

**Proposed Terms and Conditions for Settlement and Refinancing
of Jefferson County's Outstanding Sewer Warrants**

September 14, 2011

**FOR SETTLEMENT PURPOSES ONLY; CONFIDENTIAL SETTLEMENT
COMMUNICATION PROTECTED BY ALA. R.EVID. 408 and FED R. EVID. 408**

The terms reflected herein are entirely contingent upon the negotiation and execution by all parties of a comprehensive settlement agreement and related documents, and satisfaction or waiver of all conditions contained in all fully negotiated agreements and documents.

Jefferson County (the "County") and the participating holders of sewer warrants (the "Creditors") would agree to settle and refinance the County's outstanding sewer debt based upon the following general terms and conditions to be contained in comprehensive settlement documentation:

1. **Refinancing.** The parties are engaged in ongoing negotiations and anticipate a settlement in the approximate amount of \$2.05 billion to redeem all outstanding sewer warrants (contingent on an additional \$.03 billion in creditor concessions from Creditors to be identified in the future). Key provisions of refinancing debt to be issued by a newly formed public corporation (the "Refinancing") would include the following or other terms and conditions acceptable to the County and appropriate to effectuate the Refinancing:
 - (a) 40-year term.
 - (b) 1.25x debt service coverage.
 - (c) 10% Debt Service Reserve ("DSR"), half of which may be funded (at the County's option) by a surety bond provided by Assured Guaranty.
 - (d) Priority pledge of net sewer revenues.
 - (e) Moral obligation covenant by State of Alabama to seek legislative appropriations to replenish draws, if any, on the DSR.
 - (f) Up to \$1.0 billion of bond insurance (at the County's option) provided by Assured Guaranty.
 - (g) Issuance costs paid by County or GUSC (described in section 2 below).
 - (h) Closing: No later than June 30, 2012.
 - (i) Projected capital needs covered by existing warrant reserves and future cash flow.
2. **Creation of an independent public corporation for management and financing of the sewer system.** The County will seek, with the Governor's support, legislation in a

special session to authorize creation of a new form of governmental utility service corporation (GUSC) to serve as the issuer of the Refinancing debt and the operator of the sewer system.

- (a) Majority of GUSC directors to be appointed by Governor based on recommendations from the County; remainder to be appointed by County. All directors to possess appropriate professional credentials as specified in enabling legislation. County to appoint all GUSC directors after Refinancing bonds are satisfied, or refinanced without credit support from State.
 - (b) GUSC will be specifically authorized to file Chapter 9 with consent of the Governor. GUSC to covenant not to contest treatment of the pledged revenues as "special revenues" as defined in 11 U.S.C. section 902(2). Once the Refinancing bonds are paid or refinanced without credit support from the State, the GUSC will be eligible to file Chapter 9 without the Governor's consent.
 - (c) System to be transferred or otherwise conveyed to GUSC at close of Refinancing on terms assuring the County's right to return of the system assets upon satisfaction or payment of Refinancing debt. The GUSC shall be prohibited from selling, transferring, creating a lien on, or otherwise alienating the system assets without the prior approval of the County. Notwithstanding the foregoing, the system will only be transferred to the GUSC if such transfer is necessary to effectuate the Refinancing. If the Refinancing can be accomplished without such transfer, the County may determine whether or not to transfer the system assets to the GUSC.
 - (d) Receiver to remain in operating control of the sewer system until closing of the Refinancing pursuant to the Receiver order.
3. **Independent Consultants.** The Receiver's financing and operating models, including projections of capital expenditures and operating costs (upon which the County has relied in projecting future sewer rates and in creditor negotiations) may be verified by independent consultants retained by the County. Receiver to pay the reasonable costs thereof from sewer revenues.
4. **Rates.** It is anticipated that the Refinancing would require approximate rate increases of 8.2% for each of the first three years beginning November 1, 2011 (or as soon thereafter as possible), and future projected annual increases of no more than 3.25% for operating expenses and capital requirements until such time as the debt service requirements related to the Refinancing are met. The Receiver, acting pursuant to the terms of this term sheet, shall initiate the first rate increase immediately upon the County's approval of this term sheet (which shall occur no later than September 28, 2011). The first rate increase shall be consistent with the terms of this term sheet and the parties' overall settlement proposals.
5. **Environmental Services Department Overhead Charges.** All outstanding overhead charges of the County for services to the Environmental Services Department (ESD) shall