



TENNESSEE LOCAL DEVELOPMENT AUTHORITY
OCTOBER 9, 2023
AGENDA

1. Call meeting to order, establish that there is a physical quorum, and receive public comments on actionable items in accordance with 2023 Public Chapter 300 and Board guidelines.
2. Approval of minutes from the TLDA meeting of September 20, 2023
3. Consideration of a request from the Warren County Utility District to issue USDA Waterworks Revenue Bonds in an amount not to exceed \$4,000,000 on parity with its SRF loan
4. Consideration of requests from the City of Cleveland and Cleveland Utilities Authority:
 - a) Consider for approval a request to transfer (through the issuance of new SRF loans with the same terms) the City of Cleveland’s SRF loans to the Cleveland Utilities Authority
 - b) Consider for approval a request from the Cleveland Utilities Authority to issue Water and Sewer Revenue Bonds in an amount not to exceed \$28,500,000 on parity with its SRF loans
5. Consider for approval the following Clean Water Loan:

	SRF Base Loan	Principal Forgiveness	Total Request	Interest Rate	Term
Chattanooga, SRF 2023-478	\$ 20,000,000	\$ -	\$ 20,000,000	2.60%	20

6. Adjourn

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
September 20, 2023

The Tennessee Local Development Authority (the “TLDA”) met on Wednesday, September 20, 2023, at 1:14 p.m. in the Volunteer Conference Center, 2nd Floor, Cordell Hull Building, Nashville, Tennessee. The Honorable Tre Hargett, Secretary of State, was present and presided over the meeting.

The following members were also present:

The Honorable Jason E. Mumpower, Comptroller of the Treasury
Roy West, Proxy for the Honorable David H. Lillard, Jr., State Treasurer
Chad Kimes, Proxy for Commissioner Jim Bryson, Department of Finance and Administration
Mayor Rollen “Buddy” Bradshaw, Senate Appointee

The following member participated electronically as authorized by Tennessee Code Annotated Section 8-44-108:

Mayor Paige Brown, House Appointee

The following member was absent:

The Honorable Bill Lee, Governor

Recognizing a physical quorum present, Mr. Hargett called the meeting to order. Mr. Hargett, in accordance with Public Chapter 300 and Board guidelines, asked Ms. Sandra Thompson, TLDA Assistant Secretary and the Director of the Division of State Government Finance (“SGF”) if any requests for public comment had been received. Ms. Thompson responded that no requests for public comment had been received. Mr. Hargett asked Ms. Thompson to conduct a roll call:

Mayor Brown—Present
Secretary Hargett—Present
Mr. West—Present
Comptroller Mumpower—Present
Mr. Kimes—Present
Mayor Bradshaw—Present

Mr. Hargett stated that the first item on the agenda was approval of the minutes from the August 21, 2023, TLDA meeting. Mr. Mumpower motioned to approve the minutes, Mr. West seconded the motion, and Mr. Hargett asked Ms. Thompson to conduct a roll-call vote:

Mayor Brown—Aye
Secretary Hargett—Aye
Mr. West—Aye
Comptroller Mumpower—Aye
Mr. Kimes—Aye
Mayor Bradshaw—Aye

The minutes were unanimously approved.

Mr. Hargett stated that the next item on the agenda was a report on the notification from the City of Munford (the “City”) submitted to comply with TLDA SRF Policy and Guidance for Borrowers. He recognized Ms. Thompson to present the report. Ms. Thompson stated that the City had notified the TLDA of its intent to enter into a Public Building Authority loan. She further stated that the loan amount would be \$2,700,000 and that \$850,000 of the loan

proceeds would be used to finance a sewer lagoon expansion. Ms. Thompson explained that pursuant to the TLDA SRF Policy and Guidance for Borrowers, the City was required to notify the TLDA of its intent to incur debt payable from the system's revenues and that the loan would be issued subordinate to its outstanding SRF loans. Mr. Hargett acknowledged the report. No further action was required by the TLDA. Mr. Hargett then moved on to the next agenda item.

Mr. Hargett stated that the next item on the agenda was the consideration and approval of Clean Water State Revolving Fund (CWSRF) loans and stated that, without objection, the TLDA would hear all loan requests at the same time. Hearing none, he recognized Ms. Vena Jones, SRF Program Manager in the Tennessee Department of Environment and Conservation ("TDEC"), to present the loan requests. Ms. Jones first presented the Report on Funds Available for Loan Obligation for the CWSRF Loan Program. She stated the unobligated fund balance was \$204,612,014 as of August 21, 2023. Upon approval of the loan requests to be presented totaling \$16,580,000, the remaining funds available for loan obligations would be \$188,032,014. She then presented the following CWSRF loan requests.

- **Cleveland (SRF 2022-473-01)** Requesting \$3,100,000 for Wastewater Treatment Plant (WWTP) improvements/advanced treatment: Construction of an ultraviolet disinfection system at the Hiwassee River WWTP; recommended interest rate of 2.40% based on the Ability to Pay Index (ATPI); Priority ranking 7 of 53 (2021); Term: 20 years; Companion to loan SRF 2022-473
- **Cleveland (SRF 2023-484)** Requesting \$2,700,000 for Collection system expansion: installation of approximately 12,000 linear feet of sewer lines to replace septic tanks in the Durkee Road/Benton Pike annexation area; recommended interest rate of 2.40% based on the ATPI; Priority ranking 18 of 50 (2016); Term: 20 years; Companion to loan CW7 2019-431
- **Brownsville Energy Authority (CWB22 2024-462)** Requesting \$1,780,000 (\$890,000 loan; \$890,000 principal forgiveness) for WWTP improvements/advanced treatment: Replacement of the aeration system at the existing lagoon treatment facility; recommended interest rate of 1.30% based on the ATPI; Priority ranking 18 of 104 (2022); Term: 20 years
- **Lakeland (SRF 2022-476-01)** Requesting \$9,000,000 for New interceptor: Replacing the existing Clear Creek interceptor with a new interceptor; recommended interest rate of 3.35% based on the ATPI; Priority ranking 25 of 83 (2019); Term: 20 years; Companion to loan SRF 2022-476

Mr. Hargett inquired if there were any questions or comments. Hearing none, he asked for a motion to approve the loans. Mr. Mumpower motioned to approve the loans, and Mr. Kimes seconded the motion. Mr. Hargett noted that the City of Cleveland had filed its audit report late and the other applicants' audit reports were filed timely. (A letter regarding Cleveland's late audit filing was included in the meeting materials).

Mr. Hargett asked Ms. Thompson to conduct a roll-call vote:

Mayor Brown—Aye
Secretary Hargett—Aye
Mr. West—Aye
Comptroller Mumpower—Aye
Mr. Kimes—Aye
Mayor Bradshaw—Aye

The loans were unanimously approved.

Mr. Hargett stated that the next item on the agenda was a report on borrowers that have not submitted project expense reimbursement. He recognized Ms. Jones to present the report. Ms. Jones stated that the report provides

details on the entities that have been delayed in requesting reimbursement for project expenses. She noted that the City of Cleveland and the City of Trenton were the only two entities on the list that were not in compliance with their project schedule. She stated that TDEC had contacted them to request that they provide an explanation and also the measures that they are taking to return to compliance. She explained that once a new schedule is established, a modification to the loan application is required. She stated that TDEC would not process any loan funds until the borrower is deemed to be in compliance. Mr. Hargett asked if there were any questions about the report. Hearing none, he acknowledged that the report was received, and no action was required.

Hearing no other business, Mr. Hargett asked for a motion to adjourn the meeting. Mr. Mumpower motioned to adjourn, and Mr. Hargett seconded the motion.

Ms. Thompson conducted a roll-call vote:

Mayor Brown—Aye
Secretary Hargett—Aye
Mr. West—Aye
Comptroller Mumpower—Aye
Mr. Kimes—Aye
Mayor Bradshaw—Aye

The meeting was adjourned.

Approved on this _____ day of _____, 2023.

Respectfully submitted,

Sandra Thompson
Assistant Secretary



JASON E. MUMPOWER
Comptroller

October 9, 2023

**Warren County Utility District
Approval to Issue Debt and Modification of Lien Position**

The Warren County Utility District (the “District”) is requesting approval from the Tennessee Local Development Authority (the “TLDA”) to issue waterworks revenue bonds (the “USDA Bonds”) to the United State Department of Agriculture, acting through Rural Development, in an amount not to exceed \$4,000,000 on parity with its SRF loan. Approval for the District to issue additional debt and modify lien position is required by provisions set forth in the State Revolving Fund (SRF) loan agreement and guidelines set forth in the *TLDA/SRF Policy and Guidance for Borrowers*.

1. The requestor is a:

Utility District, Energy Authority, or Water/Wastewater Authority

Will the proposed debt be secured by revenues other than revenues of the water/wastewater system (e.g. electric, gas)? Yes No

Municipality (town/city/county)

General Obligation Debt

Revenue Debt – Will the proposed debt be secured by revenues other than revenues of the water/wastewater system (e.g. electric, gas)? Yes No

2. Lien Position:

The borrower is requesting that the USDA Bonds be payable from and secured by a shared senior lien on the net revenues of the System, on parity with the District’s outstanding SRF loan and subject to the prior lien in favor of the District’s Waterworks Revenue Bond, Series 2009, that the District expects to pay off on or before November 8, 2023, and then the SRF loan will be in the senior lien position.

The borrower is requesting to subordinate its outstanding SRF debt to the proposed debt issuance.

The borrower is not requesting a modification of lien position and the proposed debt will be issued subordinate to the SRF debt.

3. The purpose of the proposed debt issuance is:

- Refunding
- New Money

4. Additional Information:

The USDA Bonds will finance improvements and extensions to the District’s waterworks system (the “System”). The District’s request letter states that the capital improvement project being financed with the proceeds of the USDA Bonds is a replacement of a waterline that is vitally important to the health and welfare of the citizens within the District’s service area.

5. The debt rating of the borrower is:

Please indicate N/R if not rated.

- Moody’s
- Standard and Poor’s
- Fitch

6. The following SRF loans are currently authorized/outstanding:

Borrower	Warren County Utility District						
Date	9/18/2023						
Loan Type	Loan #	Status	Disbursements	Available to Draw	% Principal Forgiveness	Edison Balance @9/18/2023	MADS*
Water	DW4 15-158	Repayment	2,436,676.00	-	25%	1,532,151.00	100,368.00
*MADS is an estimate until final expenses have been determined							
*Before funds are disbursed on a loan, a security deposit equal to MADS is required to be deposited with the TLDA							

7. Compliance with SRF Loan Agreement:

a. Timely repayments [4.(a)]

- Yes No

b. Security Deposit (UDs and Authorities) [8.]

- Yes No

c. GAAP Accounting and Audited Annual Financial Statement Requirement [7.(g) and (m)(2)]

The District has timely filed its audited financial statements with the Division of Local Government Audit through the fiscal year ended June 30, 2022, within six months after fiscal year end.

d. Sufficient Revenues [7.(k)]

Yes No

For the fiscal year ended June 30, 2022, the District's audited financial statements reflected operating income of \$914,354 and a positive change in net position of \$1,549,779. The statement of cash flows reflected debt service payments for FY22 of \$161,508: \$140,634 in principal and \$20,874 in interest.

The District reported \$5,415,493 in unrestricted cash, and \$114,233 in restricted cash for operation and maintenance and debt service at June 30, 2022.

e. Debt Service Coverage Ratios [7.(l) and (m)(3) & (4)]

The current and projected Debt Service Coverage Ratio meets or exceeds 1.2 times.

Yes No

If no, include a schedule of revised rates and fees. Included N/A

Most Recent Fiscal Year (m)(3):

The District's debt service coverage ratio was 11.72x for fiscal year 2022 and is estimated to be 11.95x for fiscal year 2023 (calculated by the District in its submission). The District has met the debt service coverage requirement for fiscal year 2022.

Next Three Fiscal Years After Debt Issuance (m)(4):

The District projects debt service ratios ranging from 5.84x to 6.08x for fiscal years 2024-2026 after the debt is issued.

f. Is the entity currently under the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR)?

[7.(n)]

Yes No

If yes, reason for referral: Water Loss Financial Distress Administrative Review

If the reason is financial distress, include a schedule of revised rates and fees along with a copy of the corrective action order from the respective board. Included N/A

8. State-Shared Taxes (SST): (Towns, Cities, Counties): N/A

\$ _____	Received in prior fiscal year
\$ _____	Total Maximum Annual Debt Service (with SST pledge)
\$ _____	Unobligated SSTs

9. Conclusion

Based on our analysis, it appears the District meets the TLDA’s criteria to issue the USDA Bonds on parity with its SRF Loan.

Attachment:

Debt Service Coverage and Financial Projections



WCUDONLINE.COM

P.O. BOX 192
MCMINNVILLE, TN 37110
PHONE: (931) 668-4175
FAX: (931) 668-4183

September 15, 2023

VIA E-MAIL (sandithompson@cot.tn.gov and alicia.west@cot.tn.gov)

Ms. Sandra Thompson, Assistant Secretary
Tennessee Local Development Authority
Cordell Hull Building
425 Fifth Avenue North
Nashville, Tennessee 37243

RE: Warren County Utility District of Warren County, Tennessee

Dear Sandi:

The Warren County Utility District of Warren County, Tennessee (the "District") wishes to consider the issuance of up to \$4,000,000 of waterworks revenue bonds (the "USDA Bonds") to the United States Department of Agriculture, acting through Rural Development, to finance improvements and extensions to the District's waterworks system (the "System").

The District currently has outstanding the following debt obligations also payable solely from and secured by a lien on the net revenues of the System:

<u>Lien Position</u>	<u>Designation</u>	<u>Maturity Date</u>
1 st	Waterworks Revenue Bond, Series 2009 (USDA)	2047
2 nd	SRF DW4 15-158	2040

The District is proposing the USDA Bonds to be payable solely from and secured by a lien on the net revenues of the System, on parity with the District's outstanding SRF DW4 15-158 (the "SRF Loan"), and subject to the prior lien in favor of the District's Waterworks Revenue Bond, Series 2009, dated December 8, 2011 (the "Series 2009 Bond"). The District expects to pay off the Series 2009 Bond on or before November 8, 2023, and the SRF Loan will be in the senior lien position. Pursuant to TLDA's guidelines, we hereby request that TLDA consent to the issuance of the USDA Bonds on parity with the SRF Loan.

If TLDA consents to this proposal, all of the District obligations would be secured by a shared senior lien position after the prepayment of the Series 2009 Bond. We believe that TLDA's consent to these requests is in the public interest insofar as it will preserve the District's ability to incur future debt on a shared senior lien basis, thereby minimizing interest costs payable by System ratepayers. (We understand that under applicable State guidelines, all future debt of the Authority must be first approved by TLDA.)

The current and pro forma debt service coverage is attached as Exhibit A, and the proposed bond resolution for the USDA Bonds is attached as Exhibit B.

The District cites the following factors in favor of this request:

1. The District is in compliance with the terms of the SRF Loan Agreements.
2. The District has never failed to timely repay the SRF Loans.
3. The District has filed its audited financial statements with the Division of Local Government Audit in a timely manner.
4. The capital improvement project being financed with the proceeds of the USDA Bonds is a replacement of a waterline that is vitally important to the health and welfare of the citizens within the District's service area.

I am happy to answer any questions you may have. Please also feel free to contact our bond counsel, Jeff Oldham or Alex Samber, of Bass, Berry & Sims.

Thanks for your help.

Sincerely,
Warren County Utility District

A handwritten signature in black ink that reads "Anthony Pelham, P.E." in a cursive style.

