

February 4, 2009

Jefferson County Alabama Sewer Bonds: Questions and Answers Update

Jefferson County Sewer Revenue Warrants (Series 2003 C-6, C-7, C-8)

CUSIPS Affected:

472653NF6
472682NG4
472682NH2

The above represents auctions for which we serve as an eligible broker dealer. Other CUSIPS within our system have been transferred to us:

472682KD4
472682LK7
472682LM3
472682NB5
472682NE9
472682LL5
472682KH5
472682KC6
472682ND1

What is the Current Credit Rating on the Sewer Warrants?

Warrants are insured by:

FGIC: (For CUSIPS 472682NF6, NG4, NH2, LK7, LM3, NB5, NE9)

Ratings:

Moody's: Caa1 (Negative)
S&P: CCC (Negative)

Syncora Guarantee (formerly XLCA): (For CUSIP 472682KD7)

Ratings:

Moody's: Caa1 (Negative)
S&P: CC (Negative)

Underlying Ratings on the Sewer System Warrants:

Ratings:

Moody's: Caa3
S&P: D
Fitch: Withdrawn

All expressions of opinion reflect the judgment of the Fixed Income Department of Raymond James & Associates, Inc. (RJA) as of the date stated above and are subject to change. Information has been obtained from third-party sources we consider reliable, but we do not guarantee the accuracy or completeness. Other departments of RJA may have information that is not available to the Fixed Income Department about companies or issuers mentioned in this report. RJA or its affiliates may execute transactions in the securities mentioned in this report that may not be consistent with the report's conclusions. High Yield bonds (below investment grade) are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawn at any time by the assigning rating agency. © 2009 Raymond James & Associates, Inc. All Rights Reserved.

The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716

RAYMOND JAMES

& ASSOCIATES, INC.
Member New York Stock Exchange/SIPC

What is the current Maximum Rate Formula on the Warrants?

According to the offering documents, the Maximum Rate formula is governed by the HIGHEST rating that is publicly recognized. In the case of the Sewer Warrants, all ratings triggers have been tripped, so the Maximum rate will reflect the highest percentage of interest that may be applied according to the documents. So if 1 Month LIBOR is at 0.4375% (Feb. 2009), the formula would look like this:

$0.4375\% \times 2.75\% = 1.20313$ (Auction Agent will round to the third decimal, so the printed rate here would be 1.203%).

Is the County making timely payments on the Sewer Warrants?

The net sewer revenues have not been sufficient to meet the debt service requirements due to the increase in interest cost as a result of the failed auctions. In order to make full and timely debt service payments, the trustee has had to draw on the Debt Service Reserve Fund. In the Material Event notice dated January 5, 2009, the trustee explained the existence of various covenant defaults, like the failure to raise sewer rates.

In the event the debt service reserve fund is exhausted, the respective bond insurers would be responsible for scheduled principal and interest payments.

What is the Credit/Revenue supporting the debt?

The Warrants are secured by a pledge of net revenues of the Jefferson County Sewer System. The pledged revenues are the system's revenues (derived from the Sewer Tax and all revenues, receipts, and income derived from the operation of the System) that remain after the payment of operating expenses. There is also a debt service reserve fund established for the outstanding sewer revenue indebtedness funded by insurer backed surety bonds.

What is the current status of the restructuring negotiations?

The forbearance agreement between the County and creditors has been extended through February 20, 2009 providing more time to resolve the situation. Alabama's Governor Riley has become very involved in the negotiations between the County and creditors.

On November 19, 2008 the Court appointed Special Masters to make recommendations with respect to the dispute as well as assist in the mediation. The Special Masters filed their recommendations with the Court on January 19, 2009. In general terms, their recommendations include:

- Pursue the possibility of federal or state government assistance;
- Consider implementing non-user fees;
- Target revenue, expense and operating efficiencies of the system;
- Continue consensual efforts to resolve the dispute;
- Sewer rate increases would be dependent on possible federal assistance or state legislative solutions.

Is Federal assistance (TARP) available to the County?

Last fall the Governor of Alabama asked the TARP for assistance on behalf of the county. At the time, they claimed they weren't authorized to provide that type of assistance under the program. However, TARP's mission statement has recently been broadened. It is unclear whether federal assistance is now an option although the County is continuing to pursue that possibility. The County recently tried to hire a lobbyist firm to help them obtain federal assistance. We are hearing that the new administration plans to outline its revised plans for TARP over the next week or so.

What happens to my ARS Warrants if the County Files for Bankruptcy?

Case law on Chapter 9 filings under the U.S. Bankruptcy Code is limited. Many of the rules were revised over the past 20 years. The purpose of Chapter 9 is to provide a financially distressed municipality protection from its creditors while it develops and negotiates a plan for adjusting its debt. Reorganization of the debts of a municipality is typically accomplished either by extending debt maturities, reducing the amount of principal or interest, or refinancing the debt by obtaining a new loan.