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

In re:	)	
	)	
JEFFERSON COUNTY, ALABAMA,	)	**Case No. 11-05736-TBB**
a political subdivision of the State of	)	
Alabama,	)	**Chapter 9**
	)	
Debtor.	)	

ANDREW BENNETT, Jefferson County Tax Assessor, Bessemer Division, an elected official of Debtor; RODERICK V. ROYAL, Birmingham City Council President, an elected official of the City of Birmingham; STEVEN W. HOYT, Birmingham City Council President Pro Tempore, an elected official of the City of Birmingham; MARY MOORE, Alabama State Legislator, an elected official of the State of Alabama; JOHN W. ROGERS, Alabama State Legislator, an elected official of the State of Alabama; WILLIAM R. MUHAMMAD; CARLYN R. CULPEPPER, Lt. Col. Rt.; FREDDIE H. JONES, II; SHARON OWENS; REGINALD THREADGILL; RICKEY DAVIS, Jr.; ANGELINA BLACKMON; SHARON RICE; and DAVID RUSSELL,

Ratepayer/Creditors,_

RATEPAYER/CREDITORS OBJECTIONS TO DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") REGARDING

CHAPTER 9 PLAN OF ADJUSTMENT FOR JEFFERSON COUNTY, ALABAMA <u>(DATED June 30, 2013)</u>

<u>I.</u> INTRODUCTION

On June 4, 2012, a group of Jefferson County elected officials and citizens who pay sewer fees and charges as users of the County Sewer System (the "System"), and who pay County Sewer Taxes which have been imposed Countywide to build the System since 1901 (hereinafter referred to as , filed a Class Creditor Claim in this bankruptcy proceeding(hereinafter referred to as the "Ratepayer/Creditor Claim" or the "Claim"). This Claim was for overcharges of $1.63 billion in sewer charges resulting from the issuance and execution of over $8 billion in Swap/Warrants by the County.

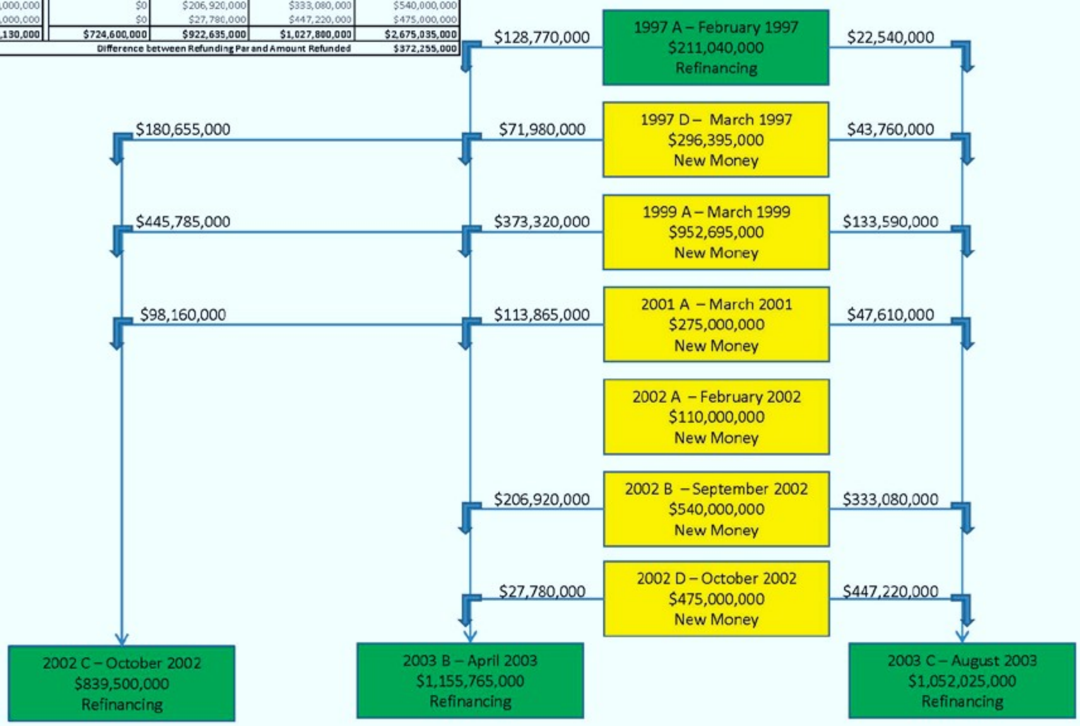
These Swap/Warrants were debt instruments comprised of two components: (1) over $3 billion of warrants requiring the County to pay principal and "adjustable interest" and (2) over $5 billion of contracts, purchased with the County credit behind the proceeds of the $3 billion in warrants, called interest rate swaps. These interest rate swaps were simulated to keep the interest on the adjustable rate warrants at a rate lower than the original $2.6 billion in warrants used to fund Sewer System projects (called "Project Warrants") but in actuality created another $5 billion in additional debt payable from sewer Revenues. The $5 billion in swap contracts required the County to pay a debt equal to the difference between a fixed rate or adjustable rate and a second adjustable rate both adjustable rates based on a different LIBOR interest rate index. LIBOR is a pseudonym for the adjustable rate at which banks borrow from each other. These Swap/Warrants did not work because the adjustable rate on the warrant component of the Swap/Warrants increased at a much higher rate than the adjustable payment in the swap contract component of the Swap/Warrants. The result was that the County did not have sufficient sewer fee collections to pay the debt due on either $3 billion warrant debt component of the Swap/Warrant debt or the debt on the swap component of the Swap/Warrant of $5 billion. The County had substituted $2.6 billion in fixed rate debt for over $8 billion in Swap/Warrant debt which was not payable by the community served by the System.

In 2008 it was disclosed by the U.S. Securities and Exchange Commission that bribes had been paid by JPMorgan, Goldman Sachs and certain local broker dealers of corruptly procure the issuance of three series of Swap/Warrants coupled with the execution of related swap contracts: Series 2002C, 2003B and 2003C as shown in the green boxes at the bottom of the following chart:

Jefferson County Issued $3,047,290,000 in Bonds to Refund $2,675,035,000 in Principal. A Difference of $372,255,000.

		Par Amount of Refunding Bonds $3,047,290,000			
Issue	Issue Size	$839,500,000 Series 2002 C	$1,155,765,000 Series 2003 B	$1,052,025,000 Series 2003 C	Par Amount Refunded
Series 1997A*	$211,040,000	$0	$128,770,000	$22,540,000	$151,310,000
Series 1997D	$296,395,000	$180,655,000	$71,980,000	$43,760,000	$296,395,000
Series 1999A	$952,695,000	$445,785,000	$373,320,000	$133,590,000	$952,695,000
Series 2001A	$275,000,000	$98,160,000	$113,865,000	$47,610,000	$259,635,000
Series 2002A	$110,000,000	$0	$0	$0	$0
Series 2002B	$540,000,000	$0	$206,920,000	$333,080,000	$540,000,000
Series 2002D	$475,000,000	$0	$27,780,000	$447,220,000	$475,000,000
Total	**$2,860,130,000**	**$724,600,000**	**$922,635,000**	**$1,027,800,000**	**$2,675,035,000**
				Difference between Refunding Par and Amount Refunded	**$372,255,000**

* Refinancing



Prepared by Grigsby & Associates, Inc.

The Ratepayer/Creditors have alleged that these 3 series of Swap Warrants were void from their inception because their issuance and execution was procured by fraud and bribery, because the $8 billion in Swap/Warrant debt violated the Alabama constitution because the County's good credit was used to benefit private persons, and because levy and collection of the sewer fees to pay the $8 billion in Swap/Warrant debt was not approved by the voters as required by Amendment 73 to the Alabama constitution. Ratepayer/Creditors are filing concurrently herewith their "**<u>RATEPAYER/CREDITORS OBJECTIONS TO PLAN OF ADJUSTMENT (THE "PLAN OPPOSITION")"</u>** which is hereby incorporated herein by reference and will be referred to herein.

Ratepayer/Creditors object to the Disclosure Statement for the following reasons:

<u>BASIS FOR RATEPAYER/CREDITOR OBJECTIONS TO THE DISCLOSURE STATEMENT</u>

A. **<u>The Creditors Voting on the Plan Need to Know that Illegality of Swap/Warrants Dispute Alleged in the Complaint is Not Being Compromised Properly and the County Debtor Has More Settlement Value than what they have Agreed to Receive.</u>**

This Plan is aimed at mooting the Ratepayer/Creditors' Claim of illegality as a compromise and settlement of contested claims. This proposed Plan compromise does not go far enough and should be better. The Disclosure Statement does not notify creditors that for the Plan to be confirmed, a necessary finding by the Court will be that the Plan has been proposed in good faith and not by any means forbidden by law or compromises on illegality. 1129(a)(3). The issue of illegality is being compromised and settled in the Plan for $1.1 billion in concessions plus contingent obligations that could bring this amount down lower. Given the amount contributed by JPMorgan, the illegality argument, based primarily on the corrupt activities of JPMorgan, but which is a defense applicable to all existing Swap/Warrant holders since "holder in due course" defenses do not apply to warrants, appears to be the direct cause of the amount agreed to in the compromise so far. However, as shown by the Alternative Financing Plan (Plan Opposition pp. 8-10) the alleged illegality dispute is not being compromised properly, and the creditors voting on the plan need to know that the County-debtor has more settlement value then what they have agreed to receive, so far. The Alternative Financing Plan costs the ratepayers $3.6 billion. The Debtor proposed plan costs $14.3 billion. This goes to the heart of whether the plan is in the best interest of creditors and is feasible under 11 USC 943(b)(7).