Anthony Pelham, P.E.
General Manager

cc: Glenn Mitchell – Board President, WCUD

EXHIBIT A
Debt Service Coverage Analysis for
Warren County Utility District of Warren County

	Audited 2019	Audited 2020	Audited 2021	Audited 2022	Pro Forma 2023	Pro Forma 2024	Pro Forma 2025	Pro Forma 2026
Operating Revenue:								
Sale of Water	\$ 3,985,909	\$ 4,070,182	\$ 4,289,505	\$ 4,498,495	\$ 4,588,465	\$ 4,680,234	\$ 4,773,839	\$ 4,869,316
Other revenues	\$ 338,276	\$ 323,631	\$ 423,131	\$ 439,931	\$ 448,730	\$ 457,704	\$ 466,858	\$ 476,195
Interest	\$ 181,192	\$ 170,184	\$ 96,342	\$ 98,757	\$ 100,732	\$ 102,747	\$ 104,802	\$ 106,898
Total Operating Revenues	\$ 4,505,377	\$ 4,563,997	\$ 4,808,978	\$ 5,037,183	\$ 5,137,927	\$ 5,240,685	\$ 5,345,499	\$ 5,452,409
Operating Expenses								
Water Treatment Plant	\$ 850,535	\$ 880,441	\$ 874,248	\$ 978,728	\$ 998,303	\$ 1,018,269	\$ 1,038,634	\$ 1,059,407
Water Line Maintenance	\$ 1,853,154	\$ 1,940,097	\$ 1,976,305	\$ 2,194,925	\$ 2,238,824	\$ 2,283,600	\$ 2,329,272	\$ 2,375,857
Administration	\$ 889,402	\$ 802,650	\$ 809,862	\$ 833,064	\$ 849,725	\$ 866,720	\$ 884,054	\$ 901,735
Less Depreciation and Amortization	\$ (828,331)	\$ (846,707)	\$ (879,219)	\$ (862,421)	\$ (879,669)	\$ (897,263)	\$ (915,208)	\$ (933,512)
	<u>\$ 2,764,760</u>	<u>\$ 2,776,481</u>	<u>\$ 2,781,196</u>	<u>\$ 3,144,296</u>	<u>\$ 3,207,182</u>	<u>\$ 3,271,326</u>	<u>\$ 3,336,752</u>	<u>\$ 3,403,487</u>
Net Revenue Available for Debt Service	\$ 1,740,617	\$ 1,787,516	\$ 2,027,782	\$ 1,892,887	\$ 1,930,745	\$ 1,969,360	\$ 2,008,747	\$ 2,048,922
Current Maximum Annual Bond Debt Service	\$ 161,507	\$ 161,507	\$ 161,507	\$ 161,507	\$ 161,507	\$ 161,507	\$ 161,507	\$ 161,507
Current Coverage	10.78 X	11.07 X	12.56 X	11.72 X	11.95 X	12.19 X	12.44 X	12.69 X
Maximum Debt Service after \$4,000,000 USDA Bond	\$ 337,187	\$ 337,187	\$ 337,187	\$ 337,187	\$ 337,187	\$ 337,187	\$ 337,187	\$ 337,187
Proposed Coverage	5.16 X	5.30 X	6.01 X	5.61 X	5.73 X	5.84 X	5.96 X	6.08 X

EXHIBIT B

Proposed Bond Resolution

A RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND PAYMENT OF UP TO \$4,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF REVENUE BONDS OF WARREN COUTY UTILITY DISTRICT OF WARREN COUNTY, TENNESSEE AND MAKING PROVISION FOR THE OPERATION OF THE DISTRICT AND THE COLLECTION AND DISPOSITION OF ITS REVENUES.

BE IT RESOLVED by the Board of Commissioners of Warren Utility District of Warren County, Tennessee, as follows:

1. Authority; Findings.

- a. Warren County Utility District of Warren County, Tennessee (the "District") is duly incorporated pursuant to Section 7-82-101 *et seq.*, Tennessee Code Annotated (the "Act").
- b. The District owns and operates a waterworks system (the "System").
- c. Section 7-82-501 of the Act authorizes the District to issue bonds and use the proceeds to finance capital improvements to the System.
- d. The Board of Commissioners of the District finds that it is advisable to finance certain improvements and extensions to the System.
- e. The United States of America, acting by and through Rural Utilities Service, United States Department of Agriculture ("Rural Development"), has issued to the District its Letter of Conditions dated September 7, 2018, and as may be amended from time to time (the "Letter of Conditions"), in which it has agreed to purchase bonds on terms and conditions favorable to the District and its customers.
- f. The District is a party to that certain State Revolving Fund Loan Agreement, identified as DW4 15-158 (the "SRF Loan Agreement"), with the Tennessee Local Development Authority (the "TLDA") and the Tennessee Department of Environment and Conservation ("TDEC"), the proceeds of which were used to finance improvements to the System.
- g. The TLDA has agreed that the proposed bonds may be issued on parity with the SRF Loan Agreement relative to the pledge of revenues of the System.
- h. The District desires to adopt this resolution to authorize the issuance of a revenue bond of the District to accomplish the foregoing purposes.

2. Definitions. The following terms shall have the following meanings in this Resolution unless the text expressly or by necessary implication requires otherwise:

- a. "Act" shall have the meaning ascribed in Section 1.
- b. "Balloon Indebtedness" shall mean any bonds, notes or other indebtedness, other than Short-Term Indebtedness, 25% or more of the initial principal amount of which matures (or must be redeemed at the option of the holder) during any twelve month period, if such 25% or more is not to be amortized to below 25% by mandatory redemption prior to the beginning of such twelve month period.
- c. "Bonds" means the Rural Development Bonds and any Parity Bonds.

- d. "Code" means the Internal Revenue Code of 1986, as amended, and any lawful regulations promulgated or proposed thereunder.
- e. "Construction Fund" means the Rural Development Construction Fund established herein.
- f. "Credit Facility" means any municipal bond insurance policy, letter of credit, surety bond, line of credit, guarantee, or other agreement under which any person other than the District provides additional security for any Bonds and guarantees timely payment of or purchase price equal to the principal of and interest on all or a portion of any Bond and shall include any Reserve Fund Credit Facility.
- g. "Current Expenses" means expenses incurred by the District in the operation of the System, determined in accordance with generally accepted accounting principles; provided however that depreciation, amortization and interest on any bonds, notes or other obligations of the District shall be excluded from the definition of Current Expenses.
- h. "Debt Service Requirement" means the total principal, Maturity Amounts and interest coming due, whether at maturity or upon mandatory redemption (less any amount of interest that is capitalized and payable with the proceeds of debt on deposit with the District or any paying agent for the Bonds or other obligations of the District), for any period of 12 consecutive calendar months for which such a determination is made, provided:
 - (a) The Debt Service requirement with respect to Variable Rate Indebtedness shall be determined as if the variable rate in effect at all times during future periods equaled, at the option of the District, either (A) the average of the actual variable rate which was in effect (weighted according to the length of the period during which each such variable rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (B) the current average annual fixed rate of interest on securities of similar quality having a similar maturity date, as certified by a Financial Advisor.
 - (b) For the purpose of calculating the Debt Service Requirement on Balloon Indebtedness and Short Term Indebtedness, at the option of the District, (i) the actual principal and interest on such Balloon Indebtedness and Short Term Indebtedness shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or (ii) such Balloon Indebtedness and Short Term Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 20 years at an assumed interest rate (which shall be the interest rate certified by a Financial Advisor to be the interest rate at which the District could reasonably expect to borrow the same amount by issuing bonds with the same priority of lien as such Balloon Indebtedness and Short Term Indebtedness and with a 20-year term); provided, however, that if the maturity of such Balloon Indebtedness is in excess of 20 years from the date of issuance, then such Balloon Indebtedness shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of years equal to the number of years from the date of issuance of such Balloon Indebtedness to maturity and at the interest rate applicable to such Balloon Indebtedness; provided further that this paragraph (b) shall not be applicable for purposes of determining the

District's Debt Service Requirement for purposes of Section 11(f) of this resolution (Rate Covenant) unless the District has set aside sufficient funds or otherwise made arrangements for the retirement of at least 90% of the principal amount of such Balloon Indebtedness or Short Term Indebtedness coming due in the relevant Fiscal Year.

- i. "Defeasance Obligations" shall mean any obligations which at the time of the purchase thereof are permitted investments under the Act or other applicable State law for the purpose of defeasing Bonds.
- j. "District" shall have the meaning ascribed in Section 1.
- k. "Financial Advisor" means an investment banking or financial advisory firm, commercial bank, or any other person who or which is retained by the District for the purpose of passing on questions relating to the availability and terms of specified types of debt obligations or the financial condition or operation of the System and is actively engaged in and, in the good faith opinion of the District, has a favorable reputation for skill and experience in providing financial advisory services of the type with respect to which the Financial Advisor has been retained.
- l. "Financial Guaranty Agreement" shall mean any Financial Guaranty Agreement authorized herein to be executed in connection with a Reserve Fund Credit Facility.
- m. "Fiscal Year" means the fiscal year adopted by the District from time to time.
- n. "Governing Body" means the Board of Commissioners of the District.
- o. "Gross Earnings" means all revenues, rentals, earnings and income of the District from whatever source, determined in accordance with generally accepted accounting principles, including all revenues derived from the operation of the System and all amounts realized from the investment of funds of the System (excluding any investment earnings from construction or improvement funds created for the deposit of bond proceeds pending use, to the extent such income is applied to the purposes for which the bonds were issued, and funds created to defease any outstanding obligations of the District).
- p. "Letter of Conditions" shall have the meaning ascribed in Section 1.
- q. "Loan Agreement" shall mean any agreement or contract entered into by the District whereby a third party agrees to advance funds to the District and the District agrees to repay those funds with interest.
- r. "Maximum Annual Debt Service Requirement" means the maximum annual Debt Service Requirement for any Fiscal Year of the District.
- s. "Net Revenues" shall mean Gross Earnings, excluding any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets, less Current Expenses.
- t. "Notes" shall mean the bond anticipation notes authorized to be issued pursuant to the terms of Section 6 hereof.

- u. "Parity Bonds" means bonds, notes, Loan Agreements, and other debt obligations, including Balloon Indebtedness, Short Term Indebtedness and Variable Rate Indebtedness, issued or entered into by the District on a parity with the Rural Development Bonds herein authorized in accordance with the restrictive provisions hereof.
- v. "President" means the duly elected and acting President of the Governing Body, or any other member of the Governing Body acting in the capacity of President when the elected and acting President is unavailable or incapable of acting.
- w. "Prior Bond Resolution(s)" means the resolution(s) authorizing the Prior Lien Obligations.
- x. "Prior Lien Obligations" means, to the extent outstanding, the District's Waterworks Revenue Bond, Series 2009, dated December 8, 2011.
- y. "Projects" shall mean the capital improvements to the System contemplated by the Letter of Conditions, and all capital costs related thereto.
- z. "Rating" means a rating in one of the categories by a Rating Agency, disregarding pluses, minuses, and numerical gradations.
- aa. "Rating Agencies" or "Rating Agency" means Fitch, Moody's, and Standard & Poor's or any successors thereto and any other nationally recognized credit rating agency.
- bb. "Reserve Fund" shall mean the Debt Service Reserve Fund established herein.
- cc. "Reserve Fund Credit Facility" means a municipal bond insurance policy, surety bond, letter of credit, line of credit, guarantee or other agreement provided by a Reserve Fund Credit Facility Issuer which provides for payment of amounts equal to all or any portion of the Reserve Fund Requirement in the event of an insufficiency of moneys in the Sinking Fund to pay when due principal of and interest on all or a portion of the Bonds.
- dd. "Reserve Fund Credit Facility Issuer" means the issuer of a Reserve Fund Credit Facility satisfying the rating qualifications specified by the supplemental resolution authorizing the Bonds to be secured by the applicable Reserve Fund Credit Facility with respect to the series of Bonds with respect to which such rating qualifications are not otherwise specified. The issuer of a Reserve Fund Credit Facility shall be rated, at the time at which such Reserve Fund Credit Facility is purchased, in not less than the second-highest rating category (without regard to gradations within such category) by each Rating Agency that rates such Reserve Fund Credit Facility Issuer and which also rates any Bonds secured by such Reserve Fund Credit Facility.
- ee. "Reserve Fund Requirement" means an amount determined from time to time by the District as a reasonable reserve, if any, for the payment of principal of and interest on a series of Bonds pursuant to the resolution authorizing such Bonds. With respect to the Rural Development Bonds authorized herein, the Reserve Fund Requirement shall equal the annual debt service requirement on the Rural Development Bonds; provided that such Requirement shall begin at zero and increase on each anniversary date of the issuance of the Rural Development Bonds in an amount equal to 10% of the annual debt service requirement on the Rural Development Bonds until an amount equal to one year's debt service on the Rural Development Bonds has been accumulated.

- ff. "Revenue Fund" shall mean the Revenue Fund established herein.
- gg. "Rural Development" shall have the meaning ascribed in Section 1.
- hh. "Rural Development Bonds" means not to exceed \$4,000,000 in aggregate principal amount of revenue bonds authorized to be issued by this Resolution.
- ii. "Secretary" means the duly elected and acting Secretary of the Governing Body, or any other member of the Governing Body acting in the capacity of Secretary when the elected and acting Secretary is unavailable or incapable of acting.
- jj. "Short Term Indebtedness" means bonds, notes, Loan Agreements or other debt obligations maturing five years or less from their date of issuance, issued by the District as Parity Bonds pursuant to the terms hereof.
- kk. "Sinking Fund" shall mean the Principal and Interest Sinking Fund established herein.
- ll. "SRF Loan Agreement" shall have the meaning ascribed in the preamble.
- mm. "SRF Security Deposit" means any and all security deposits required to be maintained by the SRF Loan Agreement.
- nn. "State" means the State of Tennessee.
- oo. "Subordinate Lien Bonds" means bonds, notes, Loan Agreement or other debt obligations issued pursuant to this Resolution but with a lien subordinate to the Bonds.
- pp. "System" shall have the meaning ascribed in Section 1, and shall include all facilities hereafter acquired, constructed or otherwise established, together with and including all properties of every nature hereafter owned by the District, including all improvements and extensions made by the District while the Bonds remain outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the foregoing, and including all appurtenances, contracts, leases, franchises, and other intangibles.
- qq. "TDEC" shall have the meaning ascribed in the preamble.
- rr. "TLDA" shall have the meaning ascribed in the preamble.
- ss. "Variable Rate Indebtedness" means any Parity Bonds, the interest rate on which is subject to periodic adjustment, at intervals, at such times and in such manner as shall be determined by resolution authorizing such Parity Bonds; provided that if the interest rate shall have been fixed for the remainder of the term thereof, it shall no longer be Variable Rate Indebtedness.

3. Authorization and Terms of the Rural Development Bonds.

- a. General Terms. The Governing Body hereby authorizes the issuance of revenue bonds of the District in an aggregate principal amount up to \$4,000,000 (the "Rural Development Bonds"). The Rural Development Bonds may be issued as a single bond or in multiple

emissions. The Rural Development Bonds shall be issued to Rural Development in exchange for the payment of a price equal to 100% of the par amount thereof.

- 1) The Rural Development Bonds shall be issued to:
 - a) finance the costs of the Projects;
 - b) retire the principal of and, with the consent of Rural Development, interest on the Notes; and
 - c) pay costs of issuing the Rural Development Bonds.
 - 2) Each Rural Development Bond shall be known as a "Waterworks Revenue Bond" or such other name as may be selected by the President. A series designation indicating the year of issuance and such other distinctions as may be directed by the President shall be added to the name of each Rural Development Bond.
 - 3) Each Rural Development Bond shall be dated the date of its delivery.
 - 4) Each Rural Development Bond shall bear interest at a rate not to exceed 3.125% per annum and shall be payable in not more than 480 equal monthly installments of principal and interest in an amount sufficient to fully amortize the Rural Development Bond over the period of such installments. The monthly principal and interest payment on the Rural Development Bonds at the maximum term, par amount and interest rate is \$14,640. The first installment of debt service on each Rural Development Bond shall be due and payable one month following the date of its issuance, but in no event later than the 28th day of the month of such first payment, and all subsequent installments shall be due and payable on the same day of each month thereafter. In all events the final installment shall be in the amount of the entire unpaid balance of principal and interest on the Rural Development Bond. All payments of principal and interest on each Rural Development Bond shall be made directly to the registered owner thereof at its address shown on the bond registration records of the District, without, except for final payment, the presentation or surrender of such Rural Development Bond, and all such payments shall discharge the obligation of the District in respect of such Rural Development Bond to the extent of the payments so made. The records of the owner of each Rural Development Bond shall be conclusively presumed to be correct with respect to amounts of payments made and outstanding principal balance. Upon final payment, each Rural Development Bond shall be submitted to the Secretary of the Board of Commissioners of the District, as bond registrar, for cancellation.
 - 5) Notwithstanding anything herein to the contrary, the Rural Development Bonds shall not be sold until the TLDA consents to the Rural Development Bonds being issued on parity with the SRF Loan Agreement relative to the pledge of revenues of the System.
- b. The District shall have the right, at its option, to prepay each Rural Development Bond or any installment thereof, in whole or in part, at any time, without penalty. Any partial prepayment shall be applied to the installments last to become due under the Rural Development Bond and shall not affect the obligation of the District to pay the remaining installments as they come due. Notice of prepayment shall be given to the registered owner

of the Rural Development Bond not less than thirty (30) days prior to the date of prepayment unless waived by the registered owner.

