JEFFERSON COUNTY, ALABAMA
SEWER REVENUE WARRANTS

Series Designations and CUSIP Numbers on Attached Schedule A

NOTICE
June 5, 2009

The following information is provided by Jefferson County, Alabama (the "County") regarding the warrants set forth on the attached Schedule A (the "Warrants").

The County filed material event notices dated February 20, 2008, February 27, 2008, March 4, 2008, March 11, 2008, March 31, 2008, April 1, 2008, June 2, 2008, June 9, 2008, June 30, 2008, August 1, 2008, August 13, 2008, September 10, 2008, September 22, 2008, October 6, 2008, October 9, 2008, October 24, 2008, October 28, 2008, November 10, 2008, December 8, 2008, December 19, 2008, January 5, 2009, February 24, 2009, March 9, 2009, April 6, 2009 and May 4, 2009 with regard to the Warrants (collectively, the "Prior Notices"). This notice describes certain events that have occurred subsequent to the filing of the Prior Notices.

The attached document was sent on June 3, 2009 by the County to certain of its creditors and other persons. The document sets forth the circumstances that, in the County's view, have led to its current financial troubles. The document also sets forth a proposal to address the financial problems (as reported in Prior Notices) arising from the Warrants.

No assurance can be given that the proposal set forth in the attached document will be accepted by, or that any other consensual resolution to the County's financial problems will be reached with, the County's creditors. In addition, no assurance can be given that the legislation required to effectuate the proposal will be enacted by the Alabama Legislature. The attached document does not attempt to provide complete current financial or operating information regarding the County or the sewer system, and investment decisions should not be made based in whole or in part on the information contained therein. The County has not undertaken to advise holders or prospective holders of the Warrants of future developments in its efforts to resolve its financial problems, and no inferences may be drawn from the absence of subsequent notices describing future developments.

JEFFERSON COUNTY COMMISSION

BETTYE FINE COLLINS - PRESIDENT
WILLIAM A. BELL, SR.
JIM CARNS
BOBBY HUMPHRYES
SHELIA SMOOT

June 3, 2009

Jefferson County is facing a crisis over the collapse of its sewer system debt financing. The County has been in negotiations with its creditors for over 18 months in an attempt to find a solution. This paper recounts the history of this crisis and the obstacles the County faces in finding a solution. This paper also contains the County's proposal for a solution.

Background for the County's Sewer Debt Structure

Consent decree under the Clean Water Act. Jefferson County has operated a sewer system in the Greater Birmingham area for many years. In 1993 litigation was initiated against the County under the federal Clean Water Act, claiming that the sewer system failed to comply with various requirements of the Act. This litigation was concluded in 1996 with a consent decree and court order[1] mandating extensive improvements to the sewer system originally projected to cost approximately $1.5 billion. Additional projects and expansions eventually increased the final cost to $2.2 billion. These improvements ultimately led to sewer debt exceeding $3 billion.

Sewer debt is a limited obligation of the County. All of the sewer debt is limited obligation debt of the County, *payable solely out of the sewer revenues*. This debt is not, and has never been, a general obligation of the County payable from the County's taxes or other general revenues. In fact, the County could not have issued this debt as general obligation debt. To do so would have violated the Constitutional debt limit for general obligation debt of the County, and the debt would have been invalid. The sewer debt is payable only from net sewer revenues, which is total revenues of the sewer system remaining after payment of the expenses of operating the system. The indenture authorizing the warrants and official statements for the warrants made this limited obligation clear.[2] It is not an unusual structure. Local governmental entities all over the United States finance utility systems on the same basis. The structure was understood by the investors when they purchased the warrants and was understood by the insurance companies and banks when they provided the credit enhancement that secures the warrants. The County has no legal obligation to pay the sewer debt from any source other than net sewer revenues.

Structure of sewer debt refinancing in 2002 and 2003. Prior to October, 2002, over 95% of the County's sewer debt was outstanding in the form of traditional long-term fixed rate warrants.[3] Beginning in late 2002, a program to refinance the sewer debt was begun. The structure of the refinancing was complex and difficult to understand for anyone who is not an investment banker or public finance professional well versed and experienced in such matters. The following is a summary of the structure - brief in one sense, but tedious for most readers. The complexity can only be appreciated by an attempt to understand.

JPMorgan was the lead underwriter for most of the refinancing program. The refinancing plan essentially replaced fixed rate debt with variable rate debt and a series of interest rate swaps that purportedly provided a "synthetic fixed rate", meaning the debt had a variable interest rate by its terms,

but was supposed to be effectively fixed when the related interest rate swaps were taken into account. The synthetic fixed rate debt was supposed to provide a lower rate than traditional fixed rate warrants. The refinancing converted the County's sewer debt structure from over 95% fixed rate financing to 93% variable rate financing, including approximately $2.09 billion of auction rate warrants, $951 million of variable rate demand warrants and only $234 million of traditional fixed rate warrants.[4]

All of this debt was insured. FGIC insured approximately $1.74 billion (or 53%) of the debt; XL (now known as Syncora) insured approximately $1.14 billion (or 35%) of the debt; FSA insured approximately $352 million (or 11%) of the debt; and Ambac insured approximately $39.3 million (or 1%) of the debt.[5] The premiums for this insurance (including reserve fund policies) were paid in full up front at a total cost for the refinancing debt of approximately $50 million.[6] The bond insurers were selected by the County because they each maintained a "AAA" credit rating, the highest long-term rating, at the time of the 2002 and 2003 refinancings.[7]

The interest rate on the variable rate demand warrants was reset weekly based on current market conditions. Holders of the variable rate demand warrants had the right to tender their warrants for repurchase on 7 days' notice and required a liquidity facility in the form of a standby purchase agreement from a commercial bank to secure payment of the repurchase price. The standby purchase agreements could be terminated by the banks if the rating of the bond insurer was downgraded below investment grade, the bond insurer failed to pay claims, or the bond insurer became insolvent. In some cases the banks could terminate without notice to investors, in which case the investors would lose the security for their tender right. A consortium of eight banks provided the standby purchase agreements, including JPMorgan, Bank of America, Bank of Nova Scotia, Societé General, Regions Bank, State Street Bank, Bank of New York and Lloyds Bank. If the variable rate demand warrants could not be remarketed when tendered and had to be purchased by the banks, the standby purchase agreements required the County to accelerate the payment of the debt and retire the variable rate demand warrants over a period of 4 years in quarterly installments rather than over the much longer life of the warrants themselves.