B. **<u>Disclosure Statement Fails to disclose the Financial Capability of the Users Connected to the Sewer System</u>**

1. *<u>No Information is disclosed to Properly Evaluate Ability to Collect Sewer</u>*

Revenues. The Disclosure Statement provides no information on the demographics of the roughly 140,000 households connected to the Sewer System and paying sewer fees which make up all directly pledged sewer warrant revenues (see, e.g. Economic and Demographic disclosure on pages 4-12). The information disclosed relates to the State of Alabama, Jefferson County as a whole, where almost half of the households are using septic tanks instead of the Sewer System, and the Birmingham-Hoover MSA. Birmingham-Hoover, AL Metropolitan Statistical Area consists of seven counties (Bibb, Blount, Chilton, Jefferson, St. Clair, Shelby, and Walker) centered around Birmingham. The population of this metropolitan statistical area as of the 2010 census was 1,128,047 and the demographics bears little resemblance to the Sewer System user base with respect to house hold income, percentage of household income paid for housing and utilities or percentages in single family or rental units. Under EPA consent decree guidelines a major consideration in establishing fair and reasonable and non discriminatory sewer rates is the user household financial capability (See Exhibit J to Plan Opposition "GSO Guidance for Financial Capability Assessment and Schedule Development", p.3. The disclosure Statement must be amended to provide demographic information on the actual user base before a creditor vote can be confirmed as fair and reasonable. Without knowing the quality of revenues or earnings there is no way to properly value the Sewer System for purposes of determining fair and equitable distributions.

2. *No Information is disclosed on the Median Household Income of the Users Paying Sewer Bills.* The Economic and Demographic disclosure on pages 4-12 fails to describe the Median Household Income of actual System users paying sewer bills or that the increase in user fee form $140 million and year to $600 million a year in the Financial Plan (see, Exhibit B to Plan Opposition), will be feasible. In fact one of the consultants to the County GLC (see Exhibit A

hereto, p. 20) shows the median income of Jefferson county of $45,000 as a basis to recommend rate increases, when the median income of actual user households is 50% less or roughly $30,000 (See Exhibit G to Plan Opposition). The Disclosure Statement must be amended to disclose the Median Household Income of the persons in census tracts actually connected to the Sewer System. See for example Exhibit J to Plan Opposition showing those census tracts in the Sewer service area that are more than 20% *below* the poverty level. Only when these actual numbers are provided (and they are readily available from the Birmingham Waterworks billing computer which has zip codes that can be correlated to census tracts MHI as maintained on the U.S. Census database) can the value of the earnings of the System be considered by Creditors entitled to vote.

Instead of providing relevant information user MHI essential to valuation of the System earnings, the Disclosure Statement wrongfully suggests this information is not available:

> "The sufficiency of the gross revenues from the operation of the Sewer System to pay debt service on the New Sewer Warrants, to pay operating expenses of the Sewer System, and to make capital expenditures necessary to maintain or expand the Sewer System may be affected by events and conditions relating to, among other things, population and employment trends, weather conditions, and political and economic conditions in the County, the nature and extent of which are not presently determinable." (DS, at p. 94)

Creditors are entitled to relevant information on valuation prior to voting on the Plan.

C. The Disclosure Statement Fails to advise Impaired Creditors that the Series 2002C, 2003B and 2003C Warrants are Subject to a Claim of being *Ultra Vires and Unenforceable* Because Issuance was Procured by Bribes, Net Proceeds from the Issuance were used to Purchase Swaps for Private Benefit—Not Projects, and the Lien on Sewer revenues is Unenforceable because the Levying and Collection of Sewer Fees Requires Voter approval

Ratepayer/Creditors have filed a Second Amended Adversary complaint ("Complaint") asking for a declaration that the three series of warrants that were the subject of the SEC consent decree be declared null and void because (1) any government contract obtained through bribery and fraud is void and unenforceable, (2) the $8 billion in actual and notional debt used to replace the $2.6 billion in fixed rate debt was incurred to benefit private banking profits and not for the benefit of the public was not debt for sewer projects which are constitutionally permissible, and (3) under Amendment 73 and due process the voters have to approve any debt that could result in a lien on their property. (See Plan Opposition, pp. 8-25; Exhibit A, and F to Plan Opposition).

The net result of the relief requested would be an alternative plan that would pay in full all Sewer Warrants *excluding Series 2002C, 2003B, and 2003C and would refund to the County Ratepayers $10 billion in overcharges contemplated by the Plan (See, Plan Opposition "Alternative Plan Resulting from a determination of Swap/Warrant Invalidity" which reads in part:*

> "The net result from this alternative financing Plan would be debt service of $91.5 million a year for 40 years which given the $140.6 million per year presently collected would leave $49 million for Operations and Maintenance and Capital Plant Replacement and Refurbishment costs. This Alternative Financing Plan could be accomplished without as Rate Increase which means that total collections from the Sewer Users represented by the Ratepayer/Creditors would be $3,658,288,888 instead of $14,328,013,000. (See, Exhibit B, page 2, column 1 heading) If the court follows Alabama Law as discussed below, the cost to the Ratepayer/Creditors is 26% or approximately ¼ of the cost required under the Plan.[1] Further, elimination of the need for a Rate Increase results in an investment grade rating on the new warrants and therefore a much lower interest cost."

The Debtor/county has a duty to disclose the benefits of the alternative Plan and the cost and benefit of implementing the Alternative Plan. Because the Series 2002C, 2003B and 2003C series were refundings having these Series declared a nullity would have the added benefit of assuring the New Sewer Warrants were the first refunding and therefore tax-exempt under IRC

[1] The Plan contains a number of "escalators" based on various elections under the plan and the use of hedge fund back up to purchase un saleable New Sewer Warrants—which will increase their profits from the Ratepayer/Creditors even higher. All of these vagaries are eliminated under the Alternative Plan and must be disclosed to creditors in the disclosure Statement.

149(g) (See, discussion, Plan Opposition Section VIII, "THE PLAN UNLAWFULLY PURPORTS TO REFINANCE SEWER WARRANTS USED TO PURCHASE INTEREST RATE SWAPS, PAY BRIBES AND EXCESSIVE SOFT COSTS IN VIOLATION OF iNTERNAL REVENUE CODE REQUIREMENTS THAT TAX EXEMPT DEBT BE USED FOR A PUBLIC PURPOSE RATHER THAN PRIVATE PURPOSES; ANY NEW SEWER BONDS MAY HAVE TO BE ISSUED ON A TAXABLE BASIS IF NOT VOID AB INITIO, pp. 31-32 of Plan Opposition.

Moreover, the legitimately issued sewer warrants, defined as all those not tainted by the bribery scandal, should be classified separately from the Swap/Warrants. Section 1122 provides that "a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interest of such class." 11 U.S.C.A. § 1122 (1979) . The Plan must disclose to Sewer Warrant Holders other than Series 2002C, 2003B, and 2003C that their interests are different from the Swap/Warrants whose validity is being challenged.

3. The Disclosure Statement Fails to disclose that the Plan Cannot Be confirmed Without Classifying Ratepayer/Creditors Claim

Failure to separately classify the rate-payers claim is fatal to confirmation, and therefore the Court should not let the Plan be voted on without amending the Disclosure Statement to cure this defect under 11 USC 1122 made applicable to Chapter 9 under 11 USC 901(a) so the Ratepayer/Creditors can exercise their fundamental voting rights. Right now, Ratepayer/Creditors appear to be grouped in Class 6, general unsecured claims, and the County-Debtor intends to file a post-confirmation objection to allowance of these Claims for lack of standing. The County-Debtor's argument that Ratepayer/Creditors have no standing, and the Debtor only has standing, needs amendment to the Disclosure Statement that if the Debtor is not successful in this position, this would be fatal to confirmation.

Defaults in paying the Swap/Warrants that fraudulently ballooned the County's fixed rate Project Warrants issued from 1997 to 2002 from $2.6 billion to $8 billion is the direct cause of the County's insolvency. Yet the Disclosure Statement is drafted to give these Swap/Warrants priority without any disclosure of their vulnerability to be determined invalid. This lack of disclosure is unfair to all classes of creditors. In particular, in an apparent attempt manipulate the voting, the Debtor has created creditor classes which combine valid Project Warrants and even fixed rate warrants with contested "adjustable rate" Swap/Warrants and has refused to even acknowledge Ratepayer/Creditors registered claim (See Exhibit C to Plan Opposition). This Claim is the largest single claim in this bankruptcy and the most important in terms of the benefit it brings to the creditors who were not the progeny of the bribery and other wrongdoing which procured the Swap/Warrants. Accordingly under the Rules this claim must be given a separate classification and appropriate voting rights as an impaired claim.

The Plan discloses a settlement of the issue of whether the Swap/Warrants are ultra vires and states that the lien on sewer revenues backing the Sewer/Warrants is legal valid and binding even though this issue has not been heard on the merits. The Disclosure Statement should thus provide adequate disclosure of the contending issues that Ratepayer/Creditors have raised with respect to whether the claims of the Swap/Warrant holders are ultra vires and other legal issues associated with defects in the offering, including why and how the debtor county has joined with the holders of Swap/Warrants, so that creditors have both sides of the issue before they vote on the Plan. These issues are discussed in greater length in the Plan Opposition incorporated by reference herein.

The Disclosure Statement must fairly apprise voting classes of the County Debtor's justification for accepting the $14.3 billion financing plan over the $3.6 billion alternative financing plan. Ratepayer/Creditors contend that the alternative $3.6 billion financing plan should have been the true value of the settlement of Sewer Claims. If the true value of the settlement is higher than $3.6 billion, then that needs to be disclosed and explained for creditors to have adequate information to vote on the plan.

The County should clearly disclose that if they have not allowed Ratepayer/Creditor's Claim and that Claim has not even been classified, under Rule 1129 the risk is the court cannot confirm the Plan. The failure to classify and treat the Ratepayer/Creditors Claim would make the Plan unconformable due to Rules 1122's and 1123's requirement of proper classification and treatment. As the Eleventh Circuit stated in Olympia & York Fla. Equity Corp. v. Bank of New York (In re Holywell Corp.), 913 F.2d 873, 879-880 (11th Cir. Fla. 1990):

> "Section 1129 of the Bankruptcy Code provides two mechanisms for confirmation of a Chapter 11 plan of reorganization. The first requires satisfaction of all subsection (a) requirements, including (a)(8), which necessitates acceptance of the plan by all impaired classes or interests. The second mechanism, the mechanism by which the plan was confirmed in this case, incorporates all the requirements of subsection (a), except for (a)(8), and requires that the plan not discriminate unfairly and be fair and equitable with respect to each class of impaired claims or interests that has not accepted the plan. At issue in this appeal is whether the Bank's plan complies with the applicable provisions of title 11, namely section 1122. See 11 U.S.C. § 1129(a)(1) (requiring that the plan comply with the provisions of title 11). Also at issue is whether the Bank's plan discriminates unfairly with respect to MCJV, a creditor who is impaired under, and who has not accepted the plan. See 11 U.S.C. § 1129(b)(1) (requiring that the plan not discriminate unfairly with respect to classes of impaired claims)."

