NEW ISSUE – FULL BOOK-ENTRY

Ratings: S&P: AAA
Moody's: Aaa
FGIC Insured

DAC Bond©

In the opinion of Bond Counsel, under existing law interest on the Series 2002-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 2002-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 2002-D Warrants will be exempt from State of Alabama income taxation. See "TAX STATUS" herein for further information and certain other federal tax consequences arising with respect to the Series 2002-D Warrants.

$475,000,000
JEFFERSON COUNTY, ALABAMA

Sewer Revenue Capital Improvement Warrants, Series 2002-D

Dated: November 1, 2002 **Due: February 1 as shown on inside front cover**

The Series 2002-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 2002-D Warrants will be made in book-entry form only, and individual purchasers ("Beneficial Owners") of the Series 2002-D Warrants will not receive physical delivery of warrant certificates. Payments of principal of, redemption premium, if any, and interest on the Series 2002-D Warrants will be paid by The Bank of New York, Birmingham, Alabama, as trustee for the Series 2002-D Warrants (the "Trustee"), to DTC or its nominee. Interest on the Series 2002-D Warrants is payable on each February 1 and August 1, beginning February 1, 2003. So long as DTC or its nominee is the registered owner of the Series 2002-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 2002-D Warrants are not general obligations of the County. The Series 2002-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 thereof in favor of the Series 2002-D Warrants will be on a parity of lien with the pledge thereof for the benefit of certain sewer revenue warrants heretofore issued by the County. The Indenture provides for the issuance of additional securities secured on a parity of lien with the Series 2002-D Warrants and such outstanding sewer revenue warrants.

The payment of the principal of and interest on the Series 2002-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 2002-D Warrants.

FGIC® Financial Guaranty Insurance Company

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

The Series 2002-D Warrants are subject to redemption as described herein.

This cover page contains certain information for quick reference only. It is <u>not</u> 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 2002-D Warrants are offered when, as and if issued by the County and received by the Underwriters, subject to approval of validity by Haskell Slaughter Young & Rediker, L.L.C., Birmingham, Alabama, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Maynard, Cooper & Gale, P.C. and Deborah B. Walker, Esq.. It is expected that the Series 2002-D Warrants in definitive form will be available for delivery in New York, New York on or about November 8, 2002.

JPMorgan

Gardnyr Michael Capital, Inc.
SouthTrust Securities, Inc.
National Bank of Commerce of Birmingham

Morgan Keegan & Company, Inc.
ABI Capital Management LLC

Compass Bank
Raymond James & Associates, Inc.
Merchant Capital, L.L.C.

The date of this Official Statement is November 4, 2002.

MATURITIES, AMOUNTS, RATES, PRICES & CUSIPS

Maturity	Principal Amount	Interest Rate	Yield	CUSIP
2022	$12,975,000	5.25%	4.87%	472682KL6
2023	13,675,000	5.25	4.90	472682KM4
2024	14,410,000	5.25	4.92	472682KN2
2025	15,190,000	5.25	4.94	472682KP7
2026	16,005,000	5.25	4.95	472682KQ5
2027	16,850,000	5.00	5.05	472682KR3
2032	98,120,000	5.00	5.07	472682KS1
2038	155,200,000	5.00	5.11	472682KT9
2042	132,575,000	5.00	5.13	472682KU6

All Series 2002-D Warrants maturing in 2032, 2038 and 2042 are subject to scheduled mandatory redemption at times and amounts and subject to the provisions described herein.

(Accrued interest to be added)

JEFFERSON COUNTY, ALABAMA

JEFFERSON COUNTY COMMISSION

Gary White, President
Mary M. Buckelew, Commissioner
Bettye Fine Collins, Commissioner
Jeff Germany, Commissioner
Steve Small, Commissioner

DIRECTOR OF FINANCE

Steve Sayler

COUNTY ATTORNEY

Edwin A. Strickland

BOND COUNSEL

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

COUNSEL FOR UNDERWRITERS
Maynard, Cooper & Gale, P.C.
Birmingham, Alabama

Deborah B. Walker, Esq.
Birmingham, Alabama

STRUCTURING AGENT

Sterne, Agee & Leach, Inc.
Birmingham, Alabama

SWAP ADVISOR

Morgan Keegan & Company, Inc.
Birmingham, Alabama

This Official Statement does not constitute an offering of any securities other than the Series 2002-D Warrants specifically offered hereby. No dealer, broker, salesman or other person has been authorized by the County or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon or deemed to have been authorized by any of the foregoing named parties. Certain information contained herein has been obtained from the County and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed to be the representation of the County or of the Underwriters. Neither the delivery of this official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sales of the Series 2002-D Warrants by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain statements contained in this Official Statement including, without limitation, statements containing the words "believes", "anticipates", "expects", and words of similar import, constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the County or the System to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: (i) the availability of an adequate pool of qualified contractors to implement the program, (ii) the inflationary environment with respect to the costs of labor and supplies needed to implement the program, (iii) weather conditions that could adversely affect construction schedules, (iv) population trends and political and economic developments in the service area in which the System operates that could adversely impact the collection of System Revenues; (v) the willingness of the U.S. Justice Department and the Environmental Protection Agency to cooperate with respect to various issues that may arise as the County implements its remedial plan, (vi) the possibility of new environmental legislation or regulations affecting the System, (vii) unanticipated costs or potential modifications to the County's sanitary sewer capital improvement program resulting from requirements and limitations imposed by environmental laws and regulations and (viii) the inherent uncertainty involved in a capital improvement project of the magnitude undertaken by the County. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The County disclaims any obligation to update any such factors or to publicly announce the results of any revision to any of the forward-looking statements contained herein to reflect future events or developments.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series 2002-D Warrants offered hereby at a level above that which might otherwise prevail in the open market, and such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT
Regarding

$475,000,000
JEFFERSON COUNTY, ALABAMA
Sewer Revenue Capital Improvement Warrants,
Series 2002-D

INTRODUCTION

This Official Statement is being furnished in connection with the issuance of the warrants referred to above (the "Series 2002-D Warrants") by Jefferson County, Alabama (the "County"). 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 2002-D Warrants will be issued pursuant to that certain Trust Indenture dated as of February 1, 1997 (the "Original Indenture") between the County and The Bank of New York (as successor to AmSouth Bank of Alabama) (the "Trustee"), as supplemented by (i) the First Supplemental Indenture dated as of March 1, 1997 (the "First Supplemental Indenture"), (ii) the Second Supplemental Indenture dated as of March 1, 1999 (the "Second Supplemental Indenture"), (iii) the Third Supplemental Indenture dated as of March 1, 2001 (the "Third Supplemental Indenture"), (iv) the Fourth Supplemental Indenture dated as of February 1, 2002 (the "Fourth Supplemental Indenture"), (v) the Fifth Supplemental Indenture dated as of September 1, 2002 (the "Fifth Supplemental Indenture"); (vi) the Sixth Supplemental Indenture dated as of October 1, 2002 (the "Sixth Supplemental Indenture") and (viii) the Seventh Supplemental Indenture dated as of November 1, 2002 (the "Seventh Supplemental Indenture; the Original Indenture, as supplemented, being herein referred to as the "Indenture").

The Series 2002-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 deposits to the debt service reserve fund and the capitalized interest fund established pursuant to the Indenture and (iv) paying the costs of issuing the Series 2002-D Warrants.

The Series 2002-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 2002-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"). Under the Indenture, the pledge of the Pledged Revenues in favor of the Series 2002-D Warrants will be on a parity with the pledge thereof in favor of (a) certain outstanding obligations of the County issued in calendar year 1997 (collectively, the (the "Series 1997 Warrants"), which consist of (i) the Sewer Revenue Refunding Warrants, Series 1997-A, which are outstanding in the aggregate principal amount of $211,040,000, (ii) the Taxable Sewer Revenue Refunding Warrants, Series 1997-B, which are outstanding in the aggregate principal amount of $10,805,000, (iii) the Taxable Sewer Revenue Refunding Warrants, Series 1997-C, which are outstanding in the aggregate principal amount of $41,820,000 and (iv) the Sewer Revenue Warrants, Series 1997-D, which are outstanding in the aggregate principal amount of $115,740,000; (b) the County's Sewer Revenue Capital Improvement Warrants, Series 1999-A, dated March 1, 1999, which are outstanding in the aggregate principal amount of $506,910,000 (the "Series 1999-A Warrants"); (c) the County's Sewer Revenue Capital Improvement Warrants, Series 2001-A, dated March 1, 2001, which are outstanding in the aggregate principal amount of $176,840,000 (the "Series 2001-A Warrants"); (d) the County's Sewer Revenue Capital Improvement Warrants, Series 2002-A, dated March 6, 2002, which are outstanding in the aggregate principal amount of $110,000,000 (the "Series 2002-A Warrants), (e) the County's Sewer Revenue Capital Improvement Warrants, Series 2002-B, dated September 1, 2002, which are outstanding in the aggregate principal amount of $540,000,000 and (f) the County's Sewer Revenue Refunding Warrants, Series 2002-C, dated October 25, 2002, which are outstanding in the aggregate principal amount of $839,500,000 (the "Series 2002-C Warrants"). See "SECURITY AND SOURCE OF PAYMENT".

Payment of the principal of and interest on the Series 2002-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 2002-D Warrants. See "THE MUNICIPAL BOND INSURANCE POLICY".

The Series 2002-D Warrants are subject to optional and mandatory redemption as described in the Indenture. See "DESCRIPTION OF THE SERIES 2002-D WARRANTS - Redemption".

Following the issuance of the Series 2002-D Warrants, the County will have no outstanding sewer revenue indebtedness other than the Series 2002-D Warrants, the Series 2002-C Warrants, the Series 2002-B Warrants, the Series 2002-A Warrants, the Series 2001-A Warrants, the Series 1999-A Warrants and the Series 1997 Warrants (the "Outstanding Sewer Revenue Indebtedness"). See "SECURITY AND SOURCE OF PAYMENT", "THE PLAN OF FINANCING" and "OUTSTANDING DEBT". 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 Outstanding Sewer Revenue Indebtedness, subject to the terms and conditions of the Indenture. See "Appendix A - SUMMARY OF THE INDENTURE".

Since the date of the Preliminary Official Statement, Judge Sharon Blackburn, a judge in the United States District Court for the Northern District of Alabama, has affirmed an order of the federal magistrate remanding the consolidated cases in <u>Gary White v. The Jefferson County Commission, et al.</u> (see pp. 59-61 of the Preliminary Official Statement) to state court. Judge Blackburn's order, which was entered on November 4, 2002, did not express any opinion regarding the merits of plaintiffs' claims.

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.

For further information contact Steve Sayler, Director of Finance, Jefferson County, Suite 810, County Courthouse, 716 North 21st Street, Birmingham, Alabama 35263 (telephone (205) 325-5055).

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 Outstanding Sewer Revenue Indebtedness.

"**County**" means Jefferson County, Alabama.

"**Depreciation Fund**" means the fund by such name established pursuant to the Indenture.

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

"**Fifth Supplemental Indenture**" means the Fifth Supplemental Indenture dated as of September 1, 2002, pursuant to which the Series 2002-D Warrants are being issued.

"**First Supplemental Indenture**" means the First Supplemental Indenture dated as of March 1, 1997, pursuant to which the 1997-D Warrants were issued.

"**Fourth Supplemental Indenture**" means the Fourth Supplemental Indenture dated as of February 1, 2002, pursuant to which the Series 2002-A Warrants were issued.

"**General Fund**" means the General Fund of the County.

"**Indenture**" means the Original Indenture, as amended and supplemented by the First Supplemental Indenture, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture and the Seventh Supplemental Indenture.

"**Insurance Policy**" means the municipal bond insurance policy issued by Financial Guaranty Insurance Company with respect to the Series 2002-D Warrants.

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

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

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

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

"**1997-D Warrants**" means the County's $296,395,000 Sewer Revenue Warrants, Series 1997-D.

"**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.

"**Original Indenture**" means the Trust Indenture dated as of February 1, 1997, pursuant to which the 1997-A Warrants, 1997-B Warrants and 1997-C Warrants were issued.

"**Outstanding Sewer Revenue Indebtedness**" means the Series 2002-D Warrants, the Series 2002-C Warrants, the Series 2002-B Warrants, the Series 2002-A Warrants, the Series 2001-A Warrants, the Series 1999-A Warrants and the Series 1997 Warrants.

"**Parity Securities**" means the Outstanding Sewer Revenue Indebtedness 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.

"**Second Supplemental Indenture**" means the Second Supplemental Indenture dated as of March 1, 1999, pursuant to which the Series 2002-D Warrants are being issued.

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

"**Series 1999-A Warrants**" means the County's $952,695,000 Sewer Revenue Capital Improvement Warrants, Series 1999-A, dated March 1, 1999.

"**Series 2001-A Warrants**" means the County's $275,000,000 Sewer Revenue Capital Improvement Warrants, Series 2001-A, dated March 1, 2001.

"**Series 2002-A Warrants**" means the County's $110,000,000 Sewer Revenue Capital Improvement Warrants, Series 2002-A, dated March 6, 2002.

"**Series 2002-B Warrants**" means the County's $540,000,000 Sewer Revenue Capital Improvement Warrants, Series 2002-B, dated September 1, 2002.

"**Series 2002-C Warrants**" means the County's $839,500,000 Sewer Revenue Refunding Warrants, Series 2002-C, dated October 25, 2002.

"**Seventh Supplemental Indenture**" means the Seventh Supplemental Indenture dated as of November 1, 2002, pursuant to which the Series 2002-D Warrants will be issued.

"**Sixth Supplemental Indenture**" means the Sixth Supplemental Indenture dated as of October 1, 2002, pursuant to which the Series 2002-C Warrants were issued.

"**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.

"**Third Supplemental Indenture**" means the Third Supplemental Indenture dated as of March 1, 2001, pursuant to which the Series 2001-A Warrants were issued.

"**Trustee**" means The Bank of New York, in Birmingham, Alabama, in its capacity as trustee under the Indenture.

DESCRIPTION OF THE SERIES 2002-D WARRANTS

General Description

The Series 2002-D Warrants will be dated November 1, 2002, and will bear interest at the per annum rates set forth on the cover hereof. Interest on the Series 2002-D Warrants will be payable on February 1, 2003, and semiannually thereafter on each February 1 and August 1 until maturity or earlier redemption as provided in the Indenture. The Series 2002-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 2002-D Warrants will be offered initially at the price or prices set forth on the cover hereof. The principal of and the interest on the Series 2002-D Warrants will bear interest after their respective due dates until paid at the respective rates of interest borne by the Series 2002-D Warrants prior to maturity.

Method and Place of Payment

The Series 2002-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 2002-D Warrants, as nominee of The Depository Trust Company, New York, New York ("DTC"), references herein to the owners of the Series 2002-D Warrants mean Cede & Co. and not the Beneficial Owners (as defined hereafter) of the Series 2002-D Warrants.

The principal of the Series 2002-D Warrants will be payable by the Trustee to Cede & Co. Interest on the Series 2002-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 Prior to Maturity

Optional Redemption. The Series 2002-D Warrants 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 August 1, 2012, and on any date thereafter, such redemption to be at and for a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date fixed for redemption.

Scheduled Mandatory Redemption of Series 2002-D Warrants Maturing in 2032. The Series 2002-D Warrants having a stated maturity on February 1, 2032 (the "2032 Term Warrants") are subject to scheduled mandatory redemption, at and for a redemption price, with respect to each such 2032 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	Principal Amount
February 1, 2028	$17,710,000
February 1, 2029	18,620,000
February 1, 2030	19,575,000
February 1, 2031	20,580,000

$21,635,000 of such 2032 Term Warrants
is scheduled to be retired at maturity.

Not less than 45 or more than 60 days prior to each mandatory redemption date with respect to the 2032 Term Warrants, the Trustee shall proceed to select for redemption, by lot, 2032 Term Warrants or portions thereof in an aggregate principal amount equal to the amount required to be redeemed and shall call such 2032 Term Warrants or portions thereof for redemption on such mandatory redemption date. The County may, not less than 60 days prior to any such mandatory redemption date, direct that any or all of the following amounts be credited against the 2032 Term Warrants scheduled for redemption on such date: (i) the principal amount of 2032 Term Warrants delivered by the County to the Trustee for cancellation and not previously claimed as a credit; and (ii) the principal amount of 2032 Term Warrants previously redeemed pursuant to the optional redemption provisions of the Indenture and not previously claimed as a credit.

Scheduled Mandatory Redemption of Series 2002-D Warrants Maturing in 2038. The Series 2002-D Warrants having a stated maturity on February 1, 2038 (the "2038 Term Warrants") are subject to scheduled mandatory redemption, at and for a redemption price, with respect to each such 2038 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	Principal Amount
February 1, 2033	$22,745,000
February 1, 2034	23,910,000
February 1, 2035	25,135,000
February 1, 2036	26,425,000
February 1, 2037	27,780,000

$29,205,000 of such 2038 Term Warrants
is scheduled to be retired at maturity.

Not less than 45 or more than 60 days prior to each mandatory redemption date with respect to the 2038 Term Warrants, the Trustee shall proceed to select for redemption, by lot, 2038 Term Warrants or portions thereof in an aggregate principal amount equal to the amount required to be redeemed and shall call such 2038 Term Warrants or portions thereof for redemption on such mandatory redemption date. The County may, not less than 60 days prior to any such mandatory redemption date, direct that any or all of the following amounts be credited against the 2038 Term Warrants scheduled for redemption on such date: (i) the principal amount of 2038 Term Warrants delivered by the County to the Trustee for cancellation and not previously claimed as a credit; and (ii) the principal amount of 2038 Term Warrants previously redeemed pursuant to the optional redemption provisions of the Indenture and not previously claimed as a credit.

Scheduled Mandatory Redemption of Series 2002-D Warrants Maturing in 2042. The Series 2002-D Warrants having a stated maturity on February 1, 2042 (the "2042 Term Warrants") are subject to scheduled mandatory redemption, at and for a redemption price, with respect to each such 2042 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	Principal Amount
February 1, 2039	$30,700,000
February 1, 2040	32,275,000
February 1, 2041	33,930,000

$35,670,000 of such 2042 Term Warrants
is scheduled to be retired at maturity.

Not less than 45 or more than 60 days prior to each mandatory redemption date with respect to the 2042 Term Warrants, the Trustee shall proceed to select for redemption, by lot, 2042 Term Warrants or portions thereof in an aggregate principal amount equal to the amount required to be redeemed and shall call such 2042 Term Warrants or portions thereof for redemption on such mandatory redemption date. The County may, not less than 60 days prior to any such mandatory redemption date, direct that any or all of the following amounts be credited against the 2042 Term Warrants scheduled for redemption on such date: (i) the principal amount of 2042 Term Warrants delivered by the County to the Trustee for cancellation and not previously claimed as a credit; and (ii) the principal amount of 2042 Term Warrants previously redeemed pursuant to the optional redemption provisions of the Indenture and not previously claimed as a credit.

If less than all of the outstanding Series 2002-D Warrants of a particular maturity are to be called for redemption, the Series 2002-D Warrants (or principal portions thereof) 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 2002-D Warrants are called for redemption, the Trustee shall give notice, in the name of the County, of the redemption of such Series 2002-D Warrants, which notice shall state that on the redemption date such Series 2002-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 2002-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 2002-D Warrants for which notice was properly given. Any Series 2002-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 2002-D Warrants of a particular maturity, the Series 2002-D Warrants 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 2002-D Warrants (or portions thereof) have been selected for payment from such trust and shall direct such holders to surrender their Series 2002-D Warrants to the Trustee in exchange for Series 2002-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 2002-D Warrants.

Authority for Issuance

The Series 2002-D 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").

The Enabling Law authorizes the County to issue forty-year 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 the County, including the System.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2002-D Warrants. The Series 2002-D Warrants will be issued as fully-registered securities registered in the name of Cede & Co., DTC's partnership nominee. The Series 2002-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 2002-D Warrants under the DTC system must be made by or through DTC Participants, which will receive a credit for the Series 2002-D Warrants on DTC's records. The ownership interest of each beneficial owner of a Series 2002-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 2002-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 2002-D Warrants, except in the event that use of the book-entry only system for the Series 2002-D Warrants is discontinued.

To facilitate subsequent transfers, all Series 2002-D Warrants deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2002-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 2002-D Warrants. DTC's records reflect only the identity of the DTC Participants to whose accounts such Series 2002-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 2002-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 2002-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 2002-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 2002-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 2002-D WARRANTS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE SERIES 2002-D WARRANTS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTEREST IN SERIES 2002-D WARRANTS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2002-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 2002-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 2002-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 2002-D WARRANTHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2002-D WARRANTS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS SERIES 2002-D WARRANTHOLDER.

Discontinuation of Book-Entry Only System

DTC may determine to discontinue providing its service with respect to the Series 2002-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 2002-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 2002-D Warrants at any time by giving reasonable notice to DTC.

SECURITY AND SOURCE OF PAYMENT

General Information

The Series 2002-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 2002-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 2002-C Warrants, the Series 2002-B Warrants, the Series 2002-A Warrants, the Series 2001-A Warrants, the Series 1999-A Warrants and the Series 1997 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 2002-D Warrants, there will be no outstanding indebtedness of the County payable out of Pledged Revenues other than the Outstanding Sewer Revenue Indebtedness. However, 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 Outstanding Sewer Revenue Indebtedness. 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 the Outstanding Sewer Revenue Indebtedness. 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 2002-D Warrants. However, the extent of the remedies afforded to the holders of the Series 2002-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 2002-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 warrantholders.

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 2002-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 2002-D Warrants from the Pledged Revenues.

THE MUNICIPAL BOND INSURANCE POLICY

Series 2002-D Warrant Insurance

Concurrently with the issuance of the Series 2002-D Warrants, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Series 2002-D Warrants. The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Series 2002-D Warrants which has become due for payment, but shall be unpaid by reason of nonpayment by the County of the Series 2002-D Warrants. 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 or accreted value (if applicable) 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 2002-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 2002-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, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Series 2002-D Warrant includes any payment of principal or interest made to an owner of a Series 2002-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 Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Series 2002-D Warrants. The Policy covers failure to pay principal of the Series 2002-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 2002-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 2002-D Warrants are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the County is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Series 2002-D Warrants and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Series 2002-D Warrants.

The 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 March 31, 2002, the total capital and surplus of Financial Guaranty was approximately $1.03 billion. 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 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

PLAN OF FINANCING

The proceeds of the Series 2002-D Warrants will be used to pay for capital improvements to the System, including without limitation, improvements required to be made pursuant to the Consent Decree referred to below.

Capital Improvements Mandated by Consent Decree

The County is a party to a consent decree (the "Consent Decree") arising out of certain litigation involving alleged violations of the federal Clean Water Act in the operation of the System. See "LITIGATION - The Consent Decree". The Consent Decree calls for the development and implementation of a remedial plan which is intended to eliminate bypasses and other unlawful discharges of untreated sewage to streams in the County. The remedial plan requires, among other things, extensive rehabilitation of lateral and collector sewers throughout the County and construction of additional capacity to the treatment plants in the System.

Phase I of the remedial plan involved the preparation of planning documents used to evaluate the physical condition and hydraulic capacity of the County's sewage collection system and wastewater treatment plants. Phase II involved a detailed analysis of the conditions of the County and municipal sewage collection systems and wastewater treatment plants, including reports quantifying the amount of infiltration and inflow in each sewage collection system, describing the types of remedial or corrective work needed and quantifying the benefits expected. Both Phase I and Phase II of the remedial plan have now been completed. Phase III is the implementation phase of the Consent Decree and began in late 1996.

The total estimated cost of the remedial plan is approximately $1.971 billion. Between fiscal year 1996 and fiscal year 2002, approximately $1.141 billion had been expended under this plan, leaving approximately $829.8 million to be expended in future years. As of September 30, 2002, approximately $237.4 million of these costs was under contract. See "JEFFERSON COUNTY SEWER SYSTEM -- Sanitary Sewer Capital Improvement Program" for a schedule of estimated expenditures to comply with the Consent Decree.

Clean Water Act Compliance

The County has undertaken a number of projects that, while not required by the Consent Decree, are necessary for compliance with the Clean Water Act. Approximately $309 million was spent on Clean Water Act compliance projects between fiscal years 1996 and 2002, leaving approximately $282.6 million in projects to be funded through fiscal year 2007. As of September 30, 2002, approximately $148.3 million of these costs was under contract. See "JEFFERSON COUNTY SEWER SYSTEM – Sanitary Sewer Capital Improvement Program" for a schedule of estimated expenditures for the County's Clean Water Act compliance efforts.

Ongoing Sewer Improvement Program

In addition to the capital improvement program necessitated by the Consent Decree and to Clean Water Act compliance efforts, the County has an ongoing sewer improvement program. Approximately $218 million was spent on such projects between fiscal years 1996 and 2002. The County estimates that an additional $313.9 million will be spent on this portion of the capital improvement program through fiscal year 2007. As of September 30, 2002, approximately $50.6 million of these costs was under contract. See "JEFFERSON COUNTY SEWER SYSTEM -- Sanitary Sewer Capital Improvement Program" for a schedule of estimated expenditures for the County's ongoing capital improvement program.

Sources of Funding

The County expects that the remaining costs of the remedial plan, Clean Water Act compliance and the ongoing capital improvement program will be funded from remaining proceeds of the Series 2002-A Warrants, Series 2002-B Warrants, Series 2002-D Warrants and future borrowings. The County expects that available proceeds of the Series 2002-A Warrants, Series 2002-B Warrants and Series 2002-D Warrants will be sufficient to pay costs of the combined program through early 2004. The estimated future costs and sources of funding are summarized in the following table:

Future Costs

	(in millions)
Remaining costs of the remedial plan (from beginning of current fiscal year through completion)	$829.8
Clean Water Act compliance	282.6
Ongoing capital improvement program through the fiscal year ending September 30, 2007	313.9
TOTAL	$1,426.3
Sources of Funding	
Remaining proceeds of Series 2002-A Warrants (as of September 30, 2002)	1.0
Remaining proceeds of Series 2002-B Warrants (as of September 30, 2002)	450.0
Proceeds of Series 2002-D Warrants	385.0
Proceeds of future borrowings	590.3
TOTAL	$1,426.3

SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of funds for the plan of financing with respect to the issuance of the Series 2002-D Warrants. Amounts in this table have been rounded to the nearest whole dollar.

Sources of Funds

Principal amount of Series 2002-D Warrants	$475,000,000
Less: original issue discount	(5,035,121)
Accrued interest (to November 8, 2002)	465,318
TOTAL SOURCES	$470,430,197

Uses of Funds

Deposit to Construction Fund	$386,277,360
Deposit to Reserve Fund	35,171,935
Capitalized Interest	38,419,060
Issuance expenses (including underwriting discount, bond insurance premium, legal fees, printing costs, Trustee acceptance, CUSIP services and miscellaneous)	10,561,842
TOTAL USES	$470,430,197

DEBT SERVICE REQUIREMENTS AND COVERAGE

The following table presents the actual debt service requirements on the Outstanding Sewer Revenue Indebtedness, which will be the only indebtedness of the County secured by Pledged Revenues after the Series 2002-D Warrants are issued.

Fiscal Year Ending September 30	Series 2002-D Warrants Principal	Series 2002-D Warrants Interest	Outstanding Sewer Revenue Indebtedness (other than Series 2002-D Warrants)[1]	Total Debt Service
2003		$17,947,978	$123,532,288	$141,480,266
2004		23,930,638	122,303,248	146,233,886
2005		23,930,638	128,029,173	151,959,811
2006		23,930,638	125,586,877	149,517,515
2007		23,930,638	125,240,866	149,171,504
2008		23,930,638	125,230,206	149,160,844
2009		23,930,638	125,317,018	149,247,656
2010		23,930,638	125,295,985	149,226,623
2011		23,930,638	125,273,765	149,204,403
2012		23,930,638	125,343,083	149,273,721
2013		23,930,638	125,408,938	149,339,576
2014		23,930,638	125,362,749	149,293,387
2015		23,930,638	125,416,551	149,347,189
2016		23,930,638	121,225,348	145,155,986
2017		23,930,638	147,276,125	171,206,763
2018		23,930,638	148,680,913	172,611,551
2019		23,930,638	150,125,231	174,055,869
2020		23,930,638	151,604,755	175,535,393
2021		23,930,638	149,924,649	173,855,287
2022	$12,975,000	23,590,044	155,642,673	192,207,717
2023	13,675,000	22,890,481	155,414,934	191,980,415
2024	14,410,000	22,153,250	157,618,368	194,181,618
2025	15,190,000	21,376,250	160,409,103	196,975,353
2026	16,005,000	20,557,381	163,340,412	199,902,793
2027	16,850,000	19,716,000	166,589,029	203,155,029
2028	17,710,000	18,852,000	151,366,670	187,928,670
2029	18,620,000	17,943,750	151,329,878	187,893,628
2030	19,575,000	16,988,875	151,380,181	187,944,056
2031	20,580,000	15,985,000	151,423,671	187,988,671
2032	21,635,000	14,929,625	151,478,031	188,042,656
2033	22,745,000	13,820,125	151,414,681	187,979,806
2034	23,910,000	12,653,750	151,623,171	188,186,921
2035	25,135,000	11,427,625	152,085,676	188,648,301
2036	26,425,000	10,138,625	152,149,876	188,713,501
2037	27,780,000	8,783,500	152,510,216	189,073,716
2038	29,205,000	7,358,875	247,921,166	284,485,041
2039	30,700,000	5,861,250	248,040,212	284,601,462
2040	32,275,000	4,286,875	235,592,948	272,154,823
2041	33,930,000	2,631,750	237,843,147	274,404,897
2042	35,670,000	891,750	235,001,603	271,563,353

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(1) The County has entered into variable-to-fixed interest rate swap transactions that are referable to the Series 2002-A Warrants and the Series 2002-C Warrants. See "OUTSTANDING DEBT–Outstanding Swap Transactions". For purposes of the foregoing table, interest on the Series 2002-A Warrants has been calculated on the basis of the fixed rate (5.06%) that determines the amounts payable by the County under that swap transaction.and interest on the Series 2002-C Warrants has been calculated on the basis of the fixed rate (3.92%) that determines the amounts payable by the County under that swap transaction.

Historical Coverage

Prior to the issuance of the Series 1997 Warrants, the County Commission amended the ordinance that establishes rates and charges for the System (the "Rate Ordinance") in order to establish a procedure for periodic automatic increases in such rates and charges. See "Automatic Rate Adjustment Ordinance" herein. In December 1997, pursuant to the amended Rate Ordinance, the County increased the sewer service charge from $1.78 to $1.88 per hundred cubic feet, effective January 1, 1998. In November 1998, pursuant to the amended Rate Ordinance, the County increased the sewer service charge from $1.88 to $1.96 per hundred cubic feet, effective January 1, 1999. In January 1999, after a public hearing, the County Commission, acting on a discretionary basis, increased the sewer service charge from $1.96 to $2.20 per hundred cubic feet, effective March 1, 1999. Two additional automatic annual increases in sewer rates under the Rate Ordinance raised the sewer service charge to $2.48 as of January 1, 2000 and to $2.74 as of January 1, 2001. Sewer rates increased to $3.01 per hundred cubic feet as of April 1, 2001 due to a discretionary rate increase by the County Commission. An additional automatic annual increase under the Rate Ordinance raised the sewer service charge to $3.53 effective January 1, 2002.

