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 In 1999, the Alabama Legislature passed Act 99-669 (the “1999 Act”), which repealed the 1967 Act but permitted the County to approve a new version of the Occupational Tax.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, 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

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6By 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.


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.

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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.

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.


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.


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 JPM 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...
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...
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.

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.
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.


The County has received aggregate payments of $75,033,692.30 in connection with or pursuant to undertakings referenced in the JPMorgan SEC Settlement. On November 4, 2009, the SEC issued an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order (the “SEC Order”). This proceeding is now concluded.

In connection with the JPMorgan SEC Settlement, in view of JPMS’s undertaking to pay $50,000,000 “to and for the benefit of Jefferson County, Alabama” and to terminate any and all obligations of the County to make any payments to JPMorgan Chase under the Series 2002-A Sewer Swap, the Series 2002-C JPM Sewer Swap, the Series 2003-B Sewer Swap, the Series 2003-C JPM Sewer Swap, and the 2001 Swaptions, the SEC, among other things, ordered JPMS to pay disgorgement of $1.00 and a civil money penalty in the amount of $25,000,000 to the SEC, which JPMS thereafter paid. JPMS did not admit nor deny the findings contained in the SEC Order. Pursuant to the “Fair Fund” provisions of the Sarbanes-Oxley Act of 2002, the County was an eligible recipient of the civil money penalty and the disgorgement paid by JPMS to the SEC and, on August 18, 2010, the SEC issued a Proposed Plan of Distribution, which provided for distribution of these funds to the County. In determining that the County was the eligible recipient of such funds, the SEC’s Division of Risk, Strategy and Financial Innovation concluded that (i) there was no
evidence or information that the interest rates warrantholders received were affected by the improper payment scheme alleged in the SEC Order, and (ii) the harm sustained by original warrantholders was largely the result of the failures of the markets for variable rate demand warrants and auction rate warrants, and there was no evidence to indicate that these failures were caused by the improper payment scheme alleged in the SEC Order. On October 7, 2010, the SEC issued an order approving the payment of the $25,000,001 to the County, and the funds in the amount of $25,000,001, plus $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.


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”), and the County-owned nursing home in Ketona, Alabama (the “Nursing Home”).

