

NEW ISSUE - FULL BOOK-ENTRY

Ratings: S&P - AAA

Moody's - Aaa

Fitch - AAA

Financial Guaranty Insured

In the opinion of Bond Counsel, under existing law interest on the Series 1997-D Warrants (i) will be excluded from gross income for federal income tax purposes if the County complies with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Series 1997-D Warrants in order that interest thereon be and remain excluded from gross income, and (ii) will not be an item of tax preference for purposes of the federal alternative minimum tax on individuals and corporations. Bond Counsel is also of the opinion that under existing law interest on the Series 1997-D Warrants will be exempt from State of Alabama income taxation. See "TAX EXEMPTION" herein for further information and certain other federal tax consequences arising with respect to the Series 1997-D Warrants.

JEFFERSON COUNTY, ALABAMA
\$296,395,000
Sewer Revenue Warrants, Series 1997-D

Dated: March 1, 1997

Due: February 1 as shown on inside front cover

The Series 1997-D Warrants are issuable as fully registered warrants and, when issued, will be registered in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), New York, New York. Individual purchases of the Series 1997-D Warrants will be made in book-entry form only, and individual purchasers ("Beneficial Owners") of the Series 1997-D Warrants will not receive physical delivery of warrant certificates. Payments of principal of, redemption premium, if any, and interest on the Series 1997-D Warrants will be paid by AmSouth Bank of Alabama, Birmingham, Alabama, as trustee for the Series 1997-D Warrants (the "Trustee"), to DTC or its nominee. Interest on the Series 1997-D Warrants is payable on each February 1 and August 1, beginning August 1, 1997. So long as DTC or its nominee is the registered owner of the Series 1997-D Warrants, disbursements of such payments to DTC is the responsibility of the Trustee, disbursements of such payments to DTC Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of DTC Participants or indirect Participants as more fully described herein.

The Series 1997-D Warrants are not general obligations of the County. The Series 1997-D Warrants will be limited obligations of the County payable solely out of, and secured by a pledge and assignment of, the revenues (other than tax revenues) from the County's sanitary sewer system remaining after payment of operating expenses. The pledge of such revenues in favor of the Series 1997-D Warrants will be on a parity of lien with the pledge thereof to secure certain warrants (the "Series 1997 A-C Warrants") heretofore issued by the County which are outstanding in the aggregate principal amount of \$311,940,000. The Indenture provides for the issuance of additional securities secured on a parity of lien with the Series 1997-D Warrants and the Series 1997 A-C Warrants.

The payment of the principal of and interest on the Series 1997-D Warrants when due will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Series 1997-D Warrants.

[Add FGIC logo here]

The Series 1997-D Warrants are subject to redemption at the option of the County as described herein.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

SEE INSIDE FRONT COVER FOR MATURITIES, AMOUNTS, RATES & PRICES

The Series 1997-D Warrants are offered when, as and if issued by the County and received by the Underwriters and Placement Agents, subject to approval of validity by Haskell Slaughter & Young, L.L.C., Birmingham, Alabama, Bond Counsel. Certain legal matters will be passed on for the Underwriters and Placement Agents by their counsel, Maynard, Cooper & Gale, P.C. It is expected that the Series 1997-D Warrants in definitive form will be available for delivery in New York, New York on or about March 20, 1997.

Raymond James & Associates, Inc.

Blount Parrish & Roton, Inc.

Gilchrist Securities, Inc.

Merchant Capital, L.L.C.

Compass Bank

National Bank of Commerce of Birmingham

As Placement Agent

As Placement Agent

The date of this Official Statement is March 5, 1997.

MATURITIES, AMOUNTS, RATES & PRICES

\$92,740,000 Serial Warrants

Maturity	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2017	\$21,235,000	5.65%	5.70%
2018	22,525,000	5.70	5.73
2019	23,810,000	5.70	5.75
2020	25,170,000	5.70	5.77

\$51,000,000 5.75% Term Warrants due February 1, 2022, Priced to Yield 5.80%

\$152,655,000 5.75% Term Warrants due February 1, 2027, Price: 98.875%

(Accrued interest to be added)

JEFFERSON COUNTY, ALABAMA

JEFFERSON COUNTY COMMISSION

Mary M. Buckelew, President
Bettye Fine Collins, Commissioner
Jeff Germany, Commissioner
Chris McNair, Commissioner
Gary White, Commissioner

DIRECTOR OF FINANCE

Steve Saylor

COUNTY ATTORNEY

Edwin A. Strickland

BOND COUNSEL

Haskell Slaughter & Young, L.L.C.
Birmingham, Alabama

COUNSEL FOR UNDERWRITERS AND PLACEMENT AGENTS

Maynard, Cooper & Gale, P.C.
Birmingham, Alabama

This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Series 1997-D Warrants.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions.

The information in this Official Statement has been obtained from sources which are considered dependable and which are customarily relied upon in the preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness.

All estimates and assumptions contained herein are believed to be reasonable, but no representation is made that such estimates or assumptions are correct or will be realized.

No person, including any broker, dealer or salesman, has been authorized to give any information or to make any representation other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the County.

The Series 1997-D Warrants will not be registered under the Securities Act of 1933, as amended, or any state securities laws and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

Any information or expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create an implication that there has been no change as to the affairs of the County since the date hereof.

In connection with the offering of the Series 1997-D Warrants the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Series 1997-D Warrants at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriters may offer and sell the Series 1997-D Warrants to certain dealers (including dealers depositing the Series 1997-D Warrants in investment trusts) and others at prices lower than the public offering prices set forth on the cover page.

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OFFICIAL STATEMENT

Regarding

JEFFERSON COUNTY, ALABAMA \$296,395,000 Sewer Revenue Warrants, Series 1997-D

INTRODUCTION

This Official Statement is being furnished in connection with the issuance of the warrants referred to above (the "Series 1997-D Warrants") by Jefferson County, Alabama (the "County"). The County is a political subdivision of the State of Alabama. The County owns and operates a sanitary sewer system (the "System"), which is located in the County and certain contiguous territory in Shelby County and St. Clair County. The Series 1997-D Warrants will be issued pursuant to that certain Trust Indenture dated as of February 1, 1997, as supplemented by that certain Supplemental Trust Indenture dated as of March 1, 1997 (the "Indenture") between the County and AmSouth Bank of Alabama, an Alabama banking corporation, in Birmingham, Alabama (the "Trustee").

The Series 1997-D Warrants are being issued for the purpose of (i) providing a portion of the funds to upgrade the System in accordance with the Consent Decree referred to herein (see "LITIGATION" - The Consent Decree), (ii) making other improvements to the System as part of the County's ongoing capital improvement program, (iii) making a deposit to the debt service reserve fund established pursuant to the Indenture and (iv) paying the costs of issuing the Series 1997-D Warrants.

The County has heretofore issued its (i) \$211,040,000 Sewer Revenue Refunding Warrants, Series 1997-A (the "Series 1997-A Warrants"), (ii) \$48,020,000 Taxable Sewer Revenue Refunding Warrants, Series 1997-B (the "Series 1997-B Warrants") and (iii) \$52,880,000 Taxable Sewer Revenue Refunding Warrants, Series 1997-C (the "Series 1997-C Warrants"). The Series 1997-A Warrants, the Series 1997-B Warrants and the Series 1997-C Warrants are herein collectively referred to as the Series 1997 A-C Warrants. The Series 1997-D Warrants and the Series 1997 A-C Warrants are herein collectively referred to as the Series 1997 Warrants.

The Series 1997-D Warrants will not constitute general obligations of or a charge against the general credit or taxing power of the State of Alabama, the County or any other political subdivision of the State of Alabama. The Series 1997-D Warrants will be limited obligations of the County payable solely out of and secured by a pledge and assignment of the revenues from the System (other than tax revenues that are received by the County) remaining after payment of operating expenses (the "Pledged Revenues"). See "SECURITY AND SOURCE OF PAYMENT". Under the Indenture, the Series 1997-D Warrants and the Series 1997 A-C Warrants will be equally and ratably secured by a pledge of the Pledged Revenues. See "SECURITY AND SOURCE OF PAYMENT". The County has reserved the right in the Indenture to issue additional parity securities payable from and secured by a pledge of the Pledged Revenues on a parity of lien with the Series 1997 Warrants, subject to the terms and conditions of the Indenture. See "Appendix A - SUMMARY OF THE INDENTURE".

Payment of the principal of and interest on the Series 1997-D Warrants when due will be insured by a municipal bond insurance policy to be issued by Financial Guaranty Insurance Company ("Financial Guaranty") simultaneously with the delivery of the Series 1997-D Warrants. See "THE MUNICIPAL BOND INSURANCE POLICY".

The Series 1997-D Warrants are subject to optional and mandatory redemption as described in the Indenture. See "DESCRIPTION OF THE SERIES 1997-D WARRANTS - Redemption".

Following the issuance of the Series 1997-D Warrants, the County's only outstanding sewer revenue indebtedness will be the Series 1997 Warrants. See "SECURITY AND SOURCE OF PAYMENT".

Neither the delivery of this Official Statement nor any sale made hereunder implies that there has been no change with respect to the System or the County at any time subsequent to the date hereof. The County has covenanted to undertake certain continuing disclosure pursuant to Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE".

For further information contact Steve Saylor, Director of Finance, Jefferson County, Room 3, County Courthouse, 716 North 21st Street, Birmingham, Alabama 35263 (telephone (205) 325-5762).

GLOSSARY OF TERMS USED IN OFFICIAL STATEMENT

Certain capitalized terms used frequently in this Official Statement are defined in this section of the Official Statement. In addition, certain capitalized terms used in this Official Statement and not defined in this section are defined in Appendix A - "SUMMARY OF THE INDENTURE".

Additional Parity Securities means additional bonds, warrants or other obligations secured on a parity of lien with the Series 1997 Warrants.

County means Jefferson County, Alabama.

Enabling Law means Chapter 28, Title 11 (Section 11-28-1 et seq.) of the Code of Alabama (1975).

Financial Guaranty means Financial Guaranty Insurance Company, which will issue the Insurance Policy with respect to the Series 1997 Warrants.

Improvements means the capital improvements to the System being financed with proceeds of the Series 1997-D Warrants.

Indenture means the Trust Indenture dated as of February 1, 1997, as supplemented by the Supplemental Trust Indenture dated as of March 1, 1997, pursuant to which the Series 1997-D Warrants are being issued.

Insurance Policy means the municipal bond insurance policy issued by Financial Guaranty with respect to the Series 1997-D Warrants.

Internal Revenue Code means the Internal Revenue Code of 1986, as amended.

Operating Expenses means, for the applicable period or periods, (a) the reasonable and necessary expenses of efficiently and economically administering and operating the System, including, without limitation, the costs of all items of labor, materials, supplies, equipment (other than equipment chargeable to fixed capital account), premiums on insurance policies and fidelity bonds maintained with respect to the System (including casualty, liability and any other types of insurance), fees for engineers, attorneys and accountants (except where such fees are chargeable to fixed capital account) and all other items, except depreciation, amortization, interest and payments made pursuant to Qualified Swaps, that by generally accepted accounting principles are properly chargeable to expenses of administration and operation and are not characterized as extraordinary items, (b) the expenses of maintaining the System in good repair and in good operating condition, but not including items that by generally accepted accounting principles are properly chargeable to fixed capital account, and (c) the fees and charges of the Trustee.

Parity Securities means the Series 1997 Warrants and any Additional Parity Securities issued pursuant to the Indenture.

Pledged Revenues means the System Revenues (other than revenues derived from the Sewer Tax and any other tax revenues that constitute System Revenues) that remain after the payment of Operating Expenses.

Prior Years' Surplus means, with respect to any particular Fiscal Year, the aggregate amount on deposit in the Rate Stabilization Fund and the Depreciation Fund at the beginning of such Fiscal Year.

Rate Stabilization Fund means the fund by such name established pursuant to the Indenture.

Series 1997 Warrants means the Series 1997-A Warrants, the Series 1997-B Warrants, the Series 1997-C Warrants, and the Series 1997-D Warrants.

Series 1997 A-C Warrants means the Series 1997-A Warrants, the Series 1997-B Warrants and the Series 1997-C Warrants.

Series 1997-A Warrants means the County's \$211,040,000 Sewer Revenue Refunding Warrants, Series 1997-A.

Series 1997-B Warrants means the County's \$48,020,000 Taxable Sewer Revenue Refunding Warrants, Series 1997-B.

Series 1997-C Warrants means the County's \$52,880,000 Taxable Sewer Revenue Refunding Warrants, Series 1997-C.

Series 1997-D Warrants means the County's \$296,395,000 Sewer Revenue Warrants, Series 1997-D, which are being offered by this Official Statement.

Sewer Tax means that certain ad valorem tax levied by the County on an annual basis for the benefit of the System pursuant to Act No. 716 of the 1900-01 Session of the General Assembly of Alabama.

System means the County's sanitary sewer system.

System Revenues means the revenues derived from the Sewer Tax and all revenues, receipts, income and other monies hereafter received by or on behalf of the County from whatever source derived from the operation of the System, including, without limitation, the fees, deposits and charges paid by users of the System and interest earnings on the special funds established pursuant to the Indenture (other than the Rate Stabilization Fund) and any other funds held by the County or its agents that are attributable to or traceable from monies derived from the operation of the System, but excluding, however, any federal or state grants to the County in respect of the System and any income derived from such grants.

Trustee means AmSouth Bank of Alabama, an Alabama banking corporation, in Birmingham, Alabama, in its capacity as trustee under the Indenture.

DESCRIPTION OF THE SERIES 1997-D WARRANTS

General Description

The Series 1997-D Warrants will be dated March 1, 1997, and will bear interest at the per annum rates set forth on the inside cover hereof. Interest on the Series 1997-D Warrants will be payable on August 1, 1997, and semiannually thereafter on each February 1 and August 1 until maturity or earlier redemption as provided in the Indenture. The Series 1997-D Warrants will mature in the principal amounts and on the dates set forth on the cover hereof and will be issued in fully registered form in the denomination of \$5,000 or any integral multiple thereof. The Series 1997-D Warrants will be offered initially at the price or prices set forth on the inside cover hereof. The principal of and the interest on the Series 1997-D Warrants will bear interest after their respective due dates until paid at the respective rates of interest borne by the Series 1997-D Warrants prior to maturity.

The Series 1997-D Warrants are available in book-entry form only. See "BOOK-ENTRY ONLY SYSTEM". So long as Cede & Co. is the registered owner of the Series 1997-D Warrants, as nominee of The Depository Trust Company, New York, New York ("DTC"), references herein to the owners of the Series 1997-D Warrants mean Cede & Co. and not the Beneficial Owners (as defined hereafter) of the Series 1997-D Warrants.

Method and Place of Payment

The principal of the Series 1997-D Warrants will be payable by the Trustee to Cede & Co. Interest on the Series 1997-D Warrants will be computed on the basis of a 360-day year of twelve consecutive 30-day months and will be paid on each semiannual interest payment date by the Trustee to Cede & Co.

Redemption

Optional Redemption. The Series 1997-D Warrants are subject to redemption prior to maturity as follows:

The Series 1997-D Warrants having stated maturities after February 1, 2007 are subject to redemption and prepayment prior to maturity, at the option of the County, as a whole or in part, from

such maturity or maturities as shall be specified by the County, on February 1, 2007, and on any date thereafter, such redemption to be at and for the following respective redemption prices (expressed as a percentage of the principal amount redeemed) plus accrued interest to the date fixed for redemption:

Redemption Date	Redemption Price
February 1, 2007 through January 31, 2008	101.0%
February 1, 2008 through January 31, 2009	100.5%
February 1, 2009 and thereafter	100.0%

Scheduled Mandatory Redemption of 2022 Term Warrants. The Series 1997-D Warrants having a stated maturity on February 1, 2022 (the "2022 Term Warrants"), are subject to scheduled mandatory redemption, at and for a redemption price, with respect to each such 2022 Term Warrant (or portion of the principal thereof) to be redeemed, equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, in the following principal amount on the following date:

Redemption Date	Amount
February 1, 2021	\$23,000,000

\$28,000,000 of the 2022 Term Warrants
are scheduled to be retired at maturity

Scheduled Mandatory Redemption of 2027 Term Warrants. The Series 1997-D Warrants having a stated maturity on February 1, 2027 (the "2027 Term Warrants"), are subject to scheduled mandatory redemption, at and for a redemption price, with respect to each such 2027 Term Warrant (or portion of the principal thereof) to be redeemed, equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, in the following principal amounts on the following dates:

Redemption Date	Amount
February 1, 2023	\$27,055,000
February 1, 2024	28,650,000
February 1, 2025	30,450,000
February 1, 2026	32,250,000

\$34,250,000 of the 2027 Term Warrants
are scheduled to be retired at maturity

If less than all of the outstanding Series 1997-D Warrants of a particular maturity are to be called for

redemption, the Series 1997-D Warrants (or principal portions thereof) of such maturity to be redeemed shall be selected by the Trustee by lot in the principal amounts designated to the Trustee by the County or otherwise as required by the Indenture. In the event any of the Series 1997-D Warrants are called for redemption, the Trustee shall give notice, in the name of the County, of the redemption of such Series 1997-D Warrants, which notice shall state that on the redemption date the Series 1997-D Warrants to be redeemed shall cease to bear interest. Such notice shall be given by mailing a copy thereof by registered or certified mail at least thirty (30) days prior to the date fixed for redemption to the holders of the Series 1997-D Warrants to be redeemed at the addresses shown on the registration books of the Trustee; provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of the redemption of any of the Series 1997-D Warrants for which notice was properly given. Any Series 1997-D Warrants which have been duly selected for redemption and which are deemed to be paid in accordance with the Indenture shall cease to bear interest on the date fixed for redemption and shall thereafter cease to be entitled to any lien, benefit or security under the Indenture.

If a trust is established for payment of less than all Series 1997-D Warrants of a particular maturity, the Series 1997-D Warrants of such maturity to be paid from the trust shall be selected by the Trustee within seven days after such trust is established and shall be identified by a separate CUSIP number or other designation satisfactory to the Trustee. The Trustee shall notify holders whose Series 1997-D Warrants (or portions thereof) have been selected for payment from such trust and shall direct such holders to surrender their Series 1997-D Warrants to the Trustee in exchange for Series 1997-D Warrants with the appropriate maturity and designation.

Registration and Exchange

See "BOOK-ENTRY ONLY SYSTEM" for a description of provisions relating to the registration, transfer and exchange of the Series 1997-D Warrants.

Authority for Issuance

The Series 1997 Warrants are being issued under the authority of the Constitution and laws of the State of Alabama, including particularly Chapter 28 of Title 11 of the Code of Alabama 1975, Section 11-28-1, *et seq.* (the "Enabling Law").

Section 11-28-2 authorizes any county to issue warrants for the purpose of paying the costs of public facilities, which include sanitary sewer systems and all necessary and desirable appurtenances with respect thereto, and to pledge in favor thereof the revenues from any revenue-producing properties owned or operated by such county, including any sewer system.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 1997-D Warrants. The Series 1997-D Warrants will be issued as fully-registered securities registered in the name of Cede & Co., DTC's partnership nominee. The Series 1997-D Warrants will be issued as a single fully-registered certificate per maturity and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "Banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

Purchases of beneficial ownership interests in the Series 1997-D Warrants under the DTC system must be made by or through DTC Participants, which will receive a credit for the Series 1997-D Warrants on DTC's records. The ownership interest of each beneficial owner of a Series 1997-D Warrant (a "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Series 1997-D Warrants are to be accomplished by entries made on the books of DTC Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Series 1997-D Warrants, except in the event that use of the book-entry only system for the Series 1997-D Warrants is discontinued.

To facilitate subsequent transfers, all Series 1997-D Warrants deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1997-D Warrants with DTC and their registration in the name of Cede & Co. effects no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1997-D Warrants. DTC's records reflect only the identity of the DTC Participants to whose accounts such Series 1997-D Warrants are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 1997-D Warrants are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 1997-D Warrants. Under its

usual procedures, DTC mails an "Omnibus Proxy" to the County as soon as possible after the record date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Series 1997-D Warrants are credited on the record date identified in a listing attached to the "Omnibus Proxy."

