

JEFFERSON COUNTY, ALABAMA

Series Designations and CUSIP Numbers on Attached Schedule A

MATERIAL EVENT NOTICE

September 16, 2011

The following information is provided by Jefferson County, Alabama (the “County”) pursuant to certain Continuing Disclosure Agreements executed and delivered by the County in connection with the issuance of certain of the obligations set forth on the attached Schedule A (the “Obligations”), in compliance with Securities and Exchange Commission Rule 15c2-12. Although the County has no Continuing Disclosure Agreement with regard to certain of the Obligations described in Schedule A (due to their exemption from the continuing disclosure obligations of SEC Rule 15c2-12), the County has nonetheless determined to include such Obligations in this Material Event Notice.

The County Commission adopted the attached resolution at a meeting held on September 16, 2011, and executed and released the attached 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. There can be no assurance that the settlement and refinancing will be accomplished.

RESOLUTION

WHEREAS, by a resolution adopted by the Jefferson County Commission at a special meeting held on August 12, 2011, the President and the Finance Chair of the Commission were authorized to engage in direct negotiations with the County's sewer creditors in an effort to reach a possible settlement of matters relating to the County's outstanding sewer warrants; and

WHEREAS, on behalf of the Commission, the President and the Finance Chair have diligently pursued such negotiations, resulting in the "Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants" dated September 14, 2011 (the "Term Sheet" a copy of which is attached as Exhibit A to this resolution); and

WHEREAS, the Commission has confirmed that the major sewer creditors are willing to proceed to a definitive settlement agreement on the terms generally described in the Term Sheet; and

WHEREAS, the Governor of the State of Alabama has expressed his willingness to call a special session of the Alabama Legislature, upon execution of the Term Sheet by the County and the sewer Receiver, for the purpose of considering and acting upon the legislative needs of the County, including legislation necessary to effectuate the plan of refinancing reflected in the Term Sheet; and

WHEREAS, the Commission has reviewed the Term Sheet and has concluded that resolution of the issues surrounding the outstanding sewer warrants on the basis described in the Term Sheet, if possible, is preferable to other available alternatives;

NOW THEREFORE BE IT RESOLVED BY THE JEFFERSON COUNTY COMMISSION as follow:

1. The Term Sheet is hereby approved by the Commission and the President of the Commission is hereby authorized and directed to execute and deliver the Term Sheet on behalf of the County. The foregoing approval is subject to the continuing condition that no sewer rate increase shall be implemented prior to the Governor's call of a special session of the Alabama Legislature to address the County's legislative needs.

2. The President and the Finance Chair, together with the County's attorneys, are hereby authorized and directed to negotiate and prepare definitive settlement and refinancing agreements to be entered into by and among the County, the sewer Receiver, the Trustee for the sewer warrants, and the participating sewer creditors and warrant holders, and such other documents as shall be necessary or appropriate, all for the purpose of providing a comprehensive and binding plan for the settlement and refinancing of the sewer warrants on terms consistent with the terms of the Term Sheet. Such agreements and other documents shall be presented for consideration and approval by the Commission at a subsequent duly scheduled meeting thereof.

APPROVED BY THE
JEFFERSON COUNTY COMMISSION
DATE: 9-16-11
MINUTE BOOK: 162
PAGE(S): 209-211

**Proposed Terms and Conditions for Settlement and Refinancing
of Jefferson County's Outstanding Sewer Warrants**

September 14, 2011

**FOR SETTLEMENT PURPOSES ONLY; CONFIDENTIAL SETTLEMENT
COMMUNICATION PROTECTED BY ALA. R.EVID. 408 and FED R. EVID. 408**

The terms reflected herein are entirely contingent upon the negotiation and execution by all parties of a comprehensive settlement agreement and related documents, and satisfaction or waiver of all conditions contained in all fully negotiated agreements and documents.

Jefferson County (the "County") and the participating holders of sewer warrants (the "Creditors") would agree to settle and refinance the County's outstanding sewer debt based upon the following general terms and conditions to be contained in comprehensive settlement documentation:

1. **Refinancing.** The parties are engaged in ongoing negotiations and anticipate a settlement in the approximate amount of \$2.05 billion to redeem all outstanding sewer warrants (contingent on an additional \$.03 billion in creditor concessions from Creditors to be identified in the future). Key provisions of refinancing debt to be issued by a newly formed public corporation (the "Refinancing") would include the following or other terms and conditions acceptable to the County and appropriate to effectuate the Refinancing:
 - (a) 40-year term.
 - (b) 1.25x debt service coverage.
 - (c) 10% Debt Service Reserve ("DSR"), half of which may be funded (at the County's option) by a surety bond provided by Assured Guaranty.
 - (d) Priority pledge of net sewer revenues.
 - (e) Moral obligation covenant by State of Alabama to seek legislative appropriations to replenish draws, if any, on the DSR.
 - (f) Up to \$1.0 billion of bond insurance (at the County's option) provided by Assured Guaranty.
 - (g) Issuance costs paid by County or GUSC (described in section 2 below).
 - (h) Closing: No later than June 30, 2012.
 - (i) Projected capital needs covered by existing warrant reserves and future cash flow.
2. **Creation of an independent public corporation for management and financing of the sewer system.** The County will seek, with the Governor's support, legislation in a

special session to authorize creation of a new form of governmental utility service corporation (GUSC) to serve as the issuer of the Refinancing debt and the operator of the sewer system.