The following table sets forth certain historical debt service coverage ratios for the County's sewer revenue debt by the County's excess of revenues over expenditures for the fiscal years indicated:

Fiscal Year Ended September 30	Excess of Revenues over Expenditures (000's)	Net Revenues Available for Debt Service (unaudited)[1]	Current Year Debt Service (000's)	Current Year Debt Service Coverage Ratio[2]
1997	$42,815	$42,593	$ 7,294	5.84
1998	48,817	48,481	39,750	1.22
1999	70,592	69,112	39,958	1.73
2000	85,076	82,661	43,744	1.88
2001	88,086	69,060	47,486	1.45

[1]Net Revenues Available for Debt Service calculated pursuant to the Indenture excludes certain items that are included in excess of revenues over expenditures. See Appendix A for definition of Net Revenue Available for Debt Service.

[2]Ratio produced by dividing Current Year Debt Service into Net Revenues Available for Debt Service.

In order to comply with the requirements of the Indenture for the issuance of the Series 2002-D Warrants as Additional Parity Securities, the County will deliver a Revenue Forecast with respect to Net Revenues Available for Debt Service. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Additional Debt – Revenue Forecast".

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 Outstanding Sewer Revenue Indebtedness ("Additional Parity Securities"), subject to the restrictions noted below. The Outstanding Sewer Revenue Indebtedness 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 Outstanding Sewer Revenue Indebtedness and other outstanding Additional Parity Securities (if any) that is 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). However, the County is not required to deliver a Revenue Certificate or Revenue Forecast in connection with the issuance of a series of Additional Parity Securities for refunding purposes if, in lieu thereof, the County delivers a certificate signed by the County's Director of Finance or an Independent Investment Advisor stating (i) that the Maximum Annual Debt Service immediately after the issuance of such Additional Parity Securities will not be greater than the Maximum Annual Debt Service immediately prior to the issuance of such Additional Parity Securities and (ii) that the total debt service expected to be due and payable on such Additional Parity Securities will be less than the total debt service that would be due and payable after the issuance date of such Additional Parity Securities on those of the Parity Securities being refunded if such refunding did not occur.

"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.

For purposes of any Revenue Certificate or Revenue Forecast prepared and delivered to the Trustee in connection with the issuance of a series of Additional Parity Securities, the date for determining Maximum Annual Debt Service may be any date that occurs during the period of thirty (30) days that immediately precedes the issuance date for such series of Additional Parity Securities (provided that, in any event, the debt service on such series of Additional Parity Securities shall be taken into account and included in calculating Maximum Annual Debt Service).

Independent Engineer's Revenue Forecast. The County's consulting engineer, Paul B. Krebs & Associates, Inc., Birmingham, Alabama, has prepared a Revenue Forecast in connection with the issuance of the Series 2002-D Warrants as required by the Indenture. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Additional Debt – Restrictions on Additional Debt" above. The

Revenue Forecast is attached in its entirety as Appendix D to this Official Statement. The Revenue Forecast covers fiscal years 2003 through 2006, and projects that the County's Net Revenues Available for Debt Service (as defined in the Indenture) for such years will cover Maximum Annual Debt Service following the issuance of the Series 2002-D Warrants as follows:

Fiscal Year Ending September 30	**Maximum Annual Debt Service[1]**	**Net Revenues Available for Debt Service**	**Coverage Ratio**	**Net Revenues Available for Debt Service Plus Prior Year Surplus**	**Coverage Ratio**
2003	$171,925	$82,566	0.48	$189,078	1.10
2004	171,925	104,111	0.61	201,666	1.17
2005	171,925	123,123	0.72	220,415	1.28
2006*	171,925	136,943	0.80	211,046	1.23

(all figures in thousands)

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*Test Year

[1] The definition of Maximum Annual Debt Service in the Indenture permits certain assumptions to be made which cause the amount shown in this table to vary from any amount shown in the table shown under "Historical Coverage". For the definition of "Maximum Annual Debt Service", see Appendix A.

The Revenue Forecast contains important assumptions and estimates underlying the projected coverage during the Forecast Period, 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 annual debt service requirements on the Series 2002-D Warrants resulting from available interest rates and principal maturities; and the interest earnings on funds held under the Indenture.

The Revenue Forecast also does not take into account any additional indebtedness that may be incurred by the County during the Forecast Period. The County expects that sewer rates will have to be increased above the rates contained in the Revenue Forecast as a result of the issuance of any such Additional Parity Securities under the terms of the Indenture.

Net Revenues Available for Debt Service, as projected in the Revenue Forecast, are calculated on a basis consistent with the definition of such term contained in the Indenture. 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 all funds held under the Indenture.

The Indenture permits the Revenue Forecast to assume that all or any portion of the Outstanding Sewer Revenue Warrants will be redeemed in one or more installments that are consistent with the optional redemption provisions and to adjust the debt service schedule to reflect such assumed redemptions. Thus, in calculating Maximum Annual Debt Service, the Revenue Forecast effectively assumes level annual debt service for fiscal years beginning in fiscal year 2007, the year in which Series 1997 Warrants are first subject to optional redemption. See Appendix A -- Definitions -- "Maximum Annual Debt Service".

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

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.

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 County has covenanted that, in the event of delivery of notice of the County's failure to satisfy the

Historical Evaluation or Immediate Prospective Evaluation (or both), the County will increase rates and charges for services furnished by the System in order to comply with the Rate Covenant.

Automatic Rate Adjustment Ordinance

On February 12, 1997, the Commission amended the ordinance that establishes the rates and charges for services furnished by the System (the "Rate Ordinance") in a manner that has resulted 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 results 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 is determined by formulas contained in the Rate Ordinance, which formulas produce periodic rate increases that are 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 2002-B Warrantholders and may be modified at any time by the Commission at its sole discretion.

The automatic rate increases under the Rate Ordinance have been implemented five times, resulting in rate increases effective January 1 in the years 1998, 1999, 2000, 2001 and 2002. The County Commission also has implemented two discretionary rate increases in addition to the increases resulting from the Rate Ordinance, which discretionary rate increases became effective March 1, 1999 and April 1, 2001. See "Historical Coverage" 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).

The County has entered into certain interest rate swap transactions and standby warrant purchase agreements pursuant to its rights described in the preceding paragraphs. See "OUTSTANDING DEBT - Outstanding Swap Transactions."

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 by the Jefferson County Sanitary Commission, which Act No. 714 created. 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 enacted 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 Commission 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 1948, 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 for wet weather flows to certain plants coupled with the loading restrictions associated with low volume of water flow of the stream into which the plants discharge, problems related to peak treatment capabilities remain. Additionally, 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.

In 1998, as the result of a United States District Court's decision pursuant to a lawsuit claiming that Jefferson County was violating EPA regulations of the Clean Water Acts, the operations and maintenance of the sewage collection systems of twenty-one municipalities connected to the System were unified under the control of the County Commission. The unification of the respective sewage collection systems added over 11 million linear feet of sewer lines and approximately 100 pumping stations, thereby expanding the County Commission responsibility for the System with a total of more than 2600 miles of sewer lines, 140 pumping stations, and nine WWTPs. Upon the acquisition of the municipal systems, the County Commission determined that the municipal systems failed to meet the standards required to comply with the Clean Water Acts. The County Commission is currently implementing comprehensive rehabilitation to the infrastructure to comply with federal requirements and prepare the System to meet the demands of Jefferson County's growing population.

County Growth Patterns

The most significant aspect of the County's 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. Beginning in the 1950's, a mass outward migration of people from the central valley area began, following the national trend of movement from the city out to the suburbs. 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 only a slight increase in the County's population, the number of housing units in the County increased by 22%. This may be attributable to an increase in multifamily construction during this time, which added to the County's housing units. The trend towards smaller families and declining birthrate, generally, also contributed to the slow population growth. Subsequent moratoria on sanitary sewer facilities and the impact of an economic recession slowed growth in the late 1970's.

Between 1980 and 1990, the County's population declined by nearly 20,000 people. Household size decreased rapidly during this decade, as well. In part, the shrinking population may be attributed to smaller households and the declining birthrate. In addition, migration from the County contributed to the population decline. Construction on Interstate 459 was completed during this decade which enabled those working in Birmingham to move to outlying counties and commute into the city. Despite the population decline during this time, the number of housing units in the County rose by 5.1%. This increase is likely the result of the construction of multi-unit dwellings.

Between 1990 and 2000, the population of the County increased slightly, reversing the trend of the prior decade. While out-migration from the County has occurred, this trend has been somewhat offset by a high birth to death ratio. The number of housing units increased during this time, as well, but not as rapidly as it did during the 1970's and 1980's. Nearly one-half of the new housing units in Jefferson

County were located south of Birmingham along Interstate 65 and Highway 31 in the Hoover and Vestavia Hills areas and northeast of Birmingham along Interstate 59 in the Trussville area.

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 arteries. This has forced most commercial development to locations along U. S. Highway 31.

Interstate 459 — 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 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 Jefferson County Economic and Industrial Development Authority has recently developed an industrial park in this area. The location of the Mercedes Benz assembly plant in nearby Vance in Tuscaloosa County has greatly increased 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 with the extension of Corridor X from Memphis to Birmingham. Corridor X is a project intended to replace existing U.S. Highway 78 with a limited access expressway from Memphis to Birmingham.

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 construction of sewers located at the Fieldstown Road Interchange has provided 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 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.

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. Recent completion of the Deerfoot Parkway has further stimulated large residential development in this area. 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. Significant commercial and residential developments are currently underway in Leeds.

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 has attracted major office and retail development. Further growth in the corridor appears likely to continue.

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, research, and retail development is underway in this area. Additional sewers are planned at the Interstate 459 interchange.

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 761 employees, all of whom are civil service employees.

The Administration Division has the responsibility of providing direction to all phases of the Department's operations. The Administration Division has 79 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 all proposed sewer construction plans.

The Maintenance and Construction Division has the responsibility for performing sewer maintenance activities, sewer construction inspection, and miscellaneous construction to support the maintenance crews. The maintenance operations are staffed 24 hours per day, seven days per week. This division has a total of 203 employees.

The Wastewater Treatment Plant Division has the responsibility for the operation and maintenance of the wastewater treatment facilities of the County. This division has a total of 379 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 33 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 67 employees.

Jefferson County Wastewater Treatment Plants and Sewer Lines

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 screens, pre-aeration and grit removal, primary clarification, first stage activated sludge aeration, intermediate clarification, second stage aeration for nitrification, final clarification, partial sand filtration, chlorination, dechlorination and final effluent discharge into Village Creek. Sludge handling consists of thickeners, anaerobic and aerobic digestion, mechanical dewatering by centrifuges. The dried solids are handled by the biosolids operations described later. There are 82 employees at this plant which is staffed 24 hours per day, seven days a week. The plant is currently under design to expand the average capacity from 60 MGD to 120 MGD and provide peak flow treatment to all wet weather flows.

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, dechlorination and final effluent discharge to Valley Creek. Sludge handling consists of thickeners, anaerobic digestors and sludge dewatering by belt filter presses. Dried solids are handled by the biosolids operations. There are 72 employees at this plant, which is also staffed 24 hours per day, seven days a week. The plant is currently under design to expand the average capacity to 85 MGD and provide peak flow treatment to all wet weather flows.

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 and sludge drying beds. Dried solids are handled by the biosolids operations. There are 37 employees who operate the Five Mile Creek Plant 24 hours per day, seven days a week. The plant is currently under design to expand the average capacity to 30 MGD and provide peak flow treatment to all wet weather flows.

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, peak flow holding basin, 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 and sludge dewatering by belt filter presses. Dried solids are handled by the biosolids operations. There are 39 employees at the Cahaba River Plant, which is staffed 24 hours per day, seven days a week. The plant is currently under design to add additional tertiary treatment components to meet new regulatory discharge requirements.

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 basin, oxidation ditch extended aeration, secondary clarification, ultraviolet light radiation and final effluent discharge cascade to Turkey Creek. Sludge handling consists of thickeners and sludge drying beds. Dried solids are handled by the biosolids operations. There are 10 employees at this plant which is staffed eight hours per day, seven days a week. The plant is currently under design for expansion to accommodate growth within the service area of this plant.

Norman R. Skinner (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. The Leeds Wastewater Treatment Plant has 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. Dried solids are handled by the biosolids operations. There are 13 employees at this plant which is staffed 8 hours per day, seven days a week.

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, completed in July 1998, has a design capacity of 4.5 MGD. The unit processes for treatment consist of grit removal, oxidation ditch extended aeration, secondary clarification, sandfiltration, ultra-violet light radiation (disinfection) and final effluent discharge to the Cahaba River. Sludge handling consists of sludge drying beds. Dried solids are handled by the biosolids operations. There are 13 employees at this plant which is staffed eight hours per day, seven days a week.

Warrior Wastewater Treatment Plant. The Warrior Plant is located to the west of Warrior on Blackburn Drive and serves the City of Warrior. The plant has an average design capacity of 100,000 gallons per day. The unit processes for treatment consist of headworks grinders, extended aeration, final clarification, ultra-violet light radiation and final discharge into Cane Creek. The Warrior Plant is staffed for eight hours per day, five days per week with 2 employees. The plant is currently under design for expansion to accommodate growth in the service area.

Prudes Creek Wastewater Treatment Plant. The Prudes Creek Plant serves the Cities of Graysville and Adamsville. The Plant has an average design capacity of 600,000 gallons per day. The unit processes for treatment consist of headworks grinders, extended aeration, final clarifiers, ultra-violet light radiation and final effluent discharge into Fivemile Creek. The Prudes Creek Plant is staffed eight hours per day, five days per week with 2 employees. The plant is currently under design to provide additional peak flow treatment to all wet weather flows.

Pump Stations. The County Commission currently operates numerous pumping stations throughout the County. These stations operate automatically for the most part and they are not permanently staffed. This operation is staffed with 52 employees which comprise several crews who monitor and maintain these pumping stations on a daily basis.

Sewer Plant Maintenance Shops. The County Commission has electrical, electronic and mechanical maintenance shops at the Village Creek, Valley Creek and Five Mile Creek Plants with a total of 38 employees. The shops perform maintenance activities at all of the WWTPs.

Biosolids (Sludge) Beneficial Reuse Operations. This operation provides the staffing (19 employees) and trucking operations to haul and apply all dried sludge (biosolids) onto land which has been stripped for coal in the past as part of a beneficial reuse and land reclamation effort by the County Commission. This program has received regional and national recognition by the EPA.

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.

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.

The Commission has adopted an amended ordinance that provides for an automatic adjustment in the rates and charges for services furnished by the System, effective each January 1, in order to comply with the Rate Covenant. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Automatic Rate Adjustment Ordinance". The provisions of such ordinance do not limit or restrict the power and authority of the Commission to modify rates and charges in addition to the automatic rate increases resulting from the application of such ordinance.

Rates and Charges

On January 1, 2002, the effective charge for sewer service in the County became $3.53 per 100 cubic feet of water consumed, an increase from the rate of $3.01 which had become effective on April 1, 2001. A 15% consumption allowance is permitted for residential customers (other than customers who also have private meters) for water not returned to the System. In addition, the County charges a system development charge of $100.00 for each new plumbing fixture added to the System.

Shown below is a chart reflecting the rates and charges for sewer service in effect since January 1, 1994:

Rate Increase Date	Per 100 Cubic Feet	Average Residential Bill[1]	Average Comparative Rates[2]
January 1, 2002	$3.53	$30.01	NA
April 1, 2001	3.01	25.59	NA
January 1, 2001	2.74	23.29	$21.80
January 1, 2000	2.48	21.08	NA
March 1, 1999	2.20	18.70	18.70
January 1, 1999	1.96	16.66	18.70
January 1, 1998	1.88	15.98	17.88
February 1, 1997	1.78	15.13	17.57
January 1, 1996	1.73	14.71	17.27
June 1, 1995	1.58	13.43	16.97
January 1, 1994	1.44	12.24	16.60

[1]The typical monthly residential consumption is 1000 cubic feet. The typical residential customer does not have a special sewer meter. These typical customers receive a 15% consumption discount for water used that does not enter the sewer system.
[2]Sources: Raftelis Environmental Consulting Group, Inc., *Raftelis Environmental Consulting Group 1996, 1998 and 2000 Water and Wastewater Rate Survey*, Charlotte, N.C.; and Ernst & Young, 1994 Rate Survey.

The County expects that a significant increase in sewer rates will result under the County's automatic rate adjustment ordinance in order to pay the required debt service on the Series 2002-D Warrants and the Series 2002-B Warrants, which were issued by the County on September 30, 2002. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Revenue Forecast".

Listed below is a comparison of residential sewer service charges per 1,000 cubic feet in other Southeastern cities. The charges listed in this chart are based on rates in effect at various points during calendar year 2001. Other than the charges referable to the County, the following charges have been extracted from a rate study conducted by Raftelis Environmental Consulting Group.

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Residential Sewer Charge Comparisons
Per 1000 Cubic Feet of Water Metered

Charleston SC	$42.16
Richmond, VA	33.45
Asheville, NC	33.00
Jacksonville, FL	32.40
Austin, TX	31.69
Tampa, FL	31.49
Knoxville, TN	29.66
Greenville, SC	27.96
Greenville, NC	26.96
Jefferson Co., AL	**25.59**
Spartanburg, SC	24.95
High Point, NC	23.60
Dallas, TX	23.59
Baton Rouge, LA	22.94
Mobile, AL	22.89
Miami, FL	22.12
All Systems	**21.80**
Charlotte, NC	21.55
Cleveland, OH	21.10
Augusta, GA	20.16
Tulsa, OK	18.95
Greensboro, NC	18.00
Anniston, AL	11.70
Memphis, TN	4.39

Note: The information shown is for calendar year 2001. Jefferson County's average residential sewer charge for calendar year 2002 is $30.01.

Source: Raftelis Environmental Consulting Group, Inc., *Raftelis Environmental Consulting Group 2002 Water and Wastewater Rate Survey*, Charlotte, N.C.

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Major Customers

Listed below are the top ten customers of the System during fiscal year ended September 30, 2001 and the related sewer service charges paid:

Major Sewer User	Business	Annual Sewer Service Revenues
University of Alabama at Birmingham	University	$1,919,492
Birmingham Housing Authority	Government	1,863,624
USX	Steel manufacturer	1,379,428
Barbers Dairies	Dairy	1,243,709
Golden Flake	Snack Foods	534,827
Birmingham Board of Education	Government	523,303
Buffalo Rock	Soft drinks	484,908
Baptist Medical Center	Hospital	439,239
Brookwood Medical Center	Hospital	352,688
Pemco	Manufacturer	299,517

* Includes surcharge on same consumption.
Source: Jefferson County.

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 the County's capital improvement program has been and will be accomplished through the issuance of sewer revenue warrants by the County and the use of retained sewer service charges not required for operation.

Between October 1, 2000 and September 30, 2002, the County spent approximately $951 million on various consent decree and ongoing capital sewer improvement projects. The County expects that it will spend in excess of $1.5 billion on capital expenditures for sewer purposes between October 1, 2002 and September 30, 2005. The following table sets forth the amount expected to be spent on projects necessary to comply with the Consent Decree, projects necessary for Clean Water Act compliance, and other ongoing capital projects for the periods shown, beginning October 1, 1997. The table below rounds the following estimates to the nearest million dollars.

JEFFERSON COUNTY ENVIRONMENTAL SERVICES
SANITARY SEWER CAPITAL IMPROVEMENT PROGRAM
Actual and Estimated Expenditures for Period beginning October 1, 1997

Period	Consent Decree Projects (millions)	Clean Water Act Compliance (millions)	Ongoing Capital Improvements (millions)	Total Expenditures (millions)
10/1/97 through 9/30/02	$1,141	$309	$218	$1,668
10/1/02 through 9/30/03	247	149	88	484
10/1/03 through 9/30/04	310	40	0	350
10/1/04 and thereafter	273 [1]	84 [2]	309	666
TOTALS	$1,971	$582	$615	$3,168

[1] Includes projected expenditures for fiscal years 2006 and 2007 plus anticipated but not yet identified rehabilitation projects required to comply with Consent Decree.
[2] Includes projected expenditures for fiscal years 2006 and 2007.

Although the foregoing table reflects the County's best estimates based on current plans of the Environmental Services Department for constructing improvements to the System, the County may modify its plans by eliminating or delaying certain projects or by altering the order in which the foregoing projects are undertaken. No assurance can be given that the amounts shown will be spent at all nor that such amounts will be spent according to the schedule indicated.

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, 2001, the revenues derived from the Sewer Tax were approximately $3.8 million and it is expected that the annual revenues from such tax will continue to approximate that amount.

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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 fiscal years 1997 through 2001.

	Fiscal Year Ended September 30				
	2001	2000	1999	1998	1997
Active Accounts	142,305	142,277	142,042	141,606	140,324
Avg. daily treatment volume (millions of gallons treated)	116	97	114	116	not available
Sewer Rate Charges (in thousands)	$70,560	$68,268	$60,705	$49,532	$46,951
% Revenues - Largest Customer	2.66%	2.57%	2.93%	2.91%	2.92%
% Revenues - Top 10 Customers	12.53%	11.99%	11.62%	12.35%	10.37%

Source: Jefferson County

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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 and for the nine-month period ended June 30, 2002:

	Fiscal Year Ended September 30				
	2002 (unaudited)	2001	2000	1999	1998
Revenues					
Sewer Rate Charges	$62,859,048	$70,560,676	$68,267,995	$60,705,297	$49,531,824
Other Operating Revenue	6,542,583	6,491,136	6,776,612	5,552,947	5,837,746
Ad Valorem Taxes	3,075,915	3,805,666	4,486,818	3,151,127	3,009,938
Interest income	23,486,505	51,359,876	46,564,365	34,367,637	21,504,762
Miscellaneous Revenue	527,128	28,874	155,674	53,655	244,054
TOTAL REVENUES	116,491,179	$132,246,228	$126,251,464	$103,830,663	$80,128,324
Expenses					
Salaries and Wages	$26,128,588	$24,548,763	$22,369,514	$19,610,265	$17,100,926
Contract Services	5,779,241	6,091,616	4,386,205	3,538,821	3,495,947
Other	15,151,958	13,519,821	14,419,350	10,714,865	9,123,806
TOTAL EXPENSES	47,059,787	44,160,200	41,175,069	33,238,685	31,311,738
Excess of Revenues Over Expenditures	$69,431,392	$88,086,028	$85,076,395	$70,591,978	$48,816,586
Other Financing Sources (Uses)					
Transfers	-0-	(336,568)	(57,695)		
Depreciation	(51,264,491)	(33,576,394)	(31,503,295)	(24,920,608)	(22,525,436)
Interest Expense	(98,563,447)	(90,390,904)	(82,904,264)	(62,504,352)	(33,546,331)
TOTAL OTHER FINANCING SOURCES (USES)	(139,827,938)	(124,303,866)	(114,465,254)	(87,424,960)	(56,071,767)
Net Income (Loss)	(70,396,546)	(36,217,838)	(29,388,859)	(16,832,982)	(7,255,181)
Retained Earnings, Beginning of Year	1,522,673,586	143,063,194	172,452,053	189,285,035	196,540,505
Adjustments for Prior Periods	-0-	1,415,828,230	0	0	0
Adjusted Retained Earnings Beginning of Year	1,522,673,586	1,558,891,424	172,452,053	189,285,035	196,540,505
Retained Earnings, End of Year	$1,452,277,040	$1,522,673,586	$143,063,194	$172,452,053	$189,285,324

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			
	2002 (unaudited)	2001	2000	1999	1998
ASSETS					
Cash and Investments	$291,783,980	$555,728,032	$688,401,358	$972,410,540	$217,577,359
Accounts Receivable, Net	11,341,546	10,998,922	12,008,486	11,063,769	7,576,355
Interest Receivable	-0-	352,821	0	0	0
Due From Other Governmental Units	503,680	4,036,862	489,659	465,039	325,510
Inventories	496,768	496,768	546,885	534,599	514,939
Prepaid Items	8,580	4,874	0	0	0
Warrant Issue Costs	33,893,947	33,497,709	22,941,539	23,821,583	16,615,610
Fixed Assets, Net	3,054,591,755	2,770,619,883	1,005,837,887	755,595,701	576,175,647
Deferred Loss on Early Debt Retirement	2,321,981	2,775,870	3,229,759	3,683,648	4,137,537
TOTAL ASSETS	$3,394,942,237	$3,378,511,741	$1,733,455,573	$1,767,574,879	$822,922,957
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	7,196,194	$18,700,513	$26,955,667	$25,478,133	$19,860,553
Interest Payable	17,980,325	16,273,088	13,695,115	13,799,841	5,472,833
Accrued Payroll and Taxes	521,629	425,831	393,570	978,339	796,949
Retainage Payable	13,645,084	13,121,124	6,114,742	3,684,049	3,044,758
Accrued Vacation and Sick Leave	2,810,681	2,810,681	2,562,982	2,340,363	2,137,551
Accrued Compensatory Leave	364,934	364,934	324,028	263,741	224,989
Due to Other Funds	8,475				
Deferred Revenue	-0-	3,427,014			
Arbitrage Rebate Payable	2,382,875	4,464,970	3,461,275	603,360	
Warrants Payable	1,897,755,000	1,796,250,000	1,536,885,000	1,547,975,000	602,100,000
TOTAL LIABILITIES	1,942,665,197	1,855,838,155	1,590,392,379	1,595,122,826	633,637,633
FUND EQUITY					
Retained Earnings	1,452,277,040	1,522,673,586	143,063,194	172,452,053	189,285,324
TOTAL FUND EQUITY	1,452,277,040	1,522,673,586	143,063,194	172,452,053	189,285,324
TOTAL LIABILITIES AND FUND EQUITY	$3,394,942,237	$3,378,511,741	$1,733,455,373	$1,767,574,879	$822,922,957

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 2002-A 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

After the issuance of the Series 2002-D Warrants, the County's only outstanding long-term sewer revenue debt will consist of the Outstanding Sewer Revenue Indebtedness. See "GLOSSARY OF TERMS" herein. For a schedule of debt service requirements on the Outstanding Sewer Revenue Indebtedness, see "DEBT SERVICE REQUIREMENTS AND COVERAGE".

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. However, the Series 2002-A Warrants and the Series 2002-C Warrants (other than those issued as auction rate securities) are variable rate demand obligations that may be put to the County at the option of the holders. To provide for the purchase of Series 2002-A Warrants tendered for purchase but not remarketed, the County, the Trustee and JPMorgan Chase Bank have entered into a Standby Warrant Purchase Agreement dated as of February 1, 2002 (the "Series 2002-A Liquidity Facility"). The County has covenanted that it will, under certain specified circumstances, redeem in accordance with applicable optional redemption provisions Series 2002-A Warrants that have been purchased pursuant to the Series 2002-A Liquidity Facility and not subsequently remarketed or otherwise transferred. The County and the Trustee have entered into substantially similar Standby Warrant Purchase Agreements dated as of October 1, 2002 (the "Series 2002-C Liquidity Facilities") with JPMorgan Chase Bank; Bank of America, N.A.; The Bank of Nova Scotia; Regions Bank; Bayerische Hypo- und Vereinsbank AG, New York Branch; and Société Générale, New York Branch, which provide for the purchase of various subseries of Series 2002-C Warrants tendered for purchase and not remarketed.

In addition, the remaining subseries of the Series 2002-C Warrants have been sold by auction in accordance with an Auction Agency Agreement dated October 1, 2002 (the "Auction Agent Agreement") among the County, The Bank of New York and JPMorgan Securities, Inc.

The obligations of the County under the Series 2002-A Liquidity Facility and the Series 2002-C Liquidity Facilities and the Auction Agent Agreement are Secured Related Obligations for purposes of the Indenture. See "DEBT SERVICE REQUIREMENTS AND COVERAGE – Related Obligations.".

Outstanding Swap Transactions

Acting in accordance with rights reserved in the Indenture, the County has entered into various interest rate swap transactions with respect to the Parity Securities. The County is now obligated with respect to five of those transactions. Under three of those transactions (which are referred to herein as "Outstanding Variable Payment Swaps"), the County (a) is obligated to make monthly payments calculated by reference to the applicable notional amount and the BMA Municipal Swap Index and (b) is entitled to receive semiannual payments calculated by reference to the applicable notional amount and the applicable fixed interest rate. For each of the Outstanding Variable Payment Swaps, the following descriptions take into account both (i) the provisions of the initial swap transaction and (ii) the provisions of a subsequent transaction (the "Interim Reversal") that effectively reversed, for a specified period of time, the provisions of such initial transaction.

Two of the Outstanding Variable Payment Swaps are between the County and JP Morgan Chase Bank, as successor to Morgan Guaranty Trust Company of New York ("Morgan"). Those transactions (the "Morgan Transactions") have notional amounts of $200,000,000 and $175,000,000, respectively. The Morgan Transaction with a notional amount of $200,000,000 had an effective date of February 1, 2001, a termination date of January 1, 2016, and a fixed rate (for determining payments to be made by Morgan) of 5.069%. Because of the related Interim Reversal transaction, until February 1, 2004, the only scheduled payments are payments from Morgan to the County determined by applying a net fixed rate of 1.524% to said notional amount.

The Morgan Transaction with a notional amount of $175,000,000 has an effective date of February 1, 2002, a termination date of January 1, 2016, and a fixed rate (for determining payments to be made by Morgan) of 5.2251%. Because of the related Interim Reversal transaction, until February 1, 2004, the only scheduled payments are payments from Morgan to the County determined by applying a net fixed rate of 1.4551% to said notional amount.

For each Morgan Transaction, Morgan has the option to cancel such transaction on the first calendar day of any month occurring after January 31, 2004. In addition, if Morgan exercises such cancellation option with respect to a transaction, Morgan will then have the option to reinstate such transaction (in accordance with its original terms) on the first calendar day of any month occurring after January 31, 2009.

The third Outstanding Variable Payment Swap is between the County and JPMorgan Chase Bank, as successor to The Chase Manhattan Bank ("Chase"). That transaction (the "Chase Variable Payment Transaction") has a notional amount of $70,000,000, an effective date of February 1, 2002, a termination date of February 1, 2031, and a fixed rate (for determining payments to be made by Chase) of 5.17%. Chase has the option to cancel the Chase Variable Payment Transaction on the first calendar day of any month occurring after January 31, 2007. Because of the related Interim Reversal transaction, until February 1, 2007, the only scheduled payments are payments from Chase to the County determined by applying a net fixed rate of 1.225% to said notional amount (provided that Chase has an option to cancel the Interim Reversal transaction on February 1, 2005, and semiannually thereafter until February 1, 2007).

In addition, the County has entered into two swap transactions that can be characterized as fixed payment swaps ("Outstanding Fixed Payment Swaps"). First, in connection with the issuance of the Series 2002-A Warrants, the County and Chase entered into a swap transaction with a notional amount of $110,000,000, an effective date of February 15, 2002, and a termination date of February 1, 2042. Under such transaction, the County (a) is obligated to make semiannual payments calculated by reference to said notional amount and a fixed rate of 5.06% and (b) is entitled to receive monthly payments calculated by reference to said notional amount and the BMA Municipal Swap Index.

