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Jefferson County Commission

PRESS RELEASE

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Jefferson County Files for Chapter 9 Bankruptcy Protection

Birmingham, AL -- The Jefferson County Commission (the “Commission”) announced today that Jefferson County, Alabama (the “County”) has filed for Chapter 9 bankruptcy protection in Birmingham, Alabama.

By a majority vote, the Commission authorized the Chapter 9 filing at a public hearing held today in the County courthouse. The President of the Commission, David Carrington (“Carrington”), stated that the Commission’s decision to file for Chapter 9 was “a necessary one reached after much thoughtful consideration.”

“The County has negotiated extensively and in good faith with its creditors and their representatives about restructuring the County’s debts out-of-court,” Carrington continued. “Despite the County’s best efforts, those negotiations have not produced a deal that fairly treats the County and its citizens, and there is no reason to believe that further out-of-court negotiations will lead to a fair, acceptable result.”

Carrington emphasized that the Chapter 9 filing would not interfere with the County’s delivery of essential services to its citizens or payment to employees and vendors. “The County will continue its governmental operations throughout the Chapter 9 process,” Carrington stated. He added that the County is working with its advisors to prepare a Chapter 9 plan to adjust the County’s debts and to
emerge from Chapter 9 as soon as it can. Emerging from Chapter 9 would be facilitated by enactment of legislation by the Alabama State Legislature to address the General Fund shortfall.

The County’s Chapter 9 filing follows a series of significant and unprecedented financial setbacks to the County. In 2008, the County’s credit rating was downgraded for reasons outside of its control, including the downgrading of the credit ratings of the companies that insured the County’s long-term debt. The downgrading of the County’s credit rating precipitated the acceleration of much of the County’s long-term debt, including $105 million in Series 2001-B general obligation warrants and a substantial part of the approximately $3.2 billion in warrants issued for the County’s sanitary sewer system. When the County could not pay the accelerated sewer debt, buyers and insurers of that sewer debt sued the County. In 2010, an Alabama court appointed a receiver to take control of operations of the sanitary sewer system.

In March 2011, the County’s occupational tax, which accounted for more than 40 percent of the County’s annual unrestricted revenues, was ruled invalid by the Alabama Supreme Court. Efforts to enact new legislation to re-authorize the County’s collection of the occupational tax failed when the Alabama Legislature concluded its 2011 regular session without acting on the proposed legislation. In response to these developments, the Commission acted to cut more than $30 million in annualized expenses from the County’s budget. These cuts resulted in the layoffs of more than 500 employees, the elimination of approximately 160 vacant positions, the closure of 4 satellite courthouses, and a reduction in services provided by the County Sheriff’s office, among other measures.

In September 2011, the Commission and receiver entered into a comprehensive term sheet setting
forth a framework for the resolution of the sewer system crisis. Creditors ultimately were unwilling to make the economic concessions contemplated in the term sheet and the receiver made additional demands inconsistent with the Term Sheet that the Commission was unwilling to accept.

The County’s financial difficulties were compounded during the summer of 2011 when the sewer system receiver demanded that the County pay him $75 million from the County’s General Fund, which would have impaired the County’s ability to provide essential services to its citizens. With the collapse of settlement discussions, the County would have faced renewed efforts by the receiver to collect the $75 million. “Faced with the risk of a significant depletion of General Fund reserves and the sewer system creditors’ refusal to agree to any reasonable settlement offers made by the Commission, the Commissioners were left with no responsible choice but to file Chapter 9,” said Commissioner Jimmie Stephens, Chairman of the Finance Committee. “Under these circumstances, the Commissioners concluded that filing Chapter 9 was the best way to protect the County’s limited cash and restructure the County’s debt obligations,” Stephens added.

Carrington confirmed that the County would continue to vigorously pursue its claims against New York-based JPMorgan Securities, Inc. and certain of its affiliates (“JPMorgan”). In 2009, the County sued JPMorgan in Alabama state court for fraud relating to the County’s multi-billion dollar sewer debt. That sewer system debt structure was authored and marketed primarily by JPMorgan. As partial compensation for its responsibilities in connection with the County sewer system indebtedness, JPMorgan already has paid more than $75 million and waived approximately $647 million in swap termination fees pursuant to a settlement with the United States Securities and Exchange Commission.
Chapter 9 refers to the part of the U.S. Bankruptcy Code that provides a financially-distressed municipality protection from its creditors while it develops and negotiates a plan for adjustment of its debts. Once the municipality files for protection under Chapter 9, it is referred to as a “debtor.” During the Chapter 9 case, the debtor may continue to conduct business and operations as usual. Due to limitations placed upon the power of bankruptcy courts in Chapter 9 cases, courts generally are not as active in managing a municipal bankruptcy case as they are in Chapter 11 business reorganization cases. The functions of the bankruptcy court in Chapter 9 cases generally are limited to confirming the debtor’s eligibility to file, hearing motions to assume or reject unexpired contracts and leases, confirming a plan of adjustment of debts, and ensuring implementation of the plan.

The County’s Chapter 9 filing is the largest municipal bankruptcy case in U.S. history, involving over $4 billion of debt. The largest previous case was filed in 1994 by Orange County, California, which owed approximately $1.7 billion to its creditors when it filed for Chapter 9.

The County’s bankruptcy counsel are the law firms of Bradley Arant Boult Cummings LLP in Birmingham, Alabama, and Klee, Tuchin, Bogdanoff & Stern LLP in Los Angeles, California.

The Chapter 9 petition was filed today in the United States Bankruptcy Court for the Northern District of Alabama.

A copy of the resolution approved by the Commission authorizing the Chapter 9 filing is attached.