

JEFFERSON COUNTY, ALABAMA  
SEWER REVENUE WARRANTS

Series Designations and CUSIP Numbers on Attached Exhibit A

NOTICE  
February 13, 2012

This notice is being filed pursuant to the County's continuing disclosure undertakings with respect to the sewer warrants referenced above (the "Sewer Warrants"). The Bank of New York Mellon is the trustee (the "Trustee") under the Trust Indenture dated as of February 1, 1997, as amended and supplemented, for the Sewer Warrants.

The Trustee has disseminated the attached Notice to Holders dated February 7, 2012 (the "Trustee Notice"). The County makes no representation with respect to the accuracy or completeness of the Trustee Notice. In addition, the County presently has limited information with respect to the matters covered under the heading "Debt Service Payments on the Sewer Warrants" in the Trustee Notice.

# Exhibit A

## Jefferson County, Alabama Sewer Revenue Warrants

### Fixed Rate Warrants

#### *Series 1997 A*

CUSIP
472682NV1
472682NW9
472682NX7
472682MC4
472682MD2

#### *Series 2001 A*

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

#### *Series 2003-B-8*

CUSIP
472682MP5
472682MQ3
472682MR1
472682MS9

### Variable Rate Demand Warrants

#### *Series 2002 A*

CUSIP	Subseries
472682PU1	2002 A

#### *Series 2002 C*

CUSIP	Subseries
472682PV9	2002 C-2
472682PW7	2002 C-3
472682PX5	2002 C-4
472682PY3	2002 C-6
472682PZ0	2002 C-7

#### *Series 2003 B*

CUSIP	Subseries
472682QA4	2003 B-2
472682QB2	2003 B-3
472682QC0	2003 B-4
472682QD8	2003 B-5
472682QE6	2003 B-6
472682QF3	2003 B-7

**Auction Rate Warrants**

*Series 2002 C*

CUSIP	Subseries
472682KA0	2002 C-1-A
472682KB8	2002 C-1-B
472682KC6	2002 C-1-C
472682KD4	2002 C-1-D
472682KH5	2002 C-5

*Series 2003 B*

CUSIP	Subseries
472682LH4	2003 B-1-A
472682LJ0	2003 B-1-B
472682LK7	2003 B-1-C
472682LL5	2003 B-1-D
472682LM3	2003 B-1-E

*Series 2003 C*

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

**Alabama Water Pollution Control  
Authority**

**Revolving Fund Loan Refunding Bonds**

*Series 2003-B*

CUSIP
010653QW6
010653QX4
010653QY2
010653QZ9
010653RA3



THE BANK OF NEW YORK MELLON

**Notice to Holders of  
Jefferson County, Alabama**

**\$211,040,000 Sewer Revenue Refunding Warrants Series 1997-A**  
Cusip Nos. 472682NV1, 472682NW9, 472682NX7, 472682MC4, 472682MD2

**\$275,000,000 Sewer Revenue Capital Improvement Warrants Series 2001-A**  
Cusip Nos. 472682JB0, 472682JC8, 472682JD6, 472682JE4, 472682JF1, 472682JG9, 472682JH7,  
472682JJ3, 472682JL8, 472682JM6, 472682JN4

**\$110,000,000 Sewer Revenue Capital Improvement Warrants Series 2002-A**  
Cusip Nos. 472682JW4

**\$839,500,000 Sewer Revenue Refunding Warrants Series 2002-C**  
Cusip Nos. 472682KA0, 472682KB8, 472682KC6, 472682KD4, 472682KE2, 472682KF9, 472682KG7,  
472682KH5, 472682KJ1, 472682KK8

**\$41,820,000 Sewer Revenue Refunding Warrants Series 2003-A**

**\$1,155,765,000 Sewer Revenue Refunding Warrants Series 2003-B**  
Cusip Nos. 472682LH4, 472682LJ0, 472682LK7, 472682LL5, 472682LM3, 472682LN1, 472682LP6,  
472682LQ4, 472682LR2, 472682LS0, 472682LT8, 472682ML4, 472682MM2, 472682MN0,  
472682MP5, 472682MQ3, 472682MR1, 472682MS9

