

JEFFERSON COUNTY, ALABAMA  
GENERAL OBLIGATION WARRANTS

Series Designations and CUSIP Numbers on Attached Schedule A

**MATERIAL EVENT NOTICE**  
**August 24, 2009**

The following information is provided by Jefferson County, Alabama (the "County") with regard to its General Obligation Warrants described on Schedule A hereto (the "Warrants"). Although the County has no Continuing Disclosure Agreement with regard to its General Obligation Warrants, Series 2001-B (the "Series 2001-B Warrants") (due to their exemption from the continuing disclosure obligations of SEC Rule 15c2-12), the County has nonetheless determined to include certain information regarding the Series 2001-B Warrants in this Notice in order to provide a more thorough description of the events reflected herein. The Series 2001-B Warrants were issued pursuant to a Trust Indenture, dated as of July 1, 2001 (the "Indenture"), between the County and The Bank of New York Mellon, as trustee (the "Trustee").

**Notice of Default**

The Trustee delivered a notice of default (the "Notice of Default") to the County by letter dated July 30, 2009, a copy of which is attached as Exhibit I. The Notice of Default states that "Events of Default" have occurred under the Indenture due to the County's failure to pay \$19,790,000 in principal installments due on the Series 2001-B Warrants called for redemption pursuant to terms of (i) the Indenture and (ii) a Standby Warrant Purchase Agreement dated as of July 1, 2001 (the "Liquidity Facility") between the County, JPMorgan Chase Bank, N.A. (formerly Morgan Guaranty Trust Company of New York) ("JPMorgan"), Bayerische Landesbank, New York Branch (formerly Bayerische Landesbank Gironzentrale) (together with JPMorgan, the "Liquidity Banks") and the Trustee.

**Extension of Liquidity Facility Forbearance Agreement**

The Series 2001-B Warrants were originally issued in the principal amount of \$120,000,000. The Series 2001-B Warrants were issued as variable rate demand warrants with the interest rate reset weekly. The holders of the Series 2001-B Warrants have the right to tender such Warrants for purchase at par, plus accrued interest, upon seven days' notice. Also, under certain circumstances, the holders of Series 2001-B Warrants are required to surrender such Warrants for purchase (i.e., a mandatory tender) at par, plus accrued interest. To provide a source of funds for the payment of the purchase price of Series 2001-B Warrants that are the subject of an optional or mandatory tender, the County entered into a Liquidity Facility with the Liquidity Banks.

Pursuant to the Liquidity Facility, on March 13, 2008 the Liquidity Banks purchased Series 2001-B Warrants in the aggregate principal amount of \$118,740,000. Additional Series 2001-B Warrants have subsequently been purchase by the Liquidity Banks pursuant to the Liquidity Facility. Under the Liquidity Facility, the County is required to redeem the tendered

Series 2001-B Warrants in six equal semiannual installments beginning six months from the date of tender if such Warrants have not been remarketed prior to such redemption dates. The first such redemption was to occur on September 15, 2008. The County did not redeem such Warrants on September 15, 2008, resulting in the occurrence of an Event of Default under the Indenture and the Liquidity Facility. Such Event of Default has caused the Liquidity Banks' obligation under the Liquidity Facility to purchase tendered Series 2001-B Warrants to be terminated.

The County entered into a forbearance agreement with regard to the Series 2001-B Warrants, dated as of September 15, 2008 (the forbearance agreement and the letter agreements extending the forbearance period are herein collectively referred to as the "Forbearance Agreement"), with each of the Liquidity Banks, which was subsequently extended by all parties. On August 18, 2009, the County executed a letter agreement with the Liquidity Banks which further extended the forbearance period in exchange for an agreement by the County to make a partial payment on September 1, 2009, in the amount of the interest accrued as of such date on the Series 2001-B Warrants held by the Liquidity Banks. The letter agreement provides that it is not the Liquidity Banks' current intent to exercise their rights and remedies prior to the earlier of (i) 5:00 p.m. (prevailing Birmingham, Alabama time) on September 14, 2009 or (ii) the date of any failure by the County to make the interest payment on the Series 2001-B Warrants as described above. Interested parties should review the Forbearance Agreement for a complete understanding of its terms.

A copy of the Forbearance Agreement is available on the County's Department of Finance website at [www.jeffcofinance.com](http://www.jeffcofinance.com).

### **Rating Downgrade**

Certain of the Warrants are insured by Ambac Assurance Corporation ("Ambac"), as reflected on Schedule A, and were assigned insured ratings by Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings Ltd. ("Fitch").

On July 29, 2009, the long-term insured rating assigned to the Ambac insured Warrants by Moody's was reduced from "Ba3" to "Caa2" in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Ambac. The current long-term insured rating assigned to the Ambac insured Warrants by Moody's is listed as "Outlook Developing". In addition, the current "BBB" long-term insured rating assigned to the Ambac insured Warrants by S&P is listed as "CreditWatch Negative". Fitch withdrew its long-term insured rating assigned to the Ambac insured Warrants on June 26, 2008.

A rating reflects only the view of the agency assigning such rating and is not a recommendation to buy, sell or hold the Warrants. Such rating may be changed at any time, and no assurance can be given that it will not be subject to further revision or withdrawn entirely by the rating agency if, in its judgment, the circumstances so warrant. Any further reduction or withdrawal of the ratings on the Warrants may have an adverse effect on the market price of the Warrants.