Principal, premium and interest payments on the Series 1997-D Warrants will be made to DTC. DTC's practice is to credit DTC Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of DTC Participants and not of DTC, the Trustee or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium (if any) and interest to DTC is the responsibility of the Trustee. Disbursement of such payments to DTC Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of the DTC Participants and Indirect Participants.

THE COUNTY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 1997-D WARRANTS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE SERIES 1997-D WARRANTS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN SERIES 1997-D WARRANTS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 1997-D WARRANTS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DTC PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE SERIES 1997-D WARRANTS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 1997-D WARRANTS; (4) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO SERIES 1997-D WARRANTHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 1997-D WARRANTS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS SERIES 1997-D WARRANTHOLDER.

Discontinuation of Book-Entry Only System

DTC may determine to discontinue providing its service with respect to the Series 1997-D Warrants at any time by giving notice to the County and the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the book-entry only system for the Series 1997-D Warrants will be discontinued unless a successor securities depository is appointed by the County. In addition, the County may discontinue the book-entry only system for the Series 1997-D Warrants at any time by giving reasonable notice to DTC.

SECURITY AND SOURCE OF PAYMENT

General Information

The Series 1997-D Warrants are not general obligations of, and will not constitute a charge against the general credit or taxing power of, the State of Alabama, the County, or any other political subdivision of the State of Alabama.

The Series 1997-D Warrants will be limited obligations of the County payable solely out of, and secured by a pledge and assignment of, the Pledged Revenues on a parity of lien with the Series 1997 A-C Warrants. Information describing the revenues collected by the County is set forth in this Official Statement under the captions "RESULTS OF OPERATIONS" and "JEFFERSON COUNTY SEWER SYSTEM".

Following the issuance of the Series 1997-D Warrants, the only outstanding indebtedness of the County payable out of Pledged Revenues will be the Series 1997-D Warrants and the Series 1997 A-C Warrants.

The Indenture permits the issuance of Additional Parity Securities payable out of, and secured by a pledge of, the Pledged Revenues on a parity with the Series 1997 Warrants. See Appendix A - "SUMMARY OF THE INDENTURE - Additional Parity Securities".

Pursuant to the Indenture, a debt service reserve fund (the "Reserve Fund") has been established for the benefit of all of the Series 1997 Warrants except the Series 1997-C Warrants. For a description of the funds and accounts established under the Indenture for the collection and disposition of revenues from the System, see Appendix A - "SUMMARY OF THE INDENTURE -Flow of Funds".

Pursuant to Amendment No. 73 to the Alabama Constitution, any moneys derived by the County from sewer service charges may be expended only for purposes related to the improvement, extension, maintenance and operation of the System and may not be used to pay general expenses of the County.

Remedies

The County is, under existing law, subject to suit in the event that it defaults in payment of the principal of or the interest on the Series 1997-D Warrants. However, the extent of the remedies afforded to the holders of the Series 1997-D Warrants by any such suit, and the enforceability of any judgment against the County resulting therefrom, are subject to those limitations inherent in the fact that the Series 1997-D Warrants are limited obligations of the County payable solely out of the Pledged Revenues, and may be subject, among other things, to

- (1) the provisions of the United States Bankruptcy Code, referred to below, and
- (2) the provisions of other statutes that may hereafter be enacted by the Congress of the United States or the Legislature of Alabama extending the time for payment of county, municipal or public authority indebtedness or imposing other restraints upon the enforcement of rights of warrant holders.

The United States Bankruptcy Code

The United States Bankruptcy Code permits political subdivisions of a state and certain state and local public agencies or instrumentalities that are insolvent or unable to meet their debts to file petitions for relief in the Federal Bankruptcy Courts if authorized by state law. While the matter is not entirely free from doubt, prospective purchasers of the Series 1997-D Warrants should assume that existing Alabama statutes presently authorize the County to file such petitions for relief.

A petition filed under Chapter 9 of the Bankruptcy Code, however, does not operate as a stay of application of pledged special revenues to payment of debt secured by such revenues. Thus, an automatic stay under Chapter 9 would not be effective to prevent payment of principal and interest on the Series 1997-D Warrants from the Pledged Revenues.

THE MUNICIPAL BOND INSURANCE POLICY

Concurrently with the issuance of the Series 1997-D Warrants, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Series 1997-D Warrants (the "Insurance Policy"). The Insurance Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 1997-D Warrants which has become due for payment, but shall be unpaid by reason of nonpayment by Jefferson County, Alabama (the "County"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Series 1997-D Warrants or the Trustee of the nonpayment of such amount by the County. The Fiscal Agent will disburse such amount due on any Series 1997-D Warrant to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Series 1997-D Warrant includes any payment of principal or interest made to an owner of a Series 1997-D Warrant which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Insurance Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Series 1997-D Warrants. The Insurance Policy covers failure to pay principal of the Series 1997-D Warrants on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Series 1997-D Warrants may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series 1997-D Warrants are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement.

This Official Statement contains a section regarding the ratings assigned to the Series 1997-D Warrants and references should be made to such section for a discussion of such ratings and the basis for their assignment to the Series 1997-D Warrants.

The Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 1996, the total capital and surplus of Financial Guaranty was approximately \$1,093,256,057. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 160 West Broadway, 18th Floor, New York, New York 10013, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-602-0389).

THE IMPROVEMENTS

The Consent Decree calls for the development and implementation of a remedial plan over a period of twelve years, which is intended to eliminate bypasses and other unlawful discharges of untreated sewage to streams in Jefferson County. See "LITIGATION - The Consent Decree". The remedial plan is expected to require the rehabilitation of an extensive amount of lateral and collector sewers throughout the County. The cost of such remedial plan will likely exceed \$1.5 billion over the twelve year period anticipated by the Consent Decree and is expected to be financed by periodic borrowings over such period.

A portion of the proceeds of the Series 1997-D Warrants will be used to complete those sewer capital projects currently under construction and to undertake the first phase of the remedial plan. For a schedule of estimated expenditures of the Series 1997-D Warrants, see "JEFFERSON COUNTY SEWER SYSTEM - Sanitary Sewer Capital Improvement Program".

SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of funds for financing the acquisition and construction of the Improvements. Amounts in this table have been rounded to the nearest whole dollar.

Sources of Funds

Accrued interest \$896,469	
Principal amount of Series 1997-D Warrants ^{1/}	296,395,000
Less original issue discount	(2,639,367)
Investment earnings on Construction Fund ^{2/}	<u>13,790,080</u>
 Total Sources	 \$308,442,182

Uses of Funds

Cost of Improvements	\$259,260,206
Deposit to Reserve Fund	30,377,326
Payment of Capitalized Interest	14,193,016
Deposit of Accrued Interest to Debt Service Fund	896,469
Issuance expenses (including underwriters' discount, bond insurance premium, Bond Counsel fee, accountant's fees, printing costs, Trustee acceptance, rating agency fees and miscellaneous)	<u>3,715,165</u>
 Total Uses	 \$308,442,182

1/ The amount received as accrued interest on the Series 1997-D Warrants will be deposited in the Debt Service Fund established under the Indenture and will be applied to the payment of interest on the Series 1997-D Warrants, which interest is due August 1, 1997.

2/ Investment earnings on the Construction Fund pending disbursement of the money in that Fund to pay the costs of the Improvements will be retained in that Fund and will be available to pay such costs. The County estimated investment earnings based on an average investment rate of 5.74% and a construction schedule ending March 15, 1999.

DEBT SERVICE REQUIREMENTS AND COVERAGE

Debt Service on Series 1997 Warrants

The following table presents the debt service requirements on the Series 1997-D Warrants and the Series 1997 A-C Warrants, which will be the only indebtedness of the County secured by Pledged Revenues after the Series 1997-D Warrants are issued. See "OUTSTANDING DEBT".

Fiscal Year Ending September 30	Series 1997-D Warrants		Series 1997 A-C Warrants	Total
	Principal ^{1/}	Interest	Debt Service	Debt Service
1997	-0-	\$7,077,386	\$8,346,057	\$15,423,443
1998	-0-	16,985,725	22,764,106	39,749,831
1999	-0-	16,985,725	22,999,817	39,985,542
2000	-0-	16,985,725	26,758,177	43,743,902
2001	-0-	16,985,725	30,500,521	47,486,246
2002	-0-	16,985,725	22,634,952	39,620,677
2003	-0-	16,985,725	26,782,968	43,768,693
2004	-0-	16,985,725	15,616,710	32,602,435
2005	-0-	16,985,725	21,342,635	38,328,360
2006	-0-	16,985,725	18,900,339	35,886,064
2007	-0-	16,985,725	15,130,136	32,115,861
2008	-0-	16,985,725	15,128,839	32,114,564
2009	-0-	16,985,725	15,127,580	32,113,305
2010	-0-	16,985,725	15,126,158	32,111,883
2011	-0-	16,985,725	15,129,268	32,114,993
2012	-0-	16,985,725	15,126,708	32,112,433
2013	-0-	16,985,725	15,128,275	32,114,000
2014	-0-	16,985,725	15,128,666	32,114,391
2015	-0-	16,985,725	15,127,679	32,113,404
2016	-0-	16,985,725	10,990,565	27,976,290
2017	\$21,235,000	16,386,685	16,369,201	53,990,038
2018	22,525,000	15,143,985	17,694,775	55,363,760
2019	23,810,000	13,823,437	19,149,791	56,783,228
2020	25,170,000	12,427,507	20,749,775	58,347,283
2021	23,000,000	11,048,912	22,509,259	56,558,172
2022	28,000,000	9,582,662	24,436,228	62,018,891
2023	27,055,000	7,999,831	26,586,181	61,641,013
2024	28,650,000	6,398,313	28,923,512	63,971,825
2025	30,450,000	4,699,188	31,496,566	66,645,753
2026	32,250,000	2,896,563	34,320,884	69,467,447
2027	<u>34,250,000</u>	<u>984,688</u>	<u>37,424,459</u>	<u>72,659,147</u>
TOTAL	\$296,395,000	\$431,197,083	\$643,450,787	\$1,371,042,870

^{1/} For purposes of this table the principal amount of Series 1997-D Warrants to be retired in a fiscal year pursuant to mandatory redemption provisions is shown as maturing in that fiscal year.

Projected Coverage

The County's consulting engineer, Paul B. Krebs & Associates, Inc., Birmingham, Alabama, has prepared a Rate Study for the County that is attached to this Official Statement as Appendix D. The rate study covers fiscal years 1997, 1998 and 1999 and projects that the County's excess of revenues over expenses will provide coverage of current year debt service requirements as follows:

<u>Fiscal Year</u>	<u>Excess of Revenues Over Expenses</u>	<u>Annual Debt Service Requirements</u>	<u>Coverage</u>
1997	\$35,479,000	\$11,096,000	3.20
1998	39,585,000	30,438,000	1.30
1999	45,775,000	41,265,000	1.11

The Rate Study contains important assumptions and estimates underlying the projected coverage during the period covered, including without limitation: the anticipated rate increases to be adopted during such periods; the anticipated demand for sewer services; the expenses of operating and maintaining the System; the cost and timing of required capital improvements; the amount of debt to be incurred by the County; the annual debt service requirements on such debt resulting from available interest rates and principal maturities; and the interest earnings on funds held under the Indenture.

The excess of revenues over expenses projected in the Study is calculated on a basis consistent with the calculation of "Net Revenues Available for Debt Service" contained in the Indenture. For example, the excess of revenues over expenses does not include as an expense interest expense on debt, depreciation or amortization, but does include as revenues interest income on funds held under the Indenture. The excess of revenues over expenses also includes estimated interest income on undisbursed borrowed funds held in the Construction Fund established under the Indenture.

Annual debt service requirements included in the Study represent estimates of actual debt service payable in each fiscal year covered, which would be relevant for purposes of demonstrating compliance with the County's rate covenant. The Indenture permits the County to add a portion of the "Prior Years' Surplus" to Net Revenues Available for Debt Service in order to demonstrate compliance with the rate covenant; however, the projections in the Rate Study do not add any Prior Years' Surplus for the fiscal years covered. See "DEBT SERVICE REQUIREMENTS AND COVERAGE - Rate Covenant". In order to issue Additional Parity Securities the required coverage is based on "Maximum Annual Debt Service", which may differ significantly from the actual debt service requirements payable in any single fiscal year. See "DEBT SERVICE REQUIREMENTS AND COVERAGE - Additional Debt - Restrictions on Additional Debt".

The Rate Study must be read in its entirety for an explanation of the assumptions and estimates that form the basis for the projections contained in the Study. There can be no assurance that actual results of operations and debt service requirements will be as projected in the Study.

Additional Debt

Parity Debt Under Indenture. The County may from time to time issue warrants, notes or other obligations entitled to a charge, lien or claim on the Pledged Revenues on a parity with the lien or claim imposed by the Indenture for the benefit of the Series 1997 Warrants ("Additional Parity Securities"), subject

to the restrictions noted below. The Series 1997 Warrants and the Additional Parity Securities shall be secured equally and proportionately by the Pledged Revenues.

Subordinated Debt. The County may also from time to time issue subordinated debt payable from or secured by a pledge and assignment of the Pledged Revenues that is subject and subordinate to the lien in favor of the Series 1997 Warrants and other outstanding Additional Parity Securities (if any) and the lien imposed by the Indenture, subject to the restrictions noted below.

Restrictions on Additional Debt. So long as the Indenture remains in effect, the County shall not issue any Additional Parity Securities unless (i) no Event of Default exists under the Indenture and (ii) the Trustee is provided with a Revenue Certificate or a Revenue Forecast (as hereinafter defined).

"Revenue Certificate" means a certificate signed by an Independent Accountant, the President of the Jefferson County Commission (the "Commission") or the County's Director of Finance that satisfies whichever of the following is applicable:

(I) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued prior to October 1, 2007, such certificate shall state the following:

(i) the sum of (A) the Prior Years' Surplus as of the beginning of the Fiscal Year that immediately preceded the Fiscal Year in which such certificate is delivered and (B) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made; and

(ii) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 75% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made.

(II) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, such certificate shall state that the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made.

If rates and charges for services furnished by the System were increased and put into effect by the County after the beginning of the Fiscal Year or other twelve-month period to which a Revenue Certificate refers and not thereafter reduced, an Independent Engineer may certify the amount of gross revenues from the System that would have been received by the County had such increased rates and charges been in effect during the entire

Fiscal Year or other twelve-month period, and the Independent Accountant, the President of the Commission or the County's Director of Finance, as the case may be, preparing and signing the Revenue Certificate, may compute Net Revenues Available for Debt Service during such Fiscal Year or other twelve-month period based on the amount of revenues that would have been derived from the System during such period with such increased rates and charges, as so certified by such Independent Engineer.

"Revenue Forecast" means a report prepared by an Independent Engineer with respect to a period that shall begin on the first day of the Fiscal Year that succeeds the Fiscal Year in which the proposed Additional Parity Securities are issued and that shall not be longer than five Fiscal Years (such period being herein called the "Forecast Period"), which report shall make the following projections with respect to the last Fiscal Year in the Forecast Period (such year being herein called the "Test Year"):

(I) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued prior to October 1, 2007,

(i) the sum of (A) the projected Prior Years' Surplus as of the beginning of the Test Year and (B) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 105% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made; and

(ii) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 75% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

(II) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, the projected Net Revenues Available for Debt Service for the Test Year shall not be less than 105% of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

In preparing its Revenue Forecast, the Independent Engineer shall be entitled (a) to make projections with respect to the rates and charges to be imposed for services furnished by the System during each of the Fiscal Years in the Forecast Period (so long as such Independent Engineer certifies, with respect to any projected rates and charges that are higher than the actual rates and charges in effect as of the date of the Revenue Forecast, that such projected rates and charges would be reasonable for public sanitary sewer systems similar in size and character to the System) and (b) to rely upon estimates prepared by an independent investment advisor with respect to the aggregate amount of debt service on the Parity Securities to become due and payable during each of the Fiscal Years in the Forecast Period.

Rate Covenant

The County has sole jurisdiction to set the rates for sewer services. The County's rates are not subject to review by any federal, state or similar regulatory authority, but are subject to judicial review as to reasonableness.

The County has covenanted in the Indenture to make and maintain such rates and charges for the services supplied from the System and make collections from the users thereof in such manner as shall provide, in each Fiscal Year, Net Revenues Available for Debt Service in an amount that shall result in compliance with each of the following two requirements (such requirements being referred to herein collectively as the "Rate Covenant"):

(i) the sum of (A) the Net Revenues Available for Debt Service for a given Fiscal Year and (B) the Prior Years' Surplus as of the beginning of such Fiscal Year shall not be less than 110% of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities; and

(ii) the Net Revenues Available for Debt Service for a given Fiscal Year shall not be less than 80% (or, in the case of any Fiscal Year beginning on or after October 1, 2007, 100%) of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities.

For purposes of the Rate Covenant, (a) debt service on the Parity Securities shall not include any interest (i.e., accrued interest or capitalized interest) paid with proceeds of Parity Securities, (b) debt service shall be reduced by any amounts received by the County during the Fiscal Year in question pursuant to Qualified Swaps, and (c) debt service shall be increased by any amounts paid by the County during such Fiscal Year pursuant to Qualified Swaps. The County has covenanted to make such increases and other changes in such rates and charges as may be necessary to comply with the Rate Covenant.

Automatic Rate Adjustment Ordinance

The Indenture provides that the County's Director of Finance shall, within 60 days after the end of each Fiscal Year, (i) determine whether or not the Net Revenues Available for Debt Service and Prior Years' Surplus for the then most recently completed Fiscal Year were sufficient to result in compliance with the Rate Covenant for such Fiscal Year (the "Historical Evaluation"), (ii) determine whether or not the combination of the Net Revenues Available for Debt Service for the then most recently completed Fiscal Year (subject to adjustment in the manner hereinafter described) and the Prior Years' Surplus as of the beginning of the then current Fiscal Year would be sufficient to result in compliance with the Rate Covenant for the then current Fiscal Year (the "Immediate Prospective Evaluation") and (iii) determine whether or not the Net Revenues Available for Debt Service for the then most recently completed Fiscal Year (subject to adjustment in the manner hereinafter described) were equal to or greater than 100% of Maximum Annual Debt Service (the "Extended Prospective Evaluation"). For purposes of the Immediate Prospective Evaluation and the Extended Prospective Evaluation, the Net Revenues Available for Debt Service for the preceding Fiscal Year may be adjusted to give effect to any increase in the rates and charges for services furnished by the System that was put into effect after the beginning of such Fiscal Year.

If at the beginning of any Fiscal Year the County's Director of Finance makes the aforesaid determinations and concludes that the County has failed to satisfy the Historical Evaluation, the Immediate Prospective Evaluation or the Extended Prospective Evaluation, then a written notice setting forth such determinations and the conclusions reached (a "Rate Adjustment Notice") shall be delivered, no later than December 10 in such Fiscal Year, to the Trustee and to each member of the Commission.

The Commission has amended the ordinance that establishes the rates and charges for services

furnished by the System (the "Rate Ordinance") in a manner that is intended to result in continual compliance with the Rate Covenant. Under the provisions of the Rate Ordinance, the preparation and delivery of a Rate Adjustment Notice in accordance with the provisions of the Indenture will result in an automatic increase in the rates for the standard charges imposed upon and collected from the users of the System, with such increase to be effective as of January 1 in the Fiscal Year in which such Rate Adjustment Notice is delivered. The amount of any such rate increase will be determined by formulas contained in the Rate Ordinance, which formulas are intended to produce periodic rate increases that will be consistent with the requirements of the Rate Covenant.

The Rate Ordinance specifically provides that the provisions thereof shall not limit or restrict the power and authority of the Commission to modify the rates and charges for services furnished by the System in addition to the automatic rate increases resulting from the application of the Rate Ordinance. The Rate Ordinance shall not constitute a contract between the County and the Series 1997-D Warrantholders and may be modified or terminated at any time by the Commission at its sole discretion. Prospective investors should not rely on the continued force and effect of the Rate Ordinance but should rely on the Rate Covenant as described herein.