**and \$1,052,025,000 Sewer Revenue Refunding Warrants Series 2003-C**  
Cusip Nos. 472682NA7, 472682NB5, 472682NC3, 472682ND1, 472682NE9, 472682NF6, 472682NG4,  
472682NH2, 472682NJ8, 472682NK5<sup>1</sup>

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*Note: This notice contains important information that is of interest to the registered and beneficial owners of the subject Warrants. Each registered holder of the Warrants should forward a copy of this Notice immediately to any beneficial owners(s) of the Warrants for whom the holder acts as nominee or in any other capacity.*

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The Bank of New York Mellon serves as the successor trustee (the "Trustee") under that certain Trust Indenture dated as of February 1, 1997 (as supplemented to the date hereof, the "Indenture"), executed by Jefferson County, Alabama (the "County"), in favor of the Trustee. The County has issued and outstanding approximately \$3.1 billion in principal amount of sewer warrants (the "Sewer Warrants") pursuant to the Indenture. Terms not otherwise defined in this Notice shall have the meanings given them in the Indenture.

In accordance with and subject to the terms of the Indenture, the Sewer Warrants are special limited obligations of the County payable generally from (i) System Revenues derived from the operation of the County's sewer system (the "Sewer System") available after the payment of Operating Expenses, and (ii) other sources pledged or directed under the Indenture. The Indenture provides that the Sewer Warrants do not

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<sup>1</sup> No representation is made as to the correctness of the CUSIP Numbers which are included solely for the convenience of the Warranholders.

constitute or give rise to any personal or general pecuniary liability or charge against the general credit or taxing powers of the County.

The Trustee has previously issued notices to registered holders of Sewer Warrants of the occurrence of Events of Default under the Indenture, including the failure of the County to make payment of principal installments due on Sewer Warrants (“Bank Warrants”) called for redemption pursuant to the terms of (i) the Indenture and (ii) standby warrant purchase agreements executed by the County and various liquidity banks in connection with the issuance of certain of the Sewer Warrants outstanding under the Indenture. Those Events of Default continue.

### **Update on the Status of the Bankruptcy Case**

In its most-recent notice, the Trustee reported that on November 9, 2011, the County filed a voluntary petition for relief under chapter 9 of Title 11 of the United States Code in the United States Bankruptcy Court for the Northern District of Alabama (the “Bankruptcy Court”) (Case No. 11-05736-TBB-9). The filing of the voluntary petition by the County constitutes an Event of Default under Section 13.1(e) of the Indenture.

In connection with its bankruptcy petition, the County delivered a letter to the receiver (the “Receiver”) previously appointed over the Sewer System by order (the “Receivership Order”) of the Circuit Court of Jefferson County, Alabama (the “State Court”), demanding that the Receiver cease exercising any further control over any of the County’s property, relinquish possession and control of all County property, relinquish all responsibility for operation and control of the Sewer System and all other property described in the Receivership Order of the State Court and restore to the County sole signature authority over certain deposit accounts and any other “cash equivalent assets” of the Sewer System. Further, the County also demanded that the Receiver immediately cease all efforts to comply with the rate covenant of the Indenture or otherwise to increase, alter or amend rates for usage of the Sewer System, and to cease all other actions provided for or contemplated by the Receivership Order. The County also asserted that although the Bankruptcy Code provides for the continuation of the lien in favor of the Trustee on net System Revenues generated after the filing of the County’s petition for bankruptcy relief, the Bankruptcy Code does not require the County to turn over those net System Revenues to the Trustee during the pendency of its bankruptcy case. The County stated that during the pendency of the bankruptcy case, the County would segregate those net System Revenues remaining after payment of the Operating Expenses of the Sewer System in accordance with the Indenture and necessary operating expenses under Section 928(b) of the Bankruptcy Code and not commingle them with any other funds of the County.