In connection with the issuance of the Series 2002-C Warrants, the County has entered into separate swap transactions with JPMorgan Chase Bank, Bank of America, N.A. and Lehman Brothers with an aggregate notional amount equal to the par amount of the Series 2002-C Warrants, an effective date of October 23, 2002, and a termination date of February 1, 2040. Under such transactions, the County (a) is obligated to make semiannual payments calculated by reference to said notional amount and a fixed rate of 3.92% and (b) is entitled to receive monthly payments calculated by reference to the same notional amount and an interest rate equal to 67% of one-month LIBOR.

The County expects that the payments that the County will receive pursuant to each of the Outstanding Fixed Payment Swaps will approximate (both in amounts and in dates of payment) the payments of interest due on the Series 2002-A Warrants and the Series 2002-C Warrants, respectively.

The Outstanding Swaps are Qualified Swaps and Secured Related Obligations for purposes of the Indenture. See "DEBT SERVICE REQUIREMENTS AND COVERAGE - Related Obligations."

Anticipated 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 within the next three fiscal years. The County anticipates that the remaining projects included in the remedial plan, the Clean Water Act compliance program and ongoing sewer improvement program, will require additional borrowings of approximately $590 million. The County expects to finance these and other discretionary capital improvements by periodically issuing additional debt secured by the Pledged Revenues on a parity of lien with the Outstanding Sewer Revenue Indebtedness. See "CAPITAL IMPROVEMENT PROGRAM -- Sources of Funding".

Outstanding General Obligation Debt

The County's outstanding 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 Warrants, Series 1993, maturing annually April 1, 2003 through April 1, 2010	$53,035,000
General Obligation Warrants, Series 2001-A, maturing annually April 1, 2003 through April 1, 2011	75,130,000
General Obligation Warrants, Series 2001-B, maturing April 1, 2021	120,000,000
General Obligation Warrants, Series 2002-A, maturing annually April 1, 2003 through April 1, 2007	20,065,000
TOTAL	$268,230,000

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, which have since been refunded. 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.

Jefferson County Economic and Industrial Development Authority Financing

The Jefferson County Economic and Industrial Development Authority (the "JCEIDA") is a public corporation that owns an industrial park in the western portion of the County. In 1998, the JCEIDA issued $15,280,000 principal amount of bonds (the "JCEIDA Bonds") to finance the cost of acquiring, constructing and developing the industrial park. The County entered into a Funding Agreement (the "Funding Agreement") pursuant to which the County agreed to pay amounts sufficient to provide for the payment of principal of and interest on the JCEIDA Bonds due in any fiscal year of the County, to the extent that the JCEIDA does not have sufficient funds to pay such principal and interest. The Funding Agreement has a one-year term and is subject to automatic renewal in each successive fiscal year unless the County provides written notice by August 1 of the prior fiscal year that it elects not to renew the Funding Agreement.

The County's obligation to make the payments provided for in the Funding Agreement during each one-year term constitutes a general obligation of the County, and the County has pledged its full faith and credit for such payments; however, all obligations of the County under the Funding Agreement are payable solely out of the current revenues of the County for the fiscal year during which the County becomes obligated to pay or otherwise discharge such obligations. The maximum amount of principal and interest due on the JCEIDA Bonds in any year does not exceed approximately $2 million.

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 Gary White and Commissioners Mary M. Buckelew, Bettye Fine Collins, Jeff Germany and Steve Small, Jr., will end in November 2002.

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.

In the 2001 fiscal year, the County employed 4,701 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, Gary White, 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 wastewater treatment plants and sanitary sewer lines and solid waste facilities. Commissioner Steve Small, Jr. 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 Mary M. Buckelew 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. The Director of Finance of the County is Steve Sayler.

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, 2001. 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 2002-D 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.

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 October 1, 2001, there were 4,899 members of the Pension System (including both present and retired employees and beneficiaries).

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 October 1, 2001, by Bucks Consultants (the "Actuary"). According to that valuation, the Pension System had as of October 1, 2001, actuarial accrued liabilities of $550,171,592. The assets of the Pension System as of October 1, 2001, consisted of actuarial value of assets valued at $642,486,683. On the basis of that valuation and certain actuarial assumptions, the Actuary concluded that the Pension System is actuarially sound.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Jefferson County (the "County"), Alabama's most populous county, is the principal center of finance, trade, health care, manufacturing, transportation and education in the State of Alabama. Birmingham, the State's largest city, and the county seat, had a population of 242,820 in 2000. Forty-five other incorporated municipalities and places are located within the County's 1,141 square miles. The County, which had a population of 662,047 in 2000, is the center of the four-county Birmingham Metropolitan Statistical Area (MSA), which covers 3,188 square miles. The Birmingham MSA's population was 921,106 in 2000, making it the 65^{th}-most populated area among the 280 metropolitan areas in the U.S.[*]

While the County's economy once depended primarily on iron and steel and other heavy industry, it has diversified extensively over the past three decades into healthcare, finance, trade, government and other services. In 2001, 83 percent of the County's work force was employed in the service-producing sectors of the economy. Over nine percent of the wage and salary jobs in the County are in the health care sector.

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[*] Includes Metropolitan Statistical Areas (MSAs) and Consolidated MSAs (CMSAs), as defined by the Office of Management and Budget.

Population

The County and the Birmingham MSA have experienced steady population growth over the years. Although the City experienced an 8.7 percent loss in population between 1990 and 2000, the four-county MSA grew 14.6 percent from 1990 to 2000. The suburban counties of Blount, Shelby and St. Clair experienced some of the fastest growth in population in the State. It is anticipated that most of the population growth in the Birmingham MSA will continue to occur outside the present City limits and that the City will continue to serve as an employment, service and cultural center for residents of the suburban areas. The following table summarizes historical population growth for Jefferson County, the City of Birmingham, and the Birmingham MSA.

Population Trends

Year	Jefferson County	City of Birmingham	MSA*
2000	662,047	242,820	921,106
1990	651,525	265,968	907,810
1980	671,324	286,799	884,040
1970	644,991	300,910	794,083
1960	634,864	340,887	772,044
1950	558,928	326,037	708,721
1940	459,930	267,583	609,919

*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.

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

As previously stated, in addition to the City of Birmingham, there are 45 places and cities in Jefferson County. Population changes from the 1980 to the 2000 Census are listed in the following table for these areas:

Place	2000	1990	1980	Percent Change, 1990 – 2000
Adamsville	4,965	5,161	4,511	-3.8%
Bessemer	29,672	33,518	31,729	-11.5%
Brighton	3,640	4,518	5,308	-19.4%
Brookside	1,393	1,365	1,409	2.1%
Cahaba Heights	5,203	4,778	4,675	8.9%
Cardiff	82	72	140	13.9%
Center Point	22,784	22,658	23,486	0.6%
Chalkville	3,829			
Clay	4,947			
Concord	1,809			
County Line	257	75	99	242.7%
Edgewater	730			
Fairfield	12,381	12,200	13,239	1.5%
Forestdale	10,509	10,395	10,688	1.1%
Fultondale	6,595	6,400	6,217	3.0%
Gardendale	11,626	9,251	8,608	25.7%
Grayson Valley	5,447			
Graysville	2,344	2,249	2,642	4.2%
Homewood	25,043	23,644	21,412	5.9%
Hoover	62,742	40,000	20,881	56.9%
Hueytown	15,364	15,280	14,797	0.5%
Irondale	9,813	9,458	7,073	3.8%
Kimberly	1,801	1,096	1,043	64.3%
Leeds	10,455	10,009	7,881	4.5%
Lipscomb	2,458	2,892	3,741	-15.0%
Maytown	435	651	538	-33.2%
McDonald Chapel	1,054			
Midfield	5,626	5,559	6,185	1.2%
Minor	1,116			
Morris	1,827	1,136	623	60.8%
Mount Olive	3,957			
Mountain Brook	20,604	19,810	19,718	4.0%
Mulga	973	284	405	242.6%
North Johns	142	177	243	-19.8%
Oak Grove	457			
Pinson	5,033			
Pleasant Grove	9,983	8,458	7,102	18.0%
Rock Creek	1,495			
Sylvan Springs	1,465	1,470	450	-0.3%
Tarrant	7,022	8,046	8,148	-12.7%
Trafford	523	739	763	-29.2%
Trussville	12,924	8,283	3,507	56.0%
Vestavia Hills	24,476	19,550	15,722	25.2%
Warrior	3,169	3,280	3,260	-3.4%
West Jefferson	344	388	357	-11.3%
Jefferson County	**662,047**	**651,525**	**671,392**	**1.6%**

Note: Cities, towns and places without population figures for 1980 or 1990 were not designated places in those Census counts.

Source: Birmingham Area Chamber of Commerce, U.S. Census Bureau.

Employment and Labor Force

The following tables present certain information with respect to employment in the Birmingham MSA. The growth in jobs in the Birmingham area has occurred primarily in the service-producing sectors. Construction is the only goods-producing sector that has experienced growth since the 1970s.

BIRMINGHAM MSA
WAGE AND SALARY NON-AGRICULTURAL EMPLOYMENT
(Jobs in Thousands)

Sector	1970	1980	1990	1999	2000	2001
Goods Producing	95.3	96.5	81.2	82.7	84.5	83.0
Mining	6.3	9.9	3.4	2.4	2.6	2.7
Construction	13.5	20.4	23.2	29.2	30.3	30.4
Manufacturing	75.5	66.2	54.6	51.1	51.6	49.9
Durable Goods	56.6	48.9	35.3	32.9	33.3	32.1
Nondurable Goods	18.9	17.3	19.3	18.2	18.3	17.8
Service-Producing	171.8	260.5	319.8	399.4	401.1	402.1
Transportation and Public Utilities	19.2	29.3	31.4	31.2	31.2	31.1
Trade	59.7	83.7	95.4	118.9	118.0	116.4
Finance, Insurance and Real Estate	16.8	23.0	29.6	37.9	38.1	39.0
Services	38.1	67.1	100.7	143.5	145.0	146.5
Government	38.0	57.4	62.7	68.0	68.8	69.2
Total	**267.1**	**357.0**	**401.0**	**482.1**	**485.5**	**485.1**

Source: State of Alabama, Department of Industrial Relations.

BIRMINGHAM MSA
PERCENTAGE DISTRIBUTION OF
NON-AGRICULTURAL EMPLOYMENT
(2001 Annual Averages)

Category	Birmingham MSA	United States
Goods-Producing	17.1%	19.0%
Mining	0.6	0.4
Construction	6.3	5.2
Manufacturing	10.3	13.4
Service-Producing	82.9	81.0
Transportation & Public Utilities	6.4	5.3
Trade	24.0	23.1
Finance, Insurance & Real Estate	8.0	5.8
Services	30.2	31.0
Government	14.3	15.8
Total	**100.0%**	**100.0%**

Source: State of Alabama, Department of Industrial Relations.

COMPARATIVE EMPLOYMENT TRENDS
Annual Averages
(000's)

	2001	2000	1999	1998	1997
Birmingham					
Employed	123.3	123.4	122.3	124.6	124.1
Unemployed	7.2	6.4	6.4	5.8	7.0
Unemployment Rate	5.5%	5.0%	5.0%	4.5%	5.3%
Jefferson County					
Employed	323.7	324.0	321.1	327.4	326.1
Unemployed	12.9	11.6	11.5	10.5	12.6
Unemployment Rate	3.8%	3.5%	3.5%	3.1%	3.7%
Birmingham MSA					
Employed	459.8	460.4	456.1	459.8	453.9
Unemployed	16.4	14.5	14.6	13.3	15.7
Unemployment Rate	3.5%	3.1%	3.1%	2.8%	3.4%
State of Alabama					
Employed	2,033.2	2,055.2	2,043.1	2,065.6	2,057.2
Unemployed	114.4	99.1	102.2	90.9	109.8
Unemployment Rate	5.3%	4.6%	4.8%	4.2%	5.1%
United States					
Employed	135,073	135,208	133,488	131,463	129,588
Unemployed	6,742	5,655	5,880	6,210	6,739
Unemployment Rate	4.8%	4.0%	4.2%	4.5%	4.9%

Source: State of Alabama, Department of Industrial Relations. Based on place of residence.

RECENT EMPLOYMENT DATA
April 2002
(thousands)

	Number Employed	Number Unemployed	Unemployment Rate
Birmingham	123.7	7.6	5.8%
Jefferson County	325.0	13.7	4.1
Birmingham MSA	461.5	18.4	3.8
Alabama(1)	2,032.5	120.9	5.6
United States(1)	133,976.0	8,594.0	6.0

(1) Seasonally adjusted.
Source: State of Alabama, Department of Industrial Relations.

The following table lists the top employers in the Birmingham metropolitan area. This list underscores the diversification of the area's economy. The list includes education, government, healthcare, communications, finance and manufacturing industries.

BIRMINGHAM MSA
LARGEST EMPLOYERS
2002

Employer	Service or Product	Number of Employees
University of Alabama at Birmingham	Education, medical research	16,271
U.S. Government	Federal government	9,690 *
BellSouth	Telecommunications	7,500
State of Alabama	Government	6,784
Baptist Health System, Inc.	Healthcare	6,000
Bruno's, Inc.	Retail grocery	5,374
Jefferson County Board of Education	Education	5,000
Birmingham Public Schools	Education	4,555
City of Birmingham	Municipal government	4,500
Wal Mart	Retail stores	4,320
Jefferson County Government	County government	4,191
HealthSouth Corporation	Healthcare	3,960
AmSouth Bank	Banking and financial services	3,624
Southern Company Services	Utilities	3,207
SouthTrust Bank	Banking and financial services	3,094
Alabama Power Company	Utilities	3,000
Regions Financial	Banking	3,000
Drummond Company	Mining	2,900
Children's Health System	Healthcare	2,800
Blue Cross-Blue Shield of Alabama	Employee benefits	2,750
Shelby County Board of Education	Education	2,734
UAB Health Services Foundation	Healthcare	2,500
American Cast Iron Pipe	Iron and steel pipe, castings	2,400
USX	Steel	2,400
Compass Bank	Banking and financial services	2,371

*Includes 4,200 U.S. Postal Service employees, 1,662 Social Security Administration employees and 1,260 Veterans Administration Hospital employees.
Note: Employment figures reflect both full-time and part-time employees.
Source: Birmingham Area Chamber of Commerce.

Income

Per Capita Personal Income is listed in the table below for Jefferson County, the Birmingham MSA, the State of Alabama, and the United States. Per Capita Personal Income is defined as the current income from all sources received by one resident in an area. 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. Per capita personal income in the County and MSA are above average for the State of Alabama. Per capita personal incomes in the Birmingham MSA are slightly below the national average, while per capita personal incomes in the County just exceed the national average.

Per Capita Personal Income

	Jefferson County		Birmingham MSA		State of Alabama		United States	
	Income	% of National Average	Income	% of National Average	Income	% of National Average	Income	% of National Average
2000	$29,895	101%	$29,057	99%	$23,521	80%	$29,469	100%
1999	28,753	101%	27,896	98%	22,972	80%	28,546	100%
1998	27,595	101%	26,732	98%	22,118	81%	27,321	100%
1997	26,339	102%	25,505	99%	21,129	82%	25,874	100%
1996	25,356	103%	24,547	100%	20329	82%	24,651	100%
1989	17,946	97%	17,488	94%	14,899	80%	18,566	100%
1979	8,827	96%	8,541	93%	7,199	78%	9,230	100%
1969	3,394	88%	3,298	86%	2,748	71%	3,846	100%

Source: Bureau of Economic Analysis, U.S. Dept. of Commerce.

The median family income is a measure defined by the U.S. Census Bureau as the amount of income per family that divides the income distribution of families into two equal groups. In recent years, median family income in Alabama and the Birmingham MSA increased at slightly faster rates than the U.S. overall.

Median Family Income

	1997	1998	1999	2000*	2001*	2002*	% Change, 97-02
United States	$43,500	$45,300	$47,800	$50,200	$52,500	$54,400	25.1%
Alabama	37,100	38,700	41,500	44,300	46,100	47,000	26.7%
Birmingham MSA	41,900	44,000	47,900	51,100	51,100	52,700	25.8%

*Estimates.
Source: Center for Business and Economic Research, The University of Alabama; HUD Office of Economic Affairs.

Housing and Construction

The following tables present information about existing housing units and construction activity in the County and Birmingham metro area:

BIRMINGHAM AREA HOUSING UNITS

	Housing Units			Percent Change	
	2000	1990	1980	1990-2000	1980-90
City of Birmingham	111,927	117,691	114,503	-5.0%	2.8%
Jefferson County	288,162	273,097	259,805	5.5%	5.1%
Birmingham MSA	395,295	376,897	340,968	4.9%	10.5%

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

RESIDENTIAL CONSTRUCTION ACTIVITY
BIRMINGHAM MSA

	Single-Family		Multi-Family	
Year	Permits Issued	Value	Units	Value
1996	4,774	$553,539,000	1,925	$60,771,000
1997	4,333	528,651,000	725	27,579,000
1998	5,076	611,924,000	1,285	51,434,000
1999	4,973	677,045,000	985	49,927,000
2000	4,352	569,298,000	781	42,454,000
2001	4,072	555,612,000	305	12,373,000

Source: U.S. Census Bureau.

Education

The County is home to nine major institutions of higher education, with a combined enrollment of over 33,000.

The largest institution is the University of Alabama at Birmingham (UAB), which includes the University College, the graduate school, and UAB Health Services. 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 16,016. UAB Health Services includes the Schools of Medicine, Dentistry, Nursing, Optometry, Public Health and Health-Related Professions. UAB has a full-time payroll exceeding $559 million and is the largest employer in the Birmingham MSA.

Institutions of Higher Education
Jefferson County

Name	Type	Enrollment Spring 2001
Four-Year		
Birmingham School of Law	Private	475
Birmingham-Southern College	Private	1,550
Miles College	Private	1,346
Samford University	Private	4,485
Southeastern Bible College	Private	200
University of Alabama at Birmingham*	State Supported	16,016
Two-Year		
Bessemer State Technical College	State Supported	1,800
Herzing College of Business & Technology	Private	500
ITT Technical Institute	Private	30
Jefferson State Junior College	State Supported	6,723
Lawson State Community College	State Supported	2,100
Virginia College	Private	700

*Includes advanced professional degree students, such as residents and interns.
Source: Birmingham Area Chamber of Commerce.

Primary and Secondary Education

The Jefferson County School System consists of 62 schools with an enrollment of approximately 42,000 students. The City of Birmingham has 75 schools in its system and approximately 38,000 students. The nine other public school systems in the County encompass 46 schools and more than 30,600 students. In addition, the Birmingham MSA has 79 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 socioeconomic categories in comparison with other metropolitan areas in the nation.

Birmingham MSA National Ranking
for Selected Categories

Category	2001 Rank Among All 323 United States Metro Markets[1]
Population	66
Effective Buying Income (EBI)	66
Households with EBI of $150,000 and over	57
Retail Sales	66
Households	65
Buying Power Index[2]	65

1 Metro markets as defined by Sales & Marketing Management.
2 Buying Power Index is defined as a market's "ability to buy;" it is a weighted index of population, income and retail sales.

Source: "2001 Survey of Buying Power". *Sales & Marketing Management.*

Jefferson County, Alabama
Statistical Comparison to City of Birmingham,
Birmingham MSA and State of Alabama
(2001)

Area	Population	Percent of Alabama	Households (000)	Percent of Alabama
Birmingham	244,400	5.5%	99.6	5.8 %
Jefferson County	662,800	14.8%	264.9	15.3%
Birmingham MSA	927,100	20.7%	364.0	21.1%
Alabama	4,477,700	100.0%	1,726.8	100.0%

Area	Total Retail Sales (000s)	Percent of Alabama	Household Median EBI	Percent of Alabama	Percent of National Average
Birmingham	$ 3,893,161	7.9%	$27,473	86.0%	70.2%
Jefferson County	9,959,962	20.1%	35,726	111.8%	91.3%
Birmingham MSA	11,946,551	24.1%	37,452	117.3%	95.7%
Alabama	49,493,912	100.0%	31,934	100.0%	81.6%

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: "2001 Survey of Buying Power," *Sales & Marketing Management*.

Transportation

Commercial airline service is available through Birmingham's airport, which is served by six major carriers--American, Continental, Delta, Northwest, Southwest, and USAirways, and the commuter airlines of Atlantic Coast, Atlantic Southeast, Comair, Skywest, Northwest Airlink, United Express and U.S. Airways Express. Air cargo service is provided by Airborne Express, Federal Express and United Parcel Service. Domestic passengers boarded at the Airport were 1.51 million for the year ended December 31, 2001.

Over 60 truck lines have terminals in the area. Additionally, Birmingham is served by three major railroads-Norfolk Southern, CSX Corporation, and Burlington Northern Sante Fe Railway. Amtrak passenger service is also available.

Barge transportation is available 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.

AIRLINE OPERATIONS
PASSENGERS ON & OFF

Year	Number of Passengers
1991	1,934,305
1992	1,970,201
1993	2,076,326
1994	2,244,181
1995	2,508,205
1996	2,749,403
1997	2,747,225
1998	2,854,917
1999	3,046,220
2000	3,067,777
2001	3,012,729

Source: Birmingham Area Chamber of Commerce, Executive Director, Birmingham Airport Authority.

Health Care

The area's 21 hospitals and numerous specialized health care facilities have turned Birmingham into a major medical center. The University of Alabama at Birmingham, the area's largest employer, is home to a world-class patient care and research medical center. The Kirklin Clinic, opened in June 1992 by the University of Alabama Health Services Foundation, has enhanced Birmingham's reputation in healthcare.

Birmingham is Alabama's center for advanced technology, with high-technology firms involved in industries such as telecommunications, engineering, aerospace design and computer services, in addition to health care. Southern Research Institute, located in Birmingham's Oxmoor Valley Mixed-Use Development, is the largest nonprofit independent research laboratory located in the Southeast. In 2000, The University of Alabama at Birmingham ranked 29th in federally financed research and development expenditures for science and engineering, and ranked 17th among institutions receiving funding from the National Institutes of Health.

LITIGATION

Litigation Concerning Series 2002-B Warrants

The following lawsuit relates to the issuance of the County's Series 2002-B Warrants, which were issued on September 30, 2002. No lawsuit has been filed that directly challenges the issuance of the Series 2002-D Warrants; however, the County expects that the plaintiffs in the following lawsuit may attempt to amend the complaint or file a new complaint challenging the issuance of the Series 2002-D Warrants on essentially the same grounds as those asserted in the following lawsuit. The County believes that any such effort would be without merit.

In a case styled Gary White et al. v. The Jefferson County Commission, filed July 15, 2002 in the Circuit Court of Jefferson County, Alabama, as Civil Action No. 02-4253-JSV, plaintiffs brought suit for declaratory relief challenging the procedure by which the Jefferson County Commission adopted a resolution declaring its intent to issue the Series 2002-B Warrants and appointing a financing team to proceed. Plaintiffs include Gary White, the President of the County Commission. Plaintiffs also include two individual taxpayers, Larry P. Langford and Shelia Smoot, who won their party primaries for the general election for the County Commission to be held in November 2002.

In White, plaintiffs claimed that the County Commission failed to follow its procedures for special meetings when its "official intent" resolution was approved on July 11, 2002. On July 29, 2002, plaintiffs filed an application for a preliminary injunction seeking to prevent the County Commission from authorizing the issuance of the Series 2002-B Warrants. In the application, plaintiffs reiterated their claim with respect to the County Commission approval process, and also claimed that significant “negative arbitrage” in the construction fund for the Series 2002-B Warrants (i.e., construction fund earnings would be well below the arbitrage yield on the Series 2002-B Warrants) would make the issuance of the Series 2002-B Warrants imprudent.

On July 30, 2002 the County Commission, at its regular meeting, adopted another "official intent" resolution in substantially similar form to its prior resolution. On August 12, 2002, the County Commission removed the White case to the United States District Court for the Northern District of Alabama, where it was assigned the docket number CV 02-HGD-1974-S. The County Commission has sought its transfer to or consolidation with the Clean Water Act litigation discussed below on the grounds, among other things, that the federal district court had retained jurisdiction over the Clean Water Act litigation, and that the resolution of the White case would necessarily require the court to construe the Consent Decree. See “LITIGATION – The Consent Decree”.

In addition, the County Commission has filed an answer in federal court denying the allegations of the complaint and seeking dismissal of the suit. The County Commission believes that the claims with respect to the "official intent" resolution are not valid, but that if such claims were ever valid, they are now moot in light of the July 30, 2002 County Commission approval at its regular meeting. On August 23, 2002, the United States District Court entered an order to show cause, within twenty (20) days, why the complaint should not be dismissed.

On September 6, 2002, plaintiffs filed an Amended and Restated Complaint in White, alleging fraud, corruption and unfair dealing by the County Commission with respect to (i) the purpose for which the County intended to borrow funds, (ii) the State’s competitive bid laws, which the plaintiffs claim the County Commission had violated in awarding certain contracts as a part of the County’s Sanitary Sewer Capital Improvement Program, and (iii) the award by the County Commission of certain prior contracts to an engineering firm not licensed to do business in the State. In this filing, the plaintiffs contend that the County’s borrowing is not necessary to comply with the Consent Decree, but rather that a significant amount of the proceeds of the borrowing will be used for other projects not required by the Consent Decree. Plaintiffs request that the financing of the County’s Program be enjoined.

In the Amended Complaint, plaintiffs abandon their earlier claim with respect to the procedure for adoption of the July 11, 2002 resolution approving the Series 2002-B Warrants. The County Commission believes that the remaining claims of the White case, as recast by the plaintiffs, are without merit.

On September 18, 2002, immediately following the adoption by the Jefferson County Commission of a resolution formally authorizing the issuance and sale of the Series 2002-B Warrants, plaintiffs filed a second lawsuit (the "Second Lawsuit") in Jefferson County Circuit Court which asserts essentially the same allegations made in the Amended Complaint. In addition, plaintiffs alleged that the proceeds of the Series 2002-B Warrants will be used to pay contracts awarded in violation of Alabama's competitive bid law and thus, the issuance of the Series 2002-B Warrants should be enjoined. The complaint in the Second Lawsuit failed to acknowledge that the Jefferson County Commission had adopted on September 18, 2002, a companion resolution prohibiting the use of Series 2002-B Warrant proceeds to pay for any contracts unless and until the County Attorney first had reviewed the underlying contract and had opined that such contract had been lawfully awarded in accordance with applicable law.

On September 18, 2002, the County removed the Second Lawsuit to the United States District Court for the Northern District of Alabama, where it was assigned the docket number 02-JEO-2307-S, and consolidated with the original White lawsuit. The County has filed a motion to dismiss on various grounds, including, among other things, the statutory bar against prosecuting two actions at the same time for the same cause and against the same party.

On September 24, 2002, the federal magistrate assigned to the consolidated cases granted the plaintiffs' motion to remand the consolidated cases to state court on the grounds that the court lacked federal jurisdiction. The federal magistrate did not express any opinion regarding the merits of plaintiffs' claims. The County appealed the remand order to a United States District Judge, Judge Sharon Blackburn, who affirmed the magistrate's order on November 4, 2002. Judge Blackburn expressed no opinion regarding the merits of plaintiffs' claims.

On September 26, 2002, plaintiffs amended the prayer for relief in the complaint in the Second Lawsuit requesting that the Series 2002-B Warrants be declared null and void. The County has moved to strike the Amended Complaint, which motion is now pending before the federal district judge.

In connection with the issuance of the Series 2002-B Warrants, Bond Counsel delivered an opinion that, based upon the pleadings in the White case and the Second Lawsuit and the applicable law as of the date of such issuance, the claims asserted by the plaintiffs in those cases are without merit and the final disposition of those cases will not adversely affect the validity of the Series 2002-B Warrants or the obligation of the County to provide for the payment thereof as herein described.

The County is currently investigating claims that it awarded certain contracts for a portion of its Sanitary Sewer Capital Improvement Program without complying with state competitive bid laws. Such contracts total approximately $20 million in the aggregate. State law provides that contracts for public works in excess of $50,000 must, with certain exceptions, be let by competitive bid. Contracts found to be in violation of the competitive bid laws are null and void. While the County investigates these claims, the County has temporarily stopped work in progress on the contracts at issue.

General

In a case styled Knott et al. v. Jefferson County Commission et al., Civ. Action No. 02-BU-0030-S, filed January 4, 2002 in the United States District Court for the Northern District of Alabama, Southern Division, plaintiffs brought suit challenging the redistricting plan adopted by the County Commission on October 31, 2001. As a part of this suit, plaintiffs request that the County Commission district lines be redrawn. The County has filed a motion to dismiss the Knott action. The U.S. Department of Justice has not objected to the redistricting plan. The Knott case is set for trial in October 2002.

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 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, it has been held to be inapplicable to causes of action under Section 1983 of Title 42 of the United States Code. 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 and an investigative phase (both of which have been completed) 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. The County has not failed to meet any deadline imposed by the Consent Decree and has not been assessed any penalties by EPA.

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 has now been achieved, resulting in the conveyance to the County of all municipal systems in the County. This unification provides the County with the means to address the problems of infiltration and inflow in lateral and collector lines which is the principal objective of the Consent Decree.

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 million that will be financed out of the funds raised to carry out the total remedial project. As of December 2001, the County has paid $25 million into a trust fund for use in developing the SEP. The County is obligated to pay an additional $5 million for the SEP at the end of 2002.

The economic impact of the Consent Decree on the County and the System is likely to be substantial. The County estimates that the cost of bringing the System into consistent compliance with the Clean Water Act, as required by the Consent Decree, will likely exceed $2.0 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 estimate.

LEGAL MATTERS

The legality and validity of the Series 2002-D Warrants will be approved by Haskell Slaughter Young & Rediker, 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 2002-D Warrants have been authorized to be issued, and rendering an opinion in conventional form as to the validity and legality of the Series 2002-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 2002-D WARRANTS", "SECURITY AND SOURCE OF PAYMENT", and "TAX STATUS" 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 by their counsel, Maynard, Cooper & Gale, P.C., Birmingham, Alabama and Deborah B. Walker, Esq., Birmingham, Alabama..

The various legal opinions to be delivered concurrently with the delivery of the Series 2002-B Warrants express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX STATUS

In the opinion of Bond Counsel, under existing law interest on the Series 2002-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 2002-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 2002-D Warrants to be included in gross income, retroactive to the date of issuance of the Series 2002-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 2002-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 2002-D Warrants other than the opinions expressed in the two preceding paragraphs. The form of Bond Counsel's opinion with respect to the Series 2002-D Warrants is expected to be substantially as set forth in Appendix C to this Official Statement.

Prospective purchasers of the Series 2002-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 2002-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 2002-D Warrants, (iii) interest on the Series 2002-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 2002-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 2002-D Warrants. Any purchaser of the Series 2002-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 2002-B Warrants will be exempt from State of Alabama income taxation.

Original Issue Discount

In the opinion of Bond Counsel, under existing law, the original issue discount in the selling price of a Series 2002-D Warrant, to the extent properly allocable to each owner of such Series 2002-D Warrant, is excluded from gross income for federal income tax purposes with respect to such owner. The original issue discount is the excess of the stated redemption price at maturity of such Series 2002-D Warrant over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of the Series 2002-D Warrants of such maturity were sold.

Under Section 1288 of the Internal Revenue Code of 1986, as amended, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Series 2002-D Warrant during any accrual period generally equals (i) the issue price of such Series 2002-D Warrant plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Series 2002-D Warrant (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such Series 2002-D Warrant during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner's tax basis in such Series 2002-D Warrant. Any gain realized by an owner from a sale, exchange, payment or redemption of a Series 2002-D Warrant will be treated as gain from the sale or exchange of such Series 2002-D Warrant.