- (a) Majority of GUSC directors to be appointed by Governor based on recommendations from the County; remainder to be appointed by County. All directors to possess appropriate professional credentials as specified in enabling legislation. County to appoint all GUSC directors after Refinancing bonds are satisfied, or refinanced without credit support from State.
 - (b) GUSC will be specifically authorized to file Chapter 9 with consent of the Governor. GUSC to 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 are paid or refinanced without credit support from the State, the GUSC will be eligible to file Chapter 9 without the Governor's consent.
 - (c) System to be transferred or otherwise conveyed to GUSC at close of Refinancing on terms assuring the County's right to return of the system assets upon satisfaction or payment of Refinancing debt. The GUSC shall be prohibited from selling, transferring, creating a lien on, or otherwise alienating the system assets without the prior approval of the County. Notwithstanding the foregoing, the system will only be transferred to the GUSC if such transfer is necessary to effectuate the Refinancing. If the Refinancing can be accomplished without such transfer, the County may determine whether or not to transfer the system assets to the GUSC.
 - (d) Receiver to remain in operating control of the sewer system until closing of the Refinancing pursuant to the Receiver order.
3. **Independent Consultants.** The Receiver's financing and operating models, including projections of capital expenditures and operating costs (upon which the County has relied in projecting future sewer rates and in creditor negotiations) may be verified by independent consultants retained by the County. Receiver to pay the reasonable costs thereof from sewer revenues.
 4. **Rates.** It is anticipated that the Refinancing would require approximate rate increases of 8.2% 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% for operating expenses and capital requirements until such time as the debt service requirements related to the Refinancing are met. The Receiver, acting pursuant to the terms of this term sheet, shall initiate the first rate increase immediately upon the County's approval of this term sheet (which shall occur no later than September 28, 2011). The first rate increase shall be consistent with the terms of this term sheet and the parties' overall settlement proposals.
 5. **Environmental Services Department Overhead Charges.** All outstanding overhead charges of the County for services to the Environmental Services Department (ESD) shall

be paid within 30 days of execution of the binding settlement agreements.

6. **Low-Income Assistance Program.** The County shall establish and implement a low-income assistance program and/or a rate maintenance program. At its option, the County may allocate creditor concessions to fund either or both programs.
7. **Definitive Settlement Agreements.** The County, the Receiver, the State of Alabama and representatives of participating warrant holders and insurers will enter into definitive and binding settlement agreements to implement the terms contained herein and any other terms and conditions necessary to affect the Refinancing. The provisions of these agreements shall be acceptable to the County and the other parties and shall include, *inter alia*, the following terms and conditions to issuance of the Refinancing debt:
 - (a) Concessions and discounts on outstanding sewer warrants in an aggregate principal amount acceptable to the County as set forth in section 1 above.
 - (b) Enactment of legislation regarding:
 - i. GUSC formation and authorization, including mandatory sewer hookups for new construction within specified distance of existing sewer lines, and existing sewer customers.
 - ii. State moral obligation pledge.
 - iii. resolution of the General Fund deficiency issues
 - (c) Stay of all civil sewer-related litigation between and among the County and the Creditors pending close of Refinancing.
 - (d) Upon Refinancing and based on concessions from Creditors, dismissal with prejudice of all civil litigation and release of all claims involving, by, against and among the County and participating warrant holders related to the system, including but not limited to the *Wilson* litigation and any litigation involving the County, the monoline insurers and JPMorgan.
 - (e) Negotiation of closing agreement with the IRS covering existing sewer warrants and proposed Refinancing bonds, on terms satisfactory to the County and with no taxes, costs, or other liabilities to existing warrant holders.
 - (f) Judicial validation and confirmation of the Refinancing structure and proposed sewer rate model.
 - (g) To protect the County and the GUSC from market risk of the Refinancing, total annual debt service costs of the Refinancing will not exceed a predetermined debt schedule. The parties may consider additional concessions if market conditions change or interest costs rise.
 - (h) Delivery of County's audited financial statements through fiscal year 2010 by

October 31, 2011 and its fiscal year 2011 audited financial statements by January 31, 2012.