The interest rate on the auction rate warrants was reset weekly or monthly based on the results of an auction process. At each auction existing holders and potential buyers would bid for the warrants by identifying the amount they would purchase and the rate they would accept. The auction agent would rank the bids from lowest interest rate to highest and would then set the interest rate at the level where there were enough bids to account for all the warrants. If there were enough bids to account for all the warrants, the auction "cleared". If there were not enough bids for all the warrants, the auction "failed", and the interest rate was set at an alternate rate determined by a formula in the indenture. The holders of auction rate warrants did not have the right to tender their warrants to the County or a bank for repurchase, but holders of these warrants could sell their warrants to other investors through the auction process. However, existing holders who wished to sell could do so only if there were sufficient buyers at the auction. If the auction failed, existing holders had to keep their warrants at the alternate rate until the next auction and hope that the next auction would clear. The broker dealer in the auction process solicits or accepts orders to purchase or hold auction rate warrants. The broker dealer may also purchase auction rate warrants for its own account. JPMorgan served as the sole broker dealer for approximately $1.8 billion (87%) of the auction rate warrants, and Bank of America served as the sole broker dealer for approximately $263 million (13%) of the auction rate warrants.[8] These firms received periodic fees for their services as broker dealer.

The variable rate debt was purportedly converted to "synthetic fixed rate debt" through a series of interest rate swaps in which the County paid a fixed rate and received a variable rate, usually based on a percentage of LIBOR. The theory of the financing structure was that the variable payments received by the County on the swaps would offset the variable interest rate payments made by the County on the

warrants, leaving only a fixed swap payment for the net interest payment. JPMorgan provided most of these swaps. Bank of America, Lehman Brothers and Bear Stearns provided the remainder.

The structure of the refinancing was complex and fragile. It was completely dependent upon some critical credit and structural components. First, the marketability of the variable rate warrants, and thus the interest rate on those warrants, depended on the continued viability of the bond insurers. Second, the marketability of the auction rate warrants, and thus the interest rate on those warrants, depended on the success of the auction process. Third, the marketability of the variable rate demand warrants, and thus the interest rate on those warrants, depended on confidence of investors that the banks would purchase their warrants whenever the warrantholders exercised their right to tender the warrants for purchase. Finally, the effectiveness of the swaps depended on the alignment of the variable rate on the warrants and the variable rate on the swaps. Each of these components of the refinancing structure eventually failed. The parties to the refinancing accepted the risk that these components of a "synthetic fixed rate" would fail. These risks do not exist with traditional fixed rate debt. The County's purpose in accepting these risks was to achieve a lower interest rate than traditional fixed rate debt.

The County's sewer debt rating. Although 100% of the County's sewer debt was insured, the County maintained its own separate rating on the long-term debt of the County without regard to bond insurance. This rating was confirmed as "A" as late as the fall of 2007.[9] This rating would have allowed the County to finance all the sewer debt on its own credit rating. The insurance was purchased to achieve debt service savings and to facilitate the sale and remarketing of the variable rate debt included in the County's debt structure.

Sewer rates are at the upper limit of affordability. In order to pay the debt service on warrants issued to comply with the Clean Water Act consent decree and judgment it was necessary for the County to increase sewer rates dramatically. Rates increased by 328% in just 10 years.[10] Sewer rates are now at the upper limit of the affordability standard established by the Environmental Protection Agency. Sewer rates sufficient to retire the sewer debt under current circumstances would exceed general industry standards and would deprive Jefferson County residents of money necessary to pay for essential needs such as food, shelter and medical care.[11] Although the County has the general authority to raise sewer rates, that authority is subject to two important limitations.

First, as a practical matter, when rate increases become too burdensome, sewer customers may reduce consumption of water (the volume of water consumed being the basic measure against which sewer rates are applied). Customers may also seek alternative means for sewage treatment, such as septic tanks. In other words, when rates become too high, rate increases may be counterproductive because they may prompt a reduction in water consumption or cause customers to leave the system. In addition, delinquent sewer charges are more difficult to collect than water, electric or other utility charges because sewer service cannot easily be "turned off" for failure to pay. Even if there were an effective way to turn off service, doing so would create a health hazard for the public.

Second, although rate setting by the County is not subject to review by the Public Service Commission or any similar governmental agency, the authority to set rates is limited by the general legal principle that rates may not be unreasonable or confiscatory. The determination of what is reasonable is left to the courts when a challenge is made. Such challenges are rare, and there is little tangible guidance for what is reasonable. Various factors could influence the court's determination. The EPA's affordability standard could be a factor. A court could also conclude that rate payers are not responsible for the excessive cost of a failed financing structure or for costs related to the illegal acts of some individuals associated with the financing structure or the construction program. In any event, the County believes that both of these factors – the practical constraints and the legal principle - impose a significant

limitation on its ability to solve the sewer debt crisis by just increasing rates further. The authority to raise rates is not unlimited.

Limitations on the County's powers. Under the Alabama Constitution of 1901 counties in Alabama are not granted home rule powers. For example, counties cannot impose new taxes or raise the rate of many existing taxes without the approval of the Alabama Legislature. For some taxes a vote of the people is also required. The Legislature's approval is needed for some or all of the components of any comprehensive solution to the sewer debt crisis.

The Sewer Debt Crisis

The heavy dependence of the County on variable rate debt, interest rate swaps and bond insurance resulting from the refinancings of 2002 and 2003 has led the County to catastrophe. The risks inherent in the "synthetic fixed rate" structure of the County's refinancing plan have played out through a series of events not of the County's making and beyond its control.

In an effort to generate more profits, the bond insurers, which had traditionally been "monoline" insurers, engaged only in insurance for municipal debt, began to pursue other lines of business, including insurance for various exotic mortgage backed securities and the execution of credit default swaps. These new lines of business proved disastrous for the bond insurers, particularly Syncora and FGIC, which insured all the County's variable rate debt. As the bond insurers suffered losses on these other business lines their credit ratings plummeted. Since early 2008 these insurers have been successively downgraded from their AAA levels at the time of the County's refinancing to the point at which their credit rating is now well below investment grade, at the "junk" level.[12] Investors in the auction rate warrants and the variable rate demand warrants completely lost confidence in the insurers and the insured variable rate warrants. As a direct result, the interest rates on these warrants skyrocketed in early 2008.