Premium

An amount equal to the excess of the purchase price of the Series 2002-D Warrant over its stated redemption price at maturity constitutes premium on such Series 2002-D Warrant. A purchaser of a Series 2002-D Warrant must amortize any premium over such Series 2002-D Warrant's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Series 2002-D Warrant is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2002-D Warrant prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2002-D Warrants at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2002-D Warrants.

RECENT DEVELOPMENTS

In the October 31, 2002 edition of *The Birmingham News*, it is reported that a local state senator pre-filed a bill in the Alabama Senate, proposing a local constitutional amendment applicable to Jefferson County which purports to cap sewer rates. In actuality, no such bill has been pre-filed or made publicly available. Pursuant to Amendment 555 of the Alabama Constitution, any bill proposing a local amendment must either (i) be approved by at least a three-fifths vote of both houses of the Legislature with no dissenting vote cast <u>and</u> be approved by a majority vote of a commission comprised of the Governor, Presiding Officer of the Senate, Attorney General, Secretary of State and Speaker of the House of Representatives <u>and</u> be ratified by a majority of the qualified voters of Jefferson County, or (ii) be approved by at least a three-fifths vote of both houses of the Legislature <u>and</u> be ratified both by statewide referendum <u>and</u> by a majority of the qualified electors of Jefferson County. The County believes that if any such legislative effort to cap sewer rates is undertaken, it would be unsuccessful. Moreover, the County believes any such bill would be unconstitutional and unenforceable on multiple grounds, including without limitation the Contract Clauses in both the U.S. Constitution and the Constitution of Alabama.

RISK FACTORS

Limited Source of Payment

The Series 2002-D Warrants will be limited obligations of the County payable solely from the Pledged Revenues. See "SECURITY AND SOURCE OF PAYMENT". The Series 2000-C Warrants do not constitute or give rise to a personal or pecuniary liability or a charge against the general credit of the County.

The sufficiency of revenues to pay debt service on the Series 2002-D Warrants may be affected by events and conditions relating to, among other things, population trends, weather conditions and political and economic developments in the service area in which the System operates, the nature and extent of which are not presently determinable. No representation can be made and no assurance can be given that Pledged Revenues will be sufficient to permit the County to pay debt service on the Series 2002-D Warrants.

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 2002-D Warrants. The following discussion of risk factors is intended only as a summary and does not purport to identify all the risk factors that may affect the County's ability to pay debt service on the Series 2002-D Warrants.

Litigation Concerning Series 2002-B Warrants

The County is a party to certain litigation filed with respect to the issuance of the Series 2002-B Warrants. See "LITIGATION – Litigation Concerning Series 2002-B Warrants".

Consent Decree

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 requires that such remedial plan be implemented over a twelve-year period beginning in mid-1995, 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 total cost of compliance with the Consent Decree will be approximately $2.0 billion, of which the County had spent approximately $1.15 billion between October 1, 1995 and September 30, 2002. The actual cost of compliance with the Consent Decree may vary substantially depending on, among other things, (i) the availability of an adequate pool of qualified contractors to implement the program, (ii) the inflationary environment with respect to the costs of labor and supplies needed to implement the program, (iii) weather conditions that could adversely affect construction schedules and consumption patterns, (iv) population trends and political and economic developments in the service area in which the System operates that could adversely impact the collection of System Revenues; (v) the willingness of the U.S. Justice Department and the Environmental Protection Agency to cooperate with respect to various issues that may arise as the County implements its remedial plan, (vi) the possibility of new environmental legislation or regulations affecting the System, (vii) unanticipated costs or potential modifications to the County's sanitary sewer capital improvement program resulting from requirements and limitations imposed by environmental laws and regulations and (viii) the inherent uncertainty involved in a capital improvement project of the magnitude undertaken by the County. There can be no assurance that the actual cost of compliance will be within the range of the County's preliminary estimate. Nor can any assurances be given that the County will be able to comply fully with the terms of the Consent Decree.

Additional Indebtedness

In order to comply with the Consent Decree and to implement the County's ongoing sewer improvement program, 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 Outstanding Sewer Revenue Indebtedness. 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 pay debt service or to satisfy the debt service coverage covenant contained in the Indenture.

Under current Alabama law, the sewer rates established by the County must be reasonable and are subject to review by the courts in that regard upon complaint of a consumer. In establishing rates, the actions of the County are presumed by the courts to be reasonable, but sewer rates must not be arbitrary, discriminatory or greatly excessive.

CONTINUING DISCLOSURE

General

In order to provide certain continuing disclosure with respect to the Series 2002-D Warrants in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time ("Rule 15c2-12"), the County has entered into a Disclosure Dissemination Agent Agreement ("Disclosure Dissemination Agreement") for the benefit of the Holders of the Series 2002-D Warrants with Digital Assurance Certification, L.L.C. ("DAC"), under which the County has designated DAC as Disclosure Dissemination Agent.

The County has covenanted for the benefit of the holders of the Series 2002-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 2002-D Warrants.

2. Non-payment related defaults under the proceedings of the County authorizing the Series 2002-D Warrants, whether or not such defaults constitute an event of default thereunder.

3. Unscheduled draws on any 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 2002-D Warrants reflecting financial difficulties of the County.

5. Substitution of a credit enhancer for the one originally described in the Official Statement (if any), or the failure of any credit enhancer respecting the Series 2002-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 2002-D Warrants or events affecting the tax-exempt status of interest on the Series 2002-D Warrants.

7. Any modification of the rights of the registered owners of the Series 2002-D Warrants.

8. Redemption of any of the Series 2002-D Warrants prior to the stated maturity or mandatory redemption date thereof.

9. Defeasance of the lien of any of the Series 2002-D Warrants or the occurrence of circumstances which, pursuant to such authorizing proceedings, would cause the Series 2002-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 2002-D Warrants.

11. Any changes in published ratings affecting the Series 2002-D Warrants.

In addition, the County has covenanted to provide in a timely manner to each information repository and to the appropriate state information repository (if any), notice of the County's failure to provide the Annual Financial Information on or before the date specified herein.

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 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 2002-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 2002-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 may, upon 30-days' written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing 30-days' prior written notice to the County.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent the County has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the Annual Report, Audited Financial Statements, notice of Notice Event or Voluntary Report, or any other information, disclosures or notices provided to it by the County and shall not be deemed to be acting in any fiduciary capacity for the County, the Holders of the Series 2002-D Warrants or any other party. The Disclosure Dissemination Agent has no responsibility for the County's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether the County has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the County at all times.

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 2002-D Warrants are being purchased from the County pursuant to a Warrant Purchase Agreement executed by J.P. Morgan Securities Inc., as representative of the underwriters (the "Underwriters"). The Underwriters have agreed to purchase the Series 2002-D Warrants for an aggregate purchase price of $466,689,818.19 (which represents the face amount of the Series 2002-D Warrants less underwriter's discount of $3,275,061.06 and original issue discount of $5,035,120.75), plus accrued interest. The Underwriters will purchase all the Series 2002-D Warrants if any are purchased.

The County has agreed to indemnify the Underwriters against certain liabilities. The obligation of the Underwriters to accept delivery of the Series 2002-D Warrants is subject to various conditions of the warrant purchase agreement between the County and the Underwriters.

STRUCTURING AGENT

Sterne, Agee & Leach, Inc., Birmingham, Alabama ("Sterne Agee”), is serving as structuring agent to the County with respect to the Series 2002-D Warrants. The structuring agent assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2002-D Warrants and provided other advice. Sterne Agee is regularly engaged in the business of providing financial services.

SWAP ADVISOR

Morgan Keegan & Company, Inc. (“Morgan Keegan”), Birmingham, Alabama, is serving as advisor to the County with respect to possible derivative products relating to interest on the Series 2002-D Warrants and the investment of proceeds of the Series 2002-D Warrants being deposited in the Construction Fund and the Capitalized Interest Fund. Morgan Keegan is regularly engaged in the business of providing such advisory services.

RATINGS

It is a condition to closing that Moody's Investors Service, Inc. and Standard & Poor's Ratings Services assign the ratings to the Series 2002-D Warrants indicated on the cover page on the understanding that a standard policy of Financial Guaranty Insurance Company insuring the timely payment of the principal of and interest on the Series 2002-D Warrants when due will be issued by Financial Guaranty Insurance Company. See "THE MUNICIPAL BOND INSURANCE POLICY" herein and Appendix E attached hereto. Such ratings reflect only the view of each rating agency at the time such ratings were given, and neither the County nor the Underwriters make any representations as to the appropriateness of such ratings. Any explanation of the significance of the ratings may only be obtained from each rating agency. There is no assurance that such ratings will remain for any given period of time or that they may not be lowered or withdrawn entirely if in the judgment of that rating agency, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Series 2002-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 2002-D Warrants will not constitute general obligations of or a charge against the general credit or taxing power of the County. The Series 2002-D Warrants are limited obligations of the County, payable solely out of and secured by an assignment and pledge of the Pledged Revenues.

MISCELLANEOUS

For further information during the initial offering period with respect to the Series 2002-D Warrants, contact Steve Sayler, Director of Finance, Jefferson County, Suite 810, 716 Richard Arrington Jr. Boulevard North, Birmingham, Alabama 35203, telephone: (205) 325-5055.

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

JEFFERSON COUNTY, ALABAMA

By: s/ Jeff Germany
President Pro Tem of the Commission

{819911.1}

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 Outstanding Sewer Revenue Indebtedness (including the Series 2002-D Warrants) has been issued 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, if applicable, any Additional Parity Securities with respect to which a Revenue Certificate or Revenue Forecast is prepared and delivered, subject to the following assumptions and adjustments:

(1) 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 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,

(3) the interest rate on any 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 average of the various rates published as the BMA Municipal Swap Index (or comparable index if no longer published) during the ten year period ending on the last day of the month immediately preceding the date of determination, 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;

(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 Parity Securities to which such Qualified Swap is referable is excludable from gross income under the applicable provisions of the Code, the average of the various rates published as the BMA Municipal Swap Index (or comparable index if no longer published) during the ten year period ending on the last day of the month immediately preceding the date of determination, plus fifty (50) basis points, or (y) if interest on such Parity Securities is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities;

(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 or 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 the Indenture Funds (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 2002-D Construction Fund, the Revenue Account, the Debt Service Fund, the Reserve Fund, the Subordinate Debt 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 Subordinate Debt Fund, 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.

2002-D Construction Fund. On the date of delivery of the Series 2002-D Warrants, the County will transfer into the 2002-D Construction Fund the approximate amount of $386,277,260 from proceeds of the Series 2002-D Warrants. Moneys on deposit in the 2002-D Construction Fund are required to be held and disbursed by the Trustee for the purpose of paying the costs of capital improvements to the System and the expenses of issuing the Series 2002-D Warrants; income from the investment of money in such Fund will be applied to pay interest on the Series 2002-D Warrants. The Indenture provides that no moneys may be withdrawn from the 2002-D Construction Fund to pay the cost of capital improvements or issuance expenses unless there is furnished to the Trustee, among other things, an appropriate certificate indicating that the requested expenditure is one for which 2002-D Construction Fund moneys are authorized to be expended.

Revenue Account. The County is required to deposit in the Revenue Account, as received by it, all of the System Revenues and all amounts received by the County pursuant to Qualified Swaps. 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 each Interest Payment Date for any of the Parity Securities, the County will be required to transfer from the Revenue Account to the Debt Service Fund an amount equal to the debt service on the Parity Securities becoming due and payable on each such Interest Payment Date, provided that there shall be credited against such deposits any proceeds of the Series 2002-D Warrants that represent accrued interest or capitalized interest and that are to be used to pay interest on the Series 2002-D Warrants. 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. The obligations of the County under the Series 2002-A Liquidity Facility and Series 2002-C Liquidity Facilities and under those interest rate swap transactions described in this Official Statement under "OUTSTANDING DEBT – Outstanding Swap Transactions" constitute Secured Related Obligations payable from the Debt Service Fund. 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. Simultaneously with the issuance of the Series 2002-D Warrants, proceeds of such warrants in the amount of $35,171,934 will be deposited 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 County is now satisfying a portion of the Reserve Fund Requirement with insurance policies issued by FGIC.

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

Subordinate Debt Fund. On or before each February 15 and each August 15, the County may pay into the Subordinate Debt Fund from the Revenue Account, 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 (but before any transfers have been made with respect to such date into the Rate Stabilization Fund or the Depreciation Fund), an amount equal to the lesser of (i) one-half (1/2) of twenty-five percent (25%) of the Maximum Annual Debt Service determined as of the date of such deposit, or (ii) the aggregate debt service becoming due and payable during the then next succeeding six months with respect to obligations secured by a pledge of the Pledged Revenues that is subject and subordinate to the pledge made in the Indenture to secure the payment of Parity Securities.

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 establishes 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.

The County shall not be required to deliver a Revenue Certificate or Revenue Forecast in connection with the issuance of a series of Additional Parity Securities for refunding purposes if, in lieu thereof, the County delivers a certificate signed by the County's Director of Finance or an Independent Investment Advisor stating (i) that the Maximum Annual Debt Service immediately after the issuance of such Additional Parity Securities will not be greater than the Maximum Annual Debt Service immediately prior to the issuance of such Additional Parity Securities and (ii) that the total debt service expected to be due and payable on such Additional Parity Securities will be less than the total debt service that would be due and payable after the issuance date of such Additional Parity Securities on those of the Parity Securities being refunded if such refunding did not occur.

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 Outstanding Sewer Revenue Indebtedness 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 Revenue Account 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 Revenue Account.

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. The Trustee may consult with Independent Counsel (which may be Bond Counsel), and the written advice or opinion of Independent Counsel shall be a full and complete authorization and protection in respect of any action taken, suffered, or omitted by it under the Indenture in good faith and in reliance thereon. Moreover, in entering into a Supplemental Indenture (including the Seventh Supplemental Indenture) the Trustee shall be fully protected in relying upon an opinion of Independent Counsel as conclusive evidence that the Supplemental Indenture complies with the Indenture and that the Trustee is authorized under the Indenture to join in the execution of or to consent to the Supplemental Indenture.

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 or, if no Event of Default exists, by the County. 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, 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 Bond Insurers

Financial Guaranty Insurance Company ("Financial Guaranty") has heretofore issued insurance policies (the "Outstanding Policies") that insure payment of the Series 1997 Warrants (other than the 1997-C Warrants), the Series 1999-A Warrants, the Series 2001-A Warrants, the Series 2002-A Warrants and the Series 2002-B Warrants.

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

(a) any acceleration of the maturity of the Parity Securities 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 Parity Securities insured by Financial Guaranty 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 Parity Security).

So long as Financial Guaranty has not failed to comply with its payment obligations under the Policy issued to insure the payment of the Series 2002-D Warrants, Financial Guaranty will have those same rights with respect to the Series 2002-D Warrants.

XL Capital Assurance Inc. ("XL Capital") has issued an insurance policy that insures the payment of the Series 2002-C Warrants. So long as XL Capital has not failed to comply with its payment obligations under that policy, XL Capital will have rights with respect to the Series 2002-C Warrants that are parallel to those of Financial Guaranty described in the preceding paragraphs.

APPENDIX B

Financial Statements of the County
for Fiscal Year 2000-2001

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Report on the

Jefferson County Commission

Jefferson County, Alabama

October 1, 2000 Through September 30, 2001

Filed: March 29, 2002

Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201
P.O. Box 302251
Montgomery, Alabama 36130-2251

Ronald L. Jones, Chief Examiner

02-254

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State of Alabama
Department of
Examiners of Public Accounts
P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the ***Code of Alabama 1975***, Section 41-5-14, we submit this report on the Jefferson County Commission for the period October 1, 2000 through September 30, 2001.

SCOPE AND OBJECTIVES

This report encompasses an audit of financial statements of the Jefferson County Commission (the "Commission") and a review of compliance by the Commission with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit was conducted in accordance with generally accepted government auditing standards for financial audits. The objectives of this audit were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Commission has complied with applicable laws and regulations.

CONTENTS OF REPORT

This report includes the following segments:

1. ***Report to the Chief Examiner*** – contains items pertaining to state legal compliance, agency operations and other matters.

2. ***Financial Section*** – includes basic financial statements (Exhibits 1 through 6); Notes to the Financial Statements; required supplementary information (Exhibit 7); combining financial statements (Exhibits 8 through 19); a Schedule of Expenditures of Federal Awards (Exhibit 20), which details federal assistance received and expended during the audit period; Notes to the Schedule of Expenditures of Federal Awards; and the ***Independent Auditor's Report***, which reports on whether the included financial information constitutes a fair presentation of the financial position and results of financial operations.

3. ***Additional Information*** – contains basic information related to the Commission (Exhibit 21) and the following reports and items required by generally accepted government auditing standards and/or U.S. Office of Management and Budget (OMB) Circular A–133 for federal compliance audits:

   Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (Exhibit 22) – a report on internal control related to the financial statements and a report on whether the Commission has complied with laws and regulations which could have a direct and material effect on the Commission's financial statements.

   Report On Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 (Exhibit 23) – a report on internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs and an opinion on whether the Commission complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.

   Schedule of Findings and Questioned Costs (Exhibit 24) – a report summarizing the results of the audit findings relating to the financial statements as required by ***Government Auditing Standards*** and findings and questioned costs for federal awards as required by OMB Circular A-133.

   Auditee Response/Corrective Action Plan (Exhibit 25) – a response by the Commission on the results of the audit and corrective action plan for federal audit findings.

AUDIT COMMENTS

The Jefferson County Commission provides for public safety, construction and maintenance of county roads and bridges, sanitation services, health and welfare services, educational, cultural and recreational services to the citizens of Jefferson County.

The Birmingham Water Works Board (BWWB) and the City of Bessemer, Alabama – Water Service Department (Bessemer Water Service) bills and collects sewer service charges for the Jefferson County Commission (Commission). For the fiscal year ended September 30, 2001, neither BWWB nor Bessemer Water Service engaged an auditor to provide a report on each entity's internal controls that may be relevant to the Commission's internal controls.

AUDIT FINDINGS

- Procedures were not present to assure that all certificates of deposit for retainage on construction contracts were recorded in the financial records.

- Procedures were not present to assure that a complete and accurate listing of federal grants and programs was compiled for audit purposes. The list provided did not include all federal programs. Also, state programs and programs belonging to another entity were included on the list.

STATUS OF PRIOR AUDIT

Findings contained in the prior audit have been resolved except as follows:

- Procedures were not in place to ensure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.

- At September 30, 2001, the following funds had deficit fund balances:

Road Fund	$2,927,000
Senior Citizens Activities Fund	$ 35,000
Capital Improvements Fund	$4,514,000

- The Alabama Competitive Bid Law requires that entities obtain competitive bids for purchases of goods and services costing $7,500.00 or more. The Commission bid gasoline and fuel for a period of three years and awarded the bid to a local vendor. However, the Commission made purchases of gasoline totaling $9,518.92 from another vendor.

SUMMARY OF FEDERAL COMPLIANCE AND FEDERAL INTERNAL CONTROL

The Commission appeared to have complied, in all material respects, with applicable federal laws and regulations governing its major programs. There were no material weaknesses noted in the internal controls related to major federal programs. However, the following reportable condition was noted:

- Procedures were not present in the County's Office of Community Development to assure that payroll and fringe benefits amounts used as administrative costs were correctly charged to the program for which they were claimed.

RECOMMENDATIONS

- Procedures should be implemented to assure that all certificates of deposit for retainage on construction contracts are properly recorded.
- Procedures should be implemented to assure that a complete and accurate listing of federal grants and programs is compiled for audit purposes.
- Procedures should be implemented to ensure compliance with all contract provisions between the Commission and Bessemer Water Service for sewer billing services.
- The Commission should eliminate the deficit fund balances.
- The Commission should comply with the provisions of the Alabama Competitive Bid Law.
- Procedures should be implemented to assure that payroll and fringe benefits amounts are properly compiled for charges to grants as administrative costs.

Sworn to and subscribed before me this
the 13th day of March, 2002

Sandra E. Shirley
Notary Public

Respectfully submitted,

Elizabeth L. Crowson

Elizabeth L. Crowson
Examiner of Public Accounts

Sworn to and subscribed before me this
the 13th day of March, 2002

Sandra E. Shirley
Notary Public

Cathy M. Cook

Cathy M. Cook
Examiner of Public Accounts

Sworn to and subscribed before me this
the 13th day of March, 2002

Sandra E. Shirley
Notary Public

Larry S. McPherson
Examiner of Public Accounts

Sworn to and subscribed before me this
the 12th day of March, 2002.

Barbara P. Carter
Notary Public

Melissa T. Johnson

Melissa T. Johnson
Examiner of Public Accounts

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Independent Auditor's Report

We have audited the accompanying primary government financial statements of the Jefferson County Commission, as of and for the year ended September 30, 2001, as listed in the table of contents as Exhibits 1 through 6. These financial statements are the responsibility of the Jefferson County Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards,*** issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the financial position of the primary government, the Jefferson County Commission, as of September 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

However, the primary government financial statements, because they do not include the financial data of component units of Jefferson County, as discussed in Note 1, do not purport to, and do not, present fairly the financial position of Jefferson County, as of September 30, 2001, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 26 to the primary government financial statements, the Jefferson County Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 33, ***Accounting and Financial Reporting for Nonexchange Transactions***, and Statement Number 36, ***Recipient Reporting for Certain Shared Nonexchange Revenues***, an amendment of GASB Statement Number 33, for the year ended September 30, 2001. This resulted in a change to the Jefferson County Commission's method of accounting for certain nonexchange revenues.

In accordance with ***Government Auditing Standards***, we have also issued our report dated February 22, 2002 on our consideration of the Jefferson County Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the primary government financial statements of Jefferson County Commission, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 20) as required by U.S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, and the combining financial statements (Exhibits 8 through 19) are presented for purposes of additional analysis and are not required parts of the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.

The Schedule of Funding Progress (Exhibit 7) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Ronald L. Jones
Chief Examiner
Department of Examiners of Public Accounts

February 22, 2002

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Combined Balance Sheet
All Fund Types and Account Groups
September 30, 2001
(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Cash and Investments	$ 37,410	$ 5,571	$ 158,894	$ 1,148
Accounts Receivable, Net	28			
Loans Receivable, Net		3,890		
Patient Accounts Receivable, Net				
Interest Receivable		11		
Due from Other Governments	19,333	9,073		418
Advances to Other Funds			19,200	
Property Taxes Receivable, Net	27,416	35,249		
Inventories	252	2,169		
Prepaid Expenses	12	4		
Fixed Assets, Net Where Applicable				
Amount Available in Debt Service Fund				
Accreted Interest				
Warrant Issuance Cost				
Deferred Loss on Early Debt Retirement				
Amount to Be Provided for Payment of General Long-Term Debt				
Amount to Be Provided for Payment of Compensated Absences				
TOTAL ASSETS	$ 84,451	$ 55,967	$ 178,094	$ 1,566

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	Current Year
$ 555,948	$ 18,641	$ 666,714	$	$	$ 1,444,326
11,790	7				11,825
		636			4,526
8,732					8,732
353		6,264			6,628
967	3,293				33,084
					19,200
3,427					66,092
1,480	1,133				5,034
1,981	75	2			2,074
2,844,146	19,871	201	391,205		3,255,423
				153,033	153,033
				4,314	4,314
33,673					33,673
2,776					2,776
				131,518	131,518
				10,193	10,193
$ 3,465,273	$ 43,020	$ 673,817	$ 391,205	$ 299,058	$ 5,192,451

Combined Balance Sheet
All Fund Types and Account Groups
September 30, 2001
(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Cash Deficit	$	$ 529	$	$
Accounts Payable	3,247	2,140		4,985
Deposits Payable				
Advances from Other Funds				
Due to Other Governments	143	4,535		
Deferred Revenues	27,438	35,988		
Accrued Payroll and Taxes	4,808	371		
Accrued Interest Payable			5,861	
Retainage Payable				
Arbitrage Rebate Payable				
Estimated Liability for Compensated Absences	802	395		
Estimated Claims Liability				
Warrants Payable				
Estimated Liability for Landfill Closure/ Postclosure Care Costs				
TOTAL LIABILITIES	36,438	43,958	5,861	4,985
FUND EQUITY				
Retained Earnings				
Investment in General Fixed Assets				
Fund Balances:				
Reserved for Prepaid Expenses	12	4		
Reserved for Advances			19,200	
Reserved for Inventory	252	2,169		
Reserved for Petty Cash	76	2		
Reserved for Mapping and Appraisal	2,961			
Reserved for E-911	(1,088)			
Reserved for CGH Foundation		409		
Reserved for Loan Receivable		3,890		
Reserved for Debt Service			153,033	
Reserved for Trust Requirements				
Reserved for Encumbrances	1,688	17,270		24,356
Reserved for Contingent Refunds				
Reserved for Retirement/Disability Benefits				
Unreserved	44,112	(11,735)		(27,775)
TOTAL FUND EQUITY	48,013	12,009	172,233	(3,419)
TOTAL LIABILITIES AND FUND EQUITY	$ 84,451	$ 55,967	$ 178,094	$ 1,566

The accompanying Notes to the Financial Statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	Current Year
$ 2,493	$ 2,592	$	$	$	$ 5,614
20,639	1,662	418			33,091
48					48
19,200					19,200
					4,678
3,427					66,853
1,171	364	18			6,732
16,273					22,134
13,121					13,121
4,465					4,465
6,468	2,633	121		10,193	20,612
	4,640				4,640
1,796,250				288,865	2,085,115
3,355					3,355
1,886,910	11,891	557		299,058	2,289,658
1,578,363	31,129				1,609,492
			391,205		391,205
		2			18
					19,200
					2,421
					78
					2,961
					(1,088)
					409
		636			4,526
					153,033
		2,061			2,061
		15			43,329
		65,833			65,833
		604,713			604,713
					4,602
1,578,363	31,129	673,260	391,205		2,902,793
$ 3,465,273	$ 43,020	$ 673,817	$ 391,205	$ 299,058	$ 5,192,451

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds For the Year Ended September 30, 2001 (In Thousands)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
REVENUES			
Taxes	$ 64,421	$ 77,839	$
Licenses and Permits	59,846		
Intergovernmental	22,040	24,626	812
Charges for Services	19,248	707	8
Indirect Cost Recovery	8,704		
Investment Income	12,021	532	4,265
Miscellaneous	265	4,413	
TOTAL REVENUES	186,545	108,117	5,085
EXPENDITURES			
Current:			
General Government	61,543	14,124	
Public Safety	50,217	1,096	
Highways and Roads		32,282	
Health and Welfare	1,104	8,500	
Culture and Recreation	13,758		
Education	197		
Capital Outlay	1,890	5,988	
Debt Service:			
Principal Retirement			119,345
Interest and Fiscal Charges			9,200
Indirect Cost	14,575	4,463	56
TOTAL EXPENDITURES	143,284	66,453	128,601
Excess of revenues over (under) expenditures	43,261	41,664	(123,516)
OTHER FINANCING SOURCES (USES)			
Proceeds from Debt Transaction			203,443
Bond Discount and Issuance Costs			(1,176)
Operating Transfers In	81	26,084	28,352
Proceeds from Sale of Fixed Assets	55	333	
Operating Transfers Out	(41,351)	(66,195)	(22,100)
TOTAL OTHER FINANCING SOURCES (USES)	(41,215)	(39,778)	208,519
Excess of revenues and other sources over (under) expenditures and other uses	2,046	1,886	85,003
Fund Balances at beginning of year, as restated (Note 27)	45,967	10,123	87,230
Fund Balances at end of year	$ 48,013	$ 12,009	$ 172,233

The accompanying Notes to the Financial Statements are an integral part of this statement.

Capital Projects	Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only) Current Year
$	$	$ 142,260
		59,846
1,495	2,227	51,200
497		20,460
		8,704
74	65	16,957
160	155	4,993
2,226	2,447	304,420
	1,788	77,455
		51,313
4,436		36,718
		9,604
		13,758
		197
29,995		37,873
		119,345
		9,200
	72	19,166
34,431	1,860	374,629
(32,205)	587	(70,209)
		203,443
		(1,176)
24,609		79,126
95		483
(7,285)		(136,931)
17,419		144,945
(14,786)	587	74,736
11,367	2,127	156,814
$ (3,419)	$ 2,714	$ 231,550

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types For the Year Ended September 30, 2001 (In Thousands)

	General		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	$ 63,555	$ 64,421	$ 866
Licenses and Permits	58,028	59,846	1,818
Intergovernmental	24,870	22,040	(2,830)
Charges for Services	18,361	19,248	887
Indirect Cost Recovery	8,693	8,704	11
Investment Income	4,161	12,021	7,860
Miscellaneous	346	265	(81)
TOTAL REVENUES	178,014	186,545	8,531
EXPENDITURES			
Current:			
General Government	73,651	61,543	12,108
Public Safety	49,456	50,217	(761)
Highways and Roads			
Health and Welfare	1,104	1,104	
Culture and Recreation	13,762	13,758	4
Education	197	197	
Capital Outlay	2,689	1,890	799
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Indirect Cost	12,808	14,575	(1,767)
TOTAL EXPENDITURES	153,667	143,284	10,383
Excess of revenues over (under) expenditures	24,347	43,261	18,914
OTHER FINANCING SOURCES (USES)			
Proceeds from Debt Transaction			
Operating Transfers In	81	81	
Proceeds from Sale of Fixed Assets	172	55	(117)
Bond Discount and Issuance Costs			
Operating Transfers Out	(57,839)	(41,351)	16,488
TOTAL OTHER FINANCING SOURCES (USES)	(57,586)	(41,215)	16,371
Excess of revenues and other sources over (under) expenditures and other uses	(33,239)	2,046	35,285
Fund Balances at beginning of year, as restated (Note 27)	45,967	45,967	
Fund Balances at end of year	$ 12,728	$ 48,013	$ 35,285

Special Revenue		
Budget	Actual	Variance Favorable (Unfavorable)
$ 76,645	$ 77,839	$ 1,194
42,187	24,626	(17,561)
489	707	218
417	532	115
4,530	4,413	(117)
124,268	108,117	(16,151)
16,398	14,124	2,274
1,201	1,096	105
34,877	32,282	2,595
12,958	8,500	4,458
.9,798	5,988	3,810
4,461	4,463	(2)
79,693	66,453	13,240
44,575	41,664	(2,911)
32,169	26,084	(6,085)
478	333	(145)
(68,758)	(66,195)	2,563
(36,111)	(39,778)	(3,667)
8,464	1,886	(6,578)
10,119	10,123	4
$ 18,583	$ 12,009	$ (6,574)

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types
For the Year Ended September 30, 2001
(In Thousands)

	Debt Service		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	$	$	$
Licenses and Permits			
Intergovernmental	720	812	92
Charges for Services	11	8	(3)
Indirect Cost Recovery			
Investment Income	1,012	4,265	3,253
Miscellaneous			
TOTAL REVENUES	1,743	5,085	3,342
EXPENDITURES			
Current:			
General Government			
Public Safety			
Highways and Roads			
Health and Welfare			
Culture and Recreation			
Education			
Capital Outlay			
Debt Service:			
Principal Retirement	119,345	119,345	
Interest and Fiscal Charges	14,012	9,200	4,812
Indirect Cost	56	56	
TOTAL EXPENDITURES	133,413	128,601	4,812
Excess of revenues over (under) expenditures	(131,670)	(123,516)	8,154
OTHER FINANCING SOURCES (USES)			
Proceeds from Debt Transaction	203,443	203,443	
Operating Transfers In	29,368	28,352	(1,016)
Proceeds from Sale of Fixed Assets			
Bond Discount and Issuance Costs	(1,482)	(1,176)	306
Operating Transfers Out	(22,100)	(22,100)	
TOTAL OTHER FINANCING SOURCES (USES)	209,229	208,519	(710)
Excess of revenues and other sources over (under) expenditures and other uses	77,559	85,003	7,444
Fund Balances at beginning of year, as restated (Note 27)	87,230	87,230	
Fund Balances at end of year	$ 164,789	$ 172,233	$ 7,444

The accompanying Notes to the Financial Statements are an integral part of this statement.

