



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

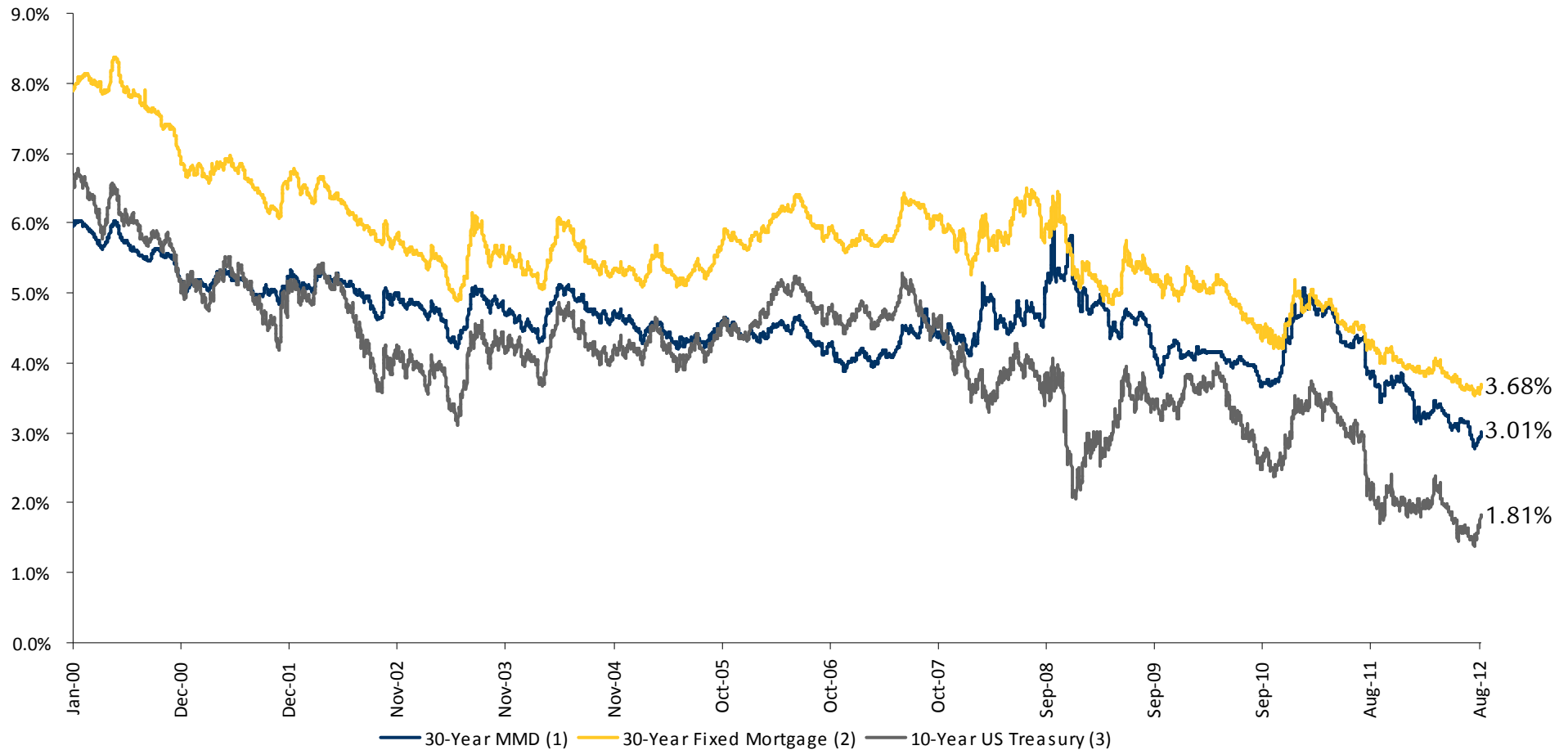
- Generally, sewer fees are increasing across the country and sewer fees for systems subject to EPA consent decrees are rising at higher rates than the national average
 - Increases in sewer fees contained in the September 14, 2011 proposed settlement (the “Proposed 2011 Settlement”) that was approved 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 2011¹
 - 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 2011¹
 - 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 water¹
- These sewer systems generally have the following characteristics¹
 - 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 decrees¹
- As of July 9, 2012, there were 31 sewer systems operating with EPA consent decrees²
 - 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