The Trustee and the Receiver immediately filed motions with the Bankruptcy Court seeking, among other things, the Court’s determination that the automatic stay imposed by Section 362(a) and Section 922(a) of the Bankruptcy Code does not apply to the Receiver’s administration and operation of the Sewer System or, in the alternative, relief from the automatic stay to permit the Receiver to continue its administration and operation of the Sewer System. The Trustee and the Receiver also argued that the Bankruptcy Code requires that System Revenues remaining after the payment of Operating Expenses of the Sewer System be turned over to the Trustee for application to the payment of principal and interest on the Sewer Warrants. The Trustee also filed with the Bankruptcy Court an objection to the County’s chapter 9 petition and a motion seeking to dismiss the chapter 9 case on the grounds the County is not specifically authorized by the State of Alabama to file for bankruptcy relief under chapter 9 of the Bankruptcy Code.

The County contested these motions, and argued, among other things, that although the Bankruptcy Code provides for the continuation of the lien in favor of the Trustee on net System Revenues generated after the filing of the County’s petition for bankruptcy relief, the Bankruptcy Code does not require the County to turn over net System Revenues to the Trustee until the termination of its bankruptcy case.

On January 6, 2012, the Bankruptcy Court issued its ruling in which it held that the automatic stays of Section 362(a) and Section 922(a) of the Bankruptcy Code prevent the Trustee and the Receiver from taking further actions in the Alabama receivership case and with respect to the County's Sewer System. The Trustee has appealed this portion of the Bankruptcy Court's January 6 order. The Bankruptcy Court also ruled in its January 6 order that, notwithstanding the effect of Section 362(a) and Section 922(a) on the Receiver and the receivership case, these provisions do not stay the payment of System Revenues derived from the operation of Sewer System available after the payment of Operating Expenses under the Indenture and any other deductions as "necessary operating expenses" under Section 928(b) of the Bankruptcy Code. The Bankruptcy Court held that if the Trustee and the County were unable to agree on the payment and the extent of net System Revenues, the Bankruptcy Court would hold a further hearing to fix the proper amount of post-petition net System Revenues the Trustee is entitled to receive.

The County and the Trustee have not been able to agree on the payment and the extent of net System Revenues to be paid to the Trustee. In the absence of an agreement between the Trustee and the County on a protocol for the payment and the extent of net System Revenues or a determination by the Bankruptcy Court of the proper amount of post-petition net System Revenues the Trustee is entitled to receive, the County has paid to the Trustee System Revenues in the amount of \$4,137,034.79 on January 20, 2012, and \$2,265,693.47 on January 31, 2012, reflecting the County's estimation of net System Revenues which it believes the Trustee was entitled to receive at the end of December 2011 and at the end of January 2012. The County reserved all rights with respect to future System Revenues and the proper computation of Operating Expenses under the Indenture and "necessary operating expenses" under Section 928(b) of the Bankruptcy Code. These deposits are significantly and materially less than the net System Revenues that historically would have been deposited with the Trustee for corresponding prior periods, and the Trustee disputes the appropriateness of the County's calculation of the amount of net System Revenues that it is entitled to receive.

### **Filing of Complaint for Declaratory Judgment**

While the Trustee continues to work to establish with the County a protocol for the payment and the extent of net System Revenues to be paid to the Trustee, the Trustee filed in the Bankruptcy Court on February 3, 2012, an adversary proceeding against the County seeking a declaratory judgment that (i) the Trustee is entitled to receive all System Revenues, net only of Operating Expenses as defined in the Indenture, and that neither Section 928(b) nor any other provision of the Bankruptcy Code expands the amounts the County may deduct beyond the costs defined as Operating Expenses in the Indenture, (ii) capital expenditures, fees and expenses of the County's professional persons unrelated to the actual operation and administration of the Sewer System, depreciation and amortization, and monies estimated to cover future capital expenditures and professional fees and expenses are not "necessary operating expenses" of the Sewer System as such term is used in Section 928(b) of the Bankruptcy Code, (iii) the payment of the Sewer Warrants is secured by a statutory lien on all net System Revenues and other funds comprising the Trust Estate and therefor Section 928(b) is not applicable and County can only deduct from System Revenues Operating Expenses as that term is defined in the Indenture, and (iv) the County's use and withholding of System Revenues for non-Operating Expenses (such as capital expenditures, fees and expenses of the County's professional persons unrelated to the actual operation and administration of the Sewer System, depreciation and amortization, and monies estimated to cover future capital needs and professional fees and expenses) is an unlawful taking of the Trustee's and Sewer Warranholders' property without just compensation in violation of the Fifth and Fourteenth Amendments to the United States Constitution.

