

Town of Apple Valley

Financing the Purchase of the Water Company – within the existing rates

April 11, 2017



1

Ownership of AVR

• Park Water Company owned and operating Apple Valley Ranchos for almost 50 years. Park Water company included water systems in Missoula, Montana, (Mountain Water) and the Park Water system in Los Angeles County serving seven communities along the I-10 corridor.

❖ The City of Missoula is in the process of finalizing acquisition of the Mountain Water Company for **\$88.7m**.

• In 2011, Park Water Company sold to The Carlyle Group from **\$111m**.

• TCG is a multi-national global asset management firm with over **\$180B** in assets, based in Washington DC, with investors all over the world

2



Ownership of AVR

- Algonquin purchased Park Water Company from TCG in December, 2015, for **\$257m**.
- AQN, formed in 1997, was an income trust until incorporation in 2009, when Canadian tax laws changed eliminating favorable tax treatment for income trusts.
- AVR is a wholly owned subsidiary of Park Water Company which is owned by Algonquin Power & Utilities (AQN), a Toronto, Ontario, Canada based multi-national corporation and operated by AQN's American subsidiary, Liberty Utilities.

3



Apple Valley Water System

- Approximately 20,000 connections
- Serves roughly 65,000 people within a 50 square mile service area
- Facilities:
 - ❖ 465 miles of water mains; 24 wells; emergency generators; storage tanks; booster stations; and pressure zones

4

Appraisal Process

Town retained appraiser who specializes in public utility appraisals

Appraiser reviewed financial data and toured the Apple Valley Water System with AVR

Appraiser applied fair market value principles (highest price fully informed buyer and seller would agree under no pressure to buy or sell)

5

Appraisal Process

- In accordance with California's Eminent Domain Law, the Apple Valley water system was appraised as a water system
- Appraiser used several approaches and methods to determine the value of AVR:
 - ❖ Income Approach
 - ❖ Cost (Asset) Approach
 - ❖ Market Approach

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6

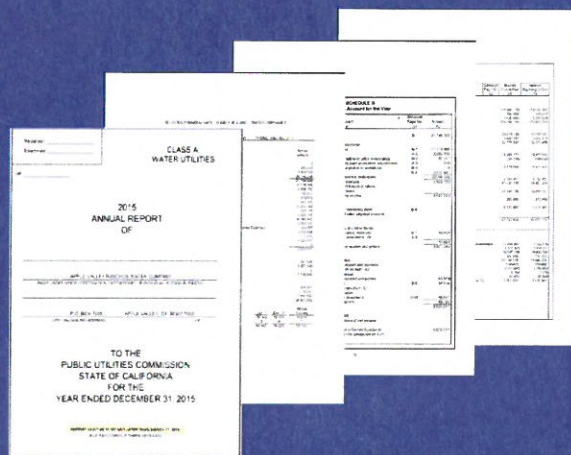
Conclusion of Value of Initial Appraisal

Approach/Method	Value
Asset/Cost Approach (2013 Rate Base)	\$47.2 million
Market Approach	N/A (No comparable sales exist)
Income Approach Enterprise DCF	\$50.6 million
<u>CONCLUSION OF VALUE</u>	
Enterprise DCF Marketability Discount (10%)	\$50.6 million (\$5.06 million)
FINAL CONCLUSION OF VALUE	\$45.54 million*

*Later revised to \$50.3m due to increase in Liberty's rate base (\$50.0m) in newly issued 2014 annual report to CPUC. Liberty-AV rate base as of 2015 annual report = **\$58,493,908**

7

Financing of Acquisition Source of Funding



8

Revenue Requirements: Town vs Liberty-AV

Standard Components	Differences
Water Supply Costs (Leases on rights, imported water costs, etc)	Authorized Rate of Return 9.7% (Profit) for AVR only - \$4,284,474(based upon 2015 Annual Report to CPUC)
Commodity Costs (fuel, energy etc)	Taxes paid by AVR only - \$3,990,445
Administrative and Overhead Costs	Inter-company service agreements – approx. 30% of operating exp. plus a “percentage” - \$2,000,000
Capital, Repair, and Maintenance	Corporate office in Commerce – Executive compensation and profit sharing - \$2,000,000
*Town would have to fund acquisition – based upon conclusion of value	