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)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Governmental Activities</th>
<th>Cooper Green Hospital Fund</th>
<th>Sanitary Operations Fund</th>
<th>Nonmajor Enterprise Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>$99,323</td>
<td>$2,576</td>
<td>$8,707</td>
<td>$4,415</td>
<td>$115,021</td>
</tr>
<tr>
<td>Patient accounts receivable, net</td>
<td>-</td>
<td>6,543</td>
<td>-</td>
<td>945</td>
<td>7,488</td>
</tr>
<tr>
<td>Estimated third-party payor settlements</td>
<td>-</td>
<td>402</td>
<td>-</td>
<td>-</td>
<td>402</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>5,940</td>
<td>-</td>
<td>18,619</td>
<td>169</td>
<td>24,728</td>
</tr>
<tr>
<td>Loans receivable, net</td>
<td>2,212</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,212</td>
</tr>
<tr>
<td>Taxes receivable, net</td>
<td>132,465</td>
<td>-</td>
<td>5,096</td>
<td>-</td>
<td>137,561</td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
<td>2,438</td>
<td>-</td>
<td>-</td>
<td>2,438</td>
</tr>
<tr>
<td>Due from (to) other governments</td>
<td>8,357</td>
<td>-</td>
<td>1,540</td>
<td>-1,300</td>
<td>8,597</td>
</tr>
<tr>
<td>Inventories</td>
<td>-</td>
<td>1,298</td>
<td>-</td>
<td>5</td>
<td>1,303</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>-</td>
<td>739</td>
<td>-</td>
<td>-</td>
<td>739</td>
</tr>
<tr>
<td>Deferred charges – issuance costs</td>
<td>11,970</td>
<td>-</td>
<td>46,591</td>
<td>3</td>
<td>58,564</td>
</tr>
<tr>
<td>Restricted assets – current</td>
<td>164,513</td>
<td>-</td>
<td>202,942</td>
<td>-</td>
<td>367,455</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>424,780</td>
<td>13,996</td>
<td>283,495</td>
<td>4,237</td>
<td>726,508</td>
</tr>
<tr>
<td><strong>Noncurrent Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred charges – issuance costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Advances due from (to) other funds</td>
<td>42,745</td>
<td>-</td>
<td>-10,628</td>
<td>-32,117</td>
<td>-</td>
</tr>
<tr>
<td>Loans receivable, net</td>
<td>21,570</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21,570</td>
</tr>
<tr>
<td>Restricted assets</td>
<td>4,107</td>
<td>1,759</td>
<td>56</td>
<td>3,881</td>
<td>9,803</td>
</tr>
<tr>
<td>Assets internally designated for capital improvements or redemption of warrants</td>
<td>-</td>
<td>-</td>
<td>52,549</td>
<td>-</td>
<td>52,549</td>
</tr>
<tr>
<td><strong>Capital assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciable assets, net</td>
<td>287,866</td>
<td>35,781</td>
<td>2,763,883</td>
<td>32,342</td>
<td>3,119,872</td>
</tr>
<tr>
<td>Nondepreciable assets</td>
<td>39,376</td>
<td>1,090</td>
<td>31,672</td>
<td>20,681</td>
<td>92,819</td>
</tr>
<tr>
<td>Total</td>
<td>395,644</td>
<td>38,630</td>
<td>2,837,532</td>
<td>24,788</td>
<td>3,296,614</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$820,444</td>
<td>$52,626</td>
<td>$3,121,027</td>
<td>$29,025</td>
<td>$4,023,122</td>
</tr>
</tbody>
</table>

67
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:

<table>
<thead>
<tr>
<th>Item</th>
<th>Capitalization Threshold</th>
<th>Estimated Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>$100,000</td>
<td>40 years</td>
</tr>
<tr>
<td>Equipment and furniture</td>
<td>$5,000</td>
<td>5-10 years</td>
</tr>
<tr>
<td>Roads</td>
<td>$250,000</td>
<td>15 years</td>
</tr>
<tr>
<td>Bridges</td>
<td>$250,000</td>
<td>40 years</td>
</tr>
<tr>
<td>Collection sewer system assets</td>
<td>$250,000</td>
<td>25-40 years</td>
</tr>
<tr>
<td>Treatment plant sewer system assets</td>
<td>$250,000</td>
<td>40 years</td>
</tr>
<tr>
<td>Landfills and improvements</td>
<td>$100,000</td>
<td>25 years</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Net General Revenues from Taxes (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
</tr>
<tr>
<td>Sales tax</td>
</tr>
<tr>
<td>Other taxes</td>
</tr>
<tr>
<td>Licenses and permits</td>
</tr>
<tr>
<td>Unrestricted investment earnings</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td><strong>Total General Revenues</strong></td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Operating Revenues</th>
<th>Cooper Green Hospital Fund</th>
<th>Sanitary Operations Fund</th>
<th>Landfill Operations Fund</th>
<th>Jefferson Rehabilitation and Health Center Fund</th>
<th>Jefferson County Economic and Industrial Development Authority</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$0</td>
<td>$4,702</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$4,702</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$0</td>
<td>$103</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$103</td>
</tr>
<tr>
<td>Charges for Services, Net</td>
<td>$29,845</td>
<td>$154,302</td>
<td>$0</td>
<td>$9,865</td>
<td>$0</td>
<td>$194,012</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td>$9,658</td>
<td>$4,109</td>
<td>$1,266</td>
<td>$209</td>
<td>$637</td>
<td>$15,879</td>
</tr>
<tr>
<td></td>
<td>$39,503</td>
<td>$163,216</td>
<td>$1,266</td>
<td>$10,074</td>
<td>$637</td>
<td>$214,696</td>
</tr>
</tbody>
</table>