Related Obligations

The County may obtain or cause to be obtained letters of credit, lines of credit, bond insurance or similar instruments (collectively, "Credit Facilities") to secure or provide for the payment or purchase of all or a portion of the Parity Securities of any particular series. In connection therewith, the County may enter into agreements with the issuer of or obligor on any such Credit Facility providing for, among other things, the payment of fees and expenses to such issuer or obligor for the issuance of such Credit Facility, the terms and conditions of such Credit Facility and the series of Parity Securities affected thereby, and the security, if any, to be provided for the issuance of such Credit Facility and the payment of such fees and expenses or the obligations of the County with respect thereto. The County may also, to the extent permitted by law, enter into an interest rate swap agreement, an interest rate cap agreement, an interest rate floor agreement, an interest rate collar agreement or any similar agreement with respect to any series of Parity Securities or portion thereof.

The County may, if it elects to do so, secure all or any portion of its contractual obligations with respect to any Credit Facility or any Qualified Swap (any such contractual obligations being herein called "Related Obligations") by a pledge of the Pledged Revenues which may be on a parity with the pledge made in the Indenture (except to the extent that any such pledge secures the payment of any amount payable by the County as a consequence of an early termination of a Qualified Swap) so long as no default exists on the part of the entity providing such Credit Facility or on the part of the related Qualified Swap Provider, as the case may be. Any Related Obligation that is secured by a pledge of the Pledged Revenues that is on a parity with the pledge made in the Indenture is referred to herein as a "Secured Related Obligation". Notwithstanding any pledge that may be made as described in the preceding sentence, Secured Related Obligations shall not constitute or be treated as Parity Securities for any purpose in applying the provisions of the Indenture (including, without limitation, the conditions precedent to the issuance of Additional Parity Securities and the Rate Covenant).

JEFFERSON COUNTY SEWER SYSTEM

General Information

Act No. 714 of the Alabama Legislature, enacted February 28, 1901 authorized the construction, maintenance and operation of a sewage disposal system (the "System") in Jefferson County. Act No. 716, also enacted February 28, 1901, provided for the issuance of bonds for sewer purposes and for the levy of a special ad valorem tax (the "Sewer Tax") for sewer purposes. On August 19, 1909, Act No. 48 was made into law to transfer the rights, duties and powers with respect to the System from the Jefferson County Sanitary Commission to the Board of Revenue of the County. Pursuant to these acts, municipalities in the County may construct their own sewage collection systems which connect to trunk or branch lines of the System. Private sewer systems, if any, can also be connected to the System with the permission of the governing body of the County, the County Commission. In addition to building trunk and branch lines, the Commission is also authorized to locate and build wastewater treatment plants to carry out its legislative charge to protect the sources of drinking water supply from pollution.

Amendment No. 73 to the Alabama Constitution (the "County Sewer Amendment") grants to the governing body of the County the right to levy and collect sewer service charges from the users of the System. The County Sewer Amendment provides that the County shall have a lien against any property served by the System to secure the payment of any related sewer service charges. Any such lien may be enforced by foreclosure in the same manner as municipal assessments for public improvements. Under the County Sewer Amendment, any moneys derived by the County from sewer service charges may be expended only for purposes related to the improvement, extension, maintenance and operation of the System.

Through the end of World War II, the System serviced four areas in the County, and total cumulative construction expenditures were under \$2 million. Subsequent to World War II, two major forces contributed to the geographical expansion of the System and the upgrading of treatment provided by the System's wastewater treatment plants ("WWTPs"). The suburban migration that began in the 1950's, together with the rapid residential and industrial growth in the County at that time, was one factor. The other factor was the Federal Government's passage of the first Water Pollution Control Act of 1952, which set up policies, rules and grant procedures for water pollution control and was the first in a series of acts and amendments designed to protect the streams and watercourses in the United States.

The Federal Water Pollution Control Act amendments of 1972 and 1977 (the "Clean Water Acts") provide for the restoration and maintenance of the chemical, physical and biological integrity of the nation's waters. Toward the furtherance of that goal, the Clean Water Acts established the National Pollutant Discharge Elimination System ("NPDES"), a permit system administered by the United States Environmental Protection Agency ("EPA") in conjunction with the various states. EPA has delegated the NPDES program in Alabama to the Alabama Department of Environmental Management ("ADEM"). The System is subject to the requirements of the Clean Water Acts and the conditions set forth in the NPDES permit applicable to each of the WWTPs. In addition, the System is subject to regulation by ADEM.

All of the County's WWTPs achieve levels of secondary and tertiary treatment consistent with the standards set forth in the Clean Water Acts. However, due to the treatment capacities at certain plants and the volume of water flow of the stream into which the plants discharge, problems related to treatment capabilities remain. The EPA and the ADEM have established high stream quality standards for the County. For

example, the Cahaba River WWTP discharges into the Cahaba River, which has very low stream flow due to its upstream diversion and use as drinking water. Therefore, continued improvements to facilities where stringent effluent limits are imposed will be necessary in the future.

Regional Growth

Listed below are the U. S. Census Bureau population figures (rounded to the nearest 1,000) for the County from 1900 to 1995.

	<u>County</u>
1900	140,000
1910	226,000
1920	310,000
1930	431,000
1940	460,000
1950	560,000
1960	635,000
1970	645,000
1980	671,000
1990	651,000
1995*	658,000

*Estimated.

The most significant aspect of the growth since 1950 is its low density when compared to the older central area. For instance, new suburban growth in the areas of the County on the Southern side of Red Mountain from Birmingham have taken place at a density of less than two dwelling units per net residential acre as compared to densities in the West End section of Birmingham of approximately six dwelling units per net residential acre. During the decade of the 1960's a mass outward migration of people from the central valley area began, due in part to the construction of the interstate highway system. This led to pressure for sewer service in outlying areas at the same time that regulatory requirements were mandating secondary treatment of wastewater.

Although the period from 1970 to 1980 saw a moderating increase in the County's population, the number of housing units in the County increased by 22%. This was caused by a trend toward smaller families and, particularly in the first half of the decade, by a large amount of apartment construction. Subsequent moratoria on sanitary sewer facilities, the impact of the recession and an over-built situation in apartment units contributed to sluggish growth in the late 1970's.

The period of the 1980's and early 1990's produced a continuing decrease in median family size in the County, which resulted in an increase in the formation of new households, and thereby, a growing demand for housing. Steady growth in business and commercial development has been aided by a growing demand for new housing, increases in personal income, expansion of the freeway system and improved access to many areas with development potential.

Generally, areas of future growth are expected to concentrate along the major transportation corridors radiating outward from the center of the Birmingham area. Growth characteristics and potentials of the area major corridors are summarized in the following paragraphs.

Interstate 65 and U. S. Highway 31 South – One of the strongest growth corridors in the urban area is formed by Interstate 65 and U. S. Highway 31 South. The combination of a limited access facility with a roughly parallel highway providing access to adjoining property greatly strengthens the development of this corridor. Where this corridor passes south from Red Mountain, it is further strengthened by other parallel routes including the Green Springs Highway and the Elton B. Stephens Expressway, which passes through the centers of Homewood, Vestavia Hills and Hoover. While the relatively rugged terrain in this corridor forces development into low density patterns, it also hinders the development of minor arterial routes that could relieve traffic on major arterials. This has forced most commercial development to locations along U. S. Highway 31.

Interstate 459 – The completion of this southern beltway connecting Interstate 20 and Interstate 59 has attracted substantial commercial and residential development. With the construction of sewers, major development has occurred where I-459 interchanges with I-59 North, U. S. Highway 280 East, Acton Road, U. S. Highway 31 South, Highway 150, Morgan Road and I-59 South. It is expected that further development along this corridor should continue to increase based on sewer availability.

Interstate 59 and U. S. Highway 11 South – Extending southwest from Bessemer, this corridor is strengthened by a mainline of the Alabama Norfolk Southern Railroad and U. S. Highway 11. Relatively level land along this corridor offers potential for a development pattern which includes housing, commercial and public services. The anticipated opening of the Mercedes Benz assembly plant in nearby Vance in Tuscaloosa County is expected to greatly increase demand for sewer services in the area.

U. S. Highway 78 West – This corridor runs northwest from the central Birmingham area through Forestdale, Westwood, Adamsville and Graysville. It passes through the rugged terrain of the Warrior River Basin. The completion in 1990 of the Prudes Creek Treatment Plant in the Graysville/Adamsville area has contributed to the growth of this corridor. Recent growth in this area is projected to continue.

Interstate 65 and U. S. Highway 31 North – This corridor passes north from the central Birmingham area through Fultondale and Gardendale. The completion of I-65 north from downtown Birmingham through Gardendale has greatly strengthened the development potential of this corridor by permitting U. S. Highway 31 to function as a high capacity service road while through traffic uses the interstate. Recent and proposed construction of sewers located at the Fieldstown Road Interchange has provided potential for major development.

State Highways 75 and 79 – These two highways form a broad corridor beginning in the northeastern section of Birmingham and following a wide path to the northeast through Tarrant City, Center Point and Pinson. Highway 79 connects Tarrant City to Pinson through the Pinson Valley, then swings north to Bradford. Highway 75 follows a somewhat parallel course to the east, connecting the Woodlawn area, through Center Point and Pinson, to Palmerdale. Only small portions of this corridor are held in large tracts for mineral reserves, and significant amounts of buildable land remain available. The industrial potential of the Pinson Valley portion of this corridor is enhanced by a main line of the CSX Railroad which parallels Highway 79 leaving sufficient width for good industrial sites. Recent development has occurred due to the construction

of a sanitary sewer trunk in the Pinson area. Highway 75 is being widened to four lanes from Center Point to Pinson.

Interstate 59 and U. S. Highway 11 East – This corridor begins in Huffman and extends east through a gap in Red Mountain, then northeast through Trussville and Argo. East of Red Mountain land bordering the corridor is generally characterized by rough terrain and low lying flood plains. The construction of the Trussville Industrial Park Collection System and Pinchgut Creek Trunk Sewer has spurred interest for continued development along U. S. Highway 11 in the Trussville area.

Interstate 20 and U. S. Highway 78 East – This corridor will have the transportation facilities essential for strong corridor development, but such development will be severely limited by rugged terrain and large mineral land holdings. The corridor extends east from Irondale to Leeds, crossing the Cahaba River. It is paralleled by a main line of the Norfolk Southern Railway which provides some industrial potential. Most urban development will be limited to portions of the corridor lying west of the Cahaba River and in the immediate Leeds area. The completion of a new treatment plant in Leeds in 1995 is expected to spur additional growth.

U. S. Highway 280 East – This corridor experienced limited development pressure during the 1970's. However, major changes have taken place in recent years. With the completion of Interstate 459, which now provides access to this area from north and south, the corridor is already attracting major office and retail development.

Lakeshore Extension – This corridor begins in Homewood near Interstate 65, extends southwesterly through the Oxmoor Valley toward Highway 150 near Morgan Road and will connect to Interstate 459. Significant residential, office and retail development is underway in this area. This area is now served by sewers.

System Management

The Jefferson County Commission is comprised of five commissioners elected by district. The President of the Commission is responsible for the financial management of the System, as well as the financial management of the rest of the County's operations. One commissioner has been given the responsibility of Environmental Services which includes, in part, the overall operational management of the System. The System is managed by the County Environmental Services Department under the daily direction of the County's Environmental Services Director.

Environmental Services Department

The Environmental Services Department is organized into five divisions: Administration, Maintenance and Construction, Wastewater Treatment Plants, Barton Lab/Industrial Pretreatment and Solid Waste. The Environmental Services Department has a total of 572 employees, all of whom are civil service employees.

Administration Division has the responsibility of providing direction to all phases of the Department's operations. The Administration Division has 43 employees, including the engineering staff. The duties include management of wastewater treatment plants, management of the capital construction programs,

issuance of impact connection permits, sewer service inspections, sewer availability information, assessment sewers and review and approval of private sewer plants.

Maintenance and Construction Division has the responsibility for construction and sewer maintenance activities, including surveying (5 crews), sewer construction (1 crew), water line construction (1 crew), sewer maintenance (6 crews) T.V. grouting inspection (4 crews) and construction inspection (18 inspectors). This division has a total of 129 employees.

The Wastewater Treatment Plant Division has the responsibility for the operation and maintenance of the wastewater treatment facilities of the County. These facilities include nine permanently staffed treatment plants and numerous pump stations located throughout the County. This division has a total of 297 employees.

Barton Lab/Industrial Pretreatment Division has the responsibility for miscellaneous laboratory analyses required by the Department, water quality monitoring activities, plant laboratory quality control and industrial pretreatment sampling and surcharge activities. This division has a total of 28 employees.

Solid Waste Division is responsible for operating and maintaining the Department's two public landfills, solid waste transfer facility and two wood waste facilities. This division is funded entirely from tipping fees, which revenues do not constitute System Revenues. This division has a total of 75 employees.

Jefferson County Wastewater Treatment Plants and Sewer Lines

1. Village Creek Wastewater Treatment Plant

The Village Creek Plant is located in Pratt City. The plant receives sewage flow from most of the downtown Birmingham area, including Southside, West End, Avondale, Woodlawn, East Lake, Huffman, North Birmingham, Ensley, Pratt City, Forestdale and Hooper City. The Village Creek Plant has an average design capacity of 60 million gallons per day (MGD). The unit processes for treatment consist of screening removal with mechanical bar rakes, pre-aeration and grit removal, primary clarification, first stage activated sludge aeration, intermediate clarification, second stage aeration for nitrification, final clarification, contact chlorination, partial sand filtration and final effluent discharge into Village Creek. Sludge handling consists of thickeners, anaerobic and aerobic digestion, sludge lagoon and sludge dewatering by vacuum filtration and/or sludge drying beds. There are 58 employees at this plant which is staffed 24 hours per day, seven days a week.

2. Valley Creek Wastewater Treatment Plant

The Valley Creek Plant is located in West Bessemer near the intersection of Johns Road and Powder Plant Road. The plant receives sewage flow from the Central Park – Fairgrounds area, Fairfield, Midfield, Powderly, Roosevelt City, Brighton, Lipscomb, Bessemer, Hueytown, Pleasant Grove, Dolomite, Garywood, Wylam and McCalla areas. The Valley Creek Plant also receives all the flow from the Shades Valley basin including Irondale, Mountain Brook, Homewood and portions of Birmingham south of Red Mountain. The Valley Creek Plant has an average design capacity of 65 MGD. The unit processes for treatment consist of mechanical bar screens, comminutors, pre-aeration and grit removal, primary clarification, first stage activated sludge aeration, intermediate clarification, second stage aeration for nitrification, final clarification, chlorination and final effluent discharge to Valley Creek. Sludge handling consists of thickeners, anaerobic digestors and sludge dewatering by sludge drying beds and/or belt filter press. There are 74 employees at this plant, which is also staffed 24 hours per day, seven days a week.

3. Five Mile Creek Wastewater Treatment Plant

The Five Mile Creek Plant is located in Lower Coalburg. The plant receives sewage flow from Tarrant City, Inglenook, Lewisburg, Roebuck, Center Point, Grayson Valley, the southern end of Pinson Valley, Fultondale and southern Gardendale. The Five Mile Creek Plant has an average design capacity of 20 MGD. The unit processes for treatment consist of mechanical screens, flow equalization, pre-aeration and grit removal, primary clarification, step-aeration activated sludge aeration, secondary clarification, chlorination and dechlorination, and final effluent discharge to Five Mile Creek. Sludge handling consists of aerobic digestion, thickeners, sludge lagoons, and sludge drying beds. There are 34 employees who operate the Five Mile Creek Plant 24 hours per day, seven days a week.

4. Cahaba River Wastewater Treatment Plant

The Cahaba River Plant is located in Hoover just downstream of the I-65 bridge over the Cahaba River. The plant receives sewage flow from Hoover, Bluff Park, Vestavia, Rocky Ridge, Acton Valley, Cahaba Heights and that portion of Riverchase which is within Jefferson County. This plant has an average design capacity of 12 MGD. The unit process consists of mechanical fine screens, pre-aeration and grit removal, primary clarification, first stage activated sludge aeration, intermediate clarification, second stage aeration for nitrification, final clarification, filtration, chlorination, dechlorination and final effluent discharge to the Cahaba River. Sludge handling consists of aerobic digestion, sludge lagoon, and sludge dewatering by belt filter press and drying beds. There are 36 employees at the Cahaba River Plant, which is staffed 24 hours per day, seven days a week.

5. Turkey Creek Wastewater Treatment Plant

The Turkey Creek Plant is located in Pinson just off The Narrows Road. The plant receives sewage flow from Pinson, the Sweeney Hollow Road area, and northern Center Point. The Turkey Creek Plant has a design capacity of 4 MGD. The unit processes for treatment consist of bar screens, comminutors, pre-aeration and grit removal, equalization holding pond, oxidation ditch extended aeration, secondary clarification, chlorination, dechlorination and final effluent discharge cascade to Turkey Creek. Sludge handling consists of thickeners and sludge drying beds. There are 7 employees at this plant which is staffed eight hours per day, seven days a week.

6. Leeds Wastewater Treatment Plant

The Leeds Plant is located in the City of Leeds off Montevallo/Cahaba Valley Road. The plant receives sewage flow only from the City of Leeds, including small parts of St. Clair and Shelby Counties. Construction of the new Leeds Wastewater Treatment Plant was completed in April 1995 and includes a design capacity of 5 MGD. The unit processes for treatment consists of headworks grinders, grit removal, peak flow holding facilities, oxidation ditch extended aeration, secondary clarification, sand filtration, ultra-violet light radiation (disinfection) and final effluent discharge to the Little Cahaba River. Sludge handling consists of aerobic digestion, thickening and sludge drying beds. There are 15 employees at this plant which is staffed 8 hours per day, seven days a week.

7. Trussville Wastewater Treatment Plant

The Trussville Plant is located in the City of Trussville behind City Hall. The plant currently receives flow from the City of Trussville and an area along U. S. Highway 11 between Trussville and I-459. The Trussville plant has a design capacity of 1.2 MGD. The unit processes for treatment consist of oxidation ditch extended aeration, secondary clarification, chlorination, dechlorination and final effluent discharge to the Cahaba River. Sludge handling consists of sludge drying beds. There are 8 employees at this plant which is staffed eight hours per day, seven days a week. An expansion of this plant is currently under construction, which will increase its capacity to 4.5 MGD.

8. Pump Stations

The County currently operates numerous pump stations in various portions of the County. These stations operate automatically for the most part and they are not permanently staffed. Several crews monitor and maintain these pump stations on a daily basis. The crew of the pump stations include 38 employees.

9. Sewer Plant Maintenance Shops

The County has electrical, electronic and mechanical maintenance shops at the Village Creek and Valley Creek Plants and at the Shades Valley site with a total of 26 employees.

Billing, Collection and Rate Making Authority

The majority of the sewer customers in the County are served by the Birmingham Water Works Board system or another city-owned water system. Sewer customers served by the Birmingham Water Works Board and Bessemer are billed for sewer service on their monthly water bills. The remaining sewer customers are billed by and pay directly to the County. Some industrial and/or commercial users are subject to a surcharge based on the strength of their waste. This surcharge is administered by the County.

As of February 1, 1997, the charge for sewer service in the County will be \$1.78 per 100 cubic feet of water consumed, with a 15% consumption allowance for residential customers (other than customers who also have private meters) for water not returned to the System. The rate in effect from January 1, 1996 through January 31, 1997, was \$1.73 per 100 cubic feet of water consumed. In addition, the County charges an impact fee of \$100.00 for each new plumbing fixture added to the System.

Pursuant to the County Sewer Amendment, the governing body of the County has sole authority to set sewer rates and charges in the County and to provide for the collection, payment and enforcement thereof. In 1984, the Alabama Supreme Court confirmed the County's authority to set rates for sewer service, and held unconstitutional an attempt by the Alabama Legislature to limit that authority. Since the County rate making authority is constitutionally granted, it can only be changed by further constitutional amendment.

Listed below is a comparison of residential sewer service rates in other Southeastern cities. These rates have been extracted from Raftelis Environmental Consulting Group, Inc. "Raftelis Environmental Consulting Group 1996 Water and Wastewater Rate Survey", Charlotte, North Carolina: Raftelis Environmental Consulting Group, Inc., 1996.