The broker dealers for the auction warrants had historically participated as purchasers in the auctions in order to stabilize the auctions and prevent a "failure" of the auction process. Until early 2008 no auction of municipal debt securities had ever failed. In early 2008, however, bids dried up as the credit of bond insurers deteriorated, and the broker dealers stopped supporting the auction process through their own purchases. Auctions across the entire municipal market, including Jefferson County's auction rate warrants, failed. Failure of the auction process meant holders of the auction rate warrants had no way to liquidate their investment. This heightened the sense of panic over the County's sewer debt.

In early 2008 holders of the variable rate demand warrants became alarmed over the deteriorating credit of the bond insurers. They also became alarmed over the potential loss of the security for the tender right if the banks terminated without notice after further decline in the creditworthiness of the bond insurers. All the existing holders exercised their tender rights, and no new investors could be found. The banks providing the standby purchase agreements had to purchase all of these warrants. Purchase by the banks triggered an accelerated amortization schedule. Instead of paying these warrants over 30 or 40 years, as expected, the County found itself facing an accelerated payment schedule, requiring it to repay $850 million of variable rate warrants over 4 years. These payments exceeded the total revenues produced by the sewer system. In addition, the interest rate owed to the banks was substantially higher than the interest rate payable in the variable rate demand market.

Unlike the interest rate the County was paying on its variable rate warrants, the variable rate the County was receiving on the interest rate swaps did not increase – in fact it declined precipitously as LIBOR dropped to historically low levels. On top of everything else, therefore, the swaps which were supposed to limit the County's interest rate required the County to pay additional financing costs.

When the rating agencies realized that the County faced dramatically higher interest rate obligations and also faced accelerated amortization requirements on the warrants held by the banks, they reached the inevitable conclusion that the County could not make the increased payments and downgraded the County's debt, which is now also at the "junk" level.[13] In short, the credit failure of the bond insurers precipitated the County's credit failure. The process started by the downgrade of the bond insurers led to the collapse of the sewer financing and then to a downgrade of the County's general obligation debt rating as well.

In the aggregate, the bond insurer downgrades, the failure of the auction rate market, the acceleration of maturity on the warrants purchased by the liquidity banks and the increased interest owed to the liquidity banks, cost the County millions of dollars. The County calculates that the failure of the sewer debt refinancing plan resulted in additional debt service costs in fiscal year 2008 and the first half of fiscal year 2009 of approximately $107 million on the sewer debt alone.[14]

It is worth noting that many local governments and nonprofit corporations all over the country had insured variable rate debt and have also faced increased interest costs as a result of the credit failure of the bond insurers. The difference between the County's plight and the plight of other bond issuers is that the County's dependence on the bond insurance was so complete that it could not refinance on its own into a different structure with lower, or more stable, rates. Having lost its own credit rating as a result of the collapse of the bond insurers and this complex debt structure, the County was unable to refinance its way out of the crisis.

The Cloud of Various Enforcement Actions and Criminal Proceedings

The ability to address the failure of the 2002 and 2003 refinancings has been further plagued by the public's perception of the structure of the financing and its outrage over the alleged illegal activity of some firms and individuals who participated in the refinancing. Some of the alleged activity involves civil liability, some criminal liability.[15] The related investigations are ongoing and could result in additional civil or criminal actions.

The most recent of these allegations involves the role of JPMorgan. In its latest public filing of information available for its shareholders and investors, JPMorgan disclosed that the SEC has authorized the filing of a civil action against JPMorgan in connection with its activities in the Jefferson County sewer refinancing and the related swaps.[16] This case has not been filed yet, and the County has not been consulted about the matter, so the County cannot know exactly what the complaint will allege. The County can only hope that the SEC will take into account the County's plight in any resolution of the matter. In any event, the public disclosure that the lead underwriter's activities are to be challenged in this manner darkens severely the cloud over the refinancing that started gathering just after the refinancing was completed.

In 2004 the SEC began an investigation of the implementation and structure of Jefferson County's sewer debt and the County's extensive use of interest rate swaps to achieve "synthetic fixed rates".[17] This was followed by a Justice Department investigation for possible criminal violations. The Justice Department had already conducted a separate investigation in Philadelphia, Pennsylvania related to a series of bond financings there.[18] The Philadelphia investigation resulted in the conviction of Charles LeCroy, a JPMorgan investment banker, on criminal fraud and corruption charges relating to that bond financing.[19] Mr. LeCroy was the JPMorgan investment banker who was also in charge of the Jefferson County financing.

In 2008 the SEC filed a civil action against Larry Langford, the former Chairman of the Commission, and two individuals, Bill Blount and Al LaPierre, who were employed by, or associated with, an underwriting firm that was part of the underwriting team for the refinancings.[20] Among other things, the SEC alleges in this action that the profits on the swaps entered into with JPMorgan were shared by JPMorgan with Mr. Blount's firm and were then steered by Mr. Blount and Mr. LaPierre to Mr. Langford. Later in 2008 the Justice Department brought an indictment against the same three individuals on bribery and corruption charges arising out of the swap transactions and the sewer financing.[21] That case is scheduled for trial in August, 2009.

In addition to the enforcement actions and criminal indictments directly related to the Jefferson County sewer financing, there are various enforcement actions and criminal proceedings indirectly related to the sewer refinancing. The United States Justice Department has been conducting an investigation of the national swap market and the bidding of investment contracts for several years. Press reports indicate that this is an industry-wide investigation, and it includes the swap providers for Jefferson County.[22] Many local governments, including Jefferson County, have responded to subpoenas for their records relating to various transactions. This includes the swap documents for the sewer financing. Press reports also indicate that JPMorgan and an individual employed by JPMorgan as head of its interest rate swap department when the sewer refinancing was done have received Wells notices from the SEC indicating that they are targets of this investigation.[23]

The auction bond market has also been the subject of government investigation. The SEC and the New York Attorney General have made various allegations about the manner in which the auctions were held and the representations made to investors. Most of the investment banking firms that served as broker dealers have reached agreements with the SEC modifying their procedures and practices. Perhaps more importantly, many of the broker dealers have entered into agreements with the New York Attorney General in which the broker dealers must buy back auction securities sold to their customers in the auction process. The broker dealers for the Jefferson County, JPMorgan and Bank of America, have also entered into these agreements. These agreements are not publicly available, so the scope of the banks' repurchase obligations is not generally known; however, the County believes that most, if not substantially all, of its auction rate warrants are now held by JPMorgan and Bank of America.