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.
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, 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:

<table>
<thead>
<tr>
<th>Class</th>
<th>Description</th>
<th>Assessment Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>All property owned by utilities and used in the business of such utilities</td>
<td>30%</td>
</tr>
<tr>
<td>II</td>
<td>All property not otherwise classified</td>
<td>20%</td>
</tr>
<tr>
<td>III</td>
<td>All agricultural, forest and single-family, owner-occupied residential property and historic buildings and sites</td>
<td>10%</td>
</tr>
<tr>
<td>IV</td>
<td>Private passenger automobiles and pickup trucks owned and operated by an individual for personal or private use</td>
<td>15%</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Class</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I</td>
<td>2.0%</td>
</tr>
<tr>
<td>Class II</td>
<td>1.5%</td>
</tr>
<tr>
<td>Class III</td>
<td>1.0%</td>
</tr>
<tr>
<td>Class IV</td>
<td>1.25%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Total Net Tax Levy</th>
<th>Current Tax Collections</th>
<th>Percent of Levy Collected</th>
<th>Delinquent Tax Collections</th>
<th>Total Tax Collections</th>
<th>Percent of Total Tax Collection to Tax Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>545,472,944</td>
<td>540,392,751</td>
<td>99.07%</td>
<td>2,377,973</td>
<td>542,770,724</td>
<td>99.50%</td>
</tr>
<tr>
<td>2009</td>
<td>580,123,421</td>
<td>559,724,507</td>
<td>96.48%</td>
<td>4,470,839</td>
<td>564,195,346</td>
<td>97.25%</td>
</tr>
<tr>
<td>2010</td>
<td>571,239,380</td>
<td>556,700,119</td>
<td>97.45%</td>
<td>4,686,256</td>
<td>561,386,375</td>
<td>98.28%</td>
</tr>
<tr>
<td>2011</td>
<td>563,149,729</td>
<td>539,061,625</td>
<td>95.72%</td>
<td>6,669,403</td>
<td>545,731,028</td>
<td>96.91%</td>
</tr>
<tr>
<td>2012</td>
<td>553,608,072</td>
<td>540,707,822</td>
<td>97.67%</td>
<td>5,961,035</td>
<td>546,668,857</td>
<td>98.75%</td>
</tr>
</tbody>
</table>

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
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.

85
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 \textit{ad valorem} taxation. Although actions previously taken by the County as permitted under Amendment No. 373 currently authorize the levy in the County of \textit{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 \textit{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 downgrading 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

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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. 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

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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 for subject matter jurisdiction under Rule 12(b)(1) of the Federal Rules of Civil Procedure and for failure to state a claim under Rules 8(a) and 12(b)(6) of the Federal Rules of Civil Procedure. Syncora also moved to dismiss the Declaratory Judgment Action, asserting that FGIC was a necessary and indispensable party to the Declaratory Judgment Action and that the Bankruptcy Court should dismiss the adversary proceeding if the FGIC Rehabilitation Proceeding (as such term is defined below) precluded FGIC’s joinder in the action.

On June 28, 2013, the Bankruptcy Court entered an order in the Declaratory Judgment Action (the “Declaratory Judgment Action Order”). The Declaratory Judgment Action Order provides that: (1) the Declaratory Judgment Action is stayed; (2) the County will continue to pay to the Sewer Warrant Trustee on a monthly basis net revenues of the Sewer System (without deducting any additional amounts that may be subject to deduction as “Operating Expenses” under the Sewer Warrant Indenture as a result of any ruling by the Bankruptcy Court regarding pending disputes about actually incurred professional fees in the Net Revenues Adversary Proceeding); (3) the Sewer Warrant Trustee will not present any claims or seek to draw on any Sewer Wrap Policies or Sewer DSRF Policies; and (4) the Sewer Warrant Trustee shall not distribute sewer revenues to the holders of Sewer Warrants on account of obligations becoming due on or after February 1, 2013. The Declaratory Judgment Action Order states that the relief granted therein shall remain effective until the earlier of (1) the Effective Date of the Plan, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the Sewer Plan Support Agreements, and (2) the date of termination of any Sewer Plan Support Agreement.