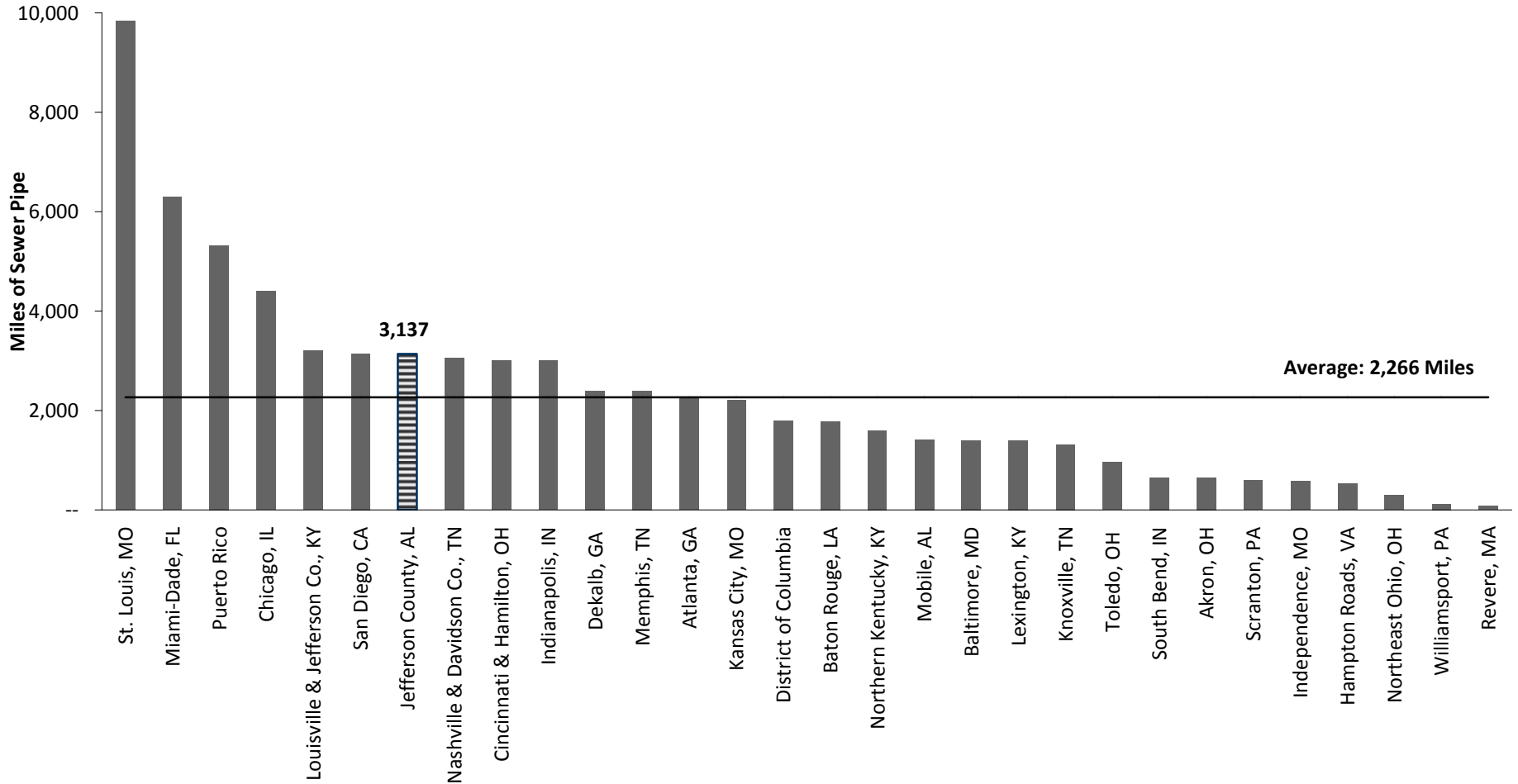
Sewer system costs

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

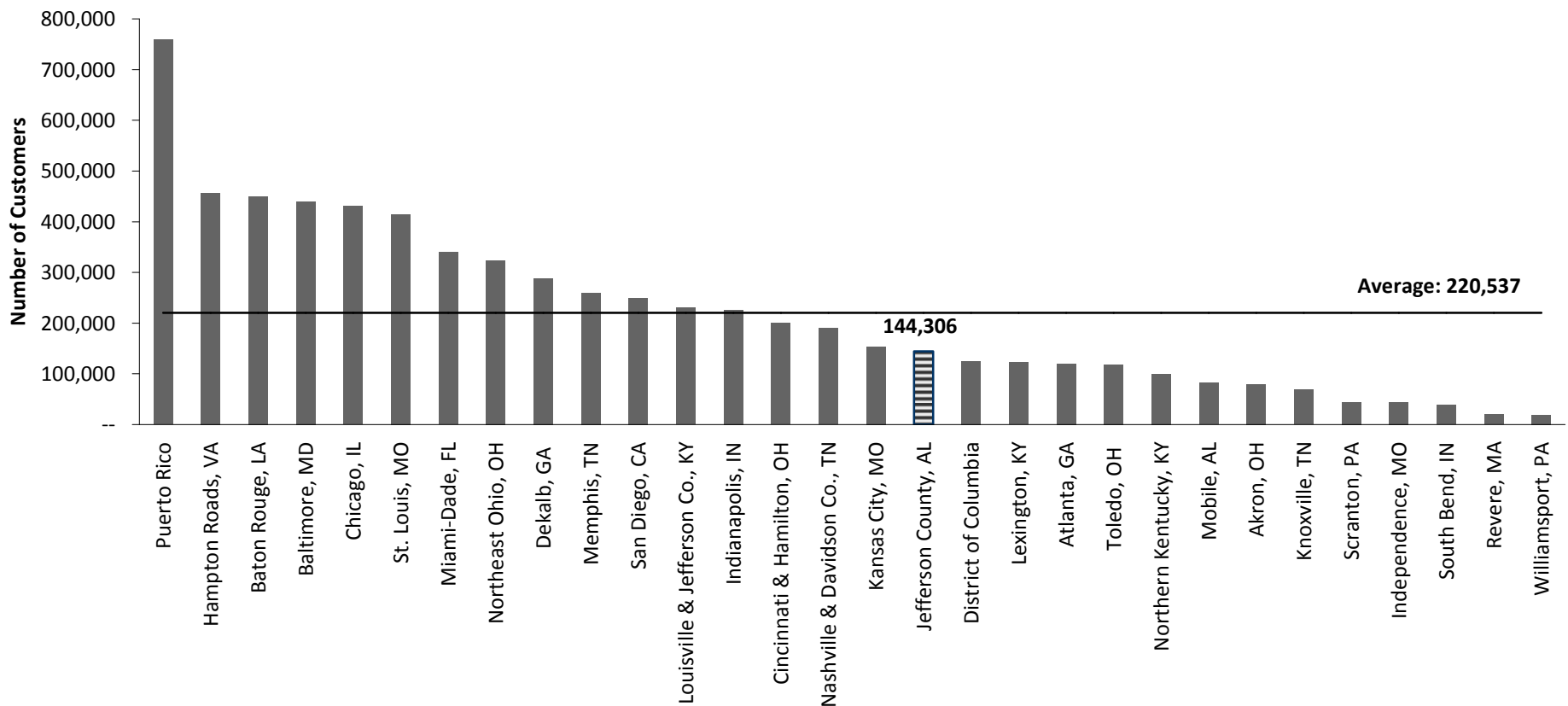


Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

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 requirements¹

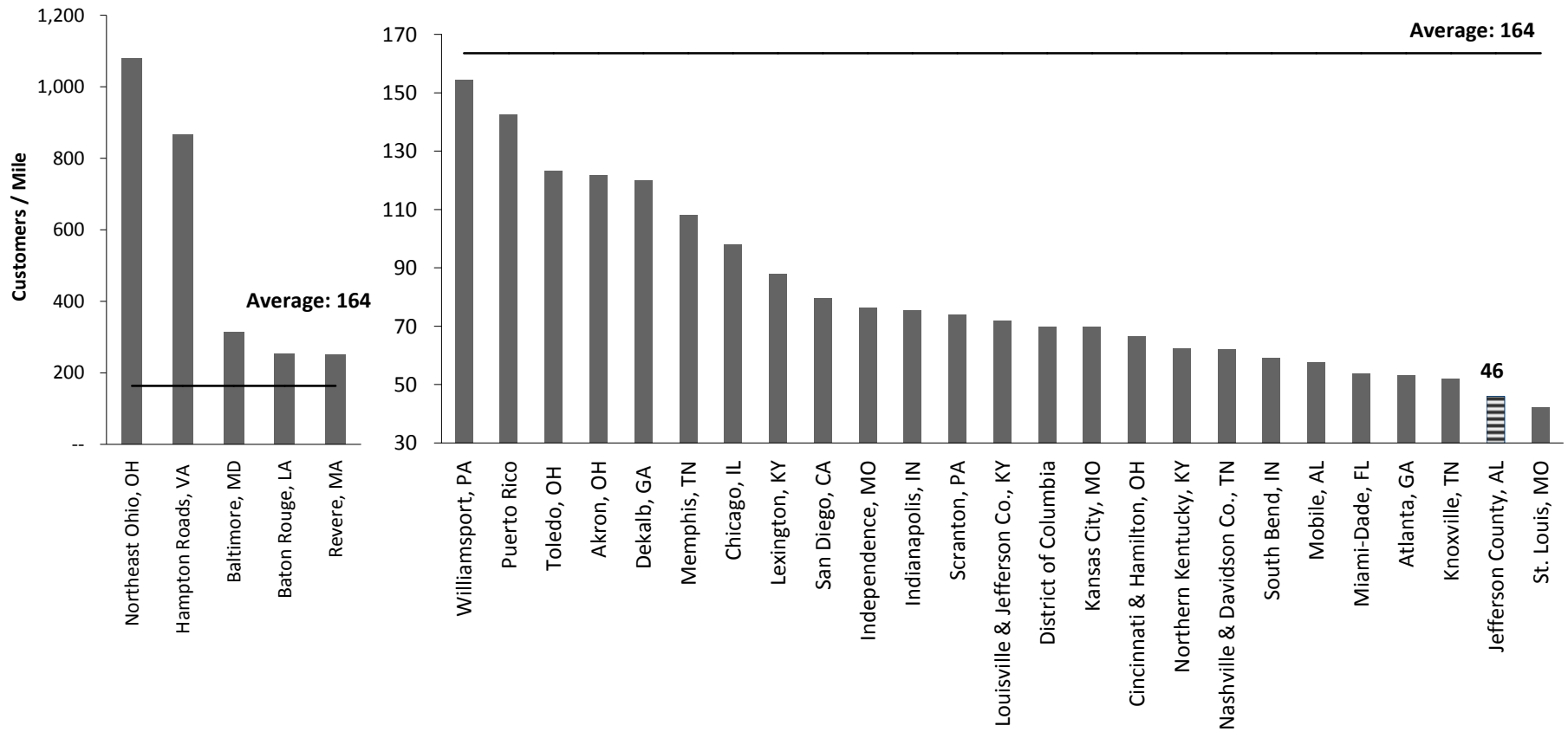


Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