Conclusion

The County has negotiated long and hard for a settlement but only with one Class of claimants—those who had the receiver appointed. The Receiver appointment was based on the validity of the 6th, 9th and 10th supplemental indentures with the County Debtor did not challenge.

The County has been working in concert with the potentially unenforceable Swap/Warrant Claimants. The Rate Increases proposed by these claimants will result in overcharges to the Ratepayer claimants of over $10 billion. The Debtor's disclosure is required to give the full story of the value of Plan distributions and the challenges to certain claims. We respectfully ask the court to fashion an order that requires adequate disclosure consistent with this Opposition to the Disclosure Statement and the Plan Opposition incorporated herein by reference.

Dated July 30, 2013

Respectfully submitted,
Law Office of Calvin B. Grigsby
/s/Calvin B. Grigsby
Calvin B. Grigsby, Pro Hac Vice
Rajan K. Pillai, Pro Hac Vice pending
Chris Clark, Pro Hac Vice pending
2406 Saddleback Drive
Danville, CA 94526
Tel: 415-392-4800
Cell: 415-860-6446
Fax: 415-676-2445
E-Mail: cgrigsby@grigsbyinc.com

GLC

GLC Advisors & Co.

Jefferson County Sewer System

Public Presentation

August 20, 2012

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Section 1

Introduction

GLC's clients

- GLC represents multiple Jefferson County Sewer Warrant Holders who collectively own over $700 million of sewer system debt
- These holdings account for more than 20% of all of Jefferson County's outstanding sewer system debt
- This presentation is submitted in response to the express invitation of the Jefferson County Commission
- Notwithstanding anything in this presentation, we believe that Jefferson County (the "County") is obligated to set sewer fees by the existing formula established in the sewer warrant indenture
- Nevertheless, we welcome the opportunity to present commentary on sewer costs and fees, the relative burden on residents and on the state of the municipal finance market

Overview

- Generally, sewer fees are increasing across the country and sewer fees for systems subject to EPA consent decrees are rising at higher rates than the national average
  - Increases in sewer fees contained in the September 14, 2011 proposed settlement (the "Proposed 2011 Settlement") that was approved by the County Commission are similar to the average projected increases of comparable sewer systems operating under EPA consent decrees

- Sewer fees ultimately are a function of how much revenue is required to cover the costs to build, finance and operate the sewer system

- Most sewer costs are "fixed," which means that sewer fees per user are heavily dependent on the number of users

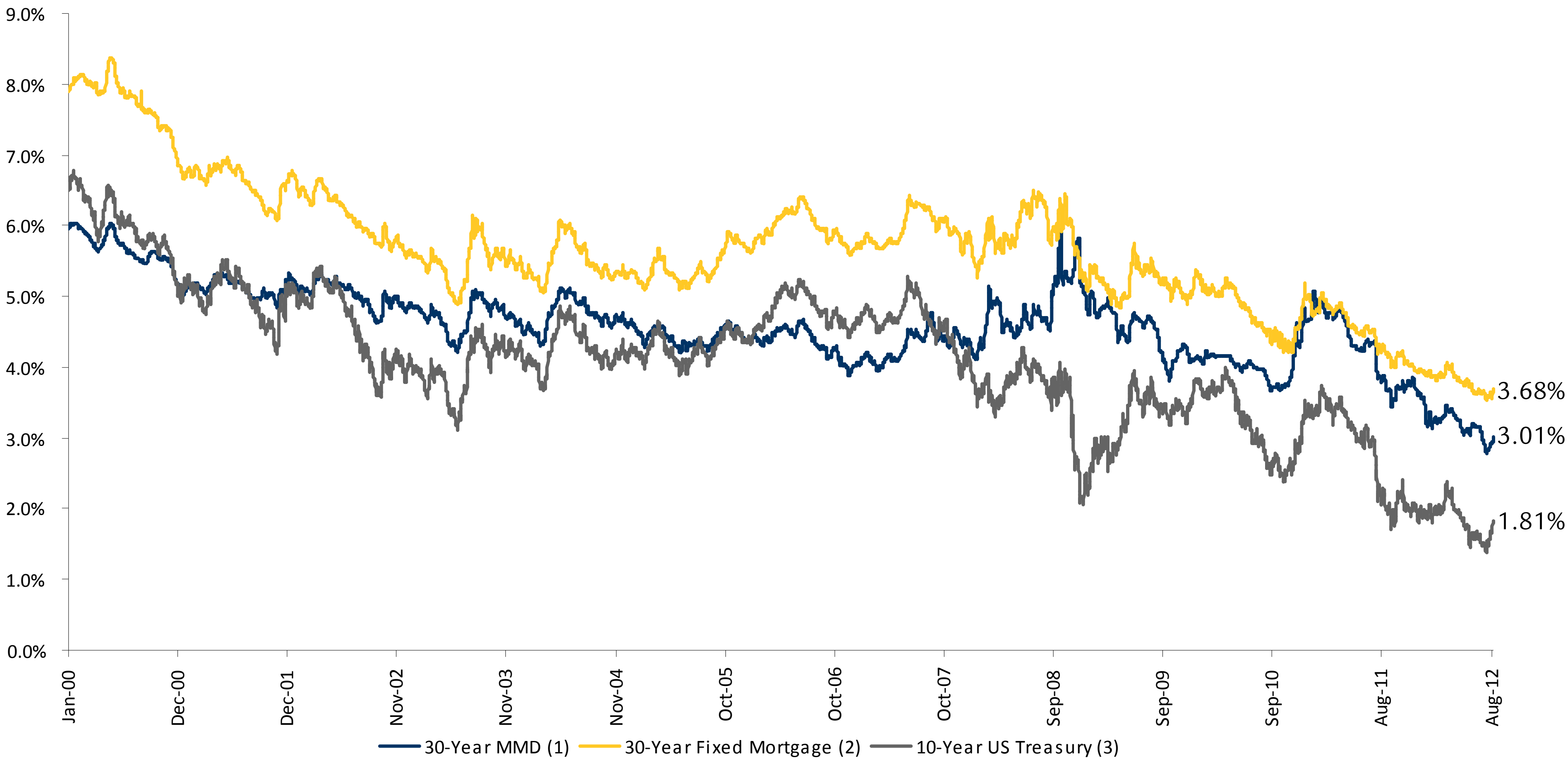
- The County's low number of sewer customers relative to the size of its system has the direct impact of increasing individual sewer bills

Overview (cont'd)

- Easiest way to bring down overall costs is to bring down interest cost
  - Similar to refinancing a home mortgage with lower rates
- Further, if a government utility services corporation ("GUSC") and a State moral obligation pledge were implemented, the interest rates achievable would be even lower
  - Proposed 2011 Settlement failed in large part because the State of Alabama did not enact legislation transferring the sewer system to a GUSC and providing a State moral obligation pledge
- Fortunately, interest rates are currently near historic lows
- We believe the County has an opportunity to close a refinancing with many of the benefits of the Proposed 2011 Settlement and take advantage of today's lower interest rate environment

Interest rates are at historic lows

Current rate environment provides an opportunity



Sources: Bloomberg, Thomson Reuters' The Municipal Market Monitor ("TM3")
Notes:
(1) As per TM3. MMD is a benchmark rate for municipal bond financings.
(2) As per ILM3NAVG Index on Bloomberg.
(3) As per USGG10YR Index on Bloomberg.

Municipal financings are up significantly year-over-year

Many municipalities are taking advantage of the current low interest rate environment

- Total municipal bond issuance increased 63% through the first 6 months of 2012 compared to the first 6 months of 2011[1]
  - Issuance totaled $191 billion on 6,826 deals through the first 6 months of 2012 compared to $117 billion on 4,859 deals through the first 6 months of 2011
- Municipal refinancing issuances are up 137% through the first 6 months of 2012 compared to the first 6 months of 2011[1]
  - Refinancing issuance totaled approximately $83 billion on 3,401 deals through the first 6 months of 2012 compared to $35 billion on 1,495 deals through the first 6 months of 2011
- 30-year MMD, the benchmark for municipal financings, is currently 3.01%
  - Represents a reduction of ~0.65% since Proposed 2011 Settlement was approved
- Like homeowners and businesses, municipalities are refinancing their debt at a record pace to lock-in lower rates

Sources: Thompson Reuters, www.bondbuyer.com
Note:
(1) James Ramage, "Refundings Are Main Factor in 63% Increase in Issuance," The Bond Buyer, June 29, 2012.

Section 2

Sewer Fee Analysis

Sewer systems comparable to Jefferson County

Sewer systems operating under EPA consent decrees are the most relevant comparables to the County's sewer system

- EPA consent decrees are often issued as a result of overflows of untreated sanitary sewage and storm water into rivers and other bodies of water[1]

- These sewer systems generally have the following characteristics[1]
  - Capacity and overflow problems
  - Historical underinvestment
  - Aging infrastructure

- Generally, substantial investments are or have been required to improve sewer systems and comply with EPA consent decrees[1]

- As of July 9, 2012, there were 31 sewer systems operating with EPA consent decrees[2]
  - 29 sewer systems were utilized in GLC's analysis
  - Jeffersonville, IN and Youngstown, OH were excluded from GLC's analysis due to lack of publicly available financial information

Notes:
(1) As per Eric Rothstein testimony at Jefferson County Sewer Public Hearing on July 24, 2012.
(2) As per EPA website: http://cfpub.epa.gov/compliance/cases/index.cfm.

