\$ 264,254</u> | <u>\$ 8,296</u> | <u>\$ 276,885</u> |
| 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 |
| | <u>\$ 4,335</u> | <u>\$ 264,254</u> | <u>\$ 8,296</u> | <u>\$ 276,885</u> |

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 |
| | <u>9,144</u> | <u>148,090</u> | <u>1,901</u> | <u>159,135</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ (50,995)</u></u> | <u><u>\$ 118,605</u></u> | <u><u>\$ (2,182)</u></u> | <u><u>\$ 65,428</u></u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | |
| (Loss) gain on sale or retirement of capital assets | <u>\$ (207)</u> | <u>\$ (1,308)</u> | <u>\$ 249</u> | <u>\$ (1,266)</u> |
| Capital assets financed by capital lease obligations | <u>\$ 215</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 215</u> |
| Transfers of capital assets to governmental fund | <u>\$ -</u> | <u>\$ (56)</u> | <u>\$ -</u> | <u>\$ (56)</u> |

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 | <u>221</u> |
| | <u>\$ 1,053</u> |
| LIABILITIES | |
| Due to other governments | <u>\$ 1,053</u> |

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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 | <u>20,168,000</u> |
| Net patient receivables | <u><u>\$ 7,488,000</u></u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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 | <u>\$ (558,350)</u> | <u>\$ 195,558</u> | <u>\$ (362,792)</u> |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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:

| | <u>(In Thousands)</u> <u>General Fund</u> |
|--|--|
| 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 | <u>(480)</u> |
| Fund balance, September 30, 2010, as restated | <u>\$ 85,481</u> |

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:

| | <u>(In Thousands)</u> | | | |
|--|---|---|--|-------------------|
| | <u>Cooper Green Hospital Fund</u> | <u>Sanitary Operations Fund</u> | <u>Nonmajor Enterprise Funds</u> | <u>Total</u> |
| 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 | <u>-</u> | <u>-</u> | <u>1,537</u> | <u>1,537</u> |
| Net assets, September 30, 2010, as restated | <u>\$ 42,673</u> | <u>\$ 130,029</u> | <u>\$ 22,856</u> | <u>\$ 195,558</u> |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| | <u>\$ 267,943</u> | <u>\$ 276,885</u> | <u>\$ 544,828</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 | - | - | - |
| | <u>\$ 251,978</u> | <u>\$ 182,730</u> | <u>\$ 41,591</u> | <u>\$ 25,518</u> | <u>\$ 2,139</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

| Governmental Activities | (In Thousands) | | | | Balance at September 30, 2011 |
|---|---|------------|------------|---------------------------------|-------------------------------------|
| | Balance at October 1, 2010 Restated | Additions | Disposals | Transfers/ Reclassifications | |
| 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

NOTE E - CAPITAL ASSETS - Continued

| Business-Type Activities | (In Thousands) | | | | Balance at September 30, 2011 |
|---|---|--------------|--------------------------|---------------------------------|-------------------------------------|
| | Balance at October 1, 2010 Restated | Additions | Disposals/ Impairment | Transfers/ Reclassifications | |
| 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 | <u>2</u> |
| Total depreciation expense - governmental activities | <u>\$ 18,400</u> |
| 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 | <u>289</u> |
| Total depreciation expense - business-type activities | <u>\$ 137,344</u> |

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 | <u>2,230</u> | <u>-</u> | <u>2,230</u> |
| Total deferred/unearned revenue | <u>\$ 113,936</u> | <u>\$ 4,457</u> | <u>\$ 118,393</u> |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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:

| Year Ending September 30, | (In Thousands) | | |
|---------------------------|-----------------|---------------|-----------------|
| | 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 |
| | <u>\$ 8,226</u> | <u>\$ 891</u> | <u>\$ 9,117</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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:

| Year Ending September 30, | (In Thousands) | |
|---|----------------------------|-----------------------------|
| | 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 | <u>\$ 1,006</u> | <u>\$ 300</u> |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 | <u>45,211,500</u> |
| | <u>\$ 49,801,500</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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 Girozentrale (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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| | <u>3,162,323</u> | <u>-</u> | <u>26,345</u> | <u>3,135,978</u> | <u>3,135,978</u> |
| 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 |
| | <u>1,141,290</u> | <u>-</u> | <u>44,195</u> | <u>1,097,095</u> | <u>1,097,095</u> |
| | <u>\$ 4,303,613</u> | <u>\$ -</u> | <u>\$ 70,540</u> | <u>\$ 4,233,073</u> | <u>\$ 4,233,073</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| | <u>\$3,135,978</u> | <u>\$1,430,061</u> | <u>\$1,097,095</u> | <u>\$ 392,768</u> | <u>\$4,233,073</u> | <u>\$1,822,829</u> | <u>\$6,055,902</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| | <u>\$ 3,135,978</u> | <u>\$ 1,097,095</u> | <u>\$ 4,233,073</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 | - | - | - |
| | <u>\$ 3,135,978</u> | <u>\$ 1,097,095</u> | <u>\$ 4,233,073</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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 | <u>\$ 46,591</u> | <u>\$ 6,305</u> | <u>\$ 269,070</u> |
| 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 | <u>\$ 11,970</u> | <u>\$ 32,434</u> | <u>\$ -</u> |
| 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 | <u>\$ 58,561</u> | <u>\$ 38,739</u> | <u>\$ 269,070</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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% |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| | <u>2,133,556</u> | <u>\$ 14,395,184</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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) |
| | <u>\$5,479,950</u> | | <u>\$ (764,516)</u> | <u>\$ 647,804</u> | <u>\$ (11,900)</u> | <u>\$ (128,612)</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| Incurring 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 | <u>\$ 1,929</u> | <u>\$ 1,335</u> | <u>\$ 300</u> | <u>\$ 269</u> | <u>\$ 4,040</u> | <u>\$ 4,230</u> | <u>\$ 6,269</u> | <u>\$ 5,834</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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 |
| | | | | <u>\$ 415</u> |

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 | <u>1,425</u> |
| Warrants payable - noncurrent, net | <u>\$ 411</u> |

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 |
| | <u>\$ 1,850</u> | <u>\$ 45</u> | <u>\$ 1,895</u> |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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) | | | Totals |
|-----------------------------|--|-----------------------------------|---------------------------------|------------------|
| | Sanitary Operations Fund | Nonmajor Governmental Funds | Nonmajor Enterprise Funds | |
| Advances to other funds: | | | | |
| General Fund | \$ 10,628 | \$ 3,917 | \$ 15,317 | \$ 29,862 |
| Nonmajor Governmental Funds | - | - | 16,800 | 16,800 |
| | <u>\$ 10,628</u> | <u>\$ 3,917</u> | <u>\$ 32,117</u> | <u>\$ 46,662</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| | <u>\$ 50</u> | <u>\$ 53,568</u> | <u>\$ 2,102</u> | <u>\$ 61,183</u> | <u>\$ 2,716</u> | <u>\$ 119,619</u> |

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 |
| | <hr/> |
| | \$ 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 |
| | <hr/> |
| | \$ 9,786 |

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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."

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

**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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 2005-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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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 "Caal" 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

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

WARREN AVERETT, LLC

Warren Averett Kimbrough & Marino Division

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

WARREN AVERETT, LLC

Warren Averett Kimbrough & Marino Division

**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 government | - | 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 |
| | <u>\$ 909</u> | <u>\$ 18,852</u> | <u>\$ 15,662</u> | <u>\$ 27,619</u> | <u>\$ 2,069</u> | <u>\$ 384</u> | <u>\$ 1,111</u> | <u>\$ 66,606</u> |
| 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) |
| | <u>426</u> | <u>7,141</u> | <u>15,576</u> | <u>24,895</u> | <u>2,047</u> | <u>98</u> | <u>596</u> | <u>50,779</u> |
| | <u>\$ 909</u> | <u>\$ 18,852</u> | <u>\$ 15,662</u> | <u>\$ 27,619</u> | <u>\$ 2,069</u> | <u>\$ 384</u> | <u>\$ 1,111</u> | <u>\$ 66,606</u> |

See independent auditors' report.

WARREN AVERETT, LLC

Warren Averett Kimbrough & Marino Division

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 | | | | | | | | |
| Intergovernmental | \$ 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 income | 29 | - | - | 510 | - | 87 | - | 626 |
| | 5,732 | 2,052 | - | 510 | 1,747 | 1,448 | 13,758 | 25,247 |
| Expenditures | | | | | | | | |
| Current: | | | | | | | | |
| General government | 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 year | 1,315 | 6,342 | - | 38,189 | 300 | 115 | 59 | 46,320 |
| Fund Balances - end of year | \$ 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 | <u>777</u> | <u>1,233</u> | <u>2,227</u> | <u>4,237</u> |
| 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 |
| | <u>18,455</u> | <u>2,950</u> | <u>3,383</u> | <u>24,788</u> |
| | <u>\$ 19,232</u> | <u>\$ 4,183</u> | <u>\$ 5,610</u> | <u>\$ 29,025</u> |

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) |
| | <u>-</u> | <u>-</u> | <u>1,425</u> | <u>1,425</u> |
| 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) |
| | <u>-</u> | <u>-</u> | <u>411</u> | <u>411</u> |
| 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 |
| | <u>9,837</u> | <u>1,468</u> | <u>1,842</u> | <u>13,147</u> |
| 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 | <u>(25,860)</u> | <u>(235)</u> | <u>3,519</u> | <u>(22,576)</u> |
| | <u>\$ 9,395</u> | <u>\$ 2,715</u> | <u>\$ 3,768</u> | <u>\$ 15,878</u> |

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 | <u>\$ 2,657</u> | <u>\$ 288</u> | <u>\$ 5,351</u> | <u>\$ 8,296</u> |
| Displayed As | | | | |
| Cash and investments | \$ 664 | \$ 288 | \$ 3,463 | \$ 4,415 |
| Restricted assets - noncurrent cash and investments | 1,993 | - | 1,888 | 3,881 |
| | <u>\$ 2,657</u> | <u>\$ 288</u> | <u>\$ 5,351</u> | <u>\$ 8,296</u> |

**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 |
| | <u>1,231</u> | <u>629</u> | <u>41</u> | <u>1,901</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 424</u> | <u>\$ (2,498)</u> | <u>\$ (108)</u> | <u>\$ (2,182)</u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | | |
| Gain (loss) on sale or retirement of capital assets | <u>\$ (5)</u> | <u>\$ (19)</u> | <u>\$ 273</u> | <u>\$ 249</u> |

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 |
|--|-------------------------------|--------------|----------------|----------------------------------|
| <u>City of Birmingham Revolving Loan Fund</u> | | | | |
| Assets | | | | |
| Cash and investments | \$ 769 | \$ 70 | \$ (7) | \$ 832 |
| Loans receivable, net | 269 | 12 | (60) | 221 |
| | <u>\$ 1,038</u> | <u>\$ 82</u> | <u>\$ (67)</u> | <u>\$ 1,053</u> |
| Liabilities | | | | |
| Due to other governments | <u>\$ 1,038</u> | <u>\$ 16</u> | <u>\$ (1)</u> | <u>\$ 1,053</u> |

See independent auditors' report.

ADDITIONAL INFORMATION



**JEFFERSON COUNTY COMMISSION
COMMISSION MEMBERS AND ADMINISTRATIVE PERSONNEL
(UNAUDITED)
SEPTEMBER 30, 2011**

| <u>Commission Members As of February 22, 2013</u> | | | 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 |

| <u>Administrative Personnel As of February 22, 2013</u> | | | |
|--|-------------------------------|--|--|
| 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



Ronald L. Jones
Chief Examiner

State of Alabama
Department of
Examiners of Public Accounts

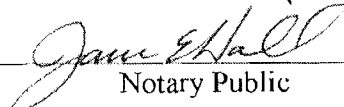
P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

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.

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

Respectfully submitted,



Amanda Hensley
Examiner of Public Accounts



Brian Davis
Examiner of Public Accounts

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| | <i>Page</i> |
|---|-------------|
| Summary | A |
| Contains items pertaining to state and local legal compliance. | |
| Schedule of State and Local Compliance and Other Findings | C |
| Contains detailed information about findings pertaining to state and local legal compliance and other findings. | |
| <u>Additional Information</u> | 1 |
| Provides basic information related to the Commission. | |
| Exhibit #1 Commission Members and Administrative Personnel | 2 |



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 Humphries, 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*

C

Schedule of State and Local Compliance and Other Findings
For the Period October 1, 2008 through November 9, 2012

| Ref. No. | Finding/Noncompliance | | | | | | | | |
|---------------------------------|--|------|---------|---------------------------------|----------------|---------------------------|---------------|------------------------|---------------|
| 1993-01 | <p><u>Finding:</u> At September 30, 2009, the following funds had deficit fund balances according to the Commission's audited financial statements.</p> <table><tr><th>Fund</th><th>Rounded</th></tr><tr><td>Bridge and Public Building Fund</td><td>\$1,181,000.00</td></tr><tr><td>Capital Improvements Fund</td><td>\$ 965,000.00</td></tr><tr><td>Road Construction Fund</td><td>\$ 448,000.00</td></tr></table> <p><u>Recommendation:</u> The Commission should eliminate deficit fund balances.</p> | Fund | Rounded | Bridge and Public Building Fund | \$1,181,000.00 | Capital Improvements Fund | \$ 965,000.00 | Road Construction Fund | \$ 448,000.00 |
| Fund | Rounded | | | | | | | | |
| Bridge and Public Building Fund | \$1,181,000.00 | | | | | | | | |
| Capital Improvements Fund | \$ 965,000.00 | | | | | | | | |
| Road Construction Fund | \$ 448,000.00 | | | | | | | | |
| 2008-02 | <p><u>Finding:</u> 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.</p> <p><u>Recommendation:</u> The Commission should make purchases in accordance with Jefferson County Administrative Order 93-2.</p> | | | | | | | | |

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 Humphries | Member | 2010 |
| Hon. Jim Carns | Member | 2010 |
| Hon. George Bowman (1) | Member | 2010 |
| Hon. William A. Bell (2) | Member | 2010 |

Administrative Personnel

Mr. Travis Hulseley (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 | <u>570,213,495</u> |

APPROVED BY THE
JEFFERSON COUNTY COMMISSION
DATE: 9-26-12
MINUTE BOOK: 163
PAGE(S): 575

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 | 335,433 | 343,505 | 325,568 | | | | 290,000 | 280,000 | 10,000 | | 4 | - |
| 1002 | Commissioner, District 2 | 360,000 | 315,976 | 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 | 844,530 | 39 | 5 |
| 6200 | Probate Election & Commitment | 667,000 | 371,068 | 886,000 | 422,051 | | | | 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 | 5,316,391 | 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 | | | | | | | | | | | | | |
| 3101 | County Attorney - Outside Legal | 2,318,827 | 1,503,734 | 1,484,169 | 1,471,456 | | | | 1,301,688 | 1,090,287 | 211,401 | | 7 | - |
| 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 | - |

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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 |

| | | | | | | | | | | | | | | |
|-----------------------------------|------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|-----------|------------|---------|-----|----|
| General Fund Pass Thru (01) | | | | | | | | | | | | | | |
| 1303 | Board of Equalization-Bham. State | 4,503,118 | 4,073,370 | 4,396,675 | 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 | | | | - | - |
| 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 | | | | | | | | | | | | | |
| Total General Fund Pass Thru (01) | | 38,660,493 | 23,438,755 | 29,403,701 | 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 / Ketchum | 10,028,318 | 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 | | - | | - | - |

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| Departments FY2013 Budget Requests | | | | | | | | | | | | | | |
|---|---|-------------------------|------------------------|-------------------------|----------------------------------|-------------------------|--------------------------|------------------------|-------------------------|-----------|------------|-------------------|------------------|------------------|
| Departmental Components | | | | | | | | | | | | | | |
| 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 | FY2013 | | | | Filled Positions | Vacant Positions |
| | | | | | | | | | Adopted Expenses FY2013 | Salary | Oper | Capital Equipment | | |
| 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 | 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 | 0 | 7,616 | 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 | 1,297,655 | 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 | | | | | | | | | | | | | |
| 2401 | General Services - Contingency | 8,545,658 | 215,894 | 6,314,981 | 33,841 | | 258,648 | | 4,101,136 | | 3,674,698 | | 426,438 | |
| | 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 | | | | | |
|----------|-------------------|-------------------------|------------------------|-------------------------|----------------------------------|-------------------------|--------------------------|------------------------|------------------------------------|--------|------|-------------------|------------------|------------------|
| | | | | | | | | | Departmental Components | | | | | |
| | | | | | | | | | Adopted Expenses FY2013 | 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 | Indirect Care Funds | | | | | 44,812,419 | 45,738,896 | 46,924,095 | 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 | 525,651 | 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 | 12,895 | 12,895 | | | | |
| | Merits | | | | | | | | | | | | | |
| Total Jeff. Rehab. & Health Ctr. Fund | | 11,000,000 | 12,845,234 | 13,891,701 | 6,936,057 | 10,510,665 | 4,404,732 | 8,535,096 | 8,535,096 | 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 | | | |
| 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 | | 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 | | 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 | | 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 | | | | | | | | | | | | | |
| 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 | Department FY2013 Budget Requests | | | | | |
|----------|-------------------|-------------------------|------------------------|-------------------------|----------------------------------|-------------------------|--------------------------|------------------------|-----------------------------------|--------|------|-------------------|------------------|------------------|
| | | | | | | | | | Departmental Components | | | | | |
| | | | | | | | | | Adopted Expenses FY2013 | Salary | Oper | Capital Equipment | Filled Positions | Vacant Positions |

Trust and Agency Funds

Emergency Management Fund (63)

| | | | | | | | | | | | | | | |
|----------------|------------------------------|-----------|------------|-----------|-----------|-----------|-----------|-----------|-----------|---------|---------|---|---|---|
| 4300 | 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 |
| 4350 | JCC Disaster Recovery - FEMA | | 13,356,890 | 0 | 353,042 | | | | 0 | | | | | |
| 4360 | EMA Disaster Recovery - FEMA | | 2,206,211 | 0 | 422,147 | | | | 0 | | | | | |
| 3101 | Non-departmental | | 326,636 | 0 | | | | 244,113 | 307,555 | | 307,555 | | | |
| | Decrease EMA Fund Balance | | | | | | | | | | | | | |
| | 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 |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------|-----|

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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@babco.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. CARVER
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

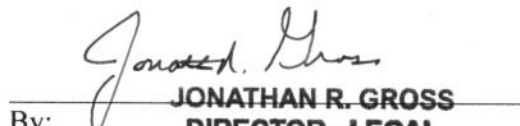
By:
Its:

DEPFA BANK PLC



By:
Its: **NANCY HENDERSON**
MANAGING DIRECTOR

DEPFA BANK PLC



By: **JONATHAN R. GROSS**
Its: **DIRECTOR - LEGAL**

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, managers, 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@babbc.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 the Indenture Trustee:

Wells Fargo Bank, National Association
Corporate Trust Services
MAC #N9311-115
625 Marquette Avenue, 11th Floor
Minneapolis, MN 55479
Attn: Gavin Wilkinson
Facsimile: (612) 667-5047
Email: Gavin.Wilkinson@wellsfargo.com

-and-

Reed Smith LLP
Reed Smith Centre
225 Fifth Avenue, Suite 1200
Pittsburgh, Pennsylvania 15222
Attn: Eric A. Schaffer, Esq.
Facsimile: (412) 288-3063
Email: eschaffer@reedsmith.com

If to BLB:

BayernLB
560 Lexington Avenue
New York, New York 10022
Attn: Joseph Campagna
Facsimile: (212) 230-9114
Email: jcampagna@bayernlb.com

-and-

Venable LLP
Rockefeller Center
1270 Avenue of the Americas
The Twenty-Fourth Floor
New York, New York 10020
Attn: Edward A. Smith, Esq.
Facsimile: (212) 307-5598
Email: EASmith@Venable.com

If to JPMorgan:

JPMorgan Chase Bank, N.A.
383 Madison Avenue
New York, New York 10179
Attn: William A. Austin
Facsimile: (212) 622-4556
Email: william.a.austin@jpmchase.com

-and-

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Attn: Steve M. Fuhrman, Esq.
Facsimile: (212) 455-2502
Email: sfuhrman@stblaw.com

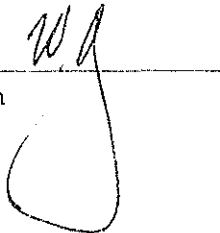
Any notice given by delivery, mail, or courier shall be effective when received. Any notice given by telecopier shall be effective upon oral or machine confirmation of transmission. Any notice given by electronic mail shall be effective upon oral or machine confirmation of receipt.

[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



WELLS FARGO BANK, NATIONAL
ASSOCIATION, AS INDENTURE TRUSTEE

By:
Its:

BAYERISCHE LANDESBANK,
NEW YORK BRANCH

By:
Its:

By:
Its:

JPMORGAN CHASE BANK, N.A.

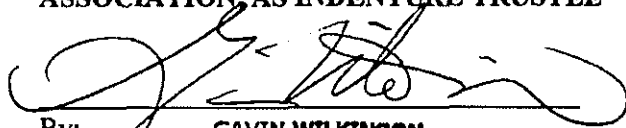
By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

**WELLS FARGO BANK, NATIONAL
ASSOCIATION, AS INDENTURE TRUSTEE**


By: **GAVIN WILKINSON**
Its: **VICE PRESIDENT**

**BAYERISCHE LANDESBANK,
NEW YORK BRANCH**

By:
Its:

By:
Its:

JPMORGAN CHASE BANK, N.A.

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

**WELLS FARGO BANK, NATIONAL
ASSOCIATION, AS INDENTURE TRUSTEE**

By:
Its:

**BAYERISCHE LANDESBANK,
NEW YORK BRANCH**



By: **JOSEPH C. CAMPAGNA**
Its: **SENIOR VICE PRESIDENT**



By: **PATRICIA M. HEALY**
Its: **FIRST VICE PRESIDENT**

JPMORGAN CHASE BANK, N.A.

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

WELLS FARGO BANK, NATIONAL
ASSOCIATION, AS INDENTURE TRUSTEE

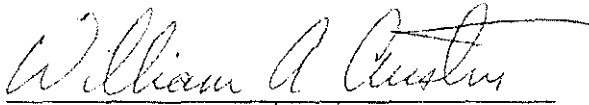
By:
Its:

BAYERISCHE LANDESBANK,
NEW YORK BRANCH

By:
Its:

By:
Its:

JPMORGAN CHASE BANK, N.A.



By: WILLIAM A. AUSTIN
Its: EXECUTIVE DIRECTOR

Exhibit A

Amortization Schedule for New Warrants

Issued on Account of BLB Claims

| Payment Date | Principal Repayment of 2001- B GO Warrants | Pre-Petition Non- Default Interest on 2001-B GO Warrants | Reconciliation of Principal Amounts | Total Paid on Effective Date |
|----------------|--|---|--|---------------------------------|
| Effective Date | | \$ 62,086.62 | \$ 392.55 | \$ 62,479.17 |
| 4/1/2014 | \$ 5,590,000.00 | | | |
| 4/1/2015 | 5,905,000.00 | | | |
| 4/1/2016 | 6,170,000.00 | | | |
| 4/1/2017 | 6,445,000.00 | | | |
| 4/1/2018 | 6,735,000.00 | | | |
| 4/1/2019 | 7,025,000.00 | | | |
| 4/1/2020 | 7,340,000.00 | | | |
| 4/1/2021 | 7,665,000.00 | | | |
| Total | \$ 52,875,000.00 | \$ 62,086.62 | \$ 392.55 | \$ 62,479.17 |

Issued on Account of JPMorgan Claims

| Payment Date | Principal Repayment of 2001- B GO Warrants | Pre-Petition Non- Default Interest on 2001-B GO Warrants | Reconciliation of Principal Amounts | Total Paid on Effective Date |
|----------------|--|---|--|---------------------------------|
| Effective Date | | \$ 61,205.05 | \$ (392.55) | \$ 60,812.50 |
| 4/1/2014 | \$ 5,510,000.00 | | | |
| 4/1/2015 | 5,825,000.00 | | | |
| 4/1/2016 | 6,080,000.00 | | | |
| 4/1/2017 | 6,350,000.00 | | | |
| 4/1/2018 | 6,635,000.00 | | | |
| 4/1/2019 | 6,930,000.00 | | | |
| 4/1/2020 | 7,235,000.00 | | | |
| 4/1/2021 | 7,560,000.00 | | | |
| Total | \$ 52,125,000.00 | \$ 61,205.05 | \$ (392.55) | \$ 60,812.50 |

EXHIBIT NO. 7

Sewer Plan Support Agreements

PLAN SUPPORT AGREEMENT

THIS PLAN SUPPORT AGREEMENT DOES NOT CONSTITUTE A VOTE TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN OR A SOLICITATION OF VOTES TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN; ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED OR MADE UNTIL THE BANKRUPTCY COURT APPROVES A DISCLOSURE STATEMENT RESPECTING A PLAN

This PLAN SUPPORT AGREEMENT (as it may be amended or supplemented from time to time in accordance with the terms hereof, and collectively with each of the exhibits and schedules attached hereto, including the plan term sheet attached hereto as **Exhibit A** (the “**Plan Term Sheet**”), which are expressly incorporated herein by reference, this “**Agreement**”), dated as of June 6, 2013, is made and entered into by and among Jefferson County, Alabama (the “**County**”), on the one hand, and JPMorgan Chase Bank, N.A. (“**JPMorgan**”) and each affiliate of JPMorgan beneficially owning Sewer Warrants signatory hereto (together with JPMorgan, the “**JPM Parties**”), on the other hand. Each of the JPM Parties and the County are referred to herein as a “**Party**” and collectively as the “**Parties**.” Any capitalized term used but not defined in this Agreement shall have the meaning ascribed to that term in the Plan Term Sheet. The Plan Term Sheet constitutes an integral part of this Agreement.

RECITALS

WHEREAS, pursuant to a Trust Indenture, dated as of February 1, 1997 (as supplemented by eleven supplemental indentures through the date hereof, the “**Indenture**”), between the County and The Bank of New York Mellon, as indenture trustee and successor to AmSouth Bank of Alabama (in such capacity, the “**Trustee**”), the County issued approximately \$3.6 billion principal amount of warrants secured by the net revenues of the County’s sewer system (the “**Sewer Warrants**”);

WHEREAS, in connection with the issuance of certain series of the Sewer Warrants, the County entered into a series of standby warrant purchase agreements (each a “**Standby Agreement**”);

WHEREAS, on November 9, 2011, the County filed a 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, JPMorgan and the Trustee, on behalf of the JPM Parties and other beneficial holders of the Sewer Warrants, have filed claims in the Bankruptcy Case against the County asserting rights to be paid, among other things, various amounts on account of principal and interest arising from or in connection with the Standby Agreements and the Indenture in respect of the Sewer Warrants held by the JPM Parties (collectively, the “**JPMorgan Sewer Warrant Claims**”);

WHEREAS, the County disputes the JPM Parties' entitlements with respect to certain of the JPMorgan Sewer Warrant Claims (including with respect to the allowability, secured status, amount, and priority of certain of such claims), and the JPM Parties dispute the County's contentions;

WHEREAS, the Parties and their representatives have engaged in good faith, arms' length settlement discussions regarding a consensual resolution of all sewer system and Sewer Warrant related disputes among them and, subject to the terms and conditions set forth herein, each Party has agreed to support and implement a restructuring transaction in accordance with the terms and conditions of the Plan Term Sheet and this Agreement (the "Restructuring") pursuant to an Acceptable Plan (as defined below);

WHEREAS, the County is contemporaneously entering into a plan support agreement (the "Supporting Warrantholder PSA") with JPMorgan and with certain members of an ad hoc group of holders of Sewer Warrants (the "Supporting Warrantholders");

WHEREAS, the County is contemporaneously entering into a plan support agreement (the "Sewer Warrant Insurer PSA") with Assured Guaranty Municipal Corp., as successor to Financial Security Assurance, Inc. ("Assured"), Financial Guaranty Insurance Company ("FGIC"), and Syncora Guarantee Inc., f/k/a XL Capital Assurance Inc. ("Syncora"), each of which is referred to as a "Sewer Warrant Insurer" and collectively with the JPM Parties and the Supporting Warrantholders are the "Plan Support Parties";

WHEREAS, the County previously entered into a plan support agreement dated as of May 13, 2013 (the "GO PSA") with JPMorgan, Bayerische Landesbank, New York branch (formerly known as Bayerische Landesbank Girozentrale), and Wells Fargo Bank, National Association, as indenture trustee, in respect of the County's Series 2001-B general obligation warrants and related claims;

WHEREAS, in expressing such support and commitment, the Parties recognize that this Agreement is subject to and limited by the solicitation requirements of applicable bankruptcy law;

NOW, THEREFORE, in consideration of the foregoing and the promises, 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. Restructuring and Plan Support.

(a) The County shall 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, this Agreement and the Plan Term Sheet (an "Acceptable Plan") and to meet the deadlines set forth in Section 7.1(q) hereof. The

County shall exercise all reasonable efforts to obtain required regulatory and/or third-party approvals, if any, necessary to consummate the Restructuring.

(b) The County shall provide to the professionals representing JPMorgan (the “JPMorgan Professionals”) draft copies of all pleadings and documents related to any Acceptable Plan, the Restructuring, or any of the transactions contemplated thereby as soon as reasonably practicable with reasonable time to review and comment prior to the filing of same with the applicable court. The JPMorgan Professionals will review and provide any comments on all draft pleadings and documents as soon as reasonably practicable with reasonable time for the County to consider and address any comments. Each Party will cooperate, negotiate, and otherwise work with each other Party in good faith to ensure that such pleadings and documents (including any amendments thereto), including an Acceptable Plan, a disclosure statement for an Acceptable Plan (the “Disclosure Statement”), and an order confirming an Acceptable Plan (the “Confirmation Order”), incorporate the provisions of, and are otherwise materially consistent with, this Agreement and the Plan Term Sheet, and otherwise acceptable to the Parties.

(c) The County shall not take any action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, 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.

(d) The County shall 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.

(e) The JPM Parties shall (i) use all reasonable efforts to support confirmation of an Acceptable Plan; (ii) subject to Bankruptcy Code sections 1125 and 1126, timely vote all JPMorgan Sewer Warrant Claims to accept an Acceptable Plan and not change or withdraw (or cause to be changed or withdrawn) such vote except pursuant to Section 7.4; and (iii) provide a release of the County and all other Plan Support Parties in accordance with this Agreement, the Plan Term Sheet, and an Acceptable Plan of all claims arising under or in connection with all JPMorgan Sewer Warrant Claims. For the avoidance of doubt, such releases shall not release any rights of the JPM Parties under an Acceptable Plan.

(f) No Party will contest any other Party’s ability to appear as a party-in-interest in any matter to be adjudicated in the Bankruptcy Case if such appearance and the positions advocated in connection therewith (i) are not inconsistent with this Agreement, and are not for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; or (ii) are for the purposes of contesting whether any matter, fact, or thing, is a breach of, or inconsistent with, this Agreement or to otherwise enforce this Agreement.

(g) This Agreement is not and shall not be deemed to be a solicitation of or votes for the acceptance or rejection of any chapter 9 plan for the purposes of Bankruptcy Code sections 1125 and 1126 or otherwise. There will be no solicitation of acceptances of the JPM

Parties or any other creditors with respect to an Acceptable Plan until such parties have received the Disclosure Statement, any supplements thereto, and related ballot, in each case as approved by the Bankruptcy Court, and in each case in accordance with the Bankruptcy Code and negotiated consistent with Section 1(b). 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.

(h) JPMorgan shall have the right to approve the provisions of the following documents (including any amendments thereto) that would potentially affect a right, obligation, or interest of the JPM Parties prior to any such document being filed or distributed to claim holders as part of the solicitation process approved by the Bankruptcy Court, and the County agrees that such documents will incorporate the provisions of, and otherwise be materially consistent with, this Agreement and the Plan Term Sheet: (i) an Acceptable Plan (and any subsequent amendments thereto), including the releases and injunctions to be incorporated into an Acceptable Plan and into the Confirmation Order, (ii) the Disclosure Statement and the order or orders approving the Disclosure Statement and the notice and other procedures for soliciting votes on an Acceptable Plan and affirmative or deemed elections with respect to the Commutation Election, including the ballots or such other documents that contain the Commutation Election, (iii) the Confirmation Order, (iv) the Stipulated Order (as defined below), (v) all other Acceptable Plan and closing documentation, and (vi) any other document which is subject to approval by JPMorgan pursuant to the Plan Term Sheet.

(i) Whenever this Agreement provides that any Party has the “right to approve” a document or that a document must be “acceptable” or “satisfactory” to a Party, such requirement shall in each case be subject to a reasonableness qualifier; *provided, however*, that the Acceptable Plan must in all events incorporate the provisions which are stated in this Agreement and the Plan Term Sheet to be included in an Acceptable Plan.

Section 2. Litigation Standstill.

(a) For purposes of this Agreement, the following terms shall have the following meanings:

(i) “Litigation” shall mean any litigation that is related to the County, the Bankruptcy Case, the Sewer Warrants (including any financing or other transactions entered into in connection therewith), or insurance issued in respect of the Sewer Warrants (in each case, whether pending before the Bankruptcy Court or before any other court), but excluding (v) any litigation to enforce, interpret, or implement this Agreement, an Acceptable Plan, the Restructuring, or any document executed in connection therewith; (w) the pending adversary proceeding concerning the priority of the Lehman Brothers swap claim, Adv. Proc. No. 12-00149-TBB; (x) the proceeding pending before the Supreme Court of the State of New York (the “FGIC Rehabilitation Court”) styled *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012 (the “FGIC Rehabilitation Proceeding”), except for any actions taken in the FGIC Rehabilitation Proceeding for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; (y) any litigation involving any dispute between a holder of Sewer Warrants (or the Trustee) and

a Sewer Warrant Insurer (including litigation in the FGIC Rehabilitation Proceeding) concerning the rights of such holder as compared to any Sewer Warrant Insurer, with respect to who owns, controls, and may exercise all rights arising out of or in connection with Sewer Warrants that are beneficially owned by such holder and insured by such Sewer Warrant Insurer (but not with respect to any Sewer Warrants or other rights held by any of the Sewer Warrant Insurers as a result of payments made or to be made under any insurance policy); and (z) any litigation permitted by Section 1(f).

(ii) “Reasonable Steps” for purposes of this Agreement shall mean, in furtherance of a suspension or standstill of all Litigation pending on the date hereof that is satisfactory to all the Parties (the “Litigation Standstill,” which for the avoidance of doubt will include the Stipulated Order), the JPM Parties providing all reasonable support to the County in prosecuting a motion in the Bankruptcy Court for appropriate relief to achieve such Litigation Standstill, but shall exclude (x) any obligation of the JPM Parties to cause any person to take any actions which it is not permitted to take under applicable law or by contract; and (y) any action (or inaction) of the JPM Parties, including commencing or continuing any action in the Bankruptcy Court or other court, that could (in the reasonable judgment of the JPM Parties) expose the JPM Parties to liability (contingent or otherwise) or unreimbursed material expense.

(b) Each Party agrees that it shall (i) not commence any new Litigation against any other Party or any other Plan Support Party and shall not prosecute and shall exercise all reasonable efforts to suspend any existing Litigation against any other Party or any other Plan Support Party and (ii) in connection with any such Litigation, take no action inconsistent with the Restructuring contemplated by this Agreement and an Acceptable Plan; *provided, however*, that no action, matter, or proceeding excluded from the definition of Litigation in Section 2(a)(i) shall be or shall be deemed to be an action inconsistent with the Restructuring or an Acceptable Plan.

(c) The JPM Parties shall take Reasonable Steps to obtain and implement the Litigation Standstill that will remain in effect until the earlier of (x) the Effective Date, at which time all pending Litigation against the JPM Parties will, pursuant to an Acceptable Plan, be dismissed with prejudice or (y) termination of this Agreement in accordance with Section 7.

(d) So long as none of this Agreement, the Supporting Warrantholder PSA, or the Sewer Warrant Insurer PSA has been terminated, the JPM Parties shall not assert a claim against any Sewer Warrant Insurer, demand payment from any Sewer Warrant Insurer, or institute or prosecute any litigation to obtain payment from any Sewer Warrant Insurer in respect of any insurance policy issued by such Sewer Warrant Insurer insuring any of the JPM Parties’ Sewer Warrants, or direct or cause the Trustee to do any of the foregoing; *provided, however*, that nothing herein shall limit the rights of the JPM Parties to take action excluded from the definition of Litigation in Section 2(a)(i)(x) or (y).

(e) As part of the Litigation Standstill, without modifying the Indenture, any Standby Agreement, or any insurance policy with respect to any Sewer Warrants, pursuant to a stipulated form of order acceptable to the County and JPMorgan (the “Stipulated Order”) to effect a standstill or suspension of the adversary proceeding commenced by the Trustee against the County, Syncora, and Assured 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 (the “Declaratory Judgment Action”), (i) the County will continue to pay to the Trustee on a monthly basis net revenues of the County’s sewer system (without deducting any additional amounts that may be subject to deduction as “Operating Expenses” under the Indenture as a result of any ruling by the Bankruptcy Court regarding pending disputes about actually incurred professional fees in Adv. Proc. No. 12-00016-TBB); (ii) the Trustee will not, and the Plan Support Parties will not direct or cause the Trustee to, present any claims or seek to draw on any insurance policy with respect to any Sewer Warrants; and (iii) the Trustee shall not distribute such sewer revenues to the holders of Sewer Warrants on account of obligations becoming due on or after February 1, 2013, in each case of Sections 2(e)(i)-(iii), until the earlier of (x) the Effective Date, at which time distributions will be made pursuant to an Acceptable Plan as set forth in the Plan Term Sheet; and (y) the date of the termination of this Agreement in accordance with Section 7 of the Agreement, other than under Section 7.1(y) of the Agreement, after which the Parties’ rights shall be reserved and determined as if this Agreement and Plan Term Sheet had never been executed.

Section 3. Representations and Covenants Regarding Claims.

(a) JPMorgan represents that the JPM Parties own the Sewer Warrants set forth on Schedule 1 hereto, and retain all rights to vote any claims arising from or related to such Sewer Warrants to accept an Acceptable Plan. For the avoidance of doubt, all references in this Agreement to the JPM Parties and the JPMorgan Sewer Warrant Claims shall relate to the JPM Parties in their capacity as the beneficial owners of the Sewer Warrants set forth on Schedule 1 hereto, and shall not include any such JPM Party or JPMorgan Sewer Warrant Claims to the extent of any Sewer Warrants not included on Schedule 1 that may be held by a JPM Party in a fiduciary, agency, or other representative capacity for third-party customers, clients, or accountholders. JPMorgan represents that as of the date of this Agreement, the JPM Parties have not entered into any other agreement to assign, sell, participate, grant, convey or otherwise transfer, in whole or in part, any portion of their respective right, title, or interest in any Sewer Warrants that is inconsistent with, or in violation of, the representations and warranties of JPMorgan herein, in violation of the obligations of the JPM Parties under this Agreement, or that would adversely affect in any way the performance of their obligations under this Agreement at the time such obligations are required to be performed.

(b) JPMorgan covenants that, from the date hereof until the termination of this Agreement in accordance with Section 7 of this Agreement, the JPM Parties will not sell, pledge, hypothecate, or otherwise transfer, assign or dispose of any of the JPMorgan Sewer Warrant Claims, or grant any option, right to acquire, or voting, participation, or other interest therein to any person or entity (any such transfer, disposition, or grant, a “Transfer”) other than any Transfer between one JPM Party and another JPM Party. Other than any Transfer between one JPM Party and another JPM Party, any attempt to Transfer any JPMorgan Sewer Warrant Claims or related rights or interests therein from the date hereof until the termination of this Agreement in accordance with Section 7 of this Agreement shall be deemed ineffective, including with regard to any right to accept or reject an Acceptable Plan or the Restructuring, and shall be deemed void *ab initio*. Unless the County and JPMorgan otherwise agree, other than any

Transfer between one JPM Party and another JPM Party, the JPM Parties shall not acquire any additional Sewer Warrants.

Section 4. Additional County Covenants and Determinations.

(a) The County represents that the Sewer Warrant Insurer PSA and the Supporting Warrantholder PSA have been executed and delivered contemporaneously with the execution and delivery of this Agreement by all parties thereto in the forms attached as **Exhibit B** and **Exhibit C**.

(b) The County represents that as of the date of the County's execution hereof, the County has determined in good faith that based on the Financing Plan, an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an Acceptable Plan as set forth in the Plan Term Sheet. The County agrees that it shall further represent that (i) as of the date on which the Disclosure Statement is approved by the Bankruptcy Court, and (ii) as of the date on which a confirmation hearing begins with respect to an Acceptable Plan, the County in each case has still determined in good faith that based on the Financing Plan (as it may have been amended prior to each such date in accordance with the terms of this Agreement), an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an Acceptable Plan as set forth in the Plan Term Sheet. The County agrees that an Acceptable Plan will provide that the aggregate consideration from issuance of New Sewer Warrants and other sources of cash to be paid under an Acceptable Plan to the Sewer Warrant creditors (including the JPM Parties and the other Plan Support Parties) shall be approximately \$1.835 billion (assuming only for purposes of setting forth such aggregate consideration that the Tail Risk is equal to exactly \$25 million), plus the distribution of Accumulated Revenues pursuant to an Acceptable Plan as set forth in the Plan Term Sheet.

(c) The County shall provide written notice to JPMorgan of any termination of, amendment to, or written notice of potential termination of the Sewer Warrant Insurer PSA within one (1) business day of any such termination, amendment, or written notice. The written notice that the County must provide to JPMorgan under the immediately preceding sentence shall include a copy of any applicable amendment, notice of termination, or notice of potential termination.

(d) The County shall provide written notice to JPMorgan of any amendment to the Financing Plan within one (1) business day of any such amendment, which written notice shall include a copy of any such amendment. The County represents that any amendment to the Financing Plan shall be a publicly available document.

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 Bankruptcy Code sections 1125 and 1126 (in the case of the JPM Parties), this Agreement is a legal, valid, and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as enforcement may be limited by applicable laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability, and the actions to be taken by such Party, including in respect of the Restructuring contemplated by this Agreement, are within such Party's powers and have been duly authorized by all necessary action on its part.

(b) The execution, delivery, and performance of this Agreement by such Party does not and shall not: (i) violate any law, rule, or regulation applicable to such Party or any of its subsidiaries, as applicable; (ii) violate its certificate of incorporation, bylaws, or other organizational documents or those of any of its subsidiaries, as applicable; 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, as applicable, is a party.

(c) Subject to the provisions of Bankruptcy Code sections 1125 and 1126 (in the case of the JPM Parties) and except for the approval by the Jefferson County Commission (in the case of the County, which approval has been obtained as set forth below), 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. The County represents that 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 County's execution and delivery of this Agreement, and the Jefferson County Commission has duly approved and authorized the execution, delivery, and performance of this Agreement by the County.

Section 6. Support Commitments.

(a) In connection with the agreement of the County to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this Agreement has not been terminated in accordance with Section 7, the County shall use all reasonable efforts to:

(i) file a Disclosure Statement and an Acceptable Plan prior to the deadline set forth in Section 7.1(q)(i) of this Agreement;

(ii) 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 the deadlines set forth in Section 7.1(q)(ii)-(iv) of this Agreement, which Confirmation Order shall be satisfactory to JPMorgan;

(iii) cause the Effective Date of an Acceptable Plan to occur prior to the Outside Date;

(iv) negotiate in good faith with the other 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, including the documents identified in Section 1(h); and

(v) take no action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, 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 or consummation of the Restructuring by the deadlines set forth in Section 7.1(q) of this Agreement.

(b) In connection with the agreement of the JPM Parties to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this Agreement has not been terminated in accordance with Section 7, each of the JPM Parties shall use all reasonable efforts to:

(i) not object to, challenge, or otherwise commence or participate in any proceeding opposing any of the terms of the Restructuring contemplated by this Agreement and an Acceptable Plan;

(ii) not seek or support appointment of a trustee for the County under Bankruptcy Code section 926(a) or dismissal of the Bankruptcy Case;

(iii) to the extent available, without any Party conceding its applicability, not make or affirmatively reject any election for the application of Bankruptcy Code section 1111(b)(2) to any claims arising from or in connection with the Indenture, any Standby Agreement, or any Sewer Warrants;

(iv) in furtherance of the Litigation Standstill, not seek or support the reinstatement of control over the sewer system or sewer rate-setting in the receiver appointed by the Alabama state court or any other receiver;

(v) negotiate in good faith with the other 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, including the documents identified in Section 1(h); and

(vi) take no action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, or an Acceptable Plan, or that would delay or otherwise impede approval of the Disclosure Statement for an Acceptable Plan or the expeditious confirmation and consummation of an Acceptable Plan or consummation of the Restructuring by the deadlines set forth in Section 7.1(q) of this Agreement.

Section 7. Termination & Default.

7.1 Events of Termination & Default.

(a) The County and the JPM Parties may collectively terminate this Agreement by written agreement.

(b) If the County provides written notice to each other Party that the County, in consultation with its financial advisors, has reasonably determined in good faith that it is not economically possible to consummate an Acceptable Plan in accordance with the Financing Plan without economic modifications (other than as anticipated in the Financing Plan) adverse to the ratepayers or the sewer system in any material respect, which such notice must specify the basis for such a determination, and does not rescind such notice within fifteen (15) calendar days of the date on which such notice is provided, then the County or JPMorgan may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice. For the avoidance of doubt and without limitation, except to the extent necessary to address (i) an up to a 50 basis point increase in borrowing rates (yields) from those set forth in the Financing Plan (a “Market Shift”), (ii) a decline in actual or projected revenues from those set forth in the Financing Plan having an economic effect equivalent to or less than a Market Shift, or (iii) some combination of increased borrowing rates (yields) and a decline in actual or projected revenues, in each case from those set forth in Financing Plan and in the aggregate having an economic effect equivalent to or less than a Market Shift, under no other circumstances shall the County be required to proceed with an Acceptable Plan if in order to issue the New Sewer Warrants, in the amount required thereunder, the County must make any pre-Effective Date upward adjustment in the Approved Rate Schedule.

(c) If either the County or JPMorgan provides a written notice to each other Party that such Party has reasonably determined in good faith that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur, in the case of the County as a result of events outside the County’s control (which notice shall specify the basis for such determination), and does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice; *provided, however*, that in any proceeding challenging such a determination, the Party providing the notice bears the burden of proof that the events specified in the notice have occurred and that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur because of such events.

(d) If any governmental authority, including the Bankruptcy Court or any other regulatory authority or court of competent jurisdiction, enters any final, non-appealable ruling, or order enjoining the consummation of a material portion of the Restructuring, makes a final, non-appealable determination that, or issues a final, non-appealable judgment, order, decree, or ruling to the effect that this Agreement or any material provision of this Agreement or any related document is illegal, invalid, or unenforceable, or enters a final, non-appealable judgment, order, decree, or ruling denying confirmation of an Acceptable Plan, then either the County or JPMorgan may terminate this Agreement by written notice to each other Party.

(e) If the FGIC Rehabilitation Court fails to approve FGIC's execution and performance of the Sewer Warrant Insurer PSA on or before June 28, 2013, or any later date agreed in writing by the County, FGIC, and the FGIC rehabilitator for obtaining such approval, then either the County or JPMorgan may terminate this Agreement by written notice to each other Party.

(f) If the Parties are unable to obtain and implement the Litigation Standstill on or before July 8, 2013, or such later date agreed by the County and JPMorgan in writing (the "Standstill Date"), then JPMorgan or the County may terminate this Agreement by giving written notice identifying which provisions of the Litigation Standstill have not been obtained or implemented to each other Party within fifteen (15) calendar days after the Standstill Date.

(g) If (i) the Litigation Standstill fails to remain in effect after the Standstill Date or (ii) any new potentially materially-prejudicial Litigation is commenced by the County, any Plan Support Party, the Trustee, or any other party against the County, against any Plan Support Party, or against the Trustee after the Standstill Date, then (x) JPMorgan or the County may provide a written notice specifying, with respect to subsection (g)(i), the provisions of the Litigation Standstill that are no longer in effect or, with respect to subsection (g)(ii), the potential material prejudice associated with such new Litigation and, with respect to either such notice, expressing an intent to terminate this Agreement (a "Litigation Termination Notice"). The Litigation Termination Notice must be provided within fifteen (15) calendar days of the discovery (x) by the Party giving such notice provided under subsection (g)(i) of the provisions of the Litigation Standstill that are no longer in effect or (y) of the commencement of the specified new potentially materially-prejudicial Litigation under subsection (g)(ii), as applicable, and if the Litigation Standstill is not reinstated with respect to subsection (g)(i), or a standstill or resolution of the specified new potentially materially-prejudicial Litigation under subsection (g)(ii) satisfactory to the Party giving such notice does not occur within twenty (20) calendar days of the giving of such notice, then JPMorgan or the County, as applicable, may terminate this Agreement by giving a second written notice to each other Party within twenty-five (25) calendar days of the Litigation Termination Notice.

(h) If any of the JPM Parties materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof from the County, then, subject to the JPM Parties' rights under Section 7.2(a), the County may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(i) If the County materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof or within such other period that may be specified elsewhere in this Section 7.1 in the case of any other specified material breach by the County, then JPMorgan may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(j) If JPMorgan materially breaches the GO PSA and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof, then, subject to JPMorgan's rights under Section 7.2(a), the County may terminate this Agreement by giving a

second written notice to each other Party within twenty (20) calendar days of the first written notice.

(k) If the County materially breaches the GO PSA and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof, then JPMorgan may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(l) If the County withdraws, files a motion or pleading to withdraw, or publicly announces its intention not to pursue, an Acceptable Plan, or proposes or files a motion with the Bankruptcy Court seeking approval of a plan that is not an Acceptable Plan, or the County modifies an Acceptable Plan such that it is no longer an Acceptable Plan, and does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then JPMorgan may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(m) If the County files any motion, pleading, and/or disclosure statement that, in the reasonable judgment of JPMorgan, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the JPM Parties under this Agreement, the Plan Term Sheet, or an Acceptable Plan and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from JPMorgan, then JPMorgan, but only if such action adversely affects a right, obligation, or interest of the JPM Parties, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(n) If any of the JPM Parties files any motion or pleading that, in the reasonable judgment of the County, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the County under this Agreement, the Plan Term Sheet, or an Acceptable Plan, and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from the County, then the County may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(o) If the County files any motion, application, or adversary proceeding challenging the validity, enforceability, perfection, or priority of, or seeking avoidance or subordination of, any of the Sewer Warrants, the JPMorgan Sewer Warrant Claims, or the liens under the Indenture (or otherwise) securing the Sewer Warrants or asserting any other cause of action against and/or with respect to the Sewer Warrants or the JPM Parties (or if the County supports any such motion, application, or adversary proceeding commenced by any third party or consents to the standing of any such third party), or if the Bankruptcy Court enters an order granting relief with respect to any of the foregoing claims or causes of action, and the County does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then JPMorgan may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(p) If (i) the Bankruptcy Case is dismissed or (ii) control over the sewer system or sewer rate-setting is reinstated in the receiver appointed by the Alabama state court or any other receiver, then either the County or JPMorgan may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(q) If any of the following deadlines are not satisfied:

(i) the County shall not have filed an Acceptable Plan and Disclosure Statement with the Bankruptcy Court by July 1, 2013, unless such date is extended by JPMorgan in its sole and absolute discretion;

(ii) the Bankruptcy Court shall have failed to enter an order approving the Disclosure Statement by August 30, 2013, unless such date is extended by JPMorgan in its sole and absolute discretion;

(iii) the Bankruptcy Court shall have failed to enter the Confirmation Order by November 25, 2013, unless such date is extended by JPMorgan in its sole and absolute discretion; or

(iv) the Bankruptcy Court shall have failed to enter an order (which may be the Confirmation Order) validating the New Sewer Warrants by November 25, 2013, unless such date is extended by JPMorgan in its sole and absolute discretion;

then, in each case, JPMorgan may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(r) If the Sewer Warrant Insurer PSA shall have been terminated or amended (with respect to provisions thereof that adversely affect a right, obligation, or interest of the JPM Parties, without the written consent of JPMorgan), or is no longer in full force and effect, then either the County or JPMorgan may by written notice to each other Party terminate this Agreement at any time thereafter.

(s) If the Supporting Warrantholder PSA shall have been terminated or amended (with respect to provisions thereof that adversely affect a right, obligation, or interest of the JPM Parties, without the written consent of JPMorgan), or is no longer in full force and effect, then either the County or JPMorgan may by written notice to each other Party terminate this Agreement at any time thereafter.

(t) If the GO PSA shall have been terminated by (i) either the County or JPMorgan, then either the County or JPMorgan may by written notice to each other Party terminate this Agreement at any time thereafter; or (ii) any other party to the GO PSA, then either the County or JPMorgan may terminate this Agreement by giving ten (10) calendar days written notice to each other Party after any such termination of the GO PSA by such other party.

(u) If any condition precedent to confirmation or the Effective Date of an Acceptable Plan is not satisfied, other than occurrence of the Effective Date by the Outside Date,

then either the County or JPMorgan may give written notice of such failure of condition to each other Party and may terminate this Agreement by giving a second written notice to each other Party after the expiration of ten (10) calendar days after such first written notice unless, before the expiration of such ten (10) calendar days, the condition is satisfied or, if waiveable, has been waived in accordance with the terms of such Acceptable Plan.

(v) If the County fails to enter into a closing agreement relating to the Sewer Warrants and the New Sewer Warrants with the Internal Revenue Service in form and substance acceptable to the County and JPMorgan on or prior to September 30, 2013, or such later date as may be agreed in writing by the County and JPMorgan, then either the County or JPMorgan may give a written notice of intent to terminate this Agreement, and if such Party does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice.

(w) If the Effective Date shall not have occurred on or prior to the Outside Date, then this Agreement shall terminate automatically without further required action or notice.

(x) If the County amends the Financing Plan in any material respect without the written approval of JPMorgan and does not rescind such amendment or obtain the written approval of JPMorgan regarding such amendment within fifteen (15) calendar days of receiving written notice concerning any such amendment from JPMorgan (which written notice must be provided by JPMorgan within seven (7) calendar days after the County provides the notice required by Section 4(d)), then JPMorgan may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(y) If not previously terminated in accordance with the provisions hereof, this Agreement shall terminate automatically without further required action or notice upon the Effective Date of an Acceptable Plan.

Each of the foregoing events set forth in subsections (a) through (y) entitling a Party or Parties to terminate or amend this Agreement, as applicable, shall constitute a "Trigger Event."

7.2 Trigger Event Notices.

(a) Each Party receiving a notice asserting that a Trigger Event has occurred may challenge the accuracy or validity of such notice by commencing a proceeding in Bankruptcy Court within seven (7) calendar days of receiving such notice. All Parties consent to an expedited hearing of any such proceeding. For the avoidance of doubt, this Section 7.2(a) shall only apply to Sections 7.1(b)-(d), (f)-(o), and (u), (v), and (x), and a Trigger Event under all other clauses of Section 7.1 will result in termination of this Agreement in accordance with the express terms of the Trigger Event.