(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

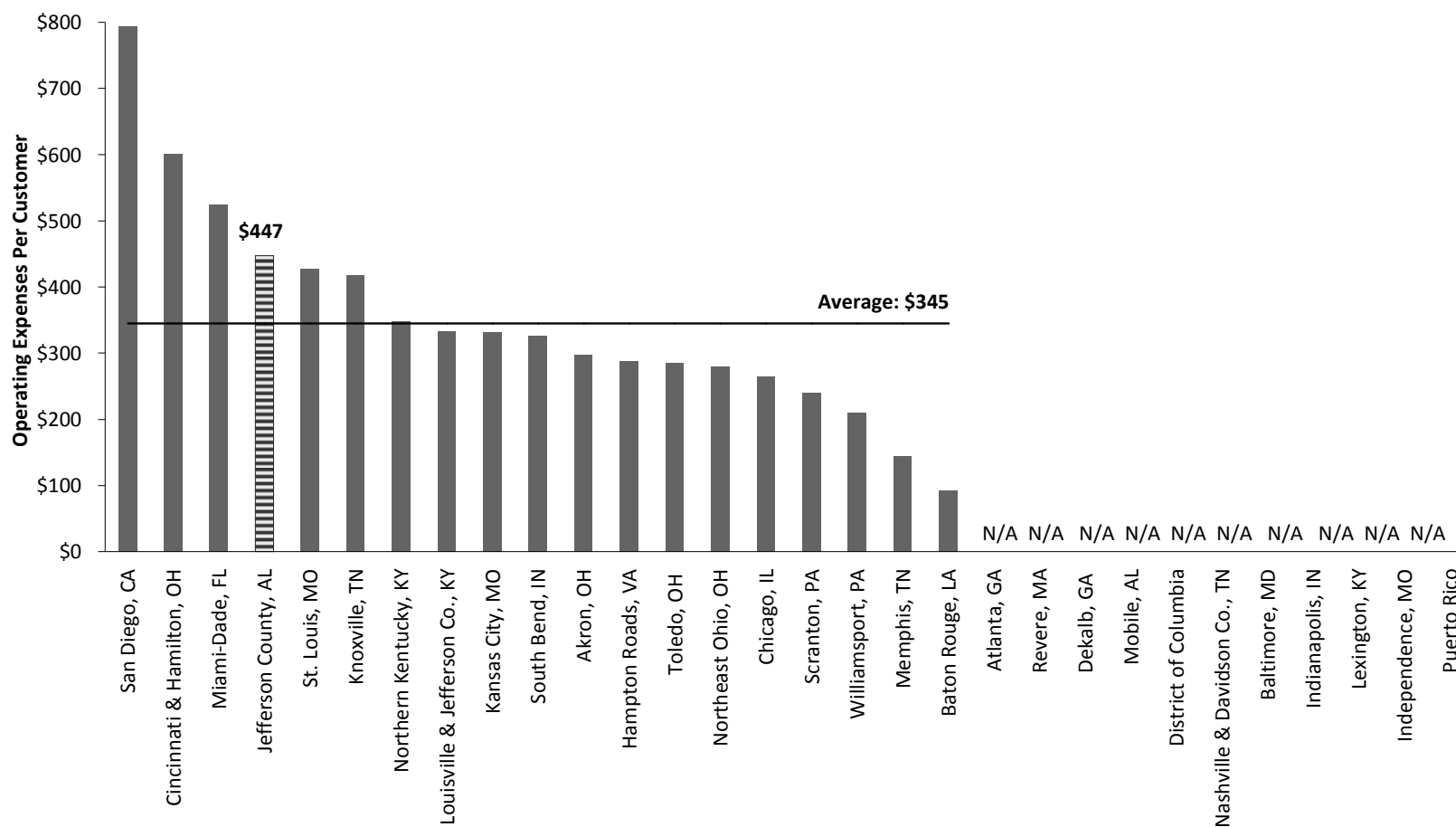
...which results in the second lowest number of customers per mile...