Section 2a

Utilization

Sewer system costs

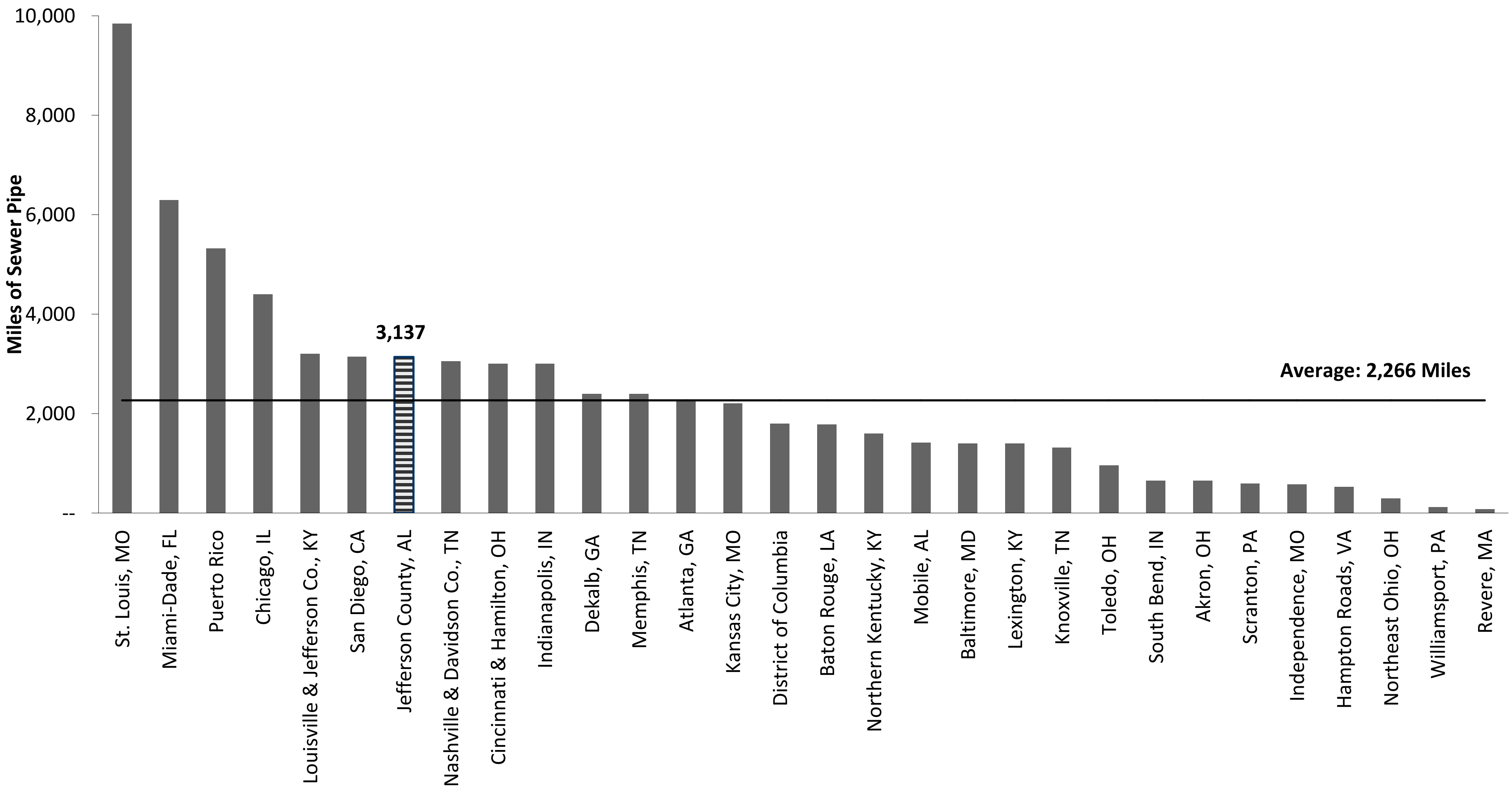
Sewer system costs are primarily composed of operating costs and interest expense

- Sewer fees are ultimately a function of how much revenue is required to cover the costs to build, finance and operate the sewer system

- Big systems, like Jefferson County's sewer system, require significant capital to build and operate
  - Significant portion of these costs are "fixed"
  - As a result, sewer fees are heavily impacted by the number of users

Size of sewer system

Jefferson County is the seventh largest sewer system among this peer group

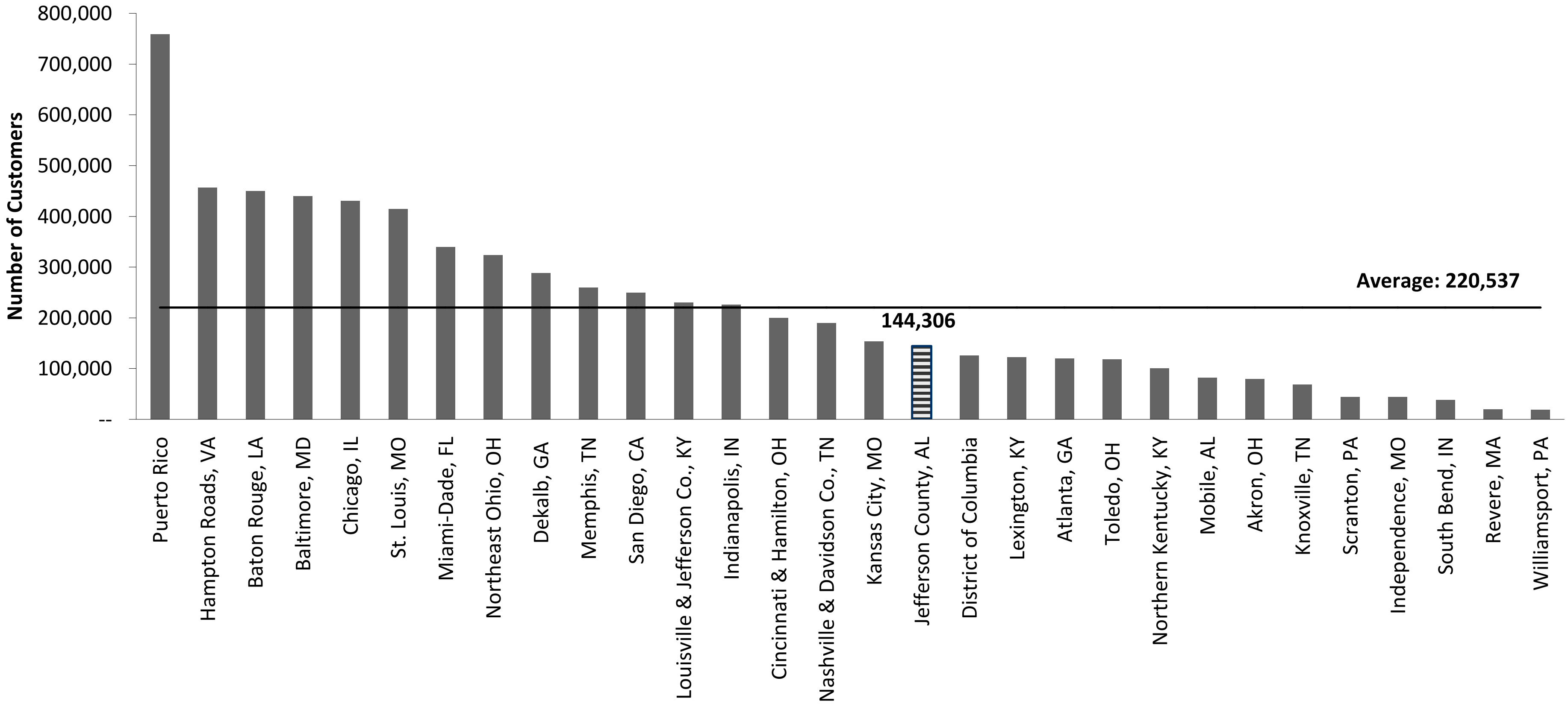


Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

Customer base

However, Jefferson County ranks only 17th in terms of number of customers…

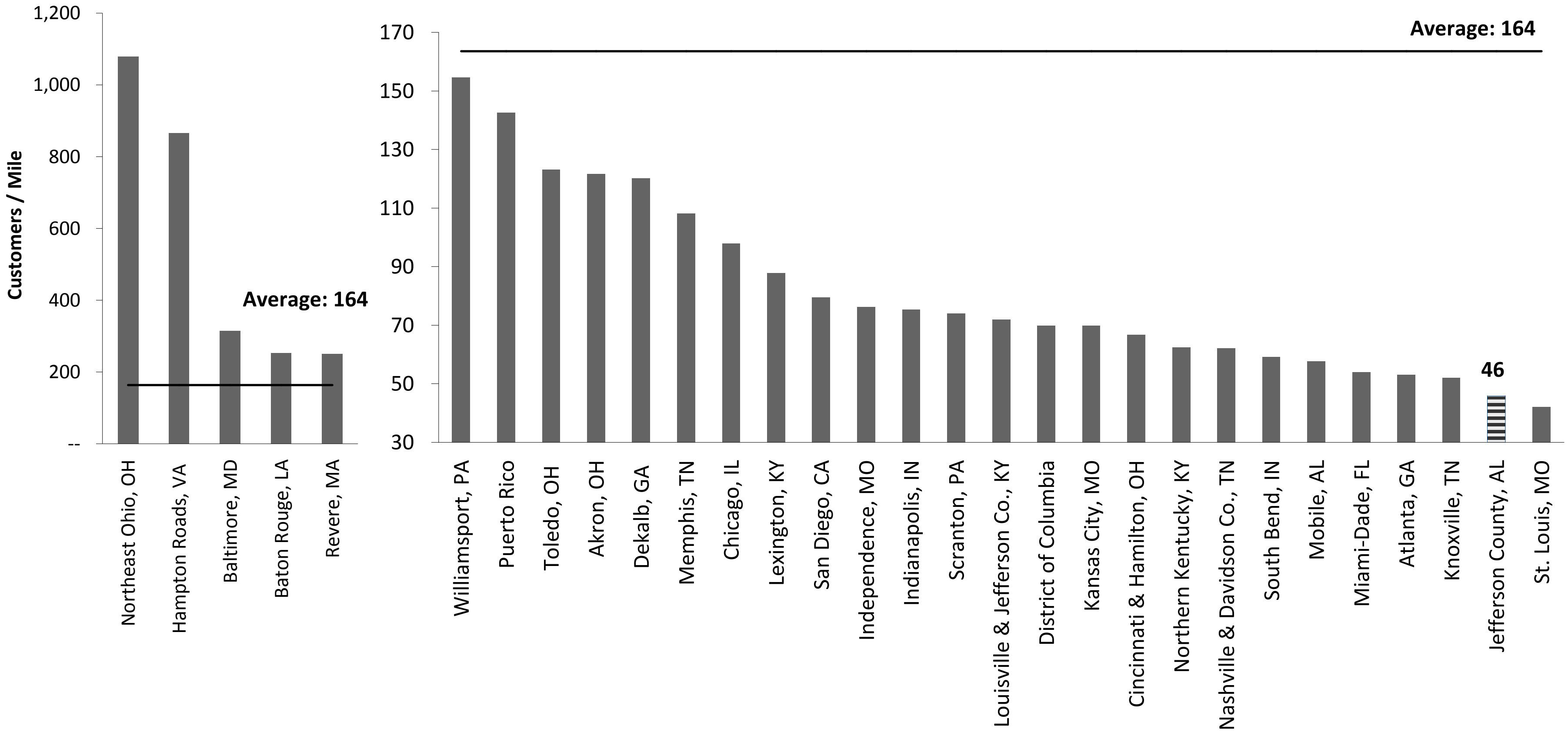
- Jefferson County's sewer system is adversely impacted by lack of mandatory hook-ups
  - Approximately 60% of EPA consent decree peers have mandatory hook-up requirements[1]



Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.
(1) 20 out of the 29 EPA consent decree peers provide information regarding mandatory hook-up requirements. 12 out of the 20 have mandatory hook-up requirements.

Sewer system utilization

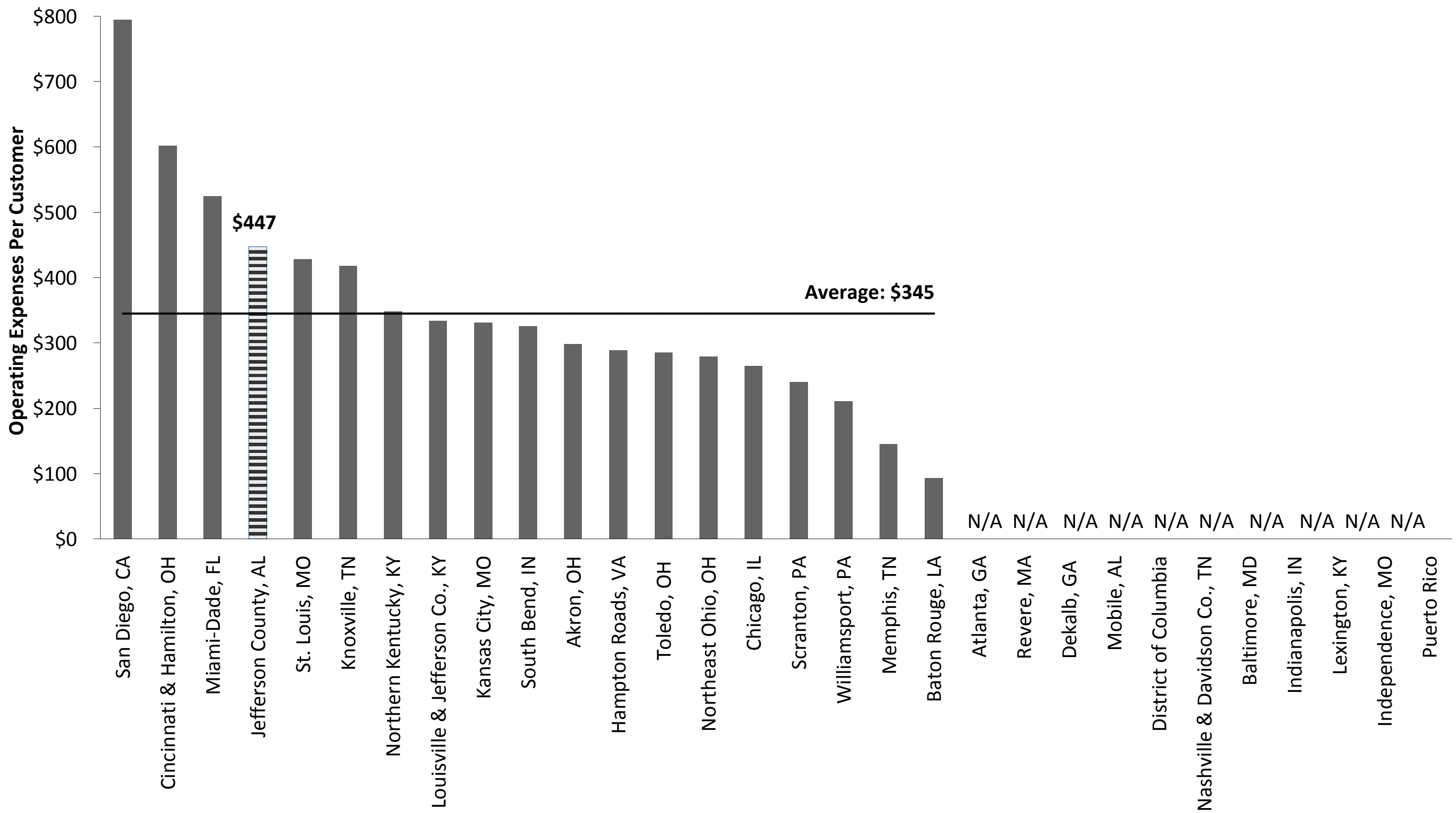
…which results in the second lowest number of customers per mile…



Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

Operating expenses per customer

…requiring the operating burden of the system to be paid by a smaller number of users



Resulting in Jefferson County having the fourth highest operating expense per customer, even though Alabama law allows the County to require new construction in the service area to hook up to the sewer system[1]

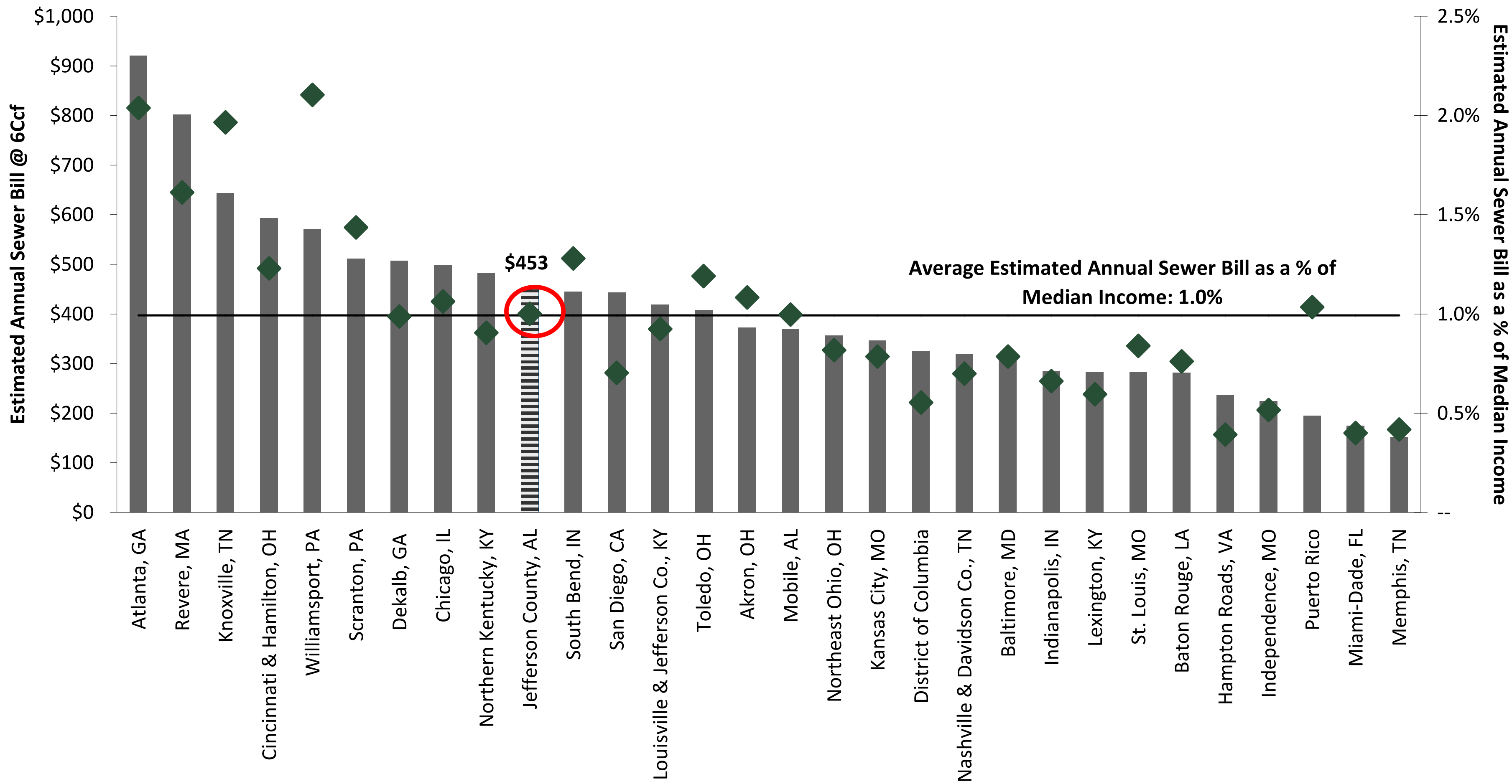
Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.
(1) As per Ala. Code 11-3-11(a)(15).