(b) The failure of one or more Parties to give a second notice required under Section 7.1 within the time specified for giving such notice (solely to the extent applicable) shall constitute a waiver of the right of such Party or Parties to terminate this Agreement based on the

event specified in the first notice (but shall not constitute a waiver with respect to any future new event). Such a potential waiver shall apply only to Trigger Events in Sections 7.1(b)-(c), (g)-(o), (v), and (x), and not the other Trigger Events in Section 7.1.

(c) Each Party hereby waives any requirement under Bankruptcy Code sections 362 or 922 to lift the automatic stays thereunder for purposes of providing a first or second notice of a Trigger Event or termination of this Agreement (and agrees not to object to any non-breaching Party seeking, if necessary, to lift such automatic stays in connection with the provision of any such notice) or commencing a proceeding in the Bankruptcy Court with respect thereto; *provided, however*, that nothing in this Section 7.2(c) shall prejudice any Party's rights to argue that the notice of a Trigger Event or termination of this Agreement was not proper under the terms of this Agreement.

7.3 Benefits of Termination.

The foregoing Trigger Events are intended solely for the benefit of the specified Parties; *provided, however*, that no Party may terminate this Agreement based upon a breach or a failure of a condition (if any) in this Agreement arising solely out of its own actions or omissions. Other than as contemplated in Section 7.2(b), a Trigger Event may be waived only by the Party for whose benefit such a Trigger Event exists.

7.4 Effect of Termination.

Upon termination of this Agreement in accordance with Section 7.1, the obligations and agreements of each Party under this Agreement (and the Plan Term Sheet) shall terminate and be of no further force and effect other than those obligations and agreements that expressly survive the termination of this Agreement as set forth in Section 8.13; *provided, however*, that any claim for breach of this Agreement shall survive termination and all rights and remedies with respect to such breach shall be neither waived nor prejudiced in any way by any such termination. Upon termination of this Agreement in accordance with Section 7.1 (other than a termination under Section 7.1(y)), any and all ballots with respect to an Acceptable Plan delivered by the JPM Parties prior to such date of termination shall be immediately withdrawn, and such ballots shall be deemed to be null and void for all purposes and shall not be considered or otherwise used in any manner. To the extent that an Acceptable Plan has been confirmed prior to the termination of this Agreement, other than a termination under Section 7.1(y), the Confirmation Order and order approving the Disclosure Statement shall be vacated, the Parties will be restored to their rights as if this Agreement and the Plan Term Sheet were never entered into and all claims and defenses of the Parties (subject to Section 8.10) shall be fully reserved.

Section 8. Miscellaneous Terms.

8.1 Communications.

This Agreement shall not, and shall not be deemed to, impair, prohibit, limit, or restrict the JPM Parties or their respective officers or representatives from engaging in discussions with or among any or all of: the County, any Supporting Warrantholder, any Sewer Warrant Insurer,

any potential or actual underwriter, or any of the foregoing parties' respective officers, representatives, or advisors.

8.2 No Third Party Beneficiaries.

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.

8.3 Effectiveness of Agreement; Savings Clause.

This Agreement shall become effective once duly executed by the County and each of the JPM Parties. Notwithstanding the foregoing, the treatment as set forth in the Plan Term Sheet and under an Acceptable Plan shall become effective only on the Effective Date. If any provision hereof is construed to constitute an agreement to take any step or action that would violate any provision of applicable bankruptcy law or any other applicable law, such provision shall be deemed stricken herefrom and of no force and effect without liability to any of the Parties and without constituting a Trigger Event except as provided in Section 7.1(d), and shall not affect the validity, legality, or enforceability of any other provision of this Agreement.

8.4 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.

8.5 Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ALABAMA, 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 irrevocably consents to service of process by mail at the addresses listed for such Party in Section 8.12 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.

8.6 Complete Agreement; Interpretation; Amendment, Modification and Waiver.

(a) With the exception of the Supporting Warrantholder PSA and the GO PSA, this Agreement (including the Plan Term Sheet), together with all exhibits and schedules attached hereto, constitutes the complete agreement among the Parties with respect to the subject

matter hereof and supersedes all prior agreements, oral or written, between or among the Parties with respect to the subject matter hereof.

(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 not be modified, amended, or supplemented except in a writing signed by the County and the JPM Parties.

(d) Other than waivers contemplated by Section 7.2(b), 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 that waiver 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.

8.7 Specific Performance.

This Agreement is intended as a binding commitment enforceable in accordance with its terms. Each Party acknowledges and agrees that the exact nature and extent of damages resulting from a breach of this Agreement are uncertain at the time of entering into this Agreement and that any such breach of this Agreement would result in damages that would be difficult to determine with certainty. It is understood and agreed that any non-breaching Party shall be entitled to seek specific performance, mandamus, and injunctive relief as its sole remedies for any such breach, 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. Such remedies shall be the exclusive remedies for the breach of this Agreement by any Party.

8.8 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. Delivery of an executed signature page of this Agreement by telecopier or email shall be as effective as delivery of a manually executed signature page of this Agreement. Each Party represents that each individual executing this Agreement on behalf of such Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of such Party.

8.9 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.

8.10 Settlement Discussions.

This Agreement and the Restructuring are part of a proposed settlement of claims and disputes among the Parties and are the product of good faith, arm's length negotiations among the Parties and their respective representatives. Nothing herein shall be deemed an admission of any kind; *provided, however*, that, consistent with the final two sentences of this Section 8.10, this Agreement and the Financing Plan may be admitted for the purposes identified therein. If the transactions contemplated herein are not consummated, or following the termination of this Agreement 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 other than as set forth in the final two sentences of this Section 8.10. 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 or interpret the terms of this Agreement. Subject to any otherwise applicable rules in the Federal Rules of Evidence (other than Federal Rule of Evidence 408), this Agreement and the Financing Plan may be admitted into evidence in any proceeding arising as a result of or in connection with a Party's breach of this Agreement or in which breach of this Agreement is alleged as a relevant fact.

8.11 Successors and Assigns; Severability.

This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors and permitted assigns.

8.12 Notices.

All notices hereunder (including any termination notice), 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@babbc.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 the JPM Parties:

JPMorgan Chase Bank, N.A.
383 Madison Avenue
New York, New York 10179
Attn: William A. Austin
Facsimile: (212) 622-4556
Email: william.a.austin@jpmchase.com

-and-

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017

Attn: Steve M. Fuhrman, Esq.
Facsimile: (212) 455-2502
Email: sfuhrman@stblaw.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. For the avoidance of doubt, any references in this Agreement to a “notice” shall mean a written notice sent in accordance with this Section 8.12.

8.13 Survival.

Notwithstanding any termination of this Agreement pursuant to Section 7.1 hereof, the agreements and obligations of the Parties in Sections 2(e)(iii)(y), 7.3, 7.4, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.9, 8.10, 8.11, 8.12, 8.14, 8.15, 8.16, and this Section 8.13 shall survive such termination and shall continue in full force and effect for the benefit of the Parties in accordance with the terms hereof.

8.14 Inconsistencies.

To the extent there is any inconsistency between any provision of this Agreement and any provision of the Plan Term Sheet, the terms contained within this Agreement (excluding the Plan Term Sheet) shall control; *provided, however*, that to the extent there is any inconsistency between any provision of this Agreement and parts C., D., and E. of the Plan Term Sheet, parts C., D., and E. of the Plan Term Sheet shall control.

8.15 Time Is of the Essence.

Time is of the essence with respect to all dates and deadlines specified in this Agreement.

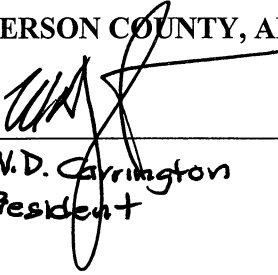
8.16 Use of “Including”.

Whenever this Agreement uses the word “including,” such reference shall be deemed to mean “including, without limitation,”.

[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: Resident

JPMORGAN CHASE BANK, N.A.

By: William A. Austin
Its: Executive Director

JPMORGAN CHASE FUNDING INC.

By: William A. Austin
Its: Authorized Signatory

J.P. MORGAN SECURITIES LLC

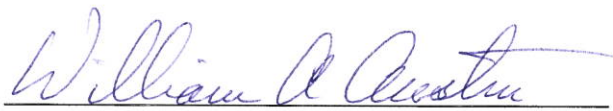
By: William A. Austin
Its: Authorized Signatory

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

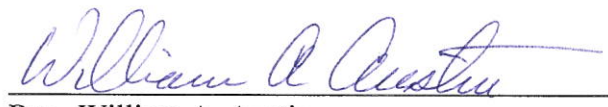
By:
Its:

JPMORGAN CHASE BANK, N.A.



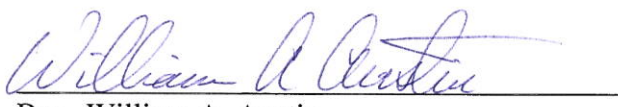
By: William A. Austin
Its: Executive Director

JPMORGAN CHASE FUNDING INC.



By: William A. Austin
Its: Authorized Signatory

J.P. MORGAN SECURITIES LLC



By: William A. Austin
Its: Authorized Signatory

Schedule 1

Sewer Warrants Owned By the JPM Parties

Sewer Warrants¹

| | |
|------------------------|------------------------------|
| Series 2002-C 1 and 5: | \$ 200,750,000 |
| Series 2002-C 2: | \$ 47,711,810 |
| Series 2003-B 1: | \$ 495,455,000 |
| Series 2003-C 1-5: | \$ 373,500,000 |
| Series 2003-C 9-10: | \$ 103,950,000 |
| Total: | \$1,221,366,810 ² |

¹ Principal amount of Sewer Warrants; amounts exclude (i) prepetition default interest and fees (Series 2002-C 2) to be waived on the Effective Date, (ii) accrued and unpaid non-default interest on all Series to be paid on the Effective Date from Accumulated Revenues, (iii) regularly scheduled principal amortization (Series 2003-B 1) to be paid on the Effective Date from Accumulated Revenues, and (iv) swap claims of JPMorgan affiliate to be waived on the Effective Date.

² Total Adjusted Principal Amount estimated to be \$1,218,000,000.

Exhibit A

Plan Term Sheet

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Any transaction is entirely contingent upon the negotiation and execution of definitive documentation, including a chapter 9 plan of adjustment, and satisfaction or waiver of all conditions contained in the definitive documentation, including confirmation of the plan and occurrence of its effective date. This document is not a solicitation or a vote for any proposed plan or a definitive term sheet, but rather memorializes a broad agreement in principle between Jefferson County, Alabama (the "County") and JPMorgan Chase Bank, N. A. (together with any of its affiliates holding sewer system related claims, "JPMorgan") while providing a basis for further discussion regarding the specific details of a plan and related transactions, which details remain subject to further review, comment, and final approval by the County and JPMorgan. Capitalized terms used in this document (that are not otherwise defined herein) are defined in Exhibit A.

A. Conceptual Overview

This document is structured around the following broad concepts:

Through the Plan, the County will achieve more than \$1.3 billion of sewer warrant creditor concessions (the largest of which will be made by JPMorgan), which concessions will substantially reduce the amount of the County's sewer warrant indebtedness (approximately \$3.2 billion of principal and interest as of the County's chapter 9 filing), and the County will issue New Sewer Warrants in an amount sufficient to make distributions to sewer warrant creditors of approximately \$1.835 billion pursuant to the Plan. This document sets forth the treatment that will be provided in the Plan for the sewer related claims affecting JPMorgan, including the concessions by, and the settlement of litigation and release of claims against, JPMorgan, which treatment is only one important component of what would be required for a consensual plan. Any consensual plan, and the agreement in principle between the County and JPMorgan summarized herein, is predicated on the County also reaching satisfactory agreements with the Sewer Warrant Insurers, the Ad Hoc Warrantholders, and any other Plan Support Parties regarding issues that are not fully detailed in this document, as well as with JPMorgan in respect of its non-sewer related claims against the County (which agreement is set forth in that certain *Plan Support Agreement* dated as of May 13, 2013), and the negotiation and execution of additional documentation, all of which that affect the rights of JPMorgan must be satisfactory to JPMorgan and the County.

As part of the global settlement among the County, JPMorgan, and the other Plan Support Parties to be implemented pursuant to the Plan, and in consideration of the settlement and release of all subordination and other claims, causes of action, and avoidance actions (including those arising under the Bankruptcy Code or nonbankruptcy law) against JPMorgan related to the County, the sewer warrants, any financing or other transaction with the County, the sewer system, or any insurance issued in respect of the sewer warrants, including in pending litigation brought by the County and certain Sewer Warrant Insurers, JPMorgan will

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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 JPMorgan and, thereby, 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. As a result of the above-described reallocation and other concessions to be made by JPMorgan to facilitate the various settlements to be implemented pursuant to the Plan and the occurrence of the effective date of the Plan (the "Effective Date"), JPMorgan will ultimately recover under the Plan only approximately 31% (i.e., approximately \$376 million) of its more than \$1.2 billion in Adjusted Principal Amount of sewer warrants (and will also waive more than \$25 million of other sewer related claims), while other holders of sewer warrants will generally be able to choose to recover under the Plan 80% of the Adjusted Principal Amount of their sewer warrants.

The Plan will include a Commutation Election mechanism whereby holders of sewer warrants (including FGIC with respect to the FGIC Assured-Insured Warrants but excluding FGIC with respect to all other Sewer Warrants it holds and excluding the other Sewer Warrant Insurers) may elect or be deemed to elect to commute claims that could be asserted against the Sewer Warrant Insurers under the applicable sewer warrant insurance policies and receive as a result of such election a higher recovery under the Plan. This higher recovery to holders who elect or are deemed to elect to commute such claims shall be funded as part of the JPMorgan reallocation referenced above, as well as through consideration contributed by the Sewer Warrant Insurers by settling and releasing their claims against the County and JPMorgan and allowing their pro rata share of such reallocation by JPMorgan to be made available to other holders as part of the Commutation Election. JPMorgan will be obligated to commute all such insurance claims for no incremental consideration, all other Plan Support Parties other than the Sewer Warrant Insurers (or pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement) will make the Commutation Election, and any holder of sewer warrants that previously commuted the insurance obligations of a Sewer Warrant Insurer to such holder shall remain bound by such prior commutation in accordance with the terms of the applicable agreements. The Commutation Election or deemed Commutation Election will be independent of the holder's vote for or against the Plan.

There will also be broad mutual releases exchanged among the County, JPMorgan, and all the other Plan Support Parties effective upon the Effective Date, including releases of any claims against each other (including on account of any claims under or in connection with any insurance policies issued by the Sewer Warrant Insurers, other than FGIC with respect to the FGIC Assured-Insured Warrants or pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement) and of any claims being asserted by other parties on behalf of the County, but excluding only the obligations imposed under the Plan and obligations unrelated to the County, the County's sewer warrants, and the policies insuring the County's sewer warrants. These releases will be presented as a resolution of disputed claims inextricably bound with the

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Plan pursuant to Federal Rule of Bankruptcy Procedure 9019, and to the extent provided therein, will bind all creditors and other parties in interest (including, without limitation, plaintiffs purporting to assert claims derivatively on the County's behalf, as in pending adversary proceedings). The Plan and form of order confirming the Plan (the "Confirmation Order") will contain injunctions enforcing the releases under the Plan and the Commutation Election.

B. Plan Support Agreements

1. JPMorgan, the other Plan Support Parties, and the County will enter into plan support agreements with respect to the Plan (each, a "Plan Support Agreement" and collectively, the "Plan Support Agreements") on or before June 6, 2013. Each Plan Support Agreement must be in a form acceptable to all the other Plan Support Parties. Subject to applicable bankruptcy law, including approval of a disclosure statement in respect of the Plan by the Bankruptcy Court, the Plan Support Agreements will obligate the County and the Plan Support Parties to use reasonable efforts to have the Effective Date occur on or before the Outside Date. Among other provisions, the Plan Support Agreements will provide for (a) the right of the Plan Support Party or Parties party to such Plan Support Agreement to approve the provisions of the following documents that would potentially affect the rights of the applicable Plan Support Party or Parties: (i) the Plan (and any subsequent amendments thereto), including the releases and injunctions to be incorporated into the Plan and the Confirmation Order, (ii) the order or orders approving the disclosure statement for the Plan and the notice and other procedures for soliciting votes on the Plan and affirmative or deemed elections with respect to the Commutation Election, including the ballots or such other documents that contain the Commutation Election, (iii) the form of the Confirmation Order, and (iv) all other relevant Plan and closing documentation, (b) a stay and standstill of litigation as discussed in paragraph B.2 below, (c) deadlines for approval of the disclosure statement for the Plan (August 30, 2013), confirmation of the Plan (November 25, 2013), and the Effective Date (December 31, 2013), (d) a forbearance as described further in paragraph B.5 below, (e) the obligation of all Plan Support Parties and the County to support the Plan's confirmation and, subject to the approval of a disclosure statement by the Bankruptcy Court, of the Plan Support Parties to vote to accept the Plan, and (f) termination of the Plan Support Agreements upon the occurrence of certain events, including, for example, entry of an order denying confirmation of the Plan, failure of the Effective Date to occur by the Outside Date, failure of the Supreme Court of the State of New York, County of New York sitting in *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012, to approve, no later than June 28, 2013 (or such later date as the County, FGIC, and FGIC's rehabilitator may agree in writing for obtaining such court approval), FGIC's execution and performance of a Plan Support Agreement, and termination or any material amendment of any Plan Support Agreement (the date, if any, on which any Plan Support Agreement is terminated in accordance with its terms being the "Plan Support Termination Date").

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2. Subject to approval of the appropriate courts, the Plan Support Parties and the County will use reasonable efforts to assure that all pending litigation (including appeals) related to the County's sewer warrants and involving any of the County, the Plan Support Parties, and/or the Bank of New York Mellon as Trustee under the Indenture (the "Indenture Trustee"), other than the pending Lehman Brothers claim priority adversary proceeding, will be stayed until (i) compromised, settled, and/or dismissed on terms acceptable to the applicable parties pursuant to, and in consideration of the settlements incorporated into and treatment under, the Plan, or (ii) the Plan Support Termination Date (the "Standstill Period"); *provided, however*, that no party shall be required to incur or become obligated in respect of any material liability or expense to achieve such a standstill. As a part of the standstill of pending litigation and pursuant to a stipulated form of order to effect a standstill in the declaratory judgment action commenced by the Indenture Trustee, Adversary Proceeding No. 13-00019 (the "Declaratory Judgment Action"), the Indenture Trustee and the Plan Support Parties will not present any claims or seek to draw on the wrap policies or the DSRF policies during the Standstill Period. The County and the Plan Support Parties will use reasonable efforts to obtain and implement a litigation stay or standstill of any other litigation involving the Indenture Trustee and/or the Plan Support Parties related to the County's sewer warrants through the Standstill Period. In addition, except as may otherwise be specified in the Plan Support Agreements, each of the County and the Plan Support Parties will agree to a standstill regarding any future litigation vis-à-vis any of each other related to the County's sewer debt through the Standstill Period. As noted above, successfully obtaining and implementing such a litigation stay and standstill through the Standstill Period is a condition to the continued effectiveness of the Plan Support Agreements, provided that such condition may be waived by an agreement in writing of the County and the Plan Support Parties, in their sole discretion (but only the Plan Support Parties party to such litigation or whose rights would adversely be affected thereby in any material respect).

3. The Plan Support Agreement between JPMorgan and the County (the "JPMorgan Plan Support Agreement") will restrict JPMorgan from assigning, selling, or otherwise transferring any sewer warrants or other sewer related claims until the Plan Support Termination Date.

4. The stipulated order to be entered in the Declaratory Judgment Action will provide that sewer revenues will continue to be timely remitted by the County to the Indenture Trustee in accordance with the present practices, but that during the Standstill Period no sewer revenues will be distributed to holders of sewer warrants on account of obligations becoming due on or after February 1, 2013, except (a) under the Plan (see paragraph D.2 below) or (b) until the Plan Support Termination Date. Following any Plan Support Termination Date, all parties' rights shall be reserved and will be determined as if the Plan Support Agreements were never executed.

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5. In furtherance of the Standstill Period with respect to the payment of principal and interest on the sewer warrants otherwise payable on or after February 1, 2013, the Plan Support Agreements executed by Plan Support Parties will include a provision pursuant to which, so long as the Plan Support Termination Date has not occurred, each Plan Support Party, other than the Sewer Warrant Insurers (but including FGIC, with respect to the FGIC Assured-Insured Warrants), will not assert a claim against any Sewer Warrant Insurer, demand payment from any Sewer Warrant Insurer, or institute or prosecute any litigation to obtain payment from any Sewer Warrant Insurer in respect of any insurance policy issued by such Sewer Warrant Insurer insuring such Plan Support Party's sewer warrants, or direct or cause the Trustee to do any of the foregoing; *provided, however*, that nothing in any Plan Support Agreement shall limit any rights of such Plan Support Party to assert that such Plan Support Party, and not such Sewer Warrant Insurer, owns, controls and may exercise all rights against the County related to such sewer warrants (but not with respect to any sewer warrants or other rights held by a Sewer Warrant Insurer as a result of payments made or to be made under any DSRF policy or wrap policy) and to appear in any rehabilitation or other proceeding (including, without limitation, the County's chapter 9 proceeding and FGIC's rehabilitation proceeding) to assert such rights.

6. The JPMorgan Plan Support Agreement will set forth (a) the aggregate consideration from refinancing proceeds and other sources of cash which must be paid to the County's sewer warrant creditors, including JPMorgan and the other Plan Support Parties, and (b) the Financing Plan (as defined below) acceptable in the opinion of the County and JPMorgan to allow the Plan to become effective on the terms set forth in the JPMorgan Plan Support Agreement and the other Plan Support Agreements.

7. By the Commission approving the resolution directing the President of the Commission to execute each Plan Support Agreement, including the JPMorgan Plan Support Agreement, the County shall commit (subject to confirmation of the Plan and the occurrence of the Effective Date, and in accordance with and pursuant to the Plan) to institute future sewer rate modifications in the Approved Rate Schedule, which will be adequate to achieve rate increases of up to 7.41% in each of the first four years after the Effective Date, and up to 3.49% in each year thereafter so long as the New Sewer Warrants remain outstanding, consistent with a financing plan containing assumptions regarding an issuance amount, costs of issuance, issuance proceeds, rate and revenue forecasts, and assumptions concerning elasticity, operating expenditures and capital expenditures, each as presented for consideration and approval by the Commission simultaneously with the Plan Support Agreements (the "Financing Plan"). To the extent the County can issue the New Sewer Warrants, in the amounts required hereunder, by committing to rate increases that are lower than those set forth in the Approved Rate Schedule, the County may do so. In addition, the documents governing the New Sewer Warrants shall contain rate, revenue, and other customary covenants permitting the County, following the Effective Date, to institute sewer rate modifications reducing, or requiring the

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County to institute sewer rate modifications increasing, rates from those set forth in the Approved Rate Schedule, depending on positive or negative variances following the Effective Date from the Financing Plan.

C. Plan Classification And Treatment Of Certain Sewer Debt Claims¹

1. JPMorgan Sewer Related Claims

A. The classification of JPMorgan's sewer related claims will be determined by agreement of the County and JPMorgan. JPMorgan's sewer related claims shall be allowed pursuant to the Plan, and after giving effect to the concessions by JPMorgan and the settlements and releases to be implemented pursuant to the Plan, such claims shall not be subject to any further defense, counterclaim, subordination, or offset of any kind.

B. On account of all of its sewer related claims, and after giving effect to such concessions and the reallocation pursuant to the Plan 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 JPMorgan if the distribution to holders of sewer warrants of proceeds of New Sewer Warrants pursuant to the Plan were made on a pro rata basis, and other concessions to be made by JPMorgan to facilitate the various settlements to be implemented pursuant to the Plan and the occurrence of the Effective Date, JPMorgan shall receive, in full satisfaction, release, and exchange of such sewer related claims, a percentage recovery in cash on the Effective Date from the proceeds of the New Sewer Warrants and other sources of cash equal to approximately 31% (i.e., approximately \$376 million) of the Adjusted Principal Amount of sewer warrants beneficially owned by JPMorgan (approximately \$1.218 billion), plus its pro rata share of the distribution of Accumulated Revenues, and JPMorgan will waive all claims under any sewer related insurance policies, and more than \$25 million in claims on account of default interest on any of its sewer warrants, any claims related to any swap transactions entered into with the County in connection with any sewer warrants, and any sewer related (limited or general obligation) claims for indemnification, reimbursement or contribution on any grounds.

2. General Sewer Warrant Claims

Class 1-A will largely consist of all general, non-insurer held sewer warrant claims and the FGIC Assured-Insured Warrants. Claims in Class 1-A shall be allowed and treated as provided for herein and included in the Plan.

Each holder of an allowed Class 1-A Claim (other than JPMorgan, who will agree to less favorable treatment as described herein, if included in Class 1-A) shall receive, in full

¹ Additional classification issues will be addressed in the final documents, including regarding sewer swap and other subordinated claims.

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satisfaction, release, and exchange of such holder's claims, a minimum Plan distribution of cash from refinancing proceeds and other sources of cash in an amount equal to 65% of the Adjusted Principal Amount of such holder's sewer warrants (such minimum Plan distribution percentage is higher than such holder's pro rata share of such proceeds and other sources of cash as a result of (i) the reallocation of Plan consideration from JPMorgan to holders of Class 1-A Claims) and (ii) consideration provided as a result of the Sewer Warrant Insurers settling and releasing their claims against the County and JPMorgan and allowing their pro rata share of such reallocation by JPMorgan to be made available to other holders, and 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 of cash from refinancing proceeds and other sources of cash in an amount equal to 80% of the Adjusted Principal Amount of such holder's sewer warrants (which amount is inclusive of the above-referenced right to receive a 65% minimum Plan distribution) in full settlement, satisfaction, and release of all of the holder's claims against the County and all the Plan Support Parties (including, without limitation, against the Sewer Warrant Insurers in respect of any insurance policies insuring such holder's sewer warrants, and any claims on account of prepetition default rate interest with respect to such holder's Sewer Warrants); or

Option 2: if such holder does not make or is deemed not to make the Commutation Election, (i) a distribution of cash from refinancing proceeds and other sources of cash in an amount equal to (A) 65% of the Adjusted Principal Amount of such holder's Sewer Warrants and (B) 65% of the allowed amount, if any, of any claims on account of prepetition default rate interest with respect to such holder's Sewer Warrants in full settlement, satisfaction, and release of all of the holder's claims against the County, and (ii) the retention of any rights against the applicable Sewer Warrant Insurer in respect of any wrap policies insuring such holder's sewer warrants which rights shall not be waived or impaired.

The sources of the incremental recovery above 65% to those holders that make the Commutation Election will be from (i) the reallocation of Plan consideration that otherwise would have been distributed to JPMorgan and (ii) consideration provided as a result of the Sewer Warrant Insurers settling and releasing their claims against the County and JPMorgan and allowing their pro rata share of such reallocation by JPMorgan to be made available to other holders.

The Ad Hoc Warrantholders must make the Commutation Election and the election to waive any claims on account of default interest, as applicable. The Ad Hoc Warrantholders will also be compensated from the proceeds of the refinancing transaction for providing a backstop/put to be structured on terms acceptable to the County, the lead underwriter for the issuance of the New Sewer Warrants and the Ad Hoc Warrantholders. Subject to confirmation of the Plan, the occurrence of the Effective Date, approval of the Bankruptcy Court and to such other terms

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and conditions as agreed between JPMorgan and the Ad Hoc Warrantholders, and as material component of the Ad Hoc Warrantholders' agreement to the transactions described in the Plan Support Agreement for the Ad Hoc Warrantholders (including, without limitation, the agreement to waive all insurance and default interest claims, and subject to exceptions to be set forth therein, to restrict transfer of sewer warrants only to parties who agree to become party to and bound by all obligations under the Plan Support Agreement for the Ad Hoc Warrantholders and the backstop/put agreement), which agreement will facilitate the various settlements to be implemented pursuant to the Plan and the occurrence of the Effective Date, JPMorgan has agreed, in addition (and after giving effect) to the above-described reallocation of Plan consideration by JPMorgan to increase the recovery under the Plan by all holders (other than JPMorgan) of sewer warrants and reduce the amount of sewer indebtedness following the County's emergence from chapter 9, to direct the County and the Indenture Trustee (or "paying agent" under the Plan) to reallocate and distribute to the Ad Hoc Warrantholders a portion of the cash recovery on the sewer warrants held by JPMorgan (which reallocation/distribution will be implemented immediately prior to the recovery/distribution to JPMorgan of the amount referenced in paragraph C.1.B. above).

3. Sewer Warrant Insurers Claims

Class 1-B or any separate subclasses thereof that may be agreed to among the County and the Sewer Warrant Insurers will consist of all claims against the County held by the Sewer Warrant Insurers, whatever the origin (including based on sewer warrants now held, claims under any of the DSRF or wrap policies, litigation claims, and all other claims of any nature whatsoever), but excluding (i) the Insurer Outlay Amount (which will be reimbursed from Accumulated Revenues on the Effective Date pursuant to paragraph D.2) and (ii) the FGIC Assured-Insured Warrants.

Claims in Class 1-B shall receive on the Effective Date, in full satisfaction, release, and exchange of all claims of whatever nature:

- A. An aggregate distribution of \$165,000,000 from refinancing proceeds and other sources of cash, which aggregate amount shall be distributed among the Sewer Warrant Insurers in a manner to be agreed among the Sewer Warrant Insurers;
- B. An aggregate distribution in an amount equal to the Non-Commutation True-Up Amount (i.e., the difference between 65% and 80% resulting from any holders not making or not deemed to make the Commutation Election) from refinancing proceeds and other sources of cash, which aggregate amount shall be distributed among the Sewer Warrant Insurers as set forth in the Sewer Warrant Insurer Plan Support Agreement;
- C. An aggregate distribution not to exceed \$25 million on account of the actual Tail Risk; and

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D. An amount to each Sewer Warrant Insurer equal to the aggregate amount, if any, equal to the Insurer Outlay Amount of such Sewer Warrant Insurer, and any other amount to which they are entitled under paragraph D.2. hereof.

On the Effective Date, all DSRF-related agreements will be deemed cancelled and of no further force or effect.

The source of the Non-Commutation True-Up Amount to be paid to the Sewer Warrant Insurers will be from the reallocation of Plan consideration that otherwise would have been distributed to JPMorgan.

D. Certain Other Plan Provisions

1. The County, JPMorgan, and the other Plan Support Parties will grant broad mutual releases to be effective as of the Effective Date as among each of them and their specified "Related Parties" (accountants, affiliates, agents, assigns, attorneys, bankers, consultants, directors, employees, executors, financial advisors, heirs, managers, members, officers, parent entities, partners, principals, professional persons, representatives, shareholders, subsidiaries, and successors, whether past or present) of any claims (including without limitation, the settlement and release of any claim for equitable subordination of any claims of JPMorgan, and the dismissal with prejudice effective on the Effective Date of the pending litigation against JPMorgan and its "Related Parties" filed by the County and by certain Sewer Warrant Insurers) related to the County, any financing or other transaction with the County, the sewer system, or any insurance issued in respect of the sewer warrants, excluding any claims by FGIC against Assured on the wrap policy or policies insuring the FGIC Assured-Insured Warrants and except as provided in Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement. The Plan will also include exculpation provisions in favor of the County, JPMorgan, the other Plan Support Parties, and their respective "Related Parties" to the maximum extent permitted by applicable law.

2. The Plan will provide that, to implement a settlement incorporated into the Plan pursuant to Federal Rule of Bankruptcy Procedure 9019 of any and all claims and matters raised in the Declaratory Judgment Action, and any claims related to the reapplication to principal of any interest payments made on the Sewer Warrants during the chapter 9 case, on the Effective Date, the Insurer Outlay Amount and all non-default rate interest accrued and unpaid as of the Effective Date (without providing for interest on interest) and all principal amounts which have become due and payable prior to the Effective Date (without giving effect to any acceleration or any accelerated redemption schedule) shall be distributed to the applicable parties from the Accumulated Revenues, including on the sewer warrants held by the Plan Support Parties. The Plan will provide that for purposes of distributions under the Plan,

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no payments on the sewer warrants during the chapter 9 case (other than amounts used to repay sewer warrants at maturity or otherwise redeem sewer warrants prior to maturity pursuant to the sewer warrant indenture) shall be applied to reduce principal.

3. The Plan and the Confirmation Order will enjoin the Indenture Trustee and any holders of sewer warrants or any other person from pursuing any right of payment under (i) any DSRF policy (all such DSRF policies will be canceled and terminated on the Effective Date) or (ii) any wrap policy with respect to any warrant holder which made or is deemed to have made the Commutation Election, but shall not enjoin any holders of sewer warrants from pursuing any right of payment under the applicable wrap policy against the applicable Sewer Warrant Insurer, but only with respect to any sewer warrants as to which the holder has not made or has not been deemed to make the Commutation Election (including FGIC with respect to the FGIC Assured-Insured Warrants and pursuant to Section 3(e) of the Ad Hoc Warrant holders' Plan Support Agreement).

4. Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6) and the Confirmation Order, confirmation of the Plan shall be a binding judicial determination that the New Sewer Warrants and the covenants made by the County for the benefit of the holders thereof (including, without limitation, the revenue and rate covenants) 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 special revenues, which validation will be set forth in the Plan and Confirmation Order.

5. Confirmation of the Plan shall constitute a finding that the Approved Rate Schedule complies with the requirements of Bankruptcy Code sections 943(b)(6) and 1129(a)(6). Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6) and the Confirmation Order, confirmation of the Plan shall be a binding judicial determination that the Approved Rate Schedule is appropriate and binding on and specifically enforceable against the County, the County Commission, and all parties in interest in accordance with the Plan, including because such Approved Rate Schedule is a valid provision made to pay or secure payment of the New Sewer Warrants.

6. All right, title, and interest in and to the sewer system will remain with the County and following the Effective Date, the County Commission will continue to govern the County and oversee the sewer system in accordance with the Plan, the County's constituent documents, the Constitution and applicable statutes of the State of Alabama, the 1996 Consent Decree related to the sewer system, and other applicable laws.

7. The Plan and the Confirmation Order will provide for broad retained bankruptcy jurisdiction to the maximum extent permitted by law, which will expressly include any and all controversies, suits, or issues that may arise regarding the validity of any actions

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taken by any person pursuant to or in furtherance of the Plan, including implementation or enforcement of the Approved Rate Schedule, issuance of the New Sewer Warrants, implementation or enforcement of the Commutation Election, and implementation or enforcement of all injunctions or releases associated with the Plan.

8. The County will enter into a backstop/put agreement with the Ad Hoc Warrantholders in respect of certain backstop/put obligations with respect to the New Sewer Warrants in exchange for consideration to be paid on the Effective Date.

9. The Plan and solicitation procedures relating to the Plan will provide that any holder of sewer warrants that votes to accept the Plan will be deemed to have released as of the Effective Date all of such holder's claims against the County, JPMorgan and the other Plan Support Parties, and against their respective "Related Parties" other than any rights of a holder not making the Commutation Election (including FGIC with respect to the FGIC Assured-Insured Warrants and pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement) against the applicable Sewer Warrant Insurer under the applicable wrap policy.

10. The County and JPMorgan acknowledge that the transactions described herein are contingent on implementation of the Financing Plan. The County acknowledges that the Financing Plan contemplates the issuance of New Sewer Warrants to produce net proceeds for distribution to sewer warrant creditors under the Plan of approximately \$1.835 billion, which amount excludes the consideration payable under the backstop/put agreement. Adverse changes in financing markets (including, without limitation, increases in market interest rates) shall not constitute a termination event under the JPMorgan Plan Support Agreement unless the County, in consultation with its financial advisors, determines in good faith that it is not economically possible to implement the Financing Plan without economic modifications (other than as anticipated in the Financing Plan) adverse to the ratepayers or the sewer system in any material respect. For the avoidance of doubt and without limitation, except to the extent necessary to address (i) an up to a 50 basis point increase in borrowing rates (yields) from those set forth in the Financing Plan (a "Market Shift"), (ii) a decline in actual or projected revenues from those set forth in the Financing Plan having an economic effect equivalent to or less than a Market Shift, or (iii) some combination of increased borrowing rates (yields) and a decline in actual or projected revenues, in each case from those set forth in Financing Plan and in the aggregate having an economic effect equivalent to or less than a Market Shift, under no other circumstances shall the County be required to proceed with an Acceptable Plan if in order to issue the New Sewer Warrants, in the amount required thereunder, the County must make any pre-Effective Date upward adjustment in the Approved Rate Schedule.

E. Certain Conditions To The Effective Date

1. The County shall have entered into a settlement agreement with the IRS regarding the pending audit on terms acceptable to the County and the Plan Support Parties;

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provided, however, that if any settlement payment is required to be made to the IRS, such payment shall be payable exclusively from the Indenture Funds, Accumulated Revenues, or gross sewer revenues received by the County; *provided further, however*, that any such settlement payment shall not reduce the aggregate refinancing consideration to be paid to sewer creditors or any other payments described herein to be paid to the Plan Support Parties.

2. The aggregate Tail Risk does not exceed \$25.0 million.

3. The issuance of the New Sewer Warrants has closed (or will close simultaneously with the occurrence of the Effective Date), and the aggregate refinancing and other cash consideration to make the payments to holders of Class 1-A claims (and JPMorgan if not included in Class 1-A) and Class 1-B claims as provided in the Plan Support Agreements (and the Plan) shall be available to the County and shall have been paid under the Plan to the Indenture Trustee or to the applicable Sewer Warrant Insurer for distribution in accordance with the Plan on the Effective Date.

4. All of the settlements and releases contemplated by the Plan shall have been approved pursuant to the Confirmation Order, and the litigation against JPMorgan commenced by the County and certain Sewer Warrant Insurers shall have been (or simultaneously with the occurrence of the Effective Date will be) dismissed with prejudice.

5. The JPMorgan Plan Support Agreement and the other Plan Support Agreements shall remain in full force and effect, and the Effective Date shall occur not later than the Outside Date.

6. The Plan shall have been confirmed by the Confirmation Order (which order shall incorporate the provisions of, and otherwise be materially consistent with, this term sheet and the JPMorgan Plan Support Agreement, and shall be in a form acceptable to the County, JPMorgan, and the other Plan Support Parties to the extent the relevant provisions of the Confirmation Order would affect the rights of the applicable Plan Support Party), the Confirmation Order shall have been entered and not subject to any stay, and all closing documentation shall have been executed and become effective and, to the extent required by the applicable Plan Support Agreement or the Plan, approved by the Plan Support Parties.

The Plan will provide that the conditions to the Effective Date cannot be waived or modified except upon written agreement of the County and any Plan Support Party that is affected by the subject condition.

F. Certain Additional Matters

1. Except as otherwise specified herein, all existing Indenture Funds (both disputed and undisputed) and all Accumulated Revenues remaining after payment of the amounts required in paragraph D.2, will, along with the refinancing proceeds, be used to satisfy

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the County's obligations under the Plan. In addition, but only to the extent that doing so does not diminish or reduce the payments to be made to JPMorgan or the other sewer creditors under the Plan, an amount equal to the aggregate balance of the available Indenture Funds and Accumulated Revenues remaining after payment of the amounts required in paragraph D.2, will be used to fund a debt service reserve fund under the new indenture for the New Sewer Warrants and additional proceeds of the New Sewer Warrants after such Plan payments will be utilized to top off a reserve account at 10% of outstanding principal of the New Sewer Warrants, provided that such reserve shall not diminish or reduce the payments to be made to JPMorgan or the other sewer creditors under the Plan. Until the earlier of (A) the Effective Date, or (B) the Plan Support Termination Date, and notwithstanding any ruling by the Bankruptcy Court which may authorize any other payments, the Indenture Funds may be used only to pay (i) reasonable capital expenditures associated with the sewer system from the following accounts at Regions Bank: Account Number 1020003424, Account Number 1020004735, and Account Number 1020003460; and (ii) the reasonable fees and costs of the Indenture Trustee to the extent permitted to be paid under the sewer warrant indenture.

2. The County will file a motion (to be heard prior to or contemporaneously with the confirmation hearing regarding the Plan) 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 the New Sewer Warrants, the incurrence of any underwriting fees to be paid at closing, and the incurrence of the backstop/put obligations. In such motion, the County will further seek a ruling 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. The form of such motion and proposed order thereon shall be acceptable to each of the Plan Support Parties.

3. To the extent necessary to implement any provision of the Plan or any related transactions, the County shall provide its consent for purposes of Bankruptcy Code section 904.

4. Costs of issuance with respect to the New Sewer Warrants, including work of the County's bond counsel relating to such issuance, will be paid from the gross proceeds of the issuance of the New Sewer Warrants.

5. Whenever this term sheet provides that any party has the "right to approve" a document or that a document must be "acceptable" or "satisfactory" to a party, such requirement shall in each case be subject to a reasonableness qualifier; *provided, however*, that the Plan must in all events contain the terms set forth herein and in the JPM Plan Support Agreement and the other Plan Support Agreements.

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Exhibit A

Certain Key Defined Terms

“Accumulated Revenues” mean all system revenues that are deposited and retained by the Indenture Trustee in either the “Jefferson County Sewer System Revenue Account” or the “Jefferson County Sewer System Debt Service Fund” as of and after January 31, 2013, and through the Effective Date.

“Ad Hoc Warrantholders” means those Plan Support Parties advised by Kramer Levin Naftalis & Frankel LLP, Tanner & Guin, LLC, and GLC Advisors & Co., which holders own, or advise accounts that own, in the aggregate approximately \$872 million principal amount of sewer warrants as of the date of the Ad Hoc Warrantholders’ Plan Support Agreement.

“Adjusted Principal Amount” means the amount of principal considered to be outstanding on the sewer warrants as of January 31, 2013, based upon the records maintained by the Indenture Trustee, less payments to be made on the Effective Date from the Accumulated Revenues as set forth in paragraph D.2. The Adjusted Principal Amount is anticipated to be approximately \$3.078 billion.

“Approved Rate Schedule” means the structure of rates to be charged by the County to support the repayment of the New Sewer Warrants, which structure of rates shall be approved by the Bankruptcy Court pursuant to the Plan and the Confirmation Order.

“Commutation Election” means an election or deemed election by a holder of sewer warrants to commute, waive, and forever release and forego (i) any rights 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 related policy or policies, (ii) any claims on account of prepetition default rate interest, and (iii) any other claims or causes of action against the County or against any of the Plan Support Parties.

“FGIC Assured-Insured Warrants” means Series 2003-B-8 Sewer Warrants in the principal amount of \$6,000,000 insured by one or more wrap policies issued by Assured, and held by FGIC as an investment.

“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 Indenture Trustee has property rights in, or a lien on, such fund or account (including in Adversary Proceeding No. 12-00067).

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“Insurer Outlay Amount” means a sum equal to the amount of any payments made by any of the Sewer Warrant Insurers to or for the benefit of holders of sewer warrants under the applicable insurance policy or policies on or after February 1, 2013 and through the Effective Date, plus interest on the principal portion of such payments, calculated at the warrant rate, i.e., 5.25% on the fixed rate warrants and two (2) times the one month LIBOR rate on the auction rate warrants. For the avoidance of doubt, no additional interest will be paid on the portion of such payments related to warrant interest.

“New Sewer Warrants” means new sewer warrants to be issued pursuant to the Plan by the County.

“Non-Commutation True-Up Amount” means an aggregate amount equal to, with respect to each sewer warrant held by a person that elects to not make or is not deemed to make the Commutation Election, the difference between (i) 80% of the Adjusted Principal Amount of such sewer warrant, and (ii) 65% of the Adjusted Principal Amount of such sewer warrant.

“Outside Date” means December 31, 2013, or such later date as may be agreed in writing by the County and JPMorgan, in their respective sole discretion.

“Plan” means a plan of adjustment containing the terms set forth herein, in the JPMorgan Plan Support Agreement, the other Plan Support Agreements and other terms acceptable to the County and JPMorgan, including in respect of the consensual allowance and treatment under the Plan of the claims of JPMorgan against the County, and in consideration of such treatment, the settlement and release of all subordination and other claims, causes of action and avoidance actions (including those arising under the Bankruptcy Code or nonbankruptcy law) against JPMorgan related to the County, any financing or other transaction with the County, the sewer system, the sewer warrants or any insurance issued in respect of the sewer warrants, including any such claims, causes of action and avoidance actions of the County (including without limitation, claims asserted derivatively on behalf of the County, as in pending adversary proceedings), the Sewer Warrant Insurers or other holders of claims against the County, and the dismissal with prejudice of all pending litigation involving JPMorgan related thereto.

“Plan Support Parties” means, collectively, JPMorgan, the Ad Hoc Warrantholders, the Sewer Warrant Insurers, and any additional sewer warrant holder that executes a Plan Support Agreement.

“Sewer Warrant Insurers” means, collectively, Assured, FGIC, and Syncora.

“Tail Risk” means the claim exposure of each of the Sewer Warrant Insurers under the wrap policies that remains after the Effective Date (after giving effect to the payments set forth in paragraph C.3. under the Plan to sewer creditors on the Effective Date and the County’s

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payment of the Non-Commutation True-Up Amount) based upon the aggregate amount of the sewer warrants held by holders that (i) elect to not make or are not deemed to make the Commutation Election, or (ii) hold Series 2003-C-9 or 2003-C-10 sewer warrants insured by Assured, and 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, which exposure will be agreed by the Sewer Warrant Insurers with the County.

Exhibit B

Form of Sewer Warrant Insurer PSA

[EXHIBIT INTENTIONALLY OMITTED]

Exhibit C

Form of Supporting Warrantholder PSA

[EXHIBIT INTENTIONALLY OMITTED]

PLAN SUPPORT AGREEMENT

THIS PLAN SUPPORT AGREEMENT DOES NOT CONSTITUTE A VOTE TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN OR A SOLICITATION OF VOTES TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN; ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED OR MADE UNTIL THE BANKRUPTCY COURT APPROVES A DISCLOSURE STATEMENT RESPECTING A PLAN

This PLAN SUPPORT AGREEMENT (as it may be amended or supplemented from time to time in accordance with the terms hereof, and collectively with each of the exhibits and schedules attached hereto, including the plan term sheet attached hereto as **Exhibit A** (the “**Plan Term Sheet**”), which are expressly incorporated herein by reference, this “**Agreement**”), dated as of June 6, 2013, is made and entered into by and among (i) Jefferson County, Alabama (the “**County**”); (ii) each holder of Sewer Warrants signatory hereto (as further defined below, including those holders that become party hereto by signing a Transfer Agreement (as defined below), the “**Supporting Warrantholders**”); and (iii) JPMorgan Chase Bank, N.A. (“**JPMorgan**”). Each of the Supporting Warrantholders, JPMorgan, and the County are referred to herein as a “**Party**” and collectively as the “**Parties**.” Any capitalized term used but not defined in this Agreement shall have the meaning ascribed to that term in the Plan Term Sheet. The Plan Term Sheet constitutes an integral part of this Agreement.

RECITALS

WHEREAS, pursuant to a Trust Indenture, dated as of February 1, 1997 (as supplemented by eleven supplemental indentures through the date hereof, the “**Indenture**”), between the County and The Bank of New York Mellon, as indenture trustee and successor to AmSouth Bank of Alabama (in such capacity, the “**Trustee**”), the County issued approximately \$3.6 billion principal amount of warrants secured by the net revenues of the County’s sewer system (the “**Sewer Warrants**”);

WHEREAS, in connection with the issuance of certain series of the Sewer Warrants, the County entered into a series of standby warrant purchase agreements (each a “**Standby Agreement**”);

WHEREAS, on November 9, 2011, the County filed a 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 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 and, in the case of JPMorgan and the County, in the JPMorgan PSA (as defined below), each Party has agreed to support and implement a restructuring transaction in accordance with the terms and conditions of the Plan Term Sheet and this Agreement (the “**Restructuring**”) pursuant to an Acceptable Plan (as defined below);

WHEREAS, the County and JPMorgan are contemporaneously entering into a separate plan support agreement (the “JPMorgan PSA”) and JPMorgan is a party to this Agreement to give effect to the agreement between JPMorgan and the Supporting Warrantholders set forth in Section 5 hereof;

WHEREAS, the County is contemporaneously entering into a plan support agreement (the “Sewer Warrant Insurer PSA”) with Assured Guaranty Municipal Corp., as successor to Financial Security Assurance, Inc. (“Assured”), Financial Guaranty Insurance Company (“FGIC”), and Syncora Guarantee Inc., f/k/a XL Capital Assurance Inc. (“Syncora”), each of which is referred to as a “Sewer Warrant Insurer” and collectively with the Supporting Warrantholders and JPMorgan are the “Plan Support Parties”;

WHEREAS, in expressing such support and commitment, the Parties recognize that this Agreement is subject to and limited by the solicitation requirements of applicable bankruptcy law;

NOW, THEREFORE, in consideration of the foregoing and the promises, 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. Restructuring and Plan Support.

(a) The County shall 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, this Agreement and the Plan Term Sheet (an “Acceptable Plan”) and to meet the deadlines set forth in Section 8.1(o) hereof. The County shall exercise all reasonable efforts to obtain required regulatory and/or third-party approvals, if any, necessary to consummate the Restructuring.

(b) The County shall provide to the Ad Hoc Professionals and counsel to JPMorgan draft copies of all pleadings and documents related to any Acceptable Plan, the Restructuring, or any of the transactions contemplated thereby as soon as reasonably practicable with reasonable time to review and comment prior to the filing of same with the applicable court. The Ad Hoc Professionals and counsel to JPMorgan will review and provide any comments on all draft pleadings and documents as soon as reasonably practicable with reasonable time for the County to consider and address any comments. Each Party will cooperate, negotiate, and otherwise work with each other Party in good faith to ensure that such pleadings and documents (including any amendments thereto), including an Acceptable Plan, a disclosure statement for an Acceptable Plan (the “Disclosure Statement”), the Backstop/Put Agreement, and an order confirming an Acceptable Plan (the “Confirmation Order”), incorporate the provisions of, and are otherwise materially consistent with, this Agreement and acceptable to the Parties.

(c) The County shall not take any action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, 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.

(d) The County shall 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.

(e) Each of the Supporting Warrantholders shall (i) use all reasonable efforts to support confirmation of an Acceptable Plan; (ii) subject to Bankruptcy Code sections 1125 and 1126, vote all Sewer Warrants it holds as of the date hereof or may hereafter acquire (the “Covered Sewer Warrants,” including those Sewer Warrants held as of the date hereof and set forth opposite its name on Schedule 1 (the “Eligible Sewer Warrants”)) to accept an Acceptable Plan (through submission of a ballot directly to the County’s balloting agent to the extent so permitted by the solicitation procedures order or to its prime broker or nominee holder, as applicable, in either case with a copy to the County and JPMorgan) on or before the day that is twenty-one (21) calendar days prior to the deadline set by the Bankruptcy Court for voting on an Acceptable Plan (as confirmed in writing by the County once determined, the “Ballot Submission Deadline”) and not change or withdraw (or cause to be changed or withdrawn) such vote except pursuant to Section 8.4; (iii) make the election described in Section 3[b] of the Plan Term Sheet with respect to all Covered Sewer Warrants as of the Ballot Submission Deadline contemporaneously with the vote to accept an Acceptable Plan (except to the extent provided in Section 3(e)); and (iv) subject to the occurrence of the Effective Date of an Acceptable Plan, provide a release of the County and all other Plan Support Parties of all claims arising under or in connection with the Covered Sewer Warrants (including providing releases as contemplated by the Plan Term Sheet) (except to the extent provided in Section 3(e)). For the avoidance of doubt, such releases shall not release any rights of the Supporting Warrantholders (x) vis-à-vis each other to the extent not released in or reserved in any agreement among the Supporting Warrantholders, or (y) under an Acceptable Plan. Also for the avoidance of doubt, Covered Sewer Warrants shall not include any Sewer Warrants that are acquired after the date hereof in a fiduciary, agency, or other representative capacity for third-party customers, clients, or accountholders for which such Supporting Warrantholder does not have the power to bind (“Fiduciary Sewer Warrants”).

(f) No Party will contest any other Party’s ability to appear as a party-in-interest in any matter to be adjudicated in the Bankruptcy Case if such appearance and the positions advocated in connection therewith (i) are not inconsistent with this Agreement, and are not for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; or (ii) are for the purposes of contesting whether any matter, fact, or thing, is a breach of, or inconsistent with, this Agreement or to otherwise enforce this Agreement.

(g) Each Supporting Warrantholder confirms its intention to purchase a portion of the offering of New Sewer Warrants to the extent necessary and as contemplated in the Plan Term Sheet, subject to execution of a Backstop/Put Agreement containing terms and conditions acceptable to such Supporting Warrantholder and the County (including agreement concerning the terms of the indenture for the New Sewer Warrants), with commitments to be allocated among the Supporting Warrantholders on a pro rata basis based upon the Supporting

Warrantholders' holdings of Eligible Sewer Warrants or on other terms acceptable to each Supporting Warrantholder and the County.

(h) This Agreement is not and shall not be deemed to be a solicitation of or votes for the acceptance or rejection of any chapter 9 plan for the purposes of Bankruptcy Code sections 1125 and 1126 or otherwise. There will be no solicitation of acceptances of the Supporting Warrantholders or any other creditors with respect to an Acceptable Plan until such parties have received the Disclosure Statement, any supplements thereto and related ballot, in each case as approved by the Bankruptcy Court, and in each case in accordance with the Bankruptcy Code and negotiated consistent with Section 1(b). 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.

(i) At any time, a Supporting Warrantholder shall be required to comply with the terms of this Agreement with respect to Covered Sewer Warrants it holds at such time, and not with respect to Sewer Warrants that it has transferred in accordance with Section 3.

(j) Whenever this Agreement provides that any Party has the "right to approve" a document or that a document must be "acceptable" or "satisfactory" to a Party, such requirement shall in each case be subject to a reasonableness qualifier; *provided, however*, that the Acceptable Plan must in all events incorporate the provisions which are stated in this Agreement and the Plan Term Sheet to be included in an Acceptable Plan.

Section 2. Litigation Standstill.

(a) For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Litigation" shall mean any litigation that is related to the County, the Bankruptcy Case, the Sewer Warrants (including any financing or other transactions entered into in connection therewith), or insurance issued in respect of the Sewer Warrants (in each case, whether pending before the Bankruptcy Court or before any other court), but excluding (v) any litigation to enforce, interpret, or implement this Agreement, an Acceptable Plan, the Restructuring, or any document executed in connection therewith; (w) the pending adversary proceeding concerning the priority of the Lehman Brothers swap claim, Adv. Proc. No. 12-00149-TBB; (x) the FGIC rehabilitation proceeding, except for any actions taken in the FGIC rehabilitation proceeding for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; (y) any litigation involving any dispute between a holder of Sewer Warrants (or the Trustee) and a Sewer Warrant Insurer (including litigation in the FGIC rehabilitation proceeding) concerning the rights of such holder as compared to any Sewer Warrant Insurer, with respect to who owns, controls, and may exercise all rights arising out of or in connection with Sewer Warrants that are beneficially owned by such holder and insured by such Sewer Warrant Insurer (but not with respect to any Sewer Warrants or other rights held by any of the Sewer Warrant Insurers as a result of payments made or to be made under any insurance policy); and (z) any litigation permitted by Section 1(f).