Various public officials and contractors have also been indicted and convicted on charges related to the construction work for the Jefferson County sewer remediation program. Unfortunately, this includes some prior County commissioners and administrative staff for the sewer system.[24] Bribery and corruption by public officials is a breach of the public's trust. Those individuals who have violated that trust have contributed to the County's difficulties.

Finally, there have been numerous articles in the press by investigative reporters highly critical of many of the investment banking firms and insurance companies who participated in the Jefferson County sewer refinancing.[25]

The cumulative effect of this unfortunate history has been a significant obstacle to any solution for the County's debt crisis in several respects. First, it is possible that firms subject to, or affected by, these various proceedings have been reluctant to reach any agreement that might suggest they acknowledge or accept responsibility for their own actions or the actions of their employees. From the County's perspective, the cumulative effect has produced disappointment and cynicism, even outrage, among its citizens and State or local government officials who are now called upon to find a solution. Simply put, any solution must run the gauntlet of the public's perception that the crisis has been brought on in large part because of the illegal activities of some who participated in the refinancing.

The Effect of the General Crisis in the Financial Markets and Economy

As the Jefferson County crisis began to unfold, the possibility of the largest municipal bankruptcy in history dominated the financial press. By the end of 2008, the crisis in the nation's banking and insurance industries and the dire condition of the general United States economy had seized the attention of the public and government. What began as a credit crisis resulting from the financing of subprime mortgages spread throughout the financial and insurance industries, resulting in the government rescue or collapse of numerous firms, such as Lehman Brothers, Bear Stearns and AIG. Banks and investment banking firms were forced to merge or sell to prevent further collapse, and various federal bailout programs were initiated to shore up failing banks and insurance companies. In March of 2009 Congress enacted the American Recovery and Reinvestment Act of 2009, one of the most extensive and expensive government responses in history to an economic crisis. One of the problems faced in the economic crisis is that credit had dried up to an alarming degree. Banks and other financial institutions simply were not loaning money as they attempted to stabilize their own finances. The general unavailability of financing further complicated Jefferson County's ability to address its own crisis.

The various federal bailout and recovery initiatives will cost literally trillions of dollars. The resulting financial burden to the federal government will require taxpayers to foot the bill. This includes citizens of Jefferson County, as well as the citizens of every other community in the country. It will be expensive for the taxpayers by any measure. With taxpayers facing the daunting task of paying for the bailout of financial institutions in particular and the economy in general, many legitimately have questioned why citizens of Jefferson County should add to that load with new taxes to bail out its sewer debt.

A Bright Spot in a Dark Picture – a Quality Sewer System

The crisis resulting from the failure of the sewer refinancing obscures a bright spot in this picture. The County's sewer system and the remediation work has been examined and evaluated by numerous professionals during this process and has, without exception, been found to be a high quality system that should be compliant with all environmental rules and regulations.[26] The County has performed well under the Clean Water Act consent decree and should be released from that decree within 18 months, when the final improvements and testing are completed.[27] If the County can solve the current debt crisis, the sewer system should serve the County well for years to come and should provide solid infrastructure to support future economic development in the greater Birmingham area.

The History and Status of Negotiations With the Sewer Creditors

In one sense the ability to negotiate for a solution has been helped by the fact that, despite the large amount of debt involved, the actual number of stakeholders is relatively small. The creditors consist primarily of the bond insurance companies, the banks that provided the standby purchase agreements, the firms that provided the interest rate swaps, and the underwriters who also served as broker dealers on the auction warrants. All of the debt was credit enhanced when issued and was originally held by institutional or individual investors. As a result of the events outlined above, there are now very few institutional or individual investors. The variable rate demand warrants are held by the banks (or bond insurers to the extent those bond insurers made payments due as a result of accelerated amortization requirements), and most of the auction warrants are held by the broker dealers, JPMorgan and Bank of America. Although the number of stakeholders is small in a relative sense, a solution essentially requires unanimous consent of these creditors. That is very difficult to achieve with 4 bond insurers, 8 banks, 2 swap providers (originally 4, but reduced to 2 as a result of bankruptcy or forced merger of the swap providers), and 2 broker dealers. In that sense the creditors are numerous.

The various banks, bond insurers and investment banks in this group have widely disparate incentives and interests that make negotiations among creditors themselves difficult. For example, the banks that hold the variable rate demand warrants are entitled by contract to an accelerated amortization over 4 years. It is obvious that the County cannot pay on this basis with the existing sewer revenue stream, so the logical source of payment is the bond insurers who insured the accelerated pay out, FGIC and Syncora. The banks want their money now, before these bond insurers deteriorate to the point that they cannot pay claims. The bond insurers would prefer to pay any claims over the originally scheduled maturities of the warrants. Of course, the bond insurers would prefer to pay no claims, but their time line for a solution would be focused more on a long-term solution but for the immediate demands of the banks.

FGIC and Syncora have filed a lawsuit against the County seeking the appointment of a receiver with the power to set sewer rates. Hearings have been held on the insurers' request for an emergency order, but a decision of the court has not been rendered. The County has counterclaimed for, among other things, damages caused by the credit collapse of the bond insurers. A trial date for those claims has not been set.

The ability to bring the interests of banks and bond insurers in line has been exacerbated by the impending failure of Syncora. After Syncora failed to reach a settlement with its creditors on credit default swaps and other liabilities unrelated to Jefferson County, the New York insurance commissioner announced that Syncora would have to suspend paying any claims as of April 24, 2009.[28] This means that when the next quarterly payment comes due to the banks on July 1, 2009 under the accelerated payment schedule of the standby purchase agreements, the banks are likely to go unpaid. Announcements by rating agencies and press reports indicate that FGIC's deteriorating financial condition could also lead to insolvency.[29]

All these creditors, and the governmental agencies that regulate them, such as the New York Insurance Department, recognize that until very recently, failure to pay a claim on a bond insurance policy has never occurred in the municipal bond market. The bond insurers' credit rating may have been severely eroded, but they have continued to pay claims. In many cases the underlying credit, the actual bond issuer, is still able to pay, even if the bond insurer's ability to pay is questionable. In the case of Jefferson County, a collision course is set by the bond insurer's inability to pay and the County's inability to pay accelerated principal. If debtholders actually go unpaid under these circumstances, it could deal a serious blow to a bond insurance industry already crippled by credit downgrades.