Capital Projects		
Budget	Actual	Variance Favorable (Unfavorable)
$	$	$
6,679	1,495	(5,184)
1,280	497	(783)
281	74	(207)
317	160	(157)
8,557	2,226	(6,331)
4,436	4,436	
37,175	29,995	7,180
41,611	34,431	7,180
(33,054)	(32,205)	849
24,609	24,609	
	95	95
	(7,285)	(7,285)
24,609	17,419	(7,190)
(8,445)	(14,786)	(6,341)
11,367	11,367	
$ 2,922	$ (3,419)	$ (6,341)

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Combined Statement of Revenues, Expenses and Changes in Fund Equity - All Proprietary Fund Types
For the Year Ended September 30, 2001
(In Thousands)

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	Current Year
Operating Revenues			
Taxes	$ 3,806	$	$ 3,806
Intergovernmental		4,672	4,672
Charges for Services	121,653	20,184	141,837
Other Operating Revenue	219		219
Total Operating Revenues	125,678	24,856	150,534
Operating Expenses			
Provisions for Bad Debt	5,224		5,224
Salaries	56,393	16,665	73,058
Employee Benefits and Payroll Taxes	12,491	4,434	16,925
Utilities	7,173	3,119	10,292
Supplies	12,417	3,477	15,894
Depreciation and Amortization	38,280	2,579	40,859
Outside Services	20,157	8,475	28,632
Services from other Hospitals	4,963		4,963
Jefferson Clinic	7,495		7,495
Office Expense	2,151	2,408	4,559
Closure and Postclosure Care Cost	134		134
Miscellaneous	738	445	1,183
Total Operating Expenses	167,616	41,602	209,218
Operating Income/(Loss)	$ (41,938)	$ (16,746)	$ (58,684)

Combined Statement of Revenues, Expenses and Changes in Fund Equity - All Proprietary Fund Types For the Year Ended September 30, 2001 (In Thousands)

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	Current Year
Nonoperating Revenues (Expenses)			
Arbitrage Rebates	$ (1,004)	$	$ (1,004)
Interest Revenue	51,464	323	51,787
Miscellaneous Revenue	29	1,435	1,464
Interest Expense	(91,335)		(91,335)
Indirect Cost	(4,733)	(216)	(4,949)
Gain (Loss) on Sale of Fixed Assets	(153)	(26)	(179)
Indirect Cost Recovery		15,471	15,471
Total Nonoperating Revenues (Expenses)	(45,732)	16,987	(28,745)
Income/(Loss) Before Operating Transfers	(87,670)	241	(87,429)
Operating Transfers			
Operating Transfers In	50,623	9,189	59,812
Operating Transfers Out	(1,588)	(419)	(2,007)
Total Operating Transfers	49,035	8,770	57,805
Net Income/(Loss)	(38,635)	9,011	(29,624)
Fund Equity at beginning of year, as restated (Note 27)	1,616,998	22,118	1,639,116
Fund Equity at end of year	$ 1,578,363	$ 31,129	$ 1,609,492

The accompanying Notes to the Financial Statements are an integral part of this statement.

Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended September 30, 2001
(In Thousands)

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	Current Year
Cash Flows from Operating Activities			
Operating Income (Loss)	$ (41,938)	$ (16,746)	$ (58,684)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	38,280	2,579	40,859
(Increase)/Decrease in Accounts Receivable	1,005	19	1,024
(Increase)/Decrease in Patients Receivable	(990)		(990)
(Increase)/Decrease in Interest Receivable	(353)		(353)
(Increase)/Decrease in Prepaid Items	(1,373)	65	(1,308)
(Increase)/Decrease in Due from Governmental Units	546	(770)	(224)
(Increase)/Decrease in Property Taxes Receivable	(3,427)		(3,427)
(Increase)/Decrease in Inventory	108	(113)	(5)
(Increase)/Decrease in Warrant Issuance Costs	(11,783)		(11,783)
(Increase)/Decrease in Deferred Loss on Early Debt Retirement	454		454
Increase/(Decrease) in Accounts Payable	(7,910)	865	(7,045)
Increase/(Decrease) in Advances to Other Funds	19,200		19,200
Increase/(Decrease) in Other Accounts Payable	(248)	(16)	(264)
Increase/(Decrease) in Due To Other Funds		(1)	(1)
Increase/(Decrease) in Deferred Revenues	3,427		3,427
Increase/(Decrease) in Accrued Payroll and Taxes	46	24	70
Increase/(Decrease) in Compensated Absences Payable		177	177
Increase/(Decrease) in Deposits Payable	11		11
Increase/(Decrease) in Retainage Payable	7,006		7,006
Increase/(Decrease) in Interest Payable	2,510		2,510
Increase/(Decrease) in Arbitrage Rebate Payable	1,004		1,004
Increase/(Decrease) in Compensated Absences Payable	407		407
Increase/(Decrease) in Estimated Claims Liability		1,981	1,981
Increase/(Decrease) in Estimated Liability for Landfill Postclosure Costs	93		93
Total Adjustments	48,013	4,810	52,823
Net Cash Provided/(Used) by Operating Activities Carried Forward	$ 6,075	$ (11,936)	$ (5,861)

Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended September 30, 2001
(In Thousands)

	Proprietary Fund Types		Totals
	Enterprise	Internal Service	(Memorandum Only) Current Year
Net Cash Provided/(Used) by Operating Activities Brought Forward	$ 6,075	$ (11,936)	$ (5,861)
Cash Flows from Non-Capital Financing Activities			
Operating Transfers In	50,623	9,189	59,812
Operating Transfers Out	(1,588)	(419)	(2,007)
Increase/(Decrease) in Cash Deficit	2,493	447	2,940
Received from Auxiliary Services	29	1,435	1,464
Indirect Cost Recovery		15,471	15,471
Indirect Cost	(4,733)	(216)	(4,949)
Net Cash Provided/(Used) by Non-Capital Financing Activities	46,824	25,907	72,731
Cash Flows from Capital and Related Financing Activities			
Interest Paid	(91,335)		(91,335)
Acquisition of Fixed Assets	(384,053)	(8,352)	(392,405)
Proceeds from Warrant Issuance	275,000		275,000
Principal Payments	(37,635)		(37,635)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(238,023)	(8,352)	(246,375)
Cash Flows from Investing Activities			
Interest and Dividend Income	51,464	323	51,787
Net Cash Provided/(Used) by Investing Activities	51,464	323	51,787
Net Increase/(Decrease) in Cash and Cash Equivalents	(133,660)	5,942	(127,718)
Cash and Investments, Beginning of Year	689,608	12,699	702,307
Cash and Investments, End of Year	$ 555,948	$ 18,641	$ 574,589

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Fund
For the Year Ended September 30, 2001
(In Thousands)

		Pension Trust Fund
Additions		
Investment Income		
Net Appreciation in Fair Value of Investments	$	29,064
Interest		23,164
Dividends		2,929
Total Investment Income		55,157
Less: Investment Manager Fees		1,470
Sub-Total		53,687
Contributions		
Members		7,537
Employer		7,544
Total Contributions		15,081
Other		
Pistol Permits		251
Other Income		38
Sub-Total		289
Total Additions		69,057
Deductions		
Net Depreciation in Common Stocks		71,369
Participant Expenses		
Benefits paid to participants and beneficiaries		15,458
Refunds of member contributions		1,283
Interest paid on refunds of member contributions		143
Sub-Total		16,884
Administrative Expenses		
Office Expenses		228
Other Expenses		54
Sub-Total		282
Total Deductions		88,535
Change in Net Assets		(19,478)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year		690,024
End of Year	$	670,546

The accompanying Notes to the Financial Statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Jefferson County Commission (the "Commission"), except for the exclusion of the component units discussed below, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

In June 1999, The Governmental Accounting Standards Board (GASB) approved Statement Number 34, ***Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*** (hereinafter referred to as the "Statement"). This Statement provides for significant changes in financial reporting for governmental entities. Some of the significant changes include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Commission's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on major funds.

The Statement provides for a phased-in implementation (based on the total annual revenues of the government) starting in fiscal years ending 2002. The Commission is considered a phase one government and will implement the statement in fiscal year ending September 30, 2002. The Commission is required to prospectively report general infrastructure assets at the same time the Statement is implemented. Retroactive reporting of all major general infrastructure assets is required by or before fiscal year ending September 30, 2006.

A. Reporting Entity

Generally accepted accounting principles (GAAP) require that the financial statements present the Commission (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting the following criteria: 1) the primary government appoints a voting majority of the organization's governing body and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government or 2) the potential component unit is fiscally dependent on the primary government. A potential component unit is considered fiscally dependent if it does not have the authority to do all three of the following: 1) determine its own budget without another government having the authority to approve and modify that budget, 2) levy taxes or set rates or charges without approval by another government, and 3) issue bonded debt without approval by another government.

Based on the application of the above criteria, the following entities are component units of the Commission: Jefferson Tax Collector – Birmingham and Bessemer Divisions, Tax Assessor – Birmingham and Bessemer Divisions, Revenue Department, Probate Judge – Birmingham and Bessemer Division, Sheriff, Treasurer – Birmingham Division and Deputy Treasurer – Bessemer Division. Separate legal compliance examination reports are issued for these component units and these reports can be obtained from the State of Alabama, Department of Examiners of Public Accounts.

The accompanying financial statements reflect the activity of the Commission (the primary government), and do not include all of the financial activities of the component units listed above as required by generally accepted accounting principles.

B. Fund Accounting

The Commission uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental fund types are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

General Fund

The Commission primarily received revenues from collections of occupational taxes, county sales taxes, property taxes and revenues collected by the State of Alabama and shared with the County.

Special Revenue Funds

The Commission used the following special revenue funds:

- ***Indigent Care Fund*** – This fund is used to account for the expenditure of beverage and sales taxes designated for indigent county residents.

- ***Road Fund*** – This fund is used to account for the County's share of the following taxes: 7-cent and 4-cent per gallon gasoline tax, the 5-cent per gallon supplemental excise tax, the 2-cent per gallon inspection fee, motor vehicle and truck license taxes and fees, and driver's license revenue. Revenues are earmarked for building and maintaining county roads and bridges.

- ***Senior Citizens' Activities Fund*** – This fund is used to account for the expenditure of federal and county funds to provide social, nutritional, transportation, and other services to elderly residents of Jefferson County.

- ***Bridge and Public Building Fund*** – This fund is used to account for the expenditure of special county property taxes for building and maintaining public buildings, roads and bridges.

- ***Community Development Fund*** – This fund is used to account for the expenditure of federal block grant funds.

- ***CDBG/EDA Revolving Loan Fund*** – This fund is used to account for the Commission's administration of various loan programs for rental housing rehabilitation and economic development.

- ***Home Grant Fund*** – This fund is used to account for the expenditure of funds received from the U.S. Department of Housing and Urban Development.

- ***Emergency Management Fund*** – This fund is used to account for the expenditure of funds received for disaster assistance programs.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, the Commission's general long-term debt principal and interest. During the fiscal year ended September 30, 2001, the Commission had one debt service fund.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). During the fiscal year ended September 30, 2001, the Commission had the following capital projects funds:

- ***Capital Improvements Fund*** – This fund is used to account for the financial resources used in the improvement of major capital facilities.

- ***Road Construction Fund*** – This fund is used to account for the financial resources used in the construction of roads.

Proprietary Fund Types

Proprietary fund types are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services for such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the County (internal service funds).

Enterprise Funds

These funds are used to account for activities where the intent of the Commission 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 Commission decided that periodic income determination is appropriate for capital maintenance, public policy, management control accountability or other purposes.

The Commission operates the following enterprises:

- ***Cooper Green Hospital Fund*** – The fund is used to account for the operations of the Cooper Green Hospital. Operating revenues are derived from net patient charges and reimbursements from third parties including Medicare and Medicaid.

- ***County Home Fund*** – This fund is used to account for the operations of in-patient nursing facilities. Net revenues are received from patient charges and reimbursements from third parties, principally Medicaid.

- ***Landfill Operations Fund*** – This fund is used to account for the operations of the County's landfill systems. Revenues are generated primarily through user charges.

- ***Sanitary Operations Fund*** – This fund is used to account for the operations of the County's sanitary sewer systems. Revenues are generated primarily through user charges, impact fees and designated ad valorem taxes.

- ***Parking Deck Fund*** – This fund is used to account for the operations of the County parking deck. Revenues are generated through user charges.

Internal Service Funds

These funds are used to account for the financing of goods and services provided by a county department or agency to other county departments and agencies or to other governmental units on a cost reimbursement basis and for a governmental entity's risk financing activities. During the fiscal year ended September 30, 2001, the Commission had the following internal service funds:

- ***Risk Management Fund*** – This fund is used to account for resources to provide insurance needs to County departments.

- ***Personnel Board Fund*** – This fund is used to account for resources for providing personnel to County departments and other governmental units by the Jefferson County Personnel Board.

- ***Elections Fund*** – This fund is used to account for resources for holding County elections.

- ***Information Services Fund*** – This fund is used to account for resources for providing data processing, microfilming and related services to the various County departments.

- ***Fleet Management Fund*** – This fund is used to account for resources for providing and maintaining vehicles to County departments.

- ***Central Laundry Fund*** – This fund is used to account for resources for providing laundry services to County departments.

- ***Printing Fund*** – This fund is used to account for resources for providing printing, postage and related services to County departments.

- ***Building Services Fund*** – This fund is used to account for resources for providing building maintenance and other related services for the County.

Fiduciary Fund Types

Fiduciary fund types are used to account for resources held by the Commission in a trustee capacity. Assets of fiduciary fund types do not belong to the Commission; the Commission has a liability to disburse those assets to specific individuals or organizations. These funds include expendable trust and pension trust funds.

Expendable Trust Fund

- *Stormwater Management Authority Fund* – This fund is used to account for the expenditure of intergovernmental revenues to assist member governing bodies with compliance with federal and state laws relating to storm water discharges.

- *City of Birmingham Revolving Loan Fund* – This fund is used to account for the Commission's administration of the City of Birmingham revolving loan program for economic development.

Pension Trust Fund

- *General Retirement System Fund* – This fund is used to account for all transactions related to resources held in trust for the General Retirement System (GRS) for Employees of Jefferson County.

ACCOUNT GROUPS

Account groups are used to establish accounting control and accountability for the Commission's general fixed assets and the unmatured principal of its general long-term debt. These account groups are not funds. They do not reflect available financial resources and related liabilities - but are accounting records of the general fixed assets and general long-term debt and certain associated information.

- *General Fixed Assets Account Group* – This account group is used to account for all Commission fixed assets except those related to specific proprietary funds.

- *General Long-Term Debt Account Group* – This account group is used to account for all unmatured long-term liabilities of the Commission except for the long-term liabilities of proprietary funds.

C. Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) consists of retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Commission considers revenue as available if it is collected within 60 days after year-end and can be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues that were accrued are those due from the federal government, State of Alabama, Jefferson County Revenue Department, Jefferson County Tax Collector, Jefferson County Probate Court, and various other Jefferson County agencies, municipalities, County Home residents, landfill customers, clients of Cooper Green, and interest revenue. Other revenues are not material or generally susceptible to accrual because they are not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Commission reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when all applicable revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, debt service and capital projects funds. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation -- is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

E. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

State statutes authorize the County Commission to invest in obligations of the U.S. Treasury and securities of federal agencies and certificates of deposit.

Investments are stated at fair value or amortized cost. Investments held in escrow for retainage on construction contracts and as surety for purchase commitments are stated at fair value.

F. Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance and reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

G. Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2001, are recorded as prepaid items.

I. Fixed Assets

Governmental Funds -- General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Depreciation is not recorded or provided on general fixed assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Proprietary Funds -- Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using straight-line method. The estimated useful lives are as follows:

	Years
Buildings	28-50
Improvements	28
Equipment	5-30

J. Other Debits

The general long-term debt account group reflects accounts entitled "Amount to Be Provided for Retirement of General Long-Term Debt" and "Amount to Be Provided for Payment of Compensated Absences." These accounts have debit balances and are offset by corresponding payables. They do not constitute assets of the Commission.

K. Compensated Absences

The Commission has a standard leave policy for its full-time employees as to sick and vacation leave.

Vacation Leave

Length of Service	Vacation Leave Earned (Per Month)
0-12 years	1 day
12-25 years	1 1/2 days
Over 25 years	2 days

Vacation earned but not used during the calendar year may be accumulated up to a maximum of forty days. Vacation leave earned in excess of the maximum accumulation must be used by December 31 of each year or it shall be forfeited. A permanent employee terminating from County service in good standing shall be compensated by unused earned vacation not to exceed 40 days.

Sick Leave

Sick leave shall be earned at the rate of one day for each month of service. Sick leave earned but not used during the calendar year may be accumulated with no maximum limit. A permanent employee who resigns or retires from the county in good standing after five years of service may, subject to the approval of the appointing authority, receive pay for fifty percent of the accumulated sick leave not to exceed 30 days.

Compensatory Leave

Eligible county employees covered by provisions of the Fair Labor Standards Act are paid for overtime hours worked at the rate of time-and-one half. In some instances, the employee may be offered compensatory leave.

Maximum limitations of accumulated compensatory time are as follows:

- Public Safety employees may accrue a maximum of 480 hours
- All other employees may accrue a maximum of 240 hours

Any employee's accrual of overtime in excess of the maximum limitation shall, within the following pay period, be disposed of by either (a) payment at the current hourly pay step of the employee or (b) granting equivalent time off.

The Commission uses the termination method to accrue its sick leave liability. ***Termination Payment Method*** - Under this method an accrual for earned sick leave is made only to the extent it is probable that the benefits will result in termination payment, rather than be taken as absences due to illness or other contingencies, such as medical appointments and funerals.

As of September 30, 2001, the liability for accrued vacation and compensatory leave is approximately $12,837,000. The amounts applicable to the proprietary funds of $5,568,000 have been recorded in those funds. Only the current portion of $1,122,000 has been reported as a liability in the governmental funds and fiduciary funds. The remainder of $6,147,000 has been recorded in the General Long-Term Debt Account Group (GLTDAG).

As of September 30, 2001, the liability for accrued sick leave is approximately $7,775,000. The amounts applicable to the proprietary funds of $3,534,000 have been recorded in those funds. Only the current portion of $195,000 has been reported as a liability in the governmental funds and fiduciary funds. The remainder of $4,046,000 has been recorded in the General Long-Term Debt Account Group (GLTDAG).

L. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

N. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized in the current period. Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method.

Bond discount/issue cost of the Series 2000-A Sewer Revenue Capital Improvement Warrants contain deferred costs of $11,605,000 that are being amortized over 40 years. At September 30, 2001, the unamortized deferred cost of the 2000-A issue was $11,435,000.

Bond discount/issue cost of the Series 1999-A Sewer Revenue Refunding Warrants contain deferred costs of $8,003,000 that are being amortized over 40 years. At September 30, 2001, the unamortized deferred cost of the 1999-A issue was $7,486,000.

Bond discount/issue cost of the Series 1997-A Sewer Revenue Refunding Warrants contain deferred costs of $9,956,000 that are being amortized over 30 years. At September 30, 2001, the unamortized deferred cost of the 1997-A issue was $8,407,000.

Bond discount/issue cost of the Series 1997-B Sewer Revenue Refunding Warrants contain deferred costs of $509,000 that are being amortized over 6 years. At September 30, 2001, the unamortized deferred cost of the 1997-B issue was $113,000.

Bond discount/issue cost of the Series 1997-C Sewer Revenue Refunding Warrants contain deferred costs of $946,000 that are being amortized over 18 years. At September 30, 2001, the unamortized deferred cost of the 1997-C issue was $701,000.

Bond discount/issue cost of the Series 1997-D Sewer Revenue Warrants contain deferred costs of $6,320,000 that are being amortized over 30 years. At September 30, 2001, the unamortized deferred cost of the 1997-D issue was $5,355,000.

Bond discount/issue cost of the Series 2001-B General Obligation Warrants contain deferred costs of $178,000 that are being amortized over 20 years. At September 30, 2001, the unamortized deferred cost of this issue was $176,000.

O. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as operating transfers.

P. Memorandum Only – Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Q. Property Taxes

Millage rates are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the County Commission. Property taxes are due and payable October 1 and are delinquent after December 31. Amounts receivable, net of estimated refunds and estimated uncollectible amounts, are recorded for the property taxes levied in the current year. However, since the amounts are not available to fund current year operations, the revenue is deferred and recognized in the subsequent fiscal year when the taxes are both due and collectible and available to fund operations.

R. Policy re: FASB Pronouncements for Proprietary Activities

The Commission, in accounting for its proprietary activities, follows all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

Note 2 – Budgets and Appropriations

The State Legislature enacted the County Financial Control Act of 1935, which is the present statutory basis for county budgeting operations. Under the terms of the County Financial Control Act, each county commission, at some meeting in September of each year, but in any event not later than the first meeting in October must estimate the County's revenues and expenditures and appropriate for the various purposes the respective amounts that are to be used for each purpose. The appropriations must not exceed the total revenues available for appropriation. Expenditures may not legally exceed appropriations.

The budget is usually divided into two parts - an operating budget and a capital budget. The operating budget addresses the immediate problems of providing services, paying personnel, and purchasing equipment. The capital budget address major equipment, furniture purchases, and public works projects.

Budgets may be adjusted during the fiscal year when approved by the County Commission. Any changes must be within the revenues and reserves estimated to be available.

Note 3 – Deposits and Investments

Deposits

The Commission's deposits at year-end were held by financial institutions in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provision contained in the ***Code of Alabama 1975***, Sections 41-14A through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

Investments

Statutes authorize the Commission to invest in obligations of the U.S. Treasury and federal agency securities. The Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or its trust department or agent but not in the Commission's name.

	(In Thousands)		
	Category 1	Recorded Amount	Fair Value
U.S. Government Securities(**)	$ 635,745	$ 635,745	$ 635,745
Repurchase Agreements	218,332	218,332	218,332
Corporate Obligations(*)	170,161	170,160	170,160
Common Stocks(*)	256,791	256,791	256,791
Total Investments	$1,281,029	$1,281,029	$1,281,029

(*) Investments of General Retirement System for Employees of Jefferson County.

(**) Includes $227,379,000 investments of General Retirement System for Employees of Jefferson County.

The County has entered into contracts for construction of various facilities within Jefferson County. Amounts were provided by some contractors that were used to purchase certificates of deposits and U.S. Government securities to be held by designated financial institutions in the name of the contractors and the Jefferson County Commission in lieu of retainage. These securities totaling $13,121,000 are included as part of Cash and Investments on Exhibit 1, but are not included in deposits and investments discussed above. They are not covered by collateral agreements between financial institutions and the Jefferson County Commission and the terms of collateralization agreements between the contractors and the financial institutions are not known at this time.

The Commission uses several methods for investing money. The investments managed by the Jefferson County Treasurer are reported at amortized cost. The Commission maintains a portfolio of short-term maturity investments, which are reported at amortized cost. The Commission also maintains a portfolio of intermediate maturity investments that are reported at fair value. The Commission's fiscal agent or custodian provides the fair value to the Commission of all intermediate maturity investments. The Commission is the only investor in its investment portfolios.

Note 4 – Due From Other Governments

Amounts due from other governments included on the accompanying financial statements as of September 30, 2001, are as follows:

	(In Thousands)					
	General Fund	Special Revenue Funds	Capital Projects Funds	Enterprise Funds	Internal Service Funds	Totals
Federal	$ 444	$1,114	$190	$	$	$ 1,748
State	1,216	1,364		357	29	2,966
County	17,648	6,549		610	404	25,211
Municipal	25	46	228		2,860	3,159
Total	$19,333	$9,073	$418	$967	$3,293	$33,084

Note 5 – Advances to Other Funds

The advances to other funds at September 30, 2001, are as follows:

	(In Thousands)
	Advances From Other Funds
	Sanitary Landfill Operations Fund
Advances To Other Funds	
Debt Service Fund	$19,200

Note 6 – Receivables

Accounts Receivable

Amounts recorded as accounts receivable for governmental fund types and proprietary fund types consist primarily of amounts due from individuals less an allowance account for amounts estimated to be uncollectible. The balances for accounts receivable at September 30, 2001, are listed as follows:

	(In Thousands)			
	Governmental Fund Type	Proprietary Fund Types		
	General	Enterprise	Internal Service	Total
Accounts Receivable	$28	$14,193	$7	$14,288
Less: Allowance Accounts		(2,403)		(2,403)
Net Receivables	$28	$11,790	$7	$11,825

Patient Receivables

Patient receivables in the proprietary funds are from patients, insurance companies and third-party reimbursement contractual agencies and are recorded less an allowance for uncollectible accounts, charity accounts and other uncertainties. Certain third-party insured accounts (Blue Cross, Medicare, and Medicaid) are based on contractual agreements, which generally result in collecting less than the established rates. Final determination of payments under these agreements are subject to review by appropriate authorities. Doubtful accounts are written off against the allowance as deemed uncollectible and recorded as recoveries of bad debts if subsequently collected.

	(In Thousands)
	Enterprise Funds
Patient Receivables	$15,205
Less: Allowance Accounts	(6,473)
Net Patient Receivables	$ 8,732

Loan Receivables

Jefferson County issues long-term loans through the Community Development Office for house repairs of low and moderate-income homeowners and for firms that may not have access to sufficient long-term capital financing. These loans (net an allowance account) totaled $3,890,000 at September 30, 2001.

Jefferson County, as lead agency, administers a joint grant agreement with the City of Birmingham for Title IX Revolving Loans Funds to provide funding for qualifying private enterprises. At September 30, 2001, the balance of loans receivable (net of an allowance account) for the City of Birmingham totaled $636,000.

Interest Receivables

Interest receivables for the Commission at September 30, 2001, were as follows:

	(In Thousands)			
	Special Revenue Funds	Enterprise Funds	Pension Trust Fund	Total
Interest Receivables	$11,000	$353,000	$6,264,000	$6,628,000

Note 7 – Changes in Fixed Assets

A summary of changes in the Commission's general fixed assets is as follows:

	(In Thousands)			
	Balance October 1, 2000	Additions	Reductions	Balance September 30, 2001
Land	$ 9,024	$ 1,285	$	$ 10,309
Buildings	189,366	951	3	190,314
Improvements Other Than Land/Buildings	7,785	98	7	7,876
Equipment and Furniture	78,032	6,034	6,133	77,933
Construction in Progress	75,737	29,135	99	104,773
Total	$359,944	$37,503	$6,242	$391,205

A summary of changes in expendable trust fund fixed assets is as follows:

	(In Thousands)			
	Balance October 1, 2000	Additions	Reductions	Balance September 30, 2001
Equipment and Furniture	$356	$75	$4	$427
Less: Accumulated Depreciation	(157)	(71)	2	(226)
Total	$199	$ 4	$2	$201

A summary of changes in property, plant, and equipment of proprietary funds is as follows:

Enterprise Funds

	(In Thousands)			
	Balance October 1, 2000	Additions	Reductions	Balance September 30, 2001
Land	$ 20,313	$ 15,409	$ 4,604	$ 31,118
Buildings	266,564	6,779	15	273,328
Improvements Other Than Land/Buildings	562,851	1,479,968	2,508	2,040,311
Equipment and Furniture	45,171	2,886	2,203	45,854
Construction in Progress	513,085	378,109	77,533	813,661
Sub-Total	1,407,984	1,883,151	86,863	3,204,272
Less: Accumulated Depreciation	(325,452)	(36,695)	2,021	(360,126)
Total	$1,082,532	$1,846,456	$84,842	$2,844,146

Internal Service Funds

	(In Thousands)			
	Balance October 1, 2000	Additions	Reductions	Balance September 30, 2001
Land	$ 76	$	$	$ 76
Buildings	6,719			6,719
Improvements Other Than Land/Buildings	548	10	1	557
Equipment and Furniture	13,980	2,967	978	15,969
Construction in Progress	624	5,802		6,426
Sub-Total	21,947	8,779	979	29,747
Less: Accumulated Depreciation	(7,825)	(2,622)	571	(9,876)
Total	$14,122	$6,157	$408	$19,871

Note 8 – Operating Leases

The Commission is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Commission's account groups. During the fiscal year ended September 30, 2001, the Commission paid a total of $755,000 for operating leases.

The following is a schedule by fiscal years of future minimum rental payments required under operating leases for facilities that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2001:

Fiscal Year	(In Thousands) Facilities and Equipment
2001-2002	$ 268
2002-2003	265
2003-2004	209
2004-2005	196
2005-2006	198
Thereafter	1,702
Total Minimum Payments Required	$2,838

Note 9 – County Appropriation Agreement

During the 1989 fiscal year, the Birmingham-Jefferson Civic Center Authority (the "Authority") issued $132,380,000 in Capital Outlay Special Tax Bonds, Series 1989. The bonds are limited obligations of the Authority, payable solely out of certain tax proceeds to be received by the Authority pursuant to the separate Pledge and Appropriation Agreements between the City of Birmingham and the Authority and Jefferson County and the Authority.

The County levies a special privilege or license tax (the County Occupational Tax) at the rate of one-half of one percent of the gross receipts of each person following a vocation, occupation, calling or profession within the County. In the County Appropriation Agreement, the County agreed to pay the Authority, from proceeds of the County Occupation Tax, the first $10,000,000 collected in 1989 and in each year thereafter until and including 2008.

Note 10 – Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains a risk management program in order to minimize its exposures to loss. Risk financing for these various exposures is accomplished through the following methods:

- ***General and Auto Liability*** - Self-insured with an established internal service fund to finance losses.

- ***Workers' Compensation*** - Self-insured with a retention of $350,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.

- ***Property Insurance*** - Commercial insurance coverage purchased in the amount of $100 million per occurrence, except a separate annual aggregate of $50 million flood and earthquake, to include the following sub-limits: 1) $20 million per occurrence as respects to property in the course of construction, builder's risks and installation or erection; 2) $10 million per occurrence separately as respects to demolition, increased cost of construction and building ordinance; 3) $5 million as respects to extra expense and 4) $1 million as respects to transit.

- ***Boiler and Machinery Insurance*** - Commercial insurance coverage purchased in the amount of $30 million per occurrence.

- ***Hospital and Nursing Home Medical Malpractice and General Liability*** - Insured through the County's participation in the Alabama Hospital Association Trust Fund with limits of $1 million per occurrence with a $3 million per report year aggregate.

Risk Management negotiates with private providers and administers health, life, accidental death and dismemberment, and dental insurance for its employees and dependents. Jefferson County Commission pays approximately 86% of health, 100% of basic life and accidental death and dismemberment, and the employees pay 100% of dental insurance and other voluntary insurance plans.