(ii) “Reasonable Steps” for purposes of this Agreement shall mean, in furtherance of a suspension or standstill of all Litigation pending on the date hereof that is satisfactory to all the Parties (the “Litigation Standstill,” which for the avoidance of doubt will include the Stipulated Order (as defined below)), providing all reasonable support to the County in prosecuting a motion in the Bankruptcy Court for appropriate relief to achieve such Litigation Standstill, but shall exclude (x) any obligation of any Party to cause any person to take any actions which it is not permitted to take under applicable law or by contract; and (y) any action (or inaction), including commencing or continuing any action in the Bankruptcy Court or other court, that could (in the reasonable judgment of any Party) expose any such Party to liability (contingent or otherwise) or unreimbursed material expense.

(b) The County and each Supporting Warrantholder agrees that it shall (i) not commence any new Litigation against any other Party or any other Plan Support Party and shall not prosecute and shall exercise all reasonable efforts to suspend any existing Litigation against any other Party or any other Plan Support Party and (ii) in connection with any such Litigation, take no action inconsistent with the Restructuring contemplated by this Agreement and an Acceptable Plan; *provided, however*, that no action, matter, or proceeding excluded from the definition of Litigation in Section 2(a)(i) shall be or shall be deemed to be an action inconsistent with the Restructuring or an Acceptable Plan.

(c) Each Supporting Warrantholder shall, with respect to all Sewer Warrants held by it, shall take Reasonable Steps to obtain and implement the Litigation Standstill that will remain in effect until the earlier of (x) the Effective Date of an Acceptable Plan or (y) termination of this Agreement in accordance with Section 8.

(d) So long as none of this Agreement, the JPMorgan PSA, or the Sewer Warrant Insurer PSA has been terminated, each Supporting Warrantholder shall not assert a claim against any Sewer Warrant Insurer, demand payment from any Sewer Warrant Insurer, or institute or prosecute any Litigation to obtain payment from any Sewer Warrant Insurer in respect of any insurance policy issued by such Sewer Warrant Insurer insuring such Supporting Warrantholder’s Covered Sewer Warrants, or direct or cause the Trustee to do any of the foregoing; *provided, however*, that nothing herein shall limit the rights of such Supporting Warrantholder to take action excluded from the definition of Litigation in Section 2(a)(i)(x) or (y).

(e) As part of the Litigation Standstill, without modifying the Indenture, any Standby Agreement, or any insurance policy with respect to any Sewer Warrants, pursuant to a stipulated form of order acceptable to the County and the Majority Eligible Warrantholders (as defined below) (the “Stipulated Order”) to effect a standstill or suspension of the adversary proceeding commenced by the Trustee against the County, Syncora, and Assured 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 (the “Declaratory Judgment Action”), (i) the County will continue to pay to the Trustee on a monthly basis net revenues of the County’s sewer system (without deducting any additional amounts that may be subject to deduction as “Operating Expenses” under the Indenture as a result of any ruling by the Bankruptcy Court regarding pending disputes about actually incurred professional fees in Adv. Proc. No. 12-00016-TBB); (ii) the Trustee will not, and the Plan Support Parties will not direct or cause the

Trustee to, present any claims or seek to draw on any insurance policy with respect to any Sewer Warrants; and (iii) the Trustee shall not distribute such sewer revenues to the holders of Sewer Warrants on account of obligations becoming due on or after February 1, 2013, in each case of Section 2(e)(i)-(iii), until the earlier of (x) the Effective Date, at which time distributions will be made pursuant to an Acceptable Plan as set forth in the Plan Term Sheet; and (y) the date of the termination of this Agreement in accordance with Section 8 of the Agreement, other than under Section 8(w) of this Agreement, after which the Parties' rights shall be reserved and determined as if this Agreement and Plan Term Sheet had never been executed.

Section 3. Ownership; Transfers of Sewer Warrants.

(a) Except as otherwise provided, permitted, or exempted in this Section 3, each Supporting Warrantholder, severally, and not jointly, represents, warrants, and covenants that:

(i) such Supporting Warrantholder is the owner of, or advises the accounts that own, the Eligible Sewer Warrants set forth opposite its name on Schedule 1 hereto, and has and shall maintain the power and authority to bind all the legal and beneficial owner(s) of such Eligible Sewer Warrants to the terms of this Agreement;

(ii) such Supporting Warrantholder (a) has and shall maintain full power and authority to execute and deliver its signature page(s) to this Agreement and, subject to Bankruptcy Code sections 1125 and 1126, to vote its Eligible Sewer Warrants to accept an Acceptable Plan or (b) has received an irrevocable direction from the party having full power and authority, subject to Bankruptcy Code sections 1125 and 1126, to vote its Eligible Sewer Warrants and execute and deliver its signature page(s) to this Agreement;

(iii) none of the Eligible Sewer Warrants constitute Fiduciary Sewer Warrants;

(iv) other than as permitted under this Agreement, its Eligible Sewer Warrants are and shall continue to be free and clear of any pledge, lien, security interest, charge, claim, equity, option, proxy, voting restriction, right of first refusal or other limitation on disposition, or encumbrances of any kind, that would adversely affect in any way such Supporting Warrantholder's performance of its obligations under this Agreement at the time such obligations are required to be performed; and

(v) such Supporting Warrantholder has made no prior Transfer (as defined below), and has not entered into any other agreement to assign, sell, participate, grant, convey or otherwise transfer, in whole or in part, any portion of its right, title, or interest in any Eligible Sewer Warrants held by such Supporting Warrantholder as of the date hereof that are inconsistent with, or in violation of, the representations and warranties of such Supporting Warrantholder herein, in violation of its obligations under this Agreement or that would adversely affect in any way such Supporting Warrantholder's performance of its obligations under this Agreement at the time such obligations are required to be performed.

(b) Each Supporting Warrantholder individually covenants that, from the date hereof until the termination of this Agreement, it will not sell, pledge, hypothecate, or otherwise

transfer, assign or dispose of any of its Eligible Sewer Warrants, or grant any option, right to acquire, or voting, participation, or other interest therein to any person or entity (any such transfer, disposition, or grant, a “Transfer”), except (x) to another Supporting Warrantholder (and any such Eligible Sewer Warrants so transferred shall remain Eligible Sewer Warrants) or (y) to a person or entity (a “Transferee”) that as a condition to such Transfer executes and delivers to the County at least three (3) Business Days prior to the settlement of such Transfer an agreement in writing substantially in the form of Exhibit B-1 hereto (a “Transfer Agreement”), pursuant to which such Transferee agrees (i) to become a party to and be bound by all terms of this Agreement applicable to a Supporting Warrantholder as if such Transferee were an original signatory hereto; (ii) to become a party to and be bound by the Backstop/Put Agreement, to the extent such transferring Supporting Warrantholder was so bound in respect of the Eligible Sewer Warrants that are the subject of the Transfer; and (iii) to retain the same counsel and financial advisor that, at the time of the Transfer, are retained by Supporting Warrantholders holding at least a majority of the Eligible Sewer Warrants (the “Majority Eligible Warrantholders”) through appropriate retention documentation with respect to matters concerning the Sewer Warrants or to otherwise abide by the decisions of the Majority Eligible Warrantholders. “Business Day” means any day other than a Saturday, a Sunday, a “legal holiday” (as defined in Federal Rule of Bankruptcy Procedure 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. For the avoidance of doubt, a Supporting Warrantholder’s rights and obligations under this Agreement and the Backstop/Put Agreement (if any) may not be transferred separately and must be transferred together.

(c) Notwithstanding Section 3(b), if a Transferee is a Qualified Marketmaker, then the Supporting Warrantholder making the Transfer shall cause such Transferee to execute and deliver to the County at least three (3) Business Days prior to the settlement of such Transfer a Marketmaker Transfer Agreement substantially in the form of Exhibit B-2 hereto and such Qualified Marketmaker shall cause any subsequent Transferee to execute a Transfer Agreement in the form of Exhibit B-1, to the extent such subsequent Transferee is not a Qualified Marketmaker or a Transfer Agreement substantially in the form of Exhibit B-2 to the extent such Transferee is a Qualified Marketmaker. “Qualified Marketmaker” means an entity that (x) holds itself out to the public or the applicable private markets as standing ready in the ordinary course of business to purchase from customers and sell to customers Sewer Warrants issued by the County or other claims against the County, or enter with customers into positions in Sewer Warrants issued by the County or other claims against the County, in either case in its capacity as a dealer or market maker in Sewer Warrants or other claims against the County; and (y) is in fact regularly in the business of making a market in claims against issuers or borrowers.

(d) This Agreement shall not be construed to preclude any Supporting Warrantholder from acquiring additional Sewer Warrants; *provided, however*, that any additional Sewer Warrants acquired by such Supporting Warrantholder (i) shall be Covered Sewer Warrants but (ii) shall not be Eligible Sewer Warrants unless such warrants were, initially, Eligible Sewer Warrants. For the avoidance of doubt, a Transfer of Covered Sewer Warrants that are not Eligible Sewer Warrants (“Excess Sewer Warrants”) shall not be subject to the transfer restrictions contained in this Section 3 other than during the Excess Warrant Restriction Period (as defined below); *provided, further, however*, that for so long as a Supporting

Warrantholder owns Covered Sewer Warrants, it must otherwise comply with all obligations under this Agreement with respect to such Covered Sewer Warrants.

(e) Notwithstanding anything to the contrary herein, to the extent that Excess Sewer Warrants consist of Sewer Warrants in Series 2003-B-8 with a CUSIP# 472682MP5, 472682MQ3, 472682MR1, or 472682MS9 (“Exempt Excess Sewer Warrants”), the relevant Supporting Warrantholder, solely with respect to such Exempt Excess Sewer Warrants, shall not be required (i) to elect to waive claims under any wrap insurance policy for such Excess Sewer Warrants in accordance with the terms of this Agreement or (ii) to otherwise comply with the restrictions on transfer in Section 3; *provided, however*, that to the extent that a Supporting Warrantholder who is an original signatory to this Agreement holds any Exempt Excess Sewer Warrants on the Ballot Submission Deadline, such Party shall elect to waive claims under any wrap insurance policy for such Excess Sewer Warrants in accordance with the terms of this Agreement.

(f) Notwithstanding Section 3(d), for the period beginning on the date on which the Disclosure Statement is approved by the Bankruptcy Court and continuing through and including the date(s) on which a confirmation hearing for an Acceptable Plan is held (the “Excess Warrant Restriction Period”), the Transfer of any Excess Sewer Warrants held by a Supporting Warrantholder or any option, right to acquire, or voting, participation, or other interest therein to any person or entity may be completed only in accordance with Section 3(b) and (c), as though such Excess Sewer Warrants were Eligible Sewer Warrants. On the first date of the Excess Warrant Restriction Period, each Supporting Warrantholder shall provide an update of the relevant portion of Schedule 1 showing such Party’s holdings of Covered Sewer Warrants (including both Eligible Sewer Warrants and Excess Sewer Warrants) to the County and JPMorgan. For the avoidance of doubt, other than during the Excess Warrant Restriction Period, any transfer of Excess Sewer Warrants may be completed without complying with the requirements for Transfers of Eligible Sewer Warrants in Section 3(b) and (c).

(g) No Supporting Warrantholder will create or use any subsidiary or affiliate to evade or attempt to evade the transfer restrictions set forth in this Section 3 or any other obligations set forth in this Agreement. Any attempt by any Supporting Warrantholder to transfer any Sewer Warrants or related rights or interests therein other than in compliance with this Section 3 shall be deemed ineffective, including with regard to any right to accept or reject an Acceptable Plan or the Restructuring, and shall be deemed void *ab initio*. Upon completion of a Transfer in compliance with this Section 3, the transferor shall be deemed to relinquish its rights (and be released from its obligations) under this Agreement to the extent of such transferred Covered Sewer Warrants (and relinquished rights and released obligations).

Section 4. Additional County Covenants and Determinations.

(a) The County shall increase the amount payable in part [b] of Section 3 of the Plan Term Sheet in respect of the Covered Sewer Warrants to the extent and in the amount that distributions made generally available from the County to holders of Other Warrants (including in respect of the Covered Sewer Warrants) are increased.

(b) The County represents that as of the date of the County's execution hereof, the County has determined in good faith that based on the Financing Plan, an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an Acceptable Plan as set forth in the Plan Term Sheet. The County agrees that it shall further represent that (i) as of the date on which the Disclosure Statement is approved by the Bankruptcy Court, and (ii) as of the date on which a confirmation hearing begins with respect to an Acceptable Plan, the County in each case has still determined in good faith that based on the Financing Plan (as it may have been amended prior to each such date in accordance with the terms of this Agreement), an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an Acceptable Plan as set forth in the Plan Term Sheet. The County agrees that an Acceptable Plan will provide that the aggregate consideration from issuance of New Sewer Warrants and other sources of cash to be paid under an Acceptable Plan to the Sewer Warrant creditors (including the Supporting Warrantholders and the other Plan Support Parties) shall be approximately \$1.835 billion, plus the distribution of the Reinstated Interest Payments and Reinstated Principal Payments pursuant to an Acceptable Plan as set forth in the Plan Term Sheet, plus the premium payable under the Backstop/Put Agreement.

(c) The County shall provide written notice to the Supporting Warrantholders and to JPMorgan (in the case of the Sewer Warrant Insurer PSA) of any termination of, amendment to, or written notice of potential termination of the JPMorgan PSA or to the Sewer Warrant Insurer PSA within one (1) business day of any such termination, amendment, or written notice. The written notice that the County must provide to the Supporting Warrantholders and to JPMorgan under the immediately preceding sentence shall include a copy of any applicable amendment, notice of termination, or notice of potential termination.

(d) The County shall provide written notice to the Supporting Warrantholders and to JPMorgan of any amendment to the Financing Plan within one (1) business day of any such amendment, which written notice shall include a copy of any such amendment. The County represents that any amendment to the Financing Plan shall be a publicly available document.

(e) The County represents that the Sewer Warrant Insurer PSA and the JPMorgan PSA have been executed and delivered contemporaneously with the execution and delivery of this Agreement by all parties thereto in the forms attached as **Exhibit C** and **Exhibit D**.

Section 5. Agreements Between the Supporting Warrantholders and JPMorgan.

As a material component of the Supporting Warrantholders' agreement to the transactions described in this Agreement and the Restructuring:

(a) In order to facilitate the various settlements to be implemented pursuant to an Acceptable Plan and the occurrence of the Effective Date, each Supporting Warrantholder hereby agrees (i) subject to Bankruptcy Code sections 1125 and 1126, to elect by the Ballot Submission Deadline the treatment under an Acceptable Plan set forth in Section 3[b] of the Plan Term Sheet in respect of all of its Covered Sewer Warrants (except to the extent provided in Section 3(e)); (ii) conditioned upon and effective as of the Effective Date, (A) to release each

Sewer Warrant Insurer from any claims it may have arising out of or relating to any insurance policies relating to its Covered Sewer Warrants (except to the extent provided in Section 3(e)), and (B) to waive any claims it may have for interest accruing or payable under its Covered Sewer Warrants at any rate other than the rate applicable to such Covered Sewer Warrants prior to the occurrence of an event of default under the Indenture or any Standby Agreement, as applicable; (iii) to comply with Section 2 above; and (iv) to comply with the restrictions on the transfer of its Sewer Warrants set forth in Section 3 above.

(b) Based upon the Supporting Warrantholders' agreements set forth in Section 5(a) above, JPMorgan will on or before the Effective Date, provide irrevocable directions to the County and the Trustee (or "paying agent" under an Acceptable Plan) to reallocate and distribute to each Supporting Warrantholder, instead of JPMorgan (and any of its affiliates holding Sewer Warrants), a portion of the cash recovery on the Sewer Warrants held by JPMorgan (and any such affiliates) under an Acceptable Plan, equal to (x) the principal amount of Eligible Sewer Warrants held by such holder (subject to Section 5(c) below) multiplied by (y) 3.46%; *provided, however*, that any increase in distributions made generally available from the County to holders of Other Warrants (including in respect of the Eligible Sewer Warrants) in excess of the amount set forth in part [b] of Section 3 of the Plan Term Sheet shall increase the amount payable in part [b] of Section 3 of the Plan Term Sheet in respect of the Eligible Sewer Warrants, and shall correspondingly reduce the amount of the JPMorgan reallocation to the benefited Supporting Warrantholders in respect of their Eligible Sewer Warrants pursuant to this Section 5(b); *provided, further, however*, that the aggregate JPMorgan reallocation to Supporting Warrantholders shall not be reduced below \$4 million.

(c) Each Supporting Warrantholder shall certify in writing to the County and JPMorgan no later than the third Business Day after the record date for distributions pursuant to the Acceptable Plan the amount of Eligible Sewer Warrants held by such Supporting Warrantholder as of such record date, *provided that*, for purposes of the reallocation pursuant to Section 5(b) above, the total amount of Eligible Sewer Warrants shall not exceed the total set forth on Schedule 1 on the date of execution of this Agreement, and the aggregate amount of such reallocation shall not exceed the product of such total set forth on Schedule 1 multiplied by the percentage referenced in Section 5(b) above.

(d) Each of the Supporting Warrantholders' agreement to provide the releases and waivers as set forth in Section 5(a)(ii)(A) and (B) shall be conditioned on the continued effectiveness of this Agreement and the JPMorgan PSA, and compliance by JPMorgan with all of its obligations under or contemplated by this Agreement.

(e) JPMorgan's obligation to reallocate to the Supporting Warrantholders pursuant to Section 5(b) above a portion of JPMorgan's cash distributions under an Acceptable Plan on account of the Sewer Warrants held by JPMorgan (and any of its affiliates holding Sewer Warrants) shall be subject to Section 5(c) above and conditioned upon confirmation of an Acceptable Plan and the occurrence of the Effective Date, approval by the Bankruptcy Court of such reallocation by JPMorgan to the Supporting Warrantholders pursuant to Section 5(b) above, receipt by JPMorgan (and any such affiliates) of an indefeasible cash recovery on the Effective Date of not less than the amount set forth in the JPMorgan PSA, plus all Reinstated Interest Payments and any Reinstated Principal Payments, which amount shall be after giving effect to all

other concessions by JPMorgan pursuant to or in furtherance of an Acceptable Plan and such reallocation pursuant to Section 5(b) above, the continued effectiveness of this Agreement, the Backstop/Put Agreement and the JPMorgan PSA, and compliance by all Supporting Warrantholders with all of their obligations under or contemplated by this Agreement and the Backstop/Put Agreement.

Section 6. 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 Bankruptcy Code sections 1125 and 1126 (in the case of the Supporting Warrantholders), this Agreement is a legal, valid, and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as enforcement may be limited by applicable laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability, and the actions to be taken by such Party (pursuant to Section 5 hereof, in the case of JPMorgan), including in respect of the Restructuring contemplated by this Agreement, are within such Party's powers and have been duly authorized by all necessary action on its part.

(b) The execution, delivery, and performance of this Agreement by such Party does not and shall not: (i) violate any law, rule, or regulation applicable to such Party or any of its subsidiaries, as applicable; (ii) violate its certificate of incorporation, bylaws, or other organizational documents or those of any of its subsidiaries, as applicable; 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, as applicable, is a party.

(c) Subject to the provisions of Bankruptcy Code sections 1125 and 1126 (in the case of the Supporting Warrantholders) and except for the approval by the Jefferson County Commission (in the case of the County, which approval has been obtained as set forth below), 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. The County represents that 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 County's execution and delivery of this Agreement, and the Jefferson County Commission has duly approved and authorized the execution, delivery, and performance of this Agreement by the County.

Section 7. Support Commitments.

(a) In connection with the agreement of the County to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this

Agreement has not been terminated in accordance with Section 8, the County shall use all reasonable efforts to:

(i) file a Disclosure Statement and an Acceptable Plan prior to the deadline set forth in Section 8.1(o)(i) of this Agreement;

(ii) 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 the deadlines set forth in Section 8.1(o)(ii)-(iv) of this Agreement, which Confirmation Order shall be satisfactory to the Majority Eligible Warrantholders (and, in relation to the matters addressed in Section 5 hereof, JPMorgan);

(iii) cause the Effective Date of an Acceptable Plan to occur prior to the deadline set forth in Section 8.1(o)(v) of this Agreement;

(iv) negotiate in good faith with the other 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, including the documents identified in Section 1(b); and

(v) take no action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, 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 or consummation of the Restructuring by the deadlines set forth in Section 8.1(o) of this Agreement.

(b) In connection with the agreement of the Supporting Warrantholders to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this Agreement has not been terminated in accordance with Section 8, each of the Supporting Warrantholders shall use all reasonable efforts to:

(i) not object to, challenge, or otherwise commence or participate in any proceeding opposing any of the terms of the Restructuring contemplated by this Agreement and an Acceptable Plan;

(ii) not seek or support appointment of a trustee for the County under Bankruptcy Code section 926(a) or dismissal of the Bankruptcy Case;

(iii) to the extent available, without any Party conceding its applicability, not make or affirmatively reject any election for the application of Bankruptcy Code section 1111(b)(2) to any claims arising from or in connection with the Indenture, any Standby Agreement, or any Sewer Warrants;

(iv) in furtherance of the Litigation Standstill, not seek or support the reinstatement of control over the sewer system or sewer rate-setting in the receiver appointed by the Alabama state court or any other receiver;

(v) negotiate in good faith with the other 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, including the documents identified in Section 1(b); and

(vi) take no action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, or an Acceptable Plan, or that would delay or otherwise impede approval of the Disclosure Statement for an Acceptable Plan or the expeditious confirmation and consummation of an Acceptable Plan or consummation of the Restructuring by the deadlines set forth in Section 8.1(o) of this Agreement.

Section 8. Termination & Default.

8.1 Events of Termination & Default.

(a) The County, JPMorgan, and the Majority Eligible Warrantholders may collectively terminate this Agreement by written agreement.

(b) If the County provides written notice to each other Party that the County, in consultation with its financial advisors, has reasonably determined in good faith that it is not economically possible to consummate an Acceptable Plan in accordance with the Financing Plan without economic modifications (other than as anticipated in the Financing Plan) adverse to the ratepayers or the sewer system in any material respect, which such notice must specify the basis for such a determination, and does not rescind such notice within fifteen (15) calendar days of the date on which such notice is provided, then the Majority Eligible Warrantholders, JPMorgan, or the County may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice. For the avoidance of doubt and without limitation, except to the extent necessary to address (i) an up to a 50 basis point increase in borrowing rates (yields) from those set forth in the Financing Plan (a "Market Shift"), (ii) a decline in actual or projected revenues from those set forth in the Financing Plan having an economic effect equivalent to or less than a Market Shift, or (iii) some combination of increased borrowing rates (yields) and a decline in actual or projected revenues, in each case from those set forth in Financing Plan and in the aggregate having an economic effect equivalent to or less than a Market Shift, under no other circumstances shall the County be required to proceed with an Acceptable Plan if in order to issue the New Sewer Warrants, in the amount required thereunder, the County must make any pre-Effective Date upward adjustment in the Approved Rate Schedule.

(c) If any of the Majority Eligible Warrantholders, JPMorgan, or the County provides a written notice to each other Party that such Party has reasonably determined in good faith that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur, in the case of the County as a result of events outside the County's control (which notice shall specify the basis for such determination), and does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice; *provided, however*, that in any proceeding challenging such a determination, the Party providing the notice bears the burden of proof that the events specified in the notice

have occurred and that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur because of such events.

(d) If any governmental authority, including the Bankruptcy Court or any other regulatory authority or court of competent jurisdiction, enters any final, non-appealable ruling, or order enjoining the consummation of a material portion of the Restructuring, makes a final, non-appealable determination that, or issues a final, non-appealable judgment, order, decree, or ruling to the effect that this Agreement or any material provision of this Agreement or any related document is illegal, invalid, or unenforceable, or enters a final, non-appealable judgment, order, decree, or ruling denying confirmation of an Acceptable Plan, then the Majority Eligible Warrantholders, JPMorgan, or the County may terminate this Agreement by written notice to each other Party.

(e) If the Supreme Court of the State of New York, County of New York sitting in *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012, fails to approve FGIC's execution and performance of the Sewer Warrant Insurer PSA on or before June 28, 2013, or any later date agreed in writing by the County, FGIC, and the FGIC rehabilitator for obtaining such approval, then the Majority Eligible Warrantholders, JPMorgan, or the County may terminate this Agreement by written notice to each other Party.

(f) If the Parties are unable to obtain and implement the Litigation Standstill on or before July 8, 2013, or such later date agreed by the Parties in writing (the "Standstill Date"), then the Majority Eligible Warrantholders, JPMorgan, or the County, as applicable, may terminate this Agreement by giving written notice identifying which provisions of the Litigation Standstill have not been obtained or implemented to each other Party within fifteen (15) calendar days after the Standstill Date.

(g) If (i) the Litigation Standstill fails to remain in effect after the Standstill Date or (ii) any new potentially materially-prejudicial Litigation is commenced by the County, any Plan Support Party, the Trustee, or any other party against the County, against any Plan Support Party, or against the Trustee after the Standstill Date, then (x) the Majority Eligible Warrantholders, JPMorgan, or the County may provide a written notice specifying, with respect to subsection (g)(i), the provisions of the Litigation Standstill that are no longer in effect or, with respect to subsection (g)(ii), the potential material prejudice associated with such new Litigation and, with respect to either such notice, expressing an intent to terminate this Agreement (a "Litigation Termination Notice"). The Litigation Termination Notice must be provided within fifteen (15) calendar days of the discovery (x) by the Party giving such notice provided under subsection (g)(i) of the provisions of the Litigation Standstill that are no longer in effect or (y) of the commencement of the specified new potentially materially-prejudicial Litigation under subsection (g)(ii), as applicable, and if the Litigation Standstill is not reinstated with respect to subsection (g)(i), or a standstill or resolution of the specified new potentially materially-prejudicial Litigation under subsection (g)(ii) satisfactory to the Party giving such notice does not occur within twenty (20) calendar days of the giving of such notice, then the Majority Eligible Warrantholders, JPMorgan, or the County, as applicable, may terminate this Agreement by giving a second written notice to each other Party within twenty-five (25) calendar days of the Litigation Termination Notice.

(h) If any Supporting Warrantholder materially breaches this Agreement (a “Breaching Warrantholder”) and such breach is not remedied, either by the Breaching Warrantholder or by one or more Supporting Warrantholders who have purchased the Covered Sewer Warrants held by the Breaching Warrantholder (or an equivalent amount of replacement Sewer Warrants of like series, type, and insurer, as applicable, which replacement warrants shall thereafter be treated as Covered Sewer Warrants or Eligible Sewer Warrants to the same extent as the replaced warrants were Covered Sewer Warrants or Eligible Sewer Warrants), within fifteen (15) calendar days of receiving written notice thereof from JPMorgan or the County to each Party or within such other period that may be specified elsewhere in this Section 8.1 in the case of any other specified material breach by a Supporting Warrantholder, then the County or JPMorgan may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(i) If the County materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof or within such other period that may be specified elsewhere in this Section 8.1 in the case of any other specified material breach by the County, then either JPMorgan or the Majority Eligible Warrantholders, but only if such breach adversely affects a right, obligation, or interest of such Party, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(j) If the County withdraws, files a motion or pleading to withdraw, or publicly announces its intention not to pursue, an Acceptable Plan, or proposes or files a motion with the Bankruptcy Court seeking approval of a plan that is not an Acceptable Plan, or the County modifies an Acceptable Plan such that it is no longer an Acceptable Plan (but only if such modification adversely affects a right, obligation, or interest of such Party), and does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then either JPMorgan or the Majority Eligible Warrantholders, may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(k) If the County files any motion, pleading, and/or disclosure statement that, in the reasonable judgment of the Majority Eligible Warrantholders or JPMorgan, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the Supporting Warrantholders or JPMorgan, as applicable, under this Agreement, the Plan Term Sheet, or an Acceptable Plan and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof, then either JPMorgan or the Majority Eligible Warrantholders, but only if such action adversely affects a right, obligation, or interest of such Party, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(l) If JPMorgan or any of the Supporting Warrantholders files any motion or pleading that, in the reasonable judgment of the County, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the County under this Agreement, the Plan Term Sheet, or an Acceptable Plan and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from the County, then

the County may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(m) If the County files any motion, application, or adversary proceeding challenging the validity, enforceability, perfection, or priority of, or seeking avoidance or subordination of, any of the Sewer Warrants or the liens under the Indenture (or otherwise) securing the Sewer Warrants or asserting any other cause of action against and/or with respect to the Sewer Warrants, the Supporting Warrantholders, or JPMorgan (or if the County supports any such motion, application, or adversary proceeding commenced by any third party or consents to the standing of any such third party), or if the Bankruptcy Court enters an order granting relief with respect to any of the foregoing claims or causes of action, and the County does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then either JPMorgan or the Majority Eligible Warrantholders may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(n) If (i) the Bankruptcy Case is dismissed or (ii) control over the sewer system or sewer rate-setting is reinstated in the receiver appointed by the Alabama state court or any other receiver, then any of the County, JPMorgan, or the Majority Eligible Warrantholders may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(o) If any of the following deadlines are not satisfied:

(i) the County shall not have filed an Acceptable Plan and Disclosure Statement with the Bankruptcy Court on or prior to July 1, 2013, unless such date is extended by the Majority Eligible Warrantholders in their sole and absolute discretion;

(ii) the Bankruptcy Court shall have failed to enter an order approving the Disclosure Statement on or prior to August 30, 2013, unless such date is extended by the Majority Eligible Warrantholders in their sole and absolute discretion;

(iii) the Bankruptcy Court shall have failed to enter the Confirmation Order on or prior to November 25, 2013, unless such date is extended by the Majority Eligible Warrantholders in their sole and absolute discretion;

(iv) the Bankruptcy Court shall have failed to enter an order (which may be the Confirmation Order) validating the New Sewer Warrants on or prior to November 25, 2013, unless such date is extended by the Majority Eligible Warrantholders in their sole and absolute discretion; or

(v) the Effective Date shall not have occurred on or prior to December 20, 2013, unless such date is extended by the Majority Eligible Warrantholders in their sole and absolute discretion; *provided, however*, that such date may not be extended beyond December 31, 2013 (the “Outside Date”);

then, in each case, the Majority Eligible Warrantholders may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(p) If JPMorgan materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof or within such other period that may be specified elsewhere in this Section 8.1 in the case of any other specified material breach by JPMorgan, then either the County or the Majority Eligible Warrantholders, but only if such breach adversely affects a right, obligation, or interest of such Party, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(q) If the JPMorgan PSA shall have been terminated (or amended with respect to provisions thereof that adversely affect a right, obligation, or interest of one or more of the Supporting Warrantholders, without the written consent of each affected Supporting Warrantholder) or is no longer in full force and effect, then any of the County, JPMorgan, or the Majority Eligible Warrantholders (or such affected Supporting Warrantholder(s), in the event of such an amendment) may by written notice to each other Party terminate this Agreement at any time thereafter.

(r) If the Sewer Warrant Insurer PSA shall have been terminated (or amended with respect to provisions thereof that adversely affect a right, obligation, or interest of one or more of the Supporting Warrantholders or JPMorgan, without the written consent of each affected Party) or is no longer in full force and effect, then any of the County, JPMorgan, or the Majority Eligible Warrantholders (or such affected Supporting Warrantholder(s), in the event of such an amendment) may by written notice to each other Party terminate this Agreement at any time thereafter.

(s) If any condition precedent to confirmation or the Effective Date of an Acceptable Plan is not satisfied, other than occurrence of the Effective Date by the Outside Date, then any of the County, JPMorgan, or the Majority Eligible Warrantholders may give written notice of such failure of condition to each other Party and may terminate this Agreement by giving a second written notice to each other Party after the expiration of ten (10) calendar days after such first written notice unless, before the expiration of such ten (10) calendar days, the condition is satisfied or, if waiveable, has been waived in accordance with the terms of such Acceptable Plan.

(t) If the County fails to enter into a closing agreement relating to the Sewer Warrants and the New Sewer Warrants with the Internal Revenue Service in form and substance acceptable to the County, the Majority Eligible Warrantholders, and JPMorgan on or prior to September 30, 2013, or such later date as may be agreed in writing by the County, the Majority Eligible Warrantholders, and JPMorgan, then any of the County, JPMorgan, or the Majority Eligible Warrantholders may give a written notice of intent to terminate this Agreement, and if such Party does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice.

(u) If the Effective Date shall not have occurred on or prior to the Outside Date, then this Agreement shall terminate automatically without further required action or notice.

(v) If the County amends the Financing Plan in any material respect without the written approval of the Majority Eligible Warrantholders and JPMorgan and does not rescind such amendment or obtain the written approval of the Majority Eligible Warrantholders and JPMorgan regarding such amendment within fifteen (15) calendar days of receiving written notice concerning any such amendment from the Majority Eligible Warrantholders or JPMorgan (which written notice must be provided by the Majority Eligible Warrantholders or JPMorgan, as applicable, within seven (7) calendar days after the County provides the notice required by Section 4(d)), then either JPMorgan or the Majority Eligible Warrantholders, as applicable, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(w) If not previously terminated in accordance with the provisions hereof, this Agreement shall terminate automatically without further required action or notice upon the Effective Date of an Acceptable Plan.

Each of the foregoing events set forth in subsections (a) through (w) entitling a Party or Parties to terminate or amend this Agreement, as applicable, shall constitute a “Trigger Event.”

8.2 Trigger Event Notices.

(a) Each Party receiving a notice asserting that a Trigger Event has occurred may challenge the accuracy or validity of such notice by commencing a proceeding in Bankruptcy Court within seven (7) calendar days of receiving such notice. All Parties consent to an expedited hearing of any such proceeding. For the avoidance of doubt, this Section 8.2(a) shall only apply to Sections 8.1(b)-(d), (f)-(m), (p), (s), (t), and (v), and a Trigger Event under all other clauses of Section 8.1 will result in termination of this Agreement in accordance with the express terms of the Trigger Event.

(b) The failure of one or more Parties to give a second notice required under Section 8.1 within the time specified for giving such notice (solely to the extent applicable) shall constitute a waiver of the right of such Party or Parties to terminate this Agreement based on the event specified in the first notice (but shall not constitute a waiver with respect to any future new event). Such a potential waiver shall apply only to Trigger Events in Sections 8.1(b)-(c), (g)-(m), (p), (t), and (v), and not the other Trigger Events in Section 8.1.

(c) Each Party hereby waives any requirement under Bankruptcy Code sections 362 or 922 to lift the automatic stays thereunder for purposes of providing a first or second notice of a Trigger Event or termination of this Agreement (and agrees not to object to any non-breaching Party seeking, if necessary, to lift such automatic stays in connection with the provision of any such notice) or commencing a proceeding in the Bankruptcy Court with respect thereto; *provided, however*, that nothing in this Section 8.2(c) shall prejudice any Party’s rights to argue that the notice of a Trigger Event or termination of this Agreement was not proper under the terms of this Agreement.

8.3 Benefits of Termination.

The foregoing Trigger Events are intended solely for the benefit of the specified Parties; *provided, however*, that no Party may terminate this Agreement based upon a breach or a failure

of a condition (if any) in this Agreement arising solely out of its own actions or omissions. Other than as contemplated in Section 8.2(b), a Trigger Event may be waived only by the Party for whose benefit such a Trigger Event exists.

8.4 Effect of Termination.

Upon termination of this Agreement in accordance with Section 8.1, the obligations and agreements of each Party under this Agreement (and the Plan Term Sheet) shall terminate and be of no further force and effect other than those obligations and agreements that expressly survive the termination of this Agreement as set forth in Section 9.14; *provided, however*, that any claim for breach of this Agreement shall survive termination and all rights and remedies with respect to such breach shall be neither waived nor prejudiced in any way by any such termination. Upon termination of this Agreement in accordance with Section 8.1 (other than a termination under Section 8.1(w)), any and all ballots with respect to an Acceptable Plan delivered by each Supporting Warrantholder prior to such date of termination shall be immediately withdrawn, and such ballots shall be deemed to be null and void for all purposes and shall not be considered or otherwise used in any manner. To the extent that an Acceptable Plan has been confirmed prior to the termination of this Agreement, other than a termination under Section 8.1(w), the Confirmation Order and order approving the Disclosure Statement shall be vacated, the Parties will be restored to their rights as if this Agreement and the Plan Term Sheet were never entered into and all claims and defenses of the Parties (subject to Section 9.10) shall be fully reserved.

Section 9. Miscellaneous Terms.

9.1 Communications.

This Agreement shall not, and shall not be deemed to, impair, prohibit, limit, or restrict any Supporting Warrantholder or its officers or representatives from engaging in discussions with or among any or all of: the County, JPMorgan, any Sewer Warrant Insurer, any other Supporting Warrantholder, any potential or actual underwriter, or any of the foregoing parties' respective officers, representatives, or advisors.

9.2 No Third Party Beneficiaries.

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.

9.3 Effectiveness of Agreement; Savings Clause.

This Agreement shall become effective once duly executed by the County, JPMorgan, and all of the Supporting Warrantholders listed on Schedule 1 as of the date hereof. Notwithstanding the foregoing, the treatment as set forth in the Plan Term Sheet and under an Acceptable Plan shall become effective only on the Effective Date. If any provision hereof is construed to constitute an agreement to take any step or action that would violate any provision of applicable bankruptcy law or any other applicable law, such provision shall be deemed stricken herefrom and of no force and effect without liability to any of the Parties and without

constituting a Trigger Event except as provided in Section 8.1(d), and shall not affect the validity, legality, or enforceability of any other provision of this Agreement.

9.4 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.

9.5 Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ALABAMA, 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 irrevocably consents to service of process by mail at the addresses listed for such Party in Section 9.13 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.

9.6 Complete Agreement; Interpretation; Amendment, Modification and Waiver.

(a) With the exception of the JPMorgan PSA and certain agreements among the Supporting Warrantholders, this Agreement, together with all exhibits and schedules attached hereto, constitutes the complete agreement among the Parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, between or among the Parties with respect to the subject matter hereof.

(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 not be modified, amended, or supplemented except in a writing signed by (x) the County, in the case of any modification, amendment, or supplement affecting a right, obligation, or interest of the County; (y) JPMorgan, in the case of any modification, amendment, or supplement affecting a right, obligation, or interest of JPMorgan; and (z) the Majority Eligible Warrantholders, in the case of any modification, amendment, or supplement affecting a right, obligation, or interest of all Supporting Warrantholders; *provided*, that (i) any modification of, or amendment or supplement to, this Agreement that has a disproportionate material adverse effect on any Supporting Warrantholder shall require the written consent of such Supporting Warrantholder so affected; (ii) any modification of, or amendment or supplement to, the consideration payable to the Supporting Warrantholders (other than an increase in the consideration payable thereto in accordance with the Plan Term Sheet, which such increases shall not require the written consent of such affected

Supporting Warrantholders); (iii) any modification of, or amendment or supplement to, this Agreement that imposes additional obligations, cost or liability on a Party shall require the written consent of the Party so affected; and (iv) any modification of, or amendment or supplement to, this Section 9.6(c) or the Outside Date shall require the written consent of all Parties.

(d) Other than waivers contemplated by Section 8.2(b), 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 that waiver 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.

9.7 Specific Performance.

This Agreement is intended as a binding commitment enforceable in accordance with its terms. Each Party acknowledges and agrees that the exact nature and extent of damages resulting from a breach of this Agreement are uncertain at the time of entering into this Agreement and that any such breach of this Agreement would result in damages that would be difficult to determine with certainty. It is understood and agreed that any non-breaching Party shall be entitled to seek specific performance, mandamus, and injunctive relief as its sole remedies for any such breach, 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. Such remedies shall be the exclusive remedies for the breach of this Agreement by any Party.

9.8 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. Delivery of an executed signature page of this Agreement by telecopier or email shall be as effective as delivery of a manually executed signature page of this Agreement. Each Party represents that each individual executing this Agreement on behalf of such Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of such Party.

9.9 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.

9.10 Settlement Discussions.

This Agreement and the Restructuring are part of a proposed settlement of claims and disputes among the Parties and are the product of good faith, arm's length negotiations among the Parties and their respective representatives. Nothing herein shall be deemed an admission of any kind; *provided, however*, that, consistent with the final two sentences of this Section 9.10, this Agreement and the Financing Plan may be admitted for the purposes identified therein. If the transactions contemplated herein are not consummated, or following the termination of this Agreement 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 other than as set forth in the final two sentences of this Section 9.10. 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 or interpret the terms of this Agreement. Subject to any otherwise applicable rules in the Federal Rules of Evidence (other than Federal Rule of Evidence 408), this Agreement and the Financing Plan may be admitted into evidence in any proceeding arising as a result of or in connection with a Party's breach of this Agreement or in which breach of this Agreement is alleged as a relevant fact.

9.11 Successors and Assigns; Severability.

This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors and permitted assigns.

9.12 Several Liability; Individual Status; No Fiduciary.

All obligations and liabilities of the Parties hereunder are several and not joint, and no party to this Agreement shall be liable for any breach or non-performance by any other party to this Agreement. Each Supporting Warrantholder hereby agrees that it is (i) executing and delivering this Agreement in its individual capacity and (ii) making its own determination as to whether to execute this Agreement and support the Restructuring. Neither the execution nor delivery of this Agreement by the Supporting Warrantholders, nor the terms and conditions contained herein, shall provide a basis for the establishment or formation of a "group" under section 13(d)(3) of the Securities Exchange Act of 1934, as amended. Each Supporting Warrantholder disclaims the beneficial ownership of any securities of the County held by any other Supporting Warrantholder and its affiliates. It is understood and agreed that no Supporting Warrantholder has any duty of trust or confidence in any form with any other Supporting Warrantholder. In this regard, it is understood and agreed that, subject to Section 3, any Supporting Warrantholder may trade in the Sewer Warrants or other debt securities of the County without the consent of the County or JPMorgan, as the case may be, or any other Supporting Warrantholder, subject to all applicable securities laws and the terms of this Agreement; *provided, further*, that no Supporting Warrantholder shall have any responsibility for any such trading by any other entity by virtue of this Agreement. No prior history, pattern or practice of sharing confidences among or between the Supporting Warrantholders shall in any way affect or negate this understanding and agreement.

9.13 Notices.

All notices hereunder (including any termination notice), 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@babco.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 JPMorgan:

JPMorgan Chase Bank, N.A.
383 Madison Avenue

New York, New York 10179
Attn: William A. Austin
Facsimile: (212) 622-4556
Email: william.a.austin@jpmchase.com

-and-

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Attn: Steve M. Fuhrman, Esq.
Facsimile: (212) 455-2502
Email: sfuhrman@stblaw.com

If to Supporting Warrantholders:

At the addresses set forth in the signature pages hereto or set forth in a Transfer Agreement

-and-

Kramer Levin Naftalis & Frankel LLP
1177 Avenue of the Americas
New York, New York 10036
Attn: Thomas Moers Mayer, Esq.; Elan Daniels, Esq.
Facsimile: (212) 715-8169
Email: tmayer@kramerlevin.com; edaniels@kramerlevin.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. For the avoidance of doubt, any references in this Agreement to a “notice” shall mean a written notice sent in accordance with this Section 9.13.

9.14 Survival.

Notwithstanding any termination of this Agreement pursuant to Section 8.1 hereof, the agreements and obligations of the Parties in Sections 2(e)(y), 8.3, 8.4, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.9, 9.10, 9.11, 9.12, 9.13, 9.15, 9.16, 9.17, and this Section 9.14 shall survive such termination and shall continue in full force and effect for the benefit of the Parties in accordance with the terms hereof.

9.15 Inconsistencies.

To the extent there is any inconsistency between any provision of this Agreement and any provision of the Plan Term Sheet, the terms contained within this Agreement (excluding the Plan Term Sheet) shall control; *provided, however*, that to the extent there is any inconsistency

between any provision of this Agreement and Section 3 of the Plan Term Sheet, Section 3 of the Plan Term Sheet shall control.

9.16 Time Is of the Essence.

Time is of the essence with respect to all dates and deadlines specified in this Agreement.

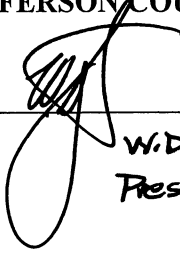
9.17 Use of “Including”.

Whenever this Agreement uses the word “including,” such reference shall be deemed to mean “including, without limitation,”.

[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: 
Its: *W.D. Carrington*
President

JPMorgan Chase Bank, N.A.

By:
Its:


[Signature pages for each Supporting Warrantholder follow separately below]

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

JPMorgan Chase Bank, N.A.


By: WILLIAM A. AUSTIN
Its: EXECUTIVE DIRECTOR

[Signature pages for each Supporting Warrantholder follow separately below]

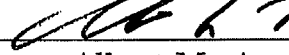
BRIGADE CAPITAL MANAGEMENT, LLC, *on
behalf of certain managed funds and investment
vehicles*

By: 
Name: Carney Hawks
Title: Partner

Address for Notices:

Brigade Capital Management, LLC
399 Park Avenue
16th Floor
New York, NY 10022
Attn: Carney Hawks
Email: ch@brigadecapital.com

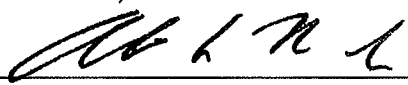
CLAREN ROAD CREDIT MASTER FUND, LTD.

By: 
Name: Albert Marino
Title: Director

Address for Notices:

Claren Road Credit Master Fund, Ltd.
c/o Claren Road Asset Management, LLC
900 Third Avenue
29th Floor
New York, NY 10022
Attn: Legal Dept.
Email: ruberti@clarenroad.com

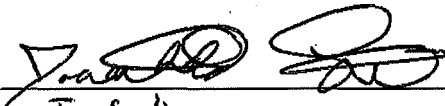
CLAREN ROAD CREDIT OPPORTUNITIES
MASTER FUND, LTD.

By: 
Name: Albert Marino
Title: Director

Address for Notices:

Claren Road Credit Opportunities Master Fund, Ltd.
c/o Claren Road Asset Management, LLC
900 Third Avenue
29th Floor
New York, NY 10022
Attn: Legal Dept.
Email: ruberti@clarenroad.com

EMERALD EAGLE HOLDINGS, L.L.C.

By: 
Name: Jon Smith
Title: Authorized Signatory

Address for Notices:

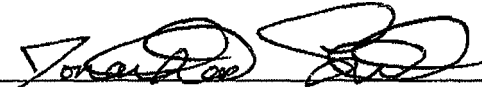
Emerald Eagle Holdings, L.L.C.
c/o Trade Claims
P.O. Box 1203
New York, NY 10150
claims@emeraldeagle.net

EMERALD EAGLE HOLDINGS SOUTH, L.L.C.

