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 warrantholders, 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 warrantholders 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 warrantholders 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 warrantholders.

   (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 warrantholders but solely to the extent of the warrantholders' right to payment and any other rights of any specific warrantholders 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 J. Young, Jr.
Receiver
Jefferson City Environmental Services Dept.