- c. The District hereby appoints the Secretary of the District to act on behalf of the District as registrar and paying agent for the Rural Development Bonds. Each Rural Development Bond is transferable by the registered owner thereof, or by its attorney duly authorized in writing, on the registration books of the District, upon presentation of the Rural Development Bond to the registrar for transfer with the form of assignment attached thereto completed in full and signed with the name of the registered owner. All transferees shall take the Rural Development Bond subject to such condition. The District may treat the registered owner as the absolute owner hereof for all purposes and shall not be affected by any notice to the contrary whether or not any payments due on the Rural Development Bond shall be overdue. The registrar is hereby authorized to authenticate and deliver each Rural Development Bond to Rural Development, upon receipt by the District of the proceeds of the sale thereof and to authenticate and deliver Rural Development Bonds in exchange for Rural Development Bonds of the same principal amount delivered for transfer upon receipt of the Rural Development Bonds to be transferred in proper form with proper documentation as hereinabove described. The Rural Development Bonds shall not be valid for any purpose unless authenticated by the registrar by the manual signature thereof on the certificate set forth herein on the Rural Development Bond form.
 - d. The Rural Development Bonds shall be executed in such manner as may be prescribed by applicable law, in the name, and on behalf of the District, by the President and attested by the Secretary.
4. Form of Rural Development Bonds. The Rural Development Bonds shall be in substantially the form attached hereto as Exhibit A. The form of the Rural Development Bond set forth in Exhibit A hereto shall be conformed to reflect any changes authorized herein.
 5. Source of and Security for Payment.
 - a. The Rural Development Bonds shall be payable solely from and secured by a pledge of the Net Revenues, on parity with the pledge thereof in favor of TDEC and TLDA relative to the SRF Loan Agreement and any bonds hereafter issued on parity therewith, subject to a prior lien of such Net Revenues in favor of the Prior Lien Obligations. The punctual payment of principal of and premium, if any, and interest on the SRF Loan Agreement and the Rural Development Bonds shall be secured equally and ratably by the Net Revenues without priority by reason of series, number or time of sale or delivery. The Net Revenues are hereby irrevocably pledged to the punctual payment of such principal, premium, if any, and interest as the same become due. The Rural Development Bonds do not constitute a debt of the State, or any political subdivision thereof, or municipal corporation therein, other than the District, and no holder of the Rural Development Bonds shall have recourse to the taxing power of any such entities.
 - b. For the further protection of the registered owners of the Rural Development Bonds, a statutory lien in the nature of a mortgage lien upon the System is granted and created by the Act, on parity with the mortgage lien heretofore established in favor of the SRF Loan Agreement, subject to a prior statutory mortgage lien in favor of the Prior Lien Obligations, which said statutory mortgage lien is hereby recognized as valid and binding upon the District and to be a lien upon the System and the System shall remain subject to such

statutory mortgage lien until the payment in full of the principal and interest on the Rural Development Bonds.

6. Authorization of Notes.

- a. The Governing Body hereby authorizes the issuance of one or more revenue bond anticipation notes in the maximum aggregate principal amount equal to the maximum principal amount of the Rural Development Bonds (the "Notes"). The proceeds of the Notes shall also be used to pay Project costs, legal, fiscal and engineering costs incident thereto, bond issuance costs and, with the consent of Rural Development, interest during construction of the Project and for six (6) months thereafter. Any Note proceeds not immediately applied to the purposes described in the preceding sentence shall be deposited to the Construction Fund and applied as all other funds held therein. Each Note shall be in the form of a fully registered note, without coupons, shall be known as a Waterworks Revenue Bond Anticipation Note, together with a series designation further identifying the Note, as selected by the President, and shall be dated as of the date of its delivery.
- b. Each Note shall mature not later than three years from its issuance, shall bear interest at a rate not to exceed the maximum rate permitted by applicable law, payable at such time as the President shall designate, and shall be subject to prepayment upon such terms as the President shall designate.
- c. The President shall select the purchaser(s) of the Notes and cause the Notes to be sold to such purchaser(s) at a price of par. In connection therewith, the President is authorized to establish the remaining terms of the Notes, without further action by the Governing Body. The President and Secretary of the District are authorized to execute and deliver the Notes, to execute such certificates and documents and to take such other actions as they shall deem necessary to further evidence the District's obligations under the Notes. The Notes may also be issued to Rural Development, upon the terms otherwise provided herein, in which case the Notes shall also bear the designation of "Interim Certificates of Indebtedness". The purchase price paid by Rural Development for the Rural Development Bonds shall be reduced by the outstanding principal amount of and, with Rural Development's consent, interest on Interim Certificates held by it, and such Interim Certificates shall be delivered by Rural Development to the District at the time of delivery of the Rural Development Bonds.
- d. The Notes shall be payable primarily from the proceeds of the Rural Development Bonds. The Notes are additionally payable from and secured by a pledge of the Net Revenues of the System in fully the same manner and priority as described in Section 5 hereof for the Rural Development Bonds.
- e. Pursuant to the Act, the approval of the Comptroller's office is not required for the issuance of the Notes because the Rural Development Bonds will be issued to a federal agency.
- f. The Governing Body hereby approves the renewal and extension of any Notes issued hereunder, without further action of the Governing Body, to the extent such Notes have matured (or are scheduled to mature) and the Rural Development Bonds have not and will not be issued in time to retire the maturing Notes.

7. Application of Proceeds of Rural Development Bonds and Other District Funds.

- a. The proceeds from the sale of the Rural Development Bonds shall be immediately applied, together with any amounts described in subsection (b) below, in the following order:
 - 1) To the retirement of any outstanding Notes; and
 - 2) For deposit to a separate and segregated fund to be known as the "Rural Development Construction Fund", and for further application solely to the costs of the Projects (by payment to third parties or reimbursement of the District for prior payments) and costs of issuance of the Rural Development Bonds. Money in the Construction Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in the Construction Fund. Moneys in the Construction Fund shall be invested as directed by an authorized representative of the District in such investments as shall be permitted by State law. All income derived from such investments shall be retained in the Construction Fund. Any funds remaining in the Construction Fund after completion of the Projects and payment of authorized expenses shall be paid to Rural Development in prepayment of the Rural Development Bonds.
- b. Upon the issuance of the Rural Development Bonds, the District shall apply District to the payment of any accrued interest on the Notes that cannot, under the terms of the Letter of Conditions, be paid with the proceeds of the Rural Development Bonds.

8. Federal Tax Matters Related to the Rural Development Bonds.

- a. Notwithstanding anything herein to the contrary, at the President's discretion, the Rural Development Bonds and/or the Notes may be issued as federally tax-exempt or federally taxable debt obligations. If the Rural Development Bonds and/or the Notes are issued on a federally tax-exempt basis, the District hereby covenants that it will not use, or permit the use of, any proceeds of the Rural Development Bonds or Notes in a manner that would cause the Rural Development Bonds or the Notes to be subjected to treatment under Section 148 of the Code, and applicable regulations thereunder, as an "arbitrage bond." To that end, the District shall comply with applicable regulations adopted under said Section 148. If applicable, the District further covenants with the registered owners from time to time of the Rural Development Bonds and Notes that it will, throughout the term of the Notes and the Rural Development Bonds and through the date that the final rebate, if any, must be made to the United States in accordance with Section 148 of the Code, comply with the provisions of Sections 103 and 141 through 150 of the Code and all regulations proposed and promulgated thereunder that must be satisfied in order that interest on the Rural Development Bonds and the Notes shall be and continue to be excluded from gross income for federal income tax purposes under Section 103 of the Code.
- b. It is reasonably expected that the District will reimburse itself for certain expenditures made by it in connection with the Project by issuing the Notes or the Rural Development Bonds. This resolution shall be placed in the minutes of the Governing Body and shall be made available for inspection by the general public at the office of the Governing Body. This resolution constitutes a declaration of official intent under Treas. Reg. §1.150-2.

- c. The Governing Body hereby delegates to the President the authority to designate (and to determine whether to designate) the Notes as "qualified tax-exempt obligations," as defined in Section 265 of the Code, to the extent the Notes may be designated as such.
 - d. The President is authorized and directed, on behalf of the District, to execute and deliver all such certificates and documents that may be required of the District in order to comply with the provisions of this Section related to the issuance of the Notes (if applicable) and the Rural Development Bonds.
9. Prohibition of Prior Lien; Parity Bonds; Subordinate Lien Bonds. The District will issue no other bonds or obligations of any kind or nature payable from or enjoying a lien on the revenues of the System having priority over the Rural Development Bonds, including debt obligations issued on parity with the Prior Lien Obligations. Additional bonds, notes, Loan Agreements or obligations may hereafter be issued on parity with the Rural Development Bonds under the following conditions but not otherwise:
- a. Any portion (including any maturities or portions thereof whether or not in chronological order and any amounts subject to mandatory redemption) of a series of the Bonds may be refunded at maturity, upon redemption in accordance with their terms, or upon payment, prepayment or redemption with the consent of the owners of such Bonds, and the refunding bonds so issued shall constitute Parity Bonds secured on a parity with the Bonds thereafter outstanding, if all of the following conditions are satisfied:
 - 1) the District shall have demonstrated that the refunding will reduce the total debt service payments on the Bonds, as applicable; and
 - 2) the requirements of subsections (b)(2) and (4) below are met with respect to such refunding.
 - b. Parity Bonds (including refunding Parity Bonds which do not meet the requirements of (a)) may also be issued on a parity with outstanding Bonds, and the Parity Bonds so issued shall be secured on a parity with such outstanding Bonds, if all of the following conditions are satisfied:
 - 1) There shall have been procured and filed with the District a report by a Financial Advisor or a certificate by the General Manager of the District, or his or her designee, to the effect that the historical Net Revenues for either (i) a period of 12 consecutive months of the most recent 18 consecutive months prior to the issuance of the proposed Parity Bonds or (ii) the most recent audited Fiscal Year, were equal to at least 120% of Maximum Annual Debt Service Requirement on all Bonds, the SRF Loan Agreement and Prior Lien Obligations which will be outstanding immediately after the issuance of the proposed Parity Bonds, in the then current and each succeeding Fiscal Year, provided, however, the report or certificate may contain pro forma adjustments to historical related Net Revenues equal to 100% of the increased annual amount attributable to any revision in the schedule of rates, fees, and charges for the services and facilities furnished by the System, imposed prior to the date of delivery of the proposed Parity Bonds and not fully reflected in the historical related Net Revenues actually received during such historical period used.

- 2) The District shall have received, at or before issuance of the Parity Bonds, a report from a Financial Advisor or a certificate of the General Manager of the District, or his or her designee, to the effect that (x) the payments required to be made into the Sinking Fund have been made and the balance in the Sinking Fund is not less than the balance required hereby as of the date of issuance of the proposed Parity Bonds; and (y) the Reserve Fund is funded to the extent required under the resolutions authorizing Bonds with a Reserve Fund Requirement, if any, and any Reserve Fund Requirement applicable to Parity Bonds will be funded to the extent required under the applicable resolution immediately following the issuance of the proposed Parity Bonds.
 - 3) The resolution authorizing the proposed Parity Bonds must require the proceeds of such proposed Parity Bonds to be used to make capital improvements to or capital acquisitions for the System, to fund interest on the proposed Parity Bonds, to refund other obligations issued for such purposes (whether or not such refunding Parity Bonds satisfy the requirements of (a)), for any other legal purpose under applicable law as evidenced by an opinion of nationally recognized bond counsel, and/or to pay expenses incidental thereto and to the issuance of the proposed Parity Bonds.
 - 4) The Secretary shall have certified, by written certificate dated as of the date of issuance of the Parity Bonds, that the District is in compliance with all requirements of this Resolution and the SRF Loan Agreement.
- c. All the provisions and covenants of this Resolution relating to the creation and investment of funds and the application of revenues, the operation of the System and charges for services of the System, the remedies of owners of the Bonds, the issuance of additional bonds, modification of this Resolution, the defeasance of Bonds, and such other provisions hereof as are appropriate may be incorporated by reference into supplemental resolutions authorizing additional bonds, and said provisions, when so incorporated, shall be equally applicable to the additional bonds issued pursuant to the terms of this Section in all respects and with like force and effect as though said provisions were recited in full in said supplemental resolutions and shall continue to be applicable so long as any such bonds remain outstanding.
 - d. Notwithstanding anything herein to the contrary, each series of Parity Bonds may be issued with or without a Reserve Fund Requirement, may require cash funding of the Reserve Fund, if any, and may provide for the funding of the Reserve Fund, if any, over such period of time as is acceptable to the purchaser of such Parity Bonds, all as specified in the resolution authorizing such Parity Bonds. Any such Parity Bonds shall be secured only by the Reserve Fund specified in the resolution authorizing such series of Parity Bonds and shall have no right to receive any payment from the Reserve Fund established for the Rural Development Bonds or any other series of bonds, whether such additional bonds are issued as Parity Bonds or Subordinate Lien Bonds.
 - e. In addition to Parity Bonds issued in accordance with the foregoing, the District may issue Subordinate Lien Bonds, subject to the terms of this Resolution or otherwise, provided that the security for such Subordinate Lien Bonds shall be subject in all respects to the lien in favor of the Bonds.

- f. The punctual payment of principal of, premium, if any, and interest on the Rural Development Bonds and any Parity Bonds shall be secured equally and ratably by the Net Revenues, without priority by reason of number or time of sale or execution or delivery. Parity Bonds shall benefit on an equal and parity basis from the statutory mortgage lien on the System established in favor of the Rural Development Bonds.
- g. So long as Rural Development is the registered owner of the Rural Development Bonds, the District shall not issue Parity Bonds without the prior written consent by Rural Development in accordance with the regulatory requirements for parity as pronounced at 7 C.F.R. § 1780.17.

10. Funds, Accounts and Subaccounts; Application of Revenues.

- a. The following funds, accounts and subaccounts are hereby established, and the money deposited in such funds, accounts and subaccounts shall be held in trust for the purposes set forth in this Resolution:
 - 1) System Revenue Fund (the "Revenue Fund") to be held by the District;
 - 2) Principal and Interest Sinking Fund (the "Sinking Fund") to be held by the District;
 - 3) Debt Service Reserve Fund (the "Reserve Fund"), with an account for each series of Bonds which has a Reserve Fund Requirement; provided an account therein may be utilized for more than one series of Bonds if all such series of Bonds are specified in the resolution(s) authorizing such Bonds to share a pledge of such account and have a combined Reserve Fund Requirement. Nothing herein shall prohibit the District from issuing one or more series of Bonds without a Reserve Fund Requirement and no deposit to the Reserve Fund and no Reserve Fund Credit Facility shall be required in connection therewith.
- b. From and after the delivery of any of the Rural Development Bonds hereunder, and as long as any of the Bonds shall be outstanding and unpaid either as to principal or as to interest, or until the discharge and satisfaction of all the Bonds, the Gross Earnings of the System shall be deposited as collected by the District to the Revenue Fund hereby established (the "Revenue Fund"), administered and controlled by the District; provided that the Gross Earnings shall first be first applied as required by the resolutions authorizing any Prior Lien Obligations. The funds so deposited in the Revenue Fund created under this Resolution shall be used only as follows:
 - 1) The money in the Revenue Fund shall be used first from month to month for the payment of Current Expenses.
 - 2) The money thereafter remaining in the Revenue Fund shall next be used to (i) pay debt service on the SRF Loan Agreement and (ii) make deposits into the Sinking Fund and used to pay principal of and interest on the Bonds as the same become due, either by maturity or mandatory redemption. Such deposits shall be made monthly until the Bonds are paid in full or discharged and satisfied pursuant to the defeasance provisions of this Resolution, beginning in the month next following delivery of the Rural Development Bonds. Each monthly deposit as to interest for such Bonds shall be an equal to not less than one-sixth (1/6th) of the interest coming due on such Bonds on the next interest payment date net of any interest earnings

on such amounts; provided that proportionately greater monthly amounts shall be deposited to account for any initial period of less than six months following the issuance of Bonds. Each monthly deposit as to principal for such Bonds shall be an amount equal to not less than one-twelfth (1/12th) of the principal amount and/or Maturity Amount coming due on such Bonds, whether by maturity or mandatory redemption, on the next principal payment date net of any interest earnings on such amounts; provided that proportionately greater monthly amounts shall be deposited to account for any initial period of less than 12 months following the issuance of Bonds. No further deposit shall be required as to any Bonds when the Sinking Fund balance is equal to or greater than the amount needed to pay interest on the next interest payment date and the total of the principal amounts payable, either by maturity or mandatory redemption, during the applicable twelve-month period. Notwithstanding the foregoing, (A) no deposit to the Sinking Fund shall be required with respect to the Rural Development Bonds, and (B) deposits for payment of interest and principal on Variable Rate Indebtedness shall be made as set forth in the resolution authorizing such Variable Rate Indebtedness, and if interest is not paid semi-annually and/or principal is not paid annually with respect to any Bonds, the deposits may be adjusted by the District as provided in the resolution authorizing the issuance of such Bonds. Money in the Sinking Fund shall be used and is hereby expressly pledged for the purpose of paying principal of and interest on the related series of Bonds. In the event the money remaining in the Revenue Fund is insufficient to pay debt service on the SRF Loan Agreement, and to make the required deposits to the Sinking Fund, such money shall be applied to the SRF Loan Agreement and the Sinking Fund pro rata in proportion to the scheduled payment thereon or deposit thereto (as applicable).