G. Litigation with the City of Birmingham and the Mayor regarding Cooper Green.

Cooper Green has been the subject of litigation between the County and the City of Birmingham (the “City”) during the course of the chapter 9 Case. The City and Mayor William A.
Bell, Sr. (the “Mayor”) filed a complaint in State Court against the County Commission, seeking a declaratory judgment that the County Commission should be barred from closing Cooper Green. In response, the County filed an emergency motion to enforce the automatic stays, requesting entry of an order compelling the City and the Mayor to comply with the automatic stays of Bankruptcy Code sections 362(a) and 922(a).

The City and Mayor filed a Notice of Dismissal of their State Court lawsuit, without prejudice. After dismissing their lawsuit in State Court, the City and the Mayor then filed a motion with the Bankruptcy Court requesting relief from the automatic stays to file another complaint in State Court challenging the County Commission’s decision to close the emergency room at Cooper Green. The City and Mayor also filed a complaint with the Bankruptcy Court, naming the County Commission and three County Commissioners as defendants in the complaint. The factual allegations and requested relief in the second complaint were almost identical to those in the original complaint filed in State Court. The County filed a motion to dismiss the City’s and the Mayor’s complaint in the Bankruptcy Court.

The Bankruptcy Court entered an order and memorandum opinion, denying the City’s and the Mayor’s motion for relief. The Bankruptcy Court ruled that the automatic stays applied to the City’s and the Mayor’s proposed State Court action, and there was no cause for relief from the automatic stays. See In re Jefferson County, 484 B.R. 427 (Bankr. N.D. Ala. 2012). Among other things, the Bankruptcy Court ruled that the state law relied upon by the City and the Mayor, Alabama Code sections 22-21-290 to 22-21-297, does not require that the County operate a hospital. Based upon the same reasoning as the denial of stay relief, the Bankruptcy Court dismissed the City’s and the Mayor’s complaint against the County and the County Commissioners. The Bankruptcy Court’s rulings on these issues have become final.

H. Other Adversary Proceedings

In addition to the Net Revenues Adversary Proceeding, the Severed Sewer Adversary Proceeding, and the Declaratory Judgment Action, there are other adversary proceedings that have been filed in connection with the Case, which are discussed in turn below.

1. Wilson Adversary Proceeding

As discussed in Section III.E.1 above, FGIC removed one count of the Wilson Action to federal court, which had the effect of creating the Wilson Adversary Proceeding. The Bankruptcy Court has entered an order that the automatic stay of 11 U.S.C. § 362(a) applies to the Wilson Adversary Proceeding, thereby prohibiting the plaintiffs from engaging in discovery or otherwise pursuing the Wilson Adversary Proceeding without seeking relief from the automatic stay. Neither the Bankruptcy Court nor the parties have taken any subsequent action in the Wilson Adversary Proceeding.

The County maintains that the claims asserted in the Wilson Action and the Wilson Adversary Proceeding, to the extent they have any validity at all, are claims that rightfully belong to and can be brought and settled only by the County. The claims asserted in the Wilson Action and the Wilson Adversary Proceeding effectively seek to either have monies returned to the County or
obtain declarations concerning the County’s liabilities or lack thereof. The County – and not the plaintiffs in the Wilson Action and the Wilson Adversary Proceeding – has standing to pursue these claims. The County contends that the settlements, compromises, and validations contained in the Plan, including the validation and allowance of the Sewer Debt Claims, the amount of the New Sewer Warrants issued, and the validation of the Approved Rate Structure, will render the Wilson Adversary Proceeding and the remaining count in the Wilson Action pending in the State Court moot or otherwise resolved as of the Effective Date, and the County intends to have the Wilson Adversary Proceeding and the remaining count of the Wilson Action pending in the State Court dismissed in connection with confirmation of the Plan.