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 system¹

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

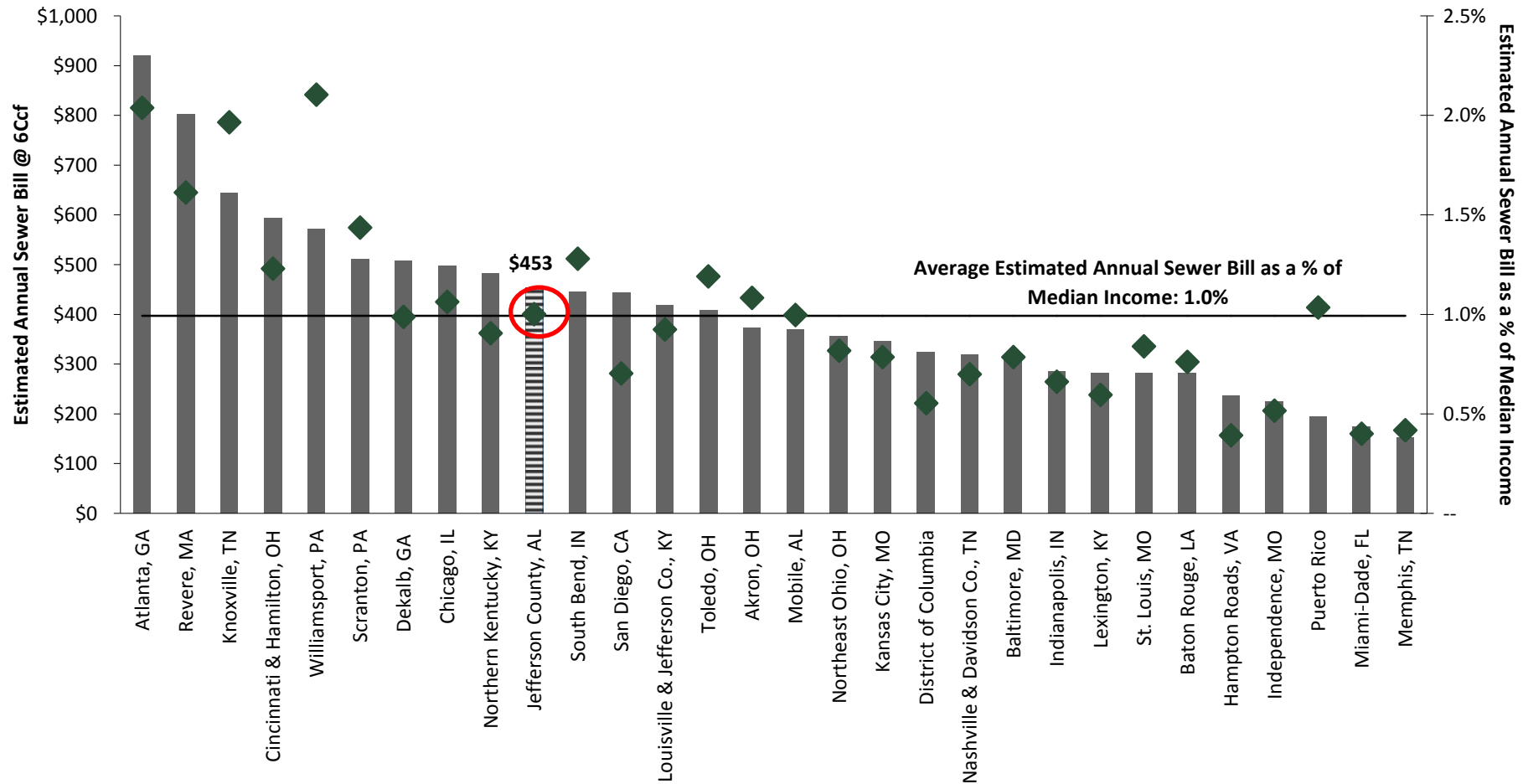
(1) As per Ala. Code 11-3-11(a)(15).