- (i) Parties will revert to status quo in the event the settlement agreement is terminated and/or the County files Chapter 9 bankruptcy prior to Refinancing.
 - (j) All interest rate swaps still outstanding shall be terminated at no cost to the County.
 - (k) All terms of the Refinancing shall be satisfactory to the County, the GUSC, and the State. The terms of the Refinancing shall also be satisfactory to the Receiver and the participating warrant holders but solely to the extent of the warrant holders' right to payment and any other rights of any specific warrant holders affected by and as provided in the settlement agreements.
8. **Series 2001-B General Obligation Warrants.** JPMorgan will (a) waive approximately \$9 million in claims arising from termination of a *pari passu* swap and accrued and unpaid default interest on such GO Warrants and (b) reinstate the original amortization schedule applicable to the GO Warrants.

Jefferson County, Alabama

By: _____
President of the County Commission

John S. Young
Receiver
Jefferson City Environmental Services Dept.

Schedule A

Jefferson County, Alabama Sewer Revenue Warrants

Fixed Rate Warrants

Series 1997 A

CUSIP

472682NV1
472682NW9
472682NX7
472682MC4
472682MD2

Series 2001 A

CUSIP

472682JE4
472682JF1
472682JG9
472682JH7
472682JJ3
472682JL8
472682JM6
472682JN4

Series 2003-B-8

CUSIP

472682MNO
472682MP5
472682MQ3
472682MR1
472682MS9

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**Jefferson County, Alabama
Sewer Revenue Warrants**

Variable Rate Demand Warrants

<i>Series 2002 A</i>	
CUSIP	Subseries
472682PU1	2002 A

<i>Series 2002 C</i>	
CUSIP	Subseries
472682PV9	2002 C-2
472682PW7	2002 C-3
472682PX5	2002 C-4
472682PY3	2002 C-6
472682PZ0	2002 C-7

<i>Series 2003 B</i>	
CUSIP	Subseries
472682QA4	2003 B-2
472682QB2	2003 B-3
472682QC0	2003 B-4
472682QD8	2003 B-5
472682QE6	2003 B-6
472682QF3	2003 B-7

Auction Rate Warrants

<i>Series 2002 C</i>	
CUSIP	Subseries
472682KA0	2002 C-1-A
472682KB8	2002 C-1-B
472682KC6	2002 C-1-C
472682KD4	2002 C-1-D
472682KH5	2002 C-5

<i>Series 2003 B</i>	
CUSIP	Subseries
472682LH4	2003 B-1-A
472682LJ0	2003 B-1-B
472682LK7	2003 B-1-C
472682LL5	2003 B-1-D
472682LM3	2003 B-1-E

<i>Series 2003 C</i>	
CUSIP	Subseries
472682NA7	2003 C-1
472682NB5	2003 C-2
472682NC3	2003 C-3
472682ND1	2003 C-4
472682NE9	2003 C-5
472682NF6	2003 C-6
472682NG4	2003 C-7
472682NH2	2003 C-8
472682NJ8	2003 C-9
472682NK5	2003 C-10

**Jefferson County, Alabama
General Obligation Warrants**

Fixed Rate Warrants

Series 2003-A

CUSIP

472628PG5
472628PH3
472628PJ9
472628PK6
472628PL4
472628PM2

Series 2004-A

CUSIP

472628PR1
472628PS9
472628PT7
472628PU4
472628PV2
472628PW0
472628PX8
472628PY6
472628PZ3
472628QA7
472628QB5
472628QC3
472628QD1

Variable Rate Demand Warrants

Series 2001-B

CUSIP

472628NS1

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**Jefferson County, Alabama
Limited Obligation School Warrants**

Fixed Rate

Series 2004-A

CUSIP
472653AF1
472653AG9
472653AH7
472653AJ3
472653AK0
472653AL8
472653AM6
472653AN4
472653AP9
472653AQ7
472653AR5
472653AS3
472653AT1
472653AU8

Auction Rate Warrants

Series 2005-A

CUSIP	Subseries
472653BA1	2005-A-1
472653BB9	2005-A-2
472653BC7	2005-A-3
472653BD5	2005-A-4

Variable Rate Demand Warrants

Series 2005-B

CUSIP
472653BE3

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Alabama Water Pollution Control Authority

Revolving Fund Loan Refunding Bonds

Series 2003-B

CUSIP

010653QW6

010653QX4

010653QY2

010653QZ9

010653RA3

Jefferson County Public Building Authority

Lease Revenue Warrants

Series 2006

CUSIP

47267PAE3

47267PAF0

47267PAG8

47267PAH6

47267PAJ2

47267PAK9

47267PAL7

47267PAM5

47267PAN3

47267PAP8

47267PAQ6