City	1,000 Cubic Feet <u>(7,480 Gallons)</u>
Nashville (Tennessee)	\$39.74
Charleston (South Carolina)	32.63
Knoxville (Tennessee)	29.66
Tallahassee (Florida)	28.50
Orlando (Florida)	28.15
Chattanooga (Tennessee)	24.01
Greenville (South Carolina)	23.95
Dallas (Texas)	23.29
Mobile (Alabama)	20.20
Miami (Florida)	19.75
Atlanta (Georgia)	19.50
Charlotte (North Carolina)	16.65
Jefferson County	13.43*
Jackson (Mississippi)	12.90

* Based on the rate for sewer service which was in effect from July 1, 1995 through December 31, 1995.

Major Customers

Listed below are the top ten customers of the System during fiscal year ended September 30, 1996 and the related sewer service charges paid:

<u>Major Sewer User Name</u>	<u>Annual Sewer Service Charge</u>
Birmingham Housing Authority	\$1,415,504
University of Alabama at Birmingham	1,135,427
Barbers Dairies	802,170
USX Corporation	649,606
Baptist Health System, Inc.	432,433
Golden Flake	368,391
The Rime Company	310,268
Buffalo Rock Bottling Co.	276,490
SMI Steel, Inc.	220,169
Carraway Methodist Medical Center	202,362

Sanitary Sewer Capital Improvement Program

The purposes of the County's Sanitary Sewer Capital Improvement Program are:

1. To upgrade and expand the large-scale wastewater treatment plants in order to permit projected and predictable economic and residential growth over the next 10 to 15 years.

2. To comply with current stringent stream standards sufficiently to prevent future moratoriums.

3. To accommodate some areas of the County which have been without sewer systems and that show an imminent need.

4. To achieve compliance with the Consent Decree. See "LITIGATION - Consent Decree".

Financing for this capital improvement program has been and will be accomplished through the use of retained sewer service charges not required for operation as well as proceeds of the Series 1997-D Warrants.

Since the end of the federal grants program in 1983, a total of 173 major sewer projects have been bid for construction totalling over \$450,000,000. It is now expected that the aggregate amount of capital expenditures to be incurred by the County for sewer purposes during the period ending February 28, 1999 will exceed \$250 million. The following table sets forth the amount expected to be spent with respect to such projects for such period.

**JEFFERSON COUNTY ENVIRONMENTAL SERVICES
SANITARY SEWER CAPITAL IMPROVEMENT PROGRAM
Estimated Expenditures for Period December 1, 1996 through February 28, 1999**

<u>Project Name</u>	Estimated Expenditures for period 12/1/96 through <u>9/30/97</u>	Estimated Expenditures for period 10/1/97 through <u>9/30/98</u>	Estimated Expenditures for period 10/1/98 through <u>2/28/99</u>	Estimated Expenditures for period 12/1/96 through <u>2/28/99</u>
WWTP Projects	\$45,259,493	\$42,565,622	\$13,984,301	\$101,809,415
Sewer Rehabilitation Projects	4,701,145	12,021,935	6,048,167	22,771,246
Sewer Replacement Projects	25,219,881	25,907,395	7,488,076	58,615,352
New Sewer Projects	8,132,630	32,890,131	13,224,537	54,247,298
SSES and Flow Monitoring	5,700,899	2,763,625	669,125	9,133,649
Program Administration	<u>1,240,252</u>	<u>2,700,075</u>	<u>1,602,323</u>	<u>5,542,650</u>
Totals	\$90,254,300	\$118,848,783	\$43,016,529	\$252,119,610

Although the foregoing table reflects the current plans of the Environmental Services Department for constructing improvements to the System, the Environmental Services Department may modify its plans by eliminating or delaying certain projects or by altering the order in which the foregoing projects are undertaken.

Sewer Tax

The Sewer Tax is levied and collected by the County as a .7 mill ad valorem tax for the purpose of paying a portion of the costs of improving, maintaining and operating the System and debt service on County obligations issued for sewer purposes. For the fiscal year that ended September 30, 1996, the revenues derived from the Sewer Tax were approximately \$2,718,657 and it is expected that the annual revenues from such tax will continue to approximate that amount.

RESULTS OF OPERATIONS

This section of the Official Statement presents certain historical operating data and financial information concerning the System. This information in this section will be updated annually and such annual report will be filed with appropriate information repositories in accordance with the requirements of Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE".

System Utilization

The following table sets forth certain essential utilization data with respect to the System for the past five fiscal years.

	Fiscal Year Ending September 30				
	1996	1995	1994	1993	1992
Active Accounts	140,146	140,361	138,601	137,733	135,766
Avg. daily treatment volume (millions of gallons treated)	130	123	106	111	110
Sewer Charges	44,387,013	39,587,914	38,367,830	33,187,956	29,289,018
% Revenues - Largest Customer	2.56%	2.96%	2.61%	2.51%	2.25%
% Revenues - Top 10 Customers	9.76%	9.98%	8.55%	7.85%	7.44%

Summary of Revenues and Expenditures

The following table sets forth the consolidated revenues, expenditures and changes in fund balance with respect to the System for each of the past five years:

	Fiscal Year Ended September 30				
	1996*	1995	1994	1993	1992
Revenues					
Sewer Charges	\$44,387,013	\$39,587,914	\$38,367,830	\$33,187,956	\$29,289,018
Other Operating Revenue	4,948,202	6,722,187	3,942,636	3,575,795	3,210,408
Ad Valorem Taxes	2,718,657	2,695,800	2,327,333	2,305,275	2,170,195
Interest Income	6,006,195	1,058,270	728,371	5,112,768	3,024,160
Miscellaneous Revenue	246,650	489,717	1,826,947	2,036,139	1,413,320
TOTAL REVENUES	\$58,306,717	\$50,553,888	\$47,193,117	\$46,217,933	\$39,107,101
Expenses					
Salaries and Wages	\$13,662,678	\$12,975,460	\$12,525,522	\$12,496,329	\$11,534,978
Contract Services	4,556,861	4,228,554	3,020,482	3,176,943	1,435,605
Other	7,475,318	6,666,745	8,817,071	11,071,101	12,075,630
TOTAL EXPENSES	\$25,694,857	\$23,870,759	\$24,363,075	\$26,744,373	\$25,046,213
Excess of Revenues					
Over Expenditures	<u>\$32,611,860</u>	<u>\$26,683,129</u>	<u>\$22,830,042</u>	<u>\$19,473,560</u>	<u>\$14,060,888</u>
Other Financing Sources (Uses)					
Depreciation	\$(18,260,072)	\$(17,287,468)	\$(17,795,800)	\$(18,312,495)	\$(4,820,179)
Interest Expense	(12,962,714)	(9,419,871)	(7,661,979)	(12,062,475)	(1,032,992)
TOTAL OTHER FINANCING SOURCES (USES)	\$(31,222,786)	\$(26,707,339)	\$(25,457,779)	\$(30,374,970)	\$(5,853,171)
Net Income (Loss)	\$1,389,074	\$(24,210)	\$(2,627,737)	\$(10,901,410)	\$8,207,717
Retained Earnings, Beginning of Year	\$197,798,929	\$192,303,089	\$194,930,826	\$227,402,739	\$210,943,816
Adjustments for Prior Periods	0	5,520,050	0	(21,570,503)	8,251,206
Adjusted Retained Earnings Beginning of Year	\$197,798,929	\$197,823,139	\$194,930,826	\$205,832,236	\$219,195,022
Retained Earnings, End of Year	<u>\$199,188,003</u>	<u>\$197,798,929</u>	<u>\$192,303,089</u>	<u>\$194,930,826</u>	<u>\$227,402,739</u>

* Unaudited

Summary of Balance Sheet

The following table sets forth a summary of the assets and liabilities of the System for each of the past five years:

	Fiscal Year Ended September 30				
	1996*	1995	1994	1993	1992
ASSETS					
Cash and Investments	\$78,609,239	\$136,482,412	\$47,856,298	\$82,608,493	\$117,155,748
Accounts Receivable, Net	4,697,509	5,643,597	1,067,785	376,025	412,382
Interest Receivable	0	233,582	38,919	67,987	0
Due From Other Governmental Units	30,975	27,575	23,307	228,797	24,034
Inventories	454,043	636,841	480,010	569,822	243,482
Prepaid Items	6,322	2,227	0	0	0
Warrant Issue Costs	4,383,822	4,643,738	4,080,744	4,312,909	3,161,864
Fixed Assets, Net	<u>407,937,320</u>	<u>346,925,984</u>	<u>298,882,213</u>	<u>274,012,718</u>	<u>285,330,983</u>
TOTAL ASSETS	<u>\$496,119,230</u>	<u>\$494,595,956</u>	<u>\$352,429,276</u>	<u>\$362,176,751</u>	<u>\$406,328,493</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$12,434,209	\$7,744,347	\$1,237,895	\$4,470,643	\$4,624,641
Interest Payable	1,063,341	1,155,946	0	366,213	481,390
Accrued Payroll and Taxes	46,287	427,604	413,245	0	61,200
Retainage Payable	4,255,715	3,247,924	474,000	534,000	823,000
Accrued Vacation and Sick Leave	1,574,675	1,451,576	1,341,047	1,280,069	1,225,523
Accrued Compensatory Leave	142,000	109,630	0	0	0
Bonds and Warrants Payable	<u>277,415,000</u>	<u>282,660,000</u>	<u>156,660,000</u>	<u>160,595,000</u>	<u>171,710,000</u>
TOTAL LIABILITIES	\$296,931,227	\$296,797,027	\$160,126,187	\$167,245,925	\$178,925,754
FUND EQUITY					
Retained Earnings	<u>199,188,003</u>	<u>197,798,929</u>	<u>192,303,089</u>	<u>194,930,826</u>	<u>227,402,739</u>
TOTAL FUND EQUITY	<u>199,188,003</u>	<u>197,798,929</u>	<u>192,303,089</u>	<u>194,930,826</u>	<u>227,402,739</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$496,119,230</u>	<u>\$494,595,956</u>	<u>\$352,429,276</u>	<u>\$362,176,751</u>	<u>\$406,328,493</u>

* Unaudited

OUTSTANDING DEBT

General

The principal forms of indebtedness that the County is authorized to incur include general obligation bonds, general obligation warrants, general obligation bond anticipation notes, special or limited obligation warrants and various revenue anticipation bonds and warrants relating to enterprises. In addition, the County has the power to enter into certain leases which constitute a charge upon the general credit of the County. Under existing law, the County may issue general obligation bonds only after a favorable vote of the electorate of the County. General and special obligation warrants issued for certain specified purposes may be issued without voter approval.

The County Financial Control Act generally prohibits the issuance of warrants by counties unless at the time of such issuance funds are available for their payment. Act No. 83-75 enacted at the 1983 First Special Session of the Legislature of Alabama, as amended by Act No. 83-921 of the 1983 Fourth Special Session of the Legislature of Alabama (such acts being codified as §§ 11-28-1 through 11-28-7, inclusive, of Code of Alabama 1975), pursuant to which the Series 1997 Warrants are being issued, as well as certain other statutes authorizing Alabama counties to issue general and special obligation warrants for certain specified capital and other similar purposes, expressly negate the application of the County Financial Control Act to such warrants. With certain minor and narrow exceptions, however, Alabama counties may not incur long-term debt for payment of current operating expenses, and the County Financial Control Act has the practical effect of prohibiting deficit financing for current operations.

Outstanding Long-Term Sewer Revenue Debt

In addition to the Series 1997-D Warrants being offered by this Official Statement, the County has the following outstanding long-term sewer revenue indebtedness.

Series 1997-A Warrants and Series 1997-B Warrants. The County's Series 1997-A Warrants and Series 1997-B Warrants were issued pursuant to the Indenture and are outstanding in the aggregate principal amount of \$211,040,000 and \$48,020,000, respectively. The Series 1997-A Warrants and Series 1997-B Warrants were issued for the purpose of refunding all of the County's outstanding sewer revenue debt except a certain sewer revenue warrant issued to the Alabama Water Pollution Control Authority, which was retired by the County after being exchanged for the County's Series 1997-C Warrants. The Series 1997-A Warrants and the Series 1997-B Warrants are secured by the Pledged Revenues on a parity of lien with the Series 1997-C Warrants and the Series 1997-D Warrants. The Series 1997-A Warrants and Series 1997-B Warrants are also secured by the Reserve Fund established pursuant to the Indenture.

Series 1997-C Warrants. The County's Series 1997-C Warrants were issued pursuant to the Indenture and are outstanding in the aggregate principal amount of \$52,880,000. The Series 1997-C Warrants were issued to the Alabama Water Pollution Control Authority in exchange for a sewer revenue warrant (the "SRF Warrant") that evidenced a pool loan made by the Authority to the County. After issuance of the Series 1997-C Warrants, the SRF Warrant was retired and the lien on the Pledged Revenues in favor of the SRF Warrant was retired. The Series 1997-C Warrants are secured by the Pledged Revenues on a parity of lien with the Series 1997-A Warrants, Series 1997-B Warrants and Series 1997-D Warrants, but the Series

1997-C Warrants are not entitled to the benefit of the Reserve Fund.

Outstanding Short-Term Sewer Revenue Debt

The County does not have any short-term debt outstanding payable out of Pledged Revenues and does not have a line of credit for short-term borrowing purposes payable out of such revenues.

Debt Service Requirements

The annual debt service requirements on the Series 1997 Warrants are set forth under the heading "DEBT SERVICE REQUIREMENTS AND COVERAGE".

Anticipated Sewer Revenue Debt

In order to comply with the Consent Decree governing the System (see "LITIGATION - The Consent Decree") and to meet the System's ongoing capital improvement requirements, the County expects to issue substantial additional indebtedness over the next twelve years. The remedial plan set forth in the Consent Decree is expected to cost more than \$1.5 billion over the twelve year period anticipated by the Consent Decree. The County expects to finance these improvements by periodically issuing additional debt secured by the Pledged Revenues on a parity of lien with the Series 1997 Warrants.

Outstanding General Obligation Debt

The County's outstanding long-term general obligation indebtedness (apart from (i) current liabilities incurred in the regular and ordinary operations of the County and (ii) certain conduit financings for which the County has no payment obligation or other liability) consists of the following outstanding warrants of the County:

General Obligation Tax Pledge Warrants, 1985 Series B, maturing April 1, 1997	\$4,618,692*
General Obligation Warrants, Series 1988, maturing annually April 1, 1997 through April 1, 2000	16,738,272*
General Obligation Warrants, Series 1989, maturing annually April 1, 1997 through April 1, 1999	4,235,000
General Obligation Warrants, Series 1990, maturing annually April 1, 1997 through April 1, 2004	15,815,000
General Obligation Warrants, Series 1992, maturing annually April 1, 1998 through April 1, 2007	45,005,476*
General Obligation Warrants, Series 1993, maturing annually April 1, 2001 through April 1, 2010	64,145,000
General Obligation Warrants, Series 1996, maturing April 1, 2000 through April 1, 2006	<u>24,000,000</u>
TOTAL	\$174,557,440

* Amount shown includes the Compound Accreted Amounts as of October 1, 1996, of those warrants issued as capital appreciation warrants.

Civic Center Financing

The Birmingham-Jefferson Civic Center Authority (the "Authority") is a public corporation that owns and operates a civic center complex (the "Civic Center") located in the County. In order to finance the costs of certain improvements and additions to the Civic Center, the Authority issued and sold \$132,380,000 principal amount of tax-exempt bonds in 1989. In order to assist the Authority in this undertaking, the City of Birmingham and the County entered into separate agreements with the Authority in which they pledged and appropriated certain tax revenues to the Authority for the purpose of paying a portion of the debt service on the aforesaid bonds of the Authority. The agreement between the County and the Authority provides for the pledge and appropriation by the County to the Authority of certain proceeds of a special privilege or license tax (the "Special County License Tax") that the County levies and collects at the rate of 1/2% of the gross receipts of each person following a vocation, occupation, calling or profession within the County. No other County revenues are subject to such financial commitment. Under the provisions of said agreement, the County is required to make payments to the Authority out of such proceeds in the amount of \$10,000,000 per year for each calendar year until and including 2008.

GENERAL INFORMATION RESPECTING JEFFERSON COUNTY, ALABAMA

COUNTY GOVERNMENT AND ADMINISTRATION

The County Commission

The governing body of the County is the Commission. The five commissioners are elected from five districts within the County for four-year terms. The current term of office for the present commissioners, President Mary M. Buckelew and Commissioners Bettye Fine Collins, Jeff Germany, Chris McNair and Gary White, began on January 17, 1995, and will end on November 10, 1998.

The major responsibilities of the Commission are to administer the County's finances, serve as custodians of all of the County's property, collect taxes as set by state law, allocate resources for the construction of buildings, roads and other public facilities, provide for the delivery of services that by law are the County's responsibility (such as sewer service, medical care, care for the indigent and law enforcement) and make appointments to various governmental boards and agencies.

As of October 1, 1996, the County employed 4,077 individuals. The County's employees perform tasks in five areas of County government. These areas are the Department of Finance and General Services, the Department of Roads and Transportation, the Department of Environmental Services, the Department of Health and Human Services and the Department of Community and Economic Development. A description of these areas follows:

The Department of Finance and General Services

The Department of Finance and General Services is responsible for the administration of the financial affairs of the County, the management of the public buildings of the County and the maintenance of the accounting records of the County. The department supervises the operations of the County Revenue Department, which collects a number of state and local taxes (such as sales and use taxes and other excise taxes), as well as the Finance Department. See "COUNTY FINANCIAL SYSTEM". For the most part, the activities of the department are supported with moneys from the General Fund of the County. The President of the Commission, Mary M. Buckelew, has been assigned the responsibility of the Department of Finance and General Services.

The Department of Community and Economic Development

The Department of Community and Economic Development is responsible for the activities of the County in a number of different areas related to the growth and development of the County. Commissioner Bettye Fine Collins has been assigned the responsibility for this department, which includes the County's offices for land development and inspection services. The department also supervises the Office of Community Development, which administers federal community development funds for capital improvements in the County, and the Office of Senior Citizens' Activities, which is responsible for the development and implementation of programs to provide services for the elderly residents of the County.

The Department of Health and Human Services

The Department of Health and Human Services, which is the responsibility of Commissioner Jeff Germany, supervises certain health care institutions and agencies of the County. Two of the institutions subject to the supervision of the department are the County nursing home in Ketona, Alabama (the "County Home") and Cooper Green Hospital, which provides medical care for indigent residents of the County. Cooper Green Hospital is supported from the Indigent Care Fund of the County and the County Home is supported by the General Fund.

The Department of Environmental Services

The Department of Environmental Services is responsible for the construction, operation and maintenance within the County of sewage disposal plants and sewage lines and solid waste disposal facilities. Commissioner Chris McNair has been assigned the responsibility for this department.

The Department of Roads and Transportation

The Department of Roads and Transportation is responsible for the construction and maintenance within the unincorporated area of the County of public highways, streets and bridges. Commissioner Gary White has been assigned the responsibility of this department. The various divisions which constitute the department, including the Administrative Division, the Design Division, the Right-of-Way Division, the Highway Engineering Division, the Highway Maintenance Division, the Traffic Division and the Equipment Division, are supported with moneys from the Road Fund.

COUNTY FINANCIAL SYSTEM

The Department of Finance and General Services is responsible for the administration of the financial affairs of the County and the maintenance of its accounting records. The Finance Department, a division of the Department of Finance and General Services, directs the County's financial program by assembling, maintaining and preparing the County's financial records and statements and by assisting in budget hearings.

Pursuant to Alabama law, the County is audited annually by the State Department of Examiners of Public Accounts. Historically, the emphasis of the state audit has been on compliance with applicable state law. Such audits are generally completed within one year after the end of the audit period. The most recent available state audit is for the fiscal year ended September 30, 1995. In addition to the state audit, the Director of Finance of the County prepares internal financial statements which conform to the format of the state audit.

A copy of the latest audit for the County is included in Appendix B for general information purposes only. The Series 1997 Warrants will not constitute general obligations of or a charge against the general credit or taxing power of the County but instead are limited obligations of the County payable solely out of the Pledged Revenues.

Budget System

The budget for the County consists of an operating budget for each of the funds maintained by the County. Together, these separate operating budgets constitute a complete financial plan for the County and reflect the projection of the receipts, disbursements and transfers from all sources.