The schedule below presents the changes in claims liabilities for the past two years for the three types of self-insured activities; general liability, auto liability, and workers' compensation:

	General Liability 2001	General Liability 2000	Auto Liability 2001	Auto Liability 2000	Workers' Compensation 2001	Workers' Compensation 2000	Totals 2001	Totals 2000
	(In Thousands)							
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 685	$551	$ (25)	$200	$1,999	$2,286	$2,659	$3,037
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal year	778	404	412	90	1,072	591	2,262	1,085
Increases in provision for insured events of prior fiscal years	94		155		1,436		1,685	
Total incurred claims and claim adjustment expenses	872	404	567	90	2,508	591	3,947	1,085
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	323	270	159	315	1,484	878	1,966	1,463
Claims and claim adjustment expenses attributable to insured events of prior fiscal year								
Totals payments	323	270	159	315	1,484	878	1,966	1,463
Total unpaid claim and claim adjustment expenses at end of fiscal year	$1,234	$685	$383	$ (25)	$3,023	$1,999	$4,640	$2,659

Note 11 – Changes in Long-Term Debt

The following is a summary of general long-term debt transactions for the Commission for the year ended September 30, 2001:

	(In Thousands)			
	Debt Outstanding October 1, 2000	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2001
Warrants Payable:				
General Obligations Warrants	$206,210	$202,000	$119,345	$288,865
Estimated Liability for Compensated Absences	9,673	520		10,193
Total	$215,883	$202,520	$119,345	$299,058

The following is a summary of proprietary long-term debt transactions for the Commission for the year ended September 30, 2001:

	(In Thousands)			
	Debt Outstanding October 1, 2000	Issued/ Increased	Repaid/ Decreased	Debt Outstanding September 30, 2001
Warrants Payable:				
Revenue Warrants	$1,558,885	$275,000	$37,635	$1,796,250
Estimated Liability for Postclosure Landfill Costs	3,262	134	41	3,355
Estimated Claims Liability	2,659	3,947	1,966	4,640
Estimated Liability for Compensated Absences	8,515	586		9,101
Total	$1,573,321	$279,667	$39,642	$1,813,346

The following is a schedule of debt service requirements to maturity:

	(In Thousands)				
	General Obligation Warrants		Revenue Warrants		Total Principal and Interest
Fiscal Year Ended	Principal	Interest	Principal	Interest	Requirements
September 30, 2002	$ 17,505	$ 12,423	$ 8,495	$ 95,721	$ 134,144
2003	18,100	11,703	13,300	95,064	138,167
2004	18,810	11,154	2,595	94,603	127,162
2005	21,785	10,562	8,575	94,349	135,271
2006	16,405	9,723	6,490	93,991	126,609
2007	24,080	8,988	3,730	93,758	130,556
2008	14,430	8,045	3,885	93,601	119,961
2009	15,135	7,309	4,050	93,436	119,930
2010	12,805	6,534	4,220	93,265	116,824
2011	9,810	5,881	4,400	93,086	113,177
2012	9,695	5,420	4,585	92,899	112,599
2013	10,150	4,935	4,785	92,702	112,572
2014	10,620	4,432	4,990	92,494	112,536
2015	11,115	3,907	5,210	92,277	112,509
2016	11,630	3,356	1,215	92,136	108,337
2017	12,170	2,779	28,045	91,317	134,311
2018	12,740	2,173	31,085	89,651	135,649
2019	13,330	1,542	34,355	87,801	137,028
2020	13,950	883	37,960	85,758	138,551
2021	14,600	191	38,330	83,598	136,719
2022			46,195	81,195	127,390
2023			48,490	78,524	127,014
2024			53,670	75,672	129,342
2025			59,500	72,517	132,017
2026			65,810	69,030	134,840
2027			72,855	65,176	138,031
2028			61,105	61,582	122,687
2029			64,325	58,359	122,684
2030			67,675	55,008	122,683
2031			71,160	51,524	122,684
2032			74,815	47,868	122,683
2033			78,655	44,031	122,686
2034			82,840	39,844	122,684
2035			87,410	35,273	122,683
2036			92,240	30,440	122,680
2037			97,525	25,160	122,685
2038			103,290	19,396	122,686
2039			109,055	13,629	122,684
2040			101,960	8,098	110,058
2041			107,375	2,684	110,059
Totals	$288,865	$121,940	$1,796,250	$2,776,517	$4,983,572

Note 12 – Issuance of Sewer Warrants

On March 23, 2001, the Jefferson County Commission issued $275,000,000 in Sewer Revenue Capital Improvement Warrants with interest rates ranging between 4.5 and 5.5 percent to finance improvements to the County's sewer system. The warrants are limited obligations of the County payable solely out of revenues derived from the Sewer Tax and all other monies received derived from the operation of the sewer system remaining after payment of operating expenses.

Note 13 – Warrants Payable-Enterprise Funds

The Sanitary Operations Fund has bonds and warrants payable of $1,796,250,000 at September 30, 2001. This long-term liability represents 1) the 1997-A Sewer Revenue Refunding Warrants, 2) the 1997-B Taxable Sewer Revenue Refunding Warrants, 3) the 1997-C AWPCA Refunding Warrant, 4) the 1997-D Sewer Revenue Warrants, 5) the 1999-A Sewer Revenue Capital Improvement Warrants and 6) the 2001-A Sewer Revenue Warrants.

In accordance with the bond indentures, the County uses 1) a debt service fund to which it deposits principal and interest amounts due, 2) a reserve fund which is required to be maintained at the lesser of (a) 125% of the average annual debt service on all outstanding parity securities, (b) the maximum annual debt service on all outstanding parity securities, or (c) 10% of the original principal amount of outstanding parity securities, 3) a rate stabilization fund which is maintained at a balance of 75% of the maximum annual debt service on the outstanding parity securities, 4) a depreciation fund which will grow to an amount equal to or greater than the accumulated depreciation of the Sanitary Operations Fund, and 5) a redemption fund into which the trustee deposits certain insurance or disposition proceeds.

The balances as of September 30, 2001, exceeded the bond indenture requirements and were as follows:

	(In Thousands)
Sewer Reserve Fund	$54,106
1999 Sewer Reserve Fund	70,133
Sewer Rate Stabilization Fund	61,720
Sewer Depreciation Fund	37,325

Note 14 – Continuing Disclosure

The following is information required for the benefit of the holders of the Series 1997 Sewer Revenue Warrants:

Fiscal Year Ending September 30,	2001	2000	1999	1998	1997	1996	1995
Active Accounts	142,305	142,277	142,042	141,606	140,324	140,146	140,361
Average Daily Treatment Volume (millions of gallons treated)	97	112	119	132	127	130	123
Sewer Charges	$72,129,478	$66,834,206	$57,020,426	$49,531,824	$46,950,835	$44,387,013	$39,587,914
% Revenues - Largest Customer	2.66%	2.57%	2.93%	2.91%	2.92%	3.08%	2.87%
% Revenues - Top 10 Customers	12.53%	11.99%	11.62%	12.35%	10.37%	13.10%	10.37%

2001 Top Ten Customers	Consumption	Amount
University of Alabama – Birmingham	876,244	$1,919,492
Birmingham Housing Authority	674,131	1,863,624
US Steel	516,791	1,379,428
Barber Dairies	144,828	1,243,709
Golden Flake	161,290	534,827
Birmingham Board of Education	180,821	523,303
Buffalo Rock	216,133	484,908
Baptist Medical Centers	204,236	439,239
Brookwood Medical Center	127,367	352,688
PEMCO	105,917	299,517

Effective March 1, 1999, January 1, 2000 and January 1, 2001, the County implemented sewer rate increases. The rate increases were implemented in accordance with the Commission's resolutions and the Indenture with the trustee for the Sewer Revenue Warrants.

Note 15 – Extinguishment of Debt

On May 10, 2001, the Jefferson County Commission issued $82,000,000 in General Obligation Warrants, Series 2001-A, for the purpose of 1) refunding $7,125,000 of outstanding Series 2000 General Obligation Warrants with a variable interest rate and 2) paying the costs of various capital improvements to County buildings and facilities. The Series 2000 Warrants are considered to be legally defeased and the liability for those warrants has been removed from the general long-term debt account group.

On July 19, 2001, the Commission issued $120,000,000 in General Obligation Warrants, Series 2001-B, with a variable interest rate for the purpose of refunding $100,000,000 of outstanding Series 1999 General Obligation Warrants and $19,000,000 of outstanding Series 1996 General Obligation Warrants. The Series 1996 and 1999 Warrants are considered to be legally defeased and the liability for those warrants has been removed from the Landfill Enterprise Fund and the general long-term debt account group, respectively.

Note 16 – Prior Year Defeasance of Debt

As of September 30, 2001, the following warrants outstanding are considered defeased:

	(In Thousands)
Sewer Revenue Warrants, Series 1988	$ 27,990
Sewer Revenue Warrants, Series 1992	46,050
Sewer Revenue Warrants, Series 1993	27,380
Sewer Construction Warrants, Series 1977	1,105
Sanitary Sewer Refunding Warrants, Series 1978	10,925
Total Warrants Defeased	$113,450

Note 17 – Conduit Debt

The Commission issued Limited Obligation School Warrants, Series 2000 in order to finance the costs of acquiring certain public school facilities (the "Leased Property") of the Jefferson County Board of Education (the "Board"), for lease back to the Board. The funds were used to retire the Board's current revenue anticipation warrant dated May 3, 2000. The Board simultaneously executed a capital lease agreement for the aforementioned property and pledged tax proceeds for the lease payments which will approximate debt service requirements under the Jefferson County Commission's Limited Obligation School Warrants, Series 2000. The warrants do not constitute a debt or pledge of the faith and credit of the Jefferson County Commission, and accordingly have not been reported in the accompanying financial statements. Upon repayment of the warrants ownership of the leased property will return to the Board.

As of September 30, 2001, the principal amount outstanding was $44,045,000.

Note 18 – Segment Information for Enterprise Funds

The Commission operates Enterprise Funds, which provide medical, inpatient nursing care, landfill, sewer and parking services. These funds are intended to be self-supporting through user fees charged to the public for services. Financial segment information as of and for the year ended September 30, 2001, is presented below:

	(In Thousands)					
	Cooper Green Hospital Fund	County Home Fund	Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Total Enterprise Funds
Operating Revenues	$31,635	$ 8,885	$ 4,078	$ 80,858	$222	$ 125,678
Depreciation, Depletion and Amortization Expense	2,026	353	2,312	33,576	13	38,280
Operating Income or (Loss)	(40,386)	(5,810)	(2,426)	6,708	(24)	(41,938)
Operating Grants, Entitlements and Shared Revenues		59	64	96		219
Operating Transfers:						
In	37,874	7,183	5,566			50,623
(Out)			(1,251)	(337)		(1,588)
Tax Revenues				3,806		3,806
Net Income or (Loss)	(3,960)	890	716	(36,217)	(64)	(38,635)
Property, Plant and Equipment:						
Additions	546	796	730	1,881,080		1,883,152
Deletions	908	181	872	84,904		86,865
Net Working Capital	5,617	1,551	(18,559)	532,792	26	521,427
Bonds and Other Long-Term Liabilities:						
Payable from Operating Revenue	2,315	523	23,004	1,799,426	5	1,825,273
Total Equity	$15,515	$10,542	$29,591	$1,522,674	$ 41	$1,578,363

Note 19 – Construction and Other Significant Commitments

The following is a listing of the outstanding contracts entered into and commitments made for the fiscal year ending September 30, 2001:

Nature of Commitment	(In Thousands) Amount
Cahaba Sewer Improvement Project	$ 32,878
Correctional Facilities Project	2,608
Courthouse Building Renovation Project	3,336
Five Mile Creek Sewer Improvement Project	8,997
Miscellaneous Sewer Improvements - System-Wide	9,946
Highway Improvements	2,737
Home Buyer Assistance Program	2,451
Valley Creek Sewer Improvement Project	133,324
Village Creek Sewer Improvement Project	111,533
Domestic Relations Project	5,676
Central Laundry Project	2,083
United Way Program	5,796
Miscellaneous Equipment	2,493
Totals	$323,858

Note 20 – Defined Benefit Pension Plan

A. Plan Description

The General Retirement System for Employees of Jefferson County, Alabama (Retirement System) is the administrator of a single-employer, defined benefit pension plan (Plan) covering substantially all employees of Jefferson County, Alabama. The Retirement System was established by Act Number 497, Acts of Alabama 1965, page 717, and provides guidelines for benefits to retired and disabled employees of the County.

The Plan's financial statements are publicly available in the annual report of the General Retirement System for Employees of Jefferson County for the year ended September 30, 2001. The report may be obtained by writing: The General Retirement System for Employees of Jefferson County, Room 303-B Courthouse, Birmingham, Alabama 35263-0003.

B. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The financial statements of the Plan are prepared under the accrual method of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Plan investments are stated at fair value. Quoted market prices are used for all investments.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized appreciation or depreciation is reflected in the financial statements, when applicable.

Reserves for Contingent Refunds and Retirement and Disability Benefits

Contingent refunds represent all contributions made by members into the Plan until refunded or transferred to the reserve for retirement and disability benefits. Such transfers occur when benefit payments equal or exceed the amount of member contributions, or when a terminated employee has not requested a refund of his personal contributions within five years of termination.

C. Actuarial Information

For the year ended September 30, 2001, the Commission's annual pension contribution of $7,543,314 was equal to the Commission's required and actual contribution. The required contribution was determined using the "entry age normal" method. The actuarial assumptions as of October 1, 2001, the latest actuarial valuation date, were: (a) 7.0 percent investment rate of return on present and future assets, and (b) projected salary increases of 5.5 percent. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of October 1, 2001 was 22 years.

The following is a three-year trend information for the Commission:

Fiscal Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2001	$7,543,314	100%	$0
9/30/2000	$7,752,354	100%	$0
9/30/1999	$7,055,584	100%	$0

The Schedule of Funding Progress, which is required supplementary information is contained in Exhibit 7.

Note 21 – Other Postemployment Benefits (OPEB)

In addition to the pension benefits described in Note 20, the Commission provides post employment health care benefits, in accordance with a resolution approved by the Commission on September 25, 1990, to employees who meet the following eligibility requirements. Employees must: (1) have been covered by the County group health care plan at the time of retirement, (2) immediately upon retirement begin receiving a retirement pension under the rules and regulations of the General Retirement System for the Employees of Jefferson County and the amount of the pension must be sufficient to cover the required retiree contributions, (3) be under 65 years of age, and (4) not be eligible for Medicare. The Commission adopted a resolution on September 22, 1992 to allow those retirees who are not eligible to receive a retirement pension to participate in the health care plan by prepaying to the Commission the semi-annual premium for the retiree contributions.

Dependents can be covered under an eligible retiree's family plan if the dependents: (1) meet the definition of "who can be covered" in each option's contract, (2) are under 65 years of age, and (3) are not eligible for Medicare.

Coverage ends for retirees and dependents when they become eligible for Medicare or reach age 65. When a retiree with dependent coverage becomes ineligible, the dependent(s) may continue coverage under the General Retirement System for the Employees of Jefferson County until they reach age 65 or become eligible for Medicare.

Currently 264 retirees meet eligibility requirements. The Commission subsidizes a portion of the retirees health care insurance premiums based on the total years of County service and age at retirement. The Commission's subsidy for each covered retired employee ranges from $197 to $545 per month and total insurance premiums range from $223 to $639. Expenditures for post-retirement health care benefits are made and recognized as premiums are paid. During the year, expenditures of $276,243.76 were recognized for post-retirement health benefits.

Note 22 – Deficit Fund Balances

At September 30, 2001, the following funds had deficit fund balances:

	(In Thousands)
Special Revenue Funds	
Road Fund	$2,927
Senior Citizens' Activities	$ 35
Capital Projects Funds	
Capital Improvement Fund	$4,514

Note 23 – Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require that the Commission place a final cover on its landfills when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfills, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year.

The estimated liability for landfill closure and postclosure care costs had a balance of $3,355,000, as of September 30, 2001. This estimate was based on 86% usage (filled) of the Jefferson County Landfill Number 1, 59% usage (filled) of the Jefferson County Landfill Number 2, 7% usage (filled) of the Jefferson County Inert Landfill Number 1, and the remaining liability for the Mt. Olive Sanitary and the Turkey Creek Sanitary Landfills, which were both closed in October 1997.

This estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of September 30, 2001. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Note 24 – Subsequent Events

In February 2002, the Commission issued $20,065,000 in General Obligation Refunding Warrants, Series 2002-A. This issue refunded the outstanding balance of the 1992 General Obligation Capital Improvement and Capital Appreciation Warrants. In March 2002, the Commission is expected to issue $110,000,000 in Sewer Revenue Warrants. The proceeds will be used for additional financing of the sanitary sewer upgrade project.

Note 25 – Franchise Taxes

Several counties of the State of Alabama receive a portion of the revenues received by the State for the franchise taxes levied by the State of Alabama on in-state and out-of-state companies under the provisions of the ***Code of Alabama 1975***, Section 40-14-41. The State is currently involved in litigation that challenges the constitutionality of the State's franchise tax based on the premise that it violates the Commerce Clause of the U.S. Constitution. The potential liability to the State of Alabama exceeds $300,000,000. In the event of an unfavorable outcome to the State of Alabama, the several counties of this State may have to refund all the franchise taxes they have received over a period of years or forego the receipt of revenues from this tax until the liability is satisfied.

Note 26 – GASB Statement Number 33

The Commission implemented GASB Statement Number 33, ***Accounting and Financial Reporting for Nonexchange Transactions***, and GASB Statement Number 36, ***Recipient Reporting for Certain Shared Nonexchange Revenues***, an amendment of GASB Statement Number 33, beginning in fiscal year 2001. This Statement required the accrual of some assets and revenues which were not previously recognized in the Commission's financial statements. The most significant of these is the accrual of property, sales and occupational taxes. The accrual of the property taxes, which are levied in the current year but are not available to fund current year operations, results in deferred revenue.

Note 27 – Restatements

On October 1, 2000, the fund balances of the general and special revenue funds were restated as follows:

	(In Thousands) General Fund	(In Thousands) Special Revenue Funds
Fund Balance, October 1, 2000, as Previously Reported	$39,041	$ 7,122
GASB 33 Accruals	6,926	3,085
Overstatement of Receivables		(84)
Fund Balance, October 1, 2000, as Restated	$45,967	$10,123

On October 1, 2000, the fund equity of the enterprise funds was restated as follows:

	(In Thousands) Enterprise Funds
Fund Equity, October 1, 2000, as Previously Reported	$ 201,170
Sewer Assets Obtained from the City of Birmingham	1,415,811
Understatement of Fixed Assets in the Prior Year	17
Fund Equity, October 1, 2000, as Restated	$1,616,998

Note 28 – Interest Rate Swap Agreements

The Commission has entered into interest rate swap agreements with Morgan Guaranty Trust Company of New York (Morgan) and has executed various transactions with Morgan to receive interest payments for periods of up to 40 years based on notional amounts ranging from $70 to $200 million. The Commission agreed to pay Morgan interest payments based on the published Bond Market Association (BMA) rates for periods of up to 40 years using the above mentioned notional amounts.

Required Supplementary Information

Schedule of Funding Progress
For the Year Ended September 30, 2001

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/1999	$534,063	$445,237	$(88,826)	120.0%	$120,691	(73.6%)
10/01/2000	$595,364	$517,622	$(77,742)	115.0%	$126,520	(61.4%)
10/01/2001	$642,487	$550,172	$(92,315)	116.8%	$133,919	(68.9%)

Combining Financial Statements

Combining Balance Sheet
All Special Revenue Funds
September 30, 2001
(In Thousands)

	Indigent Care Fund	Road Fund	Senior Citizens' Activities Fund
ASSETS			
Cash and Investments	$ 529	$ 337	$
Loans Receivable, Net			
Interest Receivable			
Due from Other Governments	5,880	795	257
Property Taxes Receivable, Net		10,281	
Inventories		2,169	
Prepaid Expenses		2	2
TOTAL ASSETS	6,409	13,584	259
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Cash Deficit			141
Accounts Payable		985	124
Due to Other Governments		4,517	
Deferred Revenues		10,281	18
Accrued Payroll and Taxes		332	11
Estimated Liability for Compensated Absences		396	
TOTAL LIABILITIES		16,511	294
FUND EQUITY			
Fund Balances:			
Reserved for Prepaid Expenses		2	2
Reserved for Inventory		2,169	
Reserved for Petty Cash		1	
Reserved for CGH Foundation	409		
Reserved for Loan Receivable			
Reserved for Encumbrances	141	2,950	73
Unreserved	5,859	(8,049)	(110)
TOTAL FUND EQUITY	6,409	(2,927)	(35)
TOTAL LIABILITIES AND FUND EQUITY	$ 6,409	$ 13,584	$ 259

Bridge and Public Building Fund	Community Development Fund	CDBG-EDA Revolving Loan Fund	Home Grant Fund	Emergency Management Fund	Totals Current Year
$ 2,691	$	$ 910	$ 77	$ 1,027	$ 5,571
	154	2,940	796		3,890
	11				11
392	1,103		642	4	9,073
24,968					35,249
					2,169
					4
28,051	1,268	3,850	1,515	1,031	55,967
	388				529
	738		280	13	2,140
		18			4,535
24,968				721	35,988
	21		1	6	371
				(1)	395
24,968	1,147	18	281	739	43,958
					4
					2,169
				1	2
					409
	154	2,940	796		3,890
	10,991		2,599	516	17,270
3,083	(11,024)	892	(2,161)	(225)	(11,735)
3,083	121	3,832	1,234	292	12,009
$ 28,051	$ 1,268	$ 3,850	$ 1,515	$ 1,031	$ 55,967

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Special Revenue Funds
For the Year Ended September 30, 2001
(In Thousands)

	Indigent Care Fund	Road Fund	Senior Citizens' Activities Fund
REVENUES			
Taxes	$ 38,217	$ 11,996	$
Intergovernmental		7,847	5,339
Charges for Services		173	
Investment Income	7		12
Miscellaneous	4,163	95	5
TOTAL REVENUES	42,387	20,111	5,356
EXPENDITURES			
Current:			
General Government	6,557		6,215
Public Safety			
Highways and Roads		32,282	
Health and Welfare			
Capital Outlay		4,562	25
Indirect Cost	22	3,889	165
TOTAL EXPENDITURES	6,579	40,733	6,405
Excess of revenues over (under) expenditures	35,808	(20,622)	(1,049)
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	2,485	20,894	1,574
Proceeds from Sale of Fixed Assets		317	15
Operating Transfers Out	(37,869)	(626)	(524)
TOTAL OTHER FINANCING SOURCES (USES)	(35,384)	20,585	1,065
Excess of revenues and other sources over (under) expenditures and other uses	424	(37)	16
Fund Balances at beginning of year, as restated	5,985	(2,890)	(51)
Fund Balances at end of year	$ 6,409	$ (2,927)	$ (35)

Bridge and Public Building Fund	Community Development Fund	CDBG-EDA Revolving Loan Fund	Home Grant Fund	Emergency Management Fund	Totals Current Year
$ 27,626	$	$	$	$	$ 77,839
697	8,411	2	1,268	1,062	24,626
	223			311	707
360		119	16	18	532
		3	129	18	4,413
28,683	8,634	124	1,413	1,409	108,117
	1,240		112		14,124
				1,096	1,096
					32,282
	6,638	412	1,450		8,500
	1,225			176	5,988
42	232	20	17	76	4,463
42	9,335	432	1,579	1,348	66,453
28,641	(701)	(308)	(166)	61	41,664
	656	96	277	102	26,084
	1				333
(27,101)	(75)				(66,195)
(27,101)	582	96	277	102	(39,778)
1,540	(119)	(212)	111	163	1,886
1,543	240	4,044	1,123	129	10,123
$ 3,083	$ 121	$ 3,832	$ 1,234	$ 292	$ 12,009

Combining Balance Sheet
All Capital Projects Funds
September 30, 2001
(In Thousands)

	Capital Improvements Fund	Road Construction Fund	Totals Current Year
ASSETS			
Cash and Investments	$ 28	$ 1,120	$ 1,148
Due from Other Governments	213	205	418
TOTAL ASSETS	241	1,325	1,566
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts Payable	4,755	230	4,985
TOTAL LIABILITIES	4,755	230	4,985
FUND EQUITY			
Fund Balances:			
Reserved for Encumbrances	21,856	2,500	24,356
Unreserved	(26,370)	(1,405)	(27,775)
TOTAL FUND EQUITY	(4,514)	1,095	(3,419)
TOTAL LIABILITIES AND FUND EQUITY	$ 241	$ 1,325	$ 1,566

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Capital Projects Funds
For the Year Ended September 30, 2001
(In Thousands)

	Capital Improvements Fund	Road Construction Fund	Totals Current Year
REVENUES			
Taxes			
Intergovernmental	$ 569	$ 926	$ 1,495
Charges for Services		497	497
Investment Income	33	41	74
Miscellaneous		160	160
TOTAL REVENUES	602	1,624	2,226
EXPENDITURES			
Current:			
Highways and Roads		4,436	4,436
Capital Outlay	29,995		29,995
TOTAL EXPENDITURES	29,995	4,436	34,431
Excess of revenues over (under) expenditures	(29,393)	(2,812)	(32,205)
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	24,200	409	24,609
Proceeds from Sale of Fixed Assets	95		95
Operating Transfers Out	(7,285)		(7,285)
TOTAL OTHER FINANCING SOURCES (USES)	17,010	409	17,419
Excess of revenues and other sources over (under) expenditures and other uses	(12,383)	(2,403)	(14,786)
Fund Balances at beginning of year	7,869	3,498	11,367
Fund Balances at end of year	$ (4,514)	$ 1,095	$ (3,419)

Combining Balance Sheet
All Enterprise Funds
September 30, 2001
(In Thousands)

	Cooper Green Hospital Fund	County Home Fund
ASSETS		
Cash and Investments	$	$ 194
Accounts Receivable, Net	36	
Patient Accounts Receivable, Net	7,144	1,588
Interest Receivable		
Due from Other Governments	357	
Inventories	892	91
Property Taxes Receivable, Net		
Prepaid Expenses	1,976	
Fixed Assets, Net Where Applicable	12,214	9,514
Warrant Issuance Cost		
Deferred Loss on Early Debt Retirement		
TOTAL ASSETS	22,619	11,387
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Cash Deficit	2,460	
Accounts Payable	1,782	126
Advances from Other Funds		
Deposits Payable		48
Deferred Revenues		
Accrued Payroll and Taxes	547	148
Accrued Interest Payable		
Retainage Payable		
Arbitrage Rebate Payable		
Estimated Liability for Compensated Absences	2,315	523
Warrants Payable		
Estimated Liability for Closure/Postclosure Care Costs		
TOTAL LIABILITIES	7,104	845
FUND EQUITY		
Unreserved Retained Earnings	15,515	10,542
TOTAL FUND EQUITY	15,515	10,542
TOTAL LIABILITIES AND FUND EQUITY	$ 22,619	$ 11,387

Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Totals Current Year
$	$ 555,728	$ 26	$ 555,948
754	10,999	1	11,790
			8,732
	353		353
	610		967
	497		1,480
	3,427		3,427
	5		1,981
51,778	2,770,620	20	2,844,146
176	33,497		33,673
	2,776		2,776
52,708	3,378,512	47	3,465,273
33			2,493
31	18,700		20,639
19,200			19,200
			48
	3,427		3,427
49	426	1	1,171
	16,273		16,273
	13,121		13,121
	4,465		4,465
449	3,176	5	6,468
	1,796,250		1,796,250
3,355			3,355
23,117	1,855,838	6	1,886,910
29,591	1,522,674	41	1,578,363
29,591	1,522,674	41	1,578,363
$ 52,708	$ 3,378,512	$ 47	$ 3,465,273

Combining Statement of Revenues, Expenses and Changes in Fund Equity - All Enterprise Funds
For the Year Ended September 30, 2001
(In Thousands)

	Cooper Green Hospital Fund	County Home Fund
Operating Revenues		
Taxes	$	$
Charges for Services	31,635	8,826
Other Operating Revenue		59
Total Operating Revenues	31,635	8,885
Operating Expenses		
Provisions for Bad Debt	3,555	357
Salaries	27,345	6,995
Employee Benefits and Payroll Taxes	5,446	1,683
Utilities	958	573
Supplies	8,965	1,175
Depreciation and Amortization	2,026	353
Outside Services	10,179	3,393
Services from other Hospitals	4,963	
Jefferson Clinic	7,495	
Office Expense	698	134
Closure and Postclosure Care Cost		
Miscellaneous	391	32
Total Operating Expenses	72,021	14,695
Operating Income (Loss)	(40,386)	(5,810)
Nonoperating Revenues (Expenses)		
Arbitrage Rebates		
Interest Revenue	42	
Miscellaneous Revenue		
Interest Expense	(73)	
Indirect Cost	(1,375)	(484)
Gain/(Loss) On Sale of Fixed Assets	(42)	1
Total Nonoperating Revenues (Expenses)	(1,448)	(483)
Income (Loss) Before Operating Transfers	(41,834)	(6,293)
Operating Transfers		
Operating Transfers In	37,874	7,183
Operating Transfers Out		
Total Operating Transfers	37,874	7,183
Net Income (Loss)	(3,960)	890
Fund Equity at beginning of year, as Restated	19,475	9,652
Fund Equity at end of year	$ 15,515	$ 10,542

Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Totals Current Year
$	$ 3,806	$	$ 3,806
4,014	76,956	222	121,653
64	96		219
4,078	80,858	222	125,678
22	1,290		5,224
2,302	19,724	27	56,393
531	4,825	6	12,491
272	5,322	48	7,173
406	1,869	2	12,417
2,312	33,576	13	38,280
489	6,092	4	20,157
			4,963
			7,495
25	1,294		2,151
134			134
11	158	146	738
6,504	74,150	246	167,616
(2,426)	6,708	(24)	(41,938)
	(1,004)		(1,004)
61	51,360	1	51,464
	29		29
(871)	(90,391)		(91,335)
(389)	(2,444)	(41)	(4,733)
26	(138)		(153)
(1,173)	(42,588)	(40)	(45,732)
(3,599)	(35,880)	(64)	(87,670)
5,566			50,623
(1,251)	(337)		(1,588)
4,315	(337)		49,035
716	(36,217)	(64)	(38,635)
28,875	1,558,891	105	1,616,998
$ 29,591	$ 1,522,674	$ 41	$ 1,578,363

Combining Statement of Cash Flows
All Enterprise Funds
For the Year Ended September 30, 2001
(In Thousands)

	Cooper Green Hospital Fund	County Home Fund
Cash Flows from Operating Activities		
Operating Income (Loss)	$ (40,386)	$ (5,810)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	2,026	353
(Increase)/Decrease in Accounts Receivable	4	
(Increase)/Decrease in Interest Receivable		
(Increase)/Decrease in Patients Receivable (Net)	(813)	(177)
(Increase)/Decrease in Prepaid Items	(1,368)	
(Increase)/Decrease in Due from Governmental Units	666	
(Increase)/Decrease in Property Taxes Receivable		
(Increase)/Decrease in Inventory	94	(36)
(Increase)/Decrease in Warrant Issuance Costs		
(Increase)/Decrease in Deferred Loss on Early Debt Retirement		
Increase/(Decrease) in Accounts Payable	557	(246)
Increase/(Decrease) in Advances to Other Funds		
Increase/(Decrease) in Other Accounts Payable	(245)	
Increase/(Decrease) in Deferred Revenues		
Increase/(Decrease) in Accrued Payroll and Taxes		12
Increase/(Decrease) in Deposits Payable		11
Increase/(Decrease) in Retainage Payable		
Increase/(Decrease) in Interest Payable		
Increase/(Decrease) in Arbitrage Rebate Payable		
Increase/(Decrease) in Compensated Absences Payable	42	50
Increase/(Decrease) in Estimated Liability for Landfill Postclosure Costs		
Total Adjustments	963	(33)
Net Cash Provided/(Used) by Operating Activities Carried Forward	$ (39,423)	$ (5,843)