The willingness or ability of some creditors to negotiate has also been hampered by the crisis many of these creditors have faced with their own credit and financial viability. At various times during the negotiating period, Jefferson County has been far down their list of concerns. The distraction from the creditors' own financial problems, as well as the effect of the civil and criminal proceedings described above, has contributed to the difficulty of finding a unanimous position of the creditors.

Since February 2008, numerous proposals have been made by the County and various creditors for a solution. None has worked.

At one point in negotiations with the Governor of the State of Alabama, the creditors offered concessions in the approximate amount of $1.3 billion to assist in a refinancing. Over half that amount was forgiveness of amounts owed for early termination of the interest rate swaps. The County believes that further payments on the swaps are inappropriate, particularly in light of the controversy and allegations of fraud and illegal activity associated with these interest rate swaps. Termination of the

interest rate swaps without cost to the County has been incorporated into the restructuring plan proposed by the County. The rest of the concessions were contingent upon a successful refinancing of the existing debt with a public offering of new debt. A refinancing with publicly offered debt is not possible under the circumstances faced by the County. The County believes that the creditors' willingness to purchase the refinancing debt described below is the appropriate concession with respect to the actual sewer debt.

At the most recent session of the Alabama Legislature various bills were introduced to address one or more aspects of the sewer debt crisis. None of those bills passed. This was discouraging to the County in some respects, but was not surprising given the context. There was no consensus plan for a solution to present to the Legislature. As observed by some legislators, they could not be expected to approve legislation without a concrete solution to consider. The Legislature should only be expected to act when the County and its creditors have a complete plan to present.

The creditors want the existing debt refinanced through a new public debt offering that would pay them off and terminate their existing credit enhancement obligations. The County simply cannot meet that demand. The County has no realistic access to the public debt market for a refinancing of this debt. Even with the concessions they have offered, the creditors recognize that a refinancing in the public debt market would require new taxes or other new sources of revenue to make new refinancing debt marketable at manageable interest rates. Sewer revenues alone, even with dramatic increases, will not be sufficient. The creditors have proposed various new property and sales taxes and a direct, or "moral obligation", promise by the State of Alabama to make up the deficiency in the revenue stream.

It should be noted that this basic demand asks the County and the State to pay the sewer debt from sources that were never part of the contractual commitment of the County. The County's only legal obligation is to pay the debt with sewer revenues. It is not obligated to pay the debt from other taxes or revenues, and the State has no obligation to assist. The demand of the creditors might be dismissed out of hand on that basis alone, but there are other legitimate interests the County must address.

First, if the sewer debt cannot be refinanced, the only alternative is to leave the creditors with the benefit of the bargain they have made – payment out of net sewer revenues. The contract itself and the applicable law both provide that the County must pay the reasonable and necessary expenses of operating the sewer system first, but the balance of the revenues (the net revenues) must be turned over to the creditors to pay debt service. This would be the result in bankruptcy and would be the result in receivership, so there is no clear reason for the County to choose one path or the other. It might be preferable for the County to accept the receivership path. In any event, either a receivership or bankruptcy will lead to a demand by the creditors that rates be as high as legally permissible in order to pay as much of the debt as possible. This means that large rate increases will be demanded, and inevitable litigation will ensue to determine what rates are permissible. This leaves the possibility of an increased burden on the sewer rate payers alone. It is well documented that the County's sewer users include a disproportionate number of low income citizens who are ill-equipped to take on that burden. This course of action will also bring years of uncertainty about the potential level of sewer rates. The uncertainty of sewer rates and the lack of resolution of the debt crisis cannot be good for the County's future economic prospects.

The County must also consider its own credit and financing needs for the future. Before this crisis hit, the County proudly carried an "A" rating for its sewer debt and an even higher "AA" rating for its general obligation debt. Although this crisis has reduced the County's rating to the "junk" level, the County wishes to reclaim the ratings it earned before this crisis, and believes it can with an appropriate solution to this crisis. Unless and until a solution is found to the sewer debt crisis, the County cannot reclaim its ratings, and financing future capital needs in the County will be impossible or very expensive.

If the County expects to grow and prosper in the future, it must have the ability to borrow money to finance its needs.

Even though the County's underwriters, the bond insurers and banks were in a better position to understand the risks inherent in the complex and fragile financing structure, the County did accept the structure and did issue the debt. It bears a share of the responsibility in finding a solution.

Finally, the County must also consider the impact of the sewer debt crisis on the other local governments in the State and on the State itself. Having unpaid sewer debt in Jefferson County can hurt the credit of other governmental entities, even if the crisis was precipitated in large part by the foolish or illegal actions of others. Fair or not, it can affect the rate at which other entities in the State borrow money. In short, leaving the sewer debt unpaid under these circumstances can be a negative factor in the State's overall credit picture and can impose a serious burden in terms of the future interest rates that might be required of other governmental entities in the State.

An appropriate solution must be realistic and fair, and it must recognize as a starting point that a proposal by the County to commit anything more than sewer revenues is a significant step beyond its legal obligation. The cloud of civil and criminal proceedings, the role of the creditors in creating the crisis, and the skepticism of the public for yet another bailout must also be taken into account.

The County's Proposal

With this background, the County offers the following proposal for a solution:

Revenues for payment of debt service. A pool of revenues will be created for the payment of the sewer debt. The pool will include two revenue sources: (1) sewer revenues in fixed amounts and (2) the excess proceeds of the existing 1¢ sales tax levied in Jefferson County to support the County's existing school construction warrants.