- 3) The next available money in the Revenue Fund shall be paid to any Reserve Fund Credit Facility Issuer or Issuers (pro rata, if more than one) to the extent needed to reimburse the Reserve Fund Credit Facility Issuer for amounts advanced by the Reserve Fund Credit Facility Issuer or Issuers under the Reserve Fund Credit Facility, including any amounts payable under any Financial Guaranty Agreement, together with reasonable related expenses incurred by the Reserve Fund Credit Facility Issuer and interest as provided in the Financial Guaranty Agreement.
- 4) The next available money in the Revenue Fund shall be used to replenish any deficiency in the SRF Security Deposit, and to the extent any series of the Bonds has a Reserve Fund Requirement and such Reserve Fund Requirement is not fully satisfied by a Reserve Fund Credit Facility or Facilities or funds of the District, or a combination thereof, the next available money in the Revenue Fund shall be used to make deposits into the applicable subaccount of the Reserve Fund. No deposit shall be required to be made to the Reserve Fund unless the amount in the Reserve Fund, together with the Reserve Fund Credit Facility or Facilities, if any, becomes less than the applicable Reserve Fund Requirement. In the event deposits to the Reserve Fund shall be required pursuant to the preceding sentence, said deposits shall be payable monthly as hereafter provided and each deposit shall be in a minimum amount equal to 1/24th of the difference between the Reserve Fund Requirement and the amount in each subaccount of said Fund, together with the Reserve Fund Credit Facility or Facilities, if any, immediately following the occurrence of such deficiency, so that any deficiency in any subaccount of said Fund shall be replenished over a period of not greater than twenty-four (24) consecutive months; provided, any monthly payments in excess of said minimum

payments shall be a credit against the next ensuing payment or payments. Any deposits required to be made hereunder shall be made monthly at the same time as deposits are made to the Sinking Fund, commencing the first month in which the amount in the Fund, together with the Reserve Fund Credit Facility or Facilities, if any, is less than the Reserve Fund Requirement. All deposits to the Reserve Fund shall be made from the first money in the Revenue Fund thereafter received which shall not then be required to pay Current Expenses, satisfy the contractual obligations set forth in the Prior Bond Resolutions, be transferred into the Sinking Fund, or to be paid to the Reserve Fund Credit Facility Issuer or Issuers as above provided. Money in the Reserve Fund shall be used solely for the purpose of paying principal of or interest on the Bonds for the payment of which funds are not available in the Sinking Fund. Funds in excess of the Reserve Fund Requirement may be released to be used by the District for legally permissible purposes.

When monies are required to replenish both the SRF Security Deposit and the Reserve Fund, available monies shall be allocated pro rata between the SRF Security Deposit and the Reserve Fund (as applicable), in proportion to the respective deficiency; provided that, if the allocation to the Reserve Fund for any month is in excess of 1/24th of the deficiency therein, and if there remains a deficiency in the SRF Security Deposit, then such excess shall be reallocated to replenishing the SRF Security Deposit.

At the option of the District, the District may satisfy the Reserve Fund Requirement applicable to a series of Bonds, or a portion thereof, by providing for the benefit of owners of such series of Bonds a Reserve Fund Credit Facility or Facilities, at any time, in an amount not greater than the Reserve Fund Requirement applicable to such series of Bonds and release an equal amount of funds on deposit in the corresponding subaccount of the Reserve Fund to be used by the District for legally permissible purposes. At any time during the term hereof, the District shall have the right and option to substitute a new Reserve Fund Credit Facility or Facilities for any Reserve Fund Credit Facility or Facilities previously delivered, upon notice to the Registration Agent and the Reserve Fund Credit Facility Issuer or Issuers and delivery of a Reserve Fund Credit Facility or Facilities in substitution therefor. In the event of the issuance of Parity Bonds pursuant to the restrictive provisions of Section 12 hereof with a Reserve Fund Requirement or the substitution of a Reserve Fund Credit Facility or Facilities for less than the full amount of the Reserve Fund Requirement, the District shall satisfy the applicable Reserve Fund Requirement by depositing funds to the Reserve Fund or obtaining a Reserve Fund Credit Facility or Facilities, or any combination thereof, in an aggregate amount equal to the applicable Reserve Fund Requirement for the series of Bonds taking into account any funds then held therein or the amount of any Reserve Fund Credit Facility or Facilities then in effect. Notwithstanding anything herein to the contrary, the District shall have no right to satisfy any portion of the Reserve Fund Requirement for the Rural Development Bonds with a Reserve Fund Credit Facility.

In the event of the necessity of a withdrawal of funds from the Reserve Fund during a time when the Reserve Fund Requirement is being satisfied by a Reserve Fund Credit Facility or Facilities and funds of the District, the funds shall be disbursed completely before any demand is made on the Reserve Fund Credit Facility. In the event all or a portion of the Reserve Fund Requirement is satisfied by more

than one Reserve Fund Credit Facility, any demand for payment shall be pro rata between or among the Reserve Fund Credit Facilities. If a disbursement is made by demand on a Reserve Fund Credit Facility, the District, from Revenues after payment of Current Expenses, satisfaction of the contractual obligations set forth in the Prior Bond Resolutions and required deposits to the Sinking Fund, shall reimburse the Reserve Fund Credit Facility Issuer for all amounts advanced under the Reserve Fund Credit Facility (pro rata, if more than one Reserve Fund Credit Facility), including all amounts payable under any Financial Guaranty Agreement or Agreements, and then replenish the Reserve Fund as provided herein.

In the event the Reserve Fund Requirement, or any part thereof, shall be satisfied with a Reserve Fund Credit Facility or Facilities, notwithstanding the terms hereof, the terms, covenants, liability and liens provided or created herein or in any resolution supplemental hereto shall remain in full force and effect and said terms, covenants, liability and liens shall not terminate until all amounts payable under any Financial Guaranty Agreement have been paid in full and all obligations thereunder performed in full. If the District shall fail to pay when due all amounts payable under any Financial Guaranty Agreement, the Reserve Fund Credit Facility Issuer shall be entitled to exercise any and all remedies available at law or under this Resolution other than remedies that would adversely affect owners of Bonds.

The District shall cause the registration agent for each series of Bonds for which a Reserve Fund Credit Facility has been provided to maintain adequate records, verified with the Reserve Fund Credit Facility Issuer or Issuers, as to the amount available to be drawn at any given time under the Reserve Fund Credit Facility or Facilities and as to the amounts paid and owing to the Reserve Fund Credit Facility Issuer or Issuers under the terms of any Financial Guaranty Agreement and to provide notice to the Reserve Fund Credit Facility Issuer at least two days before any payment is due. The Reserve Fund Credit Facility Issuer shall receive notice of the resignation or removal of the registration agent and the appointment of a successor thereto.

Notwithstanding anything herein to the contrary, the District may issue Parity Bonds without a Reserve Fund Requirement, as shall be specified in the bond resolution authorizing such Parity Bonds.

- 5) The next available money in the Revenue Fund shall be used for the purpose of the payment of principal of and interest on (including reasonable reserves therefor) any Subordinate Lien Bonds or other obligations payable from revenues of the System, but junior and subordinate to the Bonds, and may thereafter be used by the District for any legally permissible purpose, as the Governing Body shall determine.
- c. Money on deposit in the Funds described in this Section may be invested by the District in such investments as shall be permitted by applicable law, as determined by an authorized representative of the District, all such investments to mature not later than the date on which the money so invested shall be required for the purpose for which the respective Fund was created. All income derived from such investments shall be regarded as revenues of the System and shall be deposited in the Revenue Fund. Such investments shall at any time necessary be liquidated and the proceeds thereof applied to the purpose for which the

respective Fund was created; provided, however, that in no event shall moneys in the Reserve Fund be invested in instruments that mature more than two years from the date the money is so invested. The District is authorized to enter into contracts with third parties for the investment of funds in any of the Funds described herein.

- d. The Revenue Fund, the Sinking Fund, and the Reserve Fund (except to the extent funded with a Reserve Fund Credit Facility or Facilities) shall be held and maintained by the District and, when not invested, kept on deposit with a bank or financial institution regulated by and the deposits of which are insured by the Federal Deposit Insurance Corporation or similar federal agency. All moneys in such Funds so deposited shall at all times be secured to the extent and in the manner required by applicable State law.

11. Covenants Regarding the Operation of the System. The District hereby covenants and agrees with the owners of the Bonds so long as any of the Bonds shall remain outstanding:

- a. The District shall maintain the System in good condition and operate the System in an efficient manner and at reasonable cost and conduct all activities associated therewith or incident thereto.
- b. While the Rural Development Bonds remain outstanding and unpaid and Rural Development remains the registered owner thereof:
 - 1) the District covenants and agrees that it will permit no free service to be furnished to any consumer or user whatsoever, and the charges for all services of the System to the District and its residents and to all consumers shall be reasonable and just, taking into account and consideration the cost and value of the System and the cost of maintaining and operating the System, and the proper and necessary allowances for the depreciation thereof, and the amounts necessary for the payment of principal of and interest on the Bond payable from such revenues, and there shall be charged against all users of said services such rates and amounts as shall be fully adequate to meet the requirements of this resolution; and
 - 2) the District further covenants that the System shall be operated on a fully metered basis and that the District will bill its customers on a monthly basis and will discontinue service to any customer whose bill remains unpaid sixty (60) days following the mailing of such bill, until such bill and penalties shall have been paid in full.
- c. The District shall maintain insurance on the properties of the System of a kind and in an amount which would normally be carried by private companies engaged in a similar type and size of business, provided, the District shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, or other applicable law. The proceeds of any such insurance, except public liability insurance, shall be used to replace the part or parts of the System damaged or destroyed, or, if not so used, shall be placed in the Revenue Fund.
- d. The District will cause to be kept proper books and accounts adapted to the System, will cause the books and accounts to be audited at the end of each Fiscal Year by a recognized independent certified public accountant or a firm of such accountant or accountants and, upon written request, will make available to any registered owner of the Bonds the balance sheet and the profit and loss statement of the District as certified by such accountant or

accountants. Each such audit, in addition to whatever matters may be thought proper by the accountant or accountants to be included therein, shall include the following:

- 1) A statement in detail of the revenues and expenditures of the System and the excess of revenues over expenditures for the Fiscal Year;
- 2) A statement showing beginning and ending balances of each Fund described herein;
- 3) A balance sheet as of the end of the Fiscal Year;
- 4) The accountant's comments regarding the manner in which the District has carried out the requirements of this Resolution and the accountant's recommendations with respect to any change or improvement in the operation of the System;
- 5) A list of insurance policies in force at the end of the Fiscal Year, setting out as to each policy the amount of the policy, the risks covered, the name of the insurer and the expiration date of the policy;
- 6) The number and classifications of customer service connections to the System as of the end of the Fiscal Year;
- 7) The disposition of any Bond proceeds during the Fiscal Year;
- 8) A statement as to all breaches or defaults hereunder by the District of which the accountant or accountants have knowledge or, in the alternative, a statement that they have no knowledge of any such breach or default.

All expenses incurred in the making of the audits required by this subsection shall be regarded and paid as Current Expenses. The District further agrees to cause copies of such audits to be furnished to the registered owner of any of the Bonds, at the written request thereof, within 180 days after the close of each Fiscal Year. The registered owner of any of the Bonds shall have at all reasonable times the right to inspect the System and the records, accounts and data of the District relating thereto. If the District fails to provide the audits and reports required by this subsection, the registered owner or owners of twenty-five percent (25%) in principal amount of the Bonds may cause such audits and reports to be prepared at the expense of the District. Notwithstanding the foregoing, so long as the Rural Development Bonds are outstanding and Rural Development remains the registered owner thereof: (A) the District shall provide Rural Development with copies of the audits described above within 150 days following the end of each Fiscal Year; (B) Rural Development shall have at all reasonable times the right to inspect the System and the records, accounts and data of the District relating thereto; and (C) if the District fails to provide the audits and reports required by this subsection, Rural Development may cause such audits and reports to be prepared at the expense of the District.

- e. The District will faithfully and punctually perform all duties with reference to the System required by the constitution and laws of the State, including the making and collecting of reasonable and sufficient rates for services rendered by the System, and will apply the revenues of the System to the purposes and Funds specified in this Resolution.

- f. The District shall continuously own, control, operate, and maintain the System in an efficient and economical manner and on a revenue producing basis and shall at all times prescribe, fix, maintain, and collect rates, fees, and other charges for the services and facilities furnished by the System fully sufficient at all times:
- 1) for 100% of the Current Expenses and for the accumulation in the Revenue Fund of a reasonable reserve therefor, in an amount, if any, as shall be determined from time to time by the District; and
 - 2) such that Net Revenues in each Fiscal Year:
 - a) will equal at least 120% of the Debt Service Requirement on all Bonds, the SRF Loan Agreement and Prior Lien Obligations, and 100% of the debt service requirement on any Subordinate Lien Bonds or other obligations then outstanding for such Fiscal Year; provided that the District may calculate the debt service requirement on Subordinate Lien Bonds in the manner prescribed for the Bonds in the definition of "Debt Service Requirement";
 - b) will enable the District to make all required payments, if any, into the Reserve Fund and on any Credit Facility Agreement;
 - c) will enable the District to accumulate an amount, which, in the judgment of the District, is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments, and improvements to the System, necessary to keep the same in good operating condition or as is required by any governmental agency having jurisdiction over the System; and
 - d) will remedy all deficiencies in required payments into any of the funds and accounts mentioned in this Resolution from prior Fiscal Years.
- g. The District will not sell, lease, mortgage, or in any manner dispose of the System, or any part thereof, including any and all extensions and additions that may be made thereto, or any facility necessary for the operation thereof; provided, however, the use of any of the System facilities may at any time be permanently abandoned or any of the System facilities sold at fair market value, provided that:
- 1) The District is in full compliance with all covenants and undertakings in connection with all bonds, notes and other obligations then outstanding and payable from the revenues of the System and any required reserve funds for such bonds, notes and other obligations have been fully established and contributions thereto are current;
 - 2) Any sale proceeds will be applied either (A) to the redemption of Bonds and the prepayment of the SRF Loan Agreement, pro rata in proportion to outstanding principal amount, in accordance (with respect to the Bonds) with the provisions governing the repayment of Bonds in advance of maturity, or (B) to the purchase of Bonds or Prior Lien Obligations at the market price thereof (so long as such price does not exceed the amount at which they could be redeemed on such date or the next optional redemption date as set forth herein or in their authorizing

resolutions) and the prepayment of the SRF Loan Agreement, pro rata in proportion to outstanding principal amount, or (C) to the construction or acquisition of facilities in replacement of the facilities so disposed of or other facilities constituting capital improvements to the System, or (D) the deposit to a replacement fund to be used to make capital improvements to the System;

- 3) The abandonment, sale or disposition is for the purpose of disposing of facilities which are no longer necessary or no longer useful to the operation of the System and the operation of the System or revenue producing capacity of the System is not materially impaired by such abandonment, sale or disposition or any facilities acquired in replacement thereof are of equivalent or greater value; and
- 4) The District shall have received an opinion of nationally recognized bond counsel to the effect that such sale, lease, mortgage or other disposition will not jeopardize the exclusion from federal income taxation of interest on any Bonds then outstanding intended to be excludable from gross income for federal income tax purposes.

Nothing herein is intended to prohibit the lease purchase of equipment or facilities of the System hereafter to be put in service or, at such time as Rural Development is no longer the registered owner of the Rural Development Bonds, to prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as the District is in full compliance with the covenants set forth herein immediately following such transfer or exchange.