Resources Within Existing Water Rates Available to Fund the Acquisition Costs

Account #	Account	2009	2010	2011	2012	2013	2014	2015
1	QUALITY SERVICES INCREASE							
2	501 Operating expenses	20,293,031	20,212,931	19,765,761	22,148,760	21,149,880	21,881,813	22,200,252
3	Operating expense reductions							
4	502 Operating expenses	12,041,408	11,817,381	11,213,266	11,818,400	11,178,540	10,888,761	11,172,228
5	503 Depreciation	2,298,120	2,248,022	2,248,742	2,260,742	2,260,242	2,217,761	2,200,000
6	504 Amortization of intangibles, other, trademarks	98,176	98,176	98,295	98,295	98,171	1,028,224	6,499
7	505 Amortization of intangibles-acquisition intangibles	1,000	1,000	1,000	1,000	1,000	1,000	1,000
8	506 Intangible amortization	0	0	0	0	0	0	0
9	507 Total	22,639,804	22,464,579	23,601,303	25,319,137	23,537,953	25,136,746	25,380,727
10	508 Total	17,028,438	16,966,962	16,598,629	17,260,207	16,948,448	17,208,761	17,962,228
11	Total operating expense reductions	5,611,366	5,547,597	5,388,037	4,548,930	4,359,413	4,247,985	4,218,499
12	Total operating expense	11,417,042	11,318,982	11,213,266	12,771,277	12,189,530	12,938,761	13,162,229
13	509 Operating expense reductions in other	3,023,336	3,009,617	3,101,802	4,053,966	4,053,966	4,000,000	4,000,000
14	510 Total for water or utility plant	3,023,336	3,009,617	3,101,802	4,053,966	4,053,966	4,000,000	4,000,000
15	Total water operating expense	14,440,378	14,328,599	14,315,068	16,825,243	16,243,496	16,938,761	17,162,229
16	Total water operating expense	14,440,378	14,328,599	14,315,068	16,825,243	16,243,496	16,938,761	17,162,229
17	OTHER INCREASE							
18	521 Increase from utility operations, net							
19	522 Increase from water or other infrastructure							
20	523 Capital projects							
21	524 Other income							
22	525 Decrease from selling surplus funds							
23	526 Decrease from operating surplus							
24	527 Total increase from utility operations, net	11,999	11,999	12,229	12,101	12,652	14,313	16,742
25	Total other income	11,999	11,999	12,229	12,101	12,652	14,313	16,742
26	528 Decrease	3,344,410	3,289,917	3,223,529	4,053,911	3,997,288	4,000,000	4,000,000
27	Total other income	8,654,589	8,712,081	9,001,700	8,047,190	8,655,414	10,313,313	12,746,742
28	NET INCOME	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
29	530 Change in long-term debt							
30	531 Amortization of debt discount and premium							
31	532 Amortization of intangibles							
32	533 Total increase in income	11,999	11,999	12,229	12,101	12,652	14,313	16,742
33	534 Change in cash and cash equivalents	11,999	11,999	12,229	12,101	12,652	14,313	16,742
34	535 Other income	1,000	1,000	1,000	1,000	1,000	1,000	1,000
35	536 Total increase in cash and cash equivalents	12,999	12,999	13,229	13,101	13,652	15,313	17,742
36	537 Maintenance provision	20,000	20,000	20,000	20,000	20,000	20,000	20,000
37	538 Amortization of intangibles	14,121	14,121	14,121	14,121	14,121	14,121	14,121
38	Total income	34,121	34,121	34,121	34,121	34,121	34,121	34,121
39	Total income	34,121	34,121	34,121	34,121	34,121	34,121	34,121
40	Total income	34,121	34,121	34,121	34,121	34,121	34,121	34,121
41	Total income	34,121	34,121	34,121	34,121	34,121	34,121	34,121
42	540 Amortization of intangibles							
43	Balance transferred to Earned Surplus of Proprietary Assets	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
44	Total	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000

- \$10m - \$14m available above the cost of water.
- Profits
- Taxes (less \$350k)
- Corporate Office
- Executive Comp.
- Intercompany Service Agreements

System Financing Requirements

- Acquisition Price
- Acquisition Costs (Legal/Engineering/Financial)
- Working Capital Reserve (optimum - 90 days expenses)
- Capital Reserve (\$3 million)
- Capital Expenses (Based on Eng. Assessment)
- Bond Reserve Fund
- Capitalized Interest (1st year interest on bonds)
- Costs of Issuance

11

Expected Range of Values

- The Town's revised appraisal concluded that the fair market value of the Apple Valley system is \$50.3 million.
- Liberty - AV is asserting that the system is worth much more. (i.e. $\$257\text{m}/3 = \85.7m).
- Mountain Water System valued at \$88.7m.

12

Financing of Acquisition

Source of Funding – Selected Data (2015)

-Avg. Annual Active Service Connections	<u>19,745</u>
-Operating Income	\$4,284,474
-Total Taxes	\$3,990,445
❖ Less Town Property Taxes	(\$ 350,000)
-Anticipated Corporate Office Savings	\$2,000,000*
-Intercompany Service Agreements	<u>\$2,000,000*</u>
 Available for Debt Service	 <u>\$11,924,919</u>

*Estimated

13

Estimated Debt Service Payments at Various Bond Sizings

Bond Size (9/01/17 Issue Date)	Avg. Annual Debt Service at Various Interest Rate Scenarios		
	2% (SRF Loan)	(Est. Current Market Rate)	4.75% (Conservative Rate)
\$50 million	\$2,294,213	3,242,304	\$3,463,407
\$60 million	\$2,736,448	3,891,068	\$4,131,643
\$70 million	\$3,192,613	4,539,040	\$4,820,127
\$80 million	\$3,648,595	5,187,593	\$5,508,292
\$90 million	\$4,104,811	5,836,229	\$6,196,793
\$100 million	\$4,560,786	6,484,543	\$6,885,451
\$110 million	\$5,016,931	7,133,432	\$7,573,967
\$120 million	\$5,472,943	7,781,263	\$8,262,435
\$130 million	\$5,928,837	8,429,880	\$8,950,696
\$140 million	\$6,385,154	9,078,274	\$9,639,506
\$150 million	\$6,841,018	9,726,835	\$10,328,318

The chart above shows the average annual debt service for a variety of bond sizes and interest rates. Each scenario is based upon a 30 year debt service schedule for tax exempt revenue bonds assuming approximately equal debt service payments, no capitalized interest, an "A" bond rating, a bond reserve equaling the highest annual debt service payment, no bond insurance and includes costs of issuance.

14

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15