The fixed sewer revenues available for debt service will be $115 million per year for the first 5 years, $116.5 million for the second 5 years, and with future increases at the same intervals and rate. The existing school construction warrants payable from the sales tax have a first lien on that tax and must be refinanced to spread the payment obligation on those warrants over a 40-year period and to permit the excess sales tax revenues to be devoted to the sewer debt. The exact amount of excess sales tax revenues will depend on the debt service on the refinanced school warrants, but the excess should be substantial and should increase over the 40-year period as sales tax collections increase. The average rate of increase has been approximately 3.9% over the last 20 years.

This will limit the amount of future sewer rate increases that rate payers will face and should avoid litigation over the permissible limit of rates. The stepped increases over the 40-year period are modest and should be affordable. This should reduce anxiety about the potential level of future rate increases that might be forced on the sewer customers. This plan will also spread a portion of the cost of the sewer refinancing over all citizens in Jefferson County, not just those directly served by the system. The sewer system benefits all citizens, even those not connected to the system, because it promotes public health and facilitates economic development. Most important, this will not require the imposition of any new taxes. It will depend on a tax already levied. The tax will not terminate as soon as originally anticipated – when the existing school construction warrants would have been retired absent a refunding – but it will not increase the tax burden on the citizens.

The creditors recognize that this pool of revenues will pay the existing debt, even with conservative assumptions about the future growth of the sales tax, but this pool of revenues will not have sufficient coverage, or credit strength, to permit sale of refinancing debt to the public in the current market and with the County's situation. It will require the creditors to hold the refinancing debt at a reasonable, affordable interest rate until the debt is paid.

Creation of a State-sponsored bond issuer. A State-sponsored bond issuer will be organized to issue refinancing debt. This bond issuer will have only a limited obligation for payment. Its bonds will be payable only from the revenue sources described above. The State will have no direct obligation, or moral obligation, for payment of the debt. The County will enter into a funding agreement with the bond issuer committing the County to pay the debt from the revenue sources described above.

The bond issuer's refinancing bonds will be payable over a 40-year period and will bear interest at 3.50%. This interest rate is admittedly below the current market for long-term debt with an "A" rating (the rating the County had earned for its sewer debt before this crisis), but the rate is higher than short-term investment rates available to the creditors. The County believes this is fair and appropriate under the circumstances. It is also all that the County can afford. If any excess revenues remain at the end of each year, they will be used to retire the bonds early. The cash flow projections indicate that the bonds should be paid off well before 40 years.[30]

Creditors purchase refinancing debt. The refinancing bonds will be purchased by the existing creditors – the bond insurers, banks and investment bankers identified above. The creditors and those agencies that regulate them will have to decide how this obligation will be spread among them. The County does not have the power to do that.

This will wipe the slate clean on the existing debt, which will be paid in full. To the extent that completely innocent institutional or individual investors hold existing warrants, they will be paid in full. Only the existing creditors will purchase the refinancing debt.

Paying off the existing warrants in this fashion transfers the existing creditors' burden to the refinancing bonds. The existing credit enhancement – the bond insurance and the standby purchase agreements – will be terminated with the refinancing. The contribution of the existing creditors to the solution will be reflected in the value of the bonds they receive in the refinancing. With a 3.5% interest rate the value of these bonds will be less than the face amount of the debt.

The creditors can hold the refinancing bonds to maturity and be paid in full. They can also sell their bonds to others. If they sell immediately, the creditors will not get a price equal to the face amount. However, creditors wishing to sell can improve their recovery through various techniques that will enhance the marketability of the refinancing bonds they purchase. For example, they can provide their own credit enhancement for the bonds they purchase to improve their value and then sell them to third parties at higher prices. If permitted, they can also sell or pledge their bonds, or finance the purchase of those bonds, through one of the various federal assistance programs that are part of the federal bailout effort for financial institutions. There may be other possibilities. The creditors, not the County, are in the best position to identify and access the possibilities.

Termination of interest rate swaps. The interest rate swaps have been terminated. Under this plan the County will make no further payments on the interest rate swaps, which includes payments that might have been due as a result of early termination.

Oversight for the sewer system. An oversight board will be created that will review the County's sewer system operations and capital plans for the sewer system. The County will reserve the right to set sewer rates, employ personnel, and exercise other power and responsibilities with respect to the system, but it will report to the oversight board and consider its suggestions.

The oversight board should give the public, the Legislature and the creditors greater confidence that the sewer system is being administered properly. It will also provide additional expertise for the County to rely on in its decision making.

The Steps Necessary to Implement the Plan

The plan requires two steps. First, the creditors must agree. Second, the plan must be approved by the Legislature. The chances of obtaining approval by the Legislature are much greater if the existing creditors have accepted the plan. The Commission will pursue a special session for this purpose if agreement with the creditors can be reached. The County is hopeful that approval can be obtained under these circumstances.

As indicated above, if this plan does not work, the County has no other realistic alternatives to pursue. It will live up to its legal obligation and will turn over the net sewer revenues to the creditors, and the debt can be paid to the extent possible. For the reasons discussed above, the County does not consider this the best option. This plan is the best option – the best the County can offer. We trust that our creditors will agree with that conclusion.

ENDNOTES

[1] December 9, 1996 Decree of the Court in the cases of Kipp, et al v. Jefferson County, No. CV-93-G-2492-S, and U.S.A. v. Jefferson County, No. CV-94-G-2947-S.

[2] Trust Indenture Between Jefferson County, Alabama and The Bank of New York Mellon Trust Company, N.A. (as successor trustee to AmSouth Bank of Alabama) dated as of February 1, 1997, http://www.jeffcofinance.com (follow "Library" hyperlink; then follow "1997-A-B-C - Original Indenture" hyperlink). Jefferson County, Alabama Sewer Revenue Warrant Official Statements, http://www.jeffcofinance.com (follow "Library" hyperlink; then follow "Sewer Revenue Warrants" hyperlink).

[3] Jefferson County Sewer Debt Analysis, "Interest Rate Mode Ratio Prior to October, 2002".

[4] Jefferson County Sewer Debt Analysis, "Interest Rate Mode Ratio After October, 2002".

[5] Jefferson County Sewer Debt Analysis, "Percentage of Sewer Debt Insured by Each Monoline After October, 2002".

[6] Jefferson County Sewer Debt Analysis, "Insurance Premiums for Sewer Warrants Issued After October, 2002".