Landfill Operations Fund		Sanitary Operations Fund		Parking Deck Fund		Totals Current Year
$	(2,426)	$	6,708	$	(24)	$ (41,938)
	2,312		33,576		13	38,280
	(8)		1,009			1,005
			(353)			(353)
						(990)
			(5)			(1,373)
			(120)			546
			(3,427)			(3,427)
			50			108
	(178)		(11,605)			(11,783)
			454			454
	31		(8,252)			(7,910)
	19,200					19,200
			(3)			(248)
			3,427			3,427
	2		32			46
						11
			7,006			7,006
	(67)		2,577			2,510
			1,004			1,004
	26		289			407
	93					93
	21,411		25,659		13	48,013
$	18,985	$	32,367	$	(11)	$ 6,075

Combining Statement of Cash Flows
All Enterprise Funds
For the Year Ended September 30, 2001
(In Thousands)

	Cooper Green Hospital Fund	County Home Fund
Net Cash Provided/(Used) by Operating Activities Brought Forward	$ (39,423)	$ (5,843)
Cash Flows from Non-Capital Financing Activities		
Operating Transfers In	37,874	7,183
Operating Transfers Out		
Increase/(Decrease) in Cash Deficit	2,460	
Received from Auxiliary Services		
Indirect Cost	(1,375)	(484)
Net Cash Provided/(Used) by Non-Capital Financing Activities	38,959	6,699
Cash Flows from Capital and Related Financing Activities		
Interest Paid	(73)	
Acquisition of Fixed Assets	(541)	(756)
Proceeds from Warrant Issuance		
Principal Payments		
Net Cash Provided/(Used) by Capital and Related Financing Activities	(614)	(756)
Cash Flows from Investing Activities		
Interest and Dividend Income	42	
Net Cash Provided/(Used) by Investing Activities	42	
Net Increase/(Decrease) in Cash and Cash Equivalents	(1,036)	100
Cash and Investments, Beginning of Year	1,036	94
Cash and Investments, End of Year	$	$ 194

Landfill Operations Fund	Sanitary Operations Fund	Parking Deck Fund	Totals Current Year
$ 18,985	$ 32,367	$ (11)	$ 6,075
5,566			50,623
(1,251)	(337)		(1,588)
33			2,493
	29		29
(389)	(2,444)	(41)	(4,733)
3,959	(2,752)	(41)	46,824
(871)	(90,391)		(91,335)
(134)	(382,622)		(384,053)
	275,000		275,000
(22,000)	(15,635)		(37,635)
(23,005)	(213,648)		(238,023)
61	51,360	1	51,464
61	51,360	1	51,464
	(132,673)	(51)	(133,660)
	688,401	77	689,608
$	$ 555,728	$ 26	$ 555,948

Combining Balance Sheet
All Internal Service Funds
September 30, 2001
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
ASSETS			
Cash and Investments	$ 10,009	$	$ 342
Accounts Receivable, Net			
Due from Other Governments		3,219	41
Inventories			
Prepaid Expenses	56		
Fixed Assets, Net Where Applicable	166	83	280
TOTAL ASSETS	10,231	3,302	663
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Cash Deficit		2,592	
Accounts Payable	362	382	12
Accrued Payroll and Taxes	11	51	5
Estimated Liability for Compensated Absences	52	330	48
Estimated Claims Liability	4,640		
TOTAL LIABILITIES	5,065	3,355	65
FUND EQUITY			
Unreserved Retained Earnings	5,166	(53)	598
TOTAL FUND EQUITY	5,166	(53)	598
TOTAL LIABILITIES AND FUND EQUITY	$ 10,231	$ 3,302	$ 663

	Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
	$ 15	$ 409	$ 226	$ 16	$ 7,624	$ 18,641
	1				6	7
			3	1	29	3,293
		294	11	164	664	1,133
	19					75
	5,647	2,066	5,553	64	6,012	19,871
	5,682	2,769	5,793	245	14,335	43,020
						2,592
	336	155	19	44	352	1,662
	56	55	8	5	173	364
	418	412	63	32	1,278	2,633
						4,640
	810	622	90	81	1,803	11,891
	4,872	2,147	5,703	164	12,532	31,129
	4,872	2,147	5,703	164	12,532	31,129
	$ 5,682	$ 2,769	$ 5,793	$ 245	$ 14,335	$ 43,020

Combining Statement of Revenues, Expenses and Changes in Fund Equity - All Internal Service Funds
For the Year Ended September 30, 2001
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
Operating Revenues			
Intergovernmental	$	$ 3,796	$ 876
Charges for Services	2,370		
Total Operating Revenues	2,370	3,796	876
Operating Expenses			
Salaries	469	2,315	392
Employee Benefits and Payroll Taxes	596	515	46
Utilities	1	1	5
Supplies	15	66	22
Depreciation and Amortization	56	55	27
Outside Services	976	2,088	17
Office Expense	1,701	120	17
Miscellaneous	9	17	
Total Operating Expenses	3,823	5,177	526
Operating Income	(1,453)	(1,381)	350
Nonoperating Revenues (Expenses)			
Interest Revenue	182		
Miscellaneous Revenue	405		
Indirect Cost		(90)	(76)
Gain (Loss) on Sale of Fixed Assets		(22)	
Indirect Cost Recovery		1,101	
Total Nonoperating Revenues (Expenses)	587	989	(76)
Income (Loss) Before Operating Transfers	(866)	(392)	274
Operating Transfers			
Operating Transfers In		339	206
Operating Transfers Out	(30)		
Total Operating Transfers	(30)	339	206
Net Income	(896)	(53)	480
Fund Equity at beginning of year	6,062		118
Fund Equity at end of year	$ 5,166	$ (53)	$ 598

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
$	$	$	$	$	$ 4,672
462	1,490	1,016	679	14,167	20,184
462	1,490	1,016	679	14,167	24,856
2,537	2,554	442	244	7,712	16,665
534	617	121	58	1,947	4,434
2	126	230		2,754	3,119
270	1,666	15	199	1,224	3,477
1,706	242	42	41	410	2,579
3,093	104	187	62	1,948	8,475
124	24	3	9	410	2,408
117	15		53	234	445
8,383	5,348	1,040	666	16,639	41,602
(7,921)	(3,858)	(24)	13	(2,472)	(16,746)
	8	4		129	323
	2		1	1,027	1,435
(48)			(2)		(216)
	(1)	(4)	(1)	2	(26)
5,236	3,843	48		5,243	15,471
5,188	3,852	48	(2)	6,401	16,987
(2,733)	(6)	24	11	3,929	241
3,146	96	5,393		9	9,189
	(60)			(329)	(419)
3,146	36	5,393		(320)	8,770
413	30	5,417	11	3,609	9,011
4,459	2,117	286	153	8,923	22,118
$ 4,872	$ 2,147	$ 5,703	$ 164	$ 12,532	$ 31,129

Combining Statement of Cash Flows
All Internal Service Funds
For the Year Ended September 30, 2001
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
Cash Flows from Operating Activities			
Operating Income (Loss)	$ (1,453)	$ (1,381)	$ 350
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	56	55	27
(Increase)/Decrease in Accounts Receivable			
(Increase)/Decrease in Prepaid Items			
(Increase)/Decrease in Due from Governmental Units		(802)	26
(Increase)/Decrease in Inventory			
Increase/(Decrease) in Accounts Payable	255	311	10
Increase/(Decrease) in Other Accounts Payable			
Increase/(Decrease) in Due to Other Funds			
Increase/(Decrease) in Accrued Payroll and Taxes	1	5	
Increase/(Decrease) in Compensated Absences Payable	11	34	4
Increase/(Decrease) in Estimated Claims Liability	1,981		
Total Adjustments	2,304	(397)	67
Net Cash Provided/(Used) by Operating Activities Carried Forward	$ 851	$ (1,778)	$ 417

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
$ (7,921)	$ (3,858)	$ (24)	$ 13	$ (2,472)	$ (16,746)
1,706	242	42	41	410	2,579
5				14	19
(4)				69	65
	9	(2)		(1)	(770)
	(13)	3	(37)	(66)	(113)
221	98	18	(20)	(28)	865
			(9)	(7)	(16)
				(1)	(1)
6	1	(1)		12	24
34	29	(3)	10	58	177
					1,981
1,968	366	57	(15)	460	4,810
$ (5,953)	$ (3,492)	$ 33	$ (2)	$ (2,012)	$ (11,936)

Combining Statement of Cash Flows
All Internal Service Funds
For the Year Ended September 30, 2001
(In Thousands)

	Risk Management Fund	Personnel Board Fund	Elections Fund
Net Cash Provided/(Used) by Operating Activities Brought Forward	$ 851	$ (1,778)	$ 417
Cash Flows from Non-Capital Financing Activities			
Operating Transfers In		339	206
Operating Transfers Out	(30)		
Increase/(Decrease) in Cash Deficit		447	
Received from Auxiliary Services	405		
Indirect Cost Recovery		1,101	
Indirect Cost		(90)	(76)
Net Cash Provided/(Used) by Non-Capital Financing Activities	375	1,797	130
Cash Flows from Capital and Related Financing Activities			
Acquisition of Fixed Assets	(15)	(19)	(205)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(15)	(19)	(205)
Cash Flows from Investing Activities			
Interest and Dividend Income	182		
Net Cash Provided/(Used) by Investing Activities	182		
Net Increase/(Decrease) in Cash and Cash Equivalents	1,393		342
Cash and Investments, Beginning of Year	8,616		
Cash and Investments, End of Year	$ 10,009	$	$ 342

Information Services Fund	Fleet Management Fund	Central Laundry Fund	Printing Fund	Building Services Fund	Totals Current Year
$ (5,953)	$ (3,492)	$ 33	$ (2)	$ (2,012)	$ (11,936)
3,146	96	5,393		9	9,189
	(60)			(329)	(419)
					447
	2		1	1,027	1,435
5,236	3,843	48		5,243	15,471
(48)			(2)		(216)
8,334	3,881	5,441	(1)	5,950	25,907
(2,367)	(104)	(5,393)		(249)	(8,352)
(2,367)	(104)	(5,393)		(249)	(8,352)
	8	4		129	323
	8	4		129	323
14	293	85	(3)	3,818	5,942
1	116	141	19	3,806	12,699
$ 15	$ 409	$ 226	$ 16	$ 7,624	$ 18,641

Combining Balance Sheet
All Fiduciary Fund Types
September 30, 2001
(In Thousands)

	Expendable Trust Funds		Pension Trust Fund	
	Stormwater Management Authority Fund	City of Birmingham Revolving Loan Fund	General Retirement System	Totals Current Year
ASSETS				
Cash and Investments	$ 1,301	$ 743	$ 664,670	$ 666,714
Loans Receivable, Net		636		636
Interest Receivable			6,264	6,264
Prepaid Expenses	2			2
Fixed Assets, Net Where Applicable	201			201
TOTAL ASSETS	1,504	1,379	670,934	673,817
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	30		388	418
Accrued Payroll and Taxes	18			18
Estimated Liability for Compensated Absences	121			121
TOTAL LIABILITIES	169		388	557
FUND EQUITY				
Fund Balances:				
Reserved for:				
Prepaid Expenses	2			2
Loans Receivable		636		636
Trust Requirements	1,318	743		2,061
Reserved for Encumbrances	15			15
Contingent Refunds			65,833	65,833
Retirement/Disability Benefits			604,713	604,713
TOTAL FUND EQUITY	1,335	1,379	670,546	673,260
TOTAL LIABILITIES AND FUND EQUITY	$ 1,504	$ 1,379	$ 670,934	$ 673,817

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Expendable Trust Funds
For the Year Ended September 30, 2001
(In Thousands)

	Stormwater Management Authority Fund	City of Birmingham Revolving Loan Fund	Totals Current Year
REVENUES			
Intergovernmental	$ 2,227	$	$ 2,227
Investment Income	35	30	65
Miscellaneous	59	96	155
TOTAL REVENUES	2,321	126	2,447
EXPENDITURES			
General Government	1,788		1,788
Indirect Cost	72		72
TOTAL EXPENDITURES	1,860		1,860
Excess of revenues over (under) expenditures	461	126	587
Fund Balances at beginning of year	874	1,253	2,127
Fund Balances at end of year	$ 1,335	$ 1,379	$ 2,714

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APPENDIX C

Proposed Opinion of Bond Counsel

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APPENDIX C

Proposed Opinion of Bond Counsel

Jefferson County Commission
Birmingham, Alabama

Dear Sirs:

We have examined certified copies of proceedings, certificates and other documents relating to JEFFERSON COUNTY, ALABAMA (herein called the "County"), and to the authorization, sale and issuance by the County of

$475,000,000
JEFFERSON COUNTY, ALABAMA
Sewer Revenue Capital Improvement Warrants
Series 2002-D

(said warrants being herein called the "Series 2002-D Warrants"). The statements herein made and the opinions herein expressed are based upon our examination of the said proceedings, certificates and other documents. In our examination of all documents pertaining to the issuance of the Series 2002-D Warrants, we have assumed the genuineness of all signatures, the authenticity of documents submitted to us as originals, the conformity to the original documents of documents submitted to us as copies, the authenticity of such latter documents and the correctness of any facts stated in such documents.

The documents submitted to us show as follows:

(a) the Series 2002-D Warrants have been issued under a Trust Indenture dated as of February 1, 1997, as supplemented and amended by a First Supplemental Indenture dated as of March 1, 1997, by a Second Supplemental Indenture dated as of March 1, 1999, by a Third Supplemental Indenture dated as of March 1, 2001, by a Fourth Supplemental Indenture dated as of February 1, 2002, by a Fifth Supplemental Indenture dated as of September 1, 2002, by a Sixth Supplemental Indenture dated as of October 1, 2002, and by a Seventh Supplemental Indenture dated as of November 1, 2002 (said Trust Indenture, as so supplemented and amended, being herein called the "Indenture"), between the County and The Bank of New York (as successor to AmSouth Bank of Alabama), as trustee (herein called the "Trustee"), pursuant to which the County has pledged to the Trustee, to secure the payment of the principal of and the interest and premium (if any) on the obligations of the County issued pursuant to the Indenture, certain revenues (herein called the "Pledged Revenues") derived by the County from the operation of its sanitary sewer system (herein called the "System") that remain after payment of the expenses of operating and maintaining the System;

(b) the County has heretofore issued under the Indenture (i) $211,040,000 aggregate principal amount of its Sewer Revenue Refunding Warrants, Series 1997-A, (ii) $48,020,000 aggregate principal amount of its Taxable Sewer Revenue Refunding Warrants, Series 1997-B, (iii) $52,880,000 aggregate principal amount of its Taxable Sewer Revenue Refunding Warrants, Series 1997-C, (iv) $296,395,000 aggregate principal amount of its Sewer Revenue Warrants, Series 1997-D, (v) $952,695,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 1999-A, (vi) $275,000,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 2001-A, (vii) $110,000,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 2002-A, (viii) $540,000,000 aggregate principal amount of its Sewer Revenue Capital Improvement Warrants, Series 2002-B, and (ix) $839,500,000 aggregate principal amount of its Sewer Revenue Refunding Warrants, Series 2002-C (those of said warrants which are now outstanding are herein together called the "Outstanding Parity Securities");

(c) the Series 2002-D Warrants have been issued on a parity with the Outstanding Parity Securities with respect to the pledge of the Pledged Revenues contained in the Indenture; and

(d) in the Indenture the County has reserved (i) the privilege of issuing from time to time additional warrants, bonds, notes or other forms of indebtedness (herein called "Additional Parity Securities"), in one or more series, without limitation as to principal amount and secured by the Indenture on a parity with the Outstanding Parity Securities and the Series 2002-D Warrants, but only upon compliance with the conditions set forth in the Indenture, and (ii) the right to secure the payment of certain contractual obligations incurred by the County and referable to warrants issued under the Indenture with a pledge of the Pledged Revenues, which security may, in certain circumstances, be on a parity with the pledge of the Pledged Revenues made in the Indenture (all such contractual obligations that are so secured being herein called "Secured Related Obligations").

Based upon and subject to the foregoing, we are of the following opinion:

(1) The County is duly organized and existing as a county of the State of Alabama and has the power and authority to sell and issue the Series 2002-D Warrants and to enter into the Indenture.

(2) The Series 2002-D Warrants have been duly authorized, sold, executed, authenticated and delivered as provided by the Indenture and in accordance with the applicable provisions of the constitution and laws of the State of Alabama, are in due and legal form, and evidence valid special obligations of the County payable, as to principal, interest and premium (if any), solely from (i) the Pledged Revenues, and (ii) certain other moneys provided under the Indenture.

(3) Under the Indenture the payment of the principal of and the interest and premium (if any) on the Series 2002-D Warrants is secured, pro rata and without preference or priority of one over another or of any of the Series 2002-D Warrants over any of the Outstanding Parity Securities, any Additional Parity Securities that may be issued hereafter or any Secured Related Obligations heretofore or hereafter incurred, by a valid pledge and assignment of the Pledged Revenues.

(4) The Indenture has been duly authorized, executed and delivered on behalf of the County and constitutes a legal, valid and binding agreement of the County which is legally enforceable in accordance with its terms, except that (i) the enforceability of any of the agreements contained in the Indenture may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally, and (ii) any court before which any enforcement proceeding may be brought will have discretion, in accordance with general equitable principles, to deny or limit the remedy of specific performance or other equitable relief with respect to contractual obligations other than for the payment of money.

(5) The County is authorized by the constitution and laws of the State of Alabama to levy and collect the sewer charges and rentals which are required to be levied and collected by the Indenture and which constitute part of the Pledged Revenues.

(6) Neither the registration of any security under the Securities Act of 1933, as amended, nor the qualification of any trust indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the offering, sale and issuance of any of the Series 2002-D Warrants.

(7) Under existing statutes, the interest income on the Series 2002-D Warrants is exempt from income taxation in the State of Alabama.

(8) Under existing statutes, regulations, rulings and court decisions, the interest on the Series 2002-D Warrants is excluded from gross income for federal income tax purposes and is not 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 (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in the next preceding sentence are subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2002-D Warrants in order that the interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2002-D Warrants to be so included in gross income retroactive to the date of issuance of the Series 2002-D Warrants. The County has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2002-D Warrants.

The Indenture provides that, in the event the County should default in any of the provisions thereof in the manner and for the time therein provided, the Trustee may declare all obligations then outstanding under the Indenture to be forthwith due and payable, whereupon the same shall immediately become due and payable and the Trustee shall be entitled to exercise the rights specified in the Indenture. The Indenture does not, however, establish a mortgage lien on the System that will be subject to foreclosure. We have not examined the title of the County to the System as it presently exists, and we therefore express no opinion thereon.

The opinions hereinabove expressed respecting the Series 2002-D Warrants are subject to all applicable bankruptcy, insolvency, moratory and other laws respecting the enforcement of creditors' rights, including specifically, but without limitation, the provisions of Chapter 9 of the United States Bankruptcy Code, as amended, relating to the adjustment of debts of political subdivisions and public agencies and instrumentalities of the several states.

We have been employed solely for the purpose of preparing certain legal documents and supporting certificates, reviewing the transcript of proceedings by which the Series 2002-D Warrants have been authorized to be issued and rendering an opinion in conventional form relating solely to the essential validity and legality of the Series 2002-D Warrants, to the legal security for their payment, to the exclusion of the interest on the Series 2002-D Warrants from gross income for federal income tax purposes, to the exemption of the interest on the Series 2002-D Warrants from income taxation by the State of Alabama and to certain related matters. While we have participated in the preparation of the County's Official Statement respecting the Series 2002-D Warrants, we have not made or participated in any investigation or inquiry into the financial condition of the County, nor have we reviewed any documents relating thereto, and we express no opinion whatever as to the accuracy or completeness of any factual information respecting the financial condition of the County contained in such Official Statement.

Very truly yours,

HASKELL SLAUGHTER YOUNG &
REDIKER, L.L.C.

APPENDIX D

Revenue Forecast of Independent Engineer

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November 5, 2002

Report to the Commission of Jefferson County

Contained herein is a projection of the Environmental Services Department's rate revenues and related income, its operations and maintenance (O&M) expenses, and its annual debt service and debt coverage through the fiscal year ending September 30, 2006. The objective of this undertaking is to evaluate the adequacy of the current sewer user fee structure in light of the requirements created as a result of what is generally referred to as the "Consent Decree" which was entered with the United States District Court in Birmingham, Alabama on December 9, 1996 and the Commission's long term plan for other needed capital improvements.

The Consent Decree calls for the development and implementation of a remedial plan over a twelve-year period to eliminate bypasses and other unlawful discharges of untreated sewage into receiving streams in Jefferson County. Because that plan requires the rehabilitation of an extensive amount of lateral and collector sewers throughout Jefferson County, the undertaking is currently estimated to cost approximately $2.0 billion over the period which officially began in July 1995. While much has been accomplished during the first seven years of the twelve-year time frame set forth in the Decree, a considerable amount of work remains to be done. As compliance with the provisions of the Consent Decree continues to manifest itself through very substantial capital outlays by the County, it has become necessary to periodically increase the existing sewer user fee structure to accommodate the periodic financing of those improvements. Other needed improvements are currently projected to cost approximately $1.1 billion.

Proposed changes in the sewer user fee structure have historically been based on usage by existing customers at prevailing rates during the most recent fiscal year. While there can be no assurance that those customers will continue to use the County's sewer facilities at that same rate as user fees rise, it has historically been the amount of rainfall during a fiscal year which has been the most significant factor influencing the amount of sewer usage experienced. The fiscal year ended September 30, 2000 was a very dry one, while the following fiscal year was a very wet one according to National Oceanic and Atmospheric Administration records for the Jefferson County area. In our opinion, neither year was satisfactory for purposes of modeling the probable user rate increases required to fund the County's planned capital improvements program. Accordingly, in projecting rates for the Series 2002-B and thereafter debt offerings, we attempted to minimize the influence of an event at either extreme by making our forecast using the development of an "average year" usage model which considered usage data for those two fiscal years. The fiscal year ended September 30, 2002 proved to be one in which rainfall closely approximated that on which the "average year" model was based. However, the quantity of sewer services demanded during that year declined somewhat when compared with the average year. As a consequence, we must assume that either the public has begun to use water more wisely as a result of the drought in 2000, or the price of sewer services is beginning to result in conservation practices in some segments of the county rate base. Please see a more complete discussion of this subject in the body of the report.

To position itself in such a manner as to provide the maximum flexibility which will be required to meet its normal needs and comply with the terms of the Consent Decree, the Commission proposes to borrow an additional $475 million to maintain its rate of progress toward construction of projects mandated by the Consent Decree, other projects required to comply with the Clean Water Act, and discretionary projects which are necessary to meet the future needs of the system. This borrowing will finance the construction objectives scheduled for completion over the next two fiscal years. Additional borrowing may be required during the remaining years of the period set by the Consent Decree.

Sewer user fees accounted for approximately 74 percent of the Environmental Services Department's total revenues in the most recently completed fiscal year, and that percentage is expected to rise steadily in future years. The rate currently in effect is $3.53 per hundred cubic feet of water consumed. Residential customers receive a quantity exclusion equal to fifteen percent of their water usage, so the typical account in this customer group, assuming the use of 1,000 cubic feet of water per month, would currently receive a monthly bill of $30.01. With the implementation of the automatic rate increase which is projected to take effect January 1, 2003 and based upon the financing plan currently proposed, the sewer user fee would rise from $3.53 to $5.05 per hundred cubic feet. This would result in an increase in a typical residential user's monthly bill from $30.01 to $42.93 or an increase of approximately 43 percent. Utilizing the County's automatic rate increase ordinance, the projected rate increases to $6.26 per hundred cubic feet on January 1, 2004, to $7.18 per hundred cubic feet on January 1, 2005, and to $7.83 on January 1, 2006. All projections of sewer user fees contained in this report are contingent upon the actual implementation of the planned rate increases on the dates proposed herein.

Based on the financial and operating data available to us, it is our opinion that sewer rate revenues arising from the proposed sewer user charge system, when added to the other sewer operating revenues and resources which the Commission indicates are available to it, will be adequate to cover projected sewer operations and maintenance expenses, existing and currently proposed annual debt service, and debt service coverage as required by the governing indenture agreement. Projected annual net income available for debt service is $82.6, $104.1, $123.1 and $137.0 million for the fiscal years ending September 30, 2003, 2004, 2005, and 2006, respectively. A brief summary of projected revenues, operating expenses and annual debt service for these years may be seen in Exhibits A and B of this report.

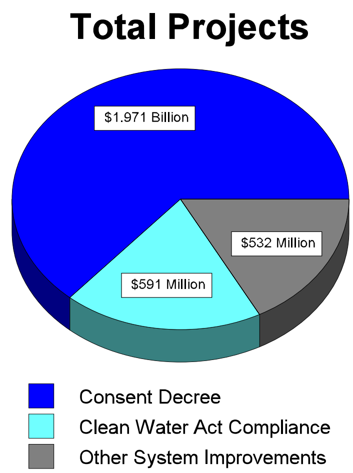
Sources of information used to make rate revenue projections contained in this report included summary usage and billing data provided by the Water Works and Sewer Board of the City of Birmingham and the smaller municipal utilities in the Jefferson County sewer system. Other revenues and operating expenses are projected using historical financial information contained in the Commission's accounting system, operating expense budget data prepared by Commission professional staff, and other information provided by the professional engineers of the Environmental Services Department.

We appreciate very much the opportunity to serve the Commission on this project. If we can be of additional assistance, please do not hesitate to call on us.

Paul B. Krebs & Associates, Inc

PROJECT OVERVIEW

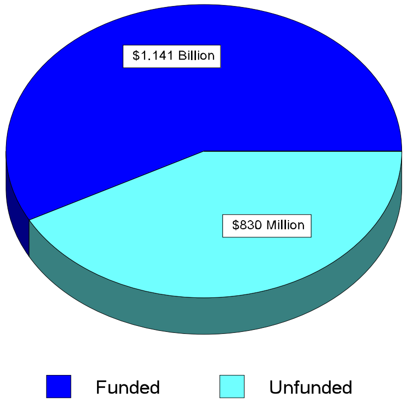
This report is the fifth of a series arising out of the partial summary judgment granted in favor of the original plaintiff and the federal government by the District Court in December 1995. The case, which was brought against the Jefferson County Commission in 1993, alleged that the Commission violated certain provisions of the Clean Water Act of 1972, as amended. The District Court judgment mandated that the defendants in the litigation develop a plan of action now commonly known as the "Consent Decree", which set forth the manner in which the violations would be remedied. That plan was filed with the United States District Court, Northern District of Alabama, on December 9, 1996, and has provided the principal focus for the debt offerings which have followed the court ruling. Those bond offerings have also included funding for construction of some improvements which were deemed necessary by the Commission, but not required by the Consent Decree.



Engineering reports have been developed to support needed debt offerings in 1997, 1999, 2001 and earlier in 2002 in an effort to assist the Commission in complying with the terms of the Consent Decree and meeting other construction objectives, even though the total cost of the improvements to the system required had not yet been fully determined. As far as the Consent Decree is concerned, the Commission is obliged, within a twelve year time frame beginning in June 1995, to complete all of the improvements required to bring it into compliance with the Clean Water Act. The Series 1997, 1999, 2001, 2002-A and Series 2002-B debt offerings funded part of the needed improvements, but the Commission now seeks additional financing in the amount of $475 million to continue with its construction improvements plan for the work contemplated. It is anticipated that, after issuance costs and the funding of the debt service reserve and other funds, approximately $386 million will be available for use on planned sewer improvements. When this amount is combined with the proceeds made available from the Series 2002-B debt offering and funds on hand from prior financing efforts, it is projected that funds available for existing and proposed sewer projects will approach $837 million. Work remaining on contracts awarded by the Environmental Services Department as of September 30, 2002 is valued at $436 million, so approximately $401 million of the funds currently available for construction work can be devoted to new projects. The proposed use by the Jefferson Count Environmental Services Department of the unencumbered amounts is outlined in more detail in the sections which follow. The Commission continues to develop more accurate estimates for the cost of the work remaining to be performed, to identify other projects which will have to be constructed to meet announced but not yet implemented Environmental Protection Agency (“EPA”) discharge standards, to identify other projects required to serve new growth, and to maintain the construction schedule required to obtain information needed to measure compliance with the Consent Decree on or before the EPA’s scheduled benchmark dates.

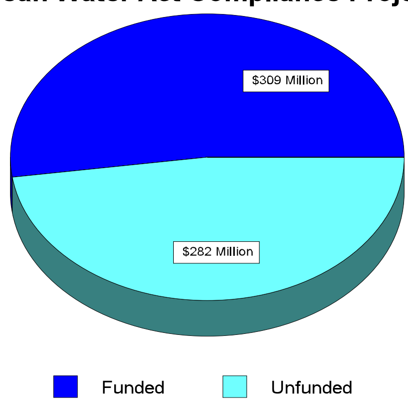
As of the date of this report, the best estimate for the cost to complete both the already constructed and the proposed work is approximately $3.1 billion. This figure does not include approximately $97 million which the Commission spent on essential improvements before the Consent Decree became effective. The cost of the work remaining to be performed should continue to be considered an approximation until bids on all projects to be constructed have been received. This estimate is subject to adjustment as additional information becomes available. The financing plan which brought about the need for this report calls for the borrowing of approximately $475 million to be used to provide funding for projects during the next two years of planned construction activity for projects which can be classified into three groups: Consent Decree, Clean Water Act Compliance, and Other System Improvements.

Consent Decree Projects



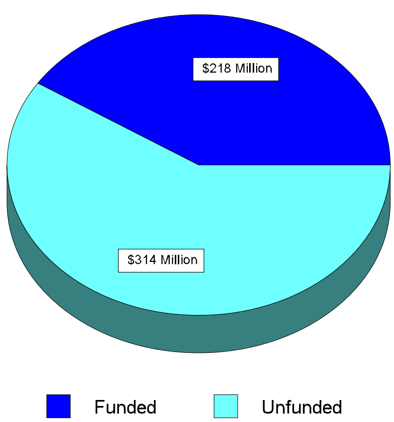
Consent Decree projects can be generally categorized as infiltration/inflow (I/I) program management, sewer rehabilitation and replacement projects, and the upgrading of some wastewater treatment plants to meet the discharge standards mandated in that document. The total cost of all Consent Decree projects is currently projected to be $1.971 billion. Of this amount, approximately $1.141 billion has been funded. Of the $830 million in projected remaining costs, it is anticipated that $559 million will be constructed with funds now available, leaving approximately $271 million to be funded from future resources as they become available.