Section 2b

Sewer and Property Tax Burden on Residents

Sewer fees

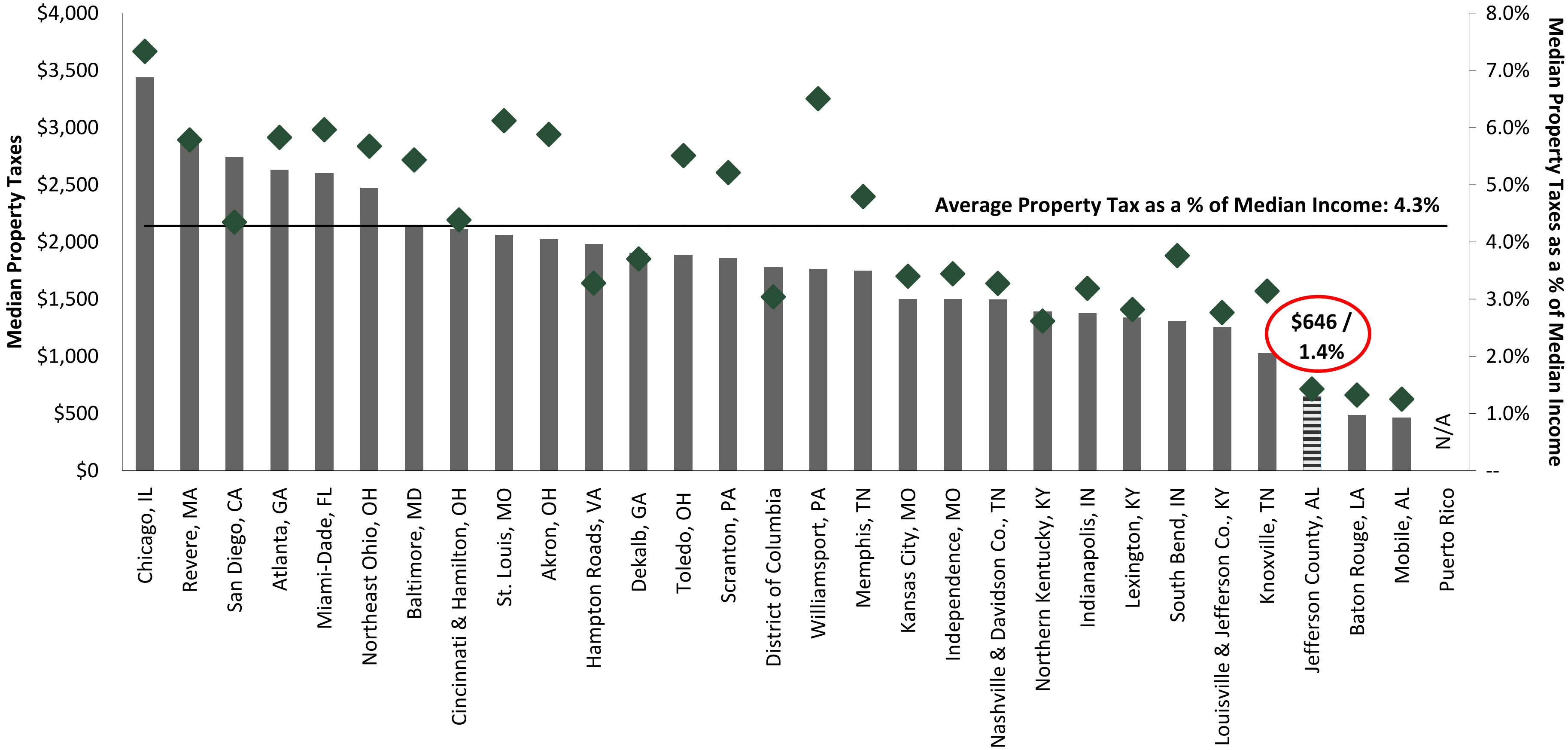
Jefferson County's sewer fees as a percentage of median income are near the average of its peers



Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

Property tax

However, Jefferson County's property tax as a percentage of median income is one of the lowest among its peers

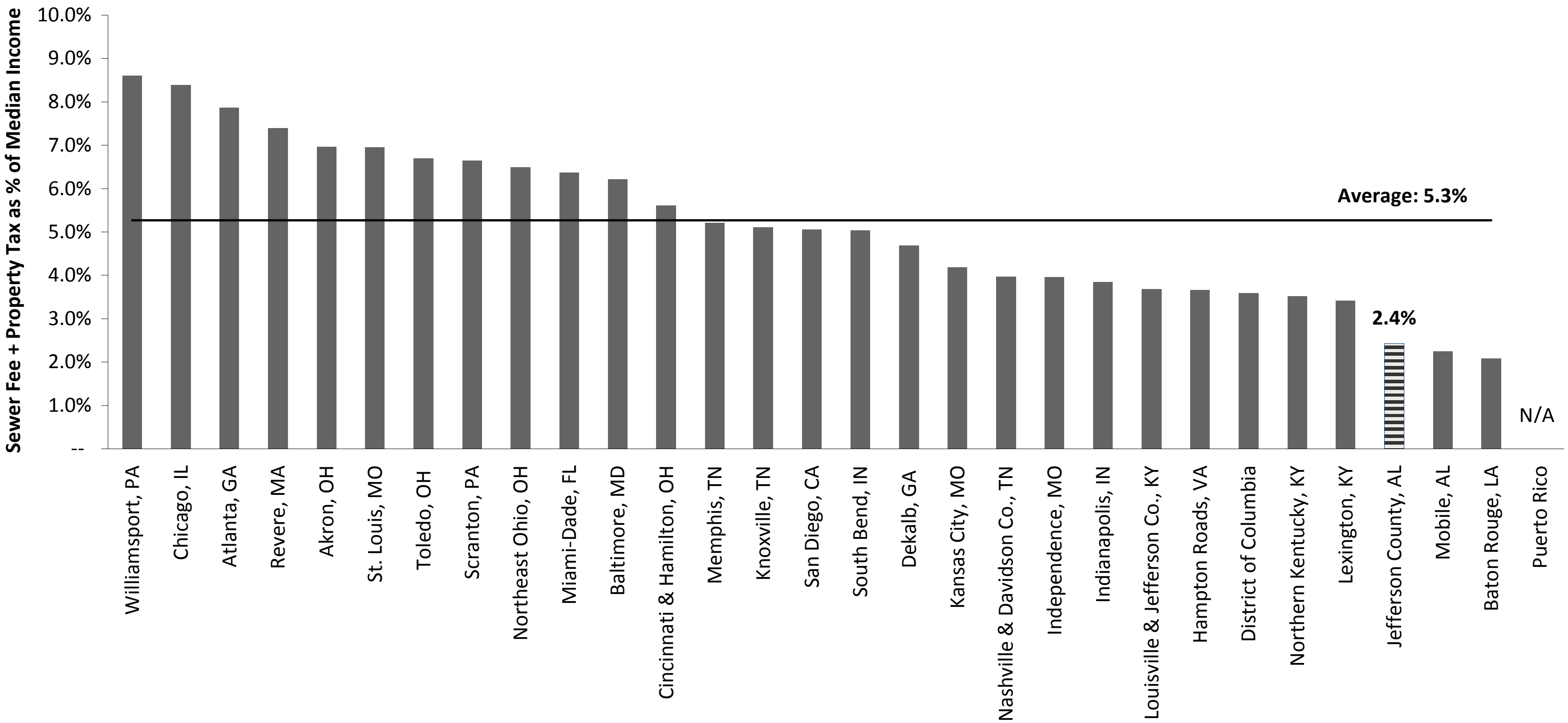


Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

Local cost burden

Combining sewer fees and property taxes provides a proxy of the local cost burden on a municipal population

- By this measure, Jefferson County is one of the lowest among its peers



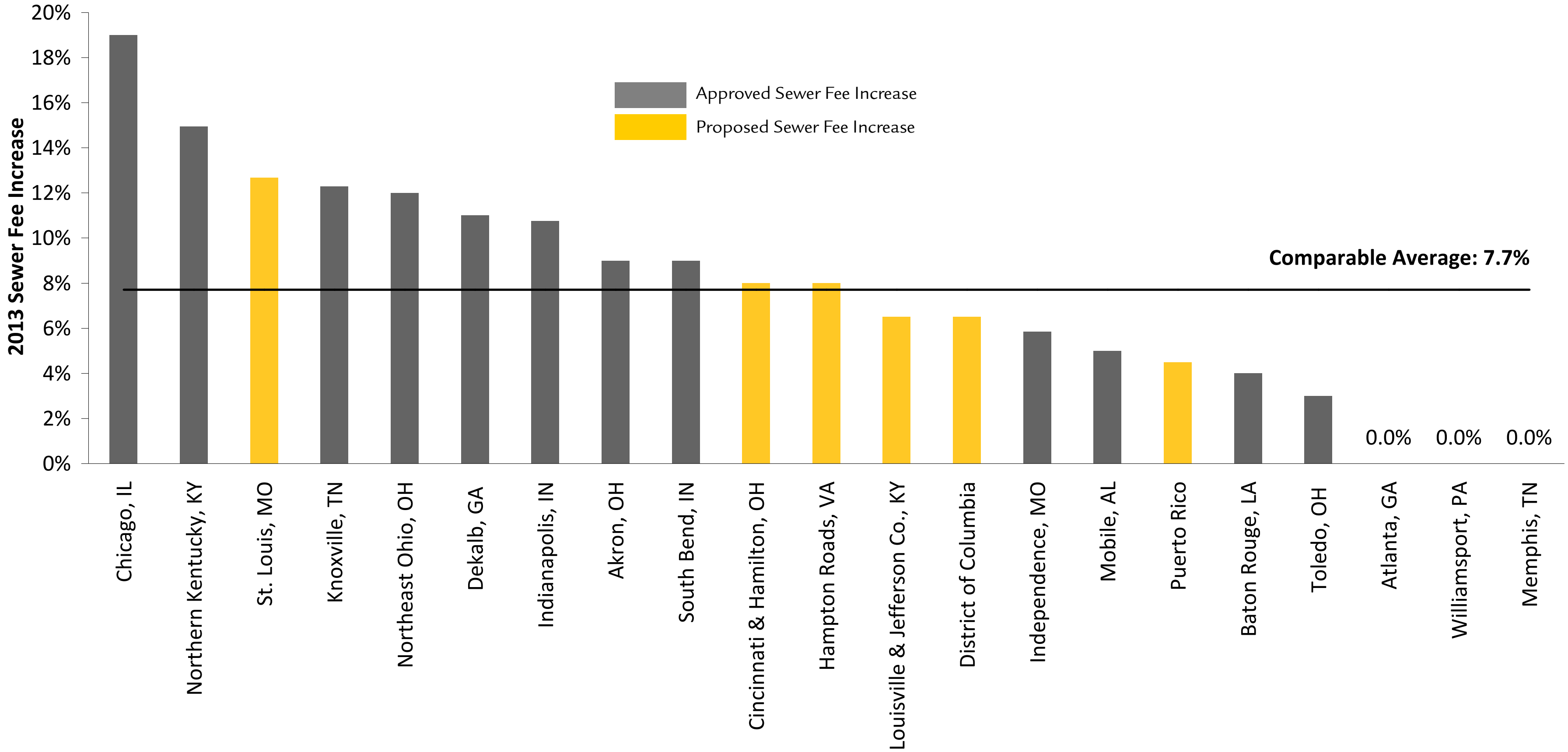
Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