- h. Prior to the beginning of each Fiscal Year, the Governing Body shall prepare, or cause to be prepared, and adopted an annual budget of estimated revenues, Current Expenses, and capital expenditures for the System for the ensuing Fiscal Year in compliance with the rate covenant set forth in subsection (f) above, and will undertake to operate the System within such budget to the best of its ability. Copies of such budgets and amendments thereto will be made available to Rural Development, so long as it remains the registered owner of the Rural Development Bonds, and upon written request to any other registered owner of a Bond. The District covenants that Current Expenses and capital expenditures incurred in any Fiscal Year will not exceed the reasonable and necessary amounts therefor and that the District will not expend any amounts or incur any obligations therefor in excess of the amounts provided for Current Expenses and capital expenditures in the budget except upon resolution of the Governing Body.
- i. So long as the Rural Development Bonds remain outstanding, each officer of the District or person other than banks or other financial institutions having custody of funds of the System shall be under fidelity bond coverage at all times in such amount as may be required by state law and by the holder of the Rural Development Bonds.
- j. The District will not construct, finance or grant a franchise for the development or operation of facilities that compete for service with the services to be provided by the System or consent to the provision of any such services in the area currently served by the District by any other public or private entity and will take all steps necessary and proper, including appropriate legal action to prevent any such entity from providing such service; provided that, at such time as Rural Development is no longer the registered owner of the Rural Development Bonds, nothing herein contained shall prohibit the transfer or exchange of service areas to provide for more efficient operation of the System so long as the District

is in full compliance with the covenants set forth herein immediately following such transfer or exchange.

- k. The District shall timely pay the amounts owed pursuant to the SRF Loan Agreement and duly perform its covenants and agreements thereunder and with respect thereto. The Authority will not consent or agree to or permit any amendment to or otherwise take any action under or in connection with the SRF Loan Agreement which will increase the payments required thereunder or which will in any manner impair or adversely affect the rights of the holders of the Bonds.
12. Resolution a Contract. The provisions of this Resolution shall constitute a contract between the District and the registered owners of the Bonds, and after the issuance of the Rural Development Bonds, no change, variation or alteration of any kind in the provisions of this Resolution shall be made in any manner, except as expressly provided herein, until such time as the Bonds shall have been paid in full or discharged pursuant to the defeasance sections hereof.
13. Remedies of Bond Owners. Any registered owner of any of the Bonds may either at law or in equity, by suit, action, mandamus or other proceedings, in any court of competent jurisdiction enforce and compel performance of all duties imposed upon the District by the provisions of this Resolution, including the making and collecting of sufficient rates, the proper application of and accounting for revenues of the System, and the performance of all duties imposed by the terms hereof. If any default be made in the payment of principal of, premium, if any, or interest on the Bonds, then upon the filing of suit by any registered owner of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System in behalf of the District with power to charge and collect rates sufficient to provide for the payment of all bonds and obligations outstanding against the System and for the payment of Current Expenses, and to apply the income and revenues thereof in conformity with the provisions of this Resolution.

In addition to the foregoing, whenever the TLDA and/or TDEC has declared (and not subsequently rescinded such declaration) all unpaid principal and interest on the SRF Loan Agreement to be immediately due and payable (an “SRF Acceleration Event”), then all unpaid principal and interest on any outstanding Bonds shall likewise be immediately due and payable unless and until the registered owners of a majority in aggregate principal amount of the Bonds then outstanding shall have directed otherwise. Upon an SRF Acceleration Event, the District shall cause notice of the SRF Acceleration Event to be mailed by first-class mail, postage prepaid, to the registered holder of each Bond then outstanding. Such notice shall briefly set forth the nature of the SRF Acceleration Event and describe the rights of Bondholders with respect thereto.

Whenever at any time from the date of mailing of said notice there shall be filed with the Secretary of the Board of Commissioners an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding, which instrument or instruments shall refer to SRF Acceleration Event and specifically direct that acceleration of the Bonds not occur, then the Bonds shall immediately cease to be immediately due and payable and shall be payable as to principal and interest as originally issued.

Any direction given by the registered owner of a Bond pursuant to the provisions of this section shall be irrevocable once given, but solely with respect to the specific SRF Acceleration Event, and shall be conclusive and binding upon all future registered owners of the same Bond during such period. The fact and date of the execution of any instrument under the provisions of this Section may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such

instrument acknowledged before him the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.

The amount (number(s)) of the Bonds owned by any person executing such instrument and the date of the ownership of the same shall be proved by reference to the Bond registration records maintained by the Registration Agent, which records shall constitute conclusive proof of the ownership thereof.

Notwithstanding the foregoing, if any Bonds are insured by a bond insurance policy, the bond insurer issuing such bond insurance policy shall be entitled to consent to any modifications to this Resolution on behalf of the owners of the Bonds insured by such bond insurer.

14. Discharge and Satisfaction of Bonds. If the District shall pay and discharge the indebtedness evidenced by all or any portion of the Bonds in any one or more of the following ways:

- a. By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;
- b. By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers (an "Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay premium, if any, and interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice);
- c. By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the District shall also pay or cause to be paid all other sums payable hereunder by the District with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Escrow Agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest and redemption premiums, if any, on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the District to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the District shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations deposited as aforesaid.

Except as otherwise provided in this Section, neither Defeasance Obligations or moneys deposited with the Registration Agent pursuant to this Section nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the District as received by the Registration Agent and (B) to the extent such

cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Registration Agent.

Notwithstanding anything contrary herein, Defeasance Obligations are strictly prohibited by statute (7 U.S.C. § 1983) against any portion of the Rural Development Bonds, and any provision herein accorded for any Defeasance Obligations is void as a matter of law as to the Rural Development Bonds.

Notwithstanding the foregoing, the District may restrict its right to discharge and satisfy prior to maturity any series of Parity Bonds as may be set forth in the resolution authorizing such series of Parity Bonds.

15. Modification of Resolution.

- a. This Resolution may be amended without the consent of or notice to the registered owners of the Bonds (a) for the purpose of curing any ambiguity or formal defect or omission herein or (b) for any other purpose which, in the opinion of nationally recognized bond counsel, does not adversely affect the holders of any then outstanding Bonds; provided that, in evaluating the impact of any amendment, the existence of any Credit Facility shall be disregarded.
- b. In addition to the amendments to this Resolution without the consent of registered owners as referred to in subsection (a) above, the registered owners of a majority in aggregate principal amount of the Bonds at any time outstanding (not including in any case any Bonds which may then be held or owned by or for the account of the District but including such refunding bonds as may have been issued for the purpose of refunding any of such Bonds if such refunding bonds shall not then be owned by the District) shall have the right from time to time to consent to and approve the adoption by the Governing Body of a resolution or resolutions modifying any of the terms or provisions contained in this Resolution; provided, however, that this Resolution may not be so modified or amended in such manner, without the consent of 100% of the registered owners of the Bonds, as to:
 - 1) Make any change in the maturities or redemption dates of the Bonds;
 - 2) Make any change in the rates of interest borne by the Bonds;
 - 3) Reduce the amount of the principal payments or redemption premiums payable on the Bonds;
 - 4) Modify the terms of payment of principal of or interest on the Bonds or impose any conditions with respect to such payments;
 - 5) Affect the rights of the registered owners of less than all of the Bonds then outstanding;
 - 6) Reduce the percentage of the principal amount of the Bonds the consent of the registered owners of which is required to effect a further modification.

- c. Whenever the District shall propose to amend or modify this Resolution under the provisions of this Section, it shall cause notice of the proposed amendment to be mailed by first-class mail, postage prepaid, to the owner of each Bond then outstanding. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy of the proposed amendatory resolution is on file in the office of the District for public inspection.
- d. Whenever at any time within one year from the date of mailing of said notice there shall be filed with the Secretary an instrument or instruments executed by the registered owners of at least a majority in aggregate principal amount of the Bonds then outstanding as in this Section defined, which instrument or instruments shall refer to the proposed amendatory resolution described in said notice and shall specifically consent to and approve the adoption thereof, thereupon, but not otherwise, the District may adopt such amendatory resolution and such resolution shall become effective and binding upon the owners of all Bonds.
- e. If the registered owners of at least a majority in aggregate principal amount of the Bonds outstanding as in this section defined, at the time of the adoption of such amendatory resolution, or the predecessors in title of such owners, shall have consented to and approved the adoption thereof as herein provided, no registered owner of any Bonds, whether or not such owner shall have consented to or shall have revoked any consent as in this Section provided, shall have any right or interest to object to the adoption of such amendatory resolution or to object to any of the terms or provisions therein contained or to the operation thereof or to enjoin or restrain the District from taking any action pursuant to the provisions thereof.
- f. Any consent given by the registered owner of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice above provided for and shall be conclusive and binding upon all future registered owners of the same Bond during such period. Such consent may be revoked at any time after six months from the date of publication of such notice by the registered owner who gave such consent or by a successor in title by filing notice of such revocation at the District office, but such revocation shall not be effective if the registered owners of a majority in aggregate principal amount of the Bonds outstanding as in this Section defined shall have, prior to the attempted revocation, consented to and approved the amendatory resolution referred to in such revocation.
- g. The fact and date of the execution of any instrument under the provisions of this Section may be proved by the certificate of any officer in any jurisdiction who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such instrument acknowledged before him or her the execution thereof, or may be proved by an affidavit of a witness to such execution sworn to before such officer.
- h. The amount (number(s)) of the Bonds owned by any person executing such instrument and the date of the ownership of the same shall be proved by reference to the Bond registration records maintained by the Registration Agent, which records shall constitute conclusive proof of the ownership thereof.
- i. Notwithstanding the foregoing to the contrary, except as set forth in subsection (a) above, so long as Rural Development is the registered owner of the Rural Development Bonds and the Rural Development Bonds remain outstanding, no amendment of this resolution

affecting the Rural Development Bonds shall be effective without the written consent of Rural Development.

16. Engagement of Bond Counsel. The President and/or the General Manager are authorized to enter into an engagement letter with Bass, Berry & Sims PLC, as bond counsel to the District in connection with the issuance of the Rural Development Bonds, and all actions heretofore taken to engage bond counsel are hereby ratified and approved.
17. Compliance with Debt Management Policy. The Governing Body hereby finds that the issuance of the Rural Development Bonds is consistent with the terms of the District's debt management policy.
18. Repeal of Conflicting Resolutions and Effective Date. All other resolutions and orders, or parts thereof, in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed and this Resolution shall be in immediate effect from and after its adoption.
19. Separability. If any section, paragraph or provision of this Resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such section, paragraph or provision shall not affect any of the remaining provisions of this Resolution.

EXHIBIT A

(Form of Rural Development Bond)

UNITED STATES OF AMERICA
STATE OF TENNESSEE
WARREN COUNTY UTILITY DISTRICT OF WARREN COUNTY, TENNESSEE
WATERWORKS REVENUE BOND, SERIES ____

R-1

\$ _____

KNOW ALL MEN BY THESE PRESENTS: That Warren County Utility District of Warren County, Tennessee (the "District"), a public corporation lawfully organized and existing under Section 7-82-101 *et seq.*, Tennessee Code Annotated (the "Act"), for value received hereby promises to pay to the registered owner hereof, or its registered assigns, in the manner and from the revenues hereinafter provided, the sum of \$_____, with interest on the unpaid balance hereof at the rate of _____ (_____%) per annum from the date hereof until the principal amount hereof shall have been fully paid. This Bond is payable in ____ consecutive monthly installments of principal and interest in the amount of \$ _____ each. The first installment payment shall be due and payable on _____, and all subsequent installments shall be due and payable on the same day of each month thereafter. In all events, the final installment shall be in the amount of the entire unpaid balance of principal and interest on the Bond. Both principal hereof and interest hereon are payable in lawful money of the United States of America by check or draft mailed to the registered owner at the address shown on the bond registration records of the District, and such payments shall discharge the obligation of the issuer hereof to the extent of the payments so made. Upon final payment, this Bond shall be submitted to the Secretary of the Board of Commissioners of the District, as Bond registrar for cancellation.

Prepayment of scheduled installments, or any portion thereof, may be made at any time at the option of the District. Any partial prepayment shall, after payment of interest, be applied to the installments last to become due under this Bond and shall not affect the obligation of the District to pay the remaining installments as they come due. Notice of prepayment shall be given to the registered owner hereof not less than thirty (30) days prior to the date of prepayment, unless waived by the registered owner.

This Bond shall be transferable by the registered owner hereof, or by its attorney, duly authorized in writing, on the registration records of the District at the office of the Secretary of the Board of Commissioners of the District upon presentation of the Bond to the registrar for transfer with the form of assignment attached hereto completed in full and signed with the name of the registered owner. All transferees shall take this Bond subject to such condition. The District may treat the registered owner as the absolute owner hereof for all purposes, and shall not be affected by any notice to the contrary whether or not any payments due on this Bond shall be overdue.

This Bond is issued by the District for the purpose of paying part of the cost of constructing waterworks system improvements and extensions for the District under and in full compliance with the constitution and statutes of the State of Tennessee, including the Act, and pursuant to a resolution duly adopted by the Board of Commissioners of said District on the _____ day of _____, 20__ (the "Resolution").

This Bond is payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the waterworks system of the District (the "System"), on parity with the District's

State Revolving Fund Loan Agreement, identified as DW4 15-158 (the "SRF Loan"), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring said System and to prior pledges of such revenues in favor of the District's Waterworks Revenue Bond, Series 2009, dated December 8, 2011. The revenues are required by law and by the proceedings pursuant to which this Bond is issued to be fully sufficient to pay the cost of operating, maintaining, repairing and insuring said System, including reserves therefor, and to pay principal of and interest on this Bond promptly as each becomes due and payable. The District has covenanted and does hereby covenant that it will fix and impose such rates and charges for the services rendered by said System and for the use of water furnished by said System and will collect and account for sufficient revenues to pay promptly the principal of and interest on this Bond as each becomes due. This Bond and the interest hereon are payable solely from the revenues so pledged to the payment hereof, and this Bond does not constitute a debt of the District within the meaning of any statutory limitation. For a more complete statement of the revenues from which and conditions under which this Bond is payable, a statement of the conditions on which obligations may hereafter be issued on a parity with this Bond, the general covenants and provisions pursuant to which this Bond is issued and the terms upon which the above described resolution may be modified, reference is hereby made to the Resolution.

This Bond and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) Tennessee excise taxes on interest on the Bond during the period the Bond is held or beneficially owned by any organization or entity, other than a general partnership or sole proprietorship, doing business in the State of Tennessee, and (b) Tennessee franchise taxes by reason of the inclusion of the book value of the Bond in the Tennessee franchise tax base of any organization or entity, other than a general partnership or sole proprietorship, doing business in the State of Tennessee.

A statutory mortgage lien which is hereby recognized as valid and binding is created and granted by statute on said waterworks system in favor of the owner or owners of this Bond, on parity with the mortgage lien heretofore established in favor of the SRF Loan Agreement and any bonds hereafter issued on a parity therewith and said System shall remain subject to such statutory mortgage lien until the payment in full of the principal of and interest on this Bond.

It is hereby certified, recited, and declared that all acts, conditions, and things required to exist, happen, and be performed precedent to and in the issuance of this Bond exist, have happened, and have been performed in due time, form, and manner as required by law, and that the amount of this Bond does not exceed any limitation prescribed by the constitution and statutes of the State of Tennessee.

IN WITNESS WHEREOF, Warren County Utility District of Warren County, Tennessee has caused this Bond to be signed by the President of its Board of Commissioners and attested by the Secretary

of said Board under the corporate seal of the District, all as of this _____ day of _____,
20__.

WARREN COUNTY UTILITY DISTRICT OF
WARREN COUNTY, TENNESSEE

By: [DO NOT SIGN – FORM ONLY]
President

(SEAL)

ATTEST:

[DO NOT SIGN – FORM ONLY]
Secretary

(Form of Assignment)

FOR VALUE RECEIVED, the undersigned sells, assigns, and transfers unto _____ the within Bond of Warren County Utility District of Warren County, Tennessee, and does hereby irrevocably appoint _____ attorney to transfer the said Bond on the books of the Secretary of the Board of Commissioners of Warren County Utility District of Warren County, Tennessee, as Bond Registrar, with full power of substitution in the premises.

Dated: _____

WITNESS:

(No writing in this blank except by the Registrar)

(Form of Registration Provisions)

<u>Registration Date</u>	<u>Registered Name</u>	<u>Signature of Registrar</u>
	United States of America, Acting through Rural Development 4300 Goodfellow Blvd., Bldg 104 St. Louis, MO 63120-1703	

Adopted and approved on _____, 2023.