All of the operating budgets are developed by the Finance Department under the direction of the members of the Commission respectively responsible for the operation of the individual County departments. The budgets are based on estimates of the amount and cost of work to be performed together with historical costs of operations as submitted by the head of each office and department. Estimated revenues are detailed according to source, and estimated expenditures are detailed according to function and type.

Upon submission of the proposed budgets by the Finance Department, the Commission holds public hearings at which the requests of the individual County departments and the recommendations of the Finance Department are fully reviewed. After conclusion of the hearings, the Commission may add new expenditures or increase, decrease or delete expenditures in the proposed budgets, provided that expenditures for debt service or any other expenditures required by law to be included may not be deleted from the budgets. The Commission is prohibited by law from adopting budgets in which the total of expenditures exceeds the estimated total receipts and available surplus.

The Commission is required to adopt the annual budgets on or before the first Tuesday in October of the fiscal year in which the budgets are to take effect. Upon adoption by the Commission, the budgets are printed for distribution to all departments of the County, as well as financial institutions and the general public. Appropriations in addition to those in the original budgets may be made by the Commission if unencumbered and unappropriated moneys sufficient to meet such appropriations are available.

Jefferson County is the first and only county in the State of Alabama to receive the Government Finance Officers Association's Distinguished Budget Presentation Award. The Commissioners have received these awards each year since the fiscal year beginning October 1, 1992.

Accounting System

The County maintains a number of separate funds, some of which should be categorized as governmental funds and the remainder of which are more appropriately considered to be proprietary or fiduciary funds. For at least the last five fiscal years, these funds have been maintained and reported by the County in accordance with the standards of the Government Finance Officers Association. The following paragraphs contain brief descriptions of certain of the funds maintained by the County.

General Fund. The General Fund is the primary operating fund of the County. Its revenues are not earmarked and may be utilized for any purpose authorized by state or local law. Primary sources of revenue for the General Fund are occupational taxes, property taxes, county sales taxes and commissions and revenues collected by the State and shared with the County. For the most part, the General Fund supports the operation of the County's basic governmental functions, including management, personnel, accounting, taxation, purchasing, data processing, law enforcement, the judiciary and land utilization.

Special Revenue Funds. The County maintains a number of special revenue funds in order to account for revenues from specific sources which are regulated and restricted to expenditures for specific purposes. The following are brief descriptions of the special revenue funds of the County.

The Indigent Care Fund is used to support the operation of Cooper Green Hospital. Revenue sources for the Indigent Care Fund include alcoholic beverage taxes and sales taxes.

The Road Fund is used to support County road and street construction and maintenance. Revenue sources for the fund include County ad valorem taxes and a County gasoline tax, together with the County's portion of the state gasoline taxes and drivers' license and motor vehicle tag fees.

The Bridge and Public Building Fund is used to account for expenditures of ad valorem taxes designated for the maintenance and repair of County bridges and public buildings. Expenditures from this fund include transfers of moneys to the Road Fund to support the County road maintenance program and payments of debt service on County obligations incurred for road and public building purposes.

The Community Development Fund is used to account for the receipt and disbursement of certain federal grant funds received by the County. Typical grants received are Community Development Block Grants, Farmers' Home Administration Grants and Housing and Urban Development Grants. Moneys from such fund are used for housing development and community revitalization projects, including related road and sewer developments.

The Senior Citizens Activities Fund is used in connection with a federally-sponsored program to help senior citizens obtain prepared meals, medical care and transportation.

Debt Service Funds. The debt service funds are a group of accounts into which the proceeds of pledged taxes and interest income are deposited for the payment of the County's long-term debt.

Capital Project Funds. The capital project funds are used to receive transfers from other funds and interest income and proceeds from the sale of certain bonds, warrants or other securities of the County and to make capital outlay expenditures. Brief illustrative descriptions of such funds are presented below.

The Capital Improvements Fund is used to support a variety of capital projects undertaken by the County, including construction of new buildings, renovation of existing buildings and major equipment purchases.

The Road Construction Fund is used to account for the expenditures related to a number of road construction and improvement projects. Moneys in this fund consist primarily of warrant proceeds, contributions from other governmental entities and proceeds of grants.

Enterprise Funds. The enterprise funds are used to account for activities where the intent of the County is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the County has decided that periodic income determination is appropriate for capital maintenance, public policy, management control accountability or other purposes. A major County enterprise fund is the Sanitary Operations Fund, which is used to support the operation and maintenance of sewage disposal facilities in the County. Sewer service charges constitute the primary revenue source for such fund. Other major enterprise funds are maintained with respect to Cooper Green Hospital, the County Home, the County solid waste disposal facilities and the County Parking Deck.

Trust and Agency Funds. The County maintains trust and agency funds to account for expendable trust funds and agency funds which the County is charged with maintaining.

Pension and Retirement Plan

The General Retirement System for Employees of Jefferson County (the "Pension System") is established under Act No. 497 of the 1965 Regular Session of the Legislature, as amended (the "Pension Act"). With certain limited exceptions, all employees of the County who are subject to the Civil Service System are members of the Pension System. County officers and those County employees who are not subject to the Civil Service System may elect to be members of the Pension System. As of September 30, 1996, there were 4,416 members of the Pension System (including both present and retired employees).

Benefits payable under the Pension System are funded through a trust to which both the County and the members of the Pension System (the "Members") are required to contribute. With certain exceptions, each Member is required to make contributions to the Pension System, by means of regular payroll deductions, at a rate equal to 6% of the Member's compensation. The County is required to make a monthly contribution to the Pension System in an amount equal to the contributions made by Members for the month.

The Pension Act requires periodic review of the Pension System by a reputable actuary. The most recent actuarial valuation of the Pension System was prepared as of September 30, 1994, by Towers, Perrin

(the "Actuary"). According to that valuation, the Pension System had as of September 30, 1994, total liabilities of \$398,700,000. The assets of the Pension System as of September 30, 1994, consisted of present assets valued at \$315,600,000 and future contributions of the County and the Members with a present value of \$128,500,000. On the basis of that valuation and certain actuarial assumptions, the Actuary concluded that the Pension System is actuarily sound.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Jefferson County is Alabama's most populous county and is the principal center of finance, trade, manufacturing, transportation, health care and education in the State. Birmingham, the State's largest city, and 37 other municipalities are located within the County's 1,141 square miles. The County, with a population of approximately 657,827 is the center of the five-county Birmingham Metropolitan Statistical Area (MSA) which covers 4,034 square miles. The Birmingham MSA has a population of 907,810, and is the 59th most populated area among the 320 MSAs in the United States.

Population

The following table summarizes historical population growth for the County and the Birmingham MSA.

Population Trends

<u>Year</u>	<u>Jefferson County</u>	<u>Birmingham MSA (1)</u>
1995*	657,827	881,761
1990	651,525	907,810
1980	671,324	884,040
1970	644,991	794,083
1960	634,864	772,044
1950	558,928	708,721
1940	459,930	609,919

(1) The Birmingham Standard Metropolitan Statistical Area (SMSA) was established in 1967, and originally included Jefferson, Shelby and Walker Counties. St. Clair County was added to the SMSA in 1973. Blount County was added in 1983, at which time the official government designation became the Birmingham Metropolitan Statistical Area (MSA). Walker County was removed from the Birmingham MSA in 1993. Excluding Walker County, the population of the Birmingham MSA in 1990 was 839,942.

*Estimated.

Source: Bureau of the Census, U.S. Department of Commerce

Employment and Labor Force

Nonagricultural wage and salary employment in the Birmingham MSA grew by 39,300 jobs, or more than 9.76%, between 1990 and 1995. The gains were uneven, as seen in the following table. While the number of nonmanufacturing jobs increased by 37,500, the number of manufacturing jobs increased by only 1,800. The average unemployment rate in 1995 for the Birmingham MSA was 4.3%.

Birmingham MSA
Employment Change in Selected Industry Groups
Selected Annual Averages

(in thousands)

	1991	1992	1993	1994	1995	Net Change 1991-1995	Percent Change 1990-1995
Total Nonagricultural Employment	402.7	409.0	418.5	428.3	442.0	39.3	9.8%
Goods Producing	78.1	75.6	75.2	77.2	79.9	1.8	2.3%
Mining	3.5	3.0	3.0	3.0	3.3	-.2	-5.7%
Construction	22.1	21.1	20.8	21.9	23.0	.9	4.1%
Manufacturing	52.5	51.4	51.4	52.2	53.7	1.2	2.3%
Durable Goods	33.6	32.7	32.7	33.3	34.7	1.1	3.3%
Nondurable Goods	18.9	18.7	18.7	18.9	19.0	.1	.5%
Servicing Producing	324.6	333.4	343.4	351.1	362.1	37.5	11.6%
Transportation & Public							
Utilities	31.0	29.6	29.9	30.2	30.1	-.9	-2.9%
Wholesale & Retail Trade	95.9	98.2	101.7	104.3	108.6	12.7	13.2%
Finance, Insurance & Real Estate	29.1	29.5	30.2	30.6	30.7	1.6	5.5%
Services	103.6	109.6	114.7	118.5	124.4	20.8	20.1%
Government	64.9	68.5	66.9	67.4	68.2	3.3	5.1%

Source: Alabama Department of Industrial Relations

The fastest growing part of the County's economy is the service sector, employing more than 124,400 people in 1995. Other fast-growing sectors of the County's economy include government and wholesale and retail trade.

**Birmingham Metropolitan Area
Largest Employers
(As of March 1996)**

<u>Employer</u>	<u>Employees</u>
1. University of Alabama at Birmingham.....	15,505
2. U. S. Government	9,000
3. BellSouth.....	8,250
4. State of Alabama.....	6,150
5. Baptist Health System	5,800
6. Jefferson County Board of Education	5,301
7. Bruno's	4,950
8. City of Birmingham.....	4,500
9. Birmingham Public Schools	4,200
10. Jefferson County Government	4,077
11. SouthTrust Bank	3,400
12. USX.....	3,000
13. AmSouth Bank.....	3,000
14. American Cast Iron Pipe	2,800
15. Alabama Power Company.....	2,713
16. Wal-Mart.....	2,680
17. Drummond Company	2,560
18. Brookwood Medical Center	2,485
19. HEALTHSOUTH Corporation.....	2,070
20. Parisian's, Inc.....	2,032
21. Children's Hospital.....	2,000
22. Carraway Methodist Medical Center	1,990
23. Shelby County Board of Education	1,986
24. Compass Bank.....	1,886
25. EBSCO	1,700

(1) Includes 3,820 U.S. Post Office employees, 1,900 Social Security Administration employees and 1,000 VA Medical Center employees.

Source: Business Development and Research Division, Birmingham Area Chamber of Commerce.

Note: Employment figures reflect both full-time and part-time employees

Income

The following table presents comparative information regarding per capita income for the County, the State and the Birmingham MSA.

Per Capita Personal Income (1)

Year	BIRMINGHAM MSA		JEFFERSON COUNTY		ALABAMA	
	Income	% of National Average	Income	% of National Average	Income	% of National Average
1994	\$21,214	98%	\$21,915	101.1%	\$17,922	83%
1993	20,191	97	20,788	100	17,103	82
1992	19,357	96	19,891	99	16,521	82
1991	18,327	95	18,791	98	15,612	81
1990	17,597	94	18,028	97	14,903	80
1989	16,466	93	16,879	95	13,917	79
1979	8,344	93	8,620	95	7,009	78
1969	3,283	86	3,381	89	2,723	71

(1) Per Capita Personal Income is the current income received by one resident of an area from all sources. It is measured before deduction of income and other personal taxes, but after deduction of personal contributions for social security, government retirement and other social insurance programs.

Source: Business Development and Research Division, Birmingham Area Chamber of Commerce, U.S. Department of Commerce

Housing and Construction

The following tables present certain information about building permits and construction activity in the County and the Birmingham MSA:

BUILDING PERMITS - JEFFERSON COUNTY

Year	Residential ⁽¹⁾		Nonresidential	
	Units	Value	Units	Value
1995	4,131	\$366,199,099		
1993	3,684	360,706,294	652	\$224,451,018
1992	2,626	273,137,894	710	\$128,682,391

(1) Includes homes, apartments, hotels and motels.

Source: Center for Business and Economic Research, The University of Alabama.

ANNUAL CONSTRUCTION DATA
BIRMINGHAM MSA
(Blount, Jefferson, Shelby, St. Clair and Walker Counties)

Year	# Units	Residential (1) \$ Investment	Non-Residential (2) \$ Investment	Total \$ Investment
1993 (3)	4,584	\$509,201,000	\$333,154,000	\$842,355,000
1992	4,123	436,133,000	216,605,000	652,738,000
1991	3,423	329,281,000	278,927,000	608,208,000
1990	3,652	303,916,000	327,791,000	631,707,000
1989	2,759	277,218,000	301,055,000	578,273,000
1988	2,692	298,255,000	251,313,000	594,568,000
1987	4,586	376,881,000	278,816,000	655,697,000
1986	4,266	323,852,000	301,014,000	624,866,000
1985	5,259	272,100,000	356,200,000	628,300,000
1984	3,657	214,900,000	287,580,000	502,480,000

(1) Residential buildings include houses, apartments, motels, dormitories and other buildings designed for shelter.

(2) Non-residential buildings include commercial, manufacturing, education, religious, administrative, recreational and other buildings not designed for shelter.

(3) Although Walker County was deleted from the Birmingham MSA in 1993, figures for 1993 include Walker County.

Source: F. W. Dodge Reports, McGraw Hill, Inc.

Education

The County is the home of six colleges and universities, four business schools and five junior colleges and trade schools. These schools have a combined enrollment of over 35,000.

The largest institution is the University of Alabama at Birmingham (UAB), which includes University College, the Graduate School and the UAB Medical Center. The UAB complex, featuring a wide range of undergraduate, graduate and professional programs, is the third largest educational institution in Alabama, with a total enrollment of approximately 16,252. The UAB Medical Center consists of the schools of medicine, dentistry, nursing, optometry and public health and the School of Community and Allied Health. UAB has an annual payroll exceeding \$411 million and is the largest employer in the County.

**Universities and Colleges
Jefferson County**

<u>Name</u>	<u>Type</u>
University of Alabama at Birmingham	State Supported
Samford University and Cumberland School of Law	Private
Birmingham-Southern College	Private
Miles College	Private
Birmingham School of Law	Private
Southeastern Bible College	Private

**Junior and Technical Colleges
Jefferson County**

<u>Name</u>	<u>Type</u>
Jefferson State Junior College	State Supported
Bessemer Technical College	State Supported
Lawson State Technical College	State Supported

The Jefferson County School System consists of 60 schools with an enrollment exceeding 40,000. The City of Birmingham has 79 schools within its system and approximately 42,000 students. There are eight other public school systems in the County encompassing over 40 schools and more than 25,000 students. In addition, the Birmingham MSA has over 50 private and denominational schools with grades ranging from kindergarten through high school.

National Rankings

The following table shows the ranking of the Birmingham MSA for a number of economic categories in comparison with other MSAs in the nation.

Birmingham MSA National Ranking for Selected Categories

<u>Category</u>	1995 Rank Among All 316 United States ___MSA's
Population	65
Effective Buying Income (EBI)	67
Households with EBI of \$150,000 and over	55
Retail Sales	65
Households	64
Apparel and Accessories Store Sales	54
Automotive Dealer Sales	59
Building Material/Hardware Store Sales	67
Drug Store Sales	53
Eating and Drinking Place Sales	68
Food Store Sales	66
Furniture/Home Furnishings/Appliance Store Sales	66
Gasoline Service Station Sales	65
General Merchandise Store Sales	64

Source: "1996 Survey of Buying Power", *Sales & Marketing Management*.

JEFFERSON COUNTY, ALABAMA STATISTICAL COMPARISON TO CITY OF BIRMINGHAM, BIRMINGHAM MSA AND STATE OF ALABAMA (As of January 1, 1995 and for the year then ended)

Area	Population(1)	Percent of Alabama	Households	Percent of Alabama	Household Median EBI	Percent of Alabama Median EBI
Birmingham	263,800	6.2%	104,700	6.5%	\$22,984	83.7%
Jefferson County	656,000	15.4%	254,400	15.9%	30,286	110.2%
Birmingham MSA	882,300	20.7%	336,900	21.0%	31,443	114.5%
Alabama	4,269,500	100.0%	1,602,600	100.0%	27,472	100.0%

Area	Total Retail Sales (000s)	Percent of Alabama	Eating & Drinking Sales (000s)	Percent of Alabama	General Merchandise Sales (000s)	Percent of Alabama	Furniture/ Furnishings/ Appliances Sold	Percent of Alabama
Birmingham	\$2,989,525	8.3%	\$253,303	8.0%	\$230,217	4.4%	\$157,748	10.1%
Jefferson County	7,387,198	20.6	679,341	21.4	972,916	18.8	375,218	23.9
Birmingham MSA	8,569,792	23.8	792,614	25.0	1,060,720	20.5	420,594	26.8
Alabama	35,946,071	100.0	3,168,458	100.0	5,180,487	100.0	1,567,635	100.0

(1) Population as projected by *Sales & Marketing Management*.

Note: Effective Buying Income ("EBI") is generally known as "disposable personal income" and is equal to personal income less personal taxes (federal, state and local), nontax payments (fines, fees and penalties) and personal contributions to social security.

Source: "1996 Survey of Buying Power," *Sales & Marketing Management*.

Transportation

Commercial airline service is available through Birmingham's airport, which is served by seven major carriers (American, Continental, Delta, Northwest, Southwest, United and US Air and three commuter carriers (Comair, TW Express and US Air Express). The Birmingham Airport has completed recently a major expansion and renovation.

In 1992, the Birmingham Airport Authority completed a renovation and expansion of the Birmingham International Airport. The project included (i) the construction of a parking deck containing 1,200 additional spaces (providing nearly 3,700 spaces in all), (2) separate roadways for enplaning and deplaning passengers and (3) renovation of the existing terminal. The Birmingham International Airport has two runways, which are 10,000 feet and 7,100 feet long, respectively. In 1997, the Birmingham Airport Authority expects to commence construction of an additional expansion of the parking deck and a new air cargo facility. During fiscal year 1996, the Birmingham International Airport enplaned over 1.3 million passengers.

Almost 100 truck lines have terminals in the area. Additionally, Birmingham is served by four major railroads -- Norfolk Southern, CSX Corporation, Illinois Central Gulf and Burlington Northern Railway. Amtrak passenger service is also available.

Barge transportation is available through private dock facilities at Port Birmingham in western Jefferson County. These facilities are part of the Warrior-Tombigbee waterway system which provides access to the Port of Mobile in south Alabama. The area is linked with the Tennessee-Tombigbee waterway system, which connects the County with inland ports in midwest America.

Health Care

The County is a major center for health care and biomedical research. Altogether, 21 hospitals with a total of 6,400 beds are located in the County. The Medical Center of the University of Alabama at Birmingham (UAB) is internationally known for its programs in cardiovascular disease and open heart surgery, as well as cancer, organ transplants, dentistry and diabetes. Other major medical centers such as Baptist Medical Centers, Carraway Methodist Medical Centers, Medical Center East, St. Vincent's Hospital, HEALTHSOUTH Medical Center and Brookwood Medical Center have all undergone recent multi-million dollar expansions. Southern Research Institute (SRI) is one of the largest independent non-profit research and development organizations in the South. In addition to its cancer and virus research, SRI is nationally noted for its industrial research programs.

LITIGATION

General

There is no litigation pending or, to the knowledge of the County, threatened, attacking or questioning the validity of the Series 1997-D Warrants or the issuance and sale thereof; and there is no litigation pending or, to the knowledge of the County, threatened, relating to the organization or boundaries of the County or the incumbency of any of its officers. Simultaneously with the delivery of the Series 1997-D Warrants, the County will deliver a certificate to the effect that no such litigation is pending or, to the knowledge of the County, threatened.

The County is a defendant in numerous suits and has been notified of numerous claims against it arising from alleged negligence relating to motor vehicles and other matters relating to the normal operation of a county, as well as suits and claims arising from alleged denial of civil rights. Some of such suits and claims demand damages in large amounts. The County believes that any liability resulting from such suits and claims will be covered adequately by the liability insurance and funds of the County which will be available to discharge such liability without impairing its ability to perform any of its other obligations.