Section 2c

Sewer Fee Increases

Sewer fee increases – 2013

Sewer fees are increasing in virtually every peer jurisdiction

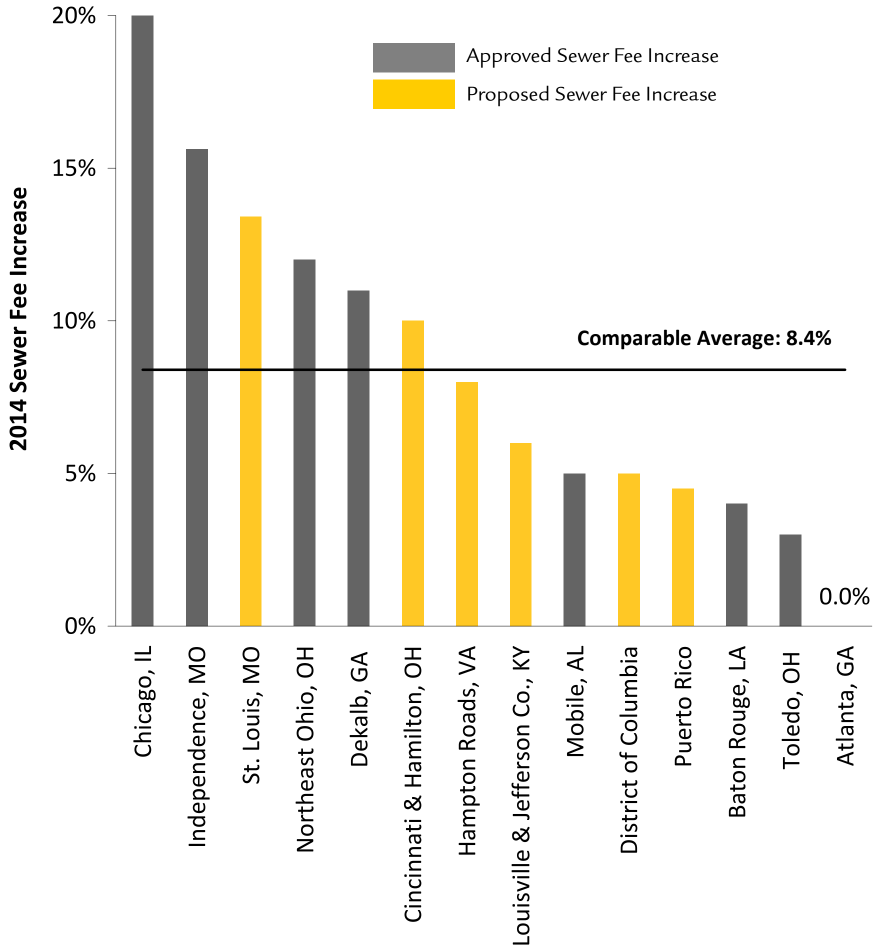


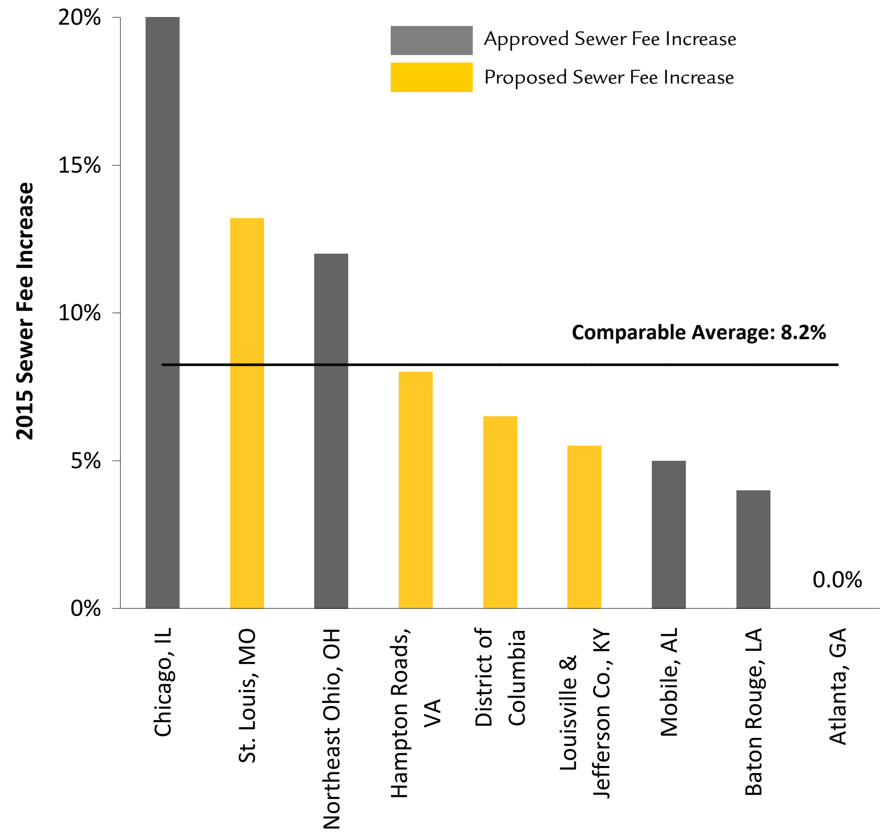
National Association of Clean Water Agencies ("NACWA") 2011 Service Charge Index Survey ("2011 Survey") estimates sewer fees will increase by 5.6% nationwide in 2013[1]

Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.
(1) Survey results for 2013 are based on 143 responses from NACWA members; 91 provided numeric estimates.

Sewer fee increases – 2014 & 2015

Sewer fee increases for peers are expected to average 8.4% in 2014 and 8.2% in 2015





NACWA 2011 Survey estimates average increases nationwide of 6.1% in 2014 and 5.0% in 2015[1]

Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.
(1) Survey results for 2014 are based on 129 responses from NACWA members; 73 provided numeric estimates. Survey results for 2015 are based on 130 responses from NACWA members; 66 provided numeric estimates.

Section 2d

Additional Sources of Funding

Sources of revenue in addition to sewer fees

It is believed that the Jefferson County sewer system could generate an additional $28-33 million[1] in revenue per year

- Sewer fees for Jefferson County currently represent 96% of total funding[2]

- By comparison, EPA consent decree peers generate 93% of revenue from sewer fees[2]
  – These peers generate additional revenue from other sources

- Special Master's Report outlines sources of revenue in addition to sewer fees that may be generated through
  – Clean Water Charges – for septic system owners
  – Revenue Enhancements – 12 areas outlined as opportunities

Notes:
(1) As per "Report of the Special Master – Assessment of the Jefferson County Environmental Services Department" dated January 20, 2009 ("Special Master's Report").
(2) See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

Conclusion

- Sewer systems operating under EPA consent decrees typically have overflow problems, have historically underinvested and have aging infrastructures, which require expenditures to remedy
  - Costs to comply with EPA consent decrees must be covered
- Jefferson County's sewer system has fewer customers, relative to its size, to support the cost of the system
  - Mandatory hook-up would ease this burden
- Jefferson County's sewer fees as a % of median household income are comparable to other EPA consent decree peers
  - Increases in sewer fees contained in the Proposed 2011 Settlement that was approved by the County Commission are similar to the average projected increases of comparable sewer systems operating under EPA consent decrees
- Jefferson County residents pay lower property taxes compared to other EPA consent decree peers
  - Combination of sewer fees and property taxes as a % of median household income provides a proxy of the local cost burden for a municipal population
  - County's population carries one of the lowest combined sewer fees plus property tax burden in its peer group

Conclusion (cont'd)

- Jefferson County's sewer system should explore additional sources of funding – other than just sewer fee increases
  - Specific ideas were outlined in the Special Master's Report[1]
  - Would help minimize future sewer fee increases

- Sewer fees are increasing in EPA consent decree jurisdictions and also the broader marketplace
  - Our clients support the creation of a Low-Income Assistance Program to ensure that customers who need help, get it

- Interest rates are at historic lows

- Refinancing the Sewer Warrants now and taking advantage of today's interest rates will help keep sewer fee increases to a minimum

Note:
(1) As per "Report of the Special Master – Assessment of the Jefferson County Environmental Services Department" dated January 20, 2009.