President

ATTEST:

Secretary

STATE OF TENNESSEE)
)
COUNTY OF WARREN)

I, _____, hereby certify that I am the duly qualified and acting Secretary of the Board of Commissioners of Warren County Utility District of Warren County, Tennessee, and as such official I further certify that attached hereto is a true and correct copy of a resolution duly adopted by the Board of Commissioners of the District at a meeting held on _____, 2023, and that a quorum of the members of the Board of Commissioners was present and acting throughout said meeting.

WITNESS my official signature and seal of said District this ____ day of _____, 2023.

Secretary

(SEAL)



JASON E. MUMPOWER
Comptroller

October 9, 2023

**City of Cleveland and Cleveland Utilities Authority
Request for TLDA Approval of Assignment of SRF Loans,
Approval to Issue Debt, and Modification of Lien Position**

The City of Cleveland is requesting approval from the Tennessee Local Development Authority (the “TLDA”) to transfer its outstanding SRF loans to the newly created Cleveland Utilities Authority (the “Authority”). The Municipal Energy Authority Act, T.C.A. § 7-36-101, et seq., permits the City to create the Authority as a public corporation and political subdivision of the State of Tennessee from its utilities. Pursuant to the Act, the Authority must retire, defease, or assume the outstanding debt of the City’s water and sewer system (the “System”) as a condition of the transfer of the utilities from the City to the Authority.

The City is the current borrower on six State Revolving Fund (SRF) Loan Agreements that are payable from the City’s water system and twelve SRF Loan Agreements that are payable from the City’s sewer system (the “SRF Loan Agreements”).¹ The City is requesting approval to assign the SRF Loan Agreements from the City to the Authority.

The City has additional outstanding indebtedness related to the System that will be retired with the proceeds of a new series of water and sewer revenue bonds (the Bonds) to be issued in connection with the transfer of the System to the Authority. In order to obtain the most favorable rates of interest on the Bonds, the Authority proposed that the Bonds be payable from and secured by a pledge of a shared senior lien on the revenues of the System. The Authority also requests that the TLDA consent to each of the SRF Loan Agreements being payable from and secured by a pledge of the revenues of the System as a whole, as opposed to a pledge of the revenues of only the water system or only the sewer system. Therefore, the Authority is requesting to issue the Bonds in an amount not to exceed \$28,500,000 and that the TLDA agree that its lien on the revenues of the combined System be on parity with the liens in favor of the Bonds. Approval for the Authority to issue additional debt and modify lien position is required by provisions set forth in the State Revolving Fund (SRF) loan agreement and guidelines set forth in the *TLDA/SRF Policy and Guidance for Borrowers*.

1. The requestor is a:

- X Utility District, Energy Authority, or Water/Wastewater Authority
Upon transfer of the loans from the City to the Authority, the Authority must request permission to issue debt and modify lien position.

¹ The City’s two additional loan applications referenced in the request letter were approved at the September 20, 2023, TLDA meeting and are included in the loan transfer and parity request for a total of 18 loans.

Will the proposed debt be secured by revenues other than revenues of the water/wastewater system (e.g. electric, gas)? ___ Yes X No

X Municipality (town/city/county) requesting to transfer its SRF loans to the newly created Authority:

- N/A General Obligation Debt

X Revenue Debt – Will the proposed debt be secured by revenues other than revenues of the water/wastewater system (e.g. electric, gas)? ___ Yes X No

2. Lien Position:

X The borrower is requesting that TLDA’s lien on revenues be on parity with the Bonds which will be secured by a shared senior lien on the revenues of the combined System.

___ The borrower is requesting to subordinate its outstanding SRF debt to the proposed debt issuance.

___ The borrower is not requesting a modification of lien position and the proposed debt will be issued subordinate to the SRF debt.

3. The purpose of the proposed debt issuance is:

___ Refunding

X New Money

4. Additional Information:

The City and Authority believe that the TLDA’s consent to its requests is in the interest of the public as it will facilitate the transfer of the System from the City to the Authority, which the City has determined is in the best interest of the citizens. In addition, the request letter states that they believe TLDA consent will preserve the Authority’s ability, subject in any event to TLDA approval, to incur future debt on a shared senior lien basis, thereby minimizing interest costs payable by System ratepayers.

5. The debt rating of the borrower is:

Please indicate N/R if not rated.

N/R Moody’s

N/R Standard and Poor’s

N/R Fitch

6. The following SRF loans are currently authorized/outstanding:

Borrower	City of Cleveland - Cleveland Utilities								
Date	7/25/2023								
Loan Type	Loan #	Status	Disbursements	Available to Draw	% Principal Forgiveness	Edison Balance @7/25/2023**	MADS*		
Sewer	CW0 13-319	Repayment	1,825,992.00	-	24.7%	967,752.00	76,992.00		
Sewer	SRF 13-320	Repayment	8,169,388.00	-	0%	6,459,366.00	457,440.00		
Sewer	CG4 15-349	Repayment	2,500,000.00	-	7%	1,573,807.00	133,092.00		
Sewer	CG3 17-379	Repayment	110,418.00	-	5%	73,220.10	5,724.00		
Sewer	CW6 18-415	Repayment	982,452.00	-	10%	757,645.80	51,432.00		
Sewer	SRF 18-416	Repayment	491,390.00	-	0%	452,440.00	28,620.00		
Sewer	SRF 18-417	Repayment	10,000,000.00	-	0%	9,499,082.00	583,476.00		
Sewer	CW7 19-431	Construction	96,900.00	1,674,100.00	10%	87,210.00	91,152.00		
Sewer	SRF 18-417-01	Construction	4,156,791.00	5,843,209.00	0%	4,156,791.00	537,540.00		
Water	DG2 14-151	Repayment	2,500,000.00	-	20%	1,303,179.00	115,812.00		
Water	DWF 16-172	Repayment	2,889,229.00	-	0%	2,115,438.00	159,720.00		
Water	DW6 17-192	Repayment	998,445.00	-	20%	646,448.00	46,680.00		
Water	DWF 17-193	Repayment	195,000.00	-	0%	157,315.00	11,400.00		
Water	DWF 18-205	Repayment	430,000.00	-	0%	344,454.00	24,456.00		
							<u>2,323,536.00</u>	**	
Sewer	SRF 22-473	Approved	-	4,650,000.00	0%	-	264,924.00	***	
Water	DWF 22-247	Approved	-	825,000.00	0%	-	47,004.00	***	
Sewer	SRF 2023-484	Approved	-	2,700,000.00	0%	-	170,112.00	***	
Sewer	SRF 2022-473-01	Approved	-	3,100,000.00	0%	-	195,312.00	***	
				<u>18,792,309.00</u>			<u>28,594,147.90</u>	<u>677,352.00</u>	
* MADS is an estimate until final expenses have been determined									
* The City of Cleveland pledges its unobligated state-shared taxes in an amount equal to MADS. Upon transfer, the Cleveland Utilities Authority will be required to fund a security deposit for each loan equal to MADS.									
** total amount of deposits required immediately upon transfer									
*** deposit required before loan funds are disbursed									

7. Compliance with SRF Loan Agreement (by the Town):

a. Timely repayments [4.(a)]

Yes No

b. Security Deposit (UDs and Authorities) [8.]

Yes No The Authority will make the required deposit upon the TLDA's approval of the Authority's request considered herein and has indicated that City will transfer the System's funds to the Authority on November 1, 2023, at which time the Authority will initiate transfer of the security deposits to the TLDA.

Amount to be deposited:

\$2,323,536 is required upon transfer of loans.

\$ 677,352 is required before loan funds are disbursed.

c. GAAP Accounting and Audited Annual Financial Statement Requirement [7.(g) and (m)(2)]

The Authority's first year of operations will be fiscal year 2024 with operations expected to commence on November 1, 2023.

Cleveland Utilities has timely filed its audited financial statements with the Division of Local Government Audit through the fiscal year ended June 30, 2022, within six months after fiscal year end.

d. Sufficient Revenues [7.(k)]

Yes No

For the fiscal year ended June 30, 2022, the Authority's audited financial statements reflected operating income of \$6,262,017, and a positive change in net position of \$5,526,475 for the water and sewer system. The statement of cash flows reflected debt service payments of \$5,770,139, consisting of principal payments of \$4,244,455 and interest payments of \$1,525,684 for the water and sewer system.

At June 30, 2022, the Authority reported \$14,351,240 in unrestricted cash and \$5,259 in restricted cash and investments in its water and sewer system.

e. Debt Service Coverage Ratios [7.(l) and (m)(3) & (4)]

The current and projected Debt Service Coverage Ratio meets or exceeds 1.2 times.

Yes No

If no, include a schedule of revised rates and fees. Included N/A

Most Recent Fiscal Year (m)(3):

The water and sewer system's debt service coverage ratio for fiscal years 2021, 2022, and 2023 was 1.96x, 1.78x, and 1.87x, respectively (as provided by the Authority). The Authority met the debt service coverage requirement for these fiscal years.

Next Three Fiscal Years After Debt Issuance (m)(4):

The Authority projects that it will meet the debt service coverage requirement with estimated net revenues to debt service ratios of 1.79x, 1.71x, and 1.66x for fiscal years 2024, 2025, and 2026, respectively.

f. Is the entity currently under the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR)?

[7.(n)]

Yes No

If yes, reason for referral: Water Loss Financial Distress Administrative Review

If the reason is financial distress, include a schedule of revised rates and fees along with a copy of the corrective action order from the respective board. ___ Included X N/A

8. State-Shared Taxes (SST): (Towns, Cities, Counties): N/A

\$ _____ Received in prior fiscal year
\$ _____ Total Maximum Annual Debt Service (with SST pledge)
\$ _____ Unobligated SSTs

9. Conclusion

Based upon our analysis and considering the Authority will assume the operations of the City’s System, the Authority will have the ability to assume the City’s SRF loans and to meet its other debt obligations. A security deposit for each loan is required upon TLDA’s approval of the Authority’s request.

Furthermore, the Authority appears to meet the requirements to issue the Bonds with a shared senior lien position of the combined system’s revenues on parity with its SRF loans.

Attachments:

- Assignment, Assumption, and Termination Agreement
- Waiver of Opinion Letter
- Request Letter with City’s Resolution and Debt Service Coverage

CLEVELAND UTILITIES AUTHORITY
ASSIGNMENT, ASSUMPTION, AND TERMINATION AGREEMENT

This is an Assignment, Assumption, and Termination Agreement ("Agreement") by and among the City of Cleveland ("City"), Cleveland Utilities Authority (CUA), the Department of Environment and Conservation ("Department"), and the Tennessee Local Development Authority ("Authority").

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, CW0 13-319, (the "Original Agreement A") in the original principal amount of one million, three hundred seventy-four thousand nine hundred and seventy-two dollars (\$1,374,972) and principal forgiveness in the amount of \$451,020.00 (24.7%) entered into on or about June 25, 2013, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness A" (See Exhibit A, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, SRF 13-320, (the "Original Agreement B") in the original principal amount of eight million one hundred seventy-four thousand dollars (\$8,174,000) entered into on or about June 25, 2013 by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness B" (See Exhibit B, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, CG4 15-349, (the "Original Agreement C") in the original principal amount of two million, five hundred thousand dollars (\$2,325,000) and principal forgiveness in the amount of \$175,000 (7%) entered into on or about January 6, 2015 by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness C" (See Exhibit C, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, CG3 17-379, (the "Original Agreement D") in the original principal amount of one hundred four thousand eight hundred ninety-seven dollars (\$104,897) and principal forgiveness in the amount of \$5,520.90 (5%) entered into on or about September 26, 2016, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness D" (See Exhibit D, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan

agreement, CW6 18-415, (the "Original Agreement E") in the original principal amount of nine hundred thousand dollars (\$900,000) and principal forgiveness in the amount of \$100,000 (10%) entered into on or about April 24, 2018, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness E" (See Exhibit E, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, SRF 18-416, (the "Original Agreement F") in the original principal amount of seven hundred thirty thousand dollars (\$730,000) entered into on or about April 24, 2018, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness F" (See Exhibit F, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, SRF 18-417, (the "Original Agreement G") in the original principal amount of ten million dollars (\$10,000,000) entered into on or about March 2, 2018, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness G" (See Exhibit G, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, CW7 19-431, (the "Original Agreement H") in the original principal amount of one million five hundred ninety-three thousand nine hundred dollars (\$1,593,900) and principal forgiveness in the amount of \$177,100 (10%) entered into on or about April 29, 2019, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness H" (See Exhibit H, new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, SRF 18-471-01, (the "Original Agreement I") in the original principal amount of ten million dollars (\$10,000,000) entered into on or about August 11, 2020, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness I" (See Exhibit I, new loan agreement); and

WHEREAS, the City borrowed funds from the Water Revolving Loan Fund created by the Drinking Water Revolving Loan Fund Act of 1997, as amended, which loan is evidenced by a loan agreement, DG2 14-151, (the "Original Agreement J") in the original principal amount of two million dollars (\$2,000,000) and principal forgiveness in the amount of \$500,000 (20%) entered into on or about August 24, 2014, by and among the City, the Department, and the Authority and the outstanding

balance of which is referred to as the "Outstanding Indebtedness J" (See [Exhibit J](#), new loan agreement); and

WHEREAS, the City borrowed funds from the Water Revolving Loan Fund created by the Drinking Water Revolving Loan Fund Act of 1997, as amended, which loan is evidenced by a loan agreement, DWF 16-172, (the "Original Agreement K") in the original principal amount of three million seven hundred twenty-five thousand dollars (\$3,725,000) entered into on or about March 26, 2016, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness K" (See [Exhibit K](#), new loan agreement); and

WHEREAS, the City borrowed funds from the Water Revolving Loan Fund created by the Drinking Water Revolving Loan Fund Act of 1997, as amended, which loan is evidenced by a loan agreement, DW6 17-192, (the "Original Agreement L") in the original principal amount of eight hundred thousand dollars (\$800,000) and principal forgiveness in the amount of \$200,000 (20%) entered into on or about April 27, 2017, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness L" (See [Exhibit L](#), new loan agreement); and

WHEREAS, the City borrowed funds from the Water Revolving Loan Fund created by the Drinking Water Revolving Loan Fund Act of 1997, as amended, which loan is evidenced by a loan agreement, DWF 17-193, (the "Original Agreement M") in the original principal amount of one hundred ninety-five thousand dollars (\$195,000) entered into on or about April 27, 2017, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness M" (See [Exhibit M](#), new loan agreement); and

WHEREAS, the City borrowed funds from the Water Revolving Loan Fund created by the Drinking Water Revolving Loan Fund Act of 1997, as amended, which loan is evidenced by a loan agreement, DWF 18-205, (the "Original Agreement N") in the original principal amount of four hundred thirty thousand dollars (\$430,000) entered into on or about October 24, 2017, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness N" (See [Exhibit N](#), new loan agreement); and

WHEREAS, the City borrowed funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan is evidenced by a loan agreement, SRF 22-473, (the "Original Agreement O") in the original principal amount of four million six hundred fifty thousand dollars (\$4,650,000) entered into on or about June 14, 2022, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness O" (See [Exhibit O](#), new loan agreement); and

WHEREAS, the City borrowed funds from the Water Revolving Loan Fund created by the Drinking Water Revolving Loan Fund Act of 1997, as amended, which loan is evidenced by a loan agreement,

DWF 22-247, (the "Original Agreement P") in the original principal amount of eight hundred twenty-five thousand dollars (\$825,000) entered into on or about June 14, 2022, by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness P" (See Exhibit P, new loan agreement); and

WHEREAS, the City has applied for funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan will be evidenced by a loan agreement, SRF 2023-484, in the original principal amount of two million seven hundred thousand dollars (\$2,700,000) by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness Q" (See Exhibit Q, new loan agreement); and

WHEREAS, the City has applied for funds from the Wastewater Revolving Loan Fund created by the Tennessee Wastewater Facilities Act of 1987, as amended, which loan will be evidenced by a loan agreement, SRF 2022-473-01, in the original principal amount of two million seven hundred thousand dollars (\$3,100,000) by and among the City, the Department, and the Authority and the outstanding balance of which is referred to as the "Outstanding Indebtedness R" (See Exhibit R, new loan agreement); and

WHEREAS, the City has determined to transfer its water and wastewater treatment and distribution and collection facilities to CUA (a municipal energy authority created pursuant to the Municipal Energy Authority Act, Tenn. Code Ann. §§ 7-36-101 to -132) subject to satisfaction of conditions precedent to closing; and

WHEREAS, CUA assumes each of the Outstanding Indebtedness A through R (collectively, the "Total Outstanding Indebtedness") and the Department and the Authority are willing to agree to such assumption on the conditions that the Original Agreements A through P be terminated and that CUA enter into new loan agreements (the "New Loan Agreements") with the Department and the Authority to replace the Original Agreements A through P;

NOW THEREFORE, in consideration of the previous, the parties agree as follows:

1. The City hereby assigns all of its rights, title, and interest in the Total Outstanding Indebtedness to CUA.
2. CUA hereby assumes the Total Outstanding Indebtedness of the City and, as a condition thereof, CUA agrees that it will enter into the New Loan Agreements and that the terms and conditions of the New Loan Agreements shall be the same as those contained in the draft loan agreements attached hereto as Exhibits A through R.