The immunity from tort liability formerly enjoyed by local governmental units in Alabama has been largely eroded by recent court decisions. The Code of Alabama 1975, Title 11, Chapter 93, as amended, prescribes certain maximum limits on the liability of Alabama local governmental units (such as the County) for bodily injury, sickness, disease or death sustained by a person and for damage to or destruction of tangible property. Although the general constitutional validity of Chapter 93 has been upheld by the Supreme Court of Alabama, its applicability to causes of action under Section 1983 of Title 42 of the United States Code has not been determined. The County, along with other local governmental units throughout the country, has been increasingly subjected to lawsuits – many of which claim damages in large amounts – for alleged denial of civil rights under the provisions of Section 1983.

The Consent Decree

The County has been a defendant in certain civil actions (collectively referred to as the "Clean Water Act litigation") in which the County allegedly violated various provisions of the federal Clean Water Act, 33 U.S.C. § 1251 et seq. (the "Clean Water Act") in the operation of the System. The plaintiffs in the Clean Water Act litigation included private citizens, an environmental group, and the United States Justice Department, acting at the request and on behalf of the Environmental Protection Agency ("EPA"). The actions were filed and consolidated in the United States District Court, Northern District of Alabama, Southern Division (United States of America v. Jefferson County, Alabama, et al., Civil Action No. 94-G-2947-S, and R. Allen Kipp, Jr. et al. and Cahaba River Society, Inc. v. Jefferson County, Alabama, et al., Civil Action No. 93-G-2492-S).

The thrust of the claims by the plaintiffs in the Clean Water Act litigation was that the System has discharged untreated water containing raw sewage into the Cahaba River and the Black Warrior River and that these discharges violate the standards and limitations of the Clean Water Act as well as the System's various permits issued under the National Pollution Discharge Elimination System (NPDES) of the Clean Water Act. The plaintiffs claimed that the discharges occur during periods of heavy rainfall when the rainwater infiltrates or flows into the lateral and collector lines for the System; that this infiltration and inflow increases the volume of water in the System beyond capacity limits of the System's treatment plants; and that untreated or partially treated waste water above treatment plant capacity limits bypasses the treatment plants and is diverted during these periods directly into rivers in violation of the Clean Water Act and the System's NPDES permits.

On January 20, 1995 the District Court granted partial summary judgment in favor of the plaintiffs, finding that the County and the System were in violation of the Clean Water Act, and directed the parties to engage in settlement discussions with respect to the appropriate remedy. On July 31, 1995 the County announced that it had reached an agreement with the plaintiffs on the essential terms of a settlement; the terms of such settlement are now embodied in a Consent Decree (the "Consent Decree") that was approved and entered by the District Court on December 9, 1996.

The principal component of the Consent Decree is a remedial plan to eliminate bypasses and unpermitted discharges of untreated sewage and sewer system overflows. The action requirements of the decree consist of three phases -- essentially, a planning phase (which has already been completed), an investigative phase and an implementation phase -- all of which must occur over a twelve-year period. The Consent Decree provides for stipulated penalties if the County fails to meet submittal dates for plans, reports and schedules under the remedial plans, deadlines for completing remedial work and deadlines relating to the Supplemental Environmental Project referred to below. Such stipulated penalties apply on a per-day basis and are potentially substantial. If EPA makes a written demand for stipulated penalties, the County has the right to contest EPA's position, both directly with EPA and the Court pursuant to dispute resolution provisions in the decree. Moreover, if delays result from causes outside the County's control (force majeure), stipulated penalties may not be assessed. The County does not expect to incur substantial penalties under the decree.

A significant feature of the Consent Decree is a mechanism to provide for the establishment of a unified County-wide system for collection and treatment of sewage under the authority of the County. Such unification is expected to provide the County with the means to address the problem of infiltration and inflow in lateral and collector lines, which now are owned primarily by municipalities within the System's service area.

Municipalities will be given the option of conveying their systems to the County or alternatively, committing to perform the remediation necessary to bring their systems into compliance with the Clean Water Act. If a municipality refuses to cooperate, the County will suspend issuance of sewer connection permits within the boundaries of such non-cooperating municipality. It is expected that the consolidation of the System under the County's ownership will be largely achieved.

Pursuant to the Consent Decree, the County has paid \$750,000 to the United States Government as a penalty for past violations of the Clean Water Act. In addition, the County has agreed to undertake a supplemental environmental project ("SEP") at a cost of \$30,000,000 that will be financed out of the funds raised to carry out the total remedial project. The SEP funds will be used to acquire property and conservation easements along streams in the County to be dedicated as park land to protect such areas.

The economic impact of the Consent Decree on the County and the System is likely to be significant. The County has made a preliminary estimate indicating that the cost of bringing the System into consistent compliance with the Clean Water Act, as required by the Consent Decree, will likely exceed \$1.5 billion, not including any stipulated penalties that may be imposed. The financing of costs of this magnitude will require significant increases in the charges payable by the users of the System. However, there can be no assurance that the actual cost of compliance will be within the range of this preliminary estimate.

The full extent of remedial action required under the Consent Decree can be determined only after additional study and testing of the existing System. Work must be done in segments that correspond to the various drainage basins in the System's service area. The problems and solutions for each drainage basin can differ significantly. A meaningful estimate of the cost of the required remedies can only be determined after study and testing is completed, engineering specifications for the required work has been completed, and bids have been received by contractors.

The County has made extensive improvements to the System over the last several years. Many of these improvements have been made to address the infiltration and inflow problems that are the subject of the Clean Water Act litigation. The County has expended over \$290 million in the last seven years to improve the system and has almost \$70 million of contracts outstanding for System improvements. The Series 1997-D Warrants will finance additional improvement projects designed to comply with the remedial plan required by the Consent Decree.

Special County License Tax Litigation

On April 12, 1992, a class action was filed in Jefferson County Circuit Court by two sets of plaintiffs, one of which consists of federal employees who are subject to the Special County License Tax and the other of which consists of all employees (other than federal employees) who are subject to the Special County License Tax. The gravamen of the case, styled *Richards v. Jefferson County*, CV92-03191, is that the Special County License Tax violates the equal protection and due process clauses of the Fourteenth Amendment to the United States Constitution with respect to all plaintiffs because of exemptions allowed to certain occupations. In addition, those plaintiffs who are federal employees claim that the Special County License Tax violates their rights under that provision of the Buck Act (4 U.S.C. § 111) which allows state and local taxation of compensation of federal officers and employees if such taxation does not discriminate against such federal officers and employees because of the source of compensation. The plaintiffs seek damages in the amount of taxes collected since January 1, 1988, costs, interest and attorneys' fees and an injunction against the collection

of the Special County License Tax in its current form with respect to all taxpayers. The County filed a motion for summary judgment based on the ground that the plaintiffs' claims were barred by the doctrine of *res judicata*.

The Circuit Court entered an order in which it denied the County's motion for summary judgment with respect to the plaintiffs' claims that the levy and collection of the Special County License Tax violate the equal protection and due process clauses of the Fourteenth Amendment to the United States Constitution. The Circuit Court's denial of summary judgment in favor of the County was certified to the Alabama Supreme Court for interlocutory appeal. On March 31, 1995, the Alabama Supreme Court reversed the Circuit Court's denial of summary judgment with respect to the federal constitutional claims, holding that such claims were barred under the doctrine of *res judicata* because the validity of the Special County License Tax had been upheld in earlier litigation challenging its constitutionality.

On June 10, 1996, the United States Supreme Court reversed the decision of the Alabama Supreme Court, finding that plaintiffs' claims were not barred by the doctrine of *res judicata*. The U. S. Supreme Court remanded the case for further proceedings on the constitutionality of the license tax. The case is now pending in Jefferson County Circuit Court.

At this time, it is impossible to predict with certainty the final outcome of this litigation. If the plaintiffs are ultimately successful in this matter, the County would suffer a significant decrease in revenues and could suffer a monetary judgment equal to the amount of the Special County License Tax revenues collected since January 1, 1988 (approximately \$350 million), plus interest.

Leeds Litigation

In 1986, a group of residents of the City of Leeds filed suit against the County in Jefferson County Circuit Court, alleging that former Jefferson County Commissioner Tom Gloor promised in 1973 that if Leeds conveyed its existing treatment plant to the County, the County would charge "equitable" sewer rates to customers residing in Leeds. *City of Leeds v. Jefferson County*, CV86-505-366MC. The Circuit Court certified a class consisting of residents of that portion of Leeds located outside the County. On February 1, 1994, after a non-jury trial, the Court decided that a contract had been formed as a result of the alleged promise and required the County to charge a rate equal to 125% of the rate charged to customers living in Jefferson County. The Court also ordered that the County refund approximately \$98,000 in overcharges to the plaintiffs.

On November 3, 1995, the Alabama Supreme Court affirmed the trial court's finding that a contract existed but held that the court could not unilaterally set rates because Amendment No. 73 to the Constitution of Alabama gives sole rate-setting authority to the County Commission. The Supreme Court remanded the case to Circuit Court and directed the Circuit Court to order the Jefferson County Commission to set an equitable rate.

It is impossible to predict with certainty the ultimate outcome of this litigation. The County, however, does not expect to be materially adversely affected by the outcome of this litigation.

LEGAL MATTERS

The legality and validity of the Series 1997-D Warrants will be approved by Haskell Slaughter & Young, L.L.C., Birmingham, Alabama, Bond Counsel. Bond Counsel has been employed primarily for the purpose of preparing certain legal documents and supporting certificates, reviewing the transcript of proceedings by which the Series 1997-D Warrants have been authorized to be issued, and rendering an opinion in conventional form as to the validity and legality of the Series 1997-D Warrants and the exemption of interest thereon from Federal and State of Alabama income taxes. Although Bond Counsel assisted in the preparation of certain portions of this Official Statement and is of the opinion that the statements made herein under the captions "DESCRIPTION OF THE SERIES 1997-D WARRANTS", "SECURITY AND SOURCE OF PAYMENT", and "TAX EXEMPTION" fairly summarize the matters therein referred to, Bond Counsel has not been requested to check or verify, has not checked or verified, and will express no opinion with respect to the adequacy, accuracy, completeness or fairness of any other information contained in this Official Statement. It is anticipated that the approving opinion of Bond Counsel will be in substantially the form attached hereto as Appendix C.

Certain legal matters will be passed upon for the Underwriters and Placement Agents by their counsel, Maynard, Cooper & Gale, P.C.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing law interest on the Series 1997-D Warrants will be excluded from gross income for federal income tax purposes if the County complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), that must be satisfied subsequent to the issuance of the Series 1997-D Warrants in order that interest thereon be and remain excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Series 1997-D Warrants to be included in gross income, retroactive to the date of issuance of the Series 1997-D Warrants. The County has covenanted to comply with all such requirements.

Bond Counsel is also of the opinion that under existing law interest on the Series 1997-D Warrants will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations.

Bond Counsel will express no opinion regarding federal tax consequences arising with regard to the Series 1997-D Warrants other than the opinions expressed in the two preceding paragraphs. The form of Bond Counsel's opinion with respect to the Series 1997-D Warrants is expected to be substantially as set forth in Appendix C to this Official Statement.

Prospective purchasers of the Series 1997-D Warrants should be aware that (i) Section 265 of the Internal Revenue Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 1997-D Warrants, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Internal Revenue Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by

15% of the sum of certain items, including interest on the Series 1997-D Warrants, (iii) interest on the Series 1997-D Warrants earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Internal Revenue Code, (iv) passive investment income, including interest on the Series 1997-D Warrants, may be subject to federal income taxation under Section 1375 of the Internal Revenue Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, and (v) Section 86 of the Internal Revenue Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 1997-D Warrants. Any purchaser of the Series 1997-D Warrants who might be affected by any of these provisions of the Internal Revenue Code should consult his own tax advisor about the effect of such provisions as applied to the purchaser.

Bond Counsel is also of the opinion that under existing law interest on the Series 1997-D Warrants will be exempt from State of Alabama income taxation.

Accounting Treatment of Original Issue Discount on Series 1997-D Warrants

Certain of the Series 1997-D Warrants are being offered to the public at prices that are less than the amounts payable on such Series 1997-D Warrants at maturity. Under present federal income tax law, the difference between the Issue Price (defined below) and the stated amount to be paid at the maturity of a warrant is original issue discount ("OID"). OID is treated as interest on the Series 1997-D Warrants and is not includable in gross income for federal income tax purposes in the case of holders who (i) purchase Series 1997-D Warrants at the initial offering price in the initial public offering at which a substantial amount of the Series 1997-D Warrants are sold to the public (the "Issue Price") and (ii) hold such Series 1997-D Warrants to maturity.

Generally, a holder who acquires a Series 1997-D Warrant in the initial public offering at the Issue Price will be treated as having received, in each taxable year from the date of issuance of that Series 1997-D Warrant, an amount of interest on that Series 1997-D Warrant equal to the OID accrued daily and compounded semiannually on each February 1 and August 1. The amount of interest representing OID that is treated as having been received is excluded from gross income and is added to the holder's adjusted basis in the Series 1997-D Warrant for the purpose of determining gain or loss upon a sale or redemption of such Series 1997-D Warrant.

OID on the Series 1997-D Warrants will be deemed to have been received in the year of accrual and will be taken into account in determining the respective amounts of the collateral federal taxes referred to herein and, in some cases, state and local income, excise and franchise taxes, even though the holders of the Series 1997-D Warrants will not have received corresponding cash payments.

Holders of the Series 1997-D Warrants should consult their own tax advisors as to the tax consequences of the purchase of Series 1997-D Warrants other than at the Issue Price, and as to the consequences of a sale, transfer, redemption or other disposition of the Series 1997-D Warrants prior to their stated maturity, other applications of federal tax law and the application of state, local or foreign laws.

RISK FACTORS

An investment in the Series 1997-D Warrants involves certain risks which should be carefully considered by investors. The sufficiency of revenues to pay debt service on the Series 1997-D Warrants may be affected by events and conditions relating to, among other things, population trends, weather conditions and economic developments in the service area in which the County operates the System, the nature and extent of which are not presently determinable.

Each prospective investor should carefully examine his own financial condition in order to make a judgment as to his ability to bear the risk of an investment in the Series 1997-D Warrants.

The County is bound by the terms of a Consent Decree that requires the County to implement a remedial plan to eliminate bypasses and unpermitted discharges of untreated sewage and sewer system overflows. See "LITIGATION - Consent Decree". The Consent Decree further requires that such remedial plan be implemented over a twelve-year period and provides for stipulated penalties if the County fails to meet certain deadlines specified therein. The economic impact of the Consent Decree on the County and the System will be significant. The County estimates that the cost of compliance with the Consent Decree will likely exceed \$1.5 billion, not including any stipulated penalties that may be imposed. However, there can be no assurance that the actual cost of compliance will be within the range of this preliminary estimate. Nor can any assurances be given that the County will be able to comply with the terms of the Consent Decree without incurring substantial penalties.

In order to implement any remedial plan and to comply with the Consent Decree, the County expects to issue substantial additional indebtedness secured by the Pledged Revenues on a parity with the lien thereon imposed by the Indenture for the benefit of the Series 1997 Warrants. The burden of such additional debt will require substantial increases in rates currently being charged to sewer customers in the County. No assurances can be given that such rate increases will be sufficient on a timely basis to generate the revenues required to satisfy the debt service coverage covenant contained in the Indenture.

CONTINUING DISCLOSURE

The County has covenanted for the benefit of the holders of the Series 1997-D Warrants to provide certain information repositories with (i) certain financial information and operating data relating to the County on an annual basis (the "Annual Financial Information") within 180 days after the end of its fiscal year and (ii) notices ("Material Event Notices") of the occurrence of the following events, if it deems them to be material:

1. A delinquency in payment of principal of or interest on the Series 1997-D Warrants.
2. Non-payment related defaults under the proceedings of the County authorizing the Series 1997-D Warrants, whether or not such defaults constitute an event of default thereunder.
3. Unscheduled draws on the debt service reserve fund reflecting financial difficulties of the County.
4. Unscheduled draws on any credit enhancement or liquidity facility with respect to the Series 1997-D Warrants reflecting financial difficulties of the County.

5. Substitution of a credit enhancer for the one originally described in the Official Statement, or the failure of any credit enhancer respecting the Series 1997-D Warrants to perform its obligations under the agreement between the County and such credit enhancer.
6. The existence of any adverse tax opinion with respect to the Series 1997-D Warrants or events affecting the tax-exempt status of interest on the Series 1997-D Warrants.
7. Any modification of the rights of the registered owners of the Series 1997-D Warrants.
8. Redemption of any of the Series 1997-D Warrants prior to the stated maturity or mandatory redemption date thereof.
9. Defeasance of the lien of any of the Series 1997-D Warrants or the occurrence of circumstances which, pursuant to such authorizing proceedings, would cause the Series 1997-D Warrants, or any of them, to be no longer regarded as outstanding thereunder.
10. The release, substitution or sale of the property securing repayment of the Series 1997-D Warrants.
11. Any changes in published ratings affecting the Series 1997-D Warrants.
12. Failure of any person obligated to provide financial information or operating data pursuant to the provisions hereof to do so on or prior to the date such financial information or operating data is required herein to be furnished.

The Annual Financial Information will include financial information and operating data relating to the County of the type found in the section of this Official Statement called "RESULTS OF OPERATIONS". In addition, the County will provide to such repositories, when and if available, audited financial statements prepared in accordance with accounting principles described in the audited financial statements included in this Official Statement as an appendix.

The Annual Financial Information is required to be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") as designated by the Securities and Exchange Commission and with any Alabama state information depository. Material Event Notices are required to be filed with each NRMSIR and any Alabama state information depository or the Municipal Securities Rulemaking Board and any Alabama state information repository.

The County shall not be in default of any of its obligations to furnish the required information until 10 days after it has received notice from a holder of any of the Series 1997-D Warrants that such default has occurred; provided, that such period shall be extended to 30 days if, upon receipt of such notice, the County has begun to comply with the provisions hereof and has taken all steps then available to it to assure compliance but, because of circumstances beyond the County's control, it is not able to accomplish such compliance within such 10-day period.

The County shall never be subject to money damages for its failure to comply with its obligations to provide the required information. The only remedy available to the holders of the Series 1997-D Warrants for breach by the County of its obligations to provide the required information shall be the remedy of specific performance or mandamus against appropriate officials of the County. The failure by the County to provide the required information shall not be an event of default with respect to the Series 1997-D Warrants under the Indenture.

No person other than the County shall have any liability or responsibility for compliance by the County with its obligations to provide information. The Trustee has not undertaken any responsibility with respect to any required reports, notices or disclosures.

The County retains the right to modify its obligations described above as long as such modification is done in a manner consistent with Rule 15c2-12 of the Securities and Exchange Commission.

UNDERWRITING

The Series 1997-D Warrants are being purchased from the County by Raymond James & Associates, Inc. as representative of the underwriters (the "Underwriters") and the Placement Agents referred to below. The Underwriters have agreed to purchase the Series 1997-D Warrants for an aggregate purchase price of \$291,479,571.95 (which represents the amount of the Series 1997-D Warrants less underwriters' discount of \$2,276,060.95 and original issue discount of \$2,639,367.10) plus accrued interest. The initial public offering prices set forth on the inside cover page may be changed by the Underwriters, and the Underwriters may offer and sell the Series 1997-D Warrants to certain dealers (including dealers depositing the Series 1997-D Warrants into investment trusts) and others at prices lower than the offering price set forth on the inside cover page. The Underwriters will purchase all the Series 1997-D Warrants if any are purchased.

Compass Bank and National Bank of Commerce of Birmingham will serve as placement agents (the "Placement Agents") in connection with the issuance of the Series 1997-D Warrants. The Placement Agents will assist in the sale of the Series 1997-D Warrants and for their services will receive a portion of the compensation payable to the Underwriters. The Placement Agents shall not be required to purchase the Series 1997-D Warrants for their own accounts or for distribution.

In addition to receiving a portion of the underwriters' discount, Raymond James & Associates, Inc. will receive (i) a fee for serving as a broker with respect to the investment of proceeds of the Series 1997-D Warrants in the Reserve Fund and the Construction Fund and (ii) a fee for serving as a broker in connection with certain unrelated interest rate swap and interest rate cap agreements between the County and Morgan Guaranty Trust Company of New York.