Section 2b

Sewer and Property Tax Burden on Residents

Sewer fees

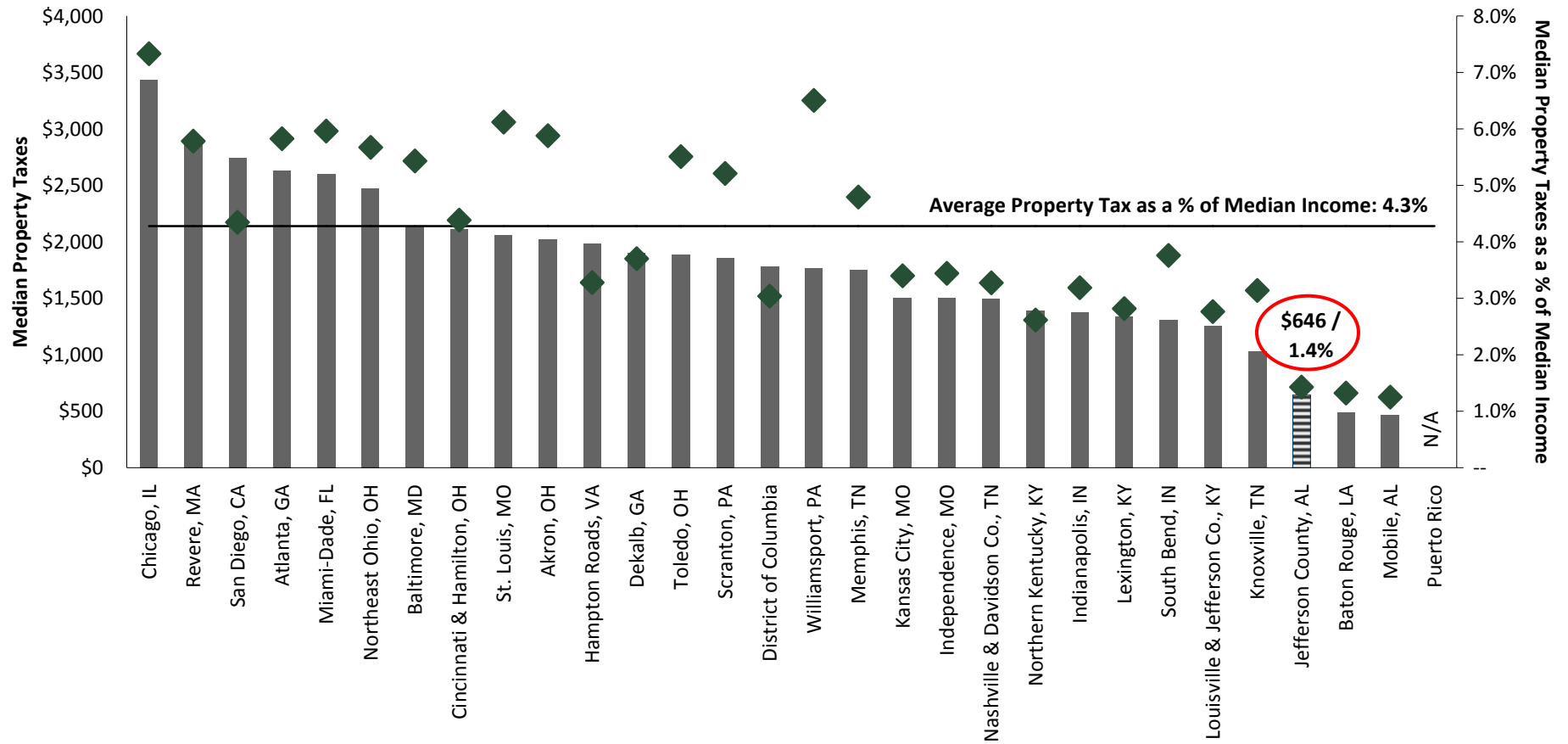
Jefferson County's sewer fees as a percentage of median income are near the average of its peers