### **Debt Service Payments on the Sewer Warrants**

The Trustee now has \$4,583,731 of net System Revenues on deposit in the Debt Service Fund maintained by it under the Indenture. The Trustee is currently using these funds to make debt service

payments of interest, as well as principal coming due at maturity or by mandatory sinking fund redemption between February 1 and March 2, 2012, on the Sewer Warrants as they come due.

In addition, the Trustee maintains pursuant to the Indenture a Reserve Fund composed of the following municipal bond debt service reserve insurance policies (the "Reserve Policies"):

<b>Policy</b>	<b>Principal Amount</b>
Syncora Policy No. CA01568A	\$137,469,528
Assured Guarantee Policy No. 201371-R	\$ 22,031,565
FGIC Policy No. 02010252	\$ 4,641,137
FGIC Policy No. 01010226	\$ 11,939,279

The Indenture provides that the Trustee is to draw on amounts available under the Reserve Policies to pay interest, as well as principal coming due at maturity or by mandatory sinking fund redemption, with respect to Sewer Warrants if at the time of such payment moneys held in the Debt Service Fund are insufficient for such payment. The Indenture provides that drawings under the Reserve Policies are to be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

As of the date of this Notice, the Sewer Warrants have not been accelerated. Pursuant to Section 13.3(a) of the Indenture, the Trustee is applying money it is distributing on each date of distribution, first, to the payment of interest then due on the Sewer Warrants, without preference or priority of any installment of interest over any other installment, and, second, to the payment of principal then due by reason of maturity or sinking fund redemption, without preference or priority of any installment of principal then due or overdue over any other installment then due or overdue, except as described in the following sentence. The holders of Bank Warrants with payments of principal currently due and owing as a result of the redemption requirements of the Indenture and/or the applicable standby warrant purchase agreements have consented to the Trustee making distributions of principal with respect to Sewer Warrants coming due at maturity or as a result of mandatory sinking fund redemptions between February 1 and March 2, 2012, as if the existing principal payment defaults on the Bank Warrants had not occurred and as if there were no required mandatory sinking fund redemption of the Bank Warrants.

The County has advised the Trustee that to the extent the Trustee makes distributions to Holders of Sewer Warrants, the County reserves the right to contend that any such distribution should be classified as principal and that amounts paid to Holders of Sewer Warrants whose claims are subordinated, disallowed or reduced in a manner that does not apply ratably to all Holders must be reallocated among the allowed claims of senior Sewer Warrant holders.

The Trustee will notify the Holders of Sewer Warrants of further material developments. Questions concerning this notice may be directed to the Trustee at The Bank of New York Mellon, Attention: Bridget Schessler, 525 William Penn Place, 38th Floor, Pittsburgh, PA 15259, or by calling 412-234-7967 or via email at [bridget.schessler@bnymellon.com](mailto:bridget.schessler@bnymellon.com). While the Trustee will attempt to provide additional information to holders of the Sewer Warrants, please be advised that the Trustee may conclude that a specific response to a particular inquiry from an individual Sewer Warrant Holder is not consistent with equal and full dissemination of information to all Holders of Sewer Warrants. Accordingly, the Trustee may in its discretion decline to provide specific information in response to a particular inquiry. In addition, the Trustee is not able to provide Holders of the Sewer Warrants with legal or investment advice under any circumstances. Holders of the Sewer Warrants should seek the advice of their own legal counsel and/or financial consultants regarding their individual rights under the Indenture.

**Dated: February 7, 2012**

**THE BANK OF NEW YORK MELLON, as Trustee**