3. CUA agrees to be subject to the jurisdiction of the Tennessee Board of Utility Regulation created pursuant to Tennessee Code Annotated Title 7, Chapter 82.
4. The Department and the Authority hereby release the City from liability for the Total Outstanding Indebtedness and terminate the Original Agreements A through R.
5. This Agreement shall not be effective until such time as each of the following events shall have occurred:
 - i. This Agreement has been executed by all parties hereto.
 - ii. CUA has furnished evidence satisfactory to the Department and to the Authority that the City's water and wastewater systems have been transferred to CUA.
 - iii. CUA has complied with all terms and conditions of the New Loan Agreements and the New Loan Agreements have been executed by all parties thereto.
6. This Agreement may be executed in one or more counterparts, each of which shall be treated as an original.

CITY OF CLEVELAND

By: J. Amy Rivas
Title: City Manager
Date: Sept 26, 2023

CLEVELAND UTILITIES AUTHORITY

By: Joe O'Connell
Title: President / CEO
Date: September 26, 2023

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

By: _____
Title: _____
Date: _____

DEPARTMENT OF ENVIRONMENT AND CONSERVATION

By: _____
Title: _____
Date: _____



September 25, 2023

Tennessee Local Development Authority
Cordell Hull Building
425 Fifth Avenue North
Nashville, TN 37243-3400
ATTN: Assistant Secretary

RE: Waiver of Opinion Letter
Cleveland Utilities Authority
Loan Numbers:
CW0 2013-319; CW6 2018-415
SRF 2013-320; SRF 2018-416; SRF 2018-417
CG4 2015-349; CW7 2019-431
CG3 2017-379; SRF 2018-417-01
DG2 2014-151; DWF 2016-172
DW6 2017-192; DWF 2017-193; DWF 2022-247
DWF 2018-205; SRF 2022-473; SRF 2022-473-01; SRF 2023-484

Dear Sir/Madam:

The State Revolving Fund Loan Program has performed a financial sufficiency review analysis for the aforementioned entity and the outstanding loans listed above. The SRF program has determined that the Cleveland Utilities Authority has a sufficient rate structure to assume these loans.

Therefore, based on the financial sufficiency review by TDEC, the requirement for a separate opinion regarding sufficiency of rates, fees, and charges associated with the assumption and transfer of all outstanding loans has been waived.

The SRF Loan Program reserves the right to conduct new or additional financial evaluations at any time if, in the opinion of the SRF program, circumstances warrant such re-evaluation.

If you have any comments or questions, please feel free to contact me via email at vena.l.jones@tn.gov or via phone at (615) 898-9499.

Sincerely,

**Vena
Jones** Digitally signed by
Vena Jones
Date: 2023.09.25
12:20:45 -05'00'

Vena L. Jones, Manager
SRF Loan Program

September 11, 2023

VIA E-MAIL (sandi.thompson@cot.tn.gov and
alicia.west@cot.tn.gov)

Ms. Sandra Thompson, Assistant Secretary
Tennessee Local Development Authority
Cordell Hull Building
425 Fifth Avenue North
Nashville, Tennessee 37243

RE: The City of Cleveland–Transfer of SRF Loans to the Cleveland Utilities Authority

Dear Sandi:

The City of Cleveland (the “City”) proposes to establish the Cleveland Utilities Authority (the “Authority”) pursuant to the Municipal Energy Authority Act, Sections 7-36-101 et seq., Tennessee Code Annotated, and to transfer the assets and liabilities of the City’s water and sewer system (the “System”) to the Authority. A copy of the City Resolution authorizing the transfer of assets and assumption of liabilities of the City’s utilities to the Authority is attached hereto as Exhibit A. The City is party to six State Revolving Fund Loan Agreements that are payable from the City’s water system, ten State Revolving Fund Loan Agreements that are payable from the City’s sewer system, and has applied for two additional State Revolving Fund Loans (the “SRF Loan Agreements”). A complete list of the SRF Loan Agreements is attached hereto as Exhibit B. The City and the Authority wish to assign these SRF Loan Agreements from the City to the Authority, and hereby request your approval thereof. The City and the Authority are prepared to provide the Tennessee Local Development Authority (the “TLDA”) any information it needs to assess this request, and to approve and execute any documents required by the TLDA to effectuate the assignment of the SRF Loan Agreements to the Authority.

The City has additional outstanding indebtedness related to the System that will be retired with the proceeds of a new series of Authority water and sewer revenue bonds (the “Bonds”) to be issued in connection with the transfer of the System to the Authority. In order to obtain the most favorable rates of interest on the Bonds, the Authority proposes that the Bonds be payable from and secured by a pledge of a shared senior lien on the revenues of the System.

In order to accommodate the proposed structure of the Bonds, the SRF Loans Agreements would likewise need to be payable from and secured by a shared senior lien on the revenues of the System. To that end, we hereby request:

- (1) that the TLDA consent to each of the SRF Loan Agreements being payable from and secured by a pledge of the revenues of the System as a whole, as opposed to a pledge of the revenues of only the water system or only the sewer system; and
- (2) that the TLDA approve the Authority's request to issue the Bonds in an amount not to exceed \$28,500,000 and agree that its lien on the revenues of the combined System be on parity with the liens in favor of the Bonds.

*Tennessee Local Development Authority
City of Cleveland – Transfer of SRF Loans to the Cleveland Utilities Authority
September 11, 2023*

We believe that the TLDA's consent to these requests is in the public interest insofar as it will facilitate the transfer of the System from the City to the Authority, which the City has determined to be in the best interest of its citizens. We also believe that the TLDA's consent to these requests is in the public interest insofar as it will preserve the Authority's ability, subject in any event to TLDA approval, to incur future debt on a shared senior lien basis, thereby minimizing interest costs payable by System ratepayers. (We understand that under applicable State guidelines, all future debt of the Authority must be first approved by the TLDA.)

The City cites the following factors in favor of this request:

1. The City is in compliance with the terms of the SRF Loan Agreements.
2. The City has never failed to timely repay its SRF debt.
3. Except as set forth below, the City has filed its audited financial statements with the Division of Local Government Audit in a timely manner. The City did file its audited financial statements for the fiscal year ended June 30, 2022 late, but the audited financial statements for the 2022 fiscal year for the City's utility systems were filed on a timely basis.
4. Current and pro forma debt service coverage is attached as Exhibit C.

The City has targeted October 31, 2023 as the final day of City utilities operations and November 1, 2023 as the first day of Authority operations. Due to this timeframe, I respectfully ask that the TLDA consider this request as soon as possible. If you need further information, please contact me at mstinnett@clevelandutilities.com or (423) 478-9378. Thank you for your consideration of this request.

Sincerely,



Marshall Stinnett, CPA
VP/Chief Financial Officer
Cleveland Utilities

Cc: Jeff Oldham (joldham@bassberry.com)
Betsy Knotts (betsy.knotts@bassberry.com)

RESOLUTION 2023-85

A RESOLUTION AUTHORIZING THE CITY MANAGER TO TAKE SUCH FURTHER ACTIONS AS ARE NECESSARY TO THE CAUSE THE TRANSFER OF ASSETS OF CLEVELAND UTILITIES TO AND THE ASSUMPTION OF LIABILITIES OF THE CLEVELAND UTILITIES BY THE CLEVELAND UTILITIES AUTHORITY

WHEREAS, on April 10, 2023, the City Council of the City of Cleveland, Tennessee (the “City”) authorized the formation of the Cleveland Utilities Authority (the “Authority”) pursuant to the provisions the Tennessee Municipal Energy Authority Act, Tennessee Code Annotated Section 7-36-101, et seq. (the “Act”); and

WHEREAS, pursuant to the Act, the City Council is authorized to transfer all of the City’s right, title and interest in and all of the assets of the City’s electric, water, and wastewater operations, which does business as Cleveland Utilities or “CU,” to the Authority; and

WHEREAS, as a condition of the transfer of the City’s rights, title and interest in and all of the assets of CU to the Authority, the Authority must either retire all of the City’s bonds associated with CU, defease all such bonds, or assume and agree to pay in full the principal of and interest on such bonds.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF CLEVELAND:

1. That the City Manager is hereby authorized to take all necessary or appropriate steps to transfer all of the City’s rights, title and interest in and all of the assets of CU to the Authority, provided that as a condition to such transfer, the Authority must assume all liabilities of CU and must either retire all of the City’s bonds associated with CU or must defease all such bonds, with all such assumptions, retirements and defeasances to become effective with the transfer of assets from the City to the Authority;

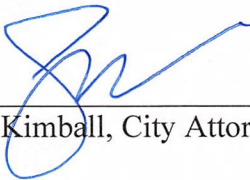
2. That the City Manager is hereby authorized to take such actions from time to time as are appropriate or necessary to transfer of assets of CU to and to cause the assumption of liabilities of CU by the Authority;

3. That the City Manager is hereby authorized to take such further actions and to execute such agreements, documents, or other agreements from time to time as may be necessary or appropriate to carry out the intent of this resolution; and

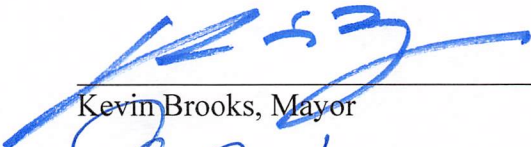
4. That, upon transfer of the assets of CU to the Authority and the Authority's assumption or satisfaction of all obligations of CU, the jurisdiction and control over such system shall be transferred to the Authority, and the Board of Directors of CU shall cease to exist.

ADOPTED this 14th day of August 2023.

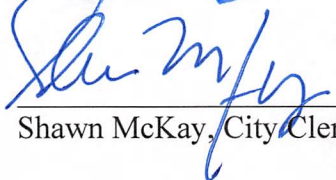
APPROVED AS TO FORM:



John F. Kimball, City Attorney



Kevin Brooks, Mayor



Shawn McKay, City Clerk

CLEVELAND UTILITIES AUTHORITY

CLEVELAND UTILITIES AUTHORITY - WATER
Debt Service Coverage and Financial Projections

	AUDITED <u>2021</u>	AUDITED <u>2022</u>	UNAUDITED <u>2023</u>	FORECAST <u>2024</u>	FORECAST <u>2025</u>	FORECAST <u>2026</u>	FORECAST <u>2027</u>
Net Position							
Operating Revenue	16,716,535	18,033,904	20,086,349	22,224,872	23,704,970	25,283,636	25,696,934
Operating Expenses	12,466,181	13,246,004	14,671,590	15,962,375	16,683,519	17,171,631	17,502,148
Depreciation	<u>2,933,898</u>	<u>3,078,353</u>	<u>3,164,168</u>	<u>3,339,233</u>	<u>3,472,802</u>	<u>3,542,258</u>	<u>3,613,103</u>
Operating Income	1,316,456	1,709,547	2,250,591	2,923,264	3,548,649	4,569,747	4,581,683
Non Operating Income	2,054,008	2,069,448	2,434,108	1,949,903	1,947,826	2,020,811	2,057,585
Non Operating Expenses	<u>737,411</u>	<u>657,016</u>	<u>658,761</u>	<u>813,933</u>	<u>1,060,772</u>	<u>1,040,883</u>	<u>932,549</u>
Income before Contributions & Transfers	2,633,053	3,121,979	4,025,938	4,059,234	4,435,703	5,549,675	5,706,719
Capital Contributions/Grants	524,737	127,370	817,252	-	-	-	-
Transfers (PILOT)	<u>246,094</u>	<u>251,016</u>	<u>256,036</u>	<u>261,157</u>	<u>271,603</u>	<u>277,035</u>	<u>282,576</u>
Change in Net Position	<u>2,911,696</u>	<u>2,998,333</u>	<u>4,587,154</u>	<u>3,798,077</u>	<u>4,164,100</u>	<u>5,272,640</u>	<u>5,424,143</u>
Beginning Cash & Cash Equivalents	3,113,107	2,807,194	4,536,383	3,387,248	3,805,663	3,160,936	2,735,906
Change in Cash	<u>(305,913)</u>	<u>1,729,189</u>	<u>(1,149,135)</u>	<u>418,415</u>	<u>(644,727)</u>	<u>(425,030)</u>	<u>(940,993)</u>
Ending Cash & Cash Equivalents	<u>2,807,194</u>	<u>4,536,383</u>	<u>3,387,248</u>	<u>3,805,663</u>	<u>3,160,936</u>	<u>2,735,906</u>	<u>1,794,913</u>
Cash Flow							
Net Cash Provided (Used) by							
Operating Activities	5,482,457	5,989,025	6,639,594	6,776,681	7,983,370	9,126,998	9,227,050
Capital & Related Financing Activities	(5,536,844)	(4,012,502)	(7,711,262)	(6,196,370)	(8,361,448)	(9,280,055)	(9,889,834)
Investing Activities	(5,432)	3,682	178,569	99,261	4,954	5,062	4,367
Non-Capital Financing Activities	<u>(246,094)</u>	<u>(251,016)</u>	<u>(256,036)</u>	<u>(261,157)</u>	<u>(271,603)</u>	<u>(277,035)</u>	<u>(282,576)</u>
Net Increase (Decrease) in Cash	<u>(305,913)</u>	<u>1,729,189</u>	<u>(1,149,135)</u>	<u>418,415</u>	<u>(644,727)</u>	<u>(425,030)</u>	<u>(940,993)</u>
Net Revenue	4,250,354	4,787,900	5,414,759	6,262,497	7,021,451	8,112,005	8,194,786
Debt Service							
Principal	2,247,453	2,331,171	2,167,437	1,820,827	2,192,324	2,633,527	2,781,235
Interest	<u>748,998</u>	<u>819,914</u>	<u>875,151</u>	<u>1,025,563</u>	<u>1,275,631</u>	<u>1,255,742</u>	<u>1,147,408</u>
Total Debt Service	<u>2,996,451</u>	<u>3,151,085</u>	<u>3,042,588</u>	<u>2,846,390</u>	<u>3,467,955</u>	<u>3,889,269</u>	<u>3,928,643</u>
Debt Service Coverage Ratio	1.42	1.52	1.78	2.20	2.02	2.09	2.09

CLEVELAND UTILITIES AUTHORITY

CLEVELAND UTILITIES AUTHORITY - SEWER
Debt Service Coverage and Financial Projections