By:

Name:

Title:


Jon Smith
Authorized Signatory

Address for Notices:

Emerald Eagle Holdings South, L.L.C.
c/o Trade Claims
P.O. Box 1211
New York, NY 10150
bankruptcy@eaglesouth.net

FUNDAMENTAL PARTNERS LP
a Delaware limited partnership, as Holder

By: Fundamental Partners GP LLC,
a Delaware limited liability company, its
General Partner

By: 
Laurence L. Gottlieb
Chairman & CEO

Address for Notices:

Fundamental Partners LP
c/o Fundamental Advisors, L.P.
745 Fifth Avenue
30th Floor
New York, NY 10151
Attn:
Email:

[Signature Page to Plan Support Agreement]

FUNDAMENTAL PARTNERS II LP

a Delaware limited partnership, as Holder

By: Fundamental Partners II GP LLC,
a Delaware limited liability company, its
General Partner

By: 
Laurence L. Gottlieb
Chairman & CEO

Address for Notices:

Fundamental Partners II LP
c/o Fundamental Advisors, L.P.
745 Fifth Avenue
30th Floor
New York, NY 10151
Attn:
Email:

[Signature Page to Plan Support Agreement]

GLENDON CAPITAL MANAGEMENT L.P., *on
behalf of its advised accounts*

By: 

Name: Eitan Melamed

Title: Partner

Address for Notices:

Glendon Capital Management L.P.
1620 26th Street, Suite 2000N
Santa Monica, CA 90404
Attn:
Email:

MONARCH RESEARCH ALPHA MASTER FUND LTD
MONARCH ALTERNATIVE SOLUTIONS MASTER
FUND LTD
MONARCH CAPITAL MASTER PARTNERS II-A LP
MONARCH DEBT RECOVERY MASTER FUND LTD
MONARCH OPPORTUNITIES MASTER FUND LTD
P MONARCH RECOVERY LTD.
MONARCH CAYMAN FUND LIMITED
MONARCH CAPITAL MASTER PARTNERS II LP
MONARCH CAPITAL MASTER PARTNERS LP
OAKFORD MF LIMITED

By: MONARCH ALTERNATIVE CAPITAL LP,
*solely as investment manager to the above
entities*

By: _____
Name:
Title:

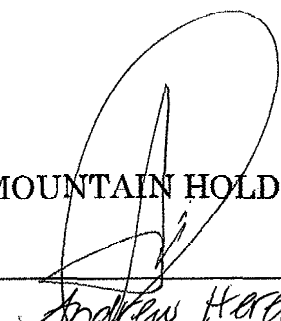

Christopher Santana
Managing Principal

Address for Notices:

Monarch Alternative Capital LP
535 Madison Avenue
New York, NY 10022

Attn: Michael Kelly, Managing Principal - Chief Legal Officer

Email: michael.kelly@monarchlp.com



RED MOUNTAIN HOLDINGS LLC

By: _____

Name: *Andrew Herenstein*

Title: *Authorized Person*

Address for Notices:

Red Mountain Holdings LLC
535 Madison Avenue, 26th Floor
New York, NY 10022
Attn: Michael Gillin
Email: michael.gilllin@monarchlp.com

STONE LION CAPITAL PARTNERS L.P., *on
behalf of funds and accounts managed by it*

By: 

Name:

Title:

Claudia Borg
General Counsel

Address for Notices:

Stone Lion Capital Partners L.P.
555 Fifth Avenue
18th Floor
New York, NY 10017
Attn: Claudia Borg
Email: cborg@stonelioncapital.com

Schedule 1

Eligible Sewer Warrants

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
|--|----------------------|----------------------|
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682KA0 | \$19,375,000.00 |
| Claren Road Credit Master Fund, LTD. | 472682KA0 | \$1,875,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682KA0 | \$800,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682KA0 | \$2,437,875.00 |
| Emerald Eagle Holdings, L.L.C. | 472682KA0 | \$1,237,125.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682KA0 | \$45,000.00 |
| Monarch Capital Master Partners II LP | 472682KA0 | \$99,000.00 |
| Monarch Capital Master Partners II-A LP | 472682KA0 | \$143,000.00 |
| Monarch Capital Master Partners LP | 472682KA0 | \$93,000.00 |
| Monarch Cayman Fund Limited | 472682KA0 | \$88,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682KA0 | \$1,241,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682KA0 | \$1,448,000.00 |
| Oakford MF Limited | 472682KA0 | \$221,000.00 |
| P Monarch Recovery LTD | 472682KA0 | \$122,000.00 |
| | | |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682KB8 | \$16,125,000.00 |
| Claren Road Credit Master Fund, LTD. | 472682KB8 | \$425,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682KB8 | \$200,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682KB8 | \$166,250.00 |
| Emerald Eagle Holdings, L.L.C. | 472682KB8 | \$83,750.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682KB8 | \$51,000.00 |
| Monarch Capital Master Partners II LP | 472682KB8 | \$19,000.00 |
| Monarch Capital Master Partners II-A LP | 472682KB8 | \$159,000.00 |
| Monarch Capital Master Partners LP | 472682KB8 | \$70,000.00 |
| Monarch Cayman Fund Limited | 472682KB8 | \$99,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682KB8 | \$1,406,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682KB8 | \$455,000.00 |
| Oakford MF Limited | 472682KB8 | \$16,000.00 |
| P Monarch Recovery LTD | 472682KB8 | \$250,000.00 |
| | | |
| Claren Road Credit Master Fund, LTD. | 472682KC6 | \$950,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
|--|---------------|-----------------|
| Claren Road Credit Opportunities Master Fund, LTD. | 472682KC6 | \$400,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682KC6 | \$256,875.00 |
| Emerald Eagle Holdings, L.L.C. | 472682KC6 | \$118,125.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682KC6 | \$751,000.00 |
| Monarch Capital Master Partners II LP | 472682KC6 | \$329,000.00 |
| Monarch Capital Master Partners II-A LP | 472682KC6 | \$2,237,000.00 |
| Monarch Capital Master Partners LP | 472682KC6 | \$2,185,000.00 |
| Monarch Cayman Fund Limited | 472682KC6 | \$1,290,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682KC6 | \$8,565,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682KC6 | \$3,733,000.00 |
| Oakford MF Limited | 472682KC6 | \$485,000.00 |
| P Monarch Recovery LTD | 472682KC6 | \$1,125,000.00 |
| Stone Lion Capital Partners L.P. <i>on behalf of funds and accounts managed by it</i> | 472682KC6 | \$9,125,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682KD4 | \$10,100,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682KD4 | \$6,788,500.00 |
| Emerald Eagle Holdings, L.L.C. | 472682KD4 | \$3,636,500.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682KD4 | \$127,000.00 |
| Monarch Capital Master Partners II LP | 472682KD4 | \$41,000.00 |
| Monarch Capital Master Partners II-A LP | 472682KD4 | \$414,000.00 |
| Monarch Capital Master Partners LP | 472682KD4 | \$613,000.00 |
| Monarch Cayman Fund Limited | 472682KD4 | \$190,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682KD4 | \$2,671,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682KD4 | \$491,000.00 |
| Oakford MF Limited | 472682KD4 | \$71,000.00 |
| P Monarch Recovery LTD | 472682KD4 | \$232,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682KH5 | \$16,525,000.00 |
| Claren Road Credit Master Fund, LTD. | 472682KH5 | \$18,675,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682KH5 | \$8,000,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682KH5 | \$9,560,000.00 |
| Emerald Eagle Holdings, L.L.C. | 472682KH5 | \$5,140,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
|--|---------------|-----------------|
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682LH4 | \$8,925,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682LH4 | \$3,661,125.00 |
| Emerald Eagle Holdings, L.L.C. | 472682LH4 | \$2,038,875.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682LH4 | \$13,275,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682LH4 | \$168,000.00 |
| Monarch Capital Master Partners II LP | 472682LH4 | \$19,000.00 |
| Monarch Capital Master Partners II-A LP | 472682LH4 | \$757,000.00 |
| Monarch Capital Master Partners LP | 472682LH4 | \$125,000.00 |
| Monarch Cayman Fund Limited | 472682LH4 | \$666,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682LH4 | \$4,659,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682LH4 | \$1,376,000.00 |
| Oakford MF Limited | 472682LH4 | \$93,000.00 |
| P Monarch Recovery LTD | 472682LH4 | \$187,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682LJ0 | \$2,130,000.00 |
| Emerald Eagle Holdings, L.L.C. | 472682LJ0 | \$1,045,000.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682LJ0 | \$275,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682LJ0 | \$84,000.00 |
| Monarch Capital Master Partners II LP | 472682LJ0 | \$23,000.00 |
| Monarch Capital Master Partners II-A LP | 472682LJ0 | \$272,000.00 |
| Monarch Capital Master Partners LP | 472682LJ0 | \$363,000.00 |
| Monarch Cayman Fund Limited | 472682LJ0 | \$217,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682LJ0 | \$2,323,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682LJ0 | \$460,000.00 |
| Oakford MF Limited | 472682LJ0 | \$83,000.00 |
| P Monarch Recovery LTD | 472682LJ0 | \$125,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682LK7 | \$20,550,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682LK7 | \$3,559,375.00 |
| Emerald Eagle Holdings, L.L.C. | 472682LK7 | \$1,765,625.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682LK7 | \$1,100,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682LK7 | \$71,000.00 |
| Monarch Capital Master Partners II LP | 472682LK7 | \$28,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
|--|---------------|-----------------|
| Monarch Capital Master Partners II-A LP | 472682LK7 | \$232,000.00 |
| Monarch Capital Master Partners LP | 472682LK7 | \$398,000.00 |
| Monarch Cayman Fund Limited | 472682LK7 | \$144,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682LK7 | \$1,992,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682LK7 | \$643,000.00 |
| Oakford MF Limited | 472682LK7 | \$91,000.00 |
| P Monarch Recovery LTD | 472682LK7 | \$176,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682LL5 | \$1,975,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682LL5 | \$3,360,125.00 |
| Emerald Eagle Holdings, L.L.C. | 472682LL5 | \$1,664,875.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682LL5 | \$5,650,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682LL5 | \$353,000.00 |
| Monarch Capital Master Partners II LP | 472682LL5 | \$168,000.00 |
| Monarch Capital Master Partners II-A LP | 472682LL5 | \$1,357,000.00 |
| Monarch Capital Master Partners LP | 472682LL5 | \$695,000.00 |
| Monarch Cayman Fund Limited | 472682LL5 | \$2,057,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682LL5 | \$2,166,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682LL5 | \$1,432,000.00 |
| Oakford MF Limited | 472682LL5 | \$522,000.00 |
| P Monarch Recovery LTD | 472682LL5 | \$550,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682LM3 | \$11,200,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682LM3 | \$9,533,305.00 |
| Emerald Eagle Holdings, L.L.C. | 472682LM3 | \$5,326,695.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682LM3 | \$12,350,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682LM3 | \$166,000.00 |
| Monarch Capital Master Partners II LP | 472682LM3 | \$33,000.00 |
| Monarch Capital Master Partners II-A LP | 472682LM3 | \$723,000.00 |
| Monarch Capital Master Partners LP | 472682LM3 | \$654,000.00 |
| Monarch Cayman Fund Limited | 472682LM3 | \$606,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682LM3 | \$4,686,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682LM3 | \$1,928,000.00 |
| Oakford MF Limited | 472682LM3 | \$205,000.00 |
| P Monarch Recovery LTD | 472682LM3 | \$224,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
|--|---------------|-----------------|
| Stone Lion Capital Partners L.P. <i>on behalf of funds and accounts managed by it</i> | 472682LN1 | \$35,589,820.76 |
| Emerald Eagle Holdings South, L.L.C. | 472682LT8 | \$12,500,000.00 |
| Emerald Eagle Holdings, L.L.C. | 472682LT8 | \$7,500,000.00 |
| Fundamental Partners II LP | 472682LT8 | \$17,500,000.00 |
| Fundamental Partners LP | 472682LT8 | \$17,500,000.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682LT8 | \$12,910,420.86 |
| Emerald Eagle Holdings South, L.L.C. | 472682MD2 | \$253,450.00 |
| Emerald Eagle Holdings, L.L.C. | 472682MD2 | \$116,550.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682NA7 | \$9,975,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682NA7 | \$6,505,625.00 |
| Emerald Eagle Holdings, L.L.C. | 472682NA7 | \$3,369,375.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682NA7 | \$4,175,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682NA7 | \$21,000.00 |
| Monarch Capital Master Partners II-A LP | 472682NA7 | \$203,000.00 |
| Monarch Cayman Fund Limited | 472682NA7 | \$254,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682NA7 | \$607,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682NA7 | \$774,000.00 |
| Oakford MF Limited | 472682NA7 | \$41,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682NB5 | \$2,500,000.00 |
| Claren Road Credit Master Fund, LTD. | 472682NB5 | \$1,200,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682NB5 | \$525,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682NB5 | \$10,186,625.00 |
| Emerald Eagle Holdings, L.L.C. | 472682NB5 | \$5,163,375.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682NB5 | \$84,000.00 |
| Monarch Capital Master Partners II LP | 472682NB5 | \$286,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
|--|---------------|----------------|
| Monarch Capital Master Partners II-A LP | 472682NB5 | \$1,022,000.00 |
| Monarch Cayman Fund Limited | 472682NB5 | \$422,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682NB5 | \$1,412,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682NB5 | \$1,370,000.00 |
| Oakford MF Limited | 472682NB5 | \$57,000.00 |
| P Monarch Recovery LTD | 472682NB5 | \$172,000.00 |
| | | |
| Emerald Eagle Holdings South, L.L.C. | 472682NC3 | \$330,000.00 |
| Emerald Eagle Holdings, L.L.C. | 472682NC3 | \$170,000.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682NC3 | \$375,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682NC3 | \$108,000.00 |
| Monarch Capital Master Partners II LP | 472682NC3 | \$49,000.00 |
| Monarch Capital Master Partners II-A LP | 472682NC3 | \$350,000.00 |
| Monarch Capital Master Partners LP | 472682NC3 | \$992,000.00 |
| Monarch Cayman Fund Limited | 472682NC3 | \$216,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682NC3 | \$3,040,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682NC3 | \$1,217,000.00 |
| Oakford MF Limited | 472682NC3 | \$227,000.00 |
| P Monarch Recovery LTD | 472682NC3 | \$151,000.00 |
| Stone Lion Capital Partners L.P. <i>on behalf of funds and accounts managed by it</i> | 472682NC3 | \$250,000.00 |
| | | |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682ND1 | \$2,000,000.00 |
| Claren Road Credit Master Fund, LTD. | 472682ND1 | \$8,250,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682ND1 | \$3,550,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682ND1 | \$2,129,375.00 |
| Emerald Eagle Holdings, L.L.C. | 472682ND1 | \$995,625.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682ND1 | \$2,800,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682ND1 | \$48,000.00 |
| Monarch Capital Master Partners II LP | 472682ND1 | \$241,000.00 |
| Monarch Capital Master Partners II-A LP | 472682ND1 | \$153,000.00 |
| Monarch Capital Master Partners LP | 472682ND1 | \$436,000.00 |
| Monarch Cayman Fund Limited | 472682ND1 | \$319,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682ND1 | \$1,334,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682ND1 | \$3,759,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
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| Oakford MF Limited | 472682ND1 | \$596,000.00 |
| P Monarch Recovery LTD | 472682ND1 | \$64,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682NE9 | \$2,700,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682NE9 | \$4,410,625.00 |
| Emerald Eagle Holdings, L.L.C. | 472682NE9 | \$2,239,375.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682NE9 | \$4,125,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682NF6 | \$35,000,000.00 |
| Claren Road Credit Master Fund, LTD. | 472682NF6 | \$3,500,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682NF6 | \$1,500,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682NF6 | \$12,950,000.00 |
| Emerald Eagle Holdings, L.L.C. | 472682NF6 | \$7,050,000.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682NF6 | \$2,500,000.00 |
| Stone Lion Capital Partners L.P. <i>on behalf of funds and accounts managed by it</i> | 472682NF6 | \$10,000,000.00 |
| Claren Road Credit Master Fund, LTD. | 472682NG4 | \$14,425,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682NG4 | \$6,200,000.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682NG4 | \$7,325,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682NG4 | \$336,000.00 |
| Monarch Capital Master Partners II LP | 472682NG4 | \$65,000.00 |
| Monarch Capital Master Partners II-A LP | 472682NG4 | \$1,282,000.00 |
| Monarch Cayman Fund Limited | 472682NG4 | \$791,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682NG4 | \$3,797,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682NG4 | \$3,455,000.00 |
| Oakford MF Limited | 472682NG4 | \$197,000.00 |
| P Monarch Recovery LTD | 472682NG4 | \$577,000.00 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682NH2 | \$39,850,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
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| Claren Road Credit Master Fund, LTD. | 472682NH2 | \$6,925,000.00 |
| Claren Road Credit Opportunities Master Fund, LTD. | 472682NH2 | \$2,975,000.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682NH2 | \$15,000,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682NJ8 | \$34,250.00 |
| Emerald Eagle Holdings, L.L.C. | 472682NJ8 | \$15,750.00 |
| Glendon Capital Management LP <i>on behalf of its advised accounts</i> | 472682NJ8 | \$225,000.00 |
| Monarch Capital Master Partners II LP | 472682NJ8 | \$2,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682NJ8 | \$6,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682NJ8 | \$62,000.00 |
| P Monarch Recovery LTD | 472682NJ8 | \$30,000.00 |
| Emerald Eagle Holdings South, L.L.C. | 472682NK5 | \$68,500.00 |
| Emerald Eagle Holdings, L.L.C. | 472682NK5 | \$31,500.00 |
| Monarch Capital Master Partners II LP | 472682NK5 | \$1,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682NK5 | \$2,000.00 |
| Monarch Opportunities Master Fund Ltd | 472682NK5 | \$15,000.00 |
| P Monarch Recovery LTD | 472682NK5 | \$7,000.00 |
| Red Mountain Holdings LLC | 472682PJ6 | \$4,918,002.82 |
| Red Mountain Holdings LLC | 472682PJ6 | \$1,448,295.26 |
| Red Mountain Holdings LLC | 472682PJ6 | \$674,970.72 |
| Red Mountain Holdings LLC | 472682PJ6 | \$5,118,831.65 |
| Red Mountain Holdings LLC | 472682PJ6 | \$29,015,611.89 |
| Red Mountain Holdings LLC | 472682PJ6 | \$16,501,131.27 |
| Red Mountain Holdings LLC | 472682PJ6 | \$1,940,704.55 |
| Red Mountain Holdings LLC | 472682PJ6 | \$2,236,623.73 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682PL1 | \$30,000,000.00 |
| Monarch Alternative Solutions Master Fund Ltd | 472682PL1 | \$1,534,000.00 |
| Monarch Capital Master Partners II-A LP | 472682PL1 | \$4,886,000.00 |
| Monarch Debt Recovery Master Fund Ltd | 472682PL1 | \$15,218,947.00 |
| Monarch Opportunities Master Fund Ltd | 472682PL1 | \$9,350,000.00 |
| Monarch Research Alpha Master Fund Ltd | 472682PL1 | \$1,368,000.00 |

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
|--|---------------|-----------------|
| P Monarch Recovery LTD | 472682PL1 | \$1,298,000.00 |
| Stone Lion Capital Partners L.P. <i>on behalf of funds and accounts managed by it</i> | 472682PL1 | \$30,000,000.60 |
| Brigade Capital Management, LLC <i>on behalf of the funds and accounts managed by it</i> | 472682PM9 | \$31,770,000.00 |

Excess Sewer Warrants

| <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
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Exhibit A

Plan Term Sheet

**JEFFERSON COUNTY, ALABAMA:
SUMMARY OF INDICATIVE TERMS FOR
TREATMENT OF SUPPORTING WARRANTHOLDERS
UNDER A CHAPTER 9 PLAN OF ADJUSTMENT**

THIS TERM SHEET (THE “**TERM SHEET**”) DOES NOT CONSTITUTE (NOR SHALL IT BE CONSTRUED AS) AN OFFER WITH RESPECT TO ANY SECURITIES OR A SOLICITATION OF ACCEPTANCES OR REJECTIONS AS TO ANY PLAN OF ADJUSTMENT, IT BEING UNDERSTOOD THAT SUCH A SOLICITATION, IF ANY, WILL ONLY BE MADE IN COMPLIANCE WITH APPLICABLE PROVISIONS OF SECURITIES AND/OR BANKRUPTCY LAWS. THIS TERM SHEET DOES NOT ADDRESS ALL MATERIAL TERMS THAT WOULD BE REQUIRED IN CONNECTION WITH ANY POTENTIAL RESTRUCTURING AND IS SUBJECT TO THE COMPLETION OF DUE DILIGENCE, CREDIT APPROVAL AND DEFINITIVE DOCUMENTS IN FORM AND SUBSTANCE REASONABLY ACCEPTABLE TO THE SUPPORTING WARRANTHOLDERS. THIS TERM SHEET AND THE TRANSACTIONS CONTEMPLATED HEREIN ARE PART OF A PROPOSED SETTLEMENT OF CLAIMS AND DISPUTES AMONG THE COUNTY, JPM AND THE SUPPORTING WARRANTHOLDERS. NOTHING IN THIS TERM SHEET SHALL CONSTITUTE A WAIVER OF ANY RIGHTS WITH RESPECT TO ANY OF THE PROPOSED TERMS CONTAINED HEREIN OR ANY RIGHTS TO MAKE ANY ARGUMENTS OR TAKE ANY POSITIONS CONSISTENT WITH OR CONTRARY TO THE TERMS OF THIS TERM SHEET AND ALL SUCH RIGHTS ARE RESERVED PENDING COMPLETION OF FINAL AGREED DEFINITIVE DOCUMENTATION. THIS TERM SHEET IS SUBJECT IN ALL RESPECTS TO THE TERMS AND CONDITIONS OF THE ACCOMPANYING AD HOC PLAN SUPPORT AGREEMENT.

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| 1. Plan Support Agreement & Time Period | <p>Jefferson County, Alabama (the “County”), JPMorgan Chase Bank, N.A. (“JPM”) and the holders (including any transferee of such holders, the “Supporting Warrantholders”) of \$872,559,361.11 outstanding principal amount of warrants secured by special revenues from the Jefferson County sewer system (the “Sewer Warrants”) issued pursuant to that certain Trust Indenture, dated as of February 1, 1997 (as amended and supplemented, the “Indenture”), by and among the County, as issuer and The Bank of New York Mellon, as successor indenture trustee (the “Indenture Trustee”), will execute an agreement (the “Ad Hoc Plan Support Agreement”) under which [a] the County will announce its support for, file and pursue confirmation of the Plan (as defined below) containing the terms set forth herein and for adoption of sewer rates sufficient to support the Plan and [b] the Supporting Warrantholders will agree to support the Plan; <i>provided, however</i>, that the agreement shall terminate, if not previously terminated, if the effective date of the Plan (the “Effective Date”) does not occur before December 20, 2013 (such date or the earliest date of a termination of the Ad Hoc Plan Support Agreement, the “Termination Date”).</p> <p>As used herein, the term “Plan” shall mean a plan of adjustment containing terms set forth herein, in the Ad Hoc Plan Support Agreement, the JPM plan support agreement and the other plan support agreements described in Section 2 below and otherwise reasonably acceptable to the County, the Supporting Warrantholders and JPM. The Plan shall provide for (i) the consensual allowance and treatment under the Plan of (A) the claims of Supporting Warrantholders against the County; and (B) the sewer related claims of JPM and its affiliates against the County to the extent provided in the JPM plan support agreement; (ii) the settlement and release of all subordination and other claims, causes of action and avoidance actions (including those arising under the Bankruptcy Code or nonbankruptcy law) against JPM or its affiliates and the other PSA Released Parties (as defined below) related to the County, the County sewer system, the Sewer Warrants or any insurance issued in respect of the Sewer Warrants, including any</p> |
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| | <p>such claims, causes of action and avoidance actions of the County, the monoline insurance companies (the “<u>Monolines</u>”; and collectively with the County, JPM, and the Supporting Warrantholders, the “<u>PSA Released Parties</u>”), JPM and its affiliates, the Supporting Warrantholders or other holders of claims against the County, but excluding claims under any applicable wrap insurance policies (x) on account of \$6 million of principal amount of Series 2003-B-8 Sewer Warrants held by FGIC as an investment and (y) exempted in Section 3(e) of the Ad Hoc Plan Support Agreement; and (iii) the dismissal with prejudice or other conclusive resolution acceptable to JPM and the other applicable PSA Released Parties of all pending litigation involving JPM or its affiliates and such other applicable PSA Released Party(ies) related thereto. The broad releases to be incorporated into the Plan will be presented as a resolution of disputed claims inextricably bound with the Plan pursuant to Federal Rule of Bankruptcy Procedure 9019 and will bind all parties in interest (including, without limitation, plaintiffs purporting to assert claims derivatively on the County’s behalf, including, without limitation, in pending adversary proceedings). The Plan will provide for the Bankruptcy Court to issue injunctions enforcing the releases and, to the maximum extent permitted by law, broad exculpations for actions taken by the PSA Released Parties in negotiations and litigation with respect to these matters prior to the filing of the chapter 9 case, in the chapter 9 case, and in any adversary proceedings.</p> |
| 2. Financing Plan & Rate Schedule | <p>By the Commission adopting a resolution directing the President of the Commission to execute each plan support agreement with the Supporting Warrantholders, JPM and the Monolines, including the Ad Hoc Plan Support Agreement, the County shall commit (subject to confirmation and the occurrence of the Effective Date, and in accordance with and pursuant to the Plan) to institute future sewer rate modifications adequate to achieve rate increases of up to 7.41% in each of the first four years after the Effective Date, and up to 3.49% in each year thereafter so long as the new sewer warrants issued under and in connection with the Plan (the “<u>New Sewer Warrants</u>”) remain outstanding (the “<u>Approved Rate Schedule</u>”), consistent with a financing plan containing assumptions regarding an issuance amount, costs of issuance, issuance proceeds, rate forecasts, revenue forecasts, elasticity, operating expenditures and capital expenditures, each as presented for consideration and approval by the Commission simultaneously with the above-referenced plan support agreements (the “<u>Financing Plan</u>”). To the extent the County can issue the New Sewer Warrants, in the amounts required hereunder, by committing to rate increases that are lower than those set forth in the Approved Rate Schedule, the County may do so. In addition, the documents governing the New Sewer Warrants shall contain rate, revenue and other customary covenants permitting the County, following the Effective Date, to institute sewer rate modifications reducing, or requiring the County to institute sewer rate modifications increasing, rates from those set forth in the Approved Rate Schedule, depending on positive or negative variances following the</p> |

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| | <p>Effective Date from the Financing Plan.</p> <p>Following the aforementioned adoptions, the parties will then negotiate reasonably and in good faith any remaining definitive documentation, specifically including the Plan, the Backstop/Put Agreement (as defined below), the indenture for the New Sewer Warrants, the disclosure statement for the Plan, the confirmation order for the Plan and documents ancillary thereto.</p> |
| <p>3. Treatment of Sewer Warrants other than those held by JPM and the Monolines other than \$6 million of principal amount of Series 2003-B-8 Sewer Warrants held by FGIC as an investment (“<u>Other Warrants</u>”)</p> | <p>As a result of the concessions to be made by JPM and the Monolines pursuant to the Plan, including the reallocation from JPM to holders of Other Warrants of a substantial portion of the pro rata recovery that would otherwise be made to JPM and the contribution of consideration by the Monolines through the settlement of claims and the allowance of reallocated amounts from JPM to flow to the holders of Other Warrants, the recovery on all Other Warrants will be increased as set forth below, and the total amount of New Sewer Warrants to be issued pursuant to the Plan will be lower than would otherwise be necessary to implement the Plan. After implementation of the Financing Plan and on the Effective Date, the County shall distribute to the Indenture Trustee on account of Other Warrants (and for ratable distribution by the Indenture Trustee to the beneficial holders of such Other Warrants) cash in an amount equal to:</p> <ul style="list-style-type: none"> a) <u>65%</u> of outstanding principal amount (after giving effect to the payment of Reinstated Principal Payments described below) if the holders of such warrants elect to retain their claims under any applicable wrap insurance policy against the Monolines relating to the County, or elect to retain any claims on account of pre-petition default interest, in each case, if any; <u>or</u> b) <u>80%</u> of outstanding principal amount (after giving effect to payment of Reinstated Principal Payments described below) if the holders of such warrants waive their claims under any insurance policies against the Monolines relating to the County, release any claims against the PSA Released Parties relating to the County, and waive any claims on account of pre-petition default interest, in each case, if any c) <u>plus</u> in each case of [a] and [b], payment in full (from the sources described in Section 4 below, and only such sources) of all Reinstated Interest Payments and all Reinstated Principal Payments. <p>Subject to court approval of a disclosure statement and solicitation in accordance with the Bankruptcy Code, all of the Supporting Warrantholders shall vote to accept the Plan, grant the releases contemplated by the Plan, including, without limitation, of JPM, and elect to receive the treatment set forth in [b], other than as otherwise exempted in Section 3(e) of the Ad Hoc Plan Support Agreement.</p> |

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| 4. Reinstated Principal & Interest Payments | <p>On or about February 1, 2013, the Indenture Trustee declared sewer revenues insufficient to pay all amounts due and payable under the Indenture and thereafter retained, and did not pay to warrant holders, cash that would have been used to pay interest and principal amounts scheduled to become due on and after such date under the terms of the Indenture (without giving effect to any acceleration of indebtedness thereunder). As a part of the standstill on all pending litigation, pursuant to a stipulated form of order to be proposed to effect a standstill in the declaratory judgment action commenced by the Indenture Trustee (the “<u>Declaratory Judgment Action</u>”), the Indenture Trustee will continue to retain such amounts and those that continue to be collected until the earlier of the occurrence of the Effective Date or the Termination Date, as set forth below.</p> <p>The Plan will provide that, to implement a settlement incorporated into the Plan pursuant to Federal Rule of Bankruptcy Procedure 9019 of any and all claims and matters raised in the Declaratory Judgment Action, and any claims related to the reapplication to principal of any interest payments made on the Sewer Warrants during the chapter 9 case, on the Effective Date, all non-default rate interest accrued and unpaid as of the Effective Date (without providing for interest on interest) (“<u>Reinstated Interest Payments</u>”) and all principal amounts which have become due and payable on or after February 1, 2013 and prior to the Effective Date (without giving effect to any acceleration or any accelerated redemption schedule) (“<u>Reinstated Principal Payments</u>”) shall be distributed from funds in the accounts maintained by the Indenture Trustee under the Indenture to the holders of the Sewer Warrants entitled thereto, including payments on the Sewer Warrants held by the Supporting Warrantholders, JPM and the Monolines (including on account of any principal or interest payments made by any Monolines between February 1, 2013 and the Effective Date pursuant to any applicable insurance policies).</p> |
| 5. Backstop/Put Agreement | <p>If the underwriter can sell at least 80% of each of the series of CUSIPs of the New Sewer Warrants but cannot sell the balance in accordance with the Financing Plan because a market clearing price consistent with the Financing Plan does not exist, then the Supporting Warrantholders who commit to purchase New Sewer Warrants under the agreement (the “<u>Backstop/Put Agreement</u>”) 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 of the CUSIPs of the New Sewer Warrants that are being purchased by Supporting Warrantholders who commit to purchase such New Sewer Warrants (with the underwriter to fund the remaining 50% of the shortfall).</p> |
| 6. Backstop/Put Fee; Restriction on Transfer | <p>In accordance with and subject to confirmation of the Plan and the occurrence of the Effective Date, the County will agree to pay each Supporting Warrantholder who signs the Backstop/Put Agreement its pro rata share, based on commitment amount, of a fee in an amount equal to</p> |

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| | <p>1.5% of the principal amount of the Sewer Warrants committed by such Supporting Warrantholder to the backstop/put in cash on the Effective Date.</p> <p>The Ad Hoc Plan Support Agreement and Backstop/Put Agreement will provide that rights and obligations of Supporting Warrantholders committing to purchase New Sewer Warrants may not be assigned or otherwise transferred separately from such Supporting Warrantholders' Sewer Warrants, and vice versa. The Ad Hoc Plan Support Agreement and the Backstop/Put Agreement will further provide that Sewer Warrants held by Supporting Warrantholders, and the rights and obligations under the Backstop/Put Agreement, may not be transferred to or assumed by a third party unless such third party agrees to become a party to, bound by and assume all obligations under both the Ad Hoc Plan Support Agreement and the Backstop/Put Agreement. To the extent a selling Supporting Warrantholder transfers its Sewer Warrants in accordance with the transfer restrictions contemplated by the Ad Hoc Plan Support Agreement and the Backstop/Put Agreement, such selling Supporting Warrantholder will be deemed to relinquish its rights (and be released from its obligations) under such agreements to the extent of such transferred rights and obligations with respect to the transferred Sewer Warrants.</p> |
| 7. JPMorgan Distribution | <p>As a material component of the Supporting Warrantholders' agreement to the transactions described herein to be incorporated into the Ad Hoc Plan Support Agreement (including, without limitation, the agreement to waive all insurance and default interest claims, and to restrict transfer of Sewer Warrants only to parties who agree to become party to and bound by all obligations under the Ad Hoc Plan Support Agreement and the Backstop/Put Agreement) and implemented pursuant to the Plan, which agreement will facilitate the various settlements to be implemented pursuant the Plan and occurrence of the Effective Date, JPM has agreed to the reallocation/distribution to the Supporting Warrantholders of a portion of JPM's Plan recovery (an indefeasible cash recovery on the Effective Date of not less than the dollar amount to be specified in the JPM plan support agreement (plus all Reinstated Interest Payments and any Reinstated Principal Payments), after giving effect to all other concessions by JPM pursuant to or in furtherance of the Plan enhancing the recovery generally of holders of Sewer Warrants and such reallocation/distribution), in an aggregate amount equal to 3.46% of the aggregate outstanding principal amount, not to exceed \$872,559,361.11, of Sewer Warrants held by the Supporting Warrantholders on the Effective Date (after giving effect to Reinstated Principal Payments), which reallocation/distribution shall be payable in cash to each Supporting Warrantholder on a pro rata basis, based on outstanding principal amount (after giving effect to Reinstated Principal Payments) not to exceed \$872,559,361.11 and be conditioned upon confirmation of the Plan and the occurrence of the Effective Date, the continued effectiveness of the Ad Hoc Plan Support Agreement and the Backstop/Put Agreement, the JPM plan support agreement and compliance</p> |

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| | <p>by the Supporting Warrantholders with all of their obligations under or contemplated by the Ad Hoc Plan Support Agreement and the Backstop/Put Agreement.</p> <p><u>Offset of JPM Distribution:</u> Any increase in distributions made generally available from the County to holders of Other Warrants (including the Supporting Warrantholders) in excess of the amount set forth in part [b] in Section 3 shall increase the amount payable in part [b] in Section 3 to the Supporting Warrantholders in respect of their Sewer Warrants and correspondingly reduce the amount of the JPMorgan distribution to the benefitted Supporting Warrantholders pursuant to this Section 7; <i>provided, however,</i> that the JPM distribution shall not be reduced below \$4 million. For the avoidance of doubt, the consideration payable under the Backstop/Put Agreement shall not be subject to reduction herein.</p> |
| 8. Treatment of Sewer Warrant Principal | <p>All distributions on Other Warrants and the Sewer Warrants held by JPM shall be made on account of outstanding principal amount (after giving effect to Reinstated Principal Payments). Except with respect to the calculation of distributions to any holders of bank warrants electing to receive the treatment described in part [a] in Section 3, interest accrued pre-petition at the default rate in excess of the contract rate shall not be applied to increase principal. As part of the settlement referenced above of matters raised in the Declaratory Judgment Action and concerning reapplication of interest to principal, the Plan will provide that 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 Principal Payments) shall be applied or recharacterized to reduce principal.</p> |
| 9. Treatment of Sewer Warrant Interest | <p>As part of the settlement referenced above of matters raised in the Declaratory Judgment Action and concerning reapplication of interest to principal, the Plan will provide that no distribution shall be made on account of post-petition interest accrued in excess of pre-default rates. Under a stipulated form of order to be proposed to effect a standstill in the Declaratory Judgment Action, (i) the County will continue to pay to the Trustee on a monthly basis net revenues of the County's sewer system (without deducting any additional amounts that may be subject to deduction as "Operating Expenses" under the Indenture as a result of any ruling by the Bankruptcy Court regarding pending disputes about actually incurred professional fees in Adv. Proc. No. 12-00016-TBB); (ii) the Trustee, the Supporting Warrantholders and JPMorgan will not present any claims or seek to draw on any insurance policy with respect to any Sewer Warrants; and (iii) the Trustee shall not distribute such sewer revenues to the holders of Sewer Warrants on account of obligations becoming due on or after February 1, 2013, in each case of (i)-(iii), until the earlier of (x) the Effective Date, at which time distributions will be made pursuant to the Plan in accordance with "Reinstated Principal & Interest Payments" above; and</p> |

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| | (y) the Termination Date, after which the all parties' rights shall be reserved and determined as if this Ad Hoc Plan Support Agreement and Term Sheet had never been executed. |
| 10. Market Risk & Other Conditions | <p>The County and the Supporting Warrantholders acknowledge that the transactions described in this Term Sheet are contingent on implementation of the Financing Plan. The County acknowledges that the Financing Plan contemplates the issuance of New Sewer Warrants to produce net proceeds for distribution to sewer creditors under the Plan of approximately \$1.835 billion, which amount excludes the consideration payable under the Backstop/Put Agreement.</p> <p>Adverse changes in financing markets (including, without limitation, increases in market interest rates) shall not constitute a termination event under the Ad Hoc Plan Support Agreement unless the County, in consultation with its financial advisors, reasonably determines in good faith that it is not economically possible to implement the Financing Plan without economic modifications (other than as anticipated in the Financing Plan) adverse to the ratepayers or the sewer system in any material respect. For the avoidance of doubt and without limitation, except to the extent necessary to address (i) an up to a 50 basis point increase in borrowing rates (yields) from those set forth in the Financing Plan (a "<u>Market Shift</u>"), (ii) a decline in actual or projected revenues from those set forth in the Financing Plan having an economic effect equivalent to or less than a Market Shift, or (iii) some combination of increased borrowing rates (yields) and a decline in actual or projected revenues, in each case from those set forth in Financing Plan and in the aggregate having an economic effect equivalent to or less than a Market Shift, under no other circumstances shall the County be required to proceed with an Acceptable Plan if in order to issue the New Sewer Warrants, in the amount required thereunder, the County must make any pre-Effective Date upward adjustment in the Approved Rate Schedule.</p> <p>The transactions described in this Term Sheet are conditioned on: entry of order approving a Disclosure Statement by August 30; Plan confirmation and validation of New Sewer Warrants by November 25; and occurrence of the Effective Date by December 20, 2013.</p> <p>Unless the County reasonably determines on the advice of its lead underwriter that obtaining ratings will increase the rates necessary to repay the New Sewer Warrants, the County shall use reasonable efforts to obtain ratings for the New Sewer Warrants from at least two of the following rating agencies: Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings.</p> <p>The conditions to the Effective Date will include, among things, Bankruptcy Court approval (pursuant to the order confirming the Plan or otherwise) prior to such date of the settlement, releases and other transactions</p> |

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| | <p>contemplated hereby, including payment in cash in full of all of the distributions and other payments provided herein to the Supporting Warrantholders.</p> <p>The conditions to the Effective Date will also include a requirement that the County shall have entered into a settlement agreement with the IRS regarding the pending audit on terms reasonably acceptable to the County and the parties to plan support agreements; <i>provided, however</i>, that if any settlement payment is required to be made to the IRS, such payment shall be payable exclusively from gross sewer revenues or funds in the accounts maintained under the Indenture, including, without limitation, accounts into which net sewer revenues are deposited or have been accumulating after February 1, 2013; <i>provided, further, however</i>, that any such settlement payment shall not reduce the aggregate refinancing consideration paid to sewer creditors, the Reinstated Principal Payments, the Reinstated Interest Payments or any other payments described herein to be paid to sewer creditors under the Plan or in connection therewith.</p> <p>Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6) and the Confirmation Order, confirmation of the Plan shall be a binding judicial determination that the New Sewer Warrants and the covenants made by the County for the benefit of the holders thereof (including, without limitation, the revenue and rate covenants) 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 special revenues, which validation will be set forth in the Plan and confirmation order. Confirmation of the Plan shall also constitute a finding that the Approved Rate Structure complies with the requirements of Bankruptcy Code sections 943(b)(6) and 1129(a)(6). Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6) and the Confirmation Order, confirmation of the Plan shall be a binding judicial determination that the Approved Rate Structure is appropriate and binding on and specifically enforceable against the County, the County Commission, and all parties in interest in accordance with the Plan, including because such Approved Rate Structure is a valid provision made to pay or secure payment of the New Sewer Warrants.</p> <p>The Ad Hoc Plan Support Agreement, the Backstop/Put Agreement, the Plan and other definitive documents shall contain other customary and mutually acceptable terms and conditions, including without limitation provisions relating to achieving a standstill of all sewer-related litigation (including appeals) that has been commenced or threatened since the County filed its bankruptcy case, other than the Lehman Brothers claim priority adversary proceeding; <i>provided, however</i>, that no party shall be required to incur or become obligated in respect of any material liability or</p> |
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| | <p>expense to achieve such a standstill.</p> <p>For the avoidance of doubt, nothing in this term sheet or in the Ad Hoc Plan Support Agreement shall preclude the Supporting Warrantholders from reallocating consideration contemplated by Section 3 and Section 7 among them in such fashion as may be agreed among the affected Supporting Warrantholders.</p> <p>For the avoidance of doubt, neither the County nor JPMorgan shall have any obligation to pay any additional consideration under the Plan or otherwise on account of any Sewer Warrants acquired by any of the Supporting Warrantholders after the execution of the Ad Hoc Plan Support Agreement beyond the consideration that will result from the treatment set forth in parts [b] and [c] of Section 3 above.</p> |
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EXHIBIT B-1

JOINDER TO PLAN SUPPORT AGREEMENT

JOINDER TO PLAN SUPPORT AGREEMENT

This Joinder (“Joinder”) to the Plan Support Agreement (the “PSA”), dated as of June 6, 2013, a copy of which is attached as Annex 1 hereto, by and among Jefferson County, Alabama, JPMorgan Chase Bank, N.A., and the Supporting Warrantholders (collectively, the “Parties”), is executed and delivered by _____ (the “Joining Party”) as of _____, _____.¹

1. Agreement to be Bound by PSA. The Joining Party hereby agrees to become a Party to and, at any time the Joining Party owns Covered Sewer Warrants, to be bound by and timely perform all of the terms and provisions of the PSA (as the same may be hereafter amended, restated or otherwise modified from time to time), and shall hereafter be deemed to have all of the rights and obligations of, and to be, a “Supporting Warrantholder” and a “Party” for all purposes under the PSA; *provided, however*, that, consistent with Section 3 of the PSA, the Transfer of Excess Sewer Warrants shall not be subject to the transfer restrictions contained in Section 3 of the PSA except during the Excess Warrant Restriction Period; *provided, further, however*, that the Joining Party shall not be required to elect to waive any claims with respect to any wrap insurance for any Exempt Excess Sewer Warrants owned by the Joining Party at the time of execution of this Joinder or after acquired.

2. Agreement to be Bound by the Agreement Among Supporting Waranholders: By delivering a signature page to this Joinder, the Joining Party hereby agrees to be bound by and timely perform all of the terms and provisions of the Agreement Among Supporting Warrantholders attached as Annex 3 (as the same may be hereafter amended, restated or otherwise modified from time to time, the “Agreement Among Warrantholders”), shall hereafter be deemed to have all of the rights and obligations of, and to be, a “Supporting Warrantholder” for all purposes under the Agreement Among Warrantholders.

3. Backstop/Put Agreement: Consistent with Section 1(g) of the PSA, [OPTION A] the Joining Party confirms its intention to backstop an offering of New Sewer Warrants as contemplated in the Plan Term Sheet, subject to execution of a Backstop/Put Agreement containing terms and conditions reasonably acceptable to such Supporting Warrantholder and the County (including agreement concerning the terms of the indenture for the New Sewer Warrants), with commitments to be allocated among the Supporting Warrantholders on a pro rata basis based upon the Supporting Warrantholders’ holdings of Eligible Sewer Warrants or on other terms acceptable to each Supporting Warrantholder and the County; OR [OPTION B] by delivering a signature page to this Joinder, the Joining Party hereby agrees to be bound by and timely perform all of the terms and provisions of the Backstop/Put Agreement attached as Annex 4 (as the same may be hereafter amended, restated or otherwise modified from time to time), shall hereafter be deemed to have all of the rights and obligations of, and to be, a “Supporting Warrantholder” for all purposes under the Backstop/Put Agreement.²

¹ Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the PSA.

² [TBD Depending on whether Backstop/Put Agreement has been Executed]

4. Representations and Warranties. With respect to all Eligible Sewer Warrants and other Covered Sewer Warrants held by the Joining Party after giving effect to the transactions as to which this Joinder is being executed (which the Joining Party has listed in full on Annex 2 hereto) and all related rights and causes of action arising out of or in connection with or otherwise relating to such Sewer Warrants, the Joining Party hereby makes all of the representations and warranties of a Supporting Warrantholder set forth in the PSA to each other Party to the PSA, to the extent applicable, including, without limitation, the representations and warranties set forth in Sections 3 and 6 of the PSA, as of the date hereof.

5. Retention of Counsel and Financial Advisors of Supporting Warrantholders. For so long the Joining Party owns Covered Sewer Warrants, the Joining Party shall [OPTION A] retain each of _____, _____, and _____, the current advisors for the Majority Eligible Warrantholders, in accordance with the form of retention letter document provided by such advisor(s) or [OPTION B] not retain separate advisors to participate in discussions involving the Sewer Warrants with JPMorgan or the County and abide by the decisions of the Majority Eligible Warrantholders, even if such Joining Party votes against such a constituency.

6. Governing Law. This Joinder shall be governed by and construed in accordance with the laws of the State of Alabama, without regard to the “choice of law” principles of that or any other jurisdiction. By its execution and delivery of this Joinder, the Joining Party hereby irrevocably and unconditionally agrees that any dispute with respect to this Joinder shall be resolved by the Bankruptcy Court, which shall also have non-exclusive jurisdiction and power to enforce the terms of this Joinder.

Notice Information

Attention: []

[ADDRESS 1]

[ADDRESS 2]

Telephone: []

Facsimile: []

E-mail: []

[NAME OF JOINING PARTY]

By: _____

Name:

Title:

ANNEX 1

Plan Support Agreement

ANNEX 2

Eligible Sewer Warrants

| <u>TRANSFERRING</u> <u>WARRANTHOLDER</u> | <u>NEW</u> <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
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Excess Sewer Warrants

| <u>TRANSFERRING</u> <u>WARRANTHOLDER</u> ³ | <u>NEW</u> <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
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³ List "N/A" for Excess Sewer Warrants not being acquired from an Existing Supporting Warrantholder.

EXHIBIT B-2

MARKETMAKER JOINDER TO PLAN SUPPORT AGREEMENT

MARKETMAKER JOINDER TO PLAN SUPPORT AGREEMENT

This Marketmaker Joinder (“Joinder”) to the Plan Support Agreement (the “PSA”), dated as of June 6, 2013, a copy of which is attached as Annex 1 hereto, by and among Jefferson County, Alabama, JPMorgan Chase Bank, N.A., and the Supporting Warrantholders (collectively, the “Parties”), is executed and delivered by _____ (the “Marketmaker Joining Party”) as of _____, _____.⁴

1. Agreement to Transfer or Join.

(a) As a condition to the settlement of the Transfer, the Marketmaker Joining Party agrees, within [ten (10)] Business Days of the closing of such initial Transfer, to either: (a) Transfer any Eligible Sewer Warrants and, during the Excess Warrant Restriction Period, also transfer Excess Sewer Warrants, acquired from a Supporting Warrantholder to a Supporting Warrantholder or other person (“Subsequent Transferee”) who will execute a Transfer Agreement substantially in the form of Exhibit B-1 or Exhibit B-2 to the PSA, as applicable; or (b) if a Transfer cannot be completed during such time period, to itself execute a Transfer Agreement substantially in the form of Exhibit B-1 to the PSA. Only the Subsequent Transferee (and not the Marketmaker Joining Party, unless it later executes a Transfer Agreement substantially in the form of Exhibit B-1) shall agree to be bound by and be required to timely perform all of the terms and provisions of the PSA (as the same may be hereafter amended, restated or otherwise modified from time to time), and shall hereafter be deemed to have all of the rights and obligations of, and to be, a “Supporting Warrantholder” and a “Party” for all purposes under the PSA.

(b) Notwithstanding the foregoing, to the extent that a Marketmaker Joining Party has acquired, in connection with an execution of a joinder to the PSA, Eligible Sewer Warrants or Excess Sewer Warrants, as applicable, and continues to hold such Sewer Warrants on the Ballot Submission Deadline, such Marketmaker Joining Party shall be required to vote such Sewer Warrants and make such elections as are required under the PSA solely with respect to such Sewer Warrants.

(c) For the avoidance of doubt, in the event the Marketmaker Joining Party is required to execute a Transfer Agreement substantially in the form of Exhibit B-1 to the PSA or is required to comply with the requirements in Section 1(a) and (b) of this Joinder, the transfer restrictions in Section 3 of the PSA or other obligations under the PSA shall not apply to any other Sewer Warrants or other claims against the County such Marketmaker Joining Party owns on such date or later acquires solely to the extent such Party holds such Sewer Warrants or other claims in its capacity as a Qualified Marketmaker; *provided, however*, that if the Marketmaker Joining Party acquires applicable Covered Sewer Warrants from a Supporting Warrantholder in any capacity it must otherwise comply with the obligations in the respective joinder (Exhibits B-1 or B-2) with respect to such Covered Sewer Warrants it is required to execute (if any) in connection with such transaction.

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Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the PSA.

2. Representations and Warranties. The Marketmaker Joining Party represents and warrants that it is acquiring the applicable Covered Sewer Warrants listed on Annex 2 hereto subject to the PSA with the purpose and intent of acting as a Qualified Marketmaker for such Sewer Warrants. The Marketmaker Joining Party disclaims any other representations, warranties and covenants under the PSA of a “Supporting Warrantholder” other than the covenant to transfer or become bound and vote or make such elections with respect to any Eligible Sewer Warrants or Excess Sewer Warrants, as applicable, owned on the Ballot Submission Deadline in accordance with the PSA as contemplated by Section 1 herein.

3. Governing Law. This Joinder shall be governed by and construed in accordance with the laws of the State of Alabama, without regard to the “choice of law” principles of that or any other jurisdiction. By its execution and delivery of this Joinder, the Joining Party hereby irrevocably and unconditionally agrees that any dispute with respect to this Joinder shall be resolved by the Bankruptcy Court, which shall also have non-exclusive jurisdiction and power to enforce the terms of this Joinder.

Notice Information

Attention: []

[ADDRESS 1]

[ADDRESS 2]

Telephone: []

Facsimile: []

E-mail: []

[NAME OF JOINING PARTY]

By: _____

Name:

Title:

ANNEX 1

Plan Support Agreement

ANNEX 2

Eligible Sewer Warrants

| <u>TRANSFERRING</u> <u>WARRANTHOLDER</u> | <u>NEW</u> <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
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Excess Sewer Warrants

| <u>TRANSFERRING</u> <u>WARRANTHOLDER</u> | <u>NEW</u> <u>WARRANTHOLDER</u> | <u>CUSIP#</u> | <u>AMOUNT</u> |
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Exhibit C

Form of Sewer Warrant Insurer PSA

[EXHIBIT INTENTIONALLY OMITTED]

Exhibit D

Form of JPMorgan PSA

[EXHIBIT INTENTIONALLY OMITTED]

PLAN SUPPORT AGREEMENT

THIS PLAN SUPPORT AGREEMENT DOES NOT CONSTITUTE A VOTE TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN OR A SOLICITATION OF VOTES TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN; ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED OR MADE UNTIL THE BANKRUPTCY COURT APPROVES A DISCLOSURE STATEMENT RESPECTING A PLAN

This PLAN SUPPORT AGREEMENT (as it may be amended or supplemented from time to time in accordance with the terms hereof, and collectively with each of the exhibits and schedules attached hereto, including the plan term sheet attached hereto as **Exhibit A** (the “**Plan Term Sheet**”), which are expressly incorporated herein by reference, this “**Agreement**”), dated as of June 6, 2013, is made and entered into by and among Jefferson County, Alabama (the “**County**”), on the one hand, and Assured Guaranty Municipal Corp., as successor to Financial Security Assurance, Inc. (“**Assured**”), Financial Guaranty Insurance Company (“**FGIC**”), and Syncora Guarantee Inc., f/k/a XL Capital Assurance Inc. (“**Syncora**” and collectively with Assured and FGIC, the “**Sewer Warrant Insurers**”), on the other hand. Each of the Sewer Warrant Insurers and the County are referred to herein as a “**Party**” and collectively as the “**Parties**.” Any capitalized term used but not defined in this Agreement shall have the meaning ascribed to that term in the Plan Term Sheet. The Plan Term Sheet constitutes an integral part of this Agreement.

RECITALS

WHEREAS, pursuant to a Trust Indenture, dated as of February 1, 1997 (as supplemented by eleven supplemental indentures through the date hereof, the “**Indenture**”), between the County and The Bank of New York Mellon, as indenture trustee and successor to AmSouth Bank of Alabama (in such capacity, the “**Trustee**”), the County issued approximately \$3.6 billion principal amount of warrants secured by the net revenues of the County’s sewer system (the “**Sewer Warrants**”);

WHEREAS, in connection with the issuance of certain series of the Sewer Warrants, the following policies were issued by the applicable Sewer Warrant Insurer: (i) that certain *Municipal Bond New Issue Insurance Policy* number 97010082 issued by FGIC on or around February 27, 1997; (ii) that certain *Municipal Bond New Issue Insurance Policy* number 01010225 issued by FGIC on or around March 22, 2001; (iii) that certain *Municipal Bond New Issue Insurance Policy* number 02010251 issued by FGIC on or around March 6, 2002; (iv) that certain *Municipal Bond Insurance Policy* number CA00370A issued by Syncora on or around October 25, 2002; (v) that certain *Municipal Bond New Issue Insurance Policy* number 03010448 issued by FGIC on or around May 1, 2003; (vi) that certain *Municipal Bond Insurance Policy* number 200777-N issued by Assured on or around May 1, 2003; (vii) that certain *Municipal Bond Insurance Policy* number CA00522A issued by Syncora on or around May 1, 2003; (viii) that certain *Municipal Bond New Issue Insurance Policy* number 03010824 issued by FGIC on or around August 7, 2003; and (ix) that certain *Municipal Bond Insurance Policy* number 201371-N issued by Assured on or around August 7, 2003 (collectively, the “**Sewer Wrap Policies**”);

WHEREAS, in connection with the issuance of certain series of Sewer Warrants and in order to satisfy certain requirements under the Indenture, the following policies were issued by the applicable Sewer Warrant Insurer: (i) that certain *Municipal Bond Debt Service Reserve Fund Policy* number 01010226 issued by FGIC on or around March 22, 2001; (ii) that certain *Municipal Bond Debt Service Reserve Fund Policy* number 02010252 issued by FGIC on or around March 6, 2002; (iii) that certain *Debt Service Reserve Insurance Policy* number CA01568A issued by Syncora on or around December 30, 2004; and (iv) that certain *Municipal Bond Debt Service Reserve Insurance Policy* number 201371-R issued by Assured on or around April 1, 2005 (collectively, the “Sewer DSRF Policies”);

WHEREAS, in connection with the issuance of the Sewer DSRF Policies, the County entered into the following agreements: (i) that certain *Debt Service Reserve Fund Policy Agreement* dated as of March 22, 2001, by and between the County and FGIC; (ii) that certain *Debt Service Reserve Fund Policy Agreement* dated as of March 6, 2002, by and between the County and FGIC; (iii) that certain *Financial Guaranty Agreement* dated as of December 30, 2004, by and between the County and Syncora; and (iv) that certain *Insurance Agreement* dated as of April 1, 2005, by and between the County and Assured (collectively, the “Sewer DSRF Reimbursement Agreements”);

WHEREAS, in connection with the issuance of certain series of the Sewer Warrants, the County entered into a series of standby warrant purchase agreements (each a “Standby Agreement”);

WHEREAS, on November 9, 2011, the County filed a 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, each of the Sewer Warrant Insurers has filed claims in the Bankruptcy Case against the County asserting rights to be paid various amounts arising from or in connection with the Sewer Wrap Policies, the Sewer DSRF Policies, and the Sewer DSRF Reimbursement Agreements, including on account of certain Sewer Warrants that are individually held by certain of the Sewer Warrant Insurers (collectively and with any and all other claims of the Sewer Warrant Insurers, whatever the origin or nature, the “Sewer Warrant Insurer Claims”);

WHEREAS, the County disputes the Sewer Warrant Insurers’ entitlements with respect to certain of the Sewer Warrant Insurer Claims (including with respect to the allowability, secured status, amount, and priority of certain of such claims), and the Sewer Warrant Insurers dispute the County’s contentions;

WHEREAS, on June 28, 2012, the Supreme Court of the State of New York (the “FGIC Rehabilitation Court”) appointed Benjamin M. Lawskey, Superintendent of Financial Services of the State of New York, solely in his capacity as the rehabilitator (the “Rehabilitator”) of FGIC in the matter styled as *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012 (the “FGIC Rehabilitation Proceeding”);

WHEREAS, notwithstanding any representation or warranty by, or provision of this Agreement applicable to, FGIC, FGIC's obligations hereunder (and any applicable representations, warranties, or provisions herein) are expressly subject to the Rehabilitator obtaining an order in the FGIC Rehabilitation Proceeding approving FGIC's execution and performance of this Agreement no later than June 28, 2013 (or such later date as the County, FGIC, and the Rehabilitator may agree in writing for obtaining such approval);

WHEREAS, on or about February 6, 2013, the Trustee commenced an adversary proceeding against the County, Syncora, and Assured 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 (the "Declaratory Judgment Action");

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, each Party has agreed to support and implement a restructuring transaction in accordance with the terms and conditions of the Plan Term Sheet and this Agreement (the "Restructuring") pursuant to an Acceptable Plan (as defined below);

WHEREAS, the County is contemporaneously entering into a plan support agreement (the "JPMorgan PSA") with JPMorgan Chase Bank, N.A. ("JPMorgan") and a plan support agreement (the "Supporting Warrantholder PSA") with certain members of an ad hoc group of holders of Sewer Warrants (the "Supporting Warrantholders" and collectively with JPMorgan and the Sewer Warrant Insurers, the "Plan Support Parties");

WHEREAS, the County previously entered into a plan support agreement dated as of May 13, 2013 (the "GO PSA") with JPMorgan, Bayerische Landesbank, New York branch (formerly known as Bayerische Landesbank Girozentrale), and Wells Fargo Bank, National Association, as indenture trustee, in respect of the County's Series 2001-B general obligation warrants and related claims;

WHEREAS, the Sewer Warrant Insurers are contemporaneously entering into certain agreements among themselves (to which the County is not a party) in order to address, among other things, how the consideration payable to the Sewer Warrant Insurers pursuant to an Acceptable Plan (as defined below) shall be distributed and allocated among the Sewer Warrant Insurers and pursuant to the commutation of reinsurance agreements between and among the Sewer Warrant Insurers related to the Sewer Warrants (collectively, the "Sewer Warrant Insurers Agreements");

WHEREAS, in expressing such support and commitment, the Parties recognize that this Agreement is subject to and limited by the solicitation requirements of applicable bankruptcy law;

NOW, THEREFORE, in consideration of the foregoing and the promises, 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. Restructuring and Plan Support.

(a) The County shall 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, this Agreement and the Plan Term Sheet (an “Acceptable Plan”) and to meet the deadlines set forth in Section 7.1(o) hereof. The County shall exercise all reasonable efforts to obtain required regulatory and/or third-party approvals, if any, necessary to consummate the Restructuring.

(b) The County shall provide to the professionals representing the Sewer Warrant Insurers (the “Insurer Professionals”) draft copies of all pleadings and documents related to any Acceptable Plan, the Restructuring, or any of the transactions contemplated thereby as soon as reasonably practicable with reasonable time to review and comment prior to the filing of same with the applicable court. The Insurer Professionals will review and provide any comments on all draft pleadings and documents as soon as reasonably practicable with reasonable time for the County to consider and address any comments. Each Party will cooperate, negotiate, and otherwise work with each other Party in good faith to ensure that such pleadings and documents (including any amendments thereto), including an Acceptable Plan, a Disclosure Statement (as defined below), and a Confirmation Order (as defined below), incorporate the provisions of, and are otherwise materially consistent with, this Agreement and the Plan Term Sheet, and otherwise acceptable to the Parties.

(c) The County shall not take any action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, or an Acceptable Plan, or that would delay or otherwise impede approval of the Disclosure Statement (as defined below) or an Acceptable Plan, or the expeditious confirmation and consummation of an Acceptable Plan including consummation of the Restructuring.

(d) The County shall 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.

(e) Each of the Sewer Warrant Insurers shall (i) use all reasonable efforts to support confirmation of an Acceptable Plan; (ii) subject to Bankruptcy Code sections 1125 and 1126, timely vote all Sewer Warrant Insurer Claims to accept an Acceptable Plan and not change or withdraw (or cause to be changed or withdrawn) such vote except pursuant to Section 7.4; *provided*, that for the purposes of the Sewer Warrant Insurers voting to accept an Acceptable Plan (including as provided in this Section 1(e)), the term “Sewer Warrant Insurer Claims” shall not include any claims on account of Sewer Warrants that are insured, but not owned, by a Sewer Warrant Insurer, but shall include claims that arise under the Sewer DSRF Reimbursement

Agreements or on account of any principal or interest scheduled to become payable on or after February 1, 2013, that is paid by such Sewer Warrant Insurer and the FGIC Assured-Insured Warrants; and (iii) subject to the occurrence of the Effective Date of an Acceptable Plan, provide a release of the County and all other Plan Support Parties in accordance with this Agreement, the Plan Term Sheet, and an Acceptable Plan. For the avoidance of doubt, such releases shall not release any rights of the Sewer Warrant Insurers (x) *vis-à-vis* each other to the extent not released in or reserved in any Sewer Warrant Insurers Agreement, (y) under an Acceptable Plan or the Tail Risk Payment Agreements, and (z) of FGIC against Assured under any Sewer Wrap Policies issued by Assured insuring the FGIC Assured-Insured Warrants.

(f) No Party will contest any other Party's ability to appear as a party-in-interest in any matter to be adjudicated in the Bankruptcy Case if such appearance and the positions advocated in connection therewith (i) are not inconsistent with this Agreement, and are not for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; or (ii) are for the purposes of contesting whether any matter, fact, or thing, is a breach of, or inconsistent with, this Agreement or to otherwise enforce this Agreement.

