



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF LOCAL FINANCE
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August 21, 2007

Honorable Ron Littlefield, Mayor,
and Members of the City Council
City Hall, 101 East 11th Street
Chattanooga, TN 37402

and

Mr. Joe Ferguson, Chairman,
and Members of the Electric Power Board
P. O. Box 182255
Chattanooga, TN 37422-7255

Dear Mayor Littlefield, Mr. Ferguson,
and Members of the City Council and Electric Power Board:

Our office has received a detailed business plan for the proposed development of a broadband telecommunications network by the Chattanooga Electric Power Board. This plan has been submitted pursuant to the provisions of Title 7, Chapter 52, Part 602, Tennessee Code Annotated, which states that the Office of the Comptroller "shall provide a written analysis of the feasibility of the proposed business plan."

This constitutes our analysis of the feasibility of the business plan. This analysis is based upon the following assertions as presented in the plan submitted to this office:

1. The project is as described in the report submitted to our office dated August 17, 2007, from Mr. Harold DePriest, President and CEO of the Chattanooga Electric Power Board.
2. The report proposes that the municipality will issue debt obligations in the principal sum of approximately \$46 million, which may consist of a combination of revenue bonds and inter-divisional loans. The proposed bond issue will be amortized over a twenty five year period and will provide construction funds of \$33.5 million, capitalized interest of \$1.2 million, and

costs of issuance of \$920,000. Inter-division loans, if needed, will provide funds for operational costs of \$10.4 million over the initial three years of operation.

3. Total principal and interest requirements over the life of the proposed debt obligations are estimated at \$78,450,000, consisting of \$46,000,000 principal and \$32,450,000 interest. Annual debt service requirements are projected to range between \$4 million in year two to \$2.1 million in year twenty five.
4. The pro-forma income statement indicates the following financial activity: an annual net loss from operations, in decreasing amounts each succeeding year, is projected in years one through three ranging from approximately \$6.4 million in year one to approximately \$7 million in year three; an annual net income from operations in year four is projected at \$52,751; a loss of approximately \$500,000 is projected in year five due to a fluctuation in expenses as the system reaches the complete build out; and years six through ten project annual net income, in increasing amounts each succeeding year, ranging from \$311,261 in year six to \$1.9 million in year ten.
5. The number of residential subscribers being served by the third year of operation is projected as 42,361 for basic video service and 27,063 for high speed data service. This is based on a 35% take rate.
6. The average monthly fee in year three is projected as \$49.75 for expanded basic video service and \$58.05 for residential high speed data access (6 Mbps.)
7. Pole attachments are listed in the joint-use-of-poles agreements at \$22.64.

If the Mayor and members of the City Council and the Electric Power Board of Chattanooga determine to proceed with this project, several additional items should be mentioned.

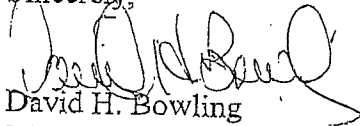
- a. If any debt obligations are issued as proposed to finance this project, the financial markets will expect local officials to provide annual revenues sufficient to amortize this debt, regardless of the status of the telecommunications network.
- b. A separate accounting and record-keeping system must be maintained for the operation of the municipal electric system's telecommunications program. All costs, both direct and indirect, incurred in the operation of the program must be allocated to the rates charged for the services provided.
- c. The municipal electric system may not subsidize the activities of the telecommunications program by using revenues of its power or other utility operations. The only authority to use electric system funds is through the lending of funds on a temporary basis by the electric system. Such loans may be made to provide funds to meet working capital requirements and well as for capital improvements. The electric system must charge interest to the telecommunications program for any loans at a rate equal to the highest rate then earned by the electric system on its invested plant funds.

- d. The fiscal operations of the telecommunications program must be included in the annual financial report of the electric system as an enterprise fund, and must be subject to a financial and compliance audit prepared in accordance with generally accepted governmental auditing standards. The officials of the municipal electric system should be familiar with these requirements which have been previously applied to their other utility system operations. The Comptroller of the Treasury, through the Division of Municipal Audit, shall be responsible for determining adherence to such audit and reporting requirements. Representatives of the Division of Municipal Audit may be contacting you and your independent auditor concerning these audits.

If the Electric Power Board of Chattanooga determines to proceed with this plan, it must publish a notice as required by law in a newspaper of general circulation in the area to be served which specifies a date on which the Board will conduct a public hearing concerning this project. Also, in order to proceed with the plan, and subsequent to the public hearing, approval must be obtained by a two-thirds (2/3) majority vote of the chief legislative body of the municipality or by public referendum.

This constitutes the report of this office pursuant to the requirements of Title 7, Chapter 52, Part 602, Tennessee Code Annotated. If actual circumstances such as bond interest rates, cost of construction, and amount of bonds issued, should be significantly different from those proposed in this business plan, the plan should be re-evaluated by local officials. Such changes could affect the feasibility of this project. If any material changes to the detailed business plan as presented to this office are authorized, a revised plan should be submitted to our office for review.

Sincerely,



David H. Bowling
Director

Cc: Harold E. DePriest, President
and CEO, Electric Power Board of Chattanooga
Dennis Dycus, Director, Division of Municipal Audit