[7] 2002C: Letter from Margaret L. Kessler, Vice President/Senior Analyst, Moody's Investors Service, to XL Capital Assurance (October 25, 2002); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (October 25, 2002); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (October 25, 2002); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (October 25, 2002); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (October 25, 2002); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (October 25, 2002); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (October 25, 2002); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (October 25, 2002); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (October 25, 2002); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (October 25, 2002); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (October 25, 2002); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (October 25, 2002); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (October 25, 2002); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (October 25, 2002).

2003A: Letter from Margaret L. Kessler, Vice President/Senior Analyst, Moody's Investors Service, to Ambac Assurance Corporation (January 6, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Ms. Danielle T. Brackett, Vice President, Ambac Assurance Corporation (January 3, 2003).

2003B: Letter from Margaret L. Kessler, Vice President/Senior Analyst, Moody's Investors Service, to Financial Guaranty Insurance Company (May 1, 2003); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (April 30, 2003); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director,

Jefferson County, Alabama (April 30, 2003); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (April 30, 2003); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (April 30, 2003); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (April 30, 2003); Letter from David Parsons, Assistant Vice President/Analyst, Moody's Investors Service, to Mr. Steve Sayler, Finance Director, Jefferson County, Alabama (April 30, 2003); Letter from Margaret L. Kessler, Vice President/Senior Analyst, Moody's Investors Service, to Financial Security Assurance Inc. (May 1, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Ms. Cheryl Whaley, Group Leader, Financial Guaranty Insurance Company (April 30, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (April 30, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (April 30, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (April 30, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Mr. Henri N. Gourd, Managing Director, XL Capital Assurance, Inc. (April 30, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Ms. Suzanne M. Finnegan, Chief Municipal Underwriting Officer, Financial Security Assurance Inc. (April 30, 2003).

2003C: Letter from Margaret L. Kessler, Vice President/Senior Analyst, Moody's Investors Service, to Financial Guaranty Insurance Company (August 6, 2003); Letter from Margaret L. Kessler, Vice President/Senior Analyst, Moody's Investors Service, to Financial Security Assurance Inc. (August 7, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Ms. Cheryl Whaley, Group Leader, Financial Guaranty Insurance Company (August 6, 2003); Letter from Vincent Orgo, Administrative Officer, Standard and Poor's, to Ms. Suzanne M. Finnegan, Chief Municipal Underwriting Officer, Financial Security Assurance Inc. (August 6, 2003).

[8] Jefferson County Sewer Debt Analysis, "Percentage of Auction Rate Warrants by Broker/Dealer".

[9] Standard and Poor's RatingsDirect Research Summary entitled "Jefferson County, Alabama; Water/Sewer", published May 2, 2007. Shelly Sigo, Moody's Affirms Jefferson County, Ala.'s $3.25 Billion of Sewer Warrants, The Bond Buyer, December 26, 2007.

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[11] See Report of Special Master in The Bank of New York Mellon, et al. v. Jefferson County, Alabama, et al., Case No. 2:08-CV-01703-RDP (N.D. Ala., filed February 10, 2009), at 44.

[12] Standard and Poor's RatingsDirect Research Update entitled "Financial Guaranty Insurance Co. Ratings Lowered to 'CC' From 'CCC' Then Withdrawn", published April 22, 2009. Standard and Poor's RatingsDirect Research Update entitled "Syncora Guarantee Inc. Ratings Lowered to 'CC' From 'B'; Outlook Negative", published January 29, 2009. Moody's Investors Service Rating Action entitled "Moody's Downgrades FGIC to Caa3 and will withdraw ratings", published March 24, 2009. Moody's Investors Service Rating Action entitled "Moody's Downgrades Syncora Guarantee to Ca; outlook is developing", published March 9, 2009.

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2947-S, (N.D. Ala.). December 8, 2008 Order of the Court in the cases of Kipp, et al v. Jefferson County, No. CV-93-G-2492-S, and U.S.A. v Jefferson County, No. CV-94-G-2947-S, (N.D. Ala.). February 23, 2009 Order of the Court in the cases of Kipp, et al v. Jefferson County, No. CV-93-G-2492-S, and U.S.A. v Jefferson County, No. CV-94-G-2947-S, (N.D. Ala.). April 29, 2009 Order of the Court in the cases of Kipp, et al v. Jefferson County, No. CV-93-G-2492-S, and U.S.A. v Jefferson County, No. CV-94-G-2947-S, (N.D. Ala.). See Report of the Special Master in The Bank of New York Mellon, et al. v. Jefferson County, Alabama, et al., Case No. 2:08-CV-01703-RDP (N.D. Ala., filed February 10, 2009), at 22, 23.

[27] See Report of the Special Master in The Bank of New York Mellon, et al. v. Jefferson County, Alabama, et al., Case No. 2:08-CV-01703-RDP (N.D. Ala., filed February 10, 2009), at 22.

[28] Jack Herman, Syncora: Suspension of Claims Payments Looms, The Bond Buyer, April 14, 2009. Press Release, Syncora Guarantee Inc., Syncora Guarantee Inc. Suspends All Claims Payments Pursuant to NYID Order (April 27, 2009).

[29] Standard and Poor's RatingsDirect Research Update entitled "Financial Guaranty Insurance Co. Ratings Lowered to 'CC' From 'CCC' Then Withdrawn", published April 22, 2009.

[30] See Jefferson County Sewer Debt Restructuring Plan on following page.

Jefferson County Sewer Debt Restructuring Plan (May 2009)

(Dollar amounts in millions)

Revenue Assumptions:

Sewer revenues first year:	$115.0
Sewer rate increase every 5 years:	1.0%
Sales tax collections first year:	$92.5
Sales tax annual increase:	2.0%

Debt Assumptions:

Principal of school bonds (after defeasance cost):	$976.0
Debt service on school bonds (assuming 6.0% rate over 40 years):	$64.9
Principal amount of sewer refinancing debt:	$3,200.0
Interest rate on sewer refinancing debt:	3.5%
Coverage factor for scheduled principal & interest:	1.21 times