(g) This Agreement is not and shall not be deemed to be a solicitation of or votes for the acceptance or rejection of any chapter 9 plan for the purposes of Bankruptcy Code sections 1125 and 1126 or otherwise. There will be no solicitation of acceptances of the Sewer Warrant Insurers or any other creditors with respect to an Acceptable Plan until such parties have received a disclosure statement for an Acceptable Plan (the "Disclosure Statement"), any supplements thereto, and related ballot, in each case as approved by the Bankruptcy Court, and in each case in accordance with the Bankruptcy Code and negotiated consistent with Section 1(b). 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.

(h) The Sewer Warrant Insurers will have the right to approve all provisions of the following documents (including any amendments thereto) that would potentially affect a right, obligation, or interest of the applicable Sewer Warrant Insurer prior to any such document being filed or distributed to claim holders as part of the solicitation process approved by the Bankruptcy Court, and the County agrees that such documents will incorporate the provisions of, and otherwise be materially consistent with, this Agreement and the Plan Term Sheet: (i) an Acceptable Plan (and any subsequent amendments thereto), including the releases and injunctions to be incorporated into an Acceptable Plan and into the order confirming an Acceptable Plan (the "Confirmation Order"); (ii) the notice and other procedures for soliciting votes on an Acceptable Plan and affirmative or deemed elections with respect to the Commutation Election, including the work to be done by KCC (or any other entity retained by the County acceptable to the Sewer Warrant Insurers) as a solicitation agent acceptable to the Sewer Warrant Insurers, which will take all reasonable efforts as approved by the Bankruptcy Court to provide holders of Class 1-A claims with actual notice regarding the Commutation Election and an Acceptable Plan (the "Solicitation Procedures"), including the ballots or such other documents that contain the Commutation Election (the "Solicitation Ballots") and any

affidavit of service to be filed by KCC (or any other agent) in connection therewith; (iii) the Disclosure Statement, including the description of the Solicitation Procedures set forth in the Disclosure Statement and any other document to be distributed to holders of Class 1-A claims and the form of the Solicitation Ballots; (iv) procedures by which holders of Class 1-A claims that do not vote or make the Commutation Election, or that elect to both make and not make the Commutation Election, are deemed to have made such an election (the “Commutation Election Procedures”); (v) procedures by which holders of Series 2003-C-9 or 2003-C-10 Sewer Warrants insured by Assured, who have been “deemed” to make the Commutation Election, will be notified of their right to rescind such “deemed” Commutation Election by providing written notice thereof to KCC (or any other agent), Assured, and the County within not less than 29 calendar days after the deadline for making the Commutation Election (the “Rescission Procedures”); (vi) the order or orders approving the Disclosure Statement, Solicitation Procedures, form of Solicitation Ballots, Commutation Election Procedures, and Rescission Procedures; (vii) the Confirmation Order; (viii) the Stipulated Order (as defined below); (ix) the Tail Risk Payment Agreements; (x) all other related Acceptable Plan and closing documentation; and (xi) any other document which is subject to approval by the Sewer Warrant Insurers pursuant to the Plan Term Sheet. The County shall provide the Insurer Professionals with a copy of the ballot tabulation and Commutation Election results (after giving effect to any rescissions exercised by any holders of the Series 2003-C-9 or 2003-C-10 sewer warrants insured by Assured) within one (1) business day of the completion of the report of such results by KCC (or any other agent) and the County.

(i) Whenever this Agreement provides that any Party has the “right to approve” a document or that a document must be “acceptable” or “satisfactory” to a Party, such requirement shall in each case be subject to a reasonableness qualifier; *provided, however*, that the Acceptable Plan must in all events incorporate the provisions which are stated in this Agreement and the Plan Term Sheet to be included in an Acceptable Plan.

Section 2. Litigation Standstill.

(a) For purposes of this Agreement, the following terms shall have the following meanings:

(i) “Litigation” shall mean any litigation that is related to the County, the Bankruptcy Case, the Sewer Warrants (including any financing or other transactions entered into in connection therewith), or insurance issued in respect of the Sewer Warrants (in each case, whether pending before the Bankruptcy Court or before any other court), but excluding (v) any litigation to enforce, interpret, or implement this Agreement, an Acceptable Plan, the Restructuring, or any document executed in connection therewith; (w) the pending adversary proceeding concerning the priority of the Lehman Brothers swap claim, Adv. Proc. No. 12-00149-TBB; (x) the FGIC Rehabilitation Proceeding, except for any actions taken in the FGIC Rehabilitation Proceeding for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; (y) any litigation involving any dispute between a holder of Sewer Warrants (or the Trustee) and a Sewer Warrant Insurer (including litigation in the FGIC Rehabilitation Proceeding) concerning the rights of such holder

as compared to any Sewer Warrant Insurer, with respect to who owns, controls, and may exercise all rights arising out of or in connection with Sewer Warrants that are beneficially owned by such holder and insured by such Sewer Warrant Insurer (but not with respect to any Sewer Warrants or other rights held by any of the Sewer Warrant Insurers as a result of payments made or to be made under any of the Sewer Wrap Policies or any of the Sewer DSRF Policies); and (z) any litigation permitted by Section 1(f).

(ii) “Reasonable Steps” for purposes of this Agreement shall mean, in furtherance of a suspension or standstill of all Litigation pending on the date hereof that is satisfactory to all the Parties (the “Litigation Standstill,” which for the avoidance of doubt will include the Stipulated Order (as defined below)), the Sewer Warrant Insurers providing all reasonable support to the County in prosecuting a motion in the Bankruptcy Court for appropriate relief to achieve such Litigation Standstill, but shall exclude (x) any obligation of the Sewer Warrant Insurers to cause any person to take any actions which it is not permitted to take under applicable law or by contract; and (y) any action (or inaction) of the Sewer Warrant Insurers, including commencing or continuing any action in the Bankruptcy Court or other court, that could (in the reasonable judgment of such Sewer Warrant Insurer) expose any such Sewer Warrant Insurer to liability (contingent or otherwise) or unreimbursed material expense.

(b) Each Party agrees that it shall (i) not commence any new Litigation against any other Party or any other Plan Support Party and shall not prosecute and shall exercise all reasonable efforts to suspend any existing Litigation against any other Party or any other Plan Support Party and (ii) in connection with any such Litigation, take no action inconsistent with the Restructuring contemplated by this Agreement and an Acceptable Plan; *provided, however*, that no action, matter, or proceeding excluded from the definition of Litigation in Section 2(a)(i) shall be or shall be deemed to be an action inconsistent with the Restructuring or an Acceptable Plan.

(c) The Sewer Warrant Insurers shall take Reasonable Steps to obtain and implement the Litigation Standstill that will remain in effect until the earlier of (x) the Effective Date of an Acceptable Plan or (y) termination of this Agreement in accordance with Section 7.

(d) As part of the Litigation Standstill, without modifying the Indenture, any Standby Agreement, or any of the Sewer Wrap Policies and Sewer DSRF Policies, pursuant to a stipulated form of order acceptable to the County and each of the Sewer Warrant Insurers (the “Stipulated Order”) to effect a standstill or suspension of the Declaratory Judgment Action, (i) the County will continue to pay to the Trustee on a monthly basis net revenues of the County’s sewer system (without deducting any additional amounts that may be subject to deduction as “Operating Expenses” under the Indenture as a result of any ruling by the Bankruptcy Court regarding pending disputes about actually incurred professional fees in Adv. Proc. No. 12-00016-TBB); (ii) the Trustee will not, and the Plan Support Parties will not direct or cause the Trustee to, present any claims or seek to draw on any Sewer Wrap Policies or Sewer DSRF Policies; and (iii) the Trustee shall not distribute such sewer revenues to the holders of Sewer Warrants on account of obligations becoming due on or after February 1, 2013, in each case of Sections 2(d)(i)-(iii), until the earlier of (x) the Effective Date, at which time distributions will be made pursuant to an Acceptable Plan as set forth in the Plan Term Sheet; and (y) the date of the

termination of this Agreement in accordance with Section 7 of the Agreement, other than under Section 7.1(x) of the Agreement, after which the Parties' rights shall be reserved and determined as if this Agreement and Plan Term Sheet had never been executed.

(e) So long as none of this Agreement, the Supporting Warrantholder PSA, or the JPMorgan PSA has been terminated, FGIC shall not assert a claim against any Sewer Warrant Insurer, demand payment from any Sewer Warrant Insurer, or institute or prosecute any litigation to obtain payment from any Sewer Warrant Insurer in respect of any insurance policy issued by such Sewer Warrant Insurer insuring any of the FGIC Assured-Insured Warrants, or direct or cause the Trustee to do any of the foregoing; *provided, however*, that nothing herein shall limit the rights of FGIC to take action excluded from the definition of Litigation in Section 2(a)(i)(x) or (y).

Section 3. Representations and Covenants Regarding Claims.

(a) FGIC represents that as of the date of this Agreement, FGIC owns (i) Series 2002-A Sewer Warrants in the principal amount of \$101,465,000, and (ii) Series 2003-B-8 Sewer Warrants in the principal amount of \$6,000,000 and retains all rights to vote any claims arising from or related to such Sewer Warrants to accept an Acceptable Plan. Syncora represents that as of the date of this Agreement, Syncora owns Sewer Warrants in the principal amount of \$214,191,875.11 and retains all rights to vote any claims arising from or related to such Sewer Warrants to accept an Acceptable Plan. Assured represents that as of the date of this Agreement, Assured owns Sewer Warrants in the principal amount of \$20,375,000 and retains all rights to vote any claims arising from or related to such Sewer Warrants to accept an Acceptable Plan. Each Sewer Warrant Insurer represents that as of the date of this Agreement, and except (i) pursuant to any applicable reinsurance, settlement, or commutation agreements entered into prior to the date hereof; (ii) as may have occurred or is alleged to have occurred as the result of the commencement of a rehabilitation proceeding with respect to such insurer or such insurer's inability to pay claims in full; or (iii) pursuant to a stipulation, agreement, or court order described in Section 3(c) below, it has made no prior Transfer (as defined below), and has not entered into any other agreement to assign, sell, participate, grant, convey or otherwise transfer, in whole or in part, any portion of its right, title, or interest in any Sewer Warrant Insurer Claims held by such Sewer Warrant Insurer that are inconsistent with, or in violation of, the representations and warranties of such Sewer Warrant Insurer herein, in violation of its obligations under this Agreement or that would adversely affect in any way such Sewer Warrant Insurer's performance of its obligations under this Agreement at the time such obligations are required to be performed.

(b) Each Sewer Warrant Insurer covenants that, from the date hereof until the termination of this Agreement in accordance with Section 7 of the Agreement, it will not sell, pledge, hypothecate, or otherwise transfer, assign or dispose of any of its Sewer Warrant Insurer Claims (including any Sewer Warrants), or grant any option, right to acquire, or voting, participation, or other interest therein to any person or entity (any such transfer, disposition, or grant, a "Transfer"). Any attempt to Transfer any Sewer Warrant Insurer Claims or related rights or interests therein from the date hereof until the termination of this Agreement in accordance

with Section 7 of this Agreement shall be deemed ineffective, including with regard to any right to accept or reject an Acceptable Plan or the Restructuring, and shall be deemed void *ab initio*.

(c) Notwithstanding the foregoing, each of (i) any applicable reinsurance, settlement, or commutation agreements entered into prior to the date hereof; (ii) any transfer that may have occurred or is alleged to have occurred as the result of the commencement of a rehabilitation proceeding with respect to a Sewer Warrant Insurer or such insurer's inability to pay claims in full; and (iii) any stipulation, other agreement, or court order resolving or otherwise addressing any dispute between one or more holders of Sewer Warrants (or the Trustee) and a Sewer Warrant Insurer (including litigation in the FGIC Rehabilitation Proceeding) concerning the rights of holders, as compared to any Sewer Warrant Insurer, with respect to who owns, controls, and may exercise all rights arising out of or in connection with Sewer Warrants that are beneficially owned by holders and insured by such Sewer Warrant Insurer shall not constitute a "Transfer" under this Agreement.

(d) This Agreement shall in no way be construed to preclude any Sewer Warrant Insurer from acquiring additional Sewer Warrants or any claims directly related thereto as a result of such Sewer Warrant Insurer making payment under any applicable Sewer Wrap Policy or Sewer DSRF Policies on account of regularly scheduled principal or interest due on Sewer Warrants insured by such Sewer Warrant Insurer; *provided, however*, that any additional Sewer Warrants or claims against the County directly related thereto so acquired by any Sewer Warrant Insurer shall automatically be deemed to be subject to the terms of this Agreement, including the voting requirements set forth in Section 1 hereof, and the Sewer Warrant Insurer's rights to receive payments on account of such Sewer Warrants as part of the Insurer Outlay Amount set forth in the Plan Term Sheet.

Section 4. Additional County Covenants and Determinations.

(a) The County represents that the JPMorgan PSA and the Supporting Warrantholder PSA have been executed and delivered contemporaneously with the execution and delivery of this Agreement by all parties thereto in the forms attached as Exhibit B and Exhibit C, respectively, and that the Supporting Warrantholders as of the date of the Supporting Warrantholder PSA have represented in the Supporting Warrantholder PSA that they hold in the aggregate no less than \$872,559,361.11 principal amount of Sewer Warrants as of the date of the Supporting Warrantholder PSA.

(b) The County represents that as of the date of the County's execution hereof, the County has determined in good faith that based on the Financing Plan, an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an Acceptable Plan as set forth in the Plan Term Sheet. The County agrees that it shall further represent that (i) as of the date on which the Disclosure Statement is approved by the Bankruptcy Court, and (ii) as of the date on which a confirmation hearing begins with respect to an Acceptable Plan, the County in each case has still determined in good faith that based on the Financing Plan (as it may have been amended prior to each such date in accordance with the terms of this Agreement), an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an

Acceptable Plan as set forth in the Plan Term Sheet. The County agrees that an Acceptable Plan will provide that the aggregate consideration from issuance of New Sewer Warrants and other sources of cash to be paid under an Acceptable Plan to the Sewer Warrant creditors (including the Plan Support Parties) shall be approximately \$1.835 billion (assuming only for purposes of setting forth such aggregate consideration that the Tail Risk is equal to exactly \$25 million), plus the distribution of Accumulated Revenues pursuant to an Acceptable Plan as set forth in the Plan Term Sheet.

(c) The County shall provide written notice to the Sewer Warrant Insurers of any termination of, amendment to, or written notice of potential termination of the JPMorgan PSA, the Supporting Warrantholder PSA, or the GO PSA within one (1) business day of any such termination, amendment, or written notice. The written notice that the County must provide to the Sewer Warrant Insurers under the immediately preceding sentence shall include a copy of any applicable amendment, notice of termination, or notice of potential termination.

(d) The County shall provide written notice to the Sewer Warrant Insurers of any amendment to the Financing Plan within one (1) business day of any such amendment, which written notice shall include a copy of any such amendment. The County represents that any amendment to the Financing Plan shall be a publicly available document.

(e) The County shall provide the Insurer Professionals a copy of the update of the relevant portion of Schedule 1 of the Supporting Warrantholder PSA that is required under Section 3(f) of the Supporting Warrantholder PSA within one (1) business day of the County's receipt of such update from the Supporting Warrantholders.

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 Bankruptcy Code sections 1125 and 1126 and approval by the FGIC Rehabilitation Court (in the case of FGIC), this Agreement is a legal, valid, and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as enforcement may be limited by applicable laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability, and the actions to be taken by such Party, including in respect of the Restructuring contemplated by this Agreement, are within such Party's powers and have been duly authorized by all necessary action on its part.

(b) Subject to approval by the FGIC Rehabilitation Court (in the case of FGIC), the execution, delivery, and performance of this Agreement by such Party does not and shall not: (i) violate any law, rule, or regulation applicable to such Party or any of its subsidiaries, as applicable; (ii) violate its certificate of incorporation, bylaws, or other organizational documents or those of any of its subsidiaries, as applicable; 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, as applicable, is a party.

(c) Subject to the provisions of Bankruptcy Code sections 1125 and 1126, and except for the FGIC Rehabilitation Court (in the case of FGIC) and the approval by the Jefferson County Commission (in the case of the County, which approval has been obtained as set forth below), 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. The County represents that 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 County's execution and delivery of this Agreement, and the Jefferson County Commission has duly approved and authorized the execution, delivery, and performance of this Agreement by the County.

Section 6. Support Commitments.

(a) In connection with the agreement of the County to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this Agreement has not been terminated in accordance with Section 7, the County shall use all reasonable efforts to:

(i) file a Disclosure Statement and an Acceptable Plan prior to the deadline set forth in Section 7.1(o)(i) of this Agreement;

(ii) 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 the deadlines set forth in Section 7.1(o)(ii)-(iv) of this Agreement, which Confirmation Order shall be satisfactory to the Sewer Warrant Insurers;

(iii) cause the Effective Date of an Acceptable Plan to occur prior to the Outside Date;

(iv) negotiate in good faith with the other 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, including the documents identified in Section 1(h); and

(v) take no action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, 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 or consummation of the Restructuring by the deadlines set forth in Section 7.1(o) of this Agreement.

(b) In connection with the agreement of the Sewer Warrant Insurers to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring,

as long as this Agreement has not been terminated in accordance with Section 7, each of the Sewer Warrant Insurers shall use all reasonable efforts to:

(i) not object to, challenge, or otherwise commence or participate in any proceeding opposing any of the terms of the Restructuring contemplated by this Agreement and an Acceptable Plan;

(ii) not seek or support appointment of a trustee for the County under Bankruptcy Code section 926(a) or dismissal of the Bankruptcy Case;

(iii) to the extent available, without any Party conceding its applicability, not make or affirmatively reject any election for the application of Bankruptcy Code section 1111(b)(2) to any claims arising from or in connection with the Indenture, the Sewer Wrap Policies, the Sewer DSRF Policies, the Sewer DSRF Reimbursement Agreements, or any Sewer Warrants;

(iv) in furtherance of the Litigation Standstill, not seek or support the reinstatement of control over the sewer system or sewer rate-setting in the receiver appointed by the Alabama state court or any other receiver;

(v) negotiate in good faith with the other 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, including the documents identified in Section 1(h); and

(vi) take no action (directly or indirectly) that is inconsistent with this Agreement, the Plan Term Sheet, or an Acceptable Plan, or that would delay or otherwise impede approval of the Disclosure Statement for an Acceptable Plan or the expeditious confirmation and consummation of an Acceptable Plan or consummation of the Restructuring by the deadlines set forth in Section 7.1(o) of this Agreement.

Section 7. Termination & Default.

7.1. Events of Termination & Default.

(a) The County and the Sewer Warrant Insurers may collectively terminate this Agreement by written agreement.

(b) If the County provides written notice to each other Party that the County, in consultation with its financial advisors, has reasonably determined in good faith that it is not economically possible to consummate an Acceptable Plan in accordance with the Financing Plan without economic modifications (other than as anticipated in the Financing Plan) adverse to the ratepayers or the sewer system in any material respect, which such notice must specify the basis for such a determination, and does not rescind such notice within fifteen (15) calendar days of the date on which such notice is provided, then the County or any of the Sewer Warrant Insurers may terminate this Agreement by giving a second written notice to each other Party within

twenty (20) calendar days of the first written notice. For the avoidance of doubt and without limitation, except to the extent necessary to address (i) an up to a 50 basis point increase in borrowing rates (yields) from those set forth in the Financing Plan (a "Market Shift"), (ii) a decline in actual or projected revenues from those set forth in the Financing Plan having an economic effect equivalent to or less than a Market Shift, or (iii) some combination of increased borrowing rates (yields) and a decline in actual or projected revenues, in each case from those set forth in Financing Plan and in the aggregate having an economic effect equivalent to or less than a Market Shift, under no other circumstances shall the County be required to proceed with an Acceptable Plan if in order to issue the New Sewer Warrants, in the amount required thereunder, the County must make any pre-Effective Date upward adjustment in the Approved Rate Schedule.

(c) If any of the Sewer Warrant Insurers or the County provides a written notice to each other Party that such Party has reasonably determined in good faith that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur, in the case of the County, as a result of events outside the County's control (which notice shall specify the basis for such determination), and does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice; *provided, however*, that in any proceeding challenging such a determination, the Party providing the notice bears the burden of proof that the events specified in the notice have occurred and that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur because of such events.

(d) If any governmental authority, including the Bankruptcy Court or any other regulatory authority or court of competent jurisdiction, enters any final, non-appealable ruling, or order enjoining the consummation of a material portion of the Restructuring, makes a final, non-appealable determination that, or issues a final, non-appealable judgment, order, decree, or ruling to the effect that this Agreement or any material provision of this Agreement or any related document is illegal, invalid, or unenforceable, or enters a final, non-appealable judgment, order, decree, or ruling denying confirmation of an Acceptable Plan, then any of the Sewer Warrant Insurers or the County may terminate this Agreement by written notice to each other Party.

(e) If the FGIC Rehabilitation Court fails to approve FGIC's execution and performance of this Agreement on or before June 28, 2013, or any later date agreed in writing by the County, FGIC, and the Rehabilitator for obtaining such approval, then any of the Sewer Warrant Insurers or the County may terminate this Agreement by written notice to each other Party.

(f) If the Parties are unable to obtain and implement the Litigation Standstill on or before July 8, 2013, or such later date agreed by the Parties in writing (the "Standstill Date"), then any of the Sewer Warrant Insurers or the County may terminate this Agreement by giving written notice identifying which provisions of the Litigation Standstill have not been

obtained or implemented to each other Party within fifteen (15) calendar days after the Standstill Date.

(g) If (i) the Litigation Standstill fails to remain in effect after the Standstill Date or (ii) any new potentially materially-prejudicial Litigation is commenced by the County, any Plan Support Party, the Trustee, or any other party against the County, against any Plan Support Party, or against the Trustee after the Standstill Date, then (x) any of the Sewer Warrant Insurers or the County may provide a written notice specifying, with respect to subsection (g)(i), the provisions of the Litigation Standstill that are no longer in effect or, with respect to subsection (g)(ii), the potential material prejudice associated with such new Litigation and, with respect to either such notice, expressing an intent to terminate this Agreement (a “Litigation Termination Notice”). The Litigation Termination Notice must be provided within fifteen (15) calendar days of the discovery (x) by the Party giving such notice provided under subsection (g)(i) of the provisions of the Litigation Standstill that are no longer in effect or (y) of the commencement of the specified new potentially materially-prejudicial Litigation under subsection (g)(ii), as applicable, and if the Litigation Standstill is not reinstated with respect to subsection (g)(i), or a standstill or resolution of the specified new potentially materially-prejudicial Litigation under subsection (g)(ii) satisfactory to the Party giving such notice does not occur within twenty (20) calendar days of the giving of such notice, then any of the Sewer Warrant Insurers or the County, as applicable, may terminate this Agreement by giving a second written notice to each other Party within twenty-five (25) calendar days of the Litigation Termination Notice.

(h) If any Sewer Warrant Insurer materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof from the County or any non-breaching Sewer Warrant Insurer, then, subject to such Party’s rights under Section 7.2(a), the County or any non-breaching Sewer Warrant Insurer may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(i) If the County materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof or within such other period that may be specified elsewhere in this Section 7.1 in the case of any other specified material breach by the County, then any of the Sewer Warrant Insurers, but only if such breach adversely affects a right, obligation, or interest of such Sewer Warrant Insurer, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(j) If the County withdraws, files a motion or pleading to withdraw, or publicly announces its intention not to pursue, an Acceptable Plan, or proposes or files a motion with the Bankruptcy Court seeking approval of a plan that is not an Acceptable Plan, or the County modifies an Acceptable Plan such that it is no longer an Acceptable Plan and does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then any of the Sewer Warrant Insurers may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(k) If the County files any motion, pleading, and/or disclosure statement that, in the reasonable judgment of any of the Sewer Warrant Insurers, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the applicable Sewer Warrant Insurer under this Agreement, the Plan Term Sheet, or an Acceptable Plan and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from any Sewer Warrant Insurer, then any of the Sewer Warrant Insurers, but only if such action adversely affects a right, obligation, or interest of such Sewer Warrant Insurer, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(l) If any of the Sewer Warrant Insurers files any motion or pleading that, in the reasonable judgment of the County or any other Sewer Warrant Insurer, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the County or any other Sewer Warrant Insurer under this Agreement, the Plan Term Sheet, or an Acceptable Plan, and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from the County or any other Sewer Warrant Insurer, then the County or any other Sewer Warrant Insurer may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(m) If the County files any motion, application, or adversary proceeding challenging the validity, enforceability, perfection, or priority of, or seeking avoidance or subordination of, any of the Sewer Warrants, the Sewer Warrant Insurer Claims, or the liens under the Indenture (or otherwise) securing the Sewer Warrants or asserting any other cause of action against and/or with respect to the Sewer Warrants or the Sewer Warrant Insurers (or if the County supports any such motion, application, or adversary proceeding commenced by any third party or consents to the standing of any such third party), or if the Bankruptcy Court enters an order granting relief with respect to any of the foregoing claims or causes of action, and the County does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then any of the Sewer Warrant Insurers may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(n) If (i) the Bankruptcy Case is dismissed or (ii) control over the sewer system or sewer rate-setting is reinstated in the receiver appointed by the Alabama state court or any other receiver, then the County or any of the Sewer Warrant Insurers may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(o) If any of the following deadlines are not satisfied:

(i) the County shall not have filed an Acceptable Plan and Disclosure Statement with the Bankruptcy Court by July 1, 2013, unless such date is extended by the Sewer Warrant Insurers in their sole and absolute discretion;

(ii) the Bankruptcy Court shall have failed to enter an order approving the Disclosure Statement, the Solicitation Procedures, the form of Solicitation Ballots, and the

Commutation Election Procedures by August 30, 2013, unless such date is extended by the Sewer Warrant Insurers in their sole and absolute discretion;

(iii) the Bankruptcy Court shall have failed to enter the Confirmation Order by November 25, 2013, unless such date is extended by the Sewer Warrant Insurers in their sole and absolute discretion; or

(iv) the Bankruptcy Court shall have failed to enter an order (which may be the Confirmation Order) validating the New Sewer Warrants by November 25, 2013, unless such date is extended by the Sewer Warrant Insurers in their sole and absolute discretion;

then, in each case, any of the Sewer Warrant Insurers may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(p) If the JPMorgan PSA shall have been terminated (or amended with respect to provisions thereof that adversely affect a right, obligation, or interest of one or more of the Sewer Warrant Insurers, without the written consent of each affected Sewer Warrant Insurer) or is no longer in full force and effect, then the County or any of the Sewer Warrant Insurers may by written notice to each other Party terminate this Agreement at any time thereafter.

(q) If the Supporting Warrantholder PSA shall have been terminated (or amended with respect to provisions thereof that adversely affect a right, obligation, or interest of one or more of the Sewer Warrant Insurers, without the written consent of each affected Sewer Warrant Insurer) or is no longer in full force and effect, then the County or any of the Sewer Warrant Insurers may by written notice to each other Party terminate this Agreement at any time thereafter.

(r) If any of the Sewer Warrant Insurers materially breaches one of the Sewer Warrant Insurers Agreements and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof, then any non-breaching Sewer Warrant Insurer, but only if such breach is in respect of a right, obligation, or interest that extends to such non-breaching Sewer Warrant Insurer's benefit, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(s) If any of the Sewer Warrant Insurers Agreements shall have been terminated or is otherwise no longer in full force and effect, then any Sewer Warrant Insurer that is a party to and has not breached the applicable Sewer Warrant Insurers Agreement may by written notice to each other Party terminate this Agreement at any time thereafter.

(t) If any condition precedent (including for the avoidance of doubt each condition precedent set forth in paragraph E. of the Plan Term Sheet) to confirmation or the Effective Date of an Acceptable Plan is not satisfied, other than occurrence of the Effective Date by the Outside Date, then the County or any of the Sewer Warrant Insurers may give written notice of such failure of condition to each other Party and may terminate this Agreement by giving a second written notice to each other Party after the expiration of ten (10) calendar days after such first written notice unless, before the expiration of such ten (10) calendar days, the

condition is satisfied or, if waiveable, has been waived in accordance with the terms of such Acceptable Plan.

(u) If the County fails to enter into a closing agreement relating to the Sewer Warrants and the New Sewer Warrants with the Internal Revenue Service in form and substance acceptable to the County and the Sewer Warrant Insurers on or prior to September 30, 2013, or such later date as may be agreed in writing by the County and the Sewer Warrant Insurers, then the County or any of the Sewer Warrant Insurers may give a written notice of intent to terminate this Agreement, and if such Party does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice.

(v) If the Effective Date shall not have occurred on or prior to the Outside Date, then this Agreement shall terminate automatically without further required action or notice.

(w) If the County amends the Financing Plan in any material respect without the written approval of each Sewer Warrant Insurer and does not rescind such amendment or obtain the written approval of each Sewer Warrant Insurer regarding such amendment within fifteen (15) calendar days of receiving written notice concerning any such amendment from one or more of the Sewer Warrant Insurers (which written notice must be provided by the applicable Sewer Warrant Insurer within seven (7) calendar days after the County provides the notice required by Section 4(d)), then any of the Sewer Warrant Insurers may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(x) If not previously terminated in accordance with the provisions hereof, this Agreement shall terminate automatically without further required action or notice upon the Effective Date of an Acceptable Plan.

Each of the foregoing events set forth in subsections (a) through (x) entitling a Party or Parties to terminate or amend this Agreement, as applicable, shall constitute a "Trigger Event."

7.2. Trigger Event Notices.

(a) Each Party receiving a notice asserting that a Trigger Event has occurred may challenge the accuracy or validity of such notice by commencing a proceeding in Bankruptcy Court within seven (7) calendar days of receiving such notice. All Parties consent to an expedited hearing of any such proceeding. For the avoidance of doubt, this Section 7.2(a) shall only apply to Sections 7.1(b)-(d), (f)-(m), (r), and (t)-(u), and (w), and a Trigger Event under all other clauses of Section 7.1 will result in termination of this Agreement in accordance with the express terms of the Trigger Event.

(b) The failure of one or more Parties to give a second notice required under Section 7.1 within the time specified for giving such notice (solely to the extent applicable) shall constitute a waiver of the right of such Party or Parties to terminate this Agreement based on the

event specified in the first notice (but shall not constitute a waiver with respect to any future new event). Such a potential waiver shall apply only to Trigger Events in Sections 7.1(b)-(c), (g)-(m), (r), (u), and (w), and not the other Trigger Events in Section 7.1.

(c) Each Party hereby waives any requirement under Bankruptcy Code sections 362 or 922 to lift the automatic stays thereunder for purposes of providing a first or second notice of a Trigger Event or termination of this Agreement (and agrees not to object to any non-breaching Party seeking, if necessary, to lift such automatic stays in connection with the provision of any such notice) or commencing a proceeding in the Bankruptcy Court with respect thereto; *provided, however*, that nothing in this Section 7.2(c) shall prejudice any Party's rights to argue that the notice of a Trigger Event or termination of this Agreement was not proper under the terms of this Agreement.

7.3. Benefits of Termination.

The foregoing Trigger Events are intended solely for the benefit of the specified Parties (including in the case of FGIC, the Rehabilitator); *provided, however*, that no Party may terminate this Agreement based upon a breach or a failure of a condition (if any) in this Agreement arising solely out of its own actions or omissions. Other than as contemplated in Section 7.2(b), a Trigger Event may be waived only by the Party for whose benefit such a Trigger Event exists.

7.4. Effect of Termination.

Upon termination of this Agreement in accordance with Section 7.1, the obligations and agreements of each Party under this Agreement (and the Plan Term Sheet) shall terminate and be of no further force and effect other than those obligations and agreements that expressly survive the termination of this Agreement as set forth in Section 8.14; *provided, however*, that any claim for breach of this Agreement shall survive termination and all rights and remedies with respect to such breach shall be neither waived nor prejudiced in any way by any such termination. Upon termination of this Agreement in accordance with Section 7.1 (other than a termination under Section 7.1(x)), any and all ballots with respect to an Acceptable Plan delivered by each Sewer Warrant Insurer prior to such date of termination shall be immediately withdrawn, and such ballots shall be deemed to be null and void for all purposes and shall not be considered or otherwise used in any manner. For the avoidance of doubt, termination of this Agreement in accordance with Section 7 of this Agreement as to one of the Sewer Warrant Insurers will result in a termination of this Agreement as to all of the Sewer Warrant Insurers. To the extent that an Acceptable Plan has been confirmed prior to the termination of this Agreement, other than a termination under Section 7.1(x), the Confirmation Order and order approving the Disclosure Statement shall be vacated, the Parties will be restored to their rights as if this Agreement, the Plan Term Sheet, and the Sewer Warrant Insurers Agreements were never entered into and all claims and defenses of the Parties (subject to Section 8.10) shall be fully reserved.

Section 8. Miscellaneous Terms.

8.1 Communications.

This Agreement shall not, and shall not be deemed to, impair, prohibit, limit, or restrict any Sewer Warrant Insurer or its officers or representatives from engaging in discussions with or among any or all of: the County, JPMorgan, any Supporting Warrantholder, any other Sewer Warrant Insurer, any potential or actual underwriter, or any of the foregoing parties' respective officers, representatives, or advisors.

8.2 No Third Party Beneficiaries.

Nothing in this Agreement, express or implied, shall give to any person or entity, other than the Parties (including in the case of FGIC, the Rehabilitator), and their respective successors, assigns, and representatives, any benefit or any legal or equitable right, remedy, or claim under this Agreement.

8.3 Effectiveness of Agreement; Savings Clause.

This Agreement shall become effective once duly executed by the County and each of the Sewer Warrant Insurers (except, with respect to FGIC, subject to and only upon approval by the FGIC Rehabilitation Court). Notwithstanding the foregoing, the treatment as set forth in the Plan Term Sheet and under an Acceptable Plan shall become effective only on the Effective Date. If any provision hereof is construed to constitute an agreement to take any step or action that would violate any provision of applicable bankruptcy law or any other applicable law, such provision shall be deemed stricken herefrom and of no force and effect without liability to any of the Parties and without constituting a Trigger Event except as provided in Section 7.1(d), and shall not affect the validity, legality, or enforceability of any other provision of this Agreement.

8.4 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.

8.5 Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ALABAMA, 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 irrevocably consents to service of process by mail at the addresses listed for such Party in Section 8.13 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. Notwithstanding the foregoing, any dispute regarding whether FGIC has been authorized by the FGIC Rehabilitation Court to execute and perform (a) this Agreement or (b) any of the Sewer Warrant Insurers Agreements shall be subject to the exclusive jurisdiction of the FGIC Rehabilitation Court.

8.6 Complete Agreement; Interpretation; Amendment, Modification and Waiver.

(a) With the exception of the Sewer Warrant Insurers Agreements, this Agreement (including the Plan Term Sheet), together with all exhibits and schedules attached hereto, constitutes the complete agreement among the Parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, between or among the Parties with respect to the subject matter hereof.

(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 not be modified, amended, or supplemented except in a writing signed by the County and each Sewer Warrant Insurer.

(d) Other than waivers contemplated by Section 7.2(b), 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 that waiver 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.

8.7 Specific Performance.

This Agreement is intended as a binding commitment enforceable in accordance with its terms. Each Party acknowledges and agrees that the exact nature and extent of damages resulting from a breach of this Agreement are uncertain at the time of entering into this Agreement and that any such breach of this Agreement would result in damages that would be difficult to determine with certainty. It is understood and agreed that any non-breaching Party shall be entitled to seek specific performance, mandamus, and injunctive relief as its sole remedies for any such breach, 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. Such remedies shall be the exclusive remedies for the breach of this Agreement by any Party.

8.8 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. Delivery of an executed signature page of this Agreement by telecopier or email shall be as effective as delivery of a manually executed signature page of this Agreement. Each Party (except, with respect to FGIC, subject to and only upon approval by the FGIC Rehabilitation Court) represents that each individual executing this Agreement on behalf of such Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of such Party

8.9 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.

8.10 Settlement Discussions.

This Agreement and the Restructuring are part of a proposed settlement of claims and disputes among the Parties and are the product of good faith, arm's length negotiations among the Parties and their respective representatives. Nothing herein shall be deemed an admission of any kind; *provided, however*, that, consistent with the final two sentences of this Section 8.10, this Agreement and the Financing Plan may be admitted for the purposes identified therein. If the transactions contemplated herein are not consummated, or following the termination of this Agreement 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 other than as set forth in the final two sentences of this Section 8.10. 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 (i) a proceeding to enforce or interpret the terms of this Agreement or (ii) with respect to FGIC, in any proceeding seeking approval of this Agreement by the FGIC Rehabilitation Court. Subject to any otherwise applicable rules in the Federal Rules of Evidence (other than Federal Rule of Evidence 408), this Agreement and the Financing Plan may be admitted into evidence in any proceeding arising as a result of or in connection with a Party's breach of this Agreement or in which breach of this Agreement is alleged as a relevant fact.

8.11 Successors and Assigns; Severability.

This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors and permitted assigns.

8.12 Several Liability; Individual Status; No Fiduciary.

All obligations and liabilities of the Parties hereunder are several and not joint, and no party to this Agreement shall be liable for any breach or non-performance by any other party to this Agreement. Each Sewer Warrant Insurer hereby agrees that it is (i) executing and delivering this Agreement in its individual capacity and (ii) making its own determination as to whether to execute this Agreement and support the Restructuring. It is understood and agreed that no Sewer Warrant Insurer has any duty of trust or confidence in any form with any other Sewer Warrant Insurer.

8.13 Notices.

All notices hereunder (including any termination notice), 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@babbc.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: kkleee@ktbslaw.com; lbogdanoff@ktbslaw.com; wholt@ktbslaw.com

If to Assured:

Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, New York 10019
Attn: Bruce Stern

With a copy to:

Assured Guaranty Municipal Corp.
31 West 52nd Street
New York, New York 10019
Attn: General Counsel

and

Winston & Strawn, LLP
200 Park Avenue
New York, New York 10166
Attn: Lawrence A. Larose
Facsimile: (212) 294-4700
Email: LLarose@winston.com

If to FGIC:

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
Attn: Timothy Travers

With a copy to:

Dabney, PLLC
303 Grande Court
Richmond, VA 23229
Attn: H. Slayton Dabney, Jr., Esq.
Email: sdabney@dabneypllc.com

and

Heller, Draper, Patrick & Horn, L.L.C.
650 Poydras Street, Suite 2500
New Orleans, Louisiana 70130
Attn: William H. Patrick, III, Esq.
Facsimile: (504) 299-3399
Email: WPatrick@hellerdraper.com

If to Syncora:

Syncora Guarantee Inc.
135 W. 50th Street
New York, New York 10020
Attn: Frederick B. Hnat, Esq.

With a copy to:

Syncora Guarantee Inc.
135 W. 50th Street
New York, New York 10020
Attn: James W. Lundy, Jr., Esq.
General Counsel
Facsimile: (212) 478-3479
Email: james.lundy@scafg.com

and

DLA Piper LLP (US)
1251 Avenue of the Americas
New York, New York 10020
Attn: George B. South III, Esq.
Facsimile: (917) 778-8540
Email: george.south@dlapiper.com

and

Quinn Emanuel Urquhart & Sullivan LLP
51 Madison Avenue, 22nd Floor
New York, New York 10010
Attn: Susheel Kirpalani, Esq.
Eric M. Kay, Esq.
Facsimile: (212) 849-7100
Email: susheelkirpalani@quinnemanuel.com; erickay@quinnemanuel.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. For the avoidance of doubt, any references in this Agreement to a “notice” shall mean a written notice sent in accordance with this Section 8.13.

8.14 Survival.

Notwithstanding any termination of this Agreement pursuant to Section 7.1 hereof, the agreements and obligations of the Parties in Sections 2(d)(iii)(y), 7.3, 7.4, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.9, 8.10, 8.11, 8.12, 8.13, 8.15, 8.16, 8.17, and this Section 8.14 shall survive such termination and shall continue in full force and effect for the benefit of the Parties in accordance with the terms hereof.

8.15 Inconsistencies.

To the extent there is any inconsistency between any provision of this Agreement and any provision of the Plan Term Sheet, the terms contained within this Agreement (excluding the Plan Term Sheet) shall control; *provided, however*, that to the extent there is any inconsistency between any provision of this Agreement and parts C., D., E., or F. of the Plan Term Sheet, parts C., D., E., and F. of the Plan Term Sheet shall control.

8.16 Time Is of the Essence.

Time is of the essence with respect to all dates and deadlines specified in this Agreement.

8.17 Use of “Including” and “FGIC”.

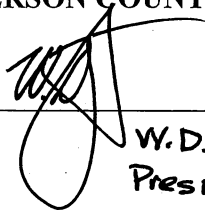
Whenever this Agreement uses the word “including,” such reference shall be deemed to mean “including, without limitation,”. Whenever this Agreement uses the word “FGIC,” such reference shall be deemed to mean “FGIC or the Rehabilitator acting on behalf of FGIC”.

[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:
Its:



W.D. Carrington
President

ASSURED GUARANTY MUNICIPAL CORP.

By:
Its:

FINANCIAL GUARANTY INSURANCE COMPANY

By: BENJAMIN M. LAWSKY
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

By: _____

Name: Peter A. Giacone
Title: Chief Financial Officer and Agent of Benjamin M. Lawskey,
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

SYNCORA GUARANTEE INC.

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

ASSURED GUARANTY MUNICIPAL CORP.



By: Bruce E. Stern
Its: Executive Officer

FINANCIAL GUARANTY INSURANCE COMPANY

By: BENJAMIN M. LAWSKY
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

By: _____

Name: Peter A. Giacone
Title: Chief Financial Officer and Agent of Benjamin M. Lawskey,
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

SYNCORA GUARANTEE INC.

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

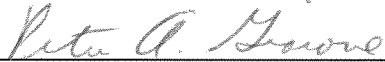
By:
Its:

ASSURED GUARANTY MUNICIPAL CORP.

By:
Its:

FINANCIAL GUARANTY INSURANCE COMPANY

By: BENJAMIN M. LAWSKY
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

By: 

Name: Peter A. Giacone
Title: Chief Financial Officer and Agent of Benjamin M. Lawskey,
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

SYNCORA GUARANTEE INC.

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

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ASSURED GUARANTY MUNICIPAL CORP.

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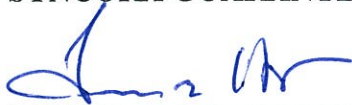
FINANCIAL GUARANTY INSURANCE COMPANY

By: BENJAMIN M. LAWSKY
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

By: _____

Name: Peter A. Giacone
Title: Chief Financial Officer and Agent of Benjamin M. Lawskey,
Superintendent of Financial Services of the State of New York,
as Rehabilitator of Financial Guaranty Insurance Company

SYNCORA GUARANTEE INC.



By: FREDERICK B. HNAT
Its: MANAGING DIRECTOR AND SENIOR COUNSEL

Exhibit A

Plan Term Sheet

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Any transaction is entirely contingent upon the negotiation and execution of definitive documentation, including a chapter 9 plan of adjustment, and satisfaction or waiver of all conditions contained in the definitive documentation, including confirmation of the plan and occurrence of its effective date. This document is **not** a solicitation or a vote for any proposed plan or a definitive term sheet, but rather memorializes a broad agreement in principle to provide a basis for further discussion regarding the specific details of a plan and related transactions, which details remain subject to further review, comment, and final approval by all Plan Support Parties and Jefferson County, Alabama (the “**County**”). Capitalized terms used in this document (that are not otherwise defined herein) are defined in **Exhibit A**.

A. Conceptual Overview

This document is structured around the following broad concepts:

Through a confirmed chapter 9 plan of adjustment containing the terms set forth herein, in the Plan Support Agreements (as defined below) and the Sewer Warrant Insurers Agreements (as defined below) and otherwise acceptable to the County and the Plan Support Parties (the “**Plan**”), the County will execute a refinancing transaction that produces net cash proceeds for distribution to the County’s sewer creditors and the Sewer Warrant Insurers on the effective date of the Plan (the “**Effective Date**”). This document sets forth the treatment that will be provided in the Plan for sewer creditors and Sewer Warrant Insurers, with respect to claims held by or affecting the Sewer Warrant Insurers. This document is predicated on the County reaching satisfactory Plan Support Agreements with all Plan Support Parties and the negotiation and execution of additional documentation, all of which that affect the rights of a Plan Support Party must be satisfactory to such affected Plan Support Party and the County.

As part of the global settlement among the County, the Sewer Warrant Insurers, JPMorgan, and the other Plan Support Parties to be implemented pursuant to the Plan, and in consideration of the settlement and release of all subordination and other claims, causes of action, and avoidance actions (including those arising under the Bankruptcy Code or nonbankruptcy law) against JPMorgan and the Sewer Warrant Insurers related to the County, the sewer warrants, any financing or other transaction with the County, the sewer system, or any insurance issued in respect of the sewer warrants (except with respect to any wrap insurance policies applicable to those holders who do not make, or are not deemed to make, the Commutation Election), including in pending litigation brought by the County and certain Sewer Warrant Insurers against JPMorgan, and in order to 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, JPMorgan 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 JPMorgan, and the Sewer Warrant Insurers will contribute consideration by settling and releasing their claims against the County and JPMorgan and

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allowing their pro rata share of such reallocation by JPMorgan to be made available to other holders as part of the Commutation Election described below.

The Plan will include a Commutation Election mechanism whereby holders of sewer warrants may elect (or in certain circumstances described below will be deemed to elect) to commute claims that could be asserted against the Sewer Warrant Insurers under the applicable sewer warrant policies and, thereby, release or waive other sewer-related or sewer warrant-related claims against the County and the Plan Support Parties. All of the Plan Support Parties (other than FGIC with respect to the FGIC Assured-Insured Warrants or pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement) will affirmatively make the Commutation Election, and any holder of sewer warrants that previously commuted the insurance obligations of a Sewer Warrant Insurer to such holder, shall remain bound by such prior commutation in accordance with the terms of the applicable agreements. The Commutation Election or deemed Commutation Election will be independent of the holder's vote for or against the Plan. In consideration for recoveries under the Plan on account of claims against the County, the commutation described herein, and for the resolution of numerous potential disputes regarding their claims against the County and others, the Sewer Warrant Insurers will accept (and be paid) on the Effective Date certain payments specified more fully below on account of all of their claims against the County, against the other Plan Support Parties and between and among the Sewer Warrant Insurers in connection with the County's sewer warrants. For the avoidance of doubt, such releases shall not release any rights of the Sewer Warrant Insurers (x) *vis-à-vis* each other to the extent not released in or reserved in any Sewer Warrant Insurers Agreement, (y) under an Acceptable Plan or the Tail Risk Payment Agreements, and (z) of FGIC against Assured under any Sewer Wrap Policies issued by Assured insuring the FGIC Assured-Insured Warrants.

There will also be broad mutual releases exchanged among the County and all the Plan Support Parties effective upon the Effective Date, including releases of any claims against each other (including on account of any claims under or in connection with any insurance policies issued by the Sewer Warrant Insurers, other than FGIC with respect to the FGIC Assured-Insured Warrants or pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement) and of any claims being asserted by other parties on behalf of the County, excluding only the obligations imposed under the Plan and obligations unrelated to the County, the County's sewer warrants, and the policies insuring the County's sewer warrants. These releases will be presented as a resolution of disputed claims inextricably bound with the Plan pursuant to Federal Rule of Bankruptcy Procedure 9019, and to the extent provided therein, will bind all creditors and other parties in interest (including, without limitation, plaintiffs purporting to assert claims derivatively on the County's behalf, as in pending adversary proceedings). The Plan and form of order confirming the Plan (the "**Confirmation Order**") will contain injunctions enforcing the releases under the Plan and the Commutation Election.

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The Sewer Warrant Insurers Agreements (as defined below) shall be in final form, and executed prior to or contemporaneously with the Plan Support Agreements.

B. Plan Support Agreements

1. Each of the Plan Support Parties and the County will enter into a Plan Support Agreement with respect to the Plan (each a “**Plan Support Agreement**” and collectively the “**Plan Support Agreements**”) on or before June 6, 2013.¹ Each Plan Support Agreement must be in a form acceptable to all the other Plan Support Parties. Subject to applicable bankruptcy law, including approval of a disclosure statement in respect of the Plan by the Bankruptcy Court, the Plan Support Agreements will obligate the County and the Plan Support Parties to use reasonable efforts to have the Effective Date occur on or before the Outside Date. Among other provisions, the Plan Support Agreements involving the Sewer Warrant Insurers will provide for (a) the right of each of the Sewer Warrant Insurers to approve the provisions of the following documents that would potentially affect the rights of the applicable Sewer Warrant Insurer (i) the Plan (and any subsequent amendments thereto), including the releases and injunctions to be incorporated into the Plan and the Confirmation Order, (ii) the order or orders approving the disclosure statement for the Plan and the notice and other procedures for soliciting votes on the Plan and affirmative or deemed elections with respect to the Commutation Election, including the ballots or such other documents that contain the Commutation Election, (iii) the form of the Confirmation Order, and (iv) all other relevant Plan and closing documentation, (b) a stay and standstill of litigation as discussed in paragraph B.2 below, (c) deadlines for approval of the disclosure statement for the Plan (August 30, 2013), confirmation of the Plan (November 25, 2013), and the Effective Date (December 31, 2013), (d) a forbearance as described further in paragraph B.5 below, (e) the obligation of all Plan Support Parties and the County to support the Plan’s confirmation and, subject to the approval of a disclosure statement by the Bankruptcy Court, of the Plan Support Parties to vote to accept the Plan, and (f) termination of the Plan Support Agreements upon the occurrence of certain events, including, for example, entry of an order denying confirmation of the Plan, failure of the Effective Date to occur by the Outside Date, failure of the Supreme Court of the State of New York, County of New York sitting in *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012, to timely approve FGIC’s execution and performance of a Plan Support Agreement, and termination or any material amendment of any

¹ FGIC’s obligations under any Plan Support Agreement are expressly subject to its rehabilitator obtaining an order approving FGIC’s execution and performance of the Plan Support Agreement from the Supreme Court of the State of New York, County of New York sitting in *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012, no later than June 28, 2013 (or such later date as the County, FGIC, and FGIC’s rehabilitator may agree in writing for obtaining such court approval). FGIC and its rehabilitator will use reasonable efforts to obtain the required order on or before June 28, 2013, or within any otherwise agreed period referenced in the immediately preceding sentence.

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Plan Support Agreement (the date, if any, on which any Plan Support Agreement is terminated in accordance with its terms being the “**Plan Support Termination Date**”).

2. Subject to approval of the appropriate courts, the Plan Support Parties and the County will use reasonable efforts to assure that all pending litigation (including appeals) related to the County’s sewer warrants and involving any of the County, the Plan Support Parties, and/or the Bank of New York Mellon as Trustee under the Indenture (the “**Indenture Trustee**”), other than the Lehman Brothers claim priority adversary proceeding, will be stayed until (i) compromised, settled and/or dismissed on terms acceptable to the applicable parties pursuant to the Plan, or (ii) the Plan Support Termination Date (the “**Standstill Period**”); *provided, however*, that no party shall be required to incur or become obligated in respect of any material liability or expense to achieve such a standstill. As a part of the standstill of pending litigation and pursuant to a stipulated form of order to effect a standstill in the declaratory judgment action commenced by the Indenture Trustee, Adversary Proceeding No. 13-00019 (the “**Declaratory Judgment Action**”), the Indenture Trustee and the Plan Support Parties will not present any claims or seek to draw on the wrap policies or the DSRF policies during the Standstill Period. The County and the Plan Support Parties will use reasonable efforts to obtain and implement a litigation stay or standstill of any other litigation involving the Indenture Trustee and/or the Plan Support Parties related to the County’s sewer warrants through the Standstill Period. In addition, except as may otherwise be specified in the Plan Support Agreements, each of the County and the Plan Support Parties will agree to a standstill regarding any future litigation vis-à-vis any of each other related to the County’s sewer debt through the Standstill Period. As noted above, successfully obtaining and implementing such a litigation stay and standstill through the Standstill Period is a condition to the continued effectiveness of the Plan Support Agreements, *provided* that such condition may be waived by an agreement in writing of the County and the Plan Support Parties, in their sole discretion (but only the Plan Support Parties party to such litigation or whose rights would adversely be affected thereby in any material respect).

3. Except to the extent set forth in the Ad Hoc Warrantholders’ Plan Support Agreement or in the JPMorgan Plan Support Agreement, the Plan Support Agreements will contain provisions restricting the Plan Support Parties from assigning, selling, or otherwise transferring their claims against the County until the Plan Support Termination Date, *provided, however*, that (i) any sewer warrant holder that executes a Plan Support Agreement may sell or assign claims so long as any assignees or purchasers are bound to the provisions of, and become parties to, the applicable Plan Support Agreement, (ii) to the extent a Plan Support Party acquires any additional claims, such additional claims shall automatically be subject to the provisions of the applicable Plan Support Agreement, and (iii) prior to the effectiveness of the Commutation Election, the Plan Support Agreements will not prevent any sewer warrant holder from assigning or otherwise transferring (or any Sewer Warrant Insurer from acquiring) all or a portion of its sewer warrants or related claims to a Sewer Warrant Insurer in accordance with

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the applicable wrap policy or DSRF policy issued by such Sewer Warrant Insurer in exchange for payment by a Sewer Warrant Insurer under such wrap policy or DSRF policy, in which case such transferred warrants and claims and the Sewer Warrant Insurer holding them shall be subject to the terms of the applicable Plan Support Agreement.

4. The stipulated order to be entered in the Declaratory Judgment Action will provide that sewer revenues will continue to be timely remitted by the County to the Indenture Trustee in accordance with the present practices, but that during the Standstill Period no sewer revenues will be distributed to holders of sewer warrants on account of obligations becoming due on or after February 1, 2013, except (a) under the Plan (see paragraphs D.2 and G.1 below) or (b) until the Plan Support Termination Date. Following any Plan Support Termination Date, all parties' rights shall be reserved and will be determined as if the Plan Support Agreements were never executed.

5. In furtherance of the Standstill Period with respect to the payment of principal and interest on the sewer warrants otherwise payable on or after February 1, 2013, the Plan Support Agreements executed by Plan Support Parties other than the Sewer Warrant Insurers (the "**Non-Insurer PSAs**"), and by FGIC with respect to the FGIC Assured-Insured Warrants, will include a provision pursuant to which, so long as the Plan Support Termination Date has not occurred, each Plan Support Party will not assert a claim against such Sewer Warrant Insurer or demand payment from such Sewer Warrant Insurer or institute or prosecute any litigation to obtain payment from such Sewer Warrant Insurer in respect of any insurance policy issued by such Sewer Warrant Insurer insuring such Plan Support Party's Sewer Warrants, or direct or cause the Trustee to do any of the foregoing; *provided, however*, that nothing herein shall limit any rights of such Plan Support Party to assert that such Plan Support Party, and not such Sewer Warrant Insurer, owns, controls and may exercise all rights against the County related to such Sewer Warrants (but not with respect to any Sewer Warrants or other rights held by a Sewer Warrant Insurer as a result of payments made or to be made under any DSRF policy or wrap policy) and to appear in any rehabilitation or other proceeding (including, without limitation, the County's chapter 9 proceeding and FGIC's rehabilitation proceeding) to assert such rights. Nothing herein shall preclude or limit the right of any Sewer Warrant Insurer to make payments under any policy issued by it pursuant to the terms of such policy and the Indenture.