2. Bennett Action

On behalf of a putative class of individual and corporate sewer ratepayers of Jefferson County, fifteen named plaintiffs filed suit against the County and fourteen other defendants. The action was filed in the Bankruptcy Court and is styled Bennett, et al. v. Jefferson County, Alabama, et al., Adversary Proceeding No. 12-00120 (the “Bennett Action”).

The opening complaint in the Bennett Action 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

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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**

Merrianne Johnson ("Johnson") filed a complaint against the County Commission in the United States District Court for the Middle District of Alabama (the "Middle District"). Johnson’s complaint alleges employment discrimination in violation of Title VII of the Civil Rights Act. The County Commission filed a notice of bankruptcy in the lawsuit in January 2013, and the Middle District transferred Johnson’s complaint to the District Court. The District Court referred Johnson’s complaint to the Bankruptcy Court, thereby initiating Adversary Proceeding No. 13-00040-TBB (the "Johnson Adversary Proceeding"). The Bankruptcy Court stayed the Johnson Adversary Proceeding pending further order. Neither the Bankruptcy Court nor the parties have taken any subsequent action in the Johnson Adversary Proceeding.
I. Creditors’ Claims

1. The List of Creditors and the Bar Dates

On December 12, 2011, the County filed its original List of Creditors as required by Bankruptcy Code section 924. On April 23, 2012, the County amended its List of Creditors to add additional creditors. Pursuant to the List of Creditors, as amended, the County scheduled Claims as of the Petition Date totaling $4,616,790,649.30. This figure includes disputed and undisputed, contingent and non-contingent, and liquidated and unliquidated Claims. Of this amount, secured claims accounted for approximately $4,112,668,974, and unsecured claims accounted for approximately $504,121,675.

Following the entry by the Bankruptcy Court of the order for relief in the Case, the County moved the Bankruptcy Court to set the General Bar Date, the 503(b)(9) Bar Date, the Governmental Unit Bar Date, the Amended List Bar Date, and the Rejection Bar Date. By order dated April 6, 2012, the Bankruptcy Court set the following deadlines: June 4, 2012 as the General Bar Date; June 4, 2012 as the 503(b)(9) Bar Date; and August 31, 2012 as the Governmental Unit Bar Date (as amended, the “Bar Date Order”). Similarly, the Bankruptcy Court set the Amended List Bar Date and Rejection Bar Date by reference to any amendment to the County’s List of Creditors and any Rejection Orders, respectively.

With the assistance of its claims and servicing agent, Kurtzman Carson Consultants LLC (the “Claims Agent”), the County caused the Bar Date Notice to be mailed to all parties on the List of Creditors. In addition, at the County’s request, the Bankruptcy Court ordered The Depository Trust Corporation (“DTC”) to provide the County with a listing of the names and address of institutional brokers and other customers that held, directly or indirectly, any of the County’s GO Warrants, the School Warrants, the Sewer Warrants, and other debt instruments (the “Institutional Nominees”). DTC complied with this requirement and provided the County with the contact information for the Institutional Nominees. The County, again with the Claims Agent’s assistance, served the Bar Date Notice on approximately 12,000 Institutional Nominees identified by DTC. In total, the Bar Date Notice was served by mail on over eighteen thousand (18,000) potential claimants. The County also published the Bar Date Notice in The Bond Buyer and The Birmingham News, the largest newspaper within the County.