	AUDITED <u>2021</u>	AUDITED <u>2022</u>	UNAUDITED <u>2023</u>	FORECAST <u>2024</u>	FORECAST <u>2025</u>	FORECAST <u>2026</u>	FORECAST <u>2027</u>
Operating Revenue	13,401,887	13,777,177	14,810,063	16,159,358	17,077,456	18,047,716	19,073,101
Operating Expenses	7,867,303	8,382,346	8,999,729	10,600,729	10,812,744	11,028,999	11,249,579
Depreciation	<u>3,812,928</u>	<u>4,077,875</u>	<u>4,230,534</u>	<u>4,401,764</u>	<u>4,489,799</u>	<u>4,579,595</u>	<u>4,671,187</u>
Operating Income	1,721,656	1,316,956	1,579,800	1,156,865	1,774,913	2,439,122	3,152,335
Non Operating Income	1,145,582	1,196,062	1,509,975	1,451,503	1,416,269	1,262,182	1,259,543
Non Operating Expenses	<u>650,189</u>	<u>583,858</u>	<u>567,718</u>	<u>833,499</u>	<u>1,163,269</u>	<u>1,558,512</u>	<u>1,849,146</u>
Income before Contributions & Transfers	2,217,049	1,929,160	2,522,057	1,774,869	2,027,913	2,142,792	2,562,732
Capital Contributions/Grants	807,690	834,226	1,261,674	-	-	-	-
Transfers (PILOT)	<u>228,489</u>	<u>235,244</u>	<u>240,051</u>	<u>244,852</u>	<u>249,749</u>	<u>254,744</u>	<u>259,839</u>
Change in Net Position	<u>2,796,250</u>	<u>2,528,142</u>	<u>3,543,680</u>	<u>1,530,017</u>	<u>1,778,164</u>	<u>1,888,048</u>	<u>2,302,893</u>
Beginning Cash & Cash Equivalents	7,707,558	11,076,302	9,820,116	8,007,562	6,134,387	3,304,122	3,148,625
Change in Cash	<u>3,368,744</u>	<u>(1,256,186)</u>	<u>(1,812,554)</u>	<u>(1,873,175)</u>	<u>(2,830,265)</u>	<u>(155,497)</u>	<u>(38,807)</u>
Ending Cash & Cash Equivalents	<u>11,076,302</u>	<u>9,820,116</u>	<u>8,007,562</u>	<u>6,134,387</u>	<u>3,304,122</u>	<u>3,148,625</u>	<u>3,109,818</u>
Cash Flow							
Net Cash Provided (Used) by							
Operating Activities	5,831,525	7,598,559	6,160,159	6,085,190	6,810,491	7,318,241	7,888,083
Capital & Related Financing Activities	(2,243,612)	(8,645,816)	(8,132,674)	(8,045,394)	(9,663,675)	(7,312,755)	(7,732,473)
Investing Activities	9,320	26,315	400,012	327,080	262,970	79,068	45,634
Non-Capital Financing Activities	<u>(228,489)</u>	<u>(235,244)</u>	<u>(240,051)</u>	<u>(240,051)</u>	<u>(240,051)</u>	<u>(240,051)</u>	<u>(240,051)</u>
Net Increase (Decrease) in Cash	<u>3,368,744</u>	<u>(1,256,186)</u>	<u>(1,812,554)</u>	<u>(1,873,175)</u>	<u>(2,830,265)</u>	<u>(155,497)</u>	<u>(38,807)</u>
Operating Revenue	5,534,584	5,394,831	5,810,334	5,558,629	6,264,712	7,018,717	7,823,522
Debt Service							
Principal	1,417,131	1,913,284	2,300,272	2,686,729	2,916,593	3,365,618	3,946,043
Interest	<u>582,836</u>	<u>666,197</u>	<u>650,050</u>	<u>1,060,790</u>	<u>1,400,566</u>	<u>1,837,058</u>	<u>2,048,691</u>
Total Debt Service	<u>1,999,967</u>	<u>2,579,481</u>	<u>2,950,322</u>	<u>3,747,519</u>	<u>4,317,159</u>	<u>5,202,676</u>	<u>5,994,734</u>
Debt Service Coverage Ratio	2.77	2.09	1.97	1.48	1.45	1.35	1.31

CLEVELAND UTILITIES AUTHORITY

CLEVELAND UTILITIES AUTHORITY - WATER & SEWER
Debt Service Coverage and Financial Projections

	AUDITED <u>2021</u>	AUDITED <u>2022</u>	UNAUDITED <u>2023</u>	FORECAST <u>2024</u>	FORECAST <u>2025</u>	FORECAST <u>2026</u>	FORECAST <u>2027</u>
Operating Revenue	30,118,422	31,811,081	34,896,412	38,384,230	40,782,426	43,331,352	44,770,035
Operating Expenses	20,333,484	21,628,350	23,671,319	26,563,104	27,496,263	28,200,630	28,751,727
Depreciation	<u>6,746,826</u>	<u>7,156,228</u>	<u>7,394,702</u>	<u>7,740,997</u>	<u>7,962,601</u>	<u>8,121,853</u>	<u>8,284,290</u>
Operating Income	3,038,112	3,026,503	3,830,391	4,080,129	5,323,562	7,008,869	7,734,018
Non Operating Income	3,199,590	3,265,510	3,944,083	3,401,406	3,364,095	3,282,993	3,317,128
Non Operating Expenses	<u>1,387,600</u>	<u>1,240,874</u>	<u>1,226,479</u>	<u>1,647,432</u>	<u>2,224,041</u>	<u>2,599,395</u>	<u>2,781,695</u>
Income before Contributions & Transfers	4,850,102	5,051,139	6,547,995	5,834,103	6,463,616	7,692,467	8,269,451
Capital Contributions/Grants	1,332,427	961,596	2,078,926	-	-	-	-
Transfers (PILOT)	<u>474,583</u>	<u>486,260</u>	<u>496,087</u>	<u>506,009</u>	<u>521,352</u>	<u>531,779</u>	<u>542,415</u>
Change in Net Position	<u>5,707,946</u>	<u>5,526,475</u>	<u>8,130,834</u>	<u>5,328,094</u>	<u>5,942,264</u>	<u>7,160,688</u>	<u>7,727,036</u>
Beginning Cash & Cash Equivalents	10,820,665	13,883,496	14,356,499	11,394,809	9,940,049	6,465,057	5,884,530
Change in Cash	<u>3,062,831</u>	<u>473,003</u>	<u>(2,961,690)</u>	<u>(1,454,760)</u>	<u>(3,474,992)</u>	<u>(580,527)</u>	<u>(979,800)</u>
Ending Cash & Cash Equivalents	<u>13,883,496</u>	<u>14,356,499</u>	<u>11,394,809</u>	<u>9,940,049</u>	<u>6,465,057</u>	<u>5,884,530</u>	<u>4,904,730</u>
Cash Flow							
Net Cash Provided (Used) by							
Operating Activities	11,313,982	13,587,584	12,799,753	12,861,871	14,793,861	16,445,239	17,115,133
Capital & Related Financing Activities	(7,780,456)	(12,658,318)	(15,843,936)	(14,241,764)	(18,025,123)	(16,592,810)	(17,622,307)
Investing Activities	3,888	29,996	578,581	426,341	267,924	84,130	50,001
Non-Capital Financing Activities	<u>(474,583)</u>	<u>(486,260)</u>	<u>(496,087)</u>	<u>(501,208)</u>	<u>(511,654)</u>	<u>(517,086)</u>	<u>(522,627)</u>
Net Increase (Decrease) in Cash	<u>3,062,831</u>	<u>473,003</u>	<u>(2,961,690)</u>	<u>(1,454,760)</u>	<u>(3,474,992)</u>	<u>(580,527)</u>	<u>(979,800)</u>
Operating Revenue	9,784,938	10,182,731	11,225,093	11,821,126	13,286,163	15,130,722	16,018,308
Debt Service							
Principal	3,664,584	4,244,455	4,467,709	4,507,556	5,108,917	5,999,145	6,727,278
Interest	<u>1,331,834</u>	<u>1,486,111</u>	<u>1,525,201</u>	<u>2,086,353</u>	<u>2,676,197</u>	<u>3,092,800</u>	<u>3,196,099</u>
Total Debt Service	<u>4,996,418</u>	<u>5,730,566</u>	<u>5,992,910</u>	<u>6,593,909</u>	<u>7,785,114</u>	<u>9,091,945</u>	<u>9,923,377</u>
Debt Service Coverage Ratio	1.96	1.78	1.87	1.79	1.71	1.66	1.61

DEPARTMENT OF ENVIRONMENT AND CONSERVATION
DIVISION OF WATER RESOURCES

Clean Water State Revolving Fund (CWSRF) Loan Program
Funds Available for Loan Obligation
October 9, 2023

Unobligated Balance as of September 20, 2023			\$ 188,032,014
<u>Increases:</u>	<u>Loan Number</u>	<u>Amount</u>	
			\$ -
Unobligated Balance as of October 09, 2023			\$ 188,032,014
<u>Decreases:</u>	<u>Loan Number</u>	<u>Amount</u>	
Chattanooga	SRF 2023-478	\$ 20,000,000.00	
			\$ (20,000,000)
Remaining Funds Available for Loan Obligations as of October 9, 2023			\$ 168,032,014

FACT SHEET

October 09, 2023

Borrower: City of Chattanooga
Project Number: SRF 2023-478
Requested SRF Funding: \$20,000,000
Term: 20 years
Rate: 3.25% X 80% (Tier 3) = 2.60%
Companion Loan: No

Project:

I/I Correction: Wet Weather Storage, Phase 6—Construction of a 5 MG EQ basin, 10 MGD Hixson pump station, a 20 MGD submersible dry-weather pump station, and associated appurtenances.

Total Project Cost:	\$48,472,705.31
Project Funding:	
SRF Loan Principal	\$20,000,000.00
Local Funds	\$11,805,653.31
Other Funds (ARP Grants)	\$16,667,052.00

County:	Hamilton County
Consulting Engineer:	Jacobs Engineering
Priority Ranking List:	2020
Priority Ranking:	48 of 64 ¹
Public Meeting:	05/25/2023

Financial Information:

Operating Revenues:	\$108,035,492
Current Rate:	\$71.40
Financial Review Rate:	\$71.40
Effective Rates, if applicable:	N/A
Residential User Charge:	5,000 gal/month
Customer Base:	182,800
Audit Report Filed:	03/31/2023 (Late) ²
Initial Financial Sufficiency Review:	11/21/2022
Updated Financial Sufficiency Review:	4/14/2023

The financial sufficiency review indicates that revenues and rates are sufficient to repay its SRF loan(s).

¹ The Project ranked #48 of 64 on the 2020 Priority Ranking List.

² Late Audit report explanation letter provided to SRF.

FACT SHEET
October 09, 2023

Additional Security

The borrower pledges its unobligated state-shared taxes (SSTs) in an amount equal to the maximum annual debt service (MADS) requirements under the loan agreement.

The SSTs received by the borrower from the state in the prior fiscal year: \$33,146,988

MADS:	Prior Obligations:	\$18,504,599
	Proposed loan(s):	
	SRF 2023-478	<u>\$ 1,283,491</u>
	Totals	<u>\$19,788,090</u>

MADS as a percentage of SSTs: 59.70%

**REPRESENTATION OF
LOANS AND STATE-SHARED TAXES
CITY OF CHATTANOOGA
SRF 2023-478**

As security for payments due under a State Revolving Fund (SRF) Loan Agreement, a local government pledges user fees, charges, and ad valorem taxes as necessary to meet its obligations under a SRF Loan Agreement. As an additional security for such payments due, a local government pledges and assigns its unobligated state-shared taxes (SSTs) in an amount equal to maximum annual debt service (MADS) requirements.

1. State-Shared Taxes

The total amount of SSTs, as identified pursuant to Tenn. Code Ann. § 4-31-105(c)(2), received by the local government in the prior fiscal year of the State is \$33,146,988.

2. Prior Obligations

(a.) Prior SRF loans which have been funded or approved for which the Local Government has pledged its SSTs are as follows:

Loan Type	Loan #	Base Loan*	Principal Forgiveness*	MADS**
SRF/Sewer	SRF 2003-168	\$40,582,809	\$0	\$2,617,824
SRF/Sewer	SRF 2007-204	\$13,000,000	\$0	\$848,868
SRF/Sewer	SRF 2011-289	\$18,871,242	\$0	\$1,140,444
SRF/Sewer	SRF 2012-307	\$31,604,145	\$0	\$1,763,892
SRF/Sewer	SRF 2013-318	\$63,356,209	\$0	\$3,714,444
SRF/Sewer	SRF 2016-357	\$42,500,000	\$0	\$2,412,035
SRF/Sewer	CW6 2018-405	\$900,000	\$100,000	\$52,260
SRF/Sewer	SRF 2018-406	\$17,100,000	\$0	\$993,012
SRF/Sewer	CW7 2019-428	\$2,700,000	\$300,000	\$164,676
SRF/Sewer	SRF 2019-429	\$21,000,000	\$0	\$1,280,796
SRF/Sewer	SRF 2018-406-01	\$30,000,000	\$0	\$1,683,072
SRF/Sewer	SRF 2020-440	\$15,000,000	\$0	\$796,872
SRF/Sewer	SRF 2020-440-01	\$19,000,000	\$0	\$1,036,404

* If applicable, the original approved amount is adjusted for decreases and approved increases

**MADS is an estimate until final expenses have been determined

The total MADS from section 2(a.) having a lien on SSTs is \$18,504,599.

(b.) Other prior obligations which have been funded or approved for which the local government has pledged its SSTs are as follows:

Type of Obligation	Identifying #	Loan Amount	Principal Forgiveness	MADS
QZAB/QSCB				
TLDA/Public Health				
TLDA/Transportation				

The total MADS from section 2(b.) having a lien on SSTs is \$0.

(c.) The total MADS from prior obligations having a lien on SSTs [subsections 2(a)+2(b)] is \$18,504,599.

3. Loan Requests

The loan(s) which have been applied for and for which state-shared taxes will be pledged:

Loan Type	Loan #	Anticipated Interest Rate	Base Loan	Principal Forgiveness	Anticipated MADS
SRF/Sewer	SRF 2023-478	2.60%	\$20,000,000	\$0	\$1,283,491

The anticipated total maximum annual pledge of state-shared taxes pursuant to loan request(s) is \$1,283,491.

4. Unobligated SSTs

The amount set forth in section (1) less the total amounts set forth in sections 2 and 3 is \$13,358,898.

The Local government hereby represents the information presented above is accurate and understands that funding for the loan request(s) presented is contingent upon approval by the TLDA.

Duly signed by an authorized representative of the Local Government on this 14th day of September, 2023.

This is the Comptroller's certificate as required by TCA 4-31-108.

LOCAL GOVERNMENT

BY: 
Vickie Haley, Chief Finance Officer

REQUIREMENT FOR REPORT ON DEBT OBLIGATION
(FORM CT-0253)
CITY OF CHATTANOOGA
SRF 2023-478

Pursuant to Tenn. Code Ann. § 9-21-134, a Report on Debt Obligation (the "Report") must be prepared for all debt obligations issued or entered into by any public entity and filed with its governing body with a copy sent to the Office of State and Local Finance/Comptroller of the Treasury for the State of Tennessee. The purpose of the Report is to provide clear and concise information to members of the governing or legislative body that authorized and is responsible for the debt issued.

Public entities that fail to comply with the requirements of Tenn. Code Ann. § 9-21-134 are not permitted to enter into any further debt obligations until they have complied with the law. A State Revolving Fund (SRF) loan program applicant that is not in compliance with this law should file the Report as soon as possible and provide notification of filing to the SRF loan program so that it may proceed with the loan application. Instructions on how to file the Report are located in the "Debt" category for "Local Finance" on the website of the Tennessee Comptroller of the Treasury.

Municipal Securities Rulemaking Board (MSRB) – Required Disclosure


Local governments that issue municipal securities on or after February 27, 2019, should be aware that the Securities and Exchange Commission (SEC) adopted amendments to Rule 15c2-12 of the Securities Exchange Act that require reporting on material financial obligations that could impact an issuer's financial condition or security holder's rights. The amendments add two events to the list of events that must be included in any continuing disclosure agreement that is entered into after the compliance date:

- Incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; and
- Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties.

To learn how to report these new disclosures please refer to the MSRB's Electronic Municipal Market Access EMMA® website (emma.msrb.org).

The applicant, City of Chattanooga, attests that it is in compliance with Tenn. Code Ann. § 9-21-134 for its debt obligations and understands that the Report is required to be filed once the SRF loan has been approved by the Tennessee Local Development Authority and the agreement has been executed by the borrower. The applicant further acknowledges that it may be responsible to perform continuing disclosure undertakings related to SEC Rule 15c2-12. Local governments should always consult bond counsel in order to obtain advice on appropriate disclosures related to this rule.


Vickie Haley, Chief Finance Officer


Date



City of Chattanooga

Mayor Tim Kelly

September 8, 2023

Lacy L. Aviles
Financial Administration Manager
Tennessee Dept. of Environment & Conservation
Division of Water Resources
William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue, 12th Floor
Nashville, TN 37243

RE: City of Chattanooga Audit Reports for FY22

Dear Ms Aviles:

Fiscal Year 2022 was the first year for the fully implemented ERP system which included General Ledger, Payables, Receivables, Cash Management, Project Management, Human Resources and Payroll modules. As the year progressed, we continued to discover setup problems with several portions of the software system. Additionally, the new reporting tool used to develop and publish the financial statements experienced challenges which have been resolved.

Please feel free to reach out to myself or the Jacobs Engineering Team with any questions, concerns, or documentation needs.

Sincerely,

Vickie Haley
City Finance Officer

cc: Felicia Freeman, TDEC SRF Loan Program
Sushuma Pedireddi, TDEC SRF Loan Program
Sara Hoang, TDEC SRF Loan Program
Richard E. Thomas, TDEC SRF Loan Program
Fredia Forshee, City Finance Office
Brian Smart, City Finance Office
Josh McCutcheon, City Finance Office
Dennis Malone, City Engineering Office
Justin Steinmann, Moccasin Bend Finance Office
Gene Toney, Moccasin Bend Finance Office
Christy Creel, Public Works Finance Manager