6. By the Commission approving the resolution directing the President of the Commission to execute each Plan Support Agreement, the County shall commit (subject to confirmation of the Plan and the occurrence of the Effective Date, and in accordance with and pursuant to the Plan) to institute future sewer rate modifications in the Approved Rate Schedule, which will be adequate to achieve rate increases of up to 7.41% in each of the first four years after the Effective Date, and up to 3.49% in each year thereafter so long as the New Sewer Warrants remain outstanding, consistent with a financing plan containing assumptions

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regarding an issuance amount, costs of issuance, issuance proceeds, rate and revenue forecasts, and assumptions concerning elasticity, operating expenditures and capital expenditures, each as will be presented for consideration and approval by the Commission simultaneously with the above-referenced plan support agreements (the “**Financing Plan**”). To the extent the County can issue the New Sewer Warrants, in the amounts required hereunder, by committing to rate increases that are lower than those set forth in the Approved Rate Schedule, the County may do so. In addition, the documents governing the New Sewer Warrants shall contain rate, revenue and other customary covenants permitting the County, following the Effective Date, to institute sewer rate modifications reducing, or requiring the County to institute sewer rate modifications increasing rates from those set forth in the Approved Rate Schedule, depending on positive or negative variances following the Effective Date from the Financing Plan.

7. The Plan Support Agreements will specify the exact holders and amounts of sewer warrants held by each counterparty as of the date on which the applicable Plan Support Agreement is executed, including the sewer warrants in the aggregate principal amount of approximately \$335 million that are held by the Sewer Warrant Insurers, exclusive of the FGIC Assured-Insured Warrants. The Plan Support Agreements between the County and the Sewer Warrant Insurers will include a representation that the applicable Sewer Warrant Insurer has not sold, assigned, or otherwise transferred (except pursuant to any applicable reinsurance, settlement, or commutation agreements entered into prior to the date hereof) any claims asserted in any proof of claim filed by such Sewer Warrant Insurer and retains the right to vote on the Plan on account of all sewer warrants held by such Sewer Warrant Insurer.

C. Plan Classification And Treatment Of Certain Sewer Debt Claims²

1. General Sewer Warrant Claims

Class 1-A will largely consist of all general, non-insurer held sewer warrant claims and the FGIC Assured-Insured Warrants.³ Claims in Class 1-A shall be allowed and treated as provided for herein and included in the Plan.

² Additional classification issues will be addressed in the final documents, including regarding sewer swap and other subordinated claims.

³ For the avoidance of doubt and notwithstanding anything to the contrary in this Term Sheet, (i) the FGIC Assured-Insured Warrants will be treated as a Class 1-A General Sewer Warrant Claims and not as a Class 1-B Sewer Warrant Insurers Claims, (ii) FGIC shall not be required to make a Commutation Election with respect to the FGIC Assured-Insured Warrants, and (iii) no release required in the Term Sheet or any Plan Support Agreement or any Sewer Warrant Insurers Agreements shall release or modify FGIC’s rights under any insurance policy issued by Assured insuring the FGIC Assured-Insured Warrants, except as provided in the Plan
(footnote continued on next page)

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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 of cash from refinancing proceeds and other sources of cash in an amount equal to 80% of the Adjusted Principal Amount of such holder's sewer warrants in full settlement, satisfaction, and release of all of the holder's claims against the County and all the Plan Support Parties (including, without limitation, against the Sewer Warrant Insurers in respect of any insurance policies insuring such holder's sewer warrants, and any claims on account of prepetition default rate interest with respect to such holder's Sewer Warrants); or

Option 2: if such holder does not make or is deemed not to make the Commutation Election, (i) a distribution of cash from refinancing proceeds and other sources of cash in an amount equal to (A) 65% of the Adjusted Principal Amount of such holder's Sewer Warrants and (B) 65% of the allowed amount, if any, of any claims on account of prepetition default rate interest with respect to such holder's Sewer Warrants in full settlement, satisfaction, and release of all of the holder's claims against the County, and (ii) the retention of any rights against the applicable Sewer Warrant Insurer in respect of any wrap policies insuring such holder's sewer warrants which rights shall not be waived or impaired.

Consistent with the terms set forth in that certain plan support agreement by and between the County and JPMorgan, mechanisms to be determined will be specified in the Plan to result in the re-allocation of the *pro rata* consideration otherwise flowing to JPMorgan on account of sewer warrants it owns in order to, among other things, allow other sewer creditors and the Plan Support Parties to receive the treatment described in this term sheet.

2. Sewer Warrant Insurers Claims

Class 1-B or any separate subclasses thereof that may be agreed to among the County and the Sewer Warrant Insurers will consist of all claims against the County held by the Sewer Warrant Insurers, whatever the origin (including based on sewer warrants now held, claims under any of the DSRF or wrap policies, litigation claims, and all other claims of any nature whatsoever), but excluding (i) the Insurer Outlay Amount (which will be reimbursed from Accumulated Revenues on the Effective Date pursuant to paragraph D.2) and (ii) the FGIC Assured-Insured Warrants.

Claims in Class 1-B shall be allowed and treated as provided for herein and included in the Plan and shall not be subject to dispute or challenge by the County or any Plan Support Party prior to

with respect to all other holders of Class 1-A General Sewer Warrant Claims. Subject to the approval of the disclosure statement for the Plan, FGIC will vote the FGIC Assured-Insured Warrants in favor of the Plan.

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any Plan Support Termination Date, and which claims shall not be subject to any further defense, counterclaim, subordination, or offset of any kind. The holders of Class 1-B claims shall receive from the County on the Effective Date, in full satisfaction, release, and exchange of each such holder's claims:

- a. An aggregate distribution of \$165,000,000 in cash from refinancing proceeds and other sources of cash, which aggregate amount shall be distributed and allocated among the Sewer Warrant Insurers as set forth and as agreed between and among the Sewer Warrant Insurers pursuant to one or more separate written agreements of the Sewer Warrant Insurers (to which the County is not a party), including those certain commutation and settlement agreements between and among the Sewer Warrant Insurers (collectively, the **"Sewer Warrant Insurers Agreements"**) to be executed prior to or contemporaneously with the Plan Support Agreements.
- b. An aggregate distribution of cash from refinancing proceeds and other sources of cash in an amount equal to the Non-Commutation True-Up Amount, which aggregate amount shall be distributed among the Sewer Warrant Insurers such that each Sewer Warrant Insurer shall receive all such amounts that are attributable to its respective insured warrants held by persons that elected not to make or were not deemed to make the Commutation Election.
- c. A payment in full in an amount equal to each Sewer Warrant Insurer's Tail Risk, payable pursuant to individual agreements of each Sewer Warrant Insurer with the County, which will include provisions regarding Tail-Coverage Escrow Accounts and Tail-Coverage Protocols (the **"Tail Risk Payment Agreements"**), it being understood that a condition to the Effective Date is that the aggregate Tail Risk shall not exceed \$25 million as set forth in paragraph E.2 below.
- d. Distributions of cash as required pursuant to the terms of paragraph D.2 below.

D. Certain Other Plan Provisions

1. The County and each Plan Support Party will grant broad mutual releases as among each of them and their specified "Related Parties" with respect to claims related to the County, the sewer warrants, and the policies insuring the sewer warrants, excluding any claims by FGIC against Assured on the wrap policy or policies insuring the FGIC Assured-Insured Warrants and except to the extent provided in Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement, effective as of the Effective Date. The Plan will also include exculpation provisions in favor of the County, the Plan Support Parties, and their respective "Related Parties" to the maximum extent permitted by applicable law.

2. The Plan will provide that, to implement a settlement incorporated into the Plan pursuant to Federal Rule of Bankruptcy Procedure 9019 of any and all claims and

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matters raised in the Declaratory Judgment Action, and any claims related to the reapplication to principal of any interest payments made on the Sewer Warrants during the chapter 9 case, on the Effective Date, the Insurer Outlay Amount and all non-default rate interest accrued and unpaid as of the Effective Date (without providing for interest on interest) and all principal amounts which have become due and payable prior to the Effective Date (without giving effect to any acceleration or any accelerated redemption schedule) shall be distributed to the applicable parties from the Accumulated Revenues, including on the sewer warrants held by the Plan Support Parties.

3. The Plan and the Confirmation Order will enjoin the Indenture Trustee and any holders of sewer warrants or any other person from pursuing any right of payment under (i) any DSRF policy or (ii) any wrap policy with respect to any warrant holder which made or is deemed to have made the Commutation Election, but shall not enjoin any holders of sewer warrants from pursuing any right of payment under the applicable wrap policy against the applicable Sewer Warrant Insurer, but only with respect to any sewer warrants as to which the holder has not made or has not been deemed to make the Commutation Election. On the Effective Date, (x) the sewer warrants will be deemed discharged and cancelled; (y) all DSRF policies and DSRF related agreements shall be deemed cancelled and of no further force and effect, and the Indenture Trustee will close the Debt Service Reserve Account under the Indenture and return any surety bonds or other documentation evidencing the DSRF policies to the applicable Sewer Warrant Insurer; and (z) all wrap policies will be deemed cancelled and of no further force and effect except with respect to claims made or to be made under the applicable wrap policies against the applicable Sewer Warrant Insurer by any holders of Class 1-A claims who did not make or are not deemed to make the Commutation Election (including FGIC with respect to the FGIC Assured-Insured Warrants and pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement) and such 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 claims.

4. Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6) and the Confirmation Order, confirmation of the Plan shall be a binding judicial determination that the New Sewer Warrants and the covenants made by the County for the benefit of the holders thereof (including, without limitation, the revenue and rate covenants) 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 special revenues, which validation will be set forth in the Plan and Confirmation Order.

5. Confirmation of the Plan shall constitute a finding that the Approved Rate Schedule complies with the requirements of Bankruptcy Code sections 943(b)(6) and 1129(a)(6). Pursuant to Bankruptcy Code sections 944(a), 944(b)(3), 105(a), and 1123(b)(6) and

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the Confirmation Order, confirmation of the Plan shall be a binding judicial determination that the Approved Rate Schedule is appropriate and binding on and specifically enforceable against the County, the County Commission, and all parties in interest in accordance with the Plan, including because such Approved Rate Schedule is a valid provision made to pay or secure payment of the New Sewer Warrants.

6. All right, title, and interest in and to the sewer system will remain with the County and following the Effective Date, the County Commission will continue to govern the County and oversee the sewer system in accordance with the Plan, the County's constituent documents, the Constitution and applicable statutes of the State of Alabama, the Consent Decree, and other applicable laws.

7. The Plan and the Confirmation Order will provide for broad retained bankruptcy jurisdiction to the maximum extent permitted by law, which will expressly include 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 Schedule, issuance of the New Sewer Warrants, implementation or enforcement of the Commutation Election, and implementation or enforcement of all injunctions or releases associated with the Plan.

8. The County will enter into a backstop/put agreement with the Ad Hoc Warrantholders in respect of certain obligations with respect to the New Sewer Warrants in exchange for consideration to be paid on the Effective Date.

9. The Plan and solicitation procedures relating to the Plan will provide that any holder of sewer warrants that votes to accept the Plan will be deemed to have released as of the Effective Date all of such holder's claims against the County, against the Plan Support Parties, and against their respective "Related Parties" other than any rights of a holder not making the Commutation Election (including FGIC with respect to the FGIC Assured-Insured Warrants and pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement) against the applicable Sewer Warrant Insurer under the applicable wrap policy.

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E. Certain Conditions To The Effective Date

1. The County shall have entered into a settlement agreement with the IRS regarding the pending audit on terms acceptable to the County and the Plan Support Parties; *provided, however*, that if any settlement payment is required to be made to the IRS, such payment shall be payable exclusively from the Indenture Funds, Accumulated Revenues, or gross sewer revenues received by the County; *provided further, however*, that any such settlement payment shall not reduce the aggregate refinancing consideration to be paid to sewer creditors or any other payments described herein to be paid to the Plan Support Parties.

2. The aggregate Tail Risk shall not exceed \$25.0 million.

3. No Sewer Warrant Insurer shall incur Tail Risk that is not Covered Tail Risk.

4. The issuance of the New Sewer Warrants has closed (or will close simultaneously with the occurrence of the Effective Date), and the aggregate refinancing and other cash consideration to make the payments to holders of Class 1-A claims as provided in the Plan Support Agreements (and the Plan) shall be available to the County and shall have been paid under the Plan to the Indenture Trustee for distribution in accordance with the Plan on the Effective Date. The aggregate refinancing and other cash consideration to make the payments to holders of Class 1-B claims as provided in the Plan Support Agreements (and the Plan) shall be available to the County and shall have been paid under the Plan to the applicable Sewer Warrant Insurer on the Effective Date.

5. All of the settlements and releases contemplated by the Plan shall have been approved pursuant to the Confirmation Order.

6. The 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 (i) the Sewer Warrant Insurers Agreements shall have been made to the applicable Sewer Warrant Insurer and (ii) the Tail Risk Payment Agreements shall have been paid or placed into escrow, as the case may be, in accordance with such Tail Risk Payment Agreements.

7. The Effective Date shall have occurred prior to the Outside Date.

8. For all purposes, including distributions under the Plan, all series of sewer warrants shall be deemed accelerated as of the Effective Date, which shall occur immediately before the distribution of consideration on the Effective Date. With respect to any sewer warrants as to which the Commutation Election is not made or not deemed to have been made, and solely to the extent that any Sewer Warrant Insurer voluntarily elects to pay

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accelerated principal on such sewer warrants, the Trustee shall be deemed as of the Effective Date to have submitted a draw request under the applicable wrap policy in respect of outstanding principal and interest accrued to the date of acceleration on all such non-commuted warrants. Payment, as provided in the applicable wrap policy, of all outstanding accelerated principal and interest on such non-commuted sewer warrants shall be deemed to fully discharge the applicable Sewer Warrant Insurer's obligations under the applicable wrap policy with respect to such sewer warrants.

9. Without limiting or restricting other provisions herein regarding approval by the Sewer Warrant Insurers of certain documents or actions, the Plan, in a form acceptable to the County and the Plan Support Parties to the extent the relevant provisions of the Plan would affect the rights of the applicable Plan Support Party, shall have been confirmed by the Confirmation Order of the Bankruptcy Court (which order shall incorporate the provisions of, and otherwise be materially consistent with, this term sheet and the Plan Support Agreement involving the Sewer Warrant Insurers, and shall be in a form acceptable to the County and Plan Support Parties to the extent the relevant provisions of the Confirmation Order would affect the rights of the applicable Plan Support Party), the Confirmation Order shall have been entered and not subject to any stay, and all closing documentation shall have been executed and become effective and, to the extent required by the Plan Support Agreement or the Plan, approved by the Plan Support Parties.

The Plan will provide that the conditions to the Effective Date cannot be waived or modified except upon written agreement of the County and any Plan Support Party that is affected by the subject condition.

F. Procedural Issues Regarding Commutation Election and Related Matters

1. The procedures related to the Commutation Election, the ballot to be distributed to holders of Class 1-A claims, the form, content, timing, and solicitation procedures for service on and notice to holders of Class 1-A claims regarding the Commutation Election and the Plan (including of the confirmation hearing, the deadline to file objections to the Plan, the releases and injunctions in the Plan, and any other matters affecting the Commutation Election) will be in a form acceptable to the Sewer Warrant Insurers and the County and will be approved by the Bankruptcy Court. The County will employ Kurtzman Carson Consultants LLC ("**KCC**") (or any other entity retained by the County acceptable to the Sewer Warrant Insurers) as a solicitation agent (which selection of KCC is acceptable to the Sewer Warrant Insurers), and KCC (or any other agent) will take all reasonable efforts to provide holders of Class 1-A claims with actual notice regarding the Commutation Election and the Plan. The ballot will include a box (or other mechanism agreed by the County and the Sewer Warrant Insurers and approved by the Bankruptcy Court) allowing such holder to indicate whether such holder has elected to make or not make the Commutation Election. All Plan Support Parties that hold Class 1-A claims must

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return a ballot accepting the Plan by the deadline for doing so and, other than FGIC with respect to the FGIC Assured-Insured Warrants or pursuant to Section 3(e) of the Ad Hoc Warrantholders' Plan Support Agreement, make the Commutation Election. All holders of Class 1-A claims that (i) do not return any ballot by the applicable deadline for doing so, (ii) return a ballot by the deadline for doing so but do not make any election with respect to the Commutation Election, or (iii) return a ballot by the applicable deadline for doing so and indicate both an election to make and an election to not make the Commutation Election, will be conclusively deemed to have made the Commutation Election; *provided, however*, that (i) any holder of the Series 2003-B-8 sewer warrants insured by Assured that either does not return a ballot, does not indicate an election on any ballot that is returned by the applicable deadline for doing so, or returns a ballot by the applicable deadline for doing so 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 (ii) any holders of the Series 2003-C-9 or 2003-C-10 sewer warrants insured by Assured which are "deemed" to make the Commutation Election will be notified by the solicitation agent of their right to rescind such Commutation Election by providing written notice thereof to KCC (or any other agent), Assured, and the County not less than 29 calendar days after the deadline for making the Commutation Election (which date shall in all events be prior to any confirmation hearing) and being paid and treated in accordance with Option 2 of paragraph C.1. The County shall provide counsel to the Sewer Warrant Insurers with a copy of the ballot tabulation and Commutation Election results (after giving effect to any rescissions exercised by any holders of the Series 2003-C-9 or 2003-C-10 sewer warrants insured by Assured) within one (1) business day of the completion of the report of such results by KCC (or any other agent) and the County.

2. The Plan shall provide that to the extent a holder of sewer warrants previously commuted or otherwise settled its claims against a Sewer Warrant Insurer under an applicable insurance policy or policies, such previous commutation or settlement shall not be affected by the Plan and shall remain binding and effective in accordance with the terms of the applicable agreements.

G. Certain Additional Matters

1. Except as otherwise specified in this term sheet, all existing Indenture Funds (both disputed and undisputed) and all Accumulated Revenues remaining after payment of the amounts required in paragraph D.2, will, along with the refinancing proceeds, be used to satisfy the County's obligations under the Plan. In addition, but only to the extent that doing so does not diminish or reduce the payments to be made to the Sewer Warrant Insurers or sewer creditors under the Plan, an amount equal to the aggregate balance of the available Indenture Funds and Accumulated Revenues remaining after payment of the amounts required in paragraph D.2, will be used to fund a debt service reserve fund under the new indenture for the New Sewer Warrants and additional proceeds of the New Sewer Warrants after such Plan

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payments will be utilized to top off a reserve account at 10% of outstanding principal of the New Sewer Warrants, provided that such reserve shall not diminish or reduce the payments to be made to the Sewer Warrant Insurers or sewer creditors under the Plan. Until the earliest of (A) the Effective Date, or (B) the Plan Support Termination Date, and notwithstanding any ruling by the Bankruptcy Court which may authorize any other payments, the Indenture Funds may be used only to pay (i) reasonable capital expenditures associated with the sewer system from the following accounts at Regions Bank: Account Number 1020003424, Account Number 1020004735, and Account Number 1020003460; and (ii) the reasonable fees and costs of the Indenture Trustee to the extent permitted to be paid under the sewer warrant indenture.

2. The County will file a motion (to be heard prior to or contemporaneously with the confirmation hearing regarding the Plan) 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 the New Sewer Warrants, the incurrence of any underwriting fees to be paid at closing, and the incurrence of the backstop/put obligations. In such motion, the County will further seek a ruling 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. The form of such motion and proposed order thereon shall be acceptable to each of the Plan Support Parties.

3. To the extent necessary to implement any provision of the Plan or any related transactions, the County shall provide its consent for purposes of Bankruptcy Code section 904.

4. Costs of issuance with respect to any refinancing, including work of the County's bond counsel relating to the issuance, will be paid from the gross proceeds of the issuance of the New Sewer Warrants.

5. Whenever this term sheet provides that any party has the "right to approve" a document or that a document must be "acceptable" or "satisfactory" to a party, such requirement shall in each case be subject to a reasonableness qualifier; *provided, however*, that the Plan must in all events contain the terms set forth herein and in the Plan Support Agreements.

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Exhibit A

Certain Key Defined Terms

“Accumulated Revenues” mean all system revenues that are deposited and retained by the Indenture Trustee in either the “Jefferson County Sewer System Revenue Account” or the “Jefferson County Sewer System Debt Service Fund” as of and after January 31, 2013, and through the Effective Date.

“Ad Hoc Warrantholders” means those Plan Support Parties advised by Kramer Levin Naftalis & Frankel LLP, Tanner & Guin, LLC, and GLC Advisors & Co. which holders own, or advise accounts that own, in the aggregate no less than \$872,559,361.11 principal amount of sewer warrants as of the date of the Ad Hoc Warrantholders’ Plan Support Agreement.

“Adjusted 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 Indenture Trustee, less payments to be made on the Effective Date of the Plan from the Accumulated Revenues as set forth in paragraph D.2. The Adjusted Principal Amount is anticipated to be approximately \$3.078 billion.

“Approved Rate Schedule” means the structure of rates to be charged by the County to support the repayment of the New Sewer Warrants, which structure of rates shall be approved by the Bankruptcy Court pursuant to the Plan and the Confirmation Order.

“Commutation Election” means an election or deemed election by a holder of sewer warrants to commute, waive, and forever release and forego (i) any rights 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 related policy or policies, (ii) any claims on account of prepetition default rate interest, and (iii) any other claims or causes of action against the County or against any of the Plan Support Parties.

“Covered Tail Risk” means an amount not to exceed \$25 million in the aggregate that will be allocated (and subject to reallocation) on account of the Tail Risk to the Sewer Warrant Insurers pursuant to the respective Tail Risk Payment Agreements.

“FGIC Assured-Insured Warrants” means Series 2003-B-8 Sewer Warrants in the principal amount of \$6,000,000 insured by one or more wrap policies issued by Assured, and held by FGIC as an investment.

“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

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the Indenture Trustee has property rights in, or a lien on, such fund or account (including in Adversary Proceeding No. 12-00067).

“Insurer Outlay Amount” means a sum equal to the amount of any payments made by any of the Sewer Warrant Insurers to or for the benefit of holders of sewer warrants under the applicable insurance policy or policies on or after February 1, 2013 and through the Effective Date, plus interest on the principal portion of such payments, calculated at the warrant rate, i.e., 5.25% on the fixed rate warrants and two (2) times the one month LIBOR rate on the auction rate warrants. For the avoidance of doubt, no additional interest will be paid on the portion of such payments related to warrant interest.

“New Sewer Warrants” means new sewer warrants to be issued pursuant to the Plan by the County.

“Non-Commutation True-Up Amount” means an aggregate amount equal to, with respect to each sewer warrant held by a person that elects to not make or is not deemed to make the Commutation Election, the difference between (i) 80% of the Adjusted Principal Amount of such sewer warrant, and (ii) 65% of the Adjusted Principal Amount of such sewer warrant.

“Outside Date” means December 31, 2013, or such later date as may be agreed in writing by the County and the Sewer Warrant Insurers, in their respective sole discretion.

“Plan Support Parties” means, collectively, the Ad Hoc Warrantholders, JPMorgan, the Sewer Warrant Insurers, and any additional sewer warrant holder that executes a Plan Support Agreement.

“Sewer Warrant Insurers” means, collectively, Assured, FGIC, and Syncora.

“Tail-Coverage Escrow Accounts” mean escrow accounts that will be established with respect to each of the Sewer Warrant Insurers and will be funded on the Effective Date with refinancing proceeds 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.

“Tail-Coverage Protocol” means an agreement between the County and each of the Sewer Warrant Insurers regarding the process for disbursement of funds from the respective Tail-Coverage Escrow Account to the applicable Sewer Warrant Insurer to reimburse such Sewer Warrant Insurer for payments made by the applicable Sewer Warrant Insurer on account of 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 if the subject Sewer Warrant Insurer does not exhaust its Tail-Coverage Escrow Account, including the interest and/or any investment return thereon,

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by paying its respective Tail Risk (i) 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 (ii) in each Sewer Warrant Insurer's sole discretion, on an accelerated basis.

“Tail Risk” means the claim exposure of each of the Sewer Warrant Insurers under the wrap policies that remains after the Effective Date (after giving effect to the payments set forth in paragraph C.1 under the Plan to sewer creditors on the Effective Date and the County’s payment of the Non-Commutation True-Up Amount) based upon the aggregate amount of the sewer warrants held by holders that (i) elect to not make or are not deemed to make the Commutation Election; or (ii) hold Series 2003-C-9 or 2003-C-10 sewer warrants insured by Assured, and 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, which exposure will be agreed by the Sewer Warrant Insurers with the County in the Tail Risk Payment Agreements.

Exhibit B

Form of JPMorgan PSA

[EXHIBIT INTENTIONALLY OMITTED]

Exhibit C

Form of Supporting Warrantholder PSA

[EXHIBIT INTENTIONALLY OMITTED]

PLAN SUPPORT AGREEMENT

THIS PLAN SUPPORT AGREEMENT DOES NOT CONSTITUTE A VOTE TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN OR A SOLICITATION OF VOTES TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN; ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED OR MADE UNTIL THE BANKRUPTCY COURT APPROVES A DISCLOSURE STATEMENT RESPECTING A PLAN

This PLAN SUPPORT AGREEMENT (as it may be amended or supplemented from time to time in accordance with the terms hereof, and together with all schedules or exhibits hereto, this "Agreement"), dated as of June 27, 2013, is made and entered into by and among Jefferson County, Alabama (the "County"), on the one hand, and The Bank of Nova Scotia ("Scotia Bank"), The Bank of New York Mellon in its capacity as a liquidity bank with respect to Sewer Warrants (as defined below) and not in any other capacity ("BNY"), and State Street Bank and Trust Company ("State Street" and collectively with Scotia Bank and BNY, the "Liquidity Banks"), on the other hand. Each of the Liquidity Banks and the County are referred to herein as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, pursuant to a Trust Indenture, dated as of February 1, 1997 (as supplemented by eleven supplemental indentures through the date hereof, the "Indenture"), between the County and The Bank of New York Mellon, as indenture trustee and successor to AmSouth Bank of Alabama (in such capacity, the "Trustee"), the County issued approximately \$3.6 billion principal amount of warrants secured by the net revenues of the County's sewer system (the "Sewer Warrants");

WHEREAS, in connection with the issuance of certain series of the Sewer Warrants, the County entered into a series of standby warrant purchase agreements (each a "Standby Agreement"), including a separate Standby Agreement with each of Scotia Bank, BNY, and State Street;

WHEREAS, on November 9, 2011, the County filed a 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, each of the Liquidity Banks has filed claims in the Bankruptcy Case against the County asserting rights to be paid various amounts arising from or in connection with the Sewer Warrants and the respective Standby Agreement, including (i) on account of interest that is alleged to have accrued on the Liquidity Banks' Bank Warrants at a "default" rate; and (ii) all Bank Warrant Claims and (to the extent not otherwise included) Primary Standby Sewer Warrant Claims, in each case as such terms are defined in the Current Plan (as defined below) (collectively and with any and all other claims of the Liquidity Banks, whatever the origin or nature, the "Liquidity Bank Claims");

WHEREAS, the County disputes the Liquidity Banks' entitlements with respect to certain of the Liquidity Bank Claims (including with respect to the allowability, secured status, amount, and priority of certain of such claims), and the Liquidity Banks dispute the County's contentions and assert that the Liquidity Bank Claims are valid and allowable in all respects;

WHEREAS, the Parties and their representatives have engaged in good faith, arms' length settlement discussions regarding a consensual resolution of disputes among them and, subject to the terms and conditions set forth herein, each Party has agreed to support and implement a restructuring transaction (a "Restructuring") in accordance with the terms and conditions of a chapter 9 plan substantially in the form attached hereto as **Exhibit A** (the "Current Plan")¹ or pursuant to Another Acceptable Plan (as defined below);

WHEREAS, the County previously entered into (i) a plan support agreement dated as of June 6, 2013 (the "JPMorgan PSA") with JPMorgan Chase Bank, N.A., JPMorgan Chase Funding, Inc., and J.P. Morgan Securities LLC (collectively, the "JPMorgan Parties"); (ii) a plan support agreement dated as of June 6, 2013 (the "Supporting Sewer Warrantholder PSA") with certain members of an ad hoc group of holders of Sewer Warrants (the "Supporting Sewer Warrantholders"); and (iii) a plan support agreement dated as of June 6, 2013 (the "Sewer Warrant Insurer PSA") with Assured Guaranty Municipal Corp., as successor to Financial Security Assurance, Inc. ("Assured"), Financial Guaranty Insurance Company ("FGIC"), and Syncora Guarantee Inc., f/k/a XL Capital Assurance Inc. ("Syncora"), each of which is referred to as a "Sewer Warrant Insurer" and collectively with the Liquidity Banks, the JPMorgan Parties, and the Supporting Sewer Warrantholders are the "Sewer Plan Support Parties";

WHEREAS, in expressing such support and commitment, the Parties recognize that this Agreement is subject to and limited by the solicitation requirements of applicable bankruptcy law;

NOW, THEREFORE, in consideration of the foregoing and the promises, 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. Restructuring and Plan Support.

(a) The County shall file and exercise all reasonable efforts to expeditiously prosecute, confirm, and consummate a chapter 9 plan of adjustment that is an Acceptable Plan. An "Acceptable Plan" means either (i) the Current Plan; or (ii) any other chapter 9 plan of adjustment that otherwise complies with the terms of this Agreement and provides a treatment that is at a minimum economically equivalent in all respects to the treatment specified in the Current Plan on account of the Liquidity Bank Claims, namely, in full, final, and complete settlement, satisfaction, release, and exchange of all such Liquidity Bank Claims and of all of

¹ All capitalized terms used but not otherwise defined in this Agreement have the meanings ascribed to such terms in the Current Plan.

each Liquidity Bank's other Sewer Released Claims, both against the County and against any of the other Sewer Released Parties (including against the Sewer Warrant Insurers and their respective Related Parties in respect of any of the Sewer Insurance Policies), payment in the aggregate an amount equal to the sum of: (1) 80% of the Adjusted Sewer Warrant Principal Amount of the Liquidity Banks' Bank Warrants (which Adjusted Sewer Warrant Principal Amounts are set forth in Section 3(a) of this Agreement); (2) all non-default rate interest accrued and unpaid on the amount in clause (1) at the "Bank Rate" set forth in the Standby Agreements through and including the Effective Date; and (3) an aggregate Bank Warrant Default Interest Settlement Payment of \$2,764,296.75 in exchange for a release and waiver of Bank Warrant Default Interest Claims asserted in an aggregate amount in excess of \$20 million (such sum of (1), (2), and (3), the "Aggregate Plan Consideration"), and provides for mutual releases with the other Sewer Released Parties (any such other chapter 9 plan, "Another Acceptable Plan").

(b) The County shall exercise all reasonable efforts to meet the deadlines set forth in Section 7.1(o) hereof. The County shall exercise all reasonable efforts to obtain required regulatory and/or third-party approvals, if any, necessary to consummate the Restructuring.

(c) The County shall provide to the professionals representing the Liquidity Banks (the "LB Professionals") draft copies of all pleadings and documents related to any Acceptable Plan, the Restructuring, or any of the transactions contemplated thereby as soon as reasonably practicable with reasonable time to review and comment prior to the filing of same with the applicable court. The LB Professionals will review and provide any comments on all draft pleadings and documents as soon as reasonably practicable with reasonable time for the County to consider and address any comments. Each Party will cooperate, negotiate, and otherwise work with each other Party in good faith to ensure that such pleadings and documents (including any amendments thereto), including an Acceptable Plan, a disclosure statement for an Acceptable Plan (the "Disclosure Statement"), and an order confirming an Acceptable Plan (the "Confirmation Order"), incorporate the provisions of, and are otherwise materially consistent with, this Agreement and acceptable to the Parties.

(d) The County shall not take any action (directly or indirectly) that is inconsistent with this Agreement or an Acceptable Plan, or that would delay or otherwise impede approval of the Disclosure Statement (as defined below) or an Acceptable Plan, or the expeditious confirmation and consummation of an Acceptable Plan including consummation of the Restructuring.

(e) The County shall 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.

(f) Each of the Liquidity Banks shall (i) use all reasonable efforts to support confirmation of an Acceptable Plan; (ii) subject to Bankruptcy Code sections 1125 and 1126, timely vote all Liquidity Bank Claims to accept an Acceptable Plan, make the Commutation Election with respect to all Liquidity Bank Claims, and not change or withdraw (or cause to be changed or withdrawn) such vote or election except pursuant to Section 7.4; and (iii) subject to the occurrence of the Effective Date of an Acceptable Plan, provide a release of all Sewer

Released Parties and receive a release from all Sewer Released Parties in accordance with an Acceptable Plan. For the avoidance of doubt, such releases shall not release any rights of the Liquidity Banks under this Agreement or an Acceptable Plan.

(g) No Party will contest any other Party's ability to appear as a party-in-interest in any matter to be adjudicated in the Bankruptcy Case if such appearance and the positions advocated in connection therewith (i) are not inconsistent with this Agreement, and are not for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; or (ii) are for the purposes of contesting whether any matter, fact, or thing, is a breach of, or inconsistent with, this Agreement or to otherwise enforce this Agreement.

(h) This Agreement is not and shall not be deemed to be a solicitation of or votes for the acceptance or rejection of any chapter 9 plan for the purposes of Bankruptcy Code sections 1125 and 1126 or otherwise. There will be no solicitation of acceptances of the Liquidity Banks or any other creditors with respect to an Acceptable Plan until such parties have received the Disclosure Statement, any supplements thereto, and related ballot, in each case as approved by the Bankruptcy Court, and in each case in accordance with the Bankruptcy Code and negotiated consistent with Section 1(c). 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.

(i) If the County amends the Current Plan to increase the percentage of consideration payable by the County under "Option 1" for Class 1-A (or any analogous class or subclass), then the County will amend the Current Plan at the same time to provide a corresponding increase in the percentage of consideration payable by the County under "Option 1" for Class 1-B (or any analogous class or subclass).

(j) Whenever this Agreement provides that any Party has the "right to approve" a document or that a document must be "acceptable" or "satisfactory" to a Party, such requirement shall in each case be subject to a reasonableness qualifier; *provided, however*, that the Acceptable Plan must in all events incorporate the provisions which are stated in this Agreement to be included in an Acceptable Plan.

Section 2. Litigation Standstill.

(a) For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Litigation" shall mean any litigation that is related to the County, the Bankruptcy Case, the Sewer Warrants (including any financing or other transactions entered into in connection therewith), or insurance issued in respect of the Sewer Warrants (in each case, whether pending before the Bankruptcy Court or before any other court), but excluding (v) any litigation to enforce, interpret, or implement this Agreement, an Acceptable Plan, the Restructuring, or any document executed in connection therewith; (w) the pending adversary proceeding concerning the priority of the Lehman Brothers swap claim, Adv. Proc. No. 12-

00149-TBB; (x) the FGIC rehabilitation proceeding, except for any actions taken in the FGIC rehabilitation proceeding for the purpose of hindering, delaying, or preventing the confirmation or consummation of an Acceptable Plan and the Restructuring; (y) any litigation involving any dispute between a holder of Sewer Warrants (or the Trustee) and a Sewer Warrant Insurer (including litigation in the FGIC rehabilitation proceeding) concerning the rights of such holder as compared to any Sewer Warrant Insurer, with respect to who owns, controls, and may exercise all rights arising out of or in connection with Sewer Warrants that are beneficially owned by such holder and insured by such Sewer Warrant Insurer (but not with respect to any Sewer Warrants or other rights held by any of the Sewer Warrant Insurers as a result of payments made or to be made under any insurance policy); and (z) any litigation permitted by Section 1(g).

(ii) “Reasonable Steps” for purposes of this Agreement shall mean, in furtherance of a suspension or standstill of all Litigation pending on the date hereof that is satisfactory to all the Parties (the “Litigation Standstill”), the Liquidity Banks providing all reasonable support to the County to achieve such Litigation Standstill, but shall exclude (x) any obligation of any Party to cause any person to take any actions which it is not permitted to take under applicable law or by contract; and (y) any action (or inaction), including commencing or continuing any action in the Bankruptcy Court or other court, that could (in the reasonable judgment of any Party) expose any such Party to liability (contingent or otherwise) or unreimbursed material expense.

(b) Each Party agrees that it shall (i) not commence any new Litigation against any other Party or any other Sewer Plan Support Party and shall not prosecute and shall exercise all reasonable efforts to suspend any existing Litigation against any other Party or any other Sewer Plan Support Party and (ii) in connection with any such Litigation, take no action inconsistent with the Restructuring contemplated by this Agreement and an Acceptable Plan; *provided, however*, that no action, matter, or proceeding excluded from the definition of Litigation in Section 2(a)(i) shall be or shall be deemed to be an action inconsistent with the Restructuring or an Acceptable Plan.

(c) The Liquidity Banks shall take Reasonable Steps to obtain and implement the Litigation Standstill that will remain in effect until the earlier of (x) the Effective Date of an Acceptable Plan or (y) termination of this Agreement in accordance with Section 7.

Section 3. Representations and Covenants Regarding Claims.

(a) Scotia Bank represents that as of the date of this Agreement, Scotia Bank owns Bank Warrants in the principal amount of \$47,664,770.54 and retains all rights to vote any claims arising from or related to such Bank Warrants to accept an Acceptable Plan. BNY represents that as of the date of this Agreement, BNY owns Bank Warrants in the principal amount of \$32,334,711.60 and retains all rights to vote any claims arising from or related to such Bank Warrants to accept an Acceptable Plan. State Street represents that as of the date of this Agreement, State Street owns Bank Warrants in the principal amount of \$58,215,355.74 and retains all rights to vote any claims arising from or related to such Bank Warrants to accept an Acceptable Plan.

(b) Each Liquidity Bank represents that as of the date of this Agreement, it has made no prior Transfer (as defined below), and has not entered into any other agreement to assign, sell, participate, grant, convey or otherwise transfer, in whole or in part, any portion of its right, title, or interest in any Liquidity Bank Claims held by such Liquidity Bank that are inconsistent with, or in violation of, the representations and warranties of such Liquidity Bank herein, in violation of its obligations under this Agreement or that would adversely affect in any way such Liquidity Bank's performance of its obligations under this Agreement at the time such obligations are required to be performed.

(c) Each Liquidity Bank covenants that, from the date hereof until the termination of this Agreement in accordance with Section 7 of this Agreement, it will not sell, pledge, hypothecate, or otherwise transfer, assign or dispose of any of its Liquidity Bank Claims (including any Sewer Warrants), or grant any option, right to acquire, or voting, participation, or other interest therein to any person or entity (any such transfer, disposition, or grant, a "Transfer"). Any attempt to Transfer any Liquidity Bank Claims or related rights or interests therein from the date hereof until the termination of this Agreement in accordance with Section 7 of this Agreement shall be deemed ineffective, including with regard to any right to accept or reject an Acceptable Plan or the Restructuring, and shall be deemed void *ab initio*.

(d) This Agreement shall in no way be construed to preclude any Liquidity Bank from acquiring additional Sewer Warrants or any claims directly related thereto; *provided, however*, that any additional Sewer Warrants or claims against the County directly related thereto so acquired by any Liquidity Bank shall automatically be deemed to be subject to the terms of this Agreement, including the voting requirements set forth in Section 1 hereof.

Section 4. Additional County Covenants and Determinations.

(a) The County represents that as of the date of the County's execution hereof, the County has determined in good faith that based on the financing plan preliminarily approved by the County Commission on June 4, 2013 (the "Financing Plan"), an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an Acceptable Plan. The County agrees that it shall further represent that (i) as of the date on which the Disclosure Statement is approved by the Bankruptcy Court, and (ii) as of the date on which a confirmation hearing begins with respect to an Acceptable Plan, the County in each case has still determined in good faith that based on the Financing Plan (as it may have been amended prior to each such date in accordance with the terms of this Agreement), an Acceptable Plan can be consummated through issuance of New Sewer Warrants sufficient to generate cash needed for consummation of an Acceptable Plan. The County agrees that an Acceptable Plan will provide that the aggregate consideration from issuance of New Sewer Warrants and other sources of cash to be paid under an Acceptable Plan to the Sewer Warrant creditors (including the Sewer Plan Support Parties) shall be approximately \$1.835 billion, plus the distribution of Accumulated Revenues pursuant to an Acceptable Plan.

(b) The County shall provide written notice to the Liquidity Banks of any termination of, amendment to, or written notice of potential termination of the JPMorgan PSA, the Supporting Sewer Warrantholder PSA, the Sewer Warrant Insurer PSA, or any future plan

support agreement between the County and a sewer creditor within one (1) business day of any such termination, amendment, or written notice. The written notice that the County must provide to the Liquidity Banks under the immediately preceding sentence shall include a copy of any applicable amendment, notice of termination, or notice of potential termination.

(c) The County shall provide written notice to the Liquidity Banks of any amendment to the Financing Plan within one (1) business day of any such amendment, which written notice shall include a copy of any such amendment. The County represents that any amendment to the Financing Plan shall be a publicly available document.

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 Bankruptcy Code sections 1125 and 1126 (in the case of the Liquidity Banks), this Agreement is a legal, valid, and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as enforcement may be limited by applicable laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability, and the actions to be taken by such Party, including in respect of the Restructuring contemplated by this Agreement, are within such Party's powers and have been duly authorized by all necessary action on its part.

(b) The execution, delivery, and performance of this Agreement by such Party does not and shall not: (i) violate any law, rule, or regulation applicable to such Party or any of its subsidiaries, as applicable; (ii) violate its certificate of incorporation, bylaws, or other organizational documents or those of any of its subsidiaries, as applicable; 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, as applicable, is a party.

(c) Subject to the provisions of Bankruptcy Code sections 1125 and 1126 (in the case of the Liquidity Banks), and the approval by the County Commission (in the case of the County, which approval has been obtained as set forth below), 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. The County represents that 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 County Commission can execute, deliver, and perform this Agreement shall have been completed, received, or given, as the case may be, prior to the County's execution and delivery of this Agreement, and the County Commission has duly approved and authorized the execution, delivery, and performance of this Agreement by the County.

Section 6. Support Commitments.

(a) In connection with the agreement of the County to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this Agreement has not been terminated in accordance with Section 7, the County shall use all reasonable efforts to:

(i) file a Disclosure Statement and an Acceptable Plan prior to the deadline set forth in Section 7.1(o)(i) of this Agreement;

(ii) 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 the deadlines set forth in Section 7.1(o)(ii)-(iv) of this Agreement, which Confirmation Order shall be satisfactory to the Liquidity Banks;

(iii) cause the Effective Date of an Acceptable Plan to occur prior to December 31, 2013 (the "Outside Date");

(iv) negotiate in good faith with the other 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, including the documents identified in Section 1(c); and

(v) take no action (directly or indirectly) that is inconsistent with this Agreement 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 or consummation of the Restructuring by the deadlines set forth in Section 7.1(o) of this Agreement.

(b) In connection with the agreement of the Liquidity Banks to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this Agreement has not been terminated in accordance with Section 7, each of the Liquidity Banks shall use all reasonable efforts to:

(i) not object to, challenge, or otherwise commence or participate in any proceeding opposing any of the terms of the Restructuring contemplated by this Agreement and an Acceptable Plan;

(ii) not seek or support appointment of a trustee for the County under Bankruptcy Code section 926(a) or dismissal of the Bankruptcy Case;

(iii) to the extent available, without any Party conceding its applicability or its inapplicability, not make or affirmatively reject any election for the application of Bankruptcy Code section 1111(b)(2) to any claims arising from or in connection with the Indenture, any Standby Agreement, or any Sewer Warrants;

(iv) in furtherance of the Litigation Standstill, not seek or support the reinstatement of control over the sewer system or sewer rate-setting in the receiver appointed by the Alabama state court or any other receiver;

(v) negotiate in good faith with the other 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, including the documents identified in Section 1(c); and

(vi) take no action (directly or indirectly) that is inconsistent with this Agreement or an Acceptable Plan, or that would delay or otherwise impede approval of the Disclosure Statement for an Acceptable Plan or the expeditious confirmation and consummation of an Acceptable Plan or consummation of the Restructuring by the deadlines set forth in Section 7.1(o) of this Agreement.

Section 7. Termination & Default.

7.1. Events of Termination & Default.

(a) The County and the Liquidity Banks may collectively terminate this Agreement by written agreement.

(b) If the County provides written notice to each other Party that the County, in consultation with its financial advisors, has reasonably determined in good faith that it is not economically possible to consummate an Acceptable Plan in accordance with the Financing Plan without economic modifications (other than as anticipated in the Financing Plan) adverse to the ratepayers or the sewer system in any material respect, which such notice must specify the basis for such a determination, and does not rescind such notice within fifteen (15) calendar days of the date on which such notice is provided, then the County or any of the Liquidity Banks may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice. For the avoidance of doubt and without limitation, except to the extent necessary to address (i) an up to a 50 basis point increase in borrowing rates (yields) from those set forth in the Financing Plan (a “Market Shift”), (ii) a decline in actual or projected revenues from those set forth in the Financing Plan having an economic effect equivalent to or less than a Market Shift, or (iii) some combination of increased borrowing rates (yields) and a decline in actual or projected revenues, in each case from those set forth in Financing Plan and in the aggregate having an economic effect equivalent to or less than a Market Shift, under no other circumstances shall the County be required to proceed with an Acceptable Plan if in order to issue the New Sewer Warrants, in the amount required thereunder, the County must make any pre-Effective Date upward adjustment in the Approved Rate Structure.

(c) If any of the Liquidity Banks or the County provides a written notice to each other Party that such Party has reasonably determined in good faith that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur, in the case of the County, as a result of events outside the County’s control (which notice shall specify the basis for such

determination), and does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice; *provided, however*, that in any proceeding challenging such a determination, the Party providing the notice bears the burden of proof that the events specified in the notice have occurred and that an Acceptable Plan cannot be confirmed or that the Effective Date cannot occur because of such events.

(d) If any governmental authority, including the Bankruptcy Court or any other regulatory authority or court of competent jurisdiction, enters any final, non-appealable ruling, or order enjoining the consummation of a material portion of the Restructuring, makes a final, non-appealable determination that, or issues a final, non-appealable judgment, order, decree, or ruling to the effect that this Agreement or any material provision of this Agreement or any related document is illegal, invalid, or unenforceable, or enters a final, non-appealable judgment, order, decree, or ruling denying confirmation of an Acceptable Plan, then any of the Liquidity Banks or the County may terminate this Agreement by written notice to each other Party.

(e) If the Supreme Court of the State of New York, County of New York sitting in *In the Matter of the Rehabilitation of Financial Guaranty Insurance Company*, Index No. 401265/2012, fails to approve FGIC's execution and performance of the Sewer Warrant Insurer PSA on or before June 28, 2013, or any later date agreed in writing by the County, FGIC, and the FGIC rehabilitator for obtaining such approval, then any of the Liquidity Banks or the County may terminate this Agreement by written notice to each other Party.

(f) If the Parties are unable to obtain and implement the Litigation Standstill on or before July 8, 2013, or such later date agreed by the Parties in writing (the "Standstill Date"), then any of the Liquidity Banks or the County may terminate this Agreement by giving written notice identifying which provisions of the Litigation Standstill have not been obtained or implemented to each other Party within fifteen (15) calendar days after the Standstill Date.

(g) If (i) the Litigation Standstill fails to remain in effect after the Standstill Date or (ii) any new potentially materially-prejudicial Litigation is commenced by the County, any Sewer Plan Support Party, the Trustee, or any other party against the County, against any Sewer Plan Support Party, or against the Trustee after the Standstill Date, then (x) any of the Liquidity Banks or the County may provide a written notice specifying, with respect to subsection (g)(i), the provisions of the Litigation Standstill that are no longer in effect or, with respect to subsection (g)(ii), the potential material prejudice associated with such new Litigation and, with respect to either such notice, expressing an intent to terminate this Agreement (a "Litigation Termination Notice"). The Litigation Termination Notice must be provided within fifteen (15) calendar days of the discovery (x) by the Party giving such notice provided under subsection (g)(i) of the provisions of the Litigation Standstill that are no longer in effect or (y) of the commencement of the specified new potentially materially-prejudicial Litigation under subsection (g)(ii), as applicable, and if the Litigation Standstill is not reinstated with respect to subsection (g)(i), or a standstill or resolution of the specified new potentially materially-

prejudicial Litigation under subsection (g)(ii) satisfactory to the Party giving such notice does not occur within twenty (20) calendar days of the giving of such notice, then any of the Liquidity Banks or the County, as applicable, may terminate this Agreement by giving a second written notice to each other Party within twenty-five (25) calendar days of the Litigation Termination Notice.

(h) If any Liquidity Bank materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof from the County or any non-breaching Liquidity Bank, then, subject to such Party's rights under Section 7.2(a), the County or any non-breaching Liquidity Bank may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(i) If the County materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof or within such other period that may be specified elsewhere in this Section 7.1 in the case of any other specified material breach by the County, then any of the Liquidity Banks, but only if such breach adversely affects a right, obligation, or interest of such Liquidity Bank, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(j) If the County withdraws, files a motion or pleading to withdraw, or publicly announces its intention not to pursue, an Acceptable Plan, or proposes or files a motion with the Bankruptcy Court seeking approval of a plan that is not an Acceptable Plan, or the County modifies an Acceptable Plan such that it is no longer an Acceptable Plan and does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then any of the Liquidity Banks may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(k) If the County files any motion, pleading, and/or disclosure statement that, in the reasonable judgment of any of the Liquidity Banks, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the applicable Liquidity Bank under this Agreement or an Acceptable Plan and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from any Liquidity Bank, then any of the Liquidity Banks, but only if such action adversely affects a right, obligation, or interest of such Liquidity Bank, may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(l) If any of the Liquidity Banks files any motion or pleading that, in the reasonable judgment of the County or any other Liquidity Bank, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the County or any other Liquidity Bank under this Agreement or an Acceptable Plan, and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from the County or any other Liquidity Bank, then the County or any other Liquidity Bank may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(m) If the County files any motion, application, or adversary proceeding challenging the validity, enforceability, perfection, or priority of, or seeking avoidance or subordination of, any of the Sewer Warrants, the Liquidity Bank Claims, any Standby Agreement, or the liens under the Indenture (or otherwise) securing the Sewer Warrants or asserting any other cause of action against and/or with respect to the Sewer Warrants, any Standby Agreement, or the Liquidity Banks (or if the County supports any such motion, application, or adversary proceeding commenced by any third party or consents to the standing of any such third party), or if the Bankruptcy Court enters an order granting relief with respect to any of the foregoing claims or causes of action, and the County does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then any of the Liquidity Banks may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(n) If (i) the Bankruptcy Case is dismissed or (ii) control over the sewer system or sewer rate-setting is reinstated in the receiver appointed by the Alabama state court or any other receiver, then the County or any of the Liquidity Banks may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(o) If any of the following deadlines are not satisfied:

(i) the County shall not have filed an Acceptable Plan and Disclosure Statement with the Bankruptcy Court by July 1, 2013, unless such date is extended by the Liquidity Banks in their sole and absolute discretion;

(ii) the Bankruptcy Court shall have failed to enter an order approving the Disclosure Statement by August 30, 2013, unless such date is extended by the Liquidity Banks in their sole and absolute discretion;

(iii) the Bankruptcy Court shall have failed to enter the Confirmation Order by November 25, 2013, unless such date is extended by the Liquidity Banks in their sole and absolute discretion; or

(iv) the Bankruptcy Court shall have failed to enter an order (which may be the Confirmation Order) validating the New Sewer Warrants by November 25, 2013, unless such date is extended by the Liquidity Banks in their sole and absolute discretion;

then, in each case, any of the Liquidity Banks may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(p) If the JPMorgan PSA shall have been terminated or is no longer in full force and effect, then the County or any of the Liquidity Banks may by written notice to each other Party terminate this Agreement at any time thereafter.

(q) If the Supporting Sewer Warrantholder PSA shall have been terminated or is no longer in full force and effect, then the County or any of the Liquidity Banks may by written notice to each other Party terminate this Agreement at any time thereafter.

(r) If the Sewer Warrant Insurer PSA shall have been terminated or is no longer in full force and effect, then the County or any of the Liquidity Banks may by written notice to each other Party terminate this Agreement at any time thereafter.

(s) If any other plan support agreement entered into by the County with respect to the Sewer Warrants shall have been terminated or is no longer in full force and effect, then the County or any of the Liquidity Banks may by written notice to each other Party terminate this Agreement at any time thereafter.

(t) If any condition precedent to confirmation or the Effective Date of an Acceptable Plan is not satisfied, other than occurrence of the Effective Date by the Outside Date, then the County or any of the Liquidity Banks may give written notice of such failure of condition to each other Party and may terminate this Agreement by giving a second written notice to each other Party after the expiration of ten (10) calendar days after such first written notice unless, before the expiration of such ten (10) calendar days, the condition is satisfied or, if waiveable, has been waived in accordance with the terms of such Acceptable Plan.

(u) If the County fails to enter into a closing agreement relating to the Sewer Warrants and the New Sewer Warrants with the Internal Revenue Service in form and substance acceptable to the County and the Liquidity Banks on or prior to September 30, 2013, or such later date as may be agreed in writing by the County and the Liquidity Banks, then the County or any of the Liquidity Banks may give a written notice of intent to terminate this Agreement, and if such Party does not rescind such notice within thirty (30) calendar days of the date on which such notice is provided, then such Party may terminate this Agreement by giving a second written notice to each other Party within thirty-five (35) calendar days of the first written notice.

(v) If the Effective Date shall not have occurred on or prior to the Outside Date, then this Agreement shall terminate automatically without further required action or notice.

(w) If the County amends the Financing Plan in any material respect without the written approval of each Liquidity Bank and does not rescind such amendment or obtain the written approval of each Liquidity Bank regarding such amendment within fifteen (15) calendar days of receiving written notice concerning any such amendment from one or more of the Liquidity Banks (which written notice must be provided by the applicable Liquidity Bank within seven (7) calendar days after the County provides the notice required by Section 4(c)), then any of the Liquidity Banks may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(x) If not previously terminated in accordance with the provisions hereof, this Agreement shall terminate automatically without further required action or notice upon the Effective Date of an Acceptable Plan.

Each of the foregoing events set forth in subsections (a) through (x) entitling a Party or Parties to terminate or amend this Agreement, as applicable, shall constitute a "Trigger Event."