Fiscal Year	Sewer Revenues	Sales Tax	School Bond DS	Net Tax	Total Revenues	Interest	Scheduled Principal	Excess Revenues	Accelerated Principal Payments from Excess Revenues	Principal Balance with Accelerated Payments
										$ 3,200.0
2010	$ 115.0	$ 92.5	$ 64.9	$ 27.6	$ 142.6	$ 112.0	$ 6.1	$ 24.5	$ 24.5	3,169.4
2011	115.0	94.4	64.9	29.5	144.5	110.9	7.9	25.7	25.7	3,135.8
2012	115.0	96.3	64.9	31.4	146.4	109.8	9.7	26.9	26.9	3,099.2
2013	115.0	98.2	64.9	33.3	148.3	108.5	11.6	28.2	28.2	3,059.4
2014	115.0	100.2	64.9	35.3	150.3	107.1	13.7	29.5	29.5	3,016.2
2015	116.2	102.2	64.9	37.3	153.4	105.6	16.8	31.1	31.1	2,968.4
2016	116.2	104.2	64.9	39.3	155.5	103.9	19.0	32.5	32.5	2,916.8
2017	116.2	106.3	64.9	41.4	157.5	102.1	21.4	34.0	34.0	2,861.4
2018	116.2	108.4	64.9	43.5	159.7	100.1	23.9	35.6	35.6	2,801.9
2019	116.2	110.6	64.9	45.7	161.8	98.1	26.6	37.2	37.2	2,738.1
2020	117.3	112.8	64.9	47.9	165.2	95.8	30.3	39.1	39.1	2,668.7
2021	117.3	115.0	64.9	50.1	167.5	93.4	33.2	40.8	40.8	2,594.7
2022	117.3	117.3	64.9	52.4	169.8	90.8	36.3	42.6	42.6	2,515.7
2023	117.3	119.7	64.9	54.8	172.1	88.1	39.5	44.5	44.5	2,431.7
2024	117.3	122.1	64.9	57.2	174.5	85.1	42.9	46.5	46.5	2,342.3
2025	118.5	124.5	64.9	59.6	178.1	82.0	47.4	48.8	48.8	2,246.1
2026	118.5	127.0	64.9	62.1	180.6	78.6	51.1	50.9	50.9	2,144.2
2027	118.5	129.6	64.9	64.7	183.1	75.0	55.0	53.1	53.1	2,036.1
2028	118.5	132.2	64.9	67.3	185.7	71.3	59.1	55.4	55.4	1,921.6
2029	118.5	134.8	64.9	69.9	188.4	67.3	63.3	57.8	57.8	1,800.5
2030	119.7	137.5	64.9	72.6	192.3	63.0	68.7	60.5	60.5	1,671.2
2031	119.7	140.2	64.9	75.3	195.0	58.5	73.4	63.1	63.1	1,534.7
2032	119.7	143.0	64.9	78.1	197.8	53.7	78.3	65.8	65.8	1,390.6
2033	119.7	145.9	64.9	81.0	200.7	48.7	83.4	68.6	68.6	1,238.6
2034	119.7	148.8	64.9	83.9	203.6	43.4	88.8	71.5	71.5	1,078.3
2035	120.9	151.8	64.9	86.9	207.8	37.7	95.3	74.7	74.7	908.3
2036	120.9	154.8	64.9	89.9	210.8	31.8	101.2	77.8	77.8	729.3
2037	120.9	157.9	64.9	93.0	213.9	25.5	107.3	81.1	81.1	540.9
2038	120.9	161.1	64.9	96.2	217.1	18.9	113.7	84.5	84.5	342.8
2039	120.9	164.3	64.9	99.4	220.3	12.0	120.3	88.0	88.0	134.5
2040	122.1	167.6	64.9	102.7	224.8	4.7	128.2	91.8	6.3	
2041	122.1	171.0	64.9	106.1	228.1	0.0	135.5			
2042	122.1	174.4	64.9	109.5	231.5	0.0	143.1			
2043	122.1	177.9	64.9	113.0	235.0	0.0	151.0			
2044	122.1	181.4	64.9	116.5	238.6	0.0	159.2			
2045	123.3	185.0	64.9	120.1	243.4	0.0	168.8			
2046	123.3	188.7	64.9	123.8	247.1	0.0	177.8			
2047	123.3	192.5	64.9	127.6	250.9	0.0	187.1			
2048	123.3	196.4	64.9	131.5	254.8	0.0	196.9			
2049	123.3	200.3	64.9	135.4	258.7	0.0	207.0			
Totals	**$ 4,764.3**			**$ 2,992.9**			**$ 3,200.0**			

SCHEDULE A

Fixed Rate Warrants			**Bond Insurer**
Series 1997 A			
	CUSIP		
	472682NV1		FGIC
	472682NW9		FGIC
	472682NX7		FGIC
	472682MC4		FGIC
	472682MD2		FGIC
Series 2001 A			
	CUSIP		
	472682JB0		FGIC
	472682JC8		FGIC
	472682JD6		FGIC
	472682JE4		FGIC
	472682JF1		FGIC
	472682JG9		FGIC
	472682JH7		FGIC
	472682JJ3		FGIC
	472682JL8		FGIC
	472682JM6		FGIC
	472682JN4		FGIC
Series 2003 A			
	CUSIP		
	010653QU0		
	010653QV8		
	010653QW6		
	010653QX4		
	010653QY2		
	010653QZ9		
	010653RA3		
Series 2003-B-8			
	CUSIP		
	472682ML4		FSA
	472682MM2		FSA
	472682MN0		FSA
	472682MP5		FSA
	472682MQ3		FSA
	472682MR1		FSA
	472682MS9		FSA
Variable Rate Demand Warrants			
Series 2002 A			
	CUSIP	Subseries	
	472682JW4	2002 A	FGIC
Series 2002 C			
	CUSIP	Subseries	
	472682KE2	2002 C-2	Syncora
	472682KF9	2002 C-3	Syncora
	472682KG7	2002 C-4	Syncora
	472682KJ1	2002 C-6	Syncora
	472682KK8	2002 C-7	Syncora
Series 2003 B			
	CUSIP	Subseries	
	472682LN1	2003 B-2	Syncora
	472682LP6	2003 B-3	Syncora
	472682LQ4	2003 B-4	Syncora
	472682LR2	2003 B-5	Syncora
	472682LS0	2003 B-6	Syncora
	472682LT2	2003 B-7	Syncora

[Continued on following page]

Auction Rate Warrants

Bond Insurer

Series 2002 C

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

Series 2003 B

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

Series 2003 C

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