RATINGS

The Series 1997-D Warrants have been rated Aaa by Moody's Investors Service, Inc., AAA by Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. and AAA by Fitch Investors Service, L.P.

The ratings on the Series 1997-D Warrants reflect the respective rating agency's current assessment of the creditworthiness of Financial Guaranty and its ability to pay claims on its policies of insurance. Any further explanation of the significance of such ratings may be obtained only from the appropriate rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 1997-D Warrants, and any such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any or all of such ratings may have an adverse effect on the market price of the affected Series 1997-D Warrants.

FINANCIAL STATEMENTS

The audited financial statements of the County contained in Appendix B have been included for general information purposes only. The Series 1997-D Warrants will not constitute general obligations of or a charge against the general credit or taxing power of the County. The Series 1997-D Warrants are limited obligations of the County, payable solely out of and secured by an assignment and pledge of the Pledged Revenues on a parity of lien with the Series 1997 A-C Warrants.

MISCELLANEOUS

For further information during the initial offering period with respect to the Series 1997-D Warrants, contact Steve Saylor, Director of Finance, Jefferson County, Room 3, Courthouse, 716 North 21st Street, Birmingham, Alabama 35263 [telephone: (205) 325-5762].

This Official Statement has been approved by the Commissioners of the County.

JEFFERSON COUNTY, ALABAMA

By: s/ Mary M. Buckelew
President of the Commission

319322

APPENDIX A

Summary of the Indenture

APPENDIX A

SUMMARY OF THE INDENTURE

The following constitutes a summary of certain portions of the Indenture pursuant to which the Series 1997-D Warrants, the Series 1997 A-C Warrants and any Additional Parity Securities will be issued. This summary should be qualified by reference to other provisions of the Indenture referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Indenture in this Official Statement are qualified by reference to the exact terms of the Indenture, a copy of which may be obtained from the Trustee.

Definitions

Capitalized terms used in this Appendix A without being defined herein shall have the meanings assigned to such terms elsewhere in this Official Statement.

"Eligible Bank Obligations" means demand and time deposits (whether or not interest-bearing and whether or not evidenced by certificates of deposit) in banks and acceptances by banks, provided that the banks obligated with respect to such deposits or acceptances, as the case may be, are organized under the laws of the United States of America or any state thereof and have, at the time any moneys are invested in such deposits or acceptances pursuant to the provisions of the Indenture, combined capital, surplus and undivided profits of not less than \$50,000,000; provided that the bank obligated with respect to any such deposit or acceptance shall continuously secure such deposit or acceptance, to the extent not insured by the Federal Deposit Insurance Corporation (or any department, agency or instrumentality of the United States of America that may succeed to the functions of such corporation), by depositing with an independent third party, as collateral security therefor, Federal Obligations having a market value (exclusive of accrued interest) not less than the amount of the deposit or acceptance being secured.

"Eligible Investments" means any of the following: (i) Federal Obligations; (ii) Eligible Bank Obligations; (iii) obligations issued by any state of the United States of America or political subdivision or instrumentality thereof that are fully payable, as to principal, premium (if any) and interest, from payments of principal of or interest on any Federal Obligations held in an irrevocable trust, and that are rated not less favorably than AAA by S&P and Aaa by Moody's; (iv) any share or other investment unit representing a beneficial interest in an investment company or investment trust which is registered under the Investment Company Act of 1940, as from time to time amended (or successor provision of federal law), provided that the investment portfolio of such investment company or investment trust consists exclusively of obligations or securities that would independently qualify as Eligible Investments if directly acquired by the County; (v) to the extent at the time permitted by applicable law, either of the following: (A) any repurchase agreement or collateralized investment agreement issued or guaranteed by any financial institution which has a long-term rating of at least A- by S&P or A3 by Moody's, provided that (1) the obligations or securities subject to any such agreement shall be of the kind described in clauses (i), (ii) and (iii) of this definition, (2) no transfer of moneys shall be made by the County to invest in any such agreement unless the County obtains a security interest in all obligations and securities covered by such agreement that shall be perfected, prior to or simultaneously with the transfer of such moneys, through the physical delivery of such obligations and securities to the County or

to an independent third party, and (3) such obligations and securities shall be supplemented by additional collateral from time to time to the extent required to continuously maintain collateral having an aggregate market value (exclusive of accrued interest) that is not less than the amount invested pursuant to such agreement; or (B) any investment agreement issued or guaranteed by any financial institution which has a long-term rating of at least AA- by S&P or AA3 by Moody's; and (vi) any other investments at the time permitted by applicable law.

"Federal Obligations" means (i) any direct general obligations of the United States of America, (ii) obligations the payment of the principal of and the interest on which is unconditionally and irrevocably guaranteed by, or entitled to the full faith and credit of, the United States of America, and (iii) custodial receipts evidencing the right to receive payments of principal and interest with respect to obligations described in either of the preceding clauses.

"Fiscal Year" means any period beginning on October 1 and ending on the next succeeding September 30 (or any other twelve-month period hereafter established as the County's fiscal year).

"Fitch" means Fitch Investors Service, L.P., and any successor thereto.

"Maximum Annual Debt Service" means the maximum amount payable in a Fiscal Year as principal of and interest on the Parity Securities then outstanding and any Additional Parity Securities proposed to be issued, subject to the following assumptions and adjustments:

(1) that the principal amount of any such securities required by the terms thereof to be redeemed or prepaid during any Fiscal Year shall, for purposes of this definition, be considered as maturing in the Fiscal Year during which such redemption or prepayment is required and not in the Fiscal Year in which their stated maturity or due date occurs;

(2) for purposes of determining the amounts of principal and interest due in any Fiscal Year on any Parity Securities that constitute Tender Indebtedness, the options or obligations of the owners of such Parity Securities to tender the same for purchase or payment prior to their stated maturity or maturities shall be treated as a principal maturity occurring on the first date on which owners of such Parity Securities may or are required to tender such Parity Securities for purchase or payment, except that any such option or obligation to tender Parity Securities shall be ignored and not treated as a principal maturity, and such Parity Securities shall be deemed to mature in accordance with their stated maturity schedule, if (i) such Parity Securities are rated in one of the two highest long-term rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies or such Parity Securities are rated in the highest short-term, note or commercial paper rating categories (without reference to gradations such as "plus" or "minus") by at least two Rating Agencies, and (ii) the obligation, if any, the County may have to the issuer of a letter of credit that secures such Parity Securities shall either be subordinated to the obligation of the County on the Parity Securities or be incurred under the conditions and satisfy the tests for the issuance of Additional Parity Securities set forth in the Indenture;

(3) the interest rate on any outstanding or proposed Variable Rate Securities

subsequent to the date of calculation shall be assumed to be the lowest of (A) the maximum rate of interest that may be applicable to such Parity Securities, under the provisions thereof, (B) for so long as any hedging agreement that establishes a cap rate for such Parity Securities is in effect, such cap rate, and (C) the highest of (i) the actual interest rate on the date of calculation, or if the Variable Rate Securities in question are not yet outstanding, the initial rate (if established and binding), (ii) if the Variable Rate Securities in question have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Variable Rate Securities in question is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest on such Variable Rate Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points;

(4) the debt service payable with respect to any Parity Securities for which the County has entered into a Qualified Swap pursuant to which the County has agreed to make payments calculated by reference to a fixed rate of interest shall be calculated as if the Parity Securities bore interest at such fixed rate during the term of such Qualified Swap;

(5) the debt service payable with respect to any Parity Securities for which the County has entered into a Qualified Swap pursuant to which the County has agreed to make payments calculated by reference to variable interest rates shall be calculated as if the Parity Securities in question bore interest, during the term of such Qualified Swap, at a rate equal to the lowest of (A) for so long as any hedging agreement that establishes a cap rate with respect to such Qualified Swap remains in effect, such cap rate, or (B) the highest of (i) the actual rate of such Qualified Swap on the date of calculation, or if such Qualified Swap is not yet in effect, the initial rate (if established and binding), (ii) if the Qualified Swap has been in effect for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Variable Rate Securities in question is excludable from gross income under the applicable provisions of the Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest on such Variable Rate Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points;

(6) there shall be excluded any principal of or interest on any Parity Securities to the extent there are available and held in escrow or under a trust agreement (i) moneys sufficient to pay such principal or interest, (ii) Permitted Defeasance Obligations which, if the principal thereof and the interest thereon are paid according to their tenor, will produce moneys sufficient to pay such principal of interest, or (iii) both moneys and such Permitted Defeasance Obligations which together will produce funds sufficient to pay such principal or interest; and

(7) the County may assume that all or any portion of outstanding Parity Securities that are subject to optional redemption provisions will be redeemed in one or more installments that are consistent with such provisions and may adjust the expected payment

schedule with respect to such Parity Securities to reflect such assumed redemptions.

In any case where, for purposes of determining Maximum Annual Debt Service, a portion of the principal of any Parity Securities is to be excluded, there shall also be excluded interest on the principal so excluded.

"Moody's" means Moody's Investors Service and any successor thereto.

"Net Revenues Available for Debt Service" means, for any period, the difference between (A) the sum of (i) the total amount of System Revenues accrued during such period, and (ii) the amount of interest earned during such period on moneys held in those of the Indenture Funds other than the Rate Stabilization Fund (to the extent that such interest is not taken into account pursuant to the preceding clause (i)) and (B) the total amount of Operating Expenses incurred during such period (determined in accordance with generally accepted accounting principles).

"Permitted Defeasance Obligations" means any combination of (i) Federal Obligations and (ii) obligations issued by any state of the United States of America or political subdivision or instrumentality thereof that bear interest exempt from federal income taxation, that are fully payable, as to principal, premium (if any) and interest, from payments of principal of or interest on any Federal Obligations held in an irrevocable trust, and that are rated not less favorably than AAA by S&P or Aaa by Moody's.

"Prior Years' Surplus" means, with respect to any particular Fiscal Year, the aggregate amount on deposit in the Rate Stabilization Fund and the Depreciation Fund at the beginning of such Fiscal Year.

"Qualified Swap" means, with respect to a series of Parity Securities or any portion thereof, any financial arrangement (i) that is entered into by the County with an entity that is a Qualified Swap Provider at the time of the execution and delivery of the documents governing such arrangement; (ii) that provides (a) that the County shall pay to such entity an amount based on the interest accruing at a fixed rate on a notional amount equal to all or a portion of the principal amount of the outstanding Parity Securities of such series, and that such entity shall pay to the County an amount based on the interest accruing on the same notional amount, at either a variable rate of interest or a fixed rate of interest computed according to a formula set forth in such arrangement (which need not be the same as the actual rate of interest borne by the Parity Securities), or that one shall pay to the other any net amount due under such arrangement, or (b) that the County shall pay to such entity an amount based on the interest accruing on a notional amount equal to all or a portion of the principal amount of the outstanding Parity Securities of such series at a variable rate of interest as set forth in the arrangement and that such entity shall pay to the County an amount based on interest accruing on the same notional amount at an agreed fixed rate, or that one shall pay to the other any net amount due under such arrangement; and (iii) which has been designated in writing to the Trustee by the County as a Qualified Swap with respect to any of the Parity Securities.

"Qualified Swap Provider" means an entity whose senior long term debt obligations, other senior unsecured long-term obligations or claims paying ability, or whose payment obligations under a Qualified Swap are guaranteed by an entity whose senior long-term debt obligations, other senior unsecured long-term obligations or claims paying ability, are rated (at the time the subject Qualified Swap is entered into) at least A- by S&P and A3 by Moody's.

"Rate Stabilization Fund Requirement" means, as of the date of any determination thereof, 75% of the

Maximum Annual Debt Service on the then outstanding Parity Securities.

"Rating Agency" means Moody's, S&P, Fitch or any other nationally recognized securities rating agency.

"Reserve Fund Requirement" means, as of the date of any determination thereof, the lesser of (a) 125% of the average annual debt service on all Parity Securities at the time outstanding and secured by the Reserve Fund, (b) the maximum annual debt service on all Parity Securities at the time outstanding and secured by the Reserve Fund, or (c) an amount equal to the aggregate of 10% of the original principal amount (or, in the case of any series of Parity Securities sold with original issue discount in an amount greater than 2% of its original principal amount, the issue price) of each series of Parity Securities at the time outstanding and secured by the Reserve Fund. Any calculation of average annual debt service or maximum annual debt service for the purpose of determining the applicable Reserve Fund Requirement shall be made in accordance with the requirements and limitations imposed by the provisions of the Internal Revenue Code and the regulations promulgated thereunder that pertain to reasonably required reserve or replacement funds.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

"Tender Indebtedness" means any Parity Securities that are payable, at the option of the holder thereof, prior to their stated maturity or due date, or that the County (or an agent thereof) is required, at the option of such holder, to purchase prior to their stated maturity or due date.

"Variable Rate Security" means any Parity Security that bears interest at a rate that is subject to change prior to the maturity of such security to one or more other interest rates that cannot be determined in advance.

Flow of Funds

General. The Indenture provides for the creation and maintenance of a number of special funds, namely the Revenue Account, the Debt Service Fund, the Reserve Fund, the Rate Stabilization Fund, the Depreciation Fund and the Redemption Fund. The Commission has the right to designate from time to time the depository or depositories for the Revenue Account, the Rate Stabilization Fund and the Depreciation Fund. The Trustee is the depository, custodian and disbursing agent for all of the other special funds created in the Indenture.

Revenue Account. The County is required to deposit in the Revenue Account, as received by it, all of the System Revenues. Moneys in the Revenue Account are applied first for the payment of Operating Expenses. From the moneys that remain after payment of Operating Expenses, the County is required to make periodic transfers to the Debt Service Fund, the Reserve Fund, the Rate Stabilization Fund and the Depreciation Fund in accordance with the provisions of the Indenture and as hereinafter summarized. Any moneys that remain in the Revenue Account on any February 15 or August 15 after all required transfers therefrom have been made shall be deemed "surplus revenues" and may be withdrawn from the Revenue Account and used by the County for any lawful purpose related to the County's ownership and operation of the System.

Debt Service Fund. On or before the third day preceding each February 1 and each August 1, the County will be required to transfer from the Revenue Account to the Debt Service Fund an amount equal to the sum of (i) the semiannual installment of interest that will become due with respect to the Series 1997 Warrants (other than the Series 1997-C Warrants) on the then next succeeding interest payment date, plus (ii) one-half of the principal, if any, of the Series 1997 Warrants (other than the Series 1997-C Warrants) that will mature or be required to be redeemed on the then next succeeding February 1; provided that there shall be credited against such deposits any original proceeds of the Series 1997 Warrants that represent accrued interest or capitalized interest and that are to be used to pay interest on the Series 1997 Warrants. On or before each February 15 and each August 15, the County will be required to transfer from the Revenue Account to the Debt Service Fund an amount equal to the amount of debt service on the Series 1997-C Warrants becoming due and payable on each such date. The County will also be required to transfer into the Debt Service Fund certain payments in the event of the issuance of any Additional Parity Securities or the incurrence of any Secured Related Obligations. Until the Parity Securities have been paid in full, moneys on deposit in the Debt Service Fund are to be used only for the payment of the principal of and the interest and premium (if any) on the Parity Securities or for the payment of Secured Related Obligations.

Reserve Fund. Upon the issuance of the Series 1997-D Warrants, an amount equal to the Reserve Fund Requirement on the Series 1997 Warrants will be held in the Reserve Fund.

Upon the issuance of any Additional Parity Securities that are to be secured by the Reserve Fund, moneys in an aggregate amount equal to the increase in the Reserve Fund Requirement resulting from the issuance of such Additional Parity Securities must be added to the Reserve Fund. The moneys to be so added to the Reserve Fund may be proceeds of such Additional Parity Securities or System Revenues. Any such addition of moneys to the Reserve Fund may be effected through (i) a single deposit to the Reserve Fund made at the time of the issuance of such Additional Parity Securities, (ii) a series of equal deposits to the Reserve Fund over a period that shall not exceed five years, or (iii) any other series of deposits that will result in a faster accumulation of moneys. If, upon the issuance of any Additional Parity Securities, the required addition of moneys to the Reserve Fund is not effected through the method described in clause (i), a separate account shall be established within the Reserve Fund for such Additional Parity Securities.

Moneys forming a part of the Reserve Fund are held as a reserve for the payment of the principal of and the interest on the Parity Securities secured thereby, but shall be used for such purpose only when moneys are not otherwise available. In the event that moneys are withdrawn from the Reserve Fund to provide for the payment of the principal of or the interest on any of the Parity Securities, the County will restore the moneys so withdrawn within six months of the date of such withdrawal by making transfers from the Revenue Account into the Reserve Fund.

In lieu of all or any portion of the required amount to be on deposit in the Reserve Fund, the County may deposit with the Trustee to the credit of such fund (i) a surety bond or insurance policy issued by a municipal bond insurer whose claims-paying ability is rated "AAA" by S&P or "Aaa" by Moody's, (ii) a surety bond or insurance policy issued by an entity other than a municipal bond insurer if such entity and the form and substance of such instrument are approved by the Bond Insurer, or (iii) an irrevocable letter of credit issued by a bank that is rated at least "AA" by S&P or "Aa" by Moody's.

The Series 1997-C Warrants are not secured by moneys in the Reserve Fund.

Rate Stabilization Fund. The County has heretofore deposited \$10 million into the Rate Stabilization Fund. At any time when the total amount held in the Rate Stabilization Fund is less than the Rate Stabilization Fund Requirement, the County shall pay into the Rate Stabilization Fund from the Revenue Account, on or before each February 15 and each August 15 and after there shall have been made from the Revenue Account all payments required to be made on or before such date into the Debt Service Fund and the Reserve Fund, an amount equal to 10% of the then effective Rate Stabilization Fund Requirement (or such lesser amount as shall result in the amount held in the Rate Stabilization Fund being equal to the Rate Stabilization Fund Requirement). In addition, the County may from time to time deposit into the Rate Stabilization Fund other moneys that do not constitute System Revenues.

The County may, from time to time at the election of the County's Director of Finance, transfer moneys from the Rate Stabilization Fund into the Revenue Account.

Depreciation Fund. At any time when the total amount held in the Depreciation Fund is less than the amount of accumulated depreciation referable to the System (as shown in the then most recent audited financial statements of the County), the County shall pay into the Depreciation Fund from the Revenue Account, on or before each February 15 and each August 15 and after there shall have been made from the Revenue Account all payments required to be made on or before such date into the Debt Service Fund, the Reserve Fund and the Rate Stabilization Fund, the sum of \$5,000,000. If on any such date the moneys available in the Revenue Account are not sufficient to permit a deposit of said sum into the Depreciation Fund, such shortfall shall not increase the required amount of any subsequent deposit to the Depreciation Fund. Moneys held in the Depreciation Fund may be withdrawn from time to time by the County, but only to pay the costs of capital improvements to the System or to purchase or redeem Parity Securities.

Redemption Fund. The Indenture will establish a Redemption Fund into which the Trustee is required to deposit certain insurance proceeds and certain proceeds derived from the disposition of portions of the System. Moneys in the Redemption Fund may be used only for the redemption of Parity Securities prior to maturity, for the purchase of Parity Securities for retirement at a price not greater than par plus accrued interest or, if the amounts in the Debt Service Fund and the Reserve Fund are not sufficient to pay any debt service coming due with respect to any of the Parity Securities, for the payment of such debt service in order to prevent a default. The Indenture provides that if there are at any time on deposit in the Redemption Fund moneys sufficient to redeem at least \$5,000 principal amount of Parity Securities then subject to redemption, the County will thereupon take such action as may be necessary, under the provisions of the Indenture, to exhaust the moneys on deposit in the Redemption Fund by redeeming or purchasing Parity Securities for retirement as aforesaid (or both) as soon as practicable thereafter.

Investment of Funds. The County may at its option from time to time cause any or all of the moneys on deposit in the Debt Service Fund to be invested in Federal Obligations having a specified maturity, or being redeemable at the option of the holder, prior to the date when such moneys will be needed to pay principal of or interest on the Parity Securities. Similarly, the County may at its option from time to time cause any or all of the moneys on deposit in any of the other special funds established under the Indenture to be invested in any Eligible Investments which have a specified maturity, or which are redeemable at the option of the holder thereof, prior to the date on which it is anticipated by the County that such moneys will be needed. Any investment acquired with moneys from one of the funds established under the Indenture, together with all income therefrom, shall become a part of the fund from which moneys were used to make such investment, and shall be held by the depository for such fund to the same extent as if it constituted moneys on deposit

therein. So long as the amount on deposit in the Reserve Fund is not reduced to an amount less than the then applicable Reserve Fund Requirement, any income derived from the investment of moneys on deposit in the Reserve Fund shall be transferred to the Debt Service Fund.

