

RESOLUTION NO. 25440

A RESOLUTION AUTHORIZING THE MAYOR TO ENTER INTO AN AGREEMENT ON BEHALF OF THE CITY WITH THE TENNESSEE VALLEY AUTHORITY (TVA) AND THE ELECTRIC POWER BOARD (EPB), A DIVISION OF THE CITY, REGARDING AN EPB INTERDIVISION LOAN IN AN AMOUNT NOT TO EXCEED SIXTY MILLION DOLLARS (\$60,000,000.00) OF ELECTRIC SYSTEM FUNDS TO BE USED FOR CAPITAL EXPENDITURES AND FOR WORKING CAPITAL FOR THE CABLE AND INTERNET DIVISION, WHICH LOAN IN THE EVENT THAT THE CABLE AND INTERNET BUSINESS DIVISION HAS INSUFFICIENT FUNDS TO PAY PRINCIPAL AND INTEREST DUE IN A PARTICULAR YEAR ON THE ELECTRIC DIVISION LOAN WILL BE SECURED, BY A REDUCTION IN THE EPB IN LIEU OF TAX PAYMENTS TO THE CITY ON ALL NEW INVESTMENTS AFTER JANUARY 1, 2008, SUBJECT TO HAMILTON COUNTY AGREEING TO FOREGO ITS INCREMENTAL TAXES ON THE "COVERED ASSETS" AS DEFINED IN SAID AGREEMENT EXCEPT FOR THOSE TAXES THAT WOULD BE PAYABLE TO THE SCHOOL SYSTEM OF HAMILTON COUNTY.

WHEREAS, the Electric Power Board of Chattanooga ("EPB") made tax equivalent payments to the City of Chattanooga in 2007 in excess of \$3,300,000.00;

WHEREAS, EPB's tax equivalent payments make it the largest single payer of taxes to the City of Chattanooga;

WHEREAS, EPB's tax equivalent payments are made pursuant to the terms of EPB's Power Contract with the Tennessee Valley Authority ("TVA") and T.C.A. Title 7, Chapter 52;

WHEREAS, under the Power Contract, TVA regulates other aspects of EPB's operations, including its use of electric system revenue;

WHEREAS, EPB has announced that its electric system will invest approximately \$169,000,000.00 in a new fiber communications system as part of an advanced distribution automation system to improve service to its electricity customers and reduce its electric system costs;

WHEREAS, when complete, the new electric system's fiber communications investment will result in an EPB tax-equivalent payment increase of approximately \$1,400,000.00 per year to the City of Chattanooga, based on current tax rates;

WHEREAS, EPB has also announced the creation of a Cable TV and Internet Business Unit that will use parts of the electric system fiber communications system under appropriate financial arrangements that will ensure that electric system customers do not subsidize the Cable TV and Internet Business Unit. TVA has reviewed and approved those financial arrangements;

WHEREAS, TVA has also approved an interest bearing loan from retained funds of EPB's Electric Division to the Cable TV and Internet Business Unit (the "Electric Division Loan");

WHEREAS, TVA has supplemented its Power Contract terms concerning tax equivalent payments to specify that tax equivalent payments associated with the new investment in the electric system's advanced distribution system and with new investment by the Cable TV and Internet Business Unit would be reduced in the event that the Cable TV and Internet Business Unit has insufficient funds to pay principal and interest due in a particular year on the Electric Division Loan. The TVA supplement provides that it will not cause a reduction in EPB tax equivalent payments attributable to Hamilton County's levy for educational purposes;

WHEREAS, the City of Chattanooga has been advised of the supplement to the Power Contract concerning tax equivalent payments and its potential operation.

NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, the Mayor be and is hereby authorized to enter into an Agreement on behalf of the City with TVA and EPB, a division of the City, regarding an EPB interdivision loan in an amount not to exceed \$60,000,000.00 of Electric System Funds to be used for capital

expenditures and for working capital for the Cable and Internet Business Unit, which loan in the event that the Cable and Internet Business Unit has insufficient funds to pay principal and interest due in a particular year on the Electric Division Loan will be secured, by a reduction in the EPB in lieu of tax payments to the City on all new investments after January 1, 2008, subject to Hamilton County agreeing to forego its incremental taxes on the "Covered Assets" as defined in said agreement except for those taxes that would be payable to the School System of Hamilton County.

BE IT FURTHER RESOLVED, That the City of Chattanooga expresses its support for EPB's planned investment in an advanced distribution system including a fiber communications system and in its planned Cable TV and Internet Business.

BE IT FURTHER RESOLVED, That the City of Chattanooga acknowledges that increased tax equivalent payments attributable to EPB's new investment in the electric system's advanced distribution system and new investment by the Cable TV and Internet Business Unit may be limited under certain circumstances.

BE IT FURTHER RESOLVED, That the Mayor be and is hereby authorized to execute any and all documents as EPB or TVA may request to document the action taken in this Resolution.

ADOPTED: February 26, 2008

RLN/add