As of the date of this Disclosure Statement, over 1,360 proofs of claim have been Filed, asserting Claims totaling in excess of $4.8 billion. Over 140 proofs of claim have been voluntarily withdrawn, representing over $500,000 in claims. Of the remaining proofs of claim, approximately 300 were Filed as unliquidated or in an unknown amount. The County believes that many of the Filed proofs of claim are overstated, are duplicative of other proofs of claims, or are not allowable under applicable law. For example, with respect to prepetition unsecured trade Claims, the County’s List of Creditors listed trade claims totaling $3,683,281.24. Of that amount, the County disputed over $1.9 million of those Claims. During the course of its Case, the County has exercised its authority under Bankruptcy Code sections 903 and 904 to pay lawful trade Claims in the ordinary course of its operations to the extent those Claims were due to be Allowed. Accordingly, the County believes that it has paid substantially all of those prepetition unsecured trade Claims that are or were due to be Allowed and will amend its List of Creditors accordingly.
THE COUNTY RESERVES ANY AND ALL RIGHTS, EXCEPT AS EXPRESSLY SETTLED, RELEASED, OR RESOLVED IN THE PLAN OR THE CONFIRMATION ORDER, TO OBJECT TO, DEFEND AGAINST, AND REQUEST DISALLOWANCE, REDUCTION, SUBORDINATION OR RECHARACTERIZATION OF ANY CLAIM ASSERTED AGAINST THE COUNTY OR ITS PROPERTY. THE COUNTY ANTICIPATES THAT SOME CLAIM OBJECTIONS WILL BE FILED AFTER CONFIRMATION OF THE PLAN.

2. Claims Filed By the Institutional Nominees

A significant number of Institutional Nominees or purported individual holders filed proofs of claim to recover principal and interest allegedly due on their respective warrants. The County intends to object to all claims filed by Institutional Nominees or other individual holders for principal and interest on warrants as duplicative of those proofs of claim filed by the respective indenture trustees.

A very small minority of Institutional Nominees with respect to the County’s warrants filed claims to recover purported losses on their investment, which allegedly occurred upon disposition of the County’s warrants. All claims for damages arising from the purchase or sale of the County’s warrants are subject to subordination pursuant to Bankruptcy Code section 510(b) and will receive the treatment provided for Class 9 (Subordinated Claims) under the Plan.

3. 503(b)(9) Claims

Bankruptcy Code section 503(b)(9) provides that the allowable “administrative expenses” in a bankruptcy case include “the value of any goods received by the debtor within 20 days before the date of commencement of a case under [the Bankruptcy Code] in which the goods have been sold to the debtor in the ordinary course of such debtor’s business.” Approximately 160 purported 503(b)(9) Claims have been filed against the County. The vast majority of 503(b)(9) Claims were filed by beneficial holders of the County’s various outstanding warrants and are not for goods provided to the County within the twenty (20) days prior to the Petition Date. Other 503(b)(9) Claims were filed by certain of the County’s trade creditors who have been or will be paid by the County in the ordinary course of its ongoing operations. Consequently, the County intends to object to most of the filed 503(b)(9) Claims and anticipates that the total 503(b)(9) Claims to be paid pursuant to the Plan will be less than $10,000.

4. Professional Fees

Pursuant to Bankruptcy Code section 943(b)(3), all amounts to be paid for services or expenses in the Case or incident to the Plan must be fully disclosed to the Bankruptcy Court and must be reasonable. There shall be paid to each holder of a Professional Fee Claim against the County in full, final, and complete settlement, satisfaction, release, and discharge of such Claim, Cash in an amount equal to the portion of such Professional Fee Claim that the Bankruptcy Court determines is reasonable on or as soon as is reasonably practicable following the date on which the Bankruptcy Court enters an order determining reasonableness. The County, in the ordinary course
of its business, and without the requirement for Bankruptcy Court approval, may pay for professional services rendered and expenses incurred following the Effective Date.