Additional Parity Securities

Upon the satisfaction of certain conditions, the County may issue Additional Parity Securities under the Indenture. Such conditions include the adoption by the Commission of a resolution approving the issuance of the proposed Additional Parity Securities, the execution and delivery of a supplemental indenture setting forth the terms of such Additional Parity Securities, the delivery of appropriate approving legal opinions and the delivery of a Revenue Certificate or a Revenue Forecast (as hereinafter defined).

"Revenue Certificate" means a certificate signed by an Independent Accountant, the President of the Commission or the County's Director of Finance that satisfies whichever of the following is applicable:

(I) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued prior to October 1, 2007, such certificate shall state the following:

(i) the sum of (A) the Prior Years' Surplus as of the beginning of the Fiscal Year that immediately preceded the Fiscal Year in which such certificate is delivered and (B) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made; and

(ii) the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 75% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made; or

(II) If such Revenue Certificate is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, such certificate shall state that the Net Revenues Available for Debt Service during the then most recently completed Fiscal Year or during any period of twelve consecutive months in the eighteen-month period next preceding the date of issuance of the proposed Additional Parity Securities was not less than 105% of the Maximum Annual Debt Service payable during the then current or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such certificate is made.

If rates and charges for services furnished by the System were increased and put into effect by the County after the beginning of the Fiscal Year or other twelve-month period to which a Revenue Certificate refers and not thereafter reduced, an Independent Engineer may certify the amount of gross revenues from the System that

would have been received by the County had such increased rates and charges been in effect during the entire Fiscal Year or other twelve-month period, and the Independent Accountant, the President of the Commission or the County's Director of Finance, as the case may be, preparing and signing the Revenue Certificate, may compute Net Revenues Available for Debt Service during such Fiscal Year or other twelve-month period based on the amount of revenues that would have been derived from the System during such period with such increased rates and charges, as so certified by such Independent Engineer.

"Revenue Forecast" means a report prepared by an Independent Engineer with respect to a period that shall begin on the first day of the Fiscal Year that succeeds the Fiscal Year in which the proposed Additional Parity Securities are issued and that shall not be longer than five Fiscal Years (such period being herein called the "Forecast Period"), which report shall make the following projections with respect to the last Fiscal Year in the Forecast Period (such year being herein called the "Test Year"):

(I) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued prior to October 1, 2007,

(i) the sum of (A) the projected Prior Years' Surplus as of the beginning of the Test Year and (B) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than (105%) of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made; and

(ii) the projected Net Revenues Available for Debt Service for the Test Year shall not be less than (75%) of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

(II) If such Revenue Forecast is delivered with respect to Additional Parity Securities issued on or after October 1, 2007, the projected Net Revenues Available for Debt Service for the Test Year shall not be less than (105%) of the Maximum Annual Debt Service payable during the Test Year or any succeeding Fiscal Year with respect to the then outstanding Parity Securities and the Additional Parity Securities with respect to which such report is made.

In preparing its Revenue Forecast, the Independent Engineer shall be entitled (a) to make projections with respect to the rates and charges to be imposed for services furnished by the System during each of the Fiscal Years in the Forecast Period (so long as such Independent Engineer certifies, with respect to any projected rates and charges that are higher than the actual rates and charges in effect as of the date of the Revenue Forecast, that such projected rates and charges would be reasonable for public sanitary sewer systems similar in size and character to the System) and (b) to rely upon estimates prepared by an independent investment advisor with respect to the aggregate amount of debt service on the Parity Securities to become due and payable during each of the Fiscal Years in the Forecast Period.

Particular Covenants of the County

The Indenture contains the following covenants of the County, among others:

Maintenance of Books and Records. The County will maintain complete and separate books and records pertaining to the System and all receipts and disbursements with respect thereto.

Annual Audits. Within 90 days following the close of each Fiscal Year, the County will provide the Trustee with financial statements respecting the System prepared by the County's financial officers. The County will also provide the Trustee with audited financial statements prepared by the State Examiner of Public Accounts of the State of Alabama or an independent certified public accountant within 180 days after the end of each Fiscal Year.

No Free Service. The County will not furnish or permit to be furnished from the System any free service of any kind to any county or incorporated municipality or to any other person. All services furnished from the System will be charged for at the rates at the time established therefor.

Maintenance of Rates. The County will make and maintain such rates and charges for the services supplied from the System and make collections from the users thereof in such manner as shall provide, in each Fiscal Year, Net Revenues Available for Debt Service in an amount that shall result in compliance with each of the following two requirements (such requirements being referred to herein collectively as the "Rate Covenant"):

(i) the sum of (A) Net Revenues Available for Debt Service for a given Fiscal Year and (B) the Prior Years' Surplus as of the beginning of such Fiscal Year shall not be less than 110% of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities; and

(ii) the Net Revenues Available for Debt Service for a given Fiscal Year shall not be less than 80% (or, in the case of any Fiscal Year beginning on or after October 1, 2007, 100%) of the aggregate amount payable during such Fiscal Year as debt service on all outstanding Parity Securities.

For purposes of the Rate Covenant, (a) debt service on the Parity Securities shall not include any interest (i.e., accrued interest or capitalized interest) paid with proceeds of Parity Securities, (b) debt service shall be reduced by any amounts received by the County during the Fiscal Year in question pursuant to Qualified Swaps, and (c) debt service shall be increased by any amounts paid by the County during such Fiscal Year pursuant to Qualified Swaps. The County will from time to time make such increases and other changes in such rates and charges as may be necessary to comply with the Rate Covenant.

Priority of Pledge. The pledge of the Pledged Revenues for the benefit of the Series 1997 Warrants shall be prior and superior to any pledge thereof hereafter made for the benefit of any securities hereafter issued or any contract hereafter made by the County, other than any of the Additional Parity Securities or any Secured Related Obligation.

Continued Operation of System. The County will not sell or lease the whole or any part of the System, will continuously operate the System in an economical and efficient manner, and will keep the System in good repair and efficient operating condition. The County may, however, sell or otherwise dispose of portions of the System which, in its opinion, are no longer necessary for the continued efficient and economical operation of the System. The County may transfer the System as an entirety to a public corporation if the property and income of such public corporation are not subject to taxation and, upon any such transfer, the due and punctual payment of the principal of and interest on the Parity Securities and the observance of the agreements contained in the Indenture are expressly assumed in writing by the corporation to which the System shall be transferred as an entirety, provided that a condition to any such transfer shall be the delivery to the Trustee of an opinion of nationally recognized bond counsel to the effect that such transfer will not result in the interest on the Parity Securities becoming subject to federal income taxation.

Insurance Required

The County will keep all portions of the System that are of the character and type customarily insured by governmental entities operating utility systems similar to the System insured against loss by fire or other casualty to the extent of the full insurable value thereof. The County will also carry workmen's compensation insurance and public liability insurance in such amounts as are customarily carried with respect to utility systems similar in size and character to the System, provided that the County may, at its election, be self-insured for such risks to the extent customary at the time for such utility systems.

Damage and Destruction Provisions

If the System is damaged or partially destroyed to such extent that the loss thereto is not greater than \$25,000,000, the County is required by the Indenture promptly to repair, replace or restore the property damaged or destroyed, applying for such purposes the insurance proceeds referable thereto, as well as providing any other funds required therefor. The County is required to pay into the Sewer Fund established under the Indenture any of such insurance proceeds not needed for such repair, replacement or restoration. The Indenture further provides that if the System is damaged or destroyed to such extent that the loss thereto is greater than \$25,000,000, the insurance proceeds shall be paid to the Trustee and the Trustee will, in accordance with the directions of the Commission, cause such insurance proceeds to be applied either for the repair, replacement or restoration of the property damaged or destroyed, or for the retirement of Parity Securities prior to maturity through the redemption thereof, or for any combination of such applications. Any insurance proceeds to be applied for the redemption of Parity Securities prior to maturity shall be deposited in the Redemption Fund established under the Indenture. The Indenture obligates the County to pay any costs of repairing, replacing or restoring any property damaged or destroyed that are in excess of the insurance proceeds available therefor, and any insurance proceeds intended to be used for the payment of the costs of such repair, replacement or restoration but not needed therefor shall be deposited in the Sewer Fund.

Events of Default and Remedies

Events of Default. The following constitute events of default under the Indenture:

(a) failure by the County to pay the principal of or the interest or premium (if any) on any of the Parity Securities when such principal, interest and premium respectively become due and payable, whether at maturity or otherwise;

(b) failure by the County to satisfy the Rate Covenant, provided that any such failure shall not constitute an Event of Default if (i) the Trustee receives evidence satisfactory to it that an increase in the rates charged for services furnished by the System has occurred pursuant to the provisions of the ordinance of the County that governs such rates, or (ii) the County employs a utility system consultant to review the System and its existing rates and fees and makes a good faith effort to comply with the recommendations of such consultant;

(c) failure by the County to perform or observe any agreement, covenant or condition required by the Indenture to be performed or observed by it [other than the Rate Covenant and its agreement to pay the principal of and the interest and premium (if any) on the Parity Securities] after thirty (30) days' written notice to it of such failure given by the Trustee or by the holders of not less than twenty-five percent (25%) in aggregate principal amount of any series of the Parity Securities then outstanding under the Indenture, unless during such period or any extension thereof the County has commenced and is diligently pursuing appropriate corrective action;

(d) any material warranty, representation or other statement by or on behalf of the County contained in the Indenture, or in any document furnished by the County in connection with the issuance and sale of any of the Parity Securities, being false or misleading in any material respect at the time made; or

(e) an order, judgment or decree shall be entered by any court of competent jurisdiction (i) appointing a receiver, trustee or liquidator for the System, (ii) approving a petition filed against the County under the federal or any state bankruptcy laws, (iii) granting relief to the County under federal or state bankruptcy laws or relief substantially similar to that afforded under the said laws or (iv) assuming the custody or control of the System (or any part thereof) under the provisions of any other law for the relief or aid of debtors, and such order, judgment or decree shall not be vacated or set aside or stayed within ninety days from the date of the entry thereof, or the County shall file a petition in bankruptcy or make an assignment for the benefit of its creditors or consent to the appointment of a receiver of the whole or any substantial part of its properties or shall file a petition or answer seeking relief under the federal or any state bankruptcy laws.

Remedies on Default. Upon the occurrence of an event of default under the Indenture, the Trustee shall have the following rights and remedies:

(a) **Acceleration.** In the event of a failure by the County to pay the principal of

or the interest or premium (if any) on the Parity Securities, as and when the same shall become due and payable, the Trustee shall, and upon the occurrence and continuation of any other event of default under the Indenture, the Trustee may, declare the principal of and the interest accrued on all the Parity Securities forthwith due and payable, and thereupon they shall so be, anything in the Indenture or in the Parity Securities to the contrary notwithstanding. If, however, the County shall thereafter make good that default and every other default under the Indenture (except for those installments of principal and interest so declared due and payable that would, absent such declaration, not be due and payable), with interest on all overdue payments of principal and interest, and make reimbursement of all the reasonable expenses of the Trustee, then such event of default shall be deemed waived and such declaration and its consequences rescinded and annulled, but no such waiver, rescission and annulment shall affect any subsequent default or right relative thereto.

(b) Suits at Law or in Equity. The Trustee may, by civil action, mandamus or other proceedings, protect, enforce and compel performance of all duties of the officials of the County, including the fixing of sufficient rates, the collection of revenues, the proper segregation of the revenues of the System and the proper application thereof.

(c) Receivership. The Trustee shall be entitled upon or at any time after the commencement of any proceedings instituted with respect to an event of default, as a matter of strict right, upon the order of any court of competent jurisdiction, to the appointment of a receiver to administer and operate the System, with power to fix and charge rates and collect revenues sufficient to provide for the payment of the Parity Securities and any other obligations outstanding against the System or the revenues thereof and for the payment of expenses of operating and maintaining the System and with power to apply the income and revenues of the System in conformity with the Act and the Indenture.

Application of Moneys Collected. All moneys collected by the Trustee pursuant to any of the aforesaid remedies, together with all other moneys derived from the System and held by the County or the Trustee, shall, after payment of all charges and expenses of the Trustee under the Indenture, be applied to the payment of the following items in the following order:

(a) Unless the principal of all the Parity Securities shall have become or shall have been declared due and payable, such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Parity Securities, with interest on overdue installments of interest, and, if the amount available shall not be sufficient to pay in full all such installments plus said interest thereon, then to the proportionate payment of all such installments and the interest thereon, according to the amounts thereof, without preference or priority of any installment of interest over any other installment or any discrimination or privilege among the persons entitled thereto;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Parity Securities which shall have become due (other than Parity Securities matured or called for redemption for the payment of which moneys are held

pursuant to the provisions of the Indenture), with interest on overdue installments of principal and premium, if any, and, if the amount available shall not be sufficient to pay in full all such principal and premium, if any, together with such interest, then to the proportionate payment of such principal, premium, if any, and interest, according to the amounts thereof, without preference or priority of any installment of principal over any other installment or any discrimination or privilege among the persons entitled thereto;

THIRD: the surplus, if any, to the Revenue Account.

(b) If the principal of all the Parity Securities shall have become or been declared due and payable, all such moneys shall be applied as follows:

FIRST: to the payment of the principal and interest then due and payable upon the Parity Securities (with interest on overdue principal and interest), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Parity Security over any other Parity Security, in proportion to the amounts for both principal and interest due respectively to the persons entitled thereto, without any discrimination or privilege among such persons; and

SECOND: the surplus, if any, to the County or to whomsoever may be entitled thereto.

Remedies Vested in Trustee for Benefit of Parity Securityholders. All remedies under the Indenture are vested exclusively in the Trustee for the equal and pro rata benefit of all holders of the Parity Securities, unless the Trustee refuses or neglects to act within thirty days after written request so to act addressed to the Trustee by the holders of not less than 25% in principal amount of the Parity Securities of any series then outstanding, accompanied by indemnity satisfactory to the Trustee, in which event the holder of any of the Parity Securities may thereupon so act in the name and behalf of the Trustee or may so act in his own name and behalf in lieu of action by or in the name and behalf of the Trustee. Except as provided in the preceding sentence, no holder of any of the Parity Securities shall have the right to enforce any remedy under the Indenture. Any action taken by any Parity Securityholder to enforce any provision of the Indenture shall be for the equal and pro rata benefit of the holders of all the Parity Securities.

Concerning the Trustee

Limitation of Liability. The Trustee shall not be liable under the Indenture except for its noncompliance with the provisions thereof, its willful misconduct or its gross negligence.

Institution of Suit. The Trustee may, in its own name and at any time, institute or intervene in any suit for the enforcement of all rights under the Indenture without the necessity of joining as parties to such suit or proceedings any holders of the Parity Securities. The holders of the Parity Securities, by their acceptance of the provisions of the Indenture, will appoint the Trustee as their irrevocable agent and attorney in fact for the purpose of enforcing all such rights of action, but such appointment will not include the power to agree to accept new securities of any nature in lieu of the Parity Securities or to alter or amend the terms of the Indenture except as therein provided.

Resignation and Discharge. The Trustee may resign at any time by giving written notice to the County. The Trustee may at any time be removed by a written instrument signed by the holders of a majority in principal amount of the Parity Securities. No resignation or removal of the Trustee shall become effective until the acceptance of appointment by a successor Trustee.

Appointment of Successor Trustee. If the Trustee resigns, is removed or is otherwise incapable of acting, a successor may be appointed by the holders of a majority in principal amount of the Parity Securities and, in the interim, by the County.

Modification of the Indenture

Without the consent of the holders of any Parity Securities, the County and the Trustee may amend the Indenture for any of the following purposes: (a) to add to the covenants and agreements of the County; (b) to provide for the surrender by the County of any right or power conferred upon the County in the Indenture; (c) to cure any ambiguity or defect or for any other purpose if the County and the Trustee consider such provisions to be necessary or desirable and such provisions are not inconsistent with the provisions of the Indenture and do not adversely affect the interests of the holders of the Parity Securities; (d) to subject to the lien and pledge of the Indenture additional revenues, properties and collateral; (e) to amend the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939 or any similar federal statute or the qualification of the Parity Securities for sale under the securities laws of any state; (f) to authorize the issuance of Additional Parity Securities; (g) to grant to or confer upon the Trustee any additional rights, remedies, powers, liabilities or duties which are not inconsistent with the Indenture as theretofore in effect; and (h) to amend the Indenture in any other respect which is not materially adverse to the Parity Securityholders and which does not involve a change described in the succeeding paragraph.

With the written consent of the holders of not less than a majority in principal amount of the outstanding Parity Securities of each series, the County and the Trustee may amend the Indenture for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained therein; provided, however, that no such amendment shall, without the consent of the holder of each outstanding Parity Security adversely affected thereby,

(1) change the security for, the stated maturity or mandatory redemption date of the principal of, or any installment of interest on, any Parity Security, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, change the coin or currency in which any Parity Security or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after the redemption date), or

(2) reduce the percentage in principal amount of the outstanding Parity Securities, the consent of whose holders is required for any such amendment, or

(3) eliminate or modify any provision of the Indenture, the elimination or modification of which by its terms requires the consent of the holder of each Parity Security

affected thereby, or

(4) create a lien or charge on the revenues from the System ranking prior to or on a parity of lien with the lien and pledge thereon contained in the Indenture (other than for Additional Parity Securities), or

(5) establish any preference or priority as between the Parity Securities.

Satisfaction of the Indenture

Whenever the entire indebtedness secured by the Indenture, including all proper charges of the Trustee thereunder, shall have been fully paid, the Trustee shall cancel, satisfy and discharge the lien of the Indenture. For purposes of the Indenture (including, without limitation, the provisions pertaining to the issuance of Additional Parity Securities), any of the Parity Securities shall be deemed to have been paid when there shall have been irrevocably deposited with the Trustee for payment thereof the entire amount (principal and interest) due or to be due thereon until and at maturity, and, further, any Parity Security subject to redemption shall also be deemed to have been paid when the County shall have deposited with the Trustee the applicable redemption price of such Parity Security (including any applicable redemption premium), together with evidence that such Parity Security has been called for redemption in accordance with the Indenture.

In addition, the Parity Securities shall for all purposes of the Indenture be deemed fully paid if the County and the Trustee enter into a trust agreement making provision for the retirement of all the Parity Securities by creating for that purpose an irrevocable trust fund sufficient to provide for payment and retirement of all such Parity Securities (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable), either by redemption prior to their respective maturities, by payment at their respective maturities or by payment of part thereof at their respective maturities and redemption of the remainder prior to their respective maturities, which said trust fund shall consist of (a) Permitted Defeasance Obligations which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient to provide for the payment and retirement of such Parity Securities, or (b) both cash and Permitted Defeasance Obligations which together will produce funds sufficient for such purpose, or (c) cash sufficient for such purpose.

Miscellaneous Rights of Financial Guaranty

So long as Financial Guaranty has not failed to comply with its payment obligations under the Insurance Policy:

(a) any acceleration of the maturity of the Series 1997-D Warrants upon the occurrence of an Event of Default (or any annulment of any such acceleration) shall be subject to the prior written consent of Financial Guaranty;

(b) any amendment or supplement to the Indenture shall be subject to the prior written consent of Financial Guaranty; and

(c) Financial Guaranty shall be deemed to be the holder of all outstanding Series 1997-D Warrants for the purpose of consenting to any proposed amendment or supplement to the Indenture (except for any such amendment or supplement that, under the provisions of the Indenture, requires the consent of the holder of each outstanding Series 1997-D Warrant).

APPENDIX B

**Financial Statements of the County
for Fiscal Year 1994-1995**

APPENDIX C

Proposed Opinion of Bond Counsel

APPENDIX D

Rate Study of Consulting Engineer

APPENDIX E

Specimen Financial Guaranty Insurance Company Policy