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

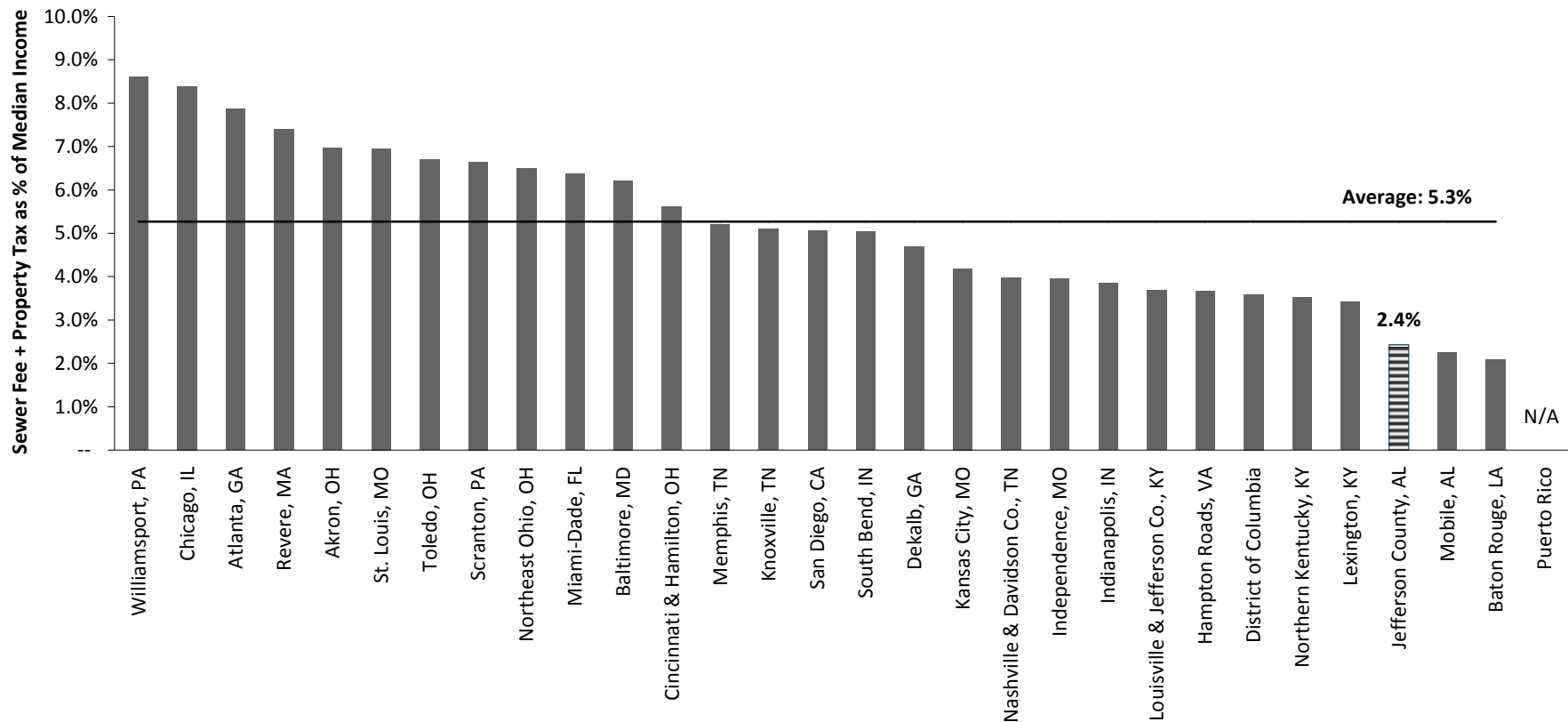


Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

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



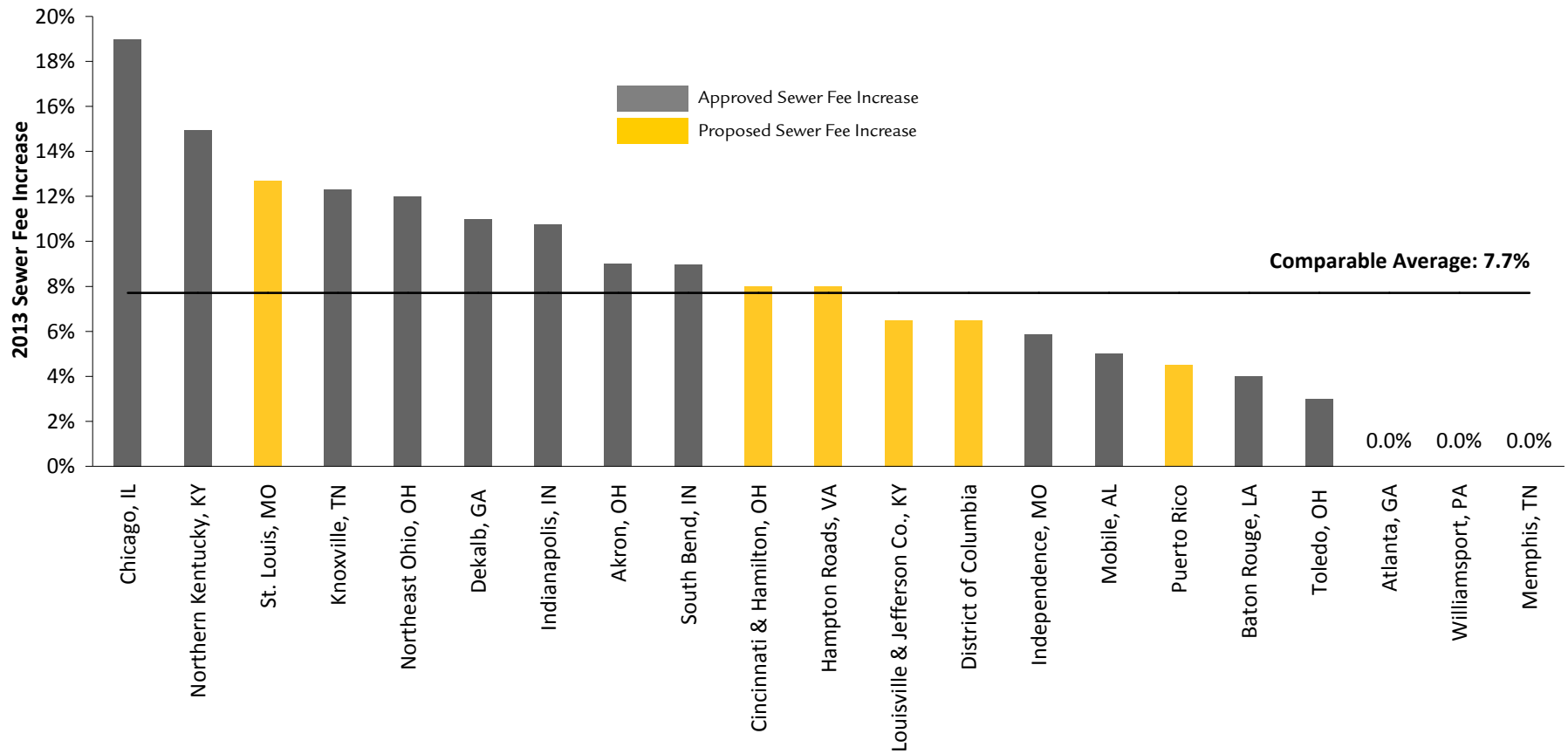
Note: See Appendix A, pages 28-29 for detailed data, source information and corresponding footnotes.