Clean Water Act Compliance Projects



Clean Water Act Compliance projects include projects which, while not specifically mandated in the Consent Decree, must be constructed in the near term if the County is to bring some recently acquired facilities into compliance with existing EPA standards as well as modify others to meet the evolving discharge standards which may have been announced by the EPA but which are not yet effective. Such projects include sewer replacements, relief sewer construction, upgrades to wastewater pumping stations, and upgrades to wastewater treatment plants. The projected cost for all projects in this group as of the date of this report is $591 million. Of this amount, approximately $309 million has already been funded. Of the $283 million in remaining costs, it is anticipated that $190 million will be constructed with funds now available, leaving $93 million to be funded from future resources as they become available.

Other System Improvements



Other System Improvements include projects such as sanitary sewer extensions, new sewer pumping stations, and wastewater treatment plant expansions. All projects in this category are constructed for the purpose of providing additional capacity to serve new accounts. The projected cost for all projects included in this group is $532 million, and $218 million of this amount has already been funded, leaving $314 million to be funded. Of the $314 million in remaining projected costs, $89 million will be constructed with funds now available. The remaining projects, estimated at $225 million, will be funded from future resources as they become available.

REVENUE REQUIREMENTS

General

To develop a rate structure which should provide the Commission with the system revenues required to discharge its responsibilities, it is necessary to consider the following requirements: (1) the amount of operating and maintenance (O&M) expenses to be incurred in a fiscal year, (2) the amount of debt service which the Commission will be required to satisfy during that period, and (3) the terms for the debt service as specified in the Trust Indenture.

After the revenue requirements for each major group have been properly identified, the total of those requirements may then be compared with revenues anticipated to be generated from the existing customer base under the Commission's current rate structure and other operating revenues. If the revenues generated are found to be inadequate, a new rate structure which will help satisfy the projected revenue requirements is then proposed. The current rate for sewer service is $3.53 per hundred cubic feet and has been in force since January 1, 2002. To meet its ongoing operating and capital needs, an increase in the sewer user fee will be required. The currently projected rate increase, scheduled for implementation on January 1, 2003, will increase the current volumetric charge to $5.05 for that same quantity. To comply with the Revenue Forecast provisions of the Trust Indenture, the $5.05 rate is proposed to rise again to $6.26 on January 1, 2004, to $7.18 on January 1, 2005, and to $7.83 on January 1, 2006.

O&M Expense

Starting points for determining an estimate of this revenue requirement are the Commission’s unaudited financial statement for the most recently completed fiscal year and the budget for the current year. The Commission has an experienced professional staff that maintains a well-developed financial reporting system which both accumulates current financial information each month and compares current operating performance against budget on year-to-date basis. The budget and financial reporting system contains a great deal of data about actual financial performance in prior years as well as budget information on its various operating segments for the current fiscal year. The fiscal year for the Commission ends on September 30.

For the fiscal year ended September 30, 2002, total operating expense (as defined in the Trust Indenture) for the Environmental Services Department amounted to $44.6 million. For the fiscal year ending September 30, 2003, operations and maintenance expenses are budgeted at $56.6 million, or 27 percent higher than those in the preceding fiscal year largely because the County continues to increase its staffing and expenses to meet the requirements of the Consent Decree. Historically, the Environmental Services Department has underrun its operating budget by a considerable margin. For the most recently completed fiscal year, actual expenses were approximately 85 percent of budgeted amounts. However, we must assume that the budget for the current fiscal year will closely approximate what will ultimately be incurred.

Most of the operating expense groupings reflect moderate increases for the current fiscal year, but the largest single item in terms of both percentage and dollar increase is expected to be experienced in the Sanitary Administration expense grouping. This increase is largely due to the anticipated filling of additional positions in the that area. However, liquidity and remarketing fees arising out of the Series 2002-C refunding now constitute about 4.5 percent of projected operating expenses which the Environmental Service Department must also address in addition to regular operating expenses. For the fiscal years beginning October 1, 2003 and continuing through the fiscal year ending September 30, 2007, the professional staff of the Environmental Services Department has projected operating expenses to rise at an annual rate of between four and five percent. Accordingly, Operations & Maintenance (O&M) expense is projected to rise at a rate of approximately 4.5 percent per year for those fiscal years. For the fiscal years beginning October 1, 2007 and thereafter, however, it is the opinion of the professional staff of the Environmental Services

Department that there will be a decrease in the annual rate of growth in operating expense as construction spending winds down and emphasis can be placed on operating efficiencies. More specifically, those efficiencies are expected to include a leveling of or decrease in sewer line maintenance expense currently budgeted at $6.38 million, the significant reduction in the maintenance expense on the more than 100 sewer pumping stations acquired from surrounding municipalities once those facilities have been upgraded to county standards or taken out of service due to more efficient system operating configurations, and the implementation of a SCADA system for remote monitoring of certain operating facilities which will minimize the need for additional personnel. A more detailed examination of the components of projected O&M expense may be seen in Exhibit B of this report.

Debt Service

The Commission currently has sewer debt obligations outstanding which total approximately $2.55 billion. The County plans to issue additional parity indebtedness of approximately $475 million to continue with the System's construction during this year and subsequent years. A major portion of that amount will be used to construct the estimated $830 million in remaining construction required for compliance with the Consent Decree, while the remainder will be used to fund other sewer improvements already under contract. After issuance of the additional parity indebtedness, the County will have approximately $3.03 billion in sewer revenue debt outstanding. Maximum annual debt service (MADS) is projected to be approximately $171.9 million. Annual debt service numbers reflected in Exhibit A have been provided by J.P. Morgan Securities, Inc. The MADS figure has been provided by Sterne, Agee & Leach, Inc.

Debt Service Coverage

Debt service coverage is usually thought of in terms of the amount by which the bond documents require that annual net revenues available for debt service (NRADS) must exceed annual debt service. Under the terms of the Trust Indenture, there is a specific debt service standard which defines both the NRADS and Prior Years' Surplus (PYS) funds required to issue parity debt. For purposes of that Revenue Forecast, until the fiscal year beginning October 1, 2007, the required combined coverage test is 1.05 times maximum annual debt service (MADS). At least .75 of that coverage must be provided by NRADS, while the remaining .30 coverage requirement may be provided by certain resources, hereinafter referred to as Prior Years' Surplus (PYS) funds, which the County has accumulated from its operation of the Environmental Services Department in recent years. In the fiscal year beginning October 1, 2007, it will be necessary for NRADS to equal or exceed 1.05 times MADS.

SOURCES OF REVENUE

The major sources of revenue available to the Environmental Services Department, are: (1) sewer user fees, (2) sewer impact fees, (3) ad valorem taxes, (4) waste surcharges, (5) interest income, and (6) miscellaneous income. Of these, sewer user fees is by far the most important, contributing from 77 to 88 percent of projected total revenues during the years for which a forecast has been made. The Commission has undertaken a study of the adequacy and equity of all of its sources of operating revenue, and that report is scheduled for completion by the end of calender year 2002.

Sewer User Fees

Most of the sewer user fees are collected for the Commission by the Water Works and Sewer Board of the City of Birmingham (the "Board") and are based on water meter readings. In exchange for collection services, the Commission pays that entity a handling fee equal to the cost of collections as defined in the agreement between the Commission and the Board dated November 29, 1994. Billings through this entity accounted for about 87 percent of the sewer user fees billed in the fiscal year ended September 30, 2002. The County also provides sewer service to a smaller number of customers not served through the Water Works and Sewer Board of the City of Birmingham. Those entities are the boards or municipal governments of the cities of Bessemer, Graysville, Irondale, Leeds, Mulga, Roupes Valley and Trussville. The City of Bessemer both bills and collects for sewer service on the Commission's behalf, while the remaining six municipalities submit water usage data for their customers individually to Jefferson County, which then bills customers for their usage.

The customer base of the Environmental Services Department is currently composed of almost 141,000 residential, commercial and industrial accounts. Based on data available from the Birmingham Water Works & Sewer Board, the Commission's Finance - Sewer Services Department and the City of Bessemer, the distribution of and contribution to rate revenues by those groups for the fiscal year ended September 30, 2002 is reflected in the table which follows:

Customer	No. of Accounts	Percent of Revenue
Residential	127,600	41.8%
Commercial	13,133	56.1%
Industrial	90	2.1%
Total	**140,823**	**100.0%**

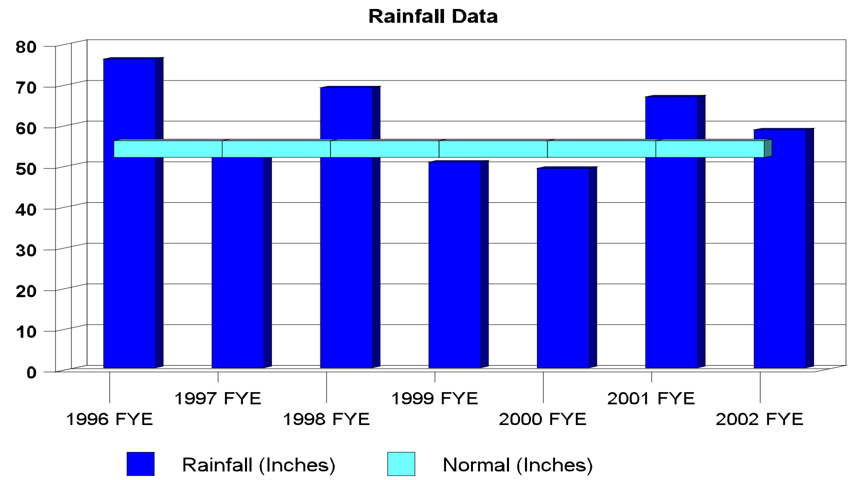
Source: Jefferson County Sewer Services Billing Department

To properly project the amount of additional revenue to be generated by the implementation of a proposed rate increase, it is important to have both actual cubic feet of sewer usage billed by customer class and the current dollar amount earned at the existing rate. Both usage and revenue data must be accumulated because the Commission permits certain discounts and allowances among various groups of customers, and knowledge of those discounts and allowances must be taken into consideration when forecasting the additional revenue to be generated by a change in the billing rate per hundred cubic feet. Revenue and usage data by customer class has been provided by the Water Works and Sewer Board of the City of Birmingham since 1991, and more recently by the smaller utilities within the Jefferson County system. As a result, it is possible to make some reasonable assumptions as to what can be expected in the way of additional revenues arising from a change in the billing rate, assuming no change in price elasticity of demand.

For a typical residential customer using perhaps 1,000 cubic feet per month, the change from the existing rate of $3.53 to the proposed rate of $5.05 per hundred cubic feet on January 1, 2003 will raise his or her monthly bill from $30.01 to $42.93. Actual and projected monthly bills for a typical residential customer from 2003 through 2006 may be seen in Exhibit A, however, the possible impact of the projected increase in rates on usage is difficult to predict.

It appears that the amount of rainfall experienced in a fiscal year is an influential factor in the level of billable sewer usage, and it is the intent of the rate model to attempt to project probable rate increases in what might be defined as a year in which a normal amount of rainfall could be expected to occur. A normal year is defined as the average amount of annual rainfall for the Jefferson County area from 1961 to 1990 as determined by the National Oceanic and Atmospheric Administration. During the two fiscal years ending September 30, 2000 and 2001, normal rainfall conditions did not occur. Billable sewer usage dropped approximately 15% from the 2000 to the 2001 fiscal year, while rainfall for the area was 36% higher in the 2001 fiscal year when compared with the 2000 fiscal year. As shown in the Rainfall Data exhibit, for the 2000 fiscal year, the rainfall total was approximately 10% lower than a normal year for Jefferson County.

In the following fiscal year, however, the rainfall total was 22% higher than for a normal year. We used customer data in the two fiscal years just discussed to create what we believed to be a representative usage year, and we also found that in the normal year, the rainfall amount for the Jefferson County sewer service area could be expected to be 57.8 inches. For the fiscal year ending September 30, 2002, the rainfall amount for the area was 58.5 inches. As a consequence, we believe that usage actually experienced during the "normal" year for the rate model is appropriate for forecasting purposes. This average year was used in the Series 2002-B forecast for all classes of users to project growth in rate revenues for future years. Based on usage data now available for the fiscal year ended September 30, 2002, however, we have now elected to consider average usage by customer class during the three most recent fiscal years as a basis in our current model to forecast usage. This average year has been used for all classes of users to forecast growth in rate revenues for future years.



Residential units and apartment dwellers currently account for almost 42 percent of all billable usage, so an increase in cost of sewer service may not result in any meaningful reduction in usage from this group, but there may be a point at which this assumption is no longer valid Commercial and industrial customers, particularly the latter, could be a different matter. However, because industrial accounts represent only about 2.1 percent of rate revenues in the fiscal year ended September 30, 2002, it can be assumed that any action that a customer in this class might take would probably not seriously endanger the revenue generating capability of the proposed rate increase. Nevertheless, the impact of possible action by the commercial customers responsible for the remaining 56 percent of the annual rate revenues cannot be entirely discounted. However, it is our opinion that if conservation action was taken by customers in this group, such action would probably be confined to the larger users.

Over the years during which usage and account growth data has now been available, it has been calculated that the annual compound growth rate in billing units chargeable has been approximately 0.25 percent. However, based on the preliminary data for the fiscal year ended September 30, 2002 available as of the date of this report, we are obliged to assume that the factor of price elasticity of demand may be beginning to have some effect on usage. We currently do not have sufficient historical data to quantify the possible extent of that factor, but we believe that it would be prudent to assume no additional growth in usage until the influence of this variable can be more accurately ascertained. Projections made are predicated upon the continuance of the Commission's existing policies relating to credits and allowances for the various customer classes as we understand them. Any material change in the Commission's policy on credits and allowances could have a significant impact on rate revenues.

With the considerations outlined in the preceding paragraph in mind, a rate model has been developed calling for a user fee per hundred cubic feet of $5.05 to be implemented on January 1, 2003, $6.26 on January 1, 2004, $7.18 on January 1, 2005, and to $7.83 on January 1, 2006 to meet the projected revenue requirements determined in this report. Rate revenues of approximately $108.4, $138.3, $161.4 and $178.1 million are projected for the fiscal years ending September 30, 2003, 2004, 2005, and 2006, respectively. In our opinion, the foregoing projected rates, while at the higher end of sewer user fee structures currently being experienced by publicly operated treatment works, would be reasonable for sanitary sewer systems similar in size and character to the system which may be operating under similar legal and regulatory constraints. In assessing the character of the Jefferson County system, we considered historical usage data, composition of the customer base, operational requirements, and regulatory and legal requirements.

Sewer Impact Fees

Impact fee revenues have varied somewhat in recent years, ranging from approximately $3.6 to $4.4 million. The current impact or system development charge fee system has been in effect for many years. Impact fees are influenced by a number of factors including, but not limited to, interest rates, employment conditions, regulatory considerations and the possibility of an increase in amount, although the last of these factors normally has more of a one time rather than an ongoing impact. In Jefferson County the basis for impact fees is, as a general rule, an assessment per plumbing fixture unit, but there are variations of this rule for certain establishments such as restaurants or other higher use facilities. There may also be a nominal amount for connection of an existing structure to a new sewer service line installed where service did not previously exist. Because we believe that this source of revenue may be significantly impacted by changing economic conditions, it is appropriate to be conservative when projecting revenue from impact fees. The Commission has forecasted $3.7 million for impact fee revenues for the current fiscal year. Future growth is projected at 2 percent annually to allow for the unpredictability of this source of revenue. While it is not expected that such a move would generate a significant increase in the amount of revenue earned from this source, the methodology for developing the amount of the impact fee to be charged to a new customer should be periodically reviewed to ensure both adequacy of the charge and equity to the existing customer base.

Ad Valorem Taxes

Ad valorem tax revenues allocable to the Environmental Services Department has ranged from $2.9 to $4.5 million over the past five fiscal years. This source has experienced some variability in its most recent fiscal year due to changes in funding percentages both at the state and county levels. The Commission has recently revised its estimate for ad valorem revenues allocable to sewer operations to be $3.9 million for the current fiscal year to reflect the influence of both recurring and non-recurring adjustments which took place in the last fiscal year. One of those adjustments will also be reflected in the current fiscal year. Beyond the influence of those adjustments, we have assumed an annual compound growth rate of 2 percent per year. It is also our understanding that while revenues from ad valorem taxes allocable to the sewer operations may be counted for purposes of debt service coverage, they cannot be pledged toward the payment of the debt itself.

Waste Surcharges

Industrial waste surcharges earned in the fiscal year ended September 30, 2002 amounted to $1.9 million, up from $1.7 million in the preceding fiscal year. The schedule for these charges was revised in January 1996, and that schedule is undergoing review at the time of this report. Revenues from this source are largely dependent on Commission policy. Future revenues from this source are uncertain. The Commission anticipates $1.9 million from this source for the current fiscal year. In the interest of conservatism it is projected that this item will grow at an annual rate of 2 percent. Potential revenues from this source will be examined again when the Commission completes its review of its current charge methodology.

Interest Income

The projection amount of interest income to be earned by an entity is an approximation due to the volatility of short term interest rates. Such a forecast involves estimating interest earnings on the various indenture funds and on various other funds of the System. Those funds include interest earned on operating funds, all special purpose funds, debt service reserve funds, construction funds, and other related interest earning sources. Interest earnings for the fiscal years ending September 30, 2003, 2004, 2005, and 2006 are projected to be $20.2, $14.3, $12.5 and $12.1 million, respectively. The Construction Fund is projected to be spent in monthly installments through May 2004, and capitalized interest funds are scheduled to fund interest until six months after the construction fund is depleted. We believe that it is appropriate to assume an interest rate that corresponds to the one-year average life of these assets, which is 1.52% under market conditions as of October 2002. Debt service reserve funds, however, will remain in place through the final maturity of the warrants for which they were established. For example, the Series 1999-A Debt Service Reserve Fund will remain in place until the final maturity of February 1, 2039, and the Series 2002-B and 2002-D Debt Service Reserve funds will remain in place until the final maturity of February 1, 2042.. Due to the long average lives of these assets, it is assumed that the Series 2002-B Debt Service Reserve will earn the allowable yield of 5.03%, while the Series 2002-D fund will earn at the allowable yield of 5.19%. An interest rate of 5.25% is assumed on the 1997 and 1999 Debt Service Reserve Funds. The County has historically earned higher rates of return on its investments.

Miscellaneous Income

Sources of revenue making up this revenue grouping include other sanitation charges, septic tank dumpings, delinquency fees, developer assessments, and recovery of charged off balances. Although this source of revenue amounted to approximately $980,000 for the most recent fiscal year, revenues from this source have historically ranged from $700,000 to $900,000 annually. These items constitute less than 1 percent of total projected revenues of the Environmental Services Department. Little change in the size of the revenue stream is expected to occur. The County forecasts $1.0 million in miscellaneous revenues for the current fiscal year, and the growth rate used in projecting future revenue estimates arising from this source is 2 percent.

SUMMARY OBSERVATIONS

We have worked with the Commission on sewer revenue forecasts on several occasions in the last ten years, and that continuing relationship has afforded us the opportunity to become increasingly familiar with the financial reporting systems providing the information which is the basis for this report. We are confident that this information provided represents a good framework for both evaluating the resources currently available to the Environmental Services Department and projecting that department's future revenues and requirements.

Based on the information available to us, it is our opinion that the currently adopted and the proposed rate increases raising the rate from a level of $3.53 to $5.05 per hundred cubic feet effective January 1, 2003, to $6.26 on January 1, 2004, to $7.18 on January 1, 2005, and to $7.83 on January 1, 2006 will be sufficient to adequately fund the operations of the Environmental Services Department, provide for the orderly retirement of its debt for the period modeled and meet the other terms of the trust indenture, assuming that there is no material change in the economic or regulatory environment in which the Commission must operate. However, it should also be recognized that increasing conservation on the part of sewer system users may be expected as the cost of sewer service becomes more expensive, but the dollar value of potential conservation efforts is not quantifiable at this time.

The exhibits which follow provide an overview of projected revenues, operating expenses and debt service requirements which the Commission's Environmental Services Department can reasonably expect to experience over the years discussed herein, assuming implementation of the proposed change in sewer user fees as projected.

Exhibit A
Jefferson County Commission
Environmental Services Department
Proforma Income Statement and Debt Coverage
(thousands)

	Fiscal Years Ending September 30			
	2003 (forecast)	**2004** (forecast)	**2005** (forecast)	**2006** (forecast)
Revenues:				
Sewer service fees(1)	$108,393	$138,311	$161,376	$178,054
Impact fees	3,745	3,819	3,896	3,974
Ad valorem taxes	3,887	3,965	4,044	4,125
Waste surcharges	1,944	1,984	2,023	2,064
Interest income(2)	20,218	14,255	12,526	12,173
Miscellaneous	984	1,004	1,024	1,044
Total Revenues	139,171	163,338	184,889	201,434
Operating Expense:				
O & M Expense(3)	56,606	59,226	61,767	64,423
Excess of Revenues over Expenses	$82,565	$104,112	$123,122	$137,011
Current & Projected Annual Debt Service(4)(5)	$92,236	$105,097	$147,114	$149,518
Historic debt coverage	0.90	0.99	0.84	0.92
Prospective debt coverage (6)	0.79	0.71	0.82	0.92
Prospective w/PYS coverage(7)	1.71	1.37	1.32	1.34
Operation of Prior Years' Surplus funds (8)				
Beginning Balance	$106,513	$97,555	$97,292	$74,035
Contributions	0	0	0	0
Earnings	1,619	1,483	1,478	1,125
Transfers to Revenue Fund	(10,577)	(1,746)	(24,735)	(12,886)
Ending Balance	$97,555	$97,292	$74,035	$62,274
Rate per 100 cf	$5.05	$6.26	$7.18	$7.83
Implementation date	01/01/03	01/01/04	01/01/05	01/01/06
Average monthly residential bill (1000 cf) (after 15 % non-sewer allowance)	$42.93	$53.21	$61.03	$66.56

IMPORTANT : The accompanying notes are an integral part of this exhibit.
Please see Trust Indenture for details.

1. Projected rate revenues assume no annual growth in billable wastewater units and the continued application of the existing rate structure in its current form. Actual growth experienced may differ from projected. Rate revenues and interest income projected from rate model.

2. Interest income includes interest earnings on all Trust Indenture funds (including the Construction Fund) and on various other funds of the System. Interest income earned is projected using appropriate interest rates currently available. See report for discussion of interest rate assumptions.

3. Operations and Maintenance (O & M) expenses are those expenses incurred to carry on the normal day-to-day operation of the System. The projections included herein reflect budgeted O&M expense for FYE 09/03 and normal growth. However, actual operating expenses could vary significantly from budgeted. See report for discussion of recent historical and budgeted O & M expenses.

4. For purposes of the Revenue Forecast as set forth in the Indenture, net revenues available for debt service (NRADS) in the Test Year (09/30/2006) must equal or exceed .75 times the maximum annual debt service (MADS) for the System. It is assumed that MADS will be approximately $171.9 million and will occur subsequent to the Test Year.

IMPORTANT : The accompanying notes are an integral part of this exhibit.
Please see Trust Indenture for details.

5. It is anticipated that the Commission may issue additional debt in a future year to continue with its projected plan for funding proposed capital improvements. The actual date for and the amount of the proposed financing has not yet been finalized. Such debt, if issued, would result in an increase in sewer rates on January 1 of the following year.

6. Annual debt service for the fiscal year ending 09/30/2007 is $149,171,504.

7. Prior Year Surplus (PYS) Funds as defined in the Trust Indenture.

8. See the table below for a more detailed presentation of the operation of the Prior Years' Surplus Funds.

Operation of Prior Years' Surplus funds
(thousands)

Rate Stabilization Fund	**2003**	**2004**	**2005**	**2006**
Beginning balance	$59,659	$49,989	$49,003	$25,012
Contributions to RSF Acct.	0	0	0	0
RSF earnings (1)	907	760	744	380
Transfers to Revenue Fund	(10,577)	(1,746)	(24,735)	(12,886)
Ending balance	49,989	49,003	25,012	12,506
Depreciation Account Fund				
Beginning balance	$46,854	$47,566	$48,289	$49,023
Contributions to DA Fund.	0	0	0	0
DA Fund earnings (1)	712	723	734	745
Capital improv. withdrawals	0	0	0	0
Ending balance	47,566	48,289	49,023	49,768
Ending PYS Fund balance	$97,555	$97,292	$74,035	$62,274

1. A rate of 1.52% is assumed for all Prior Year Surplus funds.

Exhibit B
Jefferson County Commission
Environmental Services Department
Projected Operations & Maintenance Expenses

O & M EXPENSES:

	2003 (Budget)	2004 (Forecast)	2005 (Forecast)	2006 (Forecast)
Finance - Sewer Services	$3,652,724	3,817,097	3,988,866	4,168,365
Provision for Bad Debts	1,955,195	2,043,179	2,135,122	2,231,202
Liquidity/Remarketing/Rating	2,563,973	2,752,403	2,752,403	2,752,403
Non - Departmental	3,432,563	3,587,028	3,748,445	3,917,125
Supplemental Environmental	276,475	288,916	301,918	315,504
Sanitary Administration	5,218,967	5,453,821	5,699,242	5,955,708
Administrative Engr. & Const.	402,126	420,222	439,132	458,893
Surveying Engr. & Const.	1,047,368	1,094,500	1,143,752	1,195,221
Inspection Engr. & Const.	1,945,797	2,033,358	2,124,859	2,220,478
Sewer Line Reconstruction	1,395,315	1,458,104	1,523,719	1,592,286
Administrative Line Maint.	1,292,664	1,350,834	1,411,621	1,475,144
Village Line Maintenance	1,385,787	1,448,147	1,513,314	1,581,413
Shades Line Maintenance	2,303,080	2,406,719	2,515,021	2,628,197
TV Inspection & Grouting	1,466,964	1,532,977	1,601,961	1,674,050
Cahaba River WWTP	2,873,964	3,003,292	3,138,441	3,279,670
Five Mile Creek WWTP	2,234,199	2,334,738	2,439,801	2,549,592
Leeds WWTP	874,415	913,764	954,883	997,853
Trussville WWTP	845,338	883,378	923,130	964,671
Turkey Creek WWTP	619,953	647,851	677,004	707,469
Valley Creek WWTP	5,473,135	5,719,426	5,976,800	6,245,756
Village Creek WWTP	5,459,704	5,705,391	5,962,133	6,230,429
Five Mile Creek Maint. Shop	285,996	298,866	312,315	326,369
Valley Maintenance Shop	373,951	390,779	408,364	426,740
Village Maintenance Shop	500,438	522,958	546,491	571,083
Village Electrical Shop	955,674	998,679	1,043,620	1,090,583
Instrument Shop	438,478	458,210	478,829	500,376
Package Plants/Pump Statns.	4,043,956	4,225,934	4,416,101	4,614,826
Biosolids Handling	1,015,568	1,061,269	1,109,026	1,158,932
Barton Lab	2,271,941	2,374,178	2,481,016	2,592,662
	$56,605,708	$59,226,016	$61,767,329	$64,423,000

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APPENDIX E

Specimen Bond Insurance Policy

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Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

Deborah M. Reif

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Supplement dated November 6, 2002

to Official Statement dated November 4, 2002 with respect to

$475,000,000
JEFFERSON COUNTY, ALABAMA

Sewer Revenue Capital Improvement Warrants,
Series 2002-D

This Supplement is provided to describe litigation that has been filed in connection with the above-referenced warrants (the "Series 2002-D Warrants") to be issued by Jefferson County, Alabama (the "County"). This litigation is in addition to the litigation with respect to the County's Series 2002-B Warrants as described in the Official Statement under "LITIGATION – Litigation Concerning Series 2002-B Warrants".

On November 5, 2002, plaintiffs Gary White, Larry Langford and Shelia Smoot filed an action styled Gary White et al. v. The Jefferson County Commission, in the Circuit Court of Jefferson County, Alabama, as Civil Action No. CV02-6734 (this case referred to as "White II"). Plaintiffs in White II include Gary White, the current President of the County Commission, and two individuals who will take office as Commissioners on November 12, 2002.

White II constitutes a procedural challenge to the issuance and validity of the Series 2002-D Warrants. The County Commission, pursuant to state law, has established certain rules for the consideration of matters at its meetings. Plaintiffs claim that such rules were not followed with respect to the October 31, 2002 approval of the resolution authorizing the issuance of the Series 2002-D Warrants (the "Warrant Resolution"). The Warrant Resolution was presented at the Commission's October 29, 2002 meeting and approved upon the reconvening of such meeting on October 31, 2002 by a 4 to 1 vote, with Commissioner White voting in the negative. According to the plaintiffs, the Warrant Resolution was an incomplete matter as presented to the Commission at its October 29 meeting and, as such, should have been placed on the October 31 agenda as new business, which would require a unanimous vote of the Commissioners prior to consideration at a meeting.

Plaintiffs in White II seek a temporary restraining order and a preliminary and permanent injunction prohibiting the "sale" of the Series 2002-D Warrants, a declaration that the Warrant Resolution is null and void and a declaration that the Series 2002-D Warrants are null and void.

On November 5, 2002, a hearing was held on plaintiffs' request for a temporary restraining order. According to pronouncements from the bench, a decision is expected on such request on November 7, 2002.

The County Commission believes that the claims in White II are without merit. In connection with the issuance of the Series 2002-D Warrants, Bond Counsel will deliver an opinion, upon which the holders of the Series 2002-D Warrants may rely, that, based upon the pleadings in the White II case and the applicable law as of the date of such issuance, the claims asserted by the plaintiffs in that case are without merit and the final disposition of the case will not adversely affect the validity of the Series 2002-D Warrants or the obligation of the County to provide for the payment thereof as described in the Official Statement.

JEFFERSON COUNTY, ALABAMA

By: s/ Jeff Germany
President Pro Tem of the Commission

Supplement dated November 7, 2002

to Official Statement dated November 4, 2002 with respect to

$475,000,000
JEFFERSON COUNTY, ALABAMA

Sewer Revenue Capital Improvement Warrants,
Series 2002-D

This Supplement is provided to describe further developments in the litigation that has been filed in connection with the above-referenced warrants (the "Series 2002-D Warrants") to be issued by Jefferson County, Alabama (the "County"). This litigation is referred to as White II in the Supplement dated November 6, 2002 to the Official Statement, which describes the plaintiffs, the claims made and the relief sought. White II is in addition to the litigation with respect to the County's Series 2002-B Warrants described in the Official Statement under "LITIGATION – Litigation Concerning Series 2002-B Warrants".

Plaintiffs in White II seek a temporary restraining order and a preliminary and permanent injunction prohibiting the sale of the Series 2002-D Warrants and a declaration that the Warrant Resolution and the Series 2002-D Warrants are null and void.

After a hearing, on November 7, 2002 the court denied plaintiffs' request for a temporary restraining order or preliminary injunction prohibiting the sale of the Series 2002-D Warrants. The court has made no ruling on plaintiffs' other requested relief.

The County Commission believes that the claims in White II are without merit. In connection with the issuance of the Series 2002-D Warrants, Bond Counsel will deliver an opinion, upon which the holders of the Series 2002-D Warrants may rely, that, based upon the pleadings in the White II case and the applicable law as of the date of such issuance, the claims asserted by the plaintiffs in that case are without merit and the final disposition of the case will not adversely affect the validity of the Series 2002-D Warrants or the obligation of the County to provide for the payment thereof as described in the Official Statement.

JEFFERSON COUNTY, ALABAMA

By: s/ Jeff Germany
President Pro Tem of the Commission