

RESOLUTION NO. 12-13721

A RESOLUTION AUTHORIZING THE WRITE-OFF OF ALL OUTSTANDING INTERNAL LOANS PREVIOUSLY MADE TO THE FIBER & TELECOM SYSTEM AND AUTHORIZING OTHER NECESSARY ACTIONS RELATED THERETO

FACTUAL BACKGROUND AND REASONS FOR ACTION

Since 1999, the District has been building a fiber-optic network system that provides for both the District's utility communication use and infrastructure over which it provides wholesale telecommunication services. The District's strategy regarding funding individual system needs has been to use internal funds when available and economically feasible. Therefore, the construction of the system has been funded through a combination of loans from the Distribution and Financing Facilities Systems, which are reflected on the Fiber & Telecom System's books as internal loans. In addition, in 2007 the Fiber & Telecom System was allocated an interfund equity transfer of \$18,000,000 received from a portion of the 2006 Puget Sound Energy Capacity Reservation Payment under the 2011/12 Long-Term Power Sales contract, which is not affected by this resolution.

Fiber & Telecom's 12/31/11 debt balances are as follows:

Internal loans – Distribution System	\$81,677,435.53
Internal loans – Financing Facilities	<u>\$17,379,076.24</u>
Total Internal Debt Outstanding	<u>\$99,056,511.77</u>

The Board has been engaged in a strategic planning effort with regard to the Fiber & Telecom System. On April 16, 2012, the Board adopted Resolution No. 12-13719 setting a new Fiber & Telecom System strategic policy as outlined in "Alternative 2" of the General Manager's April 9, 2012 recommendation. This policy direction included, among other actions, that the District consider the cash investment made in the Fiber & Telecom System to be a "sunk cost" paid for by the Distribution System's electric customers and that the existing internal debt of approximately \$99 million be written-off.

Prior to adoption of Resolution No. 12-13719, the District sought the advice of its bond counsel to ensure that writing-off, or forgiving, internal loans is allowable under State law and the District's bond covenants. Bond counsel concluded that while the District accounts for many of its systems separately, such as the Distribution and Fiber & Telecom Systems, the systems for State law purposes are considered to be part of a single utility system. In addition, the Distribution, Fiber & Telecom and Financing Facilities systems are part of the District's Consolidated

System for bond covenant purposes. The District is therefore permitted to both establish and forgive loans between systems.

As a result of staff review and analysis, the Treasurer recommends implementation of the Board-adopted Fiber & Telecom strategic policy direction by removing the \$99,056,511.77 of internal loans from the Fiber & Telecom System's books. This will be accomplished by 1) recording an interfund equity transfer totaling \$99,056,511.77 from the Distribution System to the Fiber & Telecom System, 2) the Distribution System removing \$81,677,435.53 of Fiber & Telecom System internal loans receivable from its books, and 3) the Distribution System becoming obligated to repay to the Financing Facilities System \$17,379,076.24 of loans under existing loan terms on behalf of the Fiber & Telecom System. These changes will be considered effective dated as of January 1, 2012 and any associated interest income or expense will be adjusted accordingly.

The Chief Financial/Risk Officer and General Manager concur with staff's recommendations.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

Section 1. It is in the best interest of the District to remove internal loans in the amount of \$99,056,511.77 from the Fiber & Telecom System's books.

Section 2. The loans shall be replaced with an interfund equity transfer from the Distribution System to the Fiber & Telecom System in the amount of \$99,056,511.77.

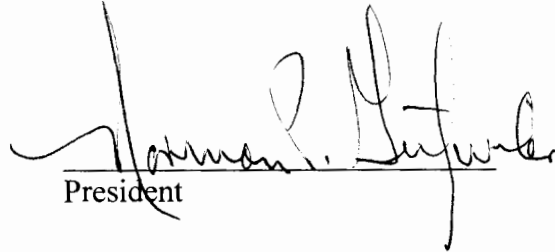
Section 3. The Distribution System will remove \$81,677,435.53 of Fiber & Telecom System internal loans receivable from its books and will become the obligor to the Financing Facilities System in the amount of \$17,379,076.24 for loans to be repaid on behalf of the Fiber & Telecom System. The loan terms will be materially the same as the terms of the loans replaced. The interest rates will be materially the same as the rates of the loans replaced.

Section 4. All actions approved herein shall be assumed to be effective as of January 1, 2012 and any associated interest income or expense related to these loans shall be adjusted accordingly.

Section 5. The District's Treasurer is hereby authorized to take such actions as may be necessary to implement this resolution.

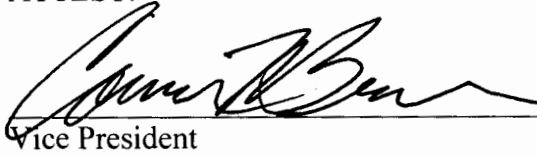
Section 6. To the extent any prior resolutions of the District impose limitations or directions which are inconsistent with this Resolution, said prior resolutions are hereby amended and superseded to the extent they conflict with this Resolution.

DATED this 21st day of May 2012.

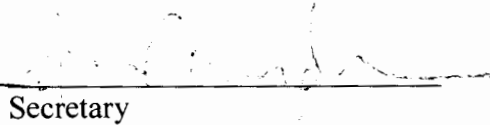


President

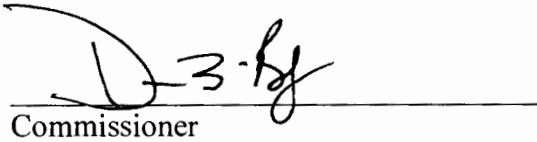
ATTEST:



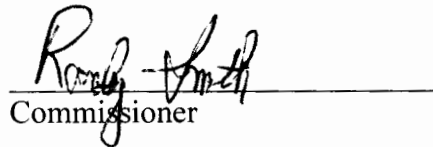
Vice President



Secretary



Commissioner



Commissioner

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