7.2. Trigger Event Notices.

(a) Each Party receiving a notice asserting that a Trigger Event has occurred may challenge the accuracy or validity of such notice by commencing a proceeding in Bankruptcy Court within seven (7) calendar days of receiving such notice. All Parties consent to an expedited hearing of any such proceeding. For the avoidance of doubt, this Section 7.2(a) shall only apply to Sections 7.1(b)-(d), (f)-(m), (s), (t), (u) and (w), and a Trigger Event under all other clauses of Section 7.1 will result in termination of this Agreement in accordance with the express terms of the Trigger Event.

(b) The failure of one or more Parties to give a second notice required under Section 7.1 within the time specified for giving such notice (solely to the extent applicable) shall constitute a waiver of the right of such Party or Parties to terminate this Agreement based on the event specified in the first notice (but shall not constitute a waiver with respect to any future new event). Such a potential waiver shall apply only to Trigger Events in Sections 7.1(b)-(c), (g)-(m), (s), (t), (u) and (w), and not the other Trigger Events in Section 7.1.

(c) Each Party hereby waives any requirement under Bankruptcy Code sections 362 or 922 to lift the automatic stays thereunder for purposes of providing a first or second notice of a Trigger Event or termination of this Agreement (and agrees not to object to any non-breaching Party seeking, if necessary, to lift such automatic stays in connection with the provision of any such notice) or commencing a proceeding in the Bankruptcy Court with respect thereto; *provided, however*, that nothing in this Section 7.2(c) shall prejudice any Party's rights to argue that the notice of a Trigger Event or termination of this Agreement was not proper under the terms of this Agreement.

7.3. Benefits of Termination.

The foregoing Trigger Events are intended solely for the benefit of the specified Parties; *provided, however*, that no Party may terminate this Agreement based upon a breach or a failure of a condition (if any) in this Agreement arising solely out of its own actions or omissions. Other than as contemplated in Section 7.2(b), a Trigger Event may be waived only by the Party for whose benefit such a Trigger Event exists.

7.4. Effect of Termination.

Upon termination of this Agreement in accordance with Section 7.1, the obligations and agreements of each Party under this Agreement shall terminate and be of no further force and effect other than those obligations and agreements that expressly survive the termination of this Agreement as set forth in Section 8.14; *provided, however*, that any claim for breach of this Agreement shall survive termination and all rights and remedies with respect to such breach shall be neither waived nor prejudiced in any way by any such termination. Upon termination of this Agreement in accordance with Section 7.1 (other than a termination under Section 7.1(x)), any and all ballots with respect to an Acceptable Plan or the Commutation Election delivered by each Liquidity Bank prior to such date of termination shall be immediately withdrawn, and such ballots shall be deemed to be null and void for all purposes and shall not be considered or

otherwise used in any manner. For the avoidance of doubt, termination of this Agreement in accordance with Section 7 of this Agreement as to one of the Liquidity Banks will result in a termination of this Agreement as to all of the Liquidity Banks. To the extent that an Acceptable Plan has been confirmed prior to the termination of this Agreement, other than a termination under Section 7.1(x), the Confirmation Order and order approving the Disclosure Statement shall be vacated, the Parties will be restored to their rights as if this Agreement was never entered into and all claims and defenses of the Parties (subject to Section 8.10) shall be fully reserved.

Section 8. Miscellaneous Terms.

8.1 Communications.

This Agreement shall not, and shall not be deemed to, impair, prohibit, limit, or restrict any Liquidity Bank or its officers or representatives from engaging in discussions with or among any or all of: the County, the JPMorgan Parties, any Supporting Sewer Warrantholder, any Sewer Warrant Insurer, any other Liquidity Bank, any potential or actual underwriter, or any of the foregoing parties' respective officers, representatives, or advisors.

8.2 No Third Party Beneficiaries.

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.

8.3 Effectiveness of Agreement; Savings Clause.

This Agreement shall become effective once (i) duly executed by the County after being duly approved by the County Commission and (ii) duly executed by each of the Liquidity Banks. Notwithstanding the foregoing, the treatment under an Acceptable Plan shall become effective only on the Effective Date. If any provision hereof is construed to constitute an agreement to take any step or action that would violate any provision of applicable bankruptcy law or any other applicable law, such provision shall be deemed stricken herefrom and of no force and effect without liability to any of the Parties and without constituting a Trigger Event except as provided in Section 7.1(d), and shall not affect the validity, legality, or enforceability of any other provision of this Agreement unless the deletion of such provision results in the Plan no longer being an Acceptable Plan.

8.4 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.

8.5 Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ALABAMA, 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 irrevocably consents to service of process by mail at the addresses listed for such Party in Section 8.13 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.

8.6 Complete Agreement; Interpretation; Amendment, Modification and Waiver.

(a) This Agreement, together with all exhibits and schedules attached hereto, constitutes the complete agreement among the Parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, between or among the Parties with respect to the subject matter hereof.

(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 not be modified, amended, or supplemented except in a writing signed by the County and each Liquidity Bank.

(d) Other than waivers contemplated by Section 7.2(b), 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 that waiver 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.

8.7 Specific Performance.

This Agreement is intended as a binding commitment enforceable in accordance with its terms. Each Party acknowledges and agrees that the exact nature and extent of damages resulting from a breach of this Agreement are uncertain at the time of entering into this Agreement and that any such breach of this Agreement would result in damages that would be difficult to determine with certainty. It is understood and agreed that any non-breaching Party shall be entitled to seek specific performance, mandamus, and injunctive relief as its sole remedies for any such breach, 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. Such remedies shall be the exclusive remedies for the breach of this Agreement by any Party.

8.8 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. Delivery of an executed signature page of this Agreement by telecopier or email shall be as effective as delivery of a manually executed signature page of this Agreement. Each Party represents that each individual executing this Agreement on behalf of such Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of such Party

8.9 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, except as provided in Section 4(a), 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.

8.10 Settlement Discussions.

This Agreement and the Restructuring are part of a proposed settlement of claims and disputes among the Parties and are the product of good faith, arm's length negotiations among the Parties and their respective representatives. Nothing herein shall be deemed an admission of any kind and no act or agreement in furtherance of the provisions hereof shall be construed in any way as an admission of fault, wrongdoing, or liability on the part of any Party; *provided, however*, that, consistent with the final two sentences of this Section 8.10, this Agreement and the Financing Plan may be admitted for the purposes identified therein. If the transactions contemplated herein are not consummated, or following the termination of this Agreement 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 other than as set forth in the final two sentences of this Section 8.10. 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 or interpret the terms of this Agreement. Subject to any otherwise applicable rules in the Federal Rules of Evidence (other than Federal Rule of Evidence 408), this Agreement and the Financing Plan may be admitted into evidence in any proceeding arising as a result of or in connection with a Party's breach of this Agreement or in which breach of this Agreement is alleged as a relevant fact.

8.11 Successors and Assigns; Severability.

This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors and permitted assigns.

8.12 Several Liability; Individual Status; No Fiduciary.

All obligations and liabilities of the Parties hereunder are several and not joint, and no party to this Agreement shall be liable for any breach or non-performance by any other party to this Agreement. Each Liquidity Bank hereby agrees that it is (i) executing and delivering this Agreement in its individual capacity and (ii) making its own determination as to whether to execute this Agreement and support the Restructuring. It is understood and agreed that no Liquidity Bank has any duty of trust or confidence in any form with any other Liquidity Bank.

8.13 Notices.

All notices hereunder (including any termination notice), 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@babco.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 Scotia Bank:

The Bank of Nova Scotia
One Liberty Plaza
New York, New York 10006
Attn: Steven S. Kerr
Facsimile: (212) 225-5166
Email: steven_kerr@scotiacapital.com

-and-

Chapman and Cutler LLP
111 West Monroe Street
Chicago, Illinois 60603
Attn: James E. Spiotto
Facsimile: (312) 516-1900
Email: spiotto@chapman.com

If to BNY:

Edward J. DeSalvio
Managing Director
The Bank of New York Mellon
One Wall Street – 16th Floor
New York, NY 10286
Fax: 212-635-7290
E-mail: edward.desalvio@bnymellon.com

If to State Street:

State Street Corporation
One Lincoln Street – SFC5
Boston, MA 02111
Attn: Timothy L. Batler

Facsimile: (617) 350-4020
Email: tlbatler@statestreet.com

-and-

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, MA 02111
Attn: William W. Kannel
Facsimile: (617) 542 2241
Email: wkannel@mintz.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. For the avoidance of doubt, any references in this Agreement to a “notice” shall mean a written notice sent in accordance with this Section 8.13.

8.14 Survival.

Notwithstanding any termination of this Agreement pursuant to Section 7.1 hereof, the agreements and obligations of the Parties in Sections 7.3, 7.4, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, 8.9, 8.10, 8.11, 8.12, 8.13, 8.15, 8.16, and this Section 8.14 shall survive such termination and shall continue in full force and effect for the benefit of the Parties in accordance with the terms hereof.

8.15 Time Is of the Essence.

Time is of the essence with respect to all dates and deadlines specified in this Agreement.

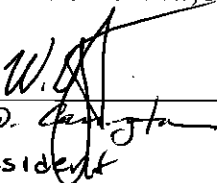
8.16 Use of “Including”.

Whenever this Agreement uses the word “including,” such reference shall be deemed to mean “including, without limitation.”

[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: 
Its: President

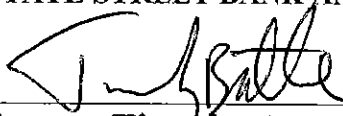
THE BANK OF NOVA SCOTIA

By:
Its:

THE BANK OF NEW YORK MELLON

By:
Its:

STATE STREET BANK AND TRUST COMPANY

By: 
Its: Timothy L. Batler
Senior Vice President

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

THE BANK OF NOVA SCOTIA



By:
Its:
MANAGING DIRECTOR

THE BANK OF NEW YORK MELLON

By:
Its:

STATE STREET BANK AND TRUST COMPANY

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

THE BANK OF NOVA SCOTIA

By:
Its:

THE BANK OF NEW YORK MELLON



By: **EDWARD J. DeSALVIO**
Its: **MANAGING DIRECTOR**

STATE STREET BANK AND TRUST COMPANY

By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

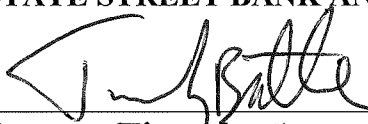
THE BANK OF NOVA SCOTIA

By:
Its:

THE BANK OF NEW YORK MELLON

By:
Its:

STATE STREET BANK AND TRUST COMPANY



By: **Timothy L. Batler**
Its: **Senior Vice President**

Exhibit A

Current Plan

[EXHIBIT INTENTIONALLY OMITTED]

PLAN SUPPORT AGREEMENT

THIS PLAN SUPPORT AGREEMENT DOES NOT CONSTITUTE A VOTE TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN OR A SOLICITATION OF VOTES TO ACCEPT OR REJECT ANY CHAPTER 9 PLAN; ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED OR MADE UNTIL THE BANKRUPTCY COURT APPROVES A DISCLOSURE STATEMENT RESPECTING A PLAN

This PLAN SUPPORT AGREEMENT (as it may be amended or supplemented from time to time in accordance with the terms hereof, this "Agreement"), dated as of July 24, 2013, is made and entered into by and between Jefferson County, Alabama (the "County"), on the one hand, and Lehman Brothers Special Financing Inc. ("LBSF"), on the other hand. Each of LBSF and the County are referred to herein as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, pursuant to a Trust Indenture, dated as of February 1, 1997 (as supplemented by eleven supplemental indentures through the date hereof, the "Indenture"), between the County and The Bank of New York Mellon, as indenture trustee and successor to AmSouth Bank of Alabama (in such capacity, the "Trustee"), the County issued approximately \$3.6 billion principal amount of warrants secured by the net revenues of the County's sewer system (the "Sewer Warrants");

WHEREAS, in connection with the issuance of certain series of the Sewer Warrants, the County and LBSF entered into that certain *ISDA Master Agreement* dated as of October 23, 2002 (as subsequently amended via an amendment dated as of September 14, 2006, and together with all schedules, annexes, and confirmations related thereto, the "Swap Agreement");

WHEREAS, on November 9, 2011, the County filed a 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, LBSF has filed a proof of claim (in duplicate) and an amended proof of claim (designated as claim numbers 878, 1148, and 1368) in the Bankruptcy Case against the County asserting rights to be paid various amounts arising from or in connection with the Swap Agreement, including (i) an asserted claim of \$1,002,754.42, which allegedly represents the net total periodic payments that had accrued and were due to LBSF at the time of the termination of the Swap Agreement, plus interest thereon through the petition date for a total asserted claim of \$1,656,230.21 (the "Periodic Payment Claim"); (ii) an asserted claim of \$67,225,730.00, which allegedly represents the amount due and payable under and as a result of termination of the Swap Agreement, plus interest thereon through the petition date for a total asserted claim of \$100,561,405.06 (the "Termination Claim"); and (iii) other asserted unliquidated amounts purportedly due under the Swap Agreement or the Bankruptcy Code (collectively with the Periodic Payment Claim, the Termination Claim, and any and all other claims of LBSF, whatever the origin or nature, the "LBSF Claims");

WHEREAS, the County disputes LBSF's entitlements with respect to certain of the LBSF Claims (including with respect to the allowability, secured status, amount, and priority of such claims), and LBSF disputes the County's contentions and asserts that the LBSF Claims are valid and allowable in all respects;

WHEREAS, on October 18, 2012, LBSF commenced a declaratory relief action against the Trustee and the County styled as *Lehman Brothers Special Financing Inc. v. The Bank of New York Mellon, as Indenture Trustee, and Jefferson County, Alabama (In re Jefferson County, Alabama)*, Adversary Proceeding No. 12-00149-TBB (Bankr. N.D. Ala.) (the "Lehman Adversary"), which Lehman Adversary remains pending;

WHEREAS, on June 30, 2013, the County filed a chapter 9 plan of adjustment (the "Current Plan") and accompanying disclosure statement (the "Current Disclosure Statement");

WHEREAS, counsel for LBSF has indicated that LBSF intends to object to approval of the Current Disclosure Statement and to confirmation of the Current Plan including, among other reasons, because the Current Plan purportedly does not properly classify or treat the Periodic Payment Claim;

WHEREAS, the Parties and their representatives have engaged in good faith, arms' length settlement discussions regarding a consensual resolution of disputes among them and, subject to the terms and conditions set forth herein, each Party has agreed to support and implement a restructuring transaction (a "Restructuring") in accordance with the terms and conditions described herein;

WHEREAS, the County previously in connection with the Sewer Warrants and claims related thereto entered into three other plan support agreements dated as of June 6, 2013, and a fourth other plan support agreement dated as of June 27, 2013 (collectively, the "Other Sewer PSAs");

WHEREAS, the Parties recognize that this Agreement is subject to and limited by the solicitation requirements of applicable bankruptcy law;

NOW, THEREFORE, in consideration of the foregoing and the promises, 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. Restructuring and Plan Support.

(a) The County shall modify the Current Plan so that it is an Acceptable Plan. An "Acceptable Plan" means a chapter 9 plan of adjustment that:

(i) classifies the Periodic Payment Claim in a class that is separate from the class in which the Termination Claim and any other LBSF Claims are classified, and

provides that the Periodic Payment Claim will be allowed on the effective date of the Acceptable Plan (the “Effective Date”);

(ii) provides that LBSF will receive a cash recovery of \$1,250,000.00 on the Effective Date in full, final, and complete settlement, satisfaction, release, and exchange of the Periodic Payment Claim;

(iii) provides that the Termination Claim and any other LBSF Claims are not expected to receive any recovery on account of the subordinated status of such claims (for the avoidance of doubt, the treatment of Class 1-E in the Current Plan with respect to the Termination Claim and any other LBSF Claims constitutes appropriate treatment under this clause 1(a)(iii) and any similar treatment will render a plan an Acceptable Plan);

(iv) includes LBSF among the “Sewer Released Parties” that will give and receive broad releases under the plan;

(v) includes a requirement that, unless otherwise waived, the Effective Date shall occur on or before December 31, 2013; and

(vi) in connection with the occurrence of the Effective Date, provides for the dismissal of the Lehman Adversary.

(b) LBSF shall (i) support confirmation of an Acceptable Plan; (ii) subject to Bankruptcy Code sections 1125 and 1126, timely vote all LBSF Claims that are entitled to vote on the plan to accept an Acceptable Plan and not change or withdraw (or cause to be changed or withdrawn) such vote except pursuant to Section 6.4; and (iii) subject to the occurrence of the Effective Date, provide a release of all Sewer Released Parties and receive a release from all Sewer Released Parties, in each case with respect to all “Sewer Released Claims” as such term is defined in an Acceptable Plan (which definition will be substantially similar to that set forth in Exhibit A hereto), in accordance with an Acceptable Plan. For the avoidance of doubt, such releases shall not release any rights of LBSF under this Agreement or an Acceptable Plan.

(c) This Agreement is not and shall not be deemed to be a solicitation of or votes for the acceptance or rejection of any chapter 9 plan for the purposes of Bankruptcy Code sections 1125 and 1126 or otherwise. There will be no solicitation of acceptances of LBSF or any other creditors with respect to an Acceptable Plan until such parties have received a disclosure statement, any supplements thereto, and related ballot, in each case as approved by the Bankruptcy Court. 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 2. Litigation Standstill.

(a) LBSF and the County will seek to obtain a stay of the Lehman Adversary pending the Effective Date or termination of this Agreement, whichever is earlier.

(b) Each Party agrees that it shall (i) not commence any new litigation against any other Party or any party to the Other Sewer PSAs that is related to the County, the Bankruptcy Case, the Sewer Warrants (including any financing or other transactions entered into in connection therewith), or the Swap Agreement (in each case, whether pending before the Bankruptcy Court or before any other court), but excluding any litigation to enforce, interpret, or implement this Agreement, an Acceptable Plan, the Restructuring, or any document executed in connection therewith; and (ii) take no action inconsistent with the Restructuring contemplated by this Agreement and an Acceptable Plan.

Section 3. Representations and Covenants Regarding Claims.

(a) LBSF represents that as of the date of this Agreement, it has made no prior Transfer (as defined below), and has not entered into any other agreement to assign, sell, participate, grant, convey or otherwise transfer, in whole or in part, any portion of its right, title, or interest in any LBSF Claims that are inconsistent with, or in violation of, the representations and warranties of LBSF herein, in violation of its obligations under this Agreement or that would adversely affect in any way LBSF's performance of its obligations under this Agreement at the time such obligations are required to be performed.

(b) LBSF covenants that, from the date hereof until the termination of this Agreement in accordance with Section 6 of this Agreement, it will not sell, pledge, hypothecate, or otherwise transfer, assign or dispose of any of its LBSF Claims, or grant any option, right to acquire, or voting, participation, or other interest therein to any person or entity (any such transfer, disposition, or grant, a "Transfer"), unless the transferee thereof agrees in writing to assume and be bound by this Agreement, agrees to assume the obligations of LBSF under this Agreement, and delivers such writing to each of the Parties within two (2) business days of the relevant Transfer (each such transferee becoming, upon a Transfer, a Party hereunder). Any attempt to Transfer any LBSF Claims or related rights or interests therein from the date hereof until the termination of this Agreement in accordance with Section 6 of this Agreement shall be deemed ineffective, including with regard to any right to accept or reject an Acceptable Plan or the Restructuring, and shall be deemed void *ab initio*.

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 Bankruptcy Code sections 1125 and 1126 (in the case of LBSF), this Agreement is a legal, valid, and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as enforcement may be limited by applicable laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability, and the actions to be taken by such Party, including in respect of the Restructuring contemplated by this Agreement, are within such Party's powers and have been duly authorized by all necessary action on its part.

(b) The execution, delivery, and performance of this Agreement by such Party does not and shall not: (i) violate any law, rule, or regulation applicable to such Party or any of its subsidiaries, as applicable; (ii) violate its certificate of incorporation, bylaws, or other organizational documents or those of any of its subsidiaries, as applicable; 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, as applicable, is a party.

(c) Subject to the provisions of Bankruptcy Code sections 1125 and 1126 (in the case of LBSF), and the approval by the County Commission (in the case of the County, which approval has been obtained as set forth below), 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. The County represents that 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 County Commission can execute, deliver, and perform this Agreement shall have been completed, received, or given, as the case may be, prior to the County's execution and delivery of this Agreement, and the County Commission has duly approved and authorized the execution, delivery, and performance of this Agreement by the County.

Section 5. Support Commitments.

In connection with the agreement of LBSF to support confirmation and consummation of an Acceptable Plan and consummation of the Restructuring, as long as this Agreement has not been terminated in accordance with Section 6, LBSF shall:

(a) not object to, challenge, or otherwise commence or participate in any proceeding opposing any of the terms of the Restructuring contemplated by this Agreement and an Acceptable Plan, including the treatment set forth in the Current Plan of Class 1-E with respect to the Termination Claim and any LBSF Claims other than the Periodic Payment Claim;

(b) not seek or support appointment of a trustee for the County under Bankruptcy Code section 926(a) or dismissal of the Bankruptcy Case;

(c) to the extent available, without any Party conceding its applicability or its inapplicability, not make or affirmatively reject any election for the application of Bankruptcy Code section 1111(b)(2) to any claims arising from or in connection with the Indenture or the Swap Agreement;

(d) not seek or support the reinstatement of control over the sewer system or sewer rate-setting in the receiver appointed by the Alabama state court or any other receiver; and

(e) take no action (directly or indirectly) that is inconsistent with this Agreement or an Acceptable Plan, or that would delay or otherwise impede approval of the disclosure statement for an Acceptable Plan or the expeditious confirmation and consummation of an Acceptable Plan or consummation of the Restructuring.

Section 6. Termination & Default.

6.1. Events of Termination & Default.

(a) The County and LBSF may together terminate this Agreement by written agreement.

(b) If any governmental authority, including the Bankruptcy Court or any other regulatory authority or court of competent jurisdiction, enters any final, non-appealable ruling, or order enjoining the consummation of a material portion of the Restructuring, makes a final, non-appealable determination that, or issues a final, non-appealable judgment, order, decree, or ruling to the effect that this Agreement or any material provision of this Agreement or any related document is illegal, invalid, or unenforceable, or enters a final, non-appealable judgment, order, decree, or ruling denying confirmation of an Acceptable Plan, then LBSF or the County may terminate this Agreement by written notice to each other Party.

(c) If LBSF materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof from the County, then, subject to such Party's rights under Section 6.2(a), the County may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(d) If the County materially breaches this Agreement and does not remedy such breach within fifteen (15) calendar days of receiving written notice thereof or within such other period that may be specified elsewhere in this Section 6.1 in the case of any other specified material breach by the County, then LBSF may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(e) If the County withdraws, files a motion or pleading to withdraw, or publicly announces its intention not to pursue, an Acceptable Plan, or proposes or files a motion with the Bankruptcy Court seeking approval of a plan that is not an Acceptable Plan, or the County modifies an Acceptable Plan such that it is no longer an Acceptable Plan and does not remedy or rescind such action within ten (10) calendar days of receiving written notice thereof, then LBSF may terminate this Agreement by giving a second written notice to each other Party within fifteen (15) calendar days of the first written notice.

(f) If the County files any motion, pleading, and/or disclosure statement that, in the reasonable judgment of LBSF, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of LBSF under this Agreement or an Acceptable Plan and does not remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from LBSF, then LBSF may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(g) If LBSF files any motion or pleading that, in the reasonable judgment of the County, is materially inconsistent with an Acceptable Plan or adversely affects a right, obligation, or interest of the County under this Agreement or an Acceptable Plan, and does not

remedy or rescind such action within fifteen (15) calendar days of receiving written notice thereof from the County, then the County may terminate this Agreement by giving a second written notice to each other Party within twenty (20) calendar days of the first written notice.

(h) If (i) the Bankruptcy Case is dismissed or (ii) control over the sewer system or sewer rate-setting is reinstated in the receiver appointed by the Alabama state court or any other receiver, then the County or LBSF may terminate this Agreement by giving written notice to each other Party at any time thereafter.

(i) If any of the Other Sewer PSAs shall have been terminated or is no longer in full force and effect, then the County or LBSF may by written notice to each other Party terminate this Agreement at any time thereafter.

(j) If any condition precedent to confirmation or the Effective Date of an Acceptable Plan is not satisfied, then the County or LBSF may give written notice of such failure of condition to each other Party and may terminate this Agreement by giving a second written notice to each other Party after the expiration of ten (10) calendar days after such first written notice unless, before the expiration of such ten (10) calendar days, the condition is satisfied or, if waiveable, has been waived in accordance with the terms of such Acceptable Plan.

(k) If not previously terminated in accordance with the provisions hereof, this Agreement shall terminate automatically without further required action or notice upon the Effective Date of an Acceptable Plan.

Each of the foregoing events set forth in subsections (a) through (k) entitling a Party or Parties to terminate or amend this Agreement, as applicable, shall constitute a “Trigger Event.”

6.2. Trigger Event Notices.

(a) Each Party receiving a notice asserting that a Trigger Event has occurred may challenge the accuracy or validity of such notice by commencing a proceeding in Bankruptcy Court within seven (7) calendar days of receiving such notice. All Parties consent to an expedited hearing of any such proceeding. For the avoidance of doubt, this Section 6.2(a) shall only apply to Sections 6.1(b)-(g) and (j), and a Trigger Event under all other clauses of Section 6.1 will result in termination of this Agreement in accordance with the express terms of the Trigger Event.

(b) The failure of one or more Parties to give a second notice required under Section 6.1 within the time specified for giving such notice (solely to the extent applicable) shall constitute a waiver of the right of such Party or Parties to terminate this Agreement based on the event specified in the first notice (but shall not constitute a waiver with respect to any future new event). Such a potential waiver shall apply only to Trigger Events in Sections 6.1(c)-(g) and (j), and not the other Trigger Events in Section 6.1.

(c) Each Party hereby waives any requirement under Bankruptcy Code sections 362 or 922 to lift the automatic stays thereunder for purposes of providing a first or

second notice of a Trigger Event or termination of this Agreement (and agrees not to object to any non-breaching Party seeking, if necessary, to lift such automatic stays in connection with the provision of any such notice) or commencing a proceeding in the Bankruptcy Court with respect thereto; *provided, however*, that nothing in this Section 6.2(c) shall prejudice any Party's rights to argue that the notice of a Trigger Event or termination of this Agreement was not proper under the terms of this Agreement.

6.3. Benefits of Termination.

The foregoing Trigger Events are intended solely for the benefit of the specified Parties; *provided, however*, that no Party may terminate this Agreement based upon a breach or a failure of a condition (if any) in this Agreement arising solely out of its own actions or omissions. Other than as contemplated in Section 6.2(b), a Trigger Event may be waived only by the Party for whose benefit such a Trigger Event exists.

6.4. Effect of Termination.

Upon termination of this Agreement in accordance with Section 6.1, the obligations and agreements of each Party under this Agreement shall terminate and be of no further force and effect other than those obligations and agreements that expressly survive the termination of this Agreement as set forth in Section 7.12; *provided, however*, that any claim for breach of this Agreement shall survive termination and all rights and remedies with respect to such breach shall be neither waived nor prejudiced in any way by any such termination. Upon termination of this Agreement in accordance with Section 6.1 (other than a termination under Section 6.1(k)), any and all ballots with respect to an Acceptable Plan delivered by LBSF prior to such date of termination shall be immediately withdrawn, and such ballots shall be deemed to be null and void for all purposes and shall not be considered or otherwise used in any manner.

Section 7. Miscellaneous Terms.

7.1. No Third Party Beneficiaries.

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.

7.2. Effectiveness of Agreement; Savings Clause.

This Agreement shall become effective once (i) duly executed by the County after being duly approved by the County Commission and (ii) duly executed by LBSF. Notwithstanding the foregoing, the treatment under an Acceptable Plan shall become effective only on the Effective Date. If any provision hereof is construed to constitute an agreement to take any step or action that would violate any provision of applicable bankruptcy law or any other applicable law, such provision shall be deemed stricken herefrom and of no force and effect without liability to any of the Parties and without constituting a Trigger Event except as provided in Section 6.1(b), and

shall not affect the validity, legality, or enforceability of any other provision of this Agreement unless the deletion of such provision results in the Plan no longer being an Acceptable Plan.

7.3. 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.

7.4. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ALABAMA, 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 irrevocably consents to service of process by mail at the addresses listed for such Party in Section 7.11 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.

7.5. Complete Agreement; Interpretation; Amendment, Modification and Waiver.

(a) This Agreement, together with all exhibits and schedules attached hereto, constitutes the complete agreement among the Parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, between or among the Parties with respect to the subject matter hereof.

(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 not be modified, amended, or supplemented except in a writing signed by the County and LBSF.

(d) Other than waivers contemplated by Section 6.2(b), 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 that waiver 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.

7.6. Specific Performance.

This Agreement is intended as a binding commitment enforceable in accordance with its terms. Each Party acknowledges and agrees that the exact nature and extent of damages resulting from a breach of this Agreement are uncertain at the time of entering into this Agreement and that any such breach of this Agreement would result in damages that would be difficult to determine with certainty. It is understood and agreed that any non-breaching Party shall be entitled to seek specific performance, mandamus, and injunctive relief as its sole remedies for any such breach, 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. Such remedies shall be the exclusive remedies for the breach of this Agreement by any Party.

7.7. 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. Delivery of an executed signature page of this Agreement by telecopier or email shall be as effective as delivery of a manually executed signature page of this Agreement. Each Party represents that each individual executing this Agreement on behalf of such Party has been duly authorized and empowered to execute and deliver this Agreement on behalf of such Party

7.8. 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.

7.9. Settlement Discussions.

This Agreement and the Restructuring are part of a proposed settlement of claims and disputes among the Parties and are the product of good faith, arm's length negotiations among the Parties and their respective representatives. Nothing herein shall be deemed an admission of any kind and no act or agreement in furtherance of the provisions hereof shall be construed in any way as an admission of fault, wrongdoing, or liability on the part of any Party; *provided, however*, that, consistent with the final two sentences of this Section 7.9, this Agreement may be admitted for the purposes identified therein. If the transactions contemplated herein are not consummated, or following the termination of this Agreement 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 other than as set forth in the final two sentences of this Section 7.9. 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 or interpret the terms of this Agreement. Subject to any otherwise applicable rules in the Federal Rules of Evidence (other than Federal Rule of Evidence 408), this Agreement may be admitted into

evidence in any proceeding arising as a result of or in connection with a Party's breach of this Agreement or in which breach of this Agreement is alleged as a relevant fact.

7.10. Successors and Assigns; Severability.

This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors and permitted assigns.

7.11. Notices.

All notices hereunder (including any termination notice), 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@babco.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 LBSF:

Lehman Brothers Holdings Inc.
1271 Avenue of the Americas, 40th Floor New York, NY 10020
Attention: Derivatives Legal
Facsimile No.: (646) 285-9701
With mandatory copy to: core_cap_mo_mailbox@lehmanholdings.com

-and-

Christian & Small LLP
505 20th Street North, Suite 1800
Birmingham, Alabama 35203
Attn: James C. Huckaby, Jr., Esq.; Bradley R. Hightower, Esq.
Facsimile: (205) 328-7234
E-mail: JCHuckaby@csattorneys.com; BRHightower@csattorneys.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. For the avoidance of doubt, any references in this Agreement to a “notice” shall mean a written notice sent in accordance with this Section 7.11.

7.12. Survival.

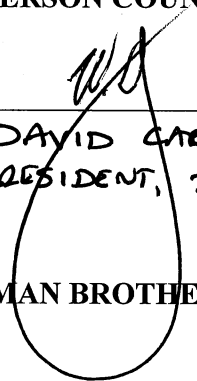
Notwithstanding any termination of this Agreement pursuant to Section 6.1 hereof, the agreements and obligations of the Parties in Sections 6.3, 6.4, 7.1, 7.2, 7.3, 7.4, 7.5, 7.6, 7.8, 7.9, 7.10, 7.11, 7.13, and this Section 7.12 shall survive such termination and shall continue in full force and effect for the benefit of the Parties in accordance with the terms hereof.

7.13. Use of “Including”.

Whenever this Agreement uses the word “including,” such reference shall be deemed to mean “including, without limitation.”

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA



By: **DAVID CARRINGTON**
Its: **PRESIDENT, JEFFERSON COUNTY COMMISSION**

LEHMAN BROTHERS SPECIAL FINANCING INC.

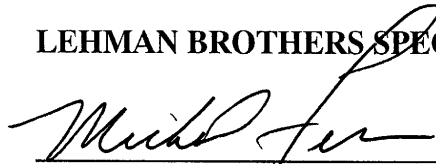
By:
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

LEHMAN BROTHERS SPECIAL FINANCING INC.



By: Michael Ferraro
Its: VP

Exhibit A

“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 LBSF Periodic Payment Claim, 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, (iv) the Bank Warrants referenced in Section 3(a) of the Sewer Plan Support Agreement among the County and the Sewer Liquidity Banks; or (v) the “LBSF Claims” referenced in Section 3 of the Sewer Plan Support Agreement between the County and LBSF); 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.

EXHIBIT NO. 8

National 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 June 27, 2013, is made and entered into by and among Jefferson County, Alabama (the “County”), on the one hand, and National Public Finance Guarantee Corporation, together with and as reinsurer of and administrator for MBIA Insurance Corporation (“National”), on the other hand (each a “Party” and collectively, the “Parties”).

RECITALS

WHEREAS, pursuant to that certain *Resolution and Order*, including any documents annexed thereto, adopted by the Jefferson County Commission (the “County Commission”) at a meeting held on March 6, 2003 (the “GO Resolution 2003-A”), the County authorized and thereupon issued the General Obligation Capital Improvement and Refunding Warrants, Series 2003-A (the “Series 2003-A GO Warrants”);

WHEREAS, pursuant to 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 (the “GO Resolution 2004-A”) (the GO Resolution 2003-A and the GO Resolution 2004-A are sometimes together referred to as the “GO Resolutions”), the County authorized and thereupon issued the General Obligation Warrants, Series 2004-A (the “Series 2004-A GO Warrants” and, together with the Series 2003-A GO Warrants, the “Warrants”);

WHEREAS, in connection with the issuance of the Series 2003-A GO Warrants and the Series 2004-A GO Warrants, National issued that certain *Financial Guaranty Insurance Policy* number 40587 on or around March 19, 2003; and that certain *Financial Guaranty Insurance Policy* number 44671 on or around August 10, 2004 (together, the “GO Insurance Policies”);

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, during the Bankruptcy Case the County has failed to timely pay regularly scheduled interest and principal on the Warrants;

WHEREAS, as used herein, any defaults or breaches by the County of either of the GO Resolutions, including, without limitation, any failure of the County to pay amounts due and owing on any of the Warrants when due are referred to as the “GO Events of Default”;

WHEREAS, during the Bankruptcy Case National has honored its obligations under the GO Insurance Policies, for which it has not received reimbursement from the County;

WHEREAS, as used herein, any and all claims on account of fees, expenses, or costs incurred by National prior to the effectiveness of the Plan (the “Effective Date”) that arise from or are related to the Bankruptcy Case, the Warrants, the GO Resolutions, or the GO Insurance Policies, including National’s attorneys’ and other professionals’ fees and expenses, are collectively referred to as the “National Fees and Expenses Claim”;

WHEREAS, as used herein, 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 Warrants during the period from the Petition Date through the Effective Date are collectively referred to as the “National Reimbursement Claim”;

WHEREAS, as used herein, any and all claims arising from or in connection with the GO Insurance Policies, as well as any and all claims of National 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 National as a result of National’s satisfaction of any claim under any of the GO Insurance Policies, including, without limitation, the National Fees and Expenses Claim and the National Reimbursement Claim, and including any and all related reinsurance claims are collectively referred to as the “GO Policy Claims”;

WHEREAS, the County will be filing a chapter 9 plan of adjustment (the “Plan”) in the Bankruptcy Case;

WHEREAS, National has informally advised the County that absent this Agreement National intends to oppose confirmation of any plan of adjustment that does not pay in full in cash the GO Policy Claims and otherwise leave unimpaired the Warrants;

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 Warrants and the GO Policy Claims;

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 the National Acceptable Plan.

The County shall propose and pursue confirmation of a National Acceptable Plan (as defined below). Subject to the terms of this Agreement, National agrees that, so long as it is the legal or beneficial owner of any GO Policy Claims, and has been properly solicited pursuant to

Bankruptcy Code sections 1125 and 1126, it shall timely vote or cause to be voted all its GO Policy Claims to accept a chapter 9 plan that includes the following provisions, and no provisions inconsistent therewith (the “National Acceptable Plan”):

(a) The treatment of the Warrants and GO Policy Claims shall constitute a compromise and settlement under the National Acceptable Plan under Bankruptcy Rule 9019 of various disputed matters between National and the County and in full, final, complete, and mutual settlement, satisfaction, release, and exchange thereof.

(b) A single class will be separately classified comprised of “Series 2003-A GO Claims,” which will be defined to include 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 National as a result of National’s satisfaction of any claim under any of the GO Insurance Policies.

(c) A single class will be separately classified comprised of “Series 2004-A GO Claims,” which will be defined to include 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 National as a result of National’s satisfaction of any claim under any of the GO Insurance Policies.

(d) 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 Bankruptcy 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 National Acceptable Plan and accordingly the holders of such claims will not be solicited.

(e) The GO Insurance Policies and GO Resolutions will remain in effect, subject to all terms and conditions thereof, until the Warrants are paid in full. To the extent the County fails to make a scheduled principal or interest payment on account of the 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.

(f) A single class will be separately classified comprised of the GO Policy Claims and will be satisfied as follows:

(i) Reimbursement of Prepetition Amounts.

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) Reimbursement of Principal Payments.

- a. The County will pay the \$2,880,000.00 to reimburse National for the principal that National paid under the GO Insurance Policies in April 2012 on April 1, 2014.
- b. The County will pay the \$2,965,000.00 to reimburse National for the principal that National paid under the GO Insurance Policies in April 2013 on April 1, 2015.

(iii) Reimbursement of the National Fees and Expenses Claim.

In full, final, and complete settlement, satisfaction, release, and exchange of the National Fees and Expenses Claim, the County will pay National \$1,500,000.00 in cash on the Effective Date.

(iv) Reimbursement of the National Reimbursement Claim.

In furtherance of the compromises and settlements set forth in this Agreement, in full, final, and complete settlement, satisfaction, release, and exchange of the National Reimbursement Claim, including, without limitation, National's contention that the National Reimbursement Claim constitutes a right of reimbursement to which National is entitled in accordance with the Bankruptcy Code and applicable law, the County will pay National the following amounts (collectively, the "Reimbursement Payment") on the following dates:

- April 1, 2025: \$2,854,321.62
- April 1, 2026: \$2,854,321.62
- April 1, 2027: \$2,854,321.63

At any time on or after Effective Date, the County shall have the option to prepay the Reimbursement Payment in whole or in part without premium or penalty. This option is exercisable by the County paying to National an aggregate amount equal to the nominal sum of the amount of the Reimbursement Payment 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.

(v) Post-Effective Date Interest.

The County's obligations to National under the National Acceptable Plan (other than with respect to payment of the Reimbursement Payment, which obligation 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.

Section 2. Additional Agreements Related to the National Acceptable Plan.

In connection with the County's proposal of the National Acceptable Plan, the Parties agree to the following:

(i) The County shall include in the National Acceptable Plan and, as appropriate, in the disclosure statement accompanying the National Acceptable Plan, and the County will take all reasonable actions and cooperate in good faith to ensure that the order confirming the National 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;

(ii) The indebtedness evidenced and ordered to be paid on account of the Warrants and, the GO Insurance Policies 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 Warrants, and to reimburse National on account of the GO Insurance Policies, as they become due.

(iii) Revenues legally available to the County for payment of debt service on the Warrants, and to reimburse National on account of the GO Insurance Policies, includes ad valorem taxes, sales and business license taxes, and other general fund revenues.

(iv) 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.

(v) 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.

(vi) The Warrants, and the obligations to reimburse National on account of the GO Insurance Policies, 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 Warrants, 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.

(vii) 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 Warrants and the GO Insurance Policies are properly classified separately under the Plan and properly treated in the fashion provided by the Plan.

Section 3. Additional Commitments of the Parties Under this Agreement.

3.1. Support of the National Acceptable Plan.

Subject to the terms of this Agreement, so long as this Agreement has not been terminated in accordance with its terms, National 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 Warrants or the GO Policy Claims that could reasonably be expected to hinder, block, prevent, delay, or impede the formulation, proposal, or confirmation of the National 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 the National Acceptable Plan;

(c) not seek or support appointment of a trustee for the County or dismissal of the Bankruptcy Case;

(d) recommend that holders of the Warrants not oppose the National Acceptable Plan; and

(e) not take any other action inconsistent with the restructuring proposal contemplated by this Agreement and the National Acceptable Plan.

3.2. Transfer of Claims.

National 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 GO Policy Claims (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 shall be deemed void *ab initio*.

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 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 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 the National Acceptable Plan are part of a proposed settlement of disputes among the Parties relating to the Warrants and the GO Policy Claims. 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, National reserves all of its rights and remedies (i) in the event that the County files a plan of adjustment that is not the National Acceptable Plan or is not otherwise materially consistent with the plan support agreements entered into on or before June 27, 2013, by the County with other creditors; (ii) if the County withdraws the National Acceptable Plan or modifies the National Acceptable Plan so that it is no longer the National Acceptable Plan; or (iii) if the County modifies the National Acceptable Plan to contain provisions or impose obligations on the County that materially and adversely affect

the County's ability to meet its obligations under the National Acceptable Plan to National or in respect of the Warrants. Subject to the provisions of Federal Rule of Bankruptcy Procedure 3018(a) ("Rule 3018(a)"), National may revoke, modify, or withdraw its vote to accept the National Acceptable Plan upon the occurrence of a Termination Event under Section 7.1 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 National under Rule 3018(a) following the occurrence of a Termination Event under Section 7.1 hereof. Nothing herein shall be deemed an admission of any kind. Nothing in this Agreement shall constitute a modification or amendment of the GO Resolutions, the Warrants, or the GO Insurance Policies.

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 County (a) determines to or does file a plan that is not the National Acceptable Plan, (b) withdraws the National Acceptable Plan, or (c) modifies the National Acceptable Plan such that it is no longer a National 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, National delivers a Notice of Termination to the County in accordance with Section 7.1 hereof, informing the County of the termination of this Agreement;
- (iv) the Bankruptcy Court denies confirmation of the National Acceptable Plan;

- (v) the Effective Date does not occur on or before December 31, 2013; or
- (vi) 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(vi)) to the breaching Party in accordance with Section 7.1 hereof.

7.2. 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 this Agreement shall not restrict the Parties' rights and remedies with respect to any prior breach of this Agreement by any Party.

7.3. 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 7.2.

Section 8. Effectiveness of this Agreement.

This Agreement shall become effective once duly executed by each Party. Notwithstanding the foregoing, the provisions of the National 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 ALABAMA, 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 GO Resolutions, the Warrants, and the GO Insurance Policies 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 the National Acceptable Plan are part of a proposed settlement of disputes among the Parties relating to the Warrants and the GO Policy Claims. 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.

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@babco.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 National:

National Public Finance Guarantee Corporation, for itself and as administrator for
MBIA Insurance Corp.

113 King Street

Armonk, New York 105004

Attn: Daniel E. McManus, Jr., Esq., General Counsel

Facsimile: (914) 765 – 3665

E-mail: daniel.mcmanus@nationalpfg.com

Jones Day

1420 Peachtree Street, N.E.

Suite 800

Atlanta, Georgia 30309

Attn: Amy Edgy Ferber, Esq.

Facsimile: (404) 581-8330

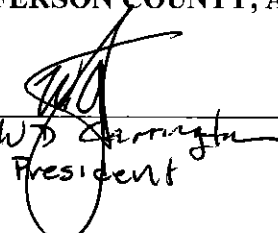
E-mail: aeferber@jonesday.com

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: 
Its: President

**NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION, FOR ITSELF AND AS
ADMINISTRATOR FOR MBIA INSURANCE CORPORATION**

By: _____
Its:

IN WITNESS WHEREOF, the Parties have entered into this Agreement as of the date first written above.

JEFFERSON COUNTY, ALABAMA

By:
Its:

**NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION, FOR ITSELF AND AS
ADMINISTRATOR FOR MBIA INSURANCE CORPORATION**



By: ADAM BERGONZI
Its: CHIEF RISK OFFICER

EXHIBIT NO. 9

Amended Financing Plan

| Jefferson County, Alabama Sewer Revenue Restructuring Amended Financing Plan Sources and Uses | |
|---|------------------------|
| Sources: | |
| Bond Proceeds | |
| Principal | |
| Current Interest Bonds | \$1,339,020,000 |
| Capital Appreciation Bonds | \$179,835,131 |
| Convertible Capital Appreciation Bonds | \$458,418,209 |
| Total | \$1,977,273,340 |
| Original Issue Premium/Discount | \$23,991,599 |
| Total Bond Proceeds | \$2,001,264,939 |
| Other Sources | |
| Cash from System Available to Closing | \$62,288,278 |
| Total Sources | \$2,063,553,216 |
| Uses: | |
| Proceeds to Creditors (1) | \$1,836,499,060 |
| Put Consideration (2) | \$13,500,000 |
| Debt Service Reserve Fund Deposit | \$197,727,334 |
| Underwriter's Discount | \$13,326,822 |
| Costs of Issuance | \$2,500,000 |
| Additional Proceeds | \$0 |
| Total Uses | \$2,063,553,216 |
| Summary Statistics | |
| Rate Increases: Yr. One \$5 & 3.49% NR; 7.89% Yrs. 2-5, 3.49% thereafter | |
| Initial-year increase represents \$5 increase in base charge (residential and nonresidential) and 3.49% increase in volumetric non-residential charges. | |
| Future Value of Capital Appreciation Bonds | \$1,126,700,000 |
| Future Value of Convertible Capital Appreciation Bonds | \$847,335,000 |
| Future Value of All Capital Appreciating Debt | \$1,974,035,000 |
| Anticipated CAPEX Shortfall | \$1,209,501,464 |
| Dated Date | 12/1/13 |
| Delivery Date | 12/1/13 |

This Amended Financing Plan amends the financing plan preliminarily approved by the Jefferson County Commission on June 4, 2013 (the "Financing Plan"). Among the economic modifications made to the Financing Plan by this Amended Financing Plan are revisions to address a decline in actual or projected revenues having an economic effect that equals or exceeds the economic effect that a 50 basis point increase in borrowing rates (yields) over the assumed rates (yields) utilized for purposes of the Financing Plan would have vis-à-vis the sewer rate structure underpinning the Financing Plan. The Amended Financing Plan fully utilizes such 50 basis point amount.

The rates set forth herein are solely for purposes of showing anticipated revenues. It is possible for the County to achieve equivalent revenues through means other than across the board rate increases, such as by tiered rates or minimum charges. This Amended Financing Plan does not adjust the interest rates/yields set forth in the Financing Plan preliminarily approved by the Jefferson County Commission on June 4, 2013."

(1) Amount based on negotiated and assumed distributions to sewer creditors: full usage of \$25 million non-commutation basket, \$165 million to monolines, 65 cent non-commutation distribution, 80 cent commutation distribution (with waivers), and JPM reallocations. Amount does not include distributions to pay, or reimburse insurers for their payment of, preclosing interest and principal scheduled to come due on or after February 1, 2013.

(2) Anticipated amounts payable under the Put Agreement as described in the County's chapter 9 plan.

**Jefferson County, Alabama
Sewer Revenue Restructuring
Amended Financing Plan**

Consolidated Cash Flows (\$000's)

| Fiscal Year Oct-1 | Yr. | Net Revenues | | | | Debt Service | | CAPEX | | | | | | | | Free Cash Flow | | | |
|-------------------------|-----|------------------|-------------------------|-----------------------|-------------------------------|------------------------|-----------------|-----------------|-------------------|--------------------------------|-------------------------------------|------------------------------|--------------------|--------------------------|-----------------|----------------------------------|-------------------------|-----------------------------|-------------------------|
| | | Sewer Revenue | Prior Year Excess | Operating Expenses | Total Net Sewer Revenue | Net Debt Service | Net Coverage | Target CAPEX | Misc. Revenues | CAPEX Net Misc. Revenues | Applied Constr. Fund Monies** | Cash Flow Funded CAPEX | CAPEX ShortFall | Total Debt Plus Capex | Net Coverage | FCF Before Fund Deposit | OpEx Fund Deposit | Net Free Cash Flow | OpEx Fund Balance |
| Total | | 14,405,897 | | 5,051,879 | 9,377,185 | 6,985,827 | | 4,528,730 | 857,529 | 3,671,202 | 159,202 | 2,311,458 | 1,209,501 | 9,297,286 | | 88,853 | 40,974 | 47,879 | |
| 2013 | - | | | | | | | | | | | | | | | | | 34,583 | 14,832 |
| 2014 | 1 | 133,598 | | 52,141 | 81,457 | 65,165 | 1.25x | 5,243 | 14,197 | (8,954) | - | - | - | 65,165 | 1.24x | 25,246 | 541 | 24,705 | 15,372 |
| 2015 | 2 | 172,266 | | 63,173 | 109,093 | 87,273 | 1.25x | 42,398 | 14,481 | 27,918 | 6,569 | 21,349 | - | 108,622 | 1.00x | 472 | 469 | 3 | 15,841 |
| 2016 | 3 | 181,664 | | 65,581 | 116,083 | 92,154 | 1.26x | 80,483 | 14,771 | 65,712 | 42,386 | 23,326 | - | 115,480 | 1.00x | 603 | 603 | 0 | 16,444 |
| 2017 | 4 | 191,550 | | 67,848 | 123,702 | 76,122 | 1.63x | 63,961 | 15,066 | 48,895 | 1,885 | 47,010 | - | 123,132 | 1.00x | 570 | 569 | 1 | 17,013 |
| 2018 | 5 | 204,199 | | 69,991 | 134,209 | 93,970 | 1.43x | 55,067 | 15,367 | 39,699 | - | 39,699 | - | 133,670 | 1.00x | 539 | 538 | 1 | 17,551 |
| 2019 | 6 | 210,268 | | 72,202 | 138,066 | 74,699 | 1.85x | 183,587 | 15,675 | 167,912 | 105,102 | 62,811 | - | 137,510 | 1.00x | 557 | 555 | 1 | 18,106 |
| 2020 | 7 | 216,502 | | 74,484 | 142,018 | 74,600 | 1.90x | 86,092 | 15,988 | 70,104 | 3,261 | 66,843 | - | 141,444 | 1.00x | 574 | 573 | 1 | 18,680 |
| 2021 | 8 | 222,941 | | 76,839 | 146,102 | 87,116 | 1.68x | 72,841 | 16,308 | 56,533 | - | 56,533 | - | 143,649 | 1.01x | 2,454 | 592 | 1,862 | 19,271 |
| 2022 | 9 | 229,546 | 1,862 | 81,879 | 149,529 | 73,942 | 2.02x | 75,026 | 16,634 | 58,392 | - | 58,392 | - | 132,334 | 1.12x | 17,195 | 1,254 | 15,941 | 20,526 |
| 2023 | 10 | 237,252 | 15,941 | 84,554 | 168,639 | 102,294 | 1.65x | 77,277 | 16,967 | 60,310 | - | 60,310 | - | 162,604 | 1.03x | 6,035 | 671 | 5,364 | 21,197 |
| 2024 | 11 | 245,261 | 5,364 | 87,316 | 163,309 | 130,646 | 1.25x | 79,595 | 17,306 | 62,289 | - | 31,969 | 30,320 | 162,615 | 1.00x | 693 | 693 | 0 | 21,890 |
| 2025 | 12 | 253,477 | 0 | 90,169 | 163,308 | 130,646 | 1.25x | 81,983 | 17,652 | 64,330 | - | 31,945 | 32,385 | 162,592 | 1.00x | 716 | 716 | 0 | 22,606 |
| 2026 | 13 | 262,023 | 0 | 93,116 | 168,906 | 135,126 | 1.25x | 84,442 | 18,005 | 66,437 | - | 33,040 | 33,396 | 168,167 | 1.00x | 740 | 740 | (0) | 23,346 |
| 2027 | 14 | 270,875 | (0) | 96,160 | 174,715 | 139,771 | 1.25x | 86,975 | 18,365 | 68,610 | - | 34,180 | 34,430 | 173,951 | 1.00x | 764 | 764 | 0 | 24,110 |
| 2028 | 15 | 280,050 | 0 | 99,304 | 180,747 | 144,596 | 1.25x | 89,585 | 18,733 | 70,852 | - | 35,361 | 35,491 | 179,957 | 1.00x | 789 | 789 | 0 | 24,899 |
| 2029 | 16 | 289,459 | 0 | 102,551 | 186,909 | 149,531 | 1.25x | 92,272 | 19,107 | 73,165 | - | 36,562 | 36,603 | 186,094 | 1.00x | 815 | 815 | 0 | 25,714 |
| 2030 | 17 | 299,210 | 0 | 105,905 | 193,306 | 154,641 | 1.25x | 95,040 | 19,489 | 75,551 | - | 37,822 | 37,729 | 192,464 | 1.00x | 842 | 842 | 0 | 26,556 |
| 2031 | 18 | 309,305 | 0 | 109,369 | 199,936 | 159,951 | 1.25x | 97,892 | 19,879 | 78,012 | - | 39,115 | 38,897 | 199,066 | 1.00x | 870 | 870 | (0) | 27,426 |
| 2032 | 19 | 319,733 | (0) | 112,947 | 206,786 | 165,426 | 1.25x | 100,828 | 20,277 | 80,551 | - | 40,461 | 40,090 | 205,888 | 1.00x | 898 | 898 | 0 | 28,324 |
| 2033 | 20 | 330,500 | 0 | 116,643 | 213,857 | 171,086 | 1.25x | 103,853 | 20,682 | 83,171 | - | 41,843 | 41,328 | 212,929 | 1.00x | 928 | 928 | (0) | 29,252 |
| 2034 | 21 | 341,635 | (0) | 120,461 | 221,174 | 176,942 | 1.25x | 106,969 | 21,096 | 85,873 | - | 43,274 | 42,598 | 220,216 | 1.00x | 959 | 959 | (0) | 30,211 |
| 2035 | 22 | 353,141 | (0) | 124,404 | 228,736 | 182,987 | 1.25x | 110,178 | 21,518 | 88,660 | - | 44,760 | 43,900 | 227,746 | 1.00x | 990 | 990 | (0) | 31,201 |
| 2036 | 23 | 365,081 | (0) | 128,478 | 236,603 | 189,287 | 1.25x | 113,483 | 21,948 | 91,535 | - | 46,294 | 45,241 | 235,581 | 1.00x | 1,023 | 1,023 | 0 | 32,223 |
| 2037 | 24 | 377,423 | 0 | 132,685 | 244,738 | 195,790 | 1.25x | 116,888 | 22,387 | 94,500 | - | 47,891 | 46,609 | 243,681 | 1.00x | 1,056 | 1,056 | (0) | 33,280 |
| 2038 | 25 | 390,225 | (0) | 137,031 | 253,194 | 202,552 | 1.25x | 120,394 | 22,835 | 97,559 | - | 49,551 | 48,009 | 252,103 | 1.00x | 1,091 | 1,091 | 0 | 34,371 |
| 2039 | 26 | 403,403 | 0 | 141,520 | 261,883 | 209,506 | 1.25x | 124,006 | 23,292 | 100,714 | - | 51,250 | 49,464 | 260,756 | 1.00x | 1,127 | 1,127 | 0 | 35,498 |
| 2040 | 27 | 417,083 | 0 | 146,157 | 270,927 | 216,743 | 1.25x | 127,726 | 23,758 | 103,969 | - | 53,019 | 50,950 | 269,762 | 1.00x | 1,164 | 1,164 | 0 | 36,663 |
| 2041 | 28 | 431,179 | 0 | 150,946 | 280,232 | 224,183 | 1.25x | 131,558 | 24,233 | 107,325 | - | 54,846 | 52,479 | 279,029 | 1.00x | 1,203 | 1,203 | (0) | 37,866 |
| 2042 | 29 | 445,758 | (0) | 155,894 | 289,864 | 231,893 | 1.25x | 135,505 | 24,717 | 110,788 | - | 56,728 | 54,059 | 288,621 | 1.00x | 1,243 | 1,243 | 0 | 39,108 |
| 2043 | 30 | 460,851 | 0 | 161,005 | 299,846 | 239,876 | 1.25x | 139,570 | 25,212 | 114,358 | - | 58,686 | 55,672 | 298,563 | 1.00x | 1,284 | 1,284 | 0 | 40,392 |
| 2044 | 31 | 476,465 | 0 | 166,284 | 310,181 | 248,146 | 1.25x | 143,757 | 25,716 | 118,041 | - | 60,710 | 57,332 | 308,855 | 1.00x | 1,326 | 1,326 | 0 | 41,718 |
| 2045 | 32 | 492,570 | 0 | 171,737 | 320,832 | 256,666 | 1.25x | 148,070 | 26,230 | 121,840 | - | 62,797 | 59,043 | 319,463 | 1.00x | 1,370 | 1,370 | 0 | 43,088 |
| 2046 | 33 | 509,218 | 0 | 177,371 | 331,847 | 265,481 | 1.25x | 152,512 | 26,755 | 125,757 | - | 64,952 | 60,805 | 330,432 | 1.00x | 1,415 | 1,415 | (0) | 44,503 |
| 2047 | 34 | 526,500 | (0) | 183,190 | 343,310 | 274,646 | 1.25x | 157,087 | 27,290 | 129,797 | - | 67,203 | 62,594 | 341,849 | 1.00x | 1,462 | 1,462 | (0) | 45,964 |
| 2048 | 35 | 544,324 | (0) | 189,201 | 355,124 | 284,100 | 1.25x | 161,800 | 27,836 | 133,964 | - | 69,514 | 64,450 | 353,614 | 1.00x | 1,510 | 1,510 | 0 | 47,474 |
| 2049 | 36 | 562,803 | 0 | 195,410 | 367,393 | 283,194 | 1.30x | 166,654 | 28,392 | 138,261 | - | 82,639 | 55,623 | 365,833 | 1.00x | 1,560 | 1,560 | (0) | 49,034 |
| 2050 | 37 | 581,835 | (0) | 201,824 | 380,010 | 235,707 | 1.61x | 171,654 | 28,960 | 142,693 | - | 142,692 | 1 | 378,399 | 1.00x | 1,611 | 1,611 | 0 | 50,645 |
| 2051 | 38 | 601,584 | 0 | 208,450 | 393,134 | 244,204 | 1.61x | 176,803 | 29,540 | 147,264 | - | 147,266 | 0 | 391,469 | 1.00x | 1,665 | 1,665 | (0) | 52,310 |
| 2052 | 39 | 622,010 | (0) | 215,295 | 406,715 | 253,020 | 1.61x | 182,107 | 30,130 | 151,977 | - | 151,975 | 2 | 404,995 | 1.00x | 1,720 | 1,720 | 0 | 54,030 |
| 2053 | 40 | 643,129 | 0 | 222,365 | 420,764 | 262,147 | 1.61x | 187,570 | 30,733 | 156,837 | - | 156,840 | 0 | 418,988 | 1.00x | 1,776 | 1,776 | (0) | 55,806 |

* DSRF is kept until final maturity of Tax Exempt bonds and is used to pay debt service. Assumes earnings based on S&P Guidelines and full release of DSRF in 2053

** Assumes initial balance in construction fund of \$153,845,872 and 0.50% earnings. Funds are diverted to the DSRF and then reimbursed through FCF in the first 2 years.