**Notice of Event of Default**  
**to Holders of**  
**Jefferson County, Alabama**  
**General Obligation Warrants Series 2001-B**  
**CUSIP NO. 472628NS1<sup>1</sup>**

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*Note: This notice contains important information that is of interest to the registered and beneficial owners of the subject Warrants. Each registered holder of the Warrants should forward a copy of this Notice immediately to any beneficial owners(s) of the Warrants for whom the holder acts as nominee or in any other capacity.*

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The Bank of New York Mellon serves as the trustee (the “Trustee”) under that certain Trust Indenture dated as of July 1, 2001 (the “Indenture”), executed by Jefferson County, Alabama (the “County”), in favor of the Trustee. The County has issued and outstanding \$120,000,000 in principal amount of its General Obligation Warrants Series 2001-B (the “Warrants”) pursuant to the Indenture. Terms not otherwise defined in this Notice shall have the meanings given them in the Indenture.

Events of Default under the Indenture have previously occurred as a result of the failure of the County to pay \$19,790,000 in principal installments due on Warrants called for redemption pursuant to the terms of (i) the Indenture and (ii) a certain Standby Warrant Purchase Agreement dated as of July 1, 2001 (the “Standby Warrant Purchase Agreement”), executed by the County, JP Morgan (formerly known as Morgan Guaranty Trust Company of New York, “JP Morgan”), Bayerische Landesbank, New York Branch (together with JP Morgan, the “Liquidity Banks”) and the Trustee. These Events of Default continue, and the Liquidity Banks’ obligation under the Standby Warrant Purchase Agreement to purchase Warrants from holders terminated.

Notwithstanding the occurrence and continuance of the above referenced Events of Default, each Liquidity Bank has acknowledged to the County that it is not the current intent of either Liquidity Bank to exercise any of its rights and remedies in respect of the above referenced Events of Default prior to the earlier of (i) 5:00 p.m. (prevailing Birmingham, Alabama time) on August 20, 2009, (ii) the date on which any forbearance period in respect of the County’s sewer variable rate demand warrants terminates or expires without being extended or (iii) the date of any failure by the County to make certain interest payments on Warrants owned by the Liquidity Banks.

By resolution dated June 30, 2009, the County Commission directed the Budget Management Office to reduce appropriations in the remainder of the Fiscal Year 2008-

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<sup>1</sup> No representation is made as to the correctness of the CUSIP Numbers which are included solely for the convenience of the Warrantholders.

2009 County budget by \$31,681,129 for all county departments and agencies. On June 30, 2009, Mike Hale, as the duly elected Sherriff of Jefferson County, Alabama and Allen Farley, Assistant Sherriff of Jefferson County, Alabama, filed a lawsuit against Jefferson County and each of the County Commissioners seeking to enjoin the County from reducing the Sherriff's 2008-2009 Fiscal Year budget. On July 16, 2009, the court entered an order preliminarily enjoining the County from implementing its June 30, 2009, amendatory budget resolution with regard to the cuts made to the Sherriff's budget. In response to the Sherriff's lawsuit, representatives of the County have recently indicated in public statements and in pleadings filed with the court that: 1) the County may soon run out of funds, and that although they believe the County has sufficient funds to permit the County to meet its payroll obligations due July 24, 2009, the County may not have funds sufficient to enable it to meet its payroll obligations for the August 7, 2009 pay period; 2) that the County's budget is substantially out of balance and that without a thirty-three percent cut in its expenditures the County cannot achieve a balanced budget; and 3) that the County currently has a cash shortfall of \$10 million per month.

The Indenture provides that, subject to certain conditions, the holders of a majority in aggregate principal amount of the Warrants outstanding may direct the time, method and place of conducting all remedial proceedings available to the Trustee under the Indenture.

The Trustee intends to issue additional notices to registered holders of Warrants as it obtains more information in connection with the Warrants. If you have any questions concerning this matter, please write us at The Bank of New York Mellon, Attention: Bridgette Schessler, Global Corporate Trust - Default Administration Group, 525 William Penn Place, 7th Floor Pittsburgh, PA 15259, or by calling 412-234-7967. While Ms. Schessler and the Trustee will attempt to provide additional information to holders of the Warrants, please be advised that the Trustee may conclude that a specific response to a particular inquiry from an individual Warrant holder is not consistent with equal and full dissemination of information to all holders of Warrants. Accordingly, the Trustee may in its discretion decline to provide specific information in response to a particular inquiry. In addition, the Trustee is not able to provide holders of the Warrant with legal or investment advice under any circumstances. Holders of the Warrants should seek the advice of their own legal counsel and/or financial consultants regarding their individual rights under the Indenture.

**Dated: July 30, 2009**

**THE BANK OF NEW YORK MELLON,  
as Trustee**

## SCHEDULE A

### **Fixed Rate Warrants**

<i>Series 2001-A</i>	Maturity	Insurer
472628NQ5	4/1/2010	Ambac
472628NR3	4/1/2011	Ambac

<i>Series 2003-A</i>	Maturity	Insurer
472628PE0	4/15/2010	National
472628PF7	4/15/2011	National
472628PG5	4/15/2012	National
472628PH3	4/15/2017	National
472628PJ9	4/15/2018	National
472628PK6	4/15/2021	National
472628PL4	4/15/2022	National
472628PM2	4/15/2023	National

<i>Series 2004-A</i>	Maturity	Insurer
472628PQ3	4/1/2011	National
472628PR1	4/1/2012	National
472628PS9	4/1/2013	National
472628PT7	4/1/2014	National
472628PU4	4/1/2015	National
472628PV2	4/1/2016	National
472628PW0	4/2/2017	National
472628PX8	4/2/2018	National
472628PY6	4/2/2019	National
472628PZ3	4/2/2020	National
472628QA7	4/2/2021	National
472628QB5	4/2/2022	National
472628QC3	4/2/2023	National
472628QD1	4/2/2024	National

### **Variable Rate Demand Warrants**

<i>Series 2001-B</i>	Maturity
472628NS1	4/1/2021