The County has paid the fees and expenses of its bankruptcy counsel, bond counsel, general outside counsel, and other professionals on a regular basis during the Case. Such fees are not subject to the Bankruptcy Court’s review or approval, as Bankruptcy Code sections 327-331 do not apply in chapter 9 cases. In addition, the County does not believe that Bankruptcy Code section 943(b)(3) requires that any fees and expenses previously paid be subject to review or challenge based on reasonableness grounds. Compare 11 U.S.C. § 943(b)(2) (providing that “all amounts to be paid by the debtor or by any person for services or expenses in the case or incident to the plan have been fully disclosed and are reasonable” (emphasis added)), with 11 U.S.C. § 1129(a)(4) (providing that “[a]ny payment made or to be made by the proponent, by the debtor, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in connection with the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable” (emphasis added)). Accordingly, the County intends to submit an estimate prior to the Confirmation Hearing of all amounts anticipated to be paid after the Confirmation Date and before the Effective Date for services or expenses in the Case or incident to the Plan and request that the Bankruptcy Court find that all such amounts are reasonable in connection with the confirmation of the Plan.

5. Other Administrative Expense Claims

The Plan provides for an Administrative Claims Bar Date which shall be no more than ninety (90) calendar days after the Effective Date. Until the Administrative Claims Bar Date has passed, the County cannot provide a meaningful analysis of the Administrative Claims that will be filed or that will be paid pursuant to the Plan.

Many Persons that have already filed proofs of claim against the County asserted purported administrative expense or priority claims pursuant to various subsections of Bankruptcy Code section 507(a). However, section 507(a)(2) is the only applicable section of the Bankruptcy Code that provides for priority claims in chapter 9 cases. The County intends to object to all alleged priority Claims that are not entitled to priority under section 507(a)(2). To the extent such Claims are Allowed Claims and are not otherwise separately classified and treated in the Plan, such Claims will be treated as General Unsecured Claims under the Plan.

6. General Unsecured Claims

Allowed General Unsecured Claims are classified in Class 6 under the Plan. The Plan defines a General Unsecured Claim as a Claim that is not an Administrative Claim, a Bessemer Lease Claim, a Board of Education Lease Debt Claim, a GO Debt Claim, an Other Unimpaired Claim, a Professional Fee Claim, a Secured Claim, a Special Revenues Claim, or a Subordinated Claim. Among the Claims specifically included in Class 6 under the Plan, to the extent they may be Allowed, are (a) the Asserted Full Recourse Sewer Claims, (b) Rejection Damage Claims, and (c) the Uninsured Portion of General Liability Claims.
The County believes that the total amount of General Unsecured Claims that are due to be Allowed is much smaller than the amount of unsecured Claims listed by the County in its List of Creditors that was Filed months ago in the Case or asserted in proofs of claims Filed in the Case. As discussed in Section IV.I.1 above, the County has paid postpetition many of the unsecured trade Claims that it had scheduled in its List of Creditors, substantially reducing the amount of Claims that would otherwise have been treated as Class 6 Claims under the Plan. In addition, 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

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
title 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

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.

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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 warrantholders.
effective February 1, 2013, triggering substantial additional litigation that could take years to finally resolve. In the meantime, Sewer Warrant holders may or may not be paid.

* What Are the Rights and Priorities Among the Different Sewer Creditors? * There are many potential issues that could be raised by the County or by certain creditors regarding the rights of the sewer creditors between and among themselves with respect to distributions of sewer revenues or to property distributed under any plan. For example, an argument could be made that some or all of the claims asserted by the Sewer Warrant Insurers should be subject to contractual subordination or statutory subordination under Bankruptcy Code section 509(c). The Sewer Warrant Insurers dispute such arguments. Consequently, a non-negotiated resolution would require litigation over highly complex and unprecedented issues, which litigation would be time-consuming, costly, and contentious. Similarly, if some or all of the Sewer Debt Claims are undersecured (as alleged by the County), there is the potential for litigation over extremely complex allocative and reallocative issues arising from the fact that the Sewer Warrant Trustee used 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 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