***Assumes Free Cash flow in FY 2013 and 2014 totaling \$59,288,278 funds up the CAPEX account for funds previously diverted to the DSRF.

**** Assumes the 2013 Net Free Cash Flow of \$34,583,000 is net of the Delayed Feb. 2013 Debt Service Payment, the projected IRS Penalty, a small deposit into the CAPEX Account and a \$14,831,507 deposit into the OpEx Fund.

***** 2014 Revenues, Operating Expenses, and CAPEX requirements have been adjusted downward for October and November 2013 as these are prior to the Delivery Date. These cash flows are reflected in the net 2013 FCF value.

| Jefferson County, Alabama Sewer Revenue Restructuring Amended Financing Plan | | | | | |
|--|-----------|---------------|--------|--------|---------|
| Current Interest Bond Pricing | | | | | |
| Maturity Date | Call Date | Principal | Coupon | Yield | Price |
| Total | | 1,339,020,000 | | | |
| 4/1/14 | N/A | - | 5.000% | 4.500% | 101.942 |
| 4/1/15 | N/A | 9,530,000 | 5.000% | 4.500% | 101.942 |
| 4/1/16 | N/A | 15,400,000 | 5.000% | 4.500% | 101.942 |
| 4/1/17 | N/A | - | 5.000% | 4.500% | 101.942 |
| 4/1/18 | N/A | 18,560,000 | 5.000% | 4.500% | 101.942 |
| 4/1/19 | N/A | - | 5.125% | 4.875% | 101.849 |
| 4/1/20 | N/A | - | 5.125% | 4.875% | 101.849 |
| 4/1/21 | N/A | 12,845,000 | 5.125% | 4.875% | 101.849 |
| 4/1/22 | N/A | - | 5.125% | 4.875% | 101.849 |
| 4/1/23 | N/A | - | 5.125% | 4.875% | 101.849 |
| 4/1/24 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/25 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/26 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/27 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/28 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/29 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/30 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/31 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/32 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/33 | 4/1/23 | - | 5.625% | 5.375% | 101.807 |
| 4/1/34 | 4/1/23 | - | 5.750% | 5.500% | 101.797 |
| 4/1/35 | 4/1/23 | - | 5.750% | 5.500% | 101.797 |
| 4/1/36 | 4/1/23 | - | 5.750% | 5.500% | 101.797 |
| 4/1/37 | 4/1/23 | - | 5.750% | 5.500% | 101.797 |
| 4/1/38 | 4/1/23 | 12,550,000 | 5.750% | 5.500% | 101.797 |
| 4/1/39 | 4/1/23 | 92,465,000 | 5.750% | 5.500% | 101.797 |
| 4/1/40 | 4/1/23 | 105,390,000 | 5.750% | 5.500% | 101.797 |
| 4/1/41 | 4/1/23 | 119,290,000 | 5.750% | 5.500% | 101.797 |
| 4/1/42 | 4/1/23 | 134,290,000 | 5.750% | 5.500% | 101.797 |
| 4/1/43 | 4/1/23 | 150,460,000 | 5.750% | 5.500% | 101.797 |
| 4/1/44 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/45 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/46 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/47 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/48 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/49 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/50 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/51 | 4/1/23 | - | 6.000% | 5.750% | 101.776 |
| 4/1/52 | 4/1/23 | 221,040,000 | 6.000% | 5.750% | 101.776 |
| 4/1/53 | 4/1/23 | 447,200,000 | 6.000% | 5.750% | 101.776 |

*Bold dates represent the final maturity of the Term Bonds

**Jefferson County, Alabama
Sewer Revenue Restructuring
Amended Financing Plan**

Capital Appreciation Bond Pricing

| Maturity Date | Initial Value | Future Value | Coupon | Yield | Price | CAB Price |
|---------------|---------------|---------------|--------|--------|---------|-----------|
| Total | 179,835,131 | 1,126,700,000 | | | | |
| 4/1/14 | - | - | 6.025% | 6.025% | 100.000 | 98.031 |
| 4/1/15 | - | - | 6.025% | 6.025% | 100.000 | 92.390 |
| 4/1/16 | - | - | 6.025% | 6.025% | 100.000 | 87.065 |
| 4/1/17 | - | - | 6.025% | 6.025% | 100.000 | 82.047 |
| 4/1/18 | - | - | 6.025% | 6.025% | 100.000 | 77.319 |
| 4/1/19 | - | - | 6.025% | 6.025% | 100.000 | 72.863 |
| 4/1/20 | - | - | 6.025% | 6.025% | 100.000 | 68.663 |
| 4/1/21 | - | - | 6.025% | 6.025% | 100.000 | 64.706 |
| 4/1/22 | - | - | 6.025% | 6.025% | 100.000 | 60.977 |
| 4/1/23 | - | - | 6.025% | 6.025% | 100.000 | 57.462 |
| 4/1/24 | - | - | 6.525% | 6.525% | 100.000 | 51.505 |
| 4/1/25 | - | - | 6.525% | 6.525% | 100.000 | 48.302 |
| 4/1/26 | 2,029,350 | 4,480,000 | 6.525% | 6.525% | 100.000 | 45.298 |
| 4/1/27 | 3,876,391 | 9,125,000 | 6.525% | 6.525% | 100.000 | 42.481 |
| 4/1/28 | 5,557,541 | 13,950,000 | 6.525% | 6.525% | 100.000 | 39.839 |
| 4/1/29 | 7,055,625 | 18,885,000 | 6.525% | 6.525% | 100.000 | 37.361 |
| 4/1/30 | 8,407,368 | 23,995,000 | 6.525% | 6.525% | 100.000 | 35.038 |
| 4/1/31 | 9,629,330 | 29,305,000 | 6.525% | 6.525% | 100.000 | 32.859 |
| 4/1/32 | 10,717,457 | 34,780,000 | 6.525% | 6.525% | 100.000 | 30.815 |
| 4/1/33 | - | - | 6.525% | 6.525% | 100.000 | 28.899 |
| 4/1/34 | 12,682,192 | 48,915,000 | 6.750% | 6.750% | 100.000 | 25.927 |
| 4/1/35 | 13,334,395 | 54,960,000 | 6.750% | 6.750% | 100.000 | 24.262 |
| 4/1/36 | 13,908,470 | 61,260,000 | 6.750% | 6.750% | 100.000 | 22.704 |
| 4/1/37 | 4,270,245 | 20,100,000 | 6.750% | 6.750% | 100.000 | 21.245 |
| 4/1/38 | - | - | 6.750% | 6.750% | 100.000 | 19.881 |
| 4/1/39 | - | - | 6.750% | 6.750% | 100.000 | 18.604 |
| 4/1/40 | - | - | 6.750% | 6.750% | 100.000 | 17.409 |
| 4/1/41 | - | - | 6.750% | 6.750% | 100.000 | 16.291 |
| 4/1/42 | - | - | 6.750% | 6.750% | 100.000 | 15.244 |
| 4/1/43 | - | - | 6.750% | 6.750% | 100.000 | 14.265 |
| 4/1/44 | 20,226,973 | 163,055,000 | 7.000% | 7.000% | 100.000 | 12.405 |
| 4/1/45 | 19,868,385 | 171,575,000 | 7.000% | 7.000% | 100.000 | 11.580 |
| 4/1/46 | 19,500,159 | 180,390,000 | 7.000% | 7.000% | 100.000 | 10.810 |
| 4/1/47 | 19,127,995 | 189,555,000 | 7.000% | 7.000% | 100.000 | 10.091 |
| 4/1/48 | 9,643,254 | 102,370,000 | 7.000% | 7.000% | 100.000 | 9.420 |
| 4/1/49 | - | - | 7.000% | 7.000% | 100.000 | 8.794 |
| 4/1/50 | - | - | 7.000% | 7.000% | 100.000 | 8.209 |
| 4/1/51 | - | - | 7.000% | 7.000% | 100.000 | 7.663 |
| 4/1/52 | - | - | 7.000% | 7.000% | 100.000 | 7.154 |
| 4/1/53 | - | - | 7.000% | 7.000% | 100.000 | 6.678 |

*Subject to make-whole provisions from 2023 through 2053

**Jefferson County, Alabama
Sewer Revenue Restructuring
Amended Financing Plan**

Convertible Capital Appreciation Bond Pricing

| Maturity Date | Conv. Date | Initial Value | Future Value | Coupon | Yield | Price | CCAB Price |
|---------------|------------|---------------|--------------|--------|--------|---------|------------|
| Total | | 458,418,209 | 847,335,000 | | | | |
| 4/1/23 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/24 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/25 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/26 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/27 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/28 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/29 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/30 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/31 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/32 | 4/1/23 | - | - | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/33 | 4/1/23 | 23,453,480 | 41,750,000 | 6.275% | 6.275% | 100.000 | 56.176 |
| 4/1/34 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/35 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/36 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/37 | 4/1/23 | 27,117,919 | 49,265,000 | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/38 | 4/1/23 | 37,287,483 | 67,740,000 | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/39 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/40 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/41 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/42 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/43 | 4/1/23 | - | - | 6.500% | 6.500% | 100.000 | 55.045 |
| 4/1/44 | 4/1/23 | - | - | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/45 | 4/1/23 | - | - | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/46 | 4/1/23 | - | - | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/47 | 4/1/23 | - | - | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/48 | 4/1/23 | 53,823,072 | 100,015,000 | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/49 | 4/1/23 | 114,093,182 | 212,010,000 | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/50 | 4/1/23 | 95,615,801 | 177,675,000 | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/51 | 4/1/23 | 107,027,272 | 198,880,000 | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/52 | 4/1/23 | - | - | 6.750% | 6.750% | 100.000 | 53.815 |
| 4/1/53 | 4/1/23 | - | - | 6.750% | 6.750% | 100.000 | 53.815 |

*Subject to make-whole provisions from 2023 through 2053

EXHIBIT NO. 10

Financial Projections for General Fund

**Jefferson County, Alabama
General Fund Five Year Forecast¹
(\$000)**

| | FY2011 Actual ² | FY2012 Actual ³ | FY2013 Estimate | FY2014 Forecast | FY2015 Forecast | FY2016 Forecast | FY2017 Forecast | FY2018 Forecast |
|--|---------------------------------------|---------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Revenues | | | | | | | | |
| Taxes & Penalties | 98,965 | 87,319 | 86,465 | 87,187 | 88,036 | 89,013 | 90,122 | 91,368 |
| Licenses & Permits | 17,869 | 8,757 | 9,092 | 9,109 | 9,125 | 9,142 | 9,159 | 9,176 |
| Intergovernmental Revenue | 23,537 | 15,074 | 15,249 | 15,258 | 15,266 | 15,274 | 15,282 | 15,290 |
| Charges for Services | 31,994 | 32,116 | 29,707 | 29,812 | 29,969 | 30,180 | 30,446 | 30,770 |
| Misc. Revenue | 29,466 | 1,582 | 934 | 934 | 934 | 934 | 934 | 934 |
| | 201,831 | 144,848 | 141,447 | 142,300 | 143,330 | 144,543 | 145,943 | 147,538 |
| Expenditures | | | | | | | | |
| Personnel Costs | 144,688 | 106,732 | 102,163 | 103,774 | 105,430 | 107,135 | 108,889 | 110,696 |
| Operating Costs ⁴ | 50,113 | 43,793 | 41,940 | 35,471 | 31,324 | 31,682 | 32,046 | 32,416 |
| Capital Costs | 7,323 | 1,309 | 4,534 | 7,500 | 9,000 | 8,000 | 8,000 | 8,000 |
| Misc. Expenditures ⁵ | 9,595 | 0 | 0 | 5,500 | 5,500 | 5,500 | 5,500 | 5,500 |
| | 211,719 | 151,834 | 148,637 | 152,245 | 151,254 | 152,317 | 154,435 | 156,612 |
| Other Financing Sources / (Uses) | | | | | | | | |
| Net Transfers & Intra-gov'tal ⁶ | (3,785) | 11,496 | 19,724 | 10,324 | 10,324 | 9,324 | 9,323 | 9,323 |
| | (3,785) | 11,496 | 19,724 | 10,324 | 10,324 | 9,324 | 9,323 | 9,323 |
| Surplus/(Deficit) | (13,673) | 4,510 | 12,534 | 379 | 2,400 | 1,550 | 831 | 249 |

¹ Some of the information contained in these materials includes forecasts or other forward-looking statements regarding future events or the future financial performance of the County. These statements are only predictions and actual events or results may differ materially. There are many factors, risks, and uncertainties that could cause actual results to differ materially from those projected. Any opinions, estimates, expectations, or forecasts contained in these materials are subject to additional review, refinement, and revision in all respects. Moreover, these materials have not been reviewed or approved by the Jefferson County Commission (the "Commission"). All budgets for the County are subject to the annual approval by the Commission in accordance with applicable law. All policy and expenditure decisions are solely made by the Commission, subject to and consistent with all rights and obligations created or imposed under applicable law. Accordingly and without limitation, any opinions, estimates, expectations, or forecasts contained in these materials are subject in all events to the decisions that may be made by the Commission in accordance with applicable law.

² FY2011 data combines General Fund with Road and Bridge Fund. FY2011 summary is based on data from the County's accounting system and is not fully reconciled with FY2011 audit.

³ FY2012 data is unaudited and reflects best estimates based on currently available information from the County's accounting system. Data will be superseded by audited FY2012 information when such audit is completed.

⁴ Forecast excludes potential increase in Jail costs to address overcrowding issues; potential increase is estimated at \$4 million annually.

⁵ Misc. expenditures forecast represents amounts to be allocated by future Commissions for restoration of services and infrastructure and to address contingencies.

⁶ Includes a \$5 million transfer out in FY2014 to fund the General Unsecured Creditors pool under the Plan.

**Jefferson County, Alabama
Road Fund Five Year Forecast
(\$000)**

| | FY2011 Actual | FY2012 Actual | FY2013 Estimate | FY2014 Forecast | FY2015 Forecast | FY2016 Forecast | FY2017 Forecast | FY2018 Forecast |
|---|--------------------------|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Revenues | | | | | | | | |
| Taxes & Penalties | 0 | 10,218 | 9,509 | 9,598 | 9,687 | 9,778 | 9,869 | 9,961 |
| Licenses & Permits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intergovernmental Revenue | 0 | 7,000 | 6,769 | 6,772 | 6,774 | 6,776 | 6,779 | 6,781 |
| Charges for Services | 0 | 187 | 238 | 238 | 238 | 238 | 238 | 238 |
| Misc. Revenue | 0 | 249 | 12 | 12 | 12 | 12 | 12 | 12 |
| | 0 | 17,654 | 16,528 | 16,620 | 16,711 | 16,804 | 16,898 | 16,992 |
| Expenditures | | | | | | | | |
| Personnel Costs | 0 | 11,790 | 11,405 | 11,601 | 11,803 | 12,012 | 12,227 | 12,449 |
| Operating Costs | 20 | 3,608 | 5,775 | 5,859 | 5,944 | 6,030 | 6,118 | 6,206 |
| Capital Costs | 0 | 0 | 6 | 0 | 0 | 0 | 0 | 0 |
| Misc. Expenditures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 20 | 15,398 | 17,186 | 17,460 | 17,747 | 18,042 | 18,345 | 18,655 |
| Other Financing Sources / (Uses) | | | | | | | | |
| Net Transfers & Intra-Gov'tal | 0 | 0 | 0 | 1,000 | 1,500 | 1,500 | 1,500 | 2,000 |
| | 0 | 0 | 0 | 1,000 | 1,500 | 1,500 | 1,500 | 2,000 |
| Surplus/(Deficit) | (20) | 2,256 | (658) | 115 | 397 | 194 | 7 | 337 |

Jefferson County, Alabama
Bridge and Public Building Fund Five Year Forecast
(\$000)

| | FY2011 Actual | FY2012 Actual | FY2013 Estimate | FY2014 Forecast | FY2015 Forecast | FY2016 Forecast | FY2017 Forecast | FY2018 Forecast |
|---|--------------------------|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Revenues | | | | | | | | |
| Taxes & Penalties | 40,405 | 41,916 | 41,200 | 41,403 | 41,710 | 42,122 | 42,642 | 43,273 |
| Licenses & Permits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intergovernmental Revenue | 841 | 756 | 768 | 774 | 780 | 785 | 791 | 797 |
| Charges for Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Misc. Revenue | 52 | 58 | 59 | 59 | 59 | 59 | 59 | 59 |
| | 41,298 | 42,730 | 42,027 | 42,236 | 42,549 | 42,966 | 43,492 | 44,129 |
| Expenditures | | | | | | | | |
| Personnel Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Costs ⁷ | 0 | 0 | 1,250 | 28,224 | 31,404 | 28,587 | 28,661 | 28,737 |
| Capital Costs | 0 | 0 | 0 | 12,500 | 11,000 | 12,000 | 12,000 | 12,000 |
| Misc. Expenditures ⁸ | 0 | 0 | 0 | 5,000 | 0 | 1,500 | 1,500 | 1,500 |
| | 0 | 0 | 1,250 | 45,724 | 42,404 | 42,087 | 42,161 | 42,237 |
| Other Financing Sources / (Uses) | | | | | | | | |
| Net Transfers & Intra-Gov'tal | (41,297) | (20,647) | (19,400) | 3,500 | 0 | 0 | 0 | 0 |
| | (41,297) | (20,647) | (19,400) | 3,500 | 0 | 0 | 0 | 0 |
| Surplus/(Deficit) | 1 | 22,083 | 21,377 | 12 | 145 | 879 | 1,331 | 1,892 |

⁷ Represents future payments under the Bessemer Courthouse lease, as amended in early 2013 and potential debt service on 2001-B, 2003-A, and 2004-A GO warrant series, MBIA reimbursement, Indenture Trustee fees, and other settlement terms; see additional details in notes below.

⁸ Misc. expenditures forecast represents amounts to be allocated by future Commissions for restoration of services and infrastructure and to address contingencies.

**Jefferson County, Alabama
Combined Five Year Forecast
(\$000)**

| | FY2011 Actual | FY2012 Actual | FY2013 Estimate | FY2014 Forecast | FY2015 Forecast | FY2016 Forecast | FY2017 Forecast | FY2018 Forecast |
|---|--------------------------|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Revenues | | | | | | | | |
| Taxes & Penalties | 139,370 | 139,453 | 137,174 | 138,143 | 139,366 | 140,845 | 142,587 | 144,602 |
| Licenses & Permits | 17,869 | 8,757 | 9,092 | 9,109 | 9,125 | 9,142 | 9,159 | 9,176 |
| Intergovernmental Revenue | 24,378 | 22,830 | 22,786 | 22,804 | 22,820 | 22,835 | 22,852 | 22,868 |
| Charges for Services | 31,994 | 32,303 | 29,945 | 30,050 | 30,207 | 30,418 | 30,684 | 31,008 |
| Misc. Revenue | 29,518 | 1,889 | 1,005 | 1,005 | 1,005 | 1,005 | 1,005 | 1,005 |
| | 243,129 | 205,232 | 200,002 | 201,111 | 202,523 | 204,245 | 206,287 | 208,659 |
| Expenditures | | | | | | | | |
| Personnel Costs | 144,688 | 118,522 | 113,568 | 115,375 | 117,233 | 119,147 | 121,116 | 123,145 |
| Operating Costs | 50,133 | 47,401 | 48,965 | 69,554 | 68,672 | 66,299 | 66,825 | 67,359 |
| Capital Costs | 7,323 | 1,309 | 4,540 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Misc. Expenditures | 9,595 | 0 | 0 | 10,500 | 5,500 | 7,000 | 7,000 | 7,000 |
| | 211,739 | 167,232 | 167,073 | 215,429 | 211,405 | 212,446 | 214,941 | 217,504 |
| Other Financing Sources / (Uses) | | | | | | | | |
| Net Transfers & Intra-Gov'tal | (45,082) | (9,151) | 324 | 6,324 | 11,824 | 10,824 | 10,823 | 11,323 |
| | (45,082) | (9,151) | 324 | 6,324 | 11,824 | 10,824 | 10,823 | 11,323 |
| Surplus/(Deficit) | (13,692) | 28,849 | 33,253 | 506 | 2,942 | 2,623 | 2,169 | 2,478 |
| Beginning FB | | 79,379 | 108,228 | 141,481 | 122,487 | 113,929 | 106,052 | 97,721 |
| Transfer from FB ⁹ | | | | (19,500) | (11,500) | (10,500) | (10,500) | (11,000) |
| Ending FB ¹⁰ | 79,379 | 108,228 | 141,481 | 122,487 | 113,929 | 106,052 | 97,721 | 89,199 |

⁹ Forecast assumes use of fund balance reserves to fund one-time capital improvement projects and other contingency reserves to be identified by the Commission.

¹⁰ By maintaining adequate fund balance levels through the end of the five-year period, the projection recognizes the need to maintain cash reserves sufficient for future essential capital investments and to address emergencies during this period as the County restores its ability to access the capital market. In out years, these reserves will be used for non-recurring expenditures -- such as investments needed to maintain basic infrastructure or to realize long term savings and efficiencies through productivity.

Forecast excludes \$23.5 million estimated fund balance available in the Capital Projects Fund; this amount is available for unplanned additional capital needs. Capital Projects Fund available fund balance estimate does not include net proceeds of sale of nursing home, estimated at \$5 million.

Summary of Notes and Assumptions

REVENUE ASSUMPTIONS

Taxes and Penalties

- Property tax revenue represents the largest source of revenue to the County's General Fund. Total FY2013 General Fund property tax receipts (inclusive of revenue from current taxes, motor vehicles, reappraisal maintenance, and delinquent receipts) are expected to come in at \$47.7 million. Delinquent tax receipts—estimated at \$800,000 in FY2013—are forecasted to remain flat over the five-year forecast period. All current property tax revenues (\$46.9 million) are forecasted to grow over the five-year period following a trend of gradual recovery in property values. The forecast assumes annual growth of 0.5 percent, 0.75 percent, 1.0 percent, 1.25 percent and 1.5 percent in FY2014 to FY2018 respectively. This assumption is based on an analysis of historical trends in assessed property values.
- Property tax revenue is also the largest source of revenue to the Road Fund. Estimated at \$9.2 million for FY2013, \$300,000 in delinquent tax revenue is forecasted to remain flat, while the \$8.9 million is forecasted to increase by the same annual growth assumptions used for the General Fund.
- Property tax revenues also drive the Bridge and Public Building Fund. Estimated at \$41.2 million for FY2013, delinquent tax revenue (\$500,000) is forecasted to remain flat, while current revenue (\$40.7 million) is forecasted to increase by the same annual growth assumptions used for the General Fund.
- Sales tax revenue is the second largest source of General Fund revenue. Based on economic forecasts produced by the University of Alabama's Center for Business and Economic Research, Sales Tax revenue is projected to grow gradually (i.e., roughly 1.5 percent) in each year of the five-year forecast.
- Other taxes and penalties are forecasted based on historical trends.

Licenses and Permits

- Licenses and permit revenues are estimated to total \$9.4 million in FY2013. This is driven by \$7.2 million in County business license revenue. The forecast assumes that business license revenue will remain flat over the five-year period.
- Other license and permit revenues include Building, Electric and Plumbing Permits as well as Marriage and Privilege Licenses. These revenues are forecasted based on historical trends.

Intergovernmental Revenues

- In the General Fund, intergovernmental revenue is driven by cost reimbursements from other governments. This comprises \$9.1 million of the \$15.2 million estimate for FY2013 intergovernmental revenues. The forecast assumes that these reimbursements will continue to come in at this level over the five-year period.
- Business privilege tax revenue supports the General Fund, the Road Fund and the Bridge and Public Building Fund. The FY2013 estimate in each fund is \$1.1 million, \$300,000 and \$800,000 respectively. This revenue source is forecasted to grow by 0.75 percent annually based on current law.

- Other intergovernmental revenues, including coal severance taxes and motor vehicle transfer fees in the General Fund and gas taxes and tag fees in the Road Fund are forecasted to remain flat over the five-year period.

Charges for Services

- The total estimated revenue in the General Fund Charges for Services category is \$29.7 million. This is primarily driven by Commission revenue in the amount of \$20.8 million. Commission revenue is assumed to grow at the same rate as property tax revenue (0.5 percent in FY2014, 0.75 percent in FY2015, 1.0 percent in FY2016, 1.25 percent in FY2017 and 1.5 percent in FY2018.
- Also included in this category are court fees. Court fees are estimated to be approximately \$3.7 million in FY2013, more than 25 percent higher than the FY2012 year-end estimate. This is due to the recently adopted increase in court fee rates. The forecast assumes that court fee revenue will continue to come in at the same level in each year of the forecast.
- All other charges for services are estimated to remain flat over the five-year period.

EXPENDITURE ASSUMPTIONS

Personnel Costs

- Employee wages are the largest cost driver in County's General Fund. Total General Fund wages are estimated at \$80.6 million in FY2013. This is inclusive of full-time salaries, part-time salaries and overtime, and represents a 3.7 percent decline from the prior year. The decline is the result of reductions in force at the County in recent years. The five-year forecast assumes that payroll will grow by 1.0 percent each year.
- Employee wages in the Road Fund are estimated at \$8.7 million in FY2013, which represents a slight increase (0.6 percent) over the prior year. The assumption of 1.0 percent wage growth used in the General Fund also applies to the Road Fund.
- Employee benefit costs, including health benefits, retirement benefits, life insurance, Medicare and FICA, are estimated at \$20.6 million in the General Fund and \$2.7 million in the Road Fund for FY2013. Health benefit costs are expected to be lower in FY2013 than in the prior year due to increases in employee contribution from 15 percent to 25 percent of plan costs, as well as changes to plan design. Health insurance and life insurance costs are forecasted to grow by 5 percent annually in each year of the five-year forecast. The cost of retirement benefits is also forecasted to grow by 5 percent annually. Worker's compensation costs are forecasted to grow by 2.5 percent each year, and all other employee benefits are assumed to remain flat over the five-year period.

Operating Costs ¹¹

- Key drivers in the forecast for General Fund operating costs include legal fees, fuel costs, data processing equipment rentals and other professional services. Legal fees have been higher than normal due to legal support required through the County's chapter 9 bankruptcy case. Estimated at \$12.2 million for FY2013, this amount is projected to be reduced to \$5.5 million in FY2014 as bankruptcy proceedings come to a close. Legal fees are forecasted at \$1.0 million through the rest of the forecast period, to account for regularly needed legal support.
- Fuel costs in the General Fund are estimated at \$1.4 million in FY2013, about \$700,000 less than the cost in the previous year. This estimate is based on reductions in the County's fleet in recent years. Fuel costs are forecasted to grow at 1.5 percent annually over the five-year period to account for inflation.
- Expenditures categorized as data processing equipment rentals in the General Fund are estimated to total \$1.0 million in FY2013, which is a significant increase over the \$300,000 spent in the prior year. This assumption is based on a higher rate of spending seen in the first half of FY2013. Going forward, this amount is forecasted to increase by 1.5 percent annually to account for inflation.
- Expenditures categorized as other professional services in the General Fund are estimated to total \$2.8 million in FY2013, a 33 percent decrease from the prior year. This assumption is based on a lower rate of spending seen in the first half of FY2013. Going forward, this amount is forecasted to remain flat over the five-year period.
- Other operating costs in both the General Fund and the Road Fund are forecasted to remain flat or increase by a 1.5 percent annual inflation assumption.
- Operating costs in the Road Fund are driven by expenditures categorized as plant mix (at \$2.1 million in FY2013) and other paving supplies (at \$1.0 million in FY2013). Both are forecasted to grow by 1.5 percent annually to account for inflation.
- Operating costs in the Bridge and Public Building Fund include the planned payments for the Bessemer Courthouse lease, potential future debt service payments, and other settlement terms.
 - **Bessemer Lease:** Bessemer Courthouse lease payment amounts are forecasted based on the payments set forth in the lease agreement, as amended in early 2013.
 - **Debt Service:** The five-year debt service forecast includes the annual debt service costs associated with the following obligations, the existence of which turns on the confirmation and effectiveness of a chapter 9 plan:
 - Series 2001-B – Based on the Plan Support Agreement dated as of May 13, 2013 and approved by the Jefferson County Commission on May 16, 2013. Interest is 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, commencing on an assumed Plan Effective Date of December 31, 2013. Interest is assumed at a rate of the WSJ Prime rate plus 1.65 percent as of the date of the projections, which rate is subject to change.
 - Series 2003-A – Based on original fixed rate debt service structure

¹¹ Forecast excludes the potential cost of addressing overcrowding issues at the jail; the potential cost increase is estimated at \$4 million annually

- Series 2004-A – Based on original fixed rate debt service structure
- JPMorgan/BLB Payment – Additional aggregate settlement payment of \$750,000 payable on the effective date of the plan.
- MBIA Reimbursement – Based on [the Plan Support Agreement dated as of June 27, 2013 and approved by the Jefferson County Commission on June 27, 2013,] with assumed interest rate of the WSJ Prime rate plus 1.65 percent calculated on the basis of a 360 day year with 12 months of 30 days each, commencing on an assumed Plan Effective Date of December 31, 2013.
- MBIA Fees and Expense Reimbursement - The forecast includes a \$1.5 million payment made on the effective date to MBIA for the Fees and Expenses Claim
- Not included in the projections are the following additional non-interest bearing reimbursement amounts on the following dates:
 - April 1, 2025: \$2,854,321.62
 - April 1, 2026: \$2,854,321.62
 - April 1, 2027: \$2,854,321.63

At any time on or after Effective Date, the County shall have the option to prepay these payments at an amount equal to the nominal amount at the original schedule discounted to present value as of the prepayment date at 4.90%.

- The forecast assumes \$1.458 million payable to Wells Fargo as Indenture Trustee in relation to Series 2001-B GO Warrants. With the exception of this amount and the MBIA Fees and Expense Reimbursement described above, the forecast does not currently include any other professional fees that may be payable to indenture trustees, paying agents, or the like, whether under a chapter 9 plan or otherwise.

Capital Costs¹²

- General Fund capital costs for FY2013 are estimated at \$4.4 million. In FY2013, these capital costs will be offset through revenue from a transfer from the Bridge and Public Building Fund. Future capital expenditures – for FY2014 to FY2018 – are forecasted to be made from the General Fund as well as directly from the Bridge and Public Building Fund. The costs are estimated at \$20.0 million annually. This includes \$5 million for General Services capital projects, \$5 million for required IT investments, and \$5 million for road improvements, as well as an additional \$5 million for additional capital needs that are expected to be identified in the future.

¹² Forecast excludes \$23.5 million estimated fund balance available in the Capital Projects Fund; this amount is available for unplanned additional capital needs. Capital Projects Fund available fund balance estimate does not include net proceeds of sale of nursing home, estimated at \$5 million.

Miscellaneous Expenditures

- The forecast of \$5.5 million annually for miscellaneous expenditures in the General Fund represents amounts to be allocated by future Commissions for gradual restoration of County service levels, as well as allocations to fund other contingency reserves to be identified by the Commission.
- The miscellaneous expenditures forecast in the Bridge and Public Building Fund represents amounts to be allocated by future Commissions for investments in infrastructure and to address other contingencies. These amounts are estimated at \$5.0 million in FY2014, zero in FY2015 and \$1.5 million each year from FY2016 to FY2018. This forecast is based on estimated surpluses available in the Bridge and Public Building Fund each year.

Transfers and Intra-governmental Charges

- FY2013 transfers and intra-governmental charges are driven by transfers between the Bridge and Public Building Fund and the General Fund. The FY2013 transfers total is primarily comprised of a \$19.4 million transfer from the Bridge and Public Building Fund to the General Fund. The transfer covers \$4.4 million in planned capital spending as well as \$15.0 million to cover the elevated cost of legal fees. Neither of these transfers is expected to recur after FY2013.
- One time FY2014 transfer from the General Fund of \$5.0 million on the Effective Date to a separate, interest bearing account to fund the General Unsecured Creditors pool
- Forecasted net transfers are driven by allocations of fund balance for one-time capital expenditures and to fund other contingency reserves to be identified by the Commission.
- Transfers in to the Road Fund reflect a recurring subsidy from the General Fund to cover operating expenditure shortfalls in that fund.

EXHIBIT NO. 11

Financial Projections for Education Tax

**Jefferson County, Alabama
Limited Obligation School Fund Forecast¹**

Summary of Notes and Assumptions

FORECAST MODEL LAYOUT

The model has two worksheets:

- Worksheet 1: "LOSF Forecast" - forecast revenue and expenses based on the assumptions below. Based on forecasted future tax proceeds, the model accounts for anticipated redemptions assuming future excess tax proceeds are used to redeem bonds and accounts for the cascading affects of interest to be accrued.
- Worksheet 2: "School Warrant DS Forecast" projects anticipated debt service payments pre and post early redemption based on the assumptions below.

REVENUE ASSUMPTIONS

Taxes

- The Limited Obligation School Fund is used to account for the sales tax collected for the payment of principal and interest on the Limited Obligation School Warrants. Sales tax is the largest source of revenue for the fund. Based on economic forecasts produced by the University of Alabama's Center for Business and Economic Research, Sales Tax revenue is projected to grow gradually (i.e., roughly 1.5 percent) in each year. Consistent with the General Fund projections, sales tax receipts - estimated at \$91.9 million in FY2013 – are forecasted to grow at 1.50%.

Interest & Investment Income

- Other revenues include interest and investment income generated from restricted assets. Interest is estimated at \$95,000 in FY2013 and is forecasted to remain flat over the forecasted period at \$90,000.

EXPENDITURE ASSUMPTIONS

General Government

- General Government expenditures are inclusive of auditor and/or legal fees. General Government Expenditures are estimated at \$100,000 in FY2013 and remain flat during the forecasted period.

Debt Service

- The debt forecast includes the annual debt service costs associated with the following obligations
 - Series 2004-A – Based on the original fixed rate debt service structure.
 - Series 2005-A – The Maximum Auction Rate on the Series 2005-A is dictated by the Original Trust Indenture between the County and SouthTrust Bank, dated December 1, 2004. Currently, the dictated Maximum Rate is defined to be the Applicable Percentage of the Index. The current Applicable Percentage is 275 percent of the Index. The Index is currently

¹ Some of the information contained in these materials contains forecasts or other forward-looking statements regarding future events or the future financial performance of the County. These statements are only predictions and actual events or results may differ materially. There are many factors, risks, and uncertainties that could cause actual results to differ materially from those projected. Any opinions, estimates, expectations, or forecasts contained in these materials are subject to additional review, refinement, and revision in all respects. Moreover, these materials have not been reviewed or approved by the Jefferson County Commission (the "Commission"). All budgets for the County are subject to the annual approval by the Commission in accordance with applicable law. All policy and expenditure decisions are solely made by the Commission, subject to and consistent with all rights and obligations created or imposed under applicable law. Accordingly and without limitation, any opinions, estimates, expectations, or forecasts contained in these materials are subject in all events to the decisions that may be made by the Commission in accordance with applicable law.

- the one Month LIBOR Rate. The current One Month LIBOR Rate is .1916% resulting in a current Maximum Auction Rate of .5269%. The forecast assumes a rate utilizing the ten-year average of One Month LIBOR. The ten-year average is 1.9652% resulting in a forecasted rate of 5.4043%.
- Series 2005-B – Based on Plan Support Agreement dated as of February 11, 2013, interest is computed at an assumed rate of the Prime Rate plus 2.25 percent. Prime Rate is currently 3.25% resulting in a current rate of 5.50% and the ten-year average has been 4.8274%. The forecast assumes a rate utilizing the ten-year Prime Rate average resulting in a forecast rate of 7.0774%.
 - Forecast includes estimates for debt service fees. Debt service fees are estimated at \$337,000 in FY2013 and forecasted to remain flat FY2014-2021. Forecasted debt service fees for FY2022-FY2027 are noted below.

| | |
|---------|-----------|
| FY 2022 | \$320,150 |
| FY 2023 | \$296,560 |
| FY 2024 | \$272,970 |
| FY 2025 | \$246,010 |
| FY 2026 | \$141,540 |
| FY 2027 | \$33,700 |

APPLICATION OF EXCESS REVENUES & DEBT SERVICE RESERVE FUNDS

- Forecast assumes application of future excess tax proceeds are used to make mandatory redemption of the School warrants in the following manner:
 - All mandatory redemptions are projected to occur the 1st business day in March in each calendar year following the prior fiscal year. (i.e. – FY 2013 projected operating surplus is projected to be used to redeem bonds on the first business day in March 2014.) Redemptions are forecasted to pay outstanding principal in inverse order of maturity.
 - Per Plan Support Agreement dated February 11, 2013 between Jefferson County and DEPFA, future excess tax proceeds are first used to redeem the Series 2005-B warrants.
 - Once Series 2005-B warrants are redeemed, any excess tax proceeds will be used to make mandatory redemptions of the 2005-A School Warrants.
 - Once the Series 2005-B and Series 2005-A Warrants are redeemed, excess proceeds and funds held in the Debt Service Reserve Fund will be used to redeem the fixed rate Series 2004-A School Warrants.
 - As of April 30, 2013, the Restricted Assets dedicated to the Reserve Fund Account totaled approximately \$82.1 million. The Reserve Fund is forecasted to remain funded at \$82.1 million with no projected release as outstanding bonds are paid. Any tax or legal requirement to reduce the reserve fund amount as bonds are paid off is subject to counsel opinion. Based on current forecast, the Reserve Fund would be released in fiscal year 2023, and along with available sales tax collected, redeem the remaining 2004-A warrants on January 1, 2023
- Forecast projects the Series 2005-B Warrants will be completely redeemed in FY 2019.
- Forecast projects the Series 2005-A Warrants will be completely redeemed in FY 2021.
- Forecast projects the Series 2004-A Warrants will be completely redeemed in FY 2023.

UPDATED July 24, 2013

| | 2011 Actual | 2012 Restated | 2013 Estimate | 2014 Forecast | 2015 Forecast | 2016 Forecast | 2017 Forecast | 2018 Forecast | 2019 Forecast | 2020 Forecast | 2021 Forecast | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|---|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| REVENUES | | | | | | | | | | | | | | | | | |
| TAXES | 87,774,006 | 93,836,165 | 91,959,442 | 93,338,833 | 94,738,916 | 96,159,708 | 97,602,104 | 99,066,135 | 100,552,127 | 102,060,409 | 103,591,315 | 105,145,185 | 106,722,363 | 108,323,198 | 109,948,046 | 111,597,267 | 113,271,226 |
| INTEREST & INVESTMENT INCOME | 160,460 | 96,643 | 95,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 |
| TOTAL REVENUES | 87,934,466 | 93,932,808 | 92,054,442 | 93,428,833 | 94,828,916 | 96,249,708 | 97,692,104 | 99,156,135 | 100,642,127 | 102,150,409 | 103,681,315 | 105,235,185 | 106,812,363 | 108,413,198 | 110,038,046 | 111,687,267 | 113,361,226 |
| EXPENDITURES | | | | | | | | | | | | | | | | | |
| GENERAL GOVERNMENT | 128,736 | 152,400 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| DEBT SERVICE | 71,695,830 | 71,215,649 | 75,690,213 | 75,088,012 | 73,573,473 | 71,857,178 | 69,936,959 | 67,742,698 | 65,757,176 | 56,529,305 | 53,979,577 | 50,763,050 | 2,527,698 | 272,970 | 246,010 | 141,540 | 33,700 |
| TOTAL EXPENDITURES | 71,824,566 | 71,368,049 | 75,790,213 | 75,188,012 | 73,673,473 | 71,957,178 | 70,036,959 | 67,842,698 | 65,857,176 | 56,629,305 | 54,079,577 | 50,863,050 | 2,627,698 | 372,970 | 346,010 | 241,540 | 133,700 |
| Surplus/(Deficit) | 16,109,900 | 22,564,760 | 16,264,229 | 18,240,821 | 21,155,442 | 24,292,530 | 27,655,145 | 31,313,437 | 34,784,951 | 45,521,104 | 49,601,738 | 54,372,135 | 104,184,665 | 108,040,228 | 109,692,036 | 111,445,727 | 113,227,526 |
| Excess Funds Available to Pay Debt Service | | | 16,260,000 | 18,240,000 | 21,155,000 | 24,290,000 | 27,655,000 | 31,310,000 | 34,780,000 | 45,520,000 | 49,600,000 | 54,370,000 | 104,180,000 | 108,040,000 | 109,690,000 | 111,445,000 | 113,225,000 |
| Excess Principal Paid From Prior Excess | | | 21,330,000 | 16,260,000 | 18,240,000 | 21,155,000 | 24,290,000 | 27,655,000 | 31,310,000 | 34,780,000 | 45,520,000 | 49,600,000 | - | - | - | - | - |
| Net | | | (5,070,000) | 1,980,000 | 2,915,000 | 3,135,000 | 3,365,000 | 3,655,000 | 3,470,000 | 10,740,000 | 4,080,000 | 4,770,000 | 104,180,000 | 108,040,000 | 109,690,000 | 111,445,000 | 113,225,000 |
| Net Change in Fund Balance | | | | | | | | | | | | | | | | | |
| Fund Balance - Beginning of Year | 134,149,000 | 150,258,900 | 172,823,659 | 167,757,888 | 169,738,709 | 172,654,152 | 175,791,682 | 179,156,827 | 182,815,264 | 186,290,216 | 197,031,320 | 201,113,058 | 205,885,193 | 310,069,858 | 418,110,087 | 527,802,123 | 639,247,850 |
| Fund Balance - End of Year | 150,258,900 | 172,823,659 | 167,757,888 | 169,738,709 | 172,654,152 | 175,791,682 | 179,156,827 | 182,815,264 | 186,290,216 | 197,031,320 | 201,113,058 | 205,885,193 | 310,069,858 | 418,110,087 | 527,802,123 | 639,247,850 | 752,475,376 |
| Fund Balance Breakdown (as of April 30, 2013) | | | | | | | | | | | | | | | | | |
| Reserve Fund Account | | | 82,100,000 | | | | | | | | | | | | | | |
| Debt Service Fund Account | | | 800,000 | | | | | | | | | | | | | | |
| Grant Funds Account | | | 21,300,000 | | | | | | | | | | | | | | |
| Educational Tax Revenue Account | | | 32,300,000 | | | | | | | | | | | | | | |
| Restricted Fund Balance | | | 136,500,000 | | | | | | | | | | | | | | |

WORKSHEET 2: SCHOOL WARRANT DS FORECAST
PRELIMINARY MULTI-YEAR FORECAST
JEFFERSON COUNTY, ALABAMA
LIMITED OBLIGATION SCHOOL WARRANTS PROJECTED DEBT SERVICE

UPDATED July 24, 2013

| | 2013 Estimate | 2014 Forecast | 2015 Forecast | 2016 Forecast | 2017 Forecast | 2018 Forecast | 2019 Forecast | 2020 Forecast | 2021 Forecast | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast | 2026 Forecast | 2027 Forecast |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 2004-A Debt Service | | | | | | | | | | | | | | | |
| Principal | 28,170,000 | 29,645,000 | 31,205,000 | 32,840,000 | 34,565,000 | 36,380,000 | 38,290,000 | 40,300,000 | 42,415,000 | 44,750,000 | 47,210,000 | 49,690,000 | 52,175,000 | | |
| Coupon | | | | | | | | | 5.50% | 5.50% | 5.25% | 5.00% | 4.75% | | |
| Interest | 12,502,363 | 24,226,544 | 22,629,231 | 20,948,050 | 19,178,669 | 17,316,363 | 15,356,275 | 13,293,288 | 11,069,000 | 8,671,963 | 6,202,075 | 3,720,563 | 1,239,156 | | |
| 2004-A Estimated Debt Service Without Early Redemption | | 53,871,544 | 53,834,231 | 53,788,050 | 53,743,669 | 53,696,363 | 53,646,275 | 53,593,288 | 53,484,000 | 53,421,963 | 53,412,075 | 53,410,563 | 53,414,156 | - | - |
| Accelerated Principal Payment from Excess | | - | | | | | | | 12,590,000 | 49,600,000 | - | | | | |
| DSRF Liquidation | | | | | | | | | | - | 82,100,000 | | | | |
| Remaining Principal | | 449,820,000 | 418,615,000 | 385,775,000 | 351,210,000 | 314,830,000 | 276,540,000 | 236,240,000 | 181,235,000 | 86,885,000 | | | | | |
| New Interest Schedule Post Accelerated Payments | | 24,226,544 | 22,629,231 | 20,948,050 | 19,178,669 | 17,316,363 | 15,356,275 | 13,293,288 | 10,470,975 | 5,692,900 | 2,231,138 | | | | |
| 2004-A Estimated Debt Service Post Early Redemption | | 53,871,544 | 53,834,231 | 53,788,050 | 53,743,669 | 53,696,363 | 53,646,275 | 53,593,288 | 52,885,975 | 50,442,900 | 7,016,138 | - | - | | |
| 2005-A Debt Service | | | | | | | | | | | | | | | |
| Principal | - | - | - | - | - | - | - | - | - | 6,150,000 | 8,200,000 | 8,475,000 | 8,750,000 | 36,375,000 | 37,550,000 |
| Interest | 2,574,200 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,479,960 | 5,369,172 | 5,073,737 | 4,620,677 | 4,152,754 | 2,684,586 | 676,438 |
| 2005-A Estimated Debt Service Without Early Redemption | | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,479,960 | 11,519,172 | 13,273,737 | 13,095,677 | 12,902,754 | 39,059,586 | 38,226,438 |
| Accelerated Principal Payment from Excess | | - | - | - | - | - | 31,310,000 | 34,780,000 | 32,930,000 | - | - | - | - | - | - |
| Additional Excess (Difference from OSB originally scheduled payment and remaining payment) | | | | | | | 6,480,000 | | | | | | | | |
| Remaining Principal | | 105,500,000 | 105,500,000 | 105,500,000 | 105,500,000 | 105,500,000 | 67,710,000 | 32,930,000 | - | - | - | - | - | - | - |
| New Interest Schedule Post Accelerated Payments | 2,574,200 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 4,531,325 | 2,599,018 | 756,602 | - | - | - | - | - | - |
| 2005-A Estimated Debt Service Post Early Redemption | | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 5,701,537 | 4,531,325 | 2,599,018 | 756,602 | - | - | - | - | - | - |
| 2005-B Debt Service | | | | | | | | | | | | | | | |
| Principal | 5,950,000 | 6,150,000 | 6,350,000 | 6,550,000 | 6,775,000 | 6,975,000 | 7,225,000 | 7,450,000 | 7,700,000 | 7,950,000 | 8,200,000 | 8,475,000 | 8,750,000 | 36,375,000 | 16,220,000 |
| Interest | 5,077,344 | 9,699,223 | 9,254,526 | 8,795,675 | 8,321,489 | 7,832,559 | 7,327,114 | 6,805,156 | 6,266,094 | 5,709,339 | 5,134,890 | 4,541,568 | 3,928,783 | 2,006,089 | 382,651 |
| 2005-B Estimated Debt Service Without Early Redemption | | 15,849,223 | 15,604,526 | 15,345,675 | 15,096,489 | 14,807,559 | 14,552,114 | 14,255,156 | 13,966,094 | 13,659,339 | 13,334,890 | 13,016,568 | 12,678,783 | 38,381,089 | 16,602,651 |
| Accelerated Principal Payment from Excess | | 16,260,000 | 18,240,000 | 21,155,000 | 24,290,000 | 27,655,000 | - | - | - | - | - | - | - | - | - |
| Remaining Principal | | 118,735,000 | 94,145,000 | 66,440,000 | 35,375,000 | 745,000 | - | - | - | - | - | - | - | - | - |
| New Interest Schedule Post Accelerated Payments | - | 9,027,931 | 7,350,706 | 5,480,591 | 3,379,753 | 1,032,799 | 17,576 | - | - | - | - | - | - | - | - |
| 2005-B Estimated Debt Service Post Early Redemption | | 15,177,931 | 13,700,706 | 12,030,591 | 10,154,753 | 8,007,799 | 7,242,576 | - | - | - | - | - | - | - | - |
| Total Estimated Debt Service Without Early Redemption | | | | | | | | | | | | | | | |
| Principal | 34,120,000 | 35,795,000 | 37,555,000 | 39,390,000 | 41,340,000 | 43,355,000 | 45,515,000 | 47,750,000 | 50,115,000 | 58,850,000 | 63,610,000 | 66,640,000 | 69,675,000 | 72,750,000 | 53,770,000 |
| Interest | 41,233,213 | 39,627,303 | 37,585,294 | 35,445,261 | 33,201,694 | 30,850,458 | 28,384,926 | 25,799,980 | 22,815,054 | 19,750,473 | 16,410,702 | 12,882,807 | 9,320,693 | 4,690,675 | 1,059,090 |
| Debt Service Fees | | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 320,150 | 296,560 | 272,970 | 246,010 | 141,540 | 33,700 |
| Total Estimated Debt Service Without Early Redemption | 75,353,213 | 75,759,303 | 75,477,294 | 75,172,261 | 74,878,694 | 74,542,458 | 74,236,926 | 73,886,980 | 73,267,054 | 78,920,623 | 80,317,262 | 79,795,777 | 79,241,703 | 77,582,215 | 54,862,790 |
| Total Debt Service Post Early Redemption | | | | | | | | | | | | | | | |
| Principal | | 35,795,000 | 37,555,000 | 39,390,000 | 41,340,000 | 43,355,000 | 45,515,000 | 40,300,000 | 42,415,000 | 44,750,000 | - | - | - | - | - |
| Interest | | 38,956,012 | 35,681,473 | 32,130,178 | 28,259,959 | 24,050,698 | 19,905,176 | 15,892,305 | 11,227,577 | 5,692,900 | 2,231,138 | - | - | - | - |
| Debt Service Fees | | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 337,000 | 320,150 | 296,560 | 272,970 | 246,010 | 141,540 | 33,700 |
| Total Estimated Debt Service Post Early Redemption | - | 75,088,012 | 73,573,473 | 71,857,178 | 69,936,959 | 67,742,698 | 65,757,176 | 56,529,305 | 53,979,577 | 50,763,050 | 2,527,698 | 272,970 | 246,010 | 141,540 | 33,700 |
| Total Accelerated Principal Payments | 16,260,000 | 18,240,000 | 21,155,000 | 24,290,000 | 27,655,000 | 37,790,000 | 34,780,000 | 45,520,000 | 49,600,000 | 82,100,000 | - | - | - | - | - |
| Net Estimated Debt Service Post Early Redemption | | 91,348,012 | 91,813,473 | 93,012,178 | 94,226,959 | 95,397,698 | 103,547,176 | 91,309,305 | 99,499,577 | 100,363,050 | 84,627,698 | 272,970 | 246,010 | 141,540 | 33,700 |