Section 2c

Sewer Fee Increases

Sewer fee increases – 2013

Sewer fees are increasing in virtually every peer jurisdiction

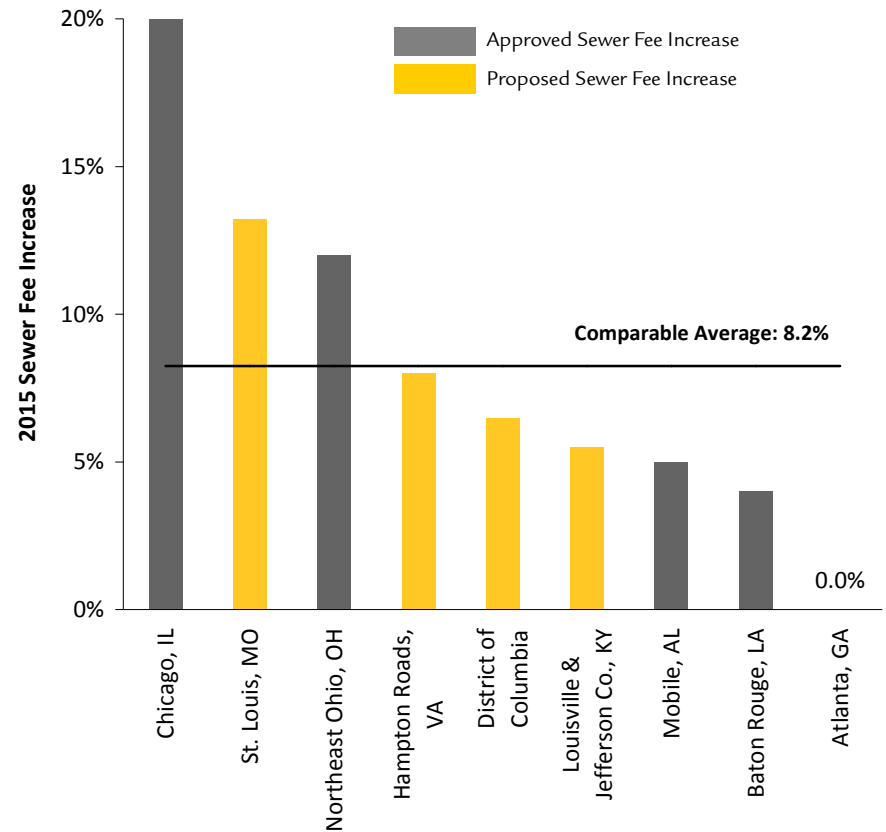
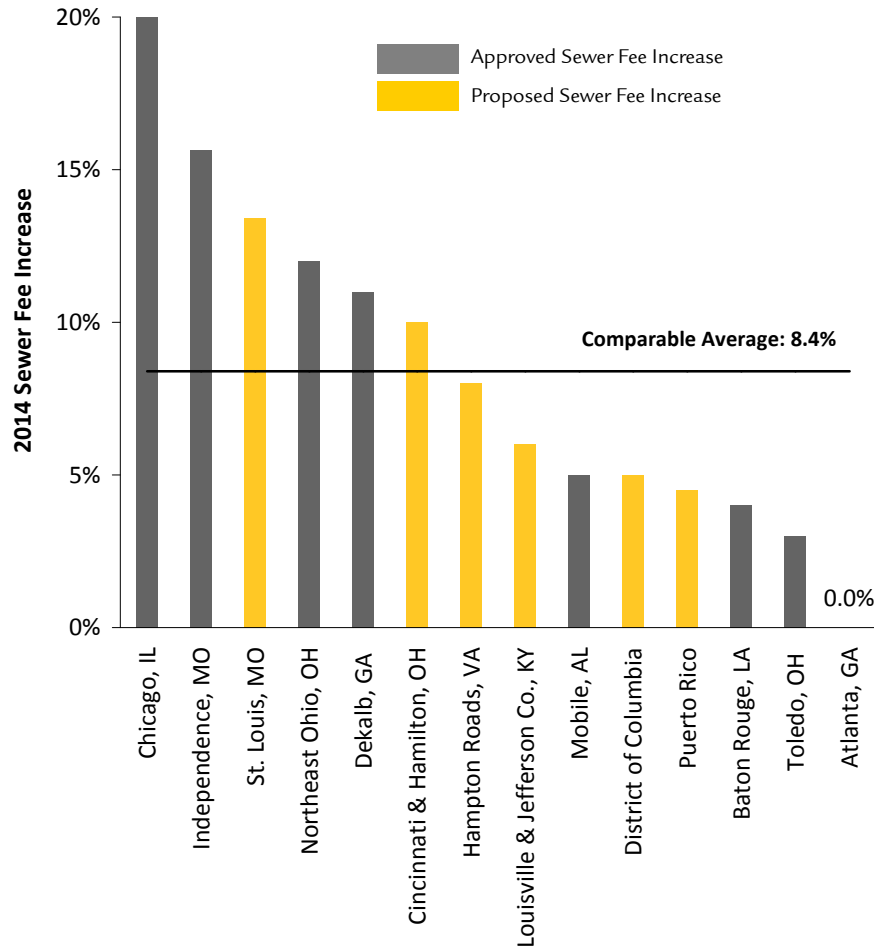


National Association of Clean Water Agencies (“NACWA”) 2011 Service Charge Index Survey (“2011 Survey”) estimates sewer fees will increase by 5.6% nationwide in 2013¹

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 2015¹

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 million¹ in revenue per year

- Sewer fees for Jefferson County currently represent 96% of total funding²
- By comparison, EPA consent decree peers generate 93% of revenue from sewer fees²
 - 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 Report¹
 - 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

City / County	Miles of Sewer Pipe	Number of Customers	Customers / Mile	Operating Expenses		Median Income (3)	Median Property Taxes (4)	Estimated Annual Sewer Bill		2013 Rate Increase	2014 Rate Increase	2015 Rate Increase	Sewer Fees as a % of Total Sewer System Revenues
				Per Customer (1)	Estimated Annual Sewer Bill @ 6 Ccf (2)			as % of Median Income	Property Tax as % of Median Income				
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)

City / County	Miles of Sewer Pipe	Number of Customers	Customers / Mile	Operating Expenses		Median Income (3)	Median Property Taxes (4)	Estimated Annual Sewer Bill		Property Tax as % of			Sewer Fees as a % of Total Sewer System Revenues
				Per Customer (1)	Estimated Annual Sewer Bill @ 6 Ccf (2)			Median Income	Median Income	2013 Rate Increase	2014 Rate Increase	2015 Rate Increase	
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 Wetumpka¹
- Alabama courts have also long recognized that the authority to enforce mandatory hook-up requirements is vital to the establishment of an efficient sewer system¹
- It is in the County's control to require mandatory hook-up for new construction within proximity to the sewer line²

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 pledge¹

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 expenditures²
 - 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 communities³
 - State of Vermont provided moral obligation pledge to the Vermont Municipal Bond Bank, a state agency that helps other municipalities access capital⁴

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.
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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.

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