Appendix A

Detailed Sewer Fee Analysis

EPA consent decree sewer systems

($ US) City / County	Miles of Sewer Pipe	Number of Customers	Customers / Mile	Operating Expenses Per Customer (1)	Estimated Annual Sewer Bill @ 6 Ccf (2)	Median Income (3)	Median Property Taxes (4)	Estimated Annual Sewer Bill as % of Median Income	Property Tax as % of Median Income	2013 Rate Increase	2014 Rate Increase	2015 Rate Increase	Sewer Fees as a % of Total Sewer System Revenues
Akron, OH	649	78,985	122	$298	$372	$34,359	$2,021	1.1%	5.9%	9.0%			
Atlanta, GA (5)	2,259	120,000	53		920	45,171	2,633	2.0%	5.8%	0.0%	0.0%	0.0%	
Baltimore, MD	1,400	440,215	314		310	39,386	2,139	0.8%	5.4%				
Baton Rouge, LA	1,781	450,000	253	93	281	36,964	488	0.8%	1.3%	4.0%	4.0%	4.0%	60.6%
Chicago, IL	4,400	430,920	98	264	498	46,877	3,437	1.1%	7.3%	19.0%	20.0%	20.0%	97.1%
Cincinnati & Hamilton, OH (6)	3,000	200,000	67	602	593	48,234	2,114	1.2%	4.4%	8.0%	10.0%		98.5%
Dekalb, GA (7)	2,400	288,352	120		507	51,349	1,901	1.0%	3.7%	11.0%	11.0%		
District of Columbia (8)	1,800	125,653	70		324	58,526	1,778	0.6%	3.0%	6.5%	5.0%	6.5%	
Hampton Roads, VA (9)	528	457,000	866	289	237	60,445	1,981	0.4%	3.3%	8.0%	8.0%	8.0%	97.9%
Independence, MO	578	44,078	76		225	43,580	1,500	0.5%	3.4%	5.9%	15.6%		
Indianapolis, IN	3,000	226,186	75		285	43,088	1,374	0.7%	3.2%	10.8%			
Kansas City, MO	2,200	153,466	70	331	346	44,113	1,500	0.8%	3.4%				94.9%
Knoxville, TN	1,320	68,744	52	417	644	32,756	1,028	2.0%	3.1%	12.3%			
Lexington, KY (10)	1,400	123,043	88		282	47,469	1,338	0.6%	2.8%				
Louisville & Jefferson Co., KY (11)(12)	3,200	230,240	72	334	419	45,352	1,254	0.9%	2.8%	6.5%	6.0%	5.5%	94.7%

Sources: City or county sewer water authority annual reports and websites, taxfoundation.org and US Census Bureau website

Notes:

(1) Operating expenses exclude depreciation and amortization.

(2) Calculated assuming 6 Ccf water use per month.

(3) Median household income as per US Census Bureau, 2006-2010 data.

(4) Source: taxfoundation.org. Average of median property taxes paid from 2005-2009. Property taxes are reported by county; utilized the county in which each respective city or municipality is located.

(5) Atlanta sewer system miles of pipe from 2009 annual report.

(6) Hamilton County median household income and owner-occupied home value used. Cincinnati & Hamilton Metropolitan Sewer District serves the entire county of Hamilton.

(7) Estimated sewer bill assumes 3/4 inch water meter. Larger water meters have more expensive monthly base charges. 3/4 inch water meter is the smallest available billing rate on the city / county statement of waste water rates.

(8) Estimated sewer bill assumes 50% of combined water and sewer fees.

(9) Hampton Roads is comprised of 8 counties. Median household income and owner-occupied home value is the average of the 8 counties in Hampton Roads.

(10) Lexington-Fayette Urban County median household income and owner-occupied home value used. Number of households in Lexington-Fayette Urban County used as a proxy for the number of customers, as households are required to connect to the sewer system.

(11) Jefferson County, KY median household income and owner-occupied home value used. Louisville is located in Jefferson County, KY, the entirety of which is served by the waste water system.

(12) Jefferson County, KY residential sewer water use estimated as 85% of actual metered water use.

EPA consent decree sewer systems (cont'd)

($ US) City / County	Miles of Sewer Pipe	Number of Customers	Customers / Mile	Operating Expenses Per Customer (1)	Estimated Annual Sewer Bill @ 6 Ccf (2)	Median Income (3)	Median Property Taxes (4)	Estimated Annual Sewer Bill as % of Median Income	Property Tax as % of Median Income	2013 Rate Increase	2014 Rate Increase	2015 Rate Increase	Sewer Fees as a % of Total Sewer System Revenues
Memphis, TN	2,400	259,416	108	145	152	36,473	1,748	0.4%	4.8%	0.0%			
Miami-Dade, FL (13)	6,300	339,927	54	524	175	43,605	2,600	0.4%	6.0%				
Mobile, AL (14)	1,420	81,889	58		370	37,056	463	1.0%	1.2%	5.0%	5.0%	5.0%	
Nashville & Davidson Co., TN (14)(15)	3,051	189,890	62		319	45,668	1,495	0.7%	3.3%				
Northeast Ohio, OH (16)	300	323,567	1,079	279	357	43,603	2,473	0.8%	5.7%	12.0%	12.0%	12.0%	95.2%
Northern Kentucky, KY (17)	1,600	100,000	63	348	482	53,213	1,391	0.9%	2.6%	14.9%			93.3%
Puerto Rico	5,325	759,167	143		195	18,862		1.0%		4.5%	4.5%		
Revere, MA (18)	80	20,000	250		802	49,759	2,879	1.6%	5.8%				
San Diego, CA (19)	3,146	250,000	79	794	443	63,069	2,742	0.7%	4.3%				98.9%
Scranton, PA	597	44,185	74	240	511	35,606	1,856	1.4%	5.2%				99.6%
South Bend, IN (14)	650	38,455	59	325	445	34,761	1,307	1.3%	3.8%	9.0%			96.2%
St. Louis, MO	9,843	414,912	42	428	282	33,652	2,059	0.8%	6.1%	12.7%	13.4%	13.2%	87.5%
Toledo, OH (14)	960	118,276	123	285	408	34,260	1,888	1.2%	5.5%	3.0%	3.0%		91.9%
Williamsport, PA (14)	123	19,000	154	211	571	27,138	1,765	2.1%	6.5%	0.0%			94.0%
Jefferson County, AL (20)(21)	3,137	144,306	46	$447	$453	$45,244	$646	1.0%	1.4%				96.2%

Sources: City or county sewer water authority annual reports and websites, taxfoundation.org and US Census Bureau website

Notes:

(1-4) See previous page.

(13) Miami-Dade County, FL median household income and owner-occupied home value used.

(14) Estimated sewer bill assumes 5/8 inch water meter. Larger water meters have more expensive monthly base charges. 5/8 inch water meter is the smallest available billing rate on the city / county statement of waste water rates.

(15) Davidson County, TN median household income and owner-occupied home value used.

(16) Cuyahoga County median household income and owner-occupied home value used. Standard rate for Subdistrict 1 (Cleveland) used.

(17) Kenton County, KY median household income and owner-occupied home value used. Northern Kentucky refers to Sanitation District No. 1, which includes the 3 most northern counties in Kentucky (Boone, Kenton, and Campbell), of which Kenton is the largest by population.

(18) Number of households in Revere used as a proxy for the the number of customers, as households are required to connect to the sewer system.

(19) San Diego County, CA median household income and owner-occupied home value used.

(20) Jefferson County, AL miles of sewer pipe, number of customers and average annual sewer bill as per the Receiver's First Interim Report dated June 14, 2011.

(21) Jefferson County, AL sewer use is calculated as 85% of the metered water use.

Appendix B

Opportunities for Legislative Action

Mandatory hook-ups

Mandatory hook-ups would reduce the burden paid by rate payers by increasing the number of customers

- Since most of the cost of having a sewer system is the cost to build it, the more people who use the sewer system, the cheaper it is for everybody
- Numerous municipalities in Alabama require mandatory connection to sewer systems
  – Prattville, Mobile, Guntersville, Ozark, Madison, Opelika and Wetumpka[1]
- Alabama courts have also long recognized that the authority to enforce mandatory hook-up requirements is vital to the establishment of an efficient sewer system[1]
- It is in the County's control to require mandatory hook-up for new construction within proximity to the sewer line[2]

Notes:
(1) Receiver's First Interim Report on Finances, Operations, and Rates of the Jefferson County Sewer System dated June 14, 2011.
(2) As per Ala. Code section 11-3-11(a)(15).

Government utility services corporation

A GUSC is a public corporation set up to own and operate the utility

- GUSCs are being used in Bessemer, Greenville and Moody

- Implementation of GUSC would increase investors' confidence that the County's debt service obligations would be honored
  - Reduces credit risk and associated interest cost
  - Which translates into lower sewer fee increases

Moral obligation pledge[1]

Pledge by the State of Alabama to stand behind the new debt

- The legislature makes a moral obligation pledge to appropriate funds as necessary to prevent a future default, however, the State would not be legally obligated to make up any shortfalls

- This pledge would lower the credit risk and therefore would lower the rate investors require
  - Which translates into lower sewer fee increases

- Recent examples include
  - In 1999, Alabama authorized $55,000,000 in moral obligation bonds for Y2K expenditures[2]
  - State of Virginia provided moral obligation pledge to Virginia Resources Authority, a group that provides innovative, cost-effective and sustainable financial solutions to build vibrant and healthy Virginia communities[3]
  - State of Vermont provided moral obligation pledge to the Vermont Municipal Bond Bank, a state agency that helps other municipalities access capital[4]

Notes:
(1) As per the Municipal Securities Rulemaking Board, the term "moral obligation bond" refers to a bond, usually issued by a state or agency, that is secured by a non-binding covenant that any amount necessary to make up any deficiency in pledged revenues available for debt service will be included in the budget recommendation made to the state legislature or other legislative body, which may appropriate moneys to make up the shortfall. The legislature or other legislative body, however, is not legally obligated to make such an appropriation. Unlike a general obligation pledge, the moral obligation bond does not require voter approval and does not have the state's official pledge of its full faith and credit.
(2) As per Act 99-198. As issued, the bonds were partially secured by pledge of TVA revenues, with a moral obligation pledge to make up any deficiencies.
(3) Kyle Glazier, "Deals from 2 Virginia Authorities Total $200M-Plus," The Bond Buyer, July 10, 2012.
(4) Paul Burton, "Vermont Bond Bank Refinances Debt, Saves $6 Million," The Bond Buyer, December 27, 2011.

Reservation of rights

GLC'S CLIENTS RESERVE ALL THEIR RIGHTS. BY SUBMITTING THIS PRESENTATION, THEY DO NOT AGREE THAT THE PROCEDURE CONTEMPLATED BY THE COUNTY IS APPROPRIATE. NO ESTOPPEL OR WAIVER IS CREATED HEREBY.

Contact information

J. Soren Reynertson
Managing General Partner
805 Third Avenue
20th Floor
New York, NY 10022
212-542-4540
www.glca.com