

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

BOARD MEETING
AGENDA ITEM SUMMARY

September 18, 2002

ACTION REQUIRED

AGENDA ITEM NO. IX.A

Information Only
 Motions
 Resolution
 Executive Session
 Other

TOPIC

Early Retirement of Discounted Capital Credits

DISCUSSION

This agenda item and the accompanying resolution propose the guidelines for former members to receive their capital credits early in a discounted amount. The discounting process will also apply to estate payments.

Allowing capital credits to be discounted and paid will provide several benefits to Chugach. Financial benefits include reduced administrative costs, increased equity through the addition of "donated capital" and reduced funding requirements for future retirements. Members will benefit by having an option to receive their capital credits prior to normal retirements.

It is essential that Chugach does not take any action that jeopardizes its tax-exempt status. Thus, a private letter ruling from the Internal Revenue Service should be obtained to ensure that this plan does not do so.

OPTIONS

1. No Action, Table – Capital credits administration will remain status quo until action is taken. The opportunity to implement this option and realize the associated benefits will be delayed.
2. Delay – Same as "No action, Table".
3. Disapprove – Capital credits administration will remain status quo unless an acceptable capital credits retirement plan is developed and approved.

4. Approve – Staff will expeditiously pursue the private letter ruling and finalize the planning and processes to implement this option.
5. Modify – The proposed plan will be modified if specifically directed to change any aspect of it.

GENERAL MANAGER'S RECOMMENDATION

Motion 1: Move that the Board of Directors adopt the resolution to implement a new capital credits retirement plan that includes early, discounted retirement of capital credits for estates and other former members, subject to a favorable private letter ruling by the Internal Revenue Service.

WHEREAS, Chugach Electric Association, Inc. (Chugach) is a tax exempt rural electric cooperative that allocates capital credits to its members and currently retires them on an approximate 15 year, first-in, first-out basis subject to a determination by the Board of Directors that the financial condition of Chugach will not be impaired; and

WHEREAS, there are financial and other benefits Chugach, its members and its former members can realize from paying former member's capital credits early on a discounted basis; and

WHEREAS, financial and other benefits can also be realized from discounting capital credits retirement payments to the estates of deceased members; and

WHEREAS, the amount available for discounted capital credits retirement payments to former members including payments to estates should be limited to \$500,000 per year to ensure funds are available for normal capital credits retirements without impairing Chugach's financial condition; and

WHEREAS, the discount rate applicable to early payments should be in accordance with Board Policy No. 126, Business Planning and Financial Management; and

WHEREAS, it is essential that any capital credits retirement plan that Chugach implements does not jeopardize Chugach's tax exempt status,

NOW, THEREFORE BE IT RESOLVED, the General Manager is directed to prepare a plan for the discounted capital credits retirement consistent with but not limited to the provisions set out in this resolution; and

BE IT FURTHER RESOLVED that the General Manager shall request a private letter ruling (PLR) from the Internal Revenue Service to ensure the proposed discounted capital credits retirement plan does not jeopardize Chugach's tax-exempt status; and

BE IT FURTHER RESOLVED that the proposed discounted capital credits retirement plan be implemented as soon as reasonably practicable upon receipt of a favorable PLR.