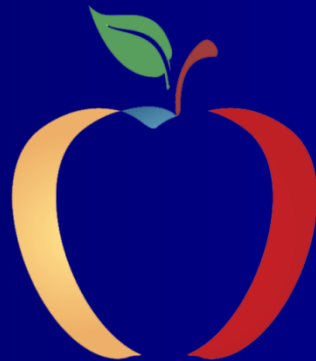


Town of Apple Valley

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

April 25, 2017





Ownership of AVR

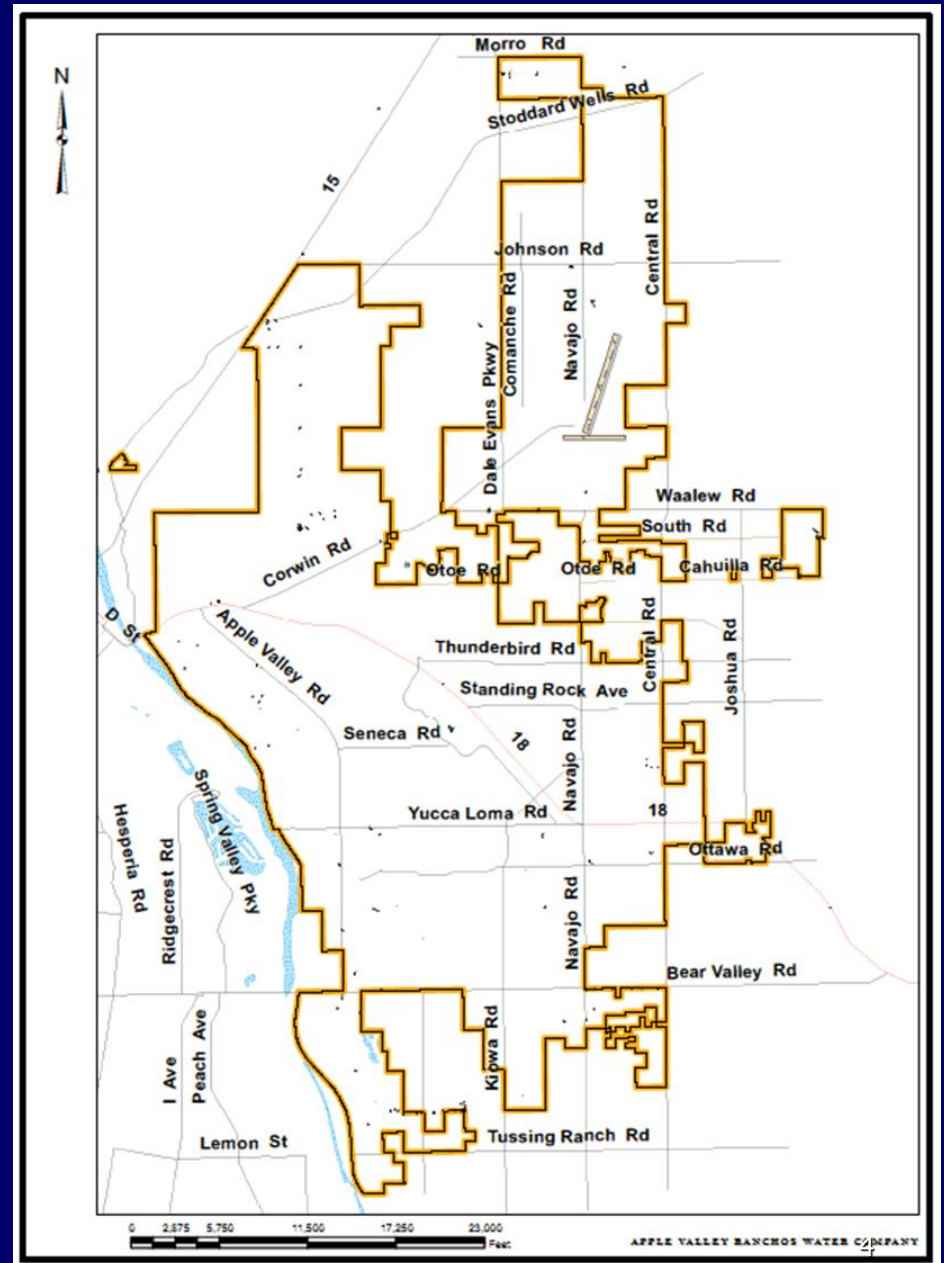
- Park Water Company owned and operating Apple Valley Ranchos for almost 50 years. Park Water company included water systems in Missoula, Montana, (Mountain Water) and the Park Water system in Los Angeles County serving seven communities along the I-10 corridor.
 - ❖ The City of Missoula is in the process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



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.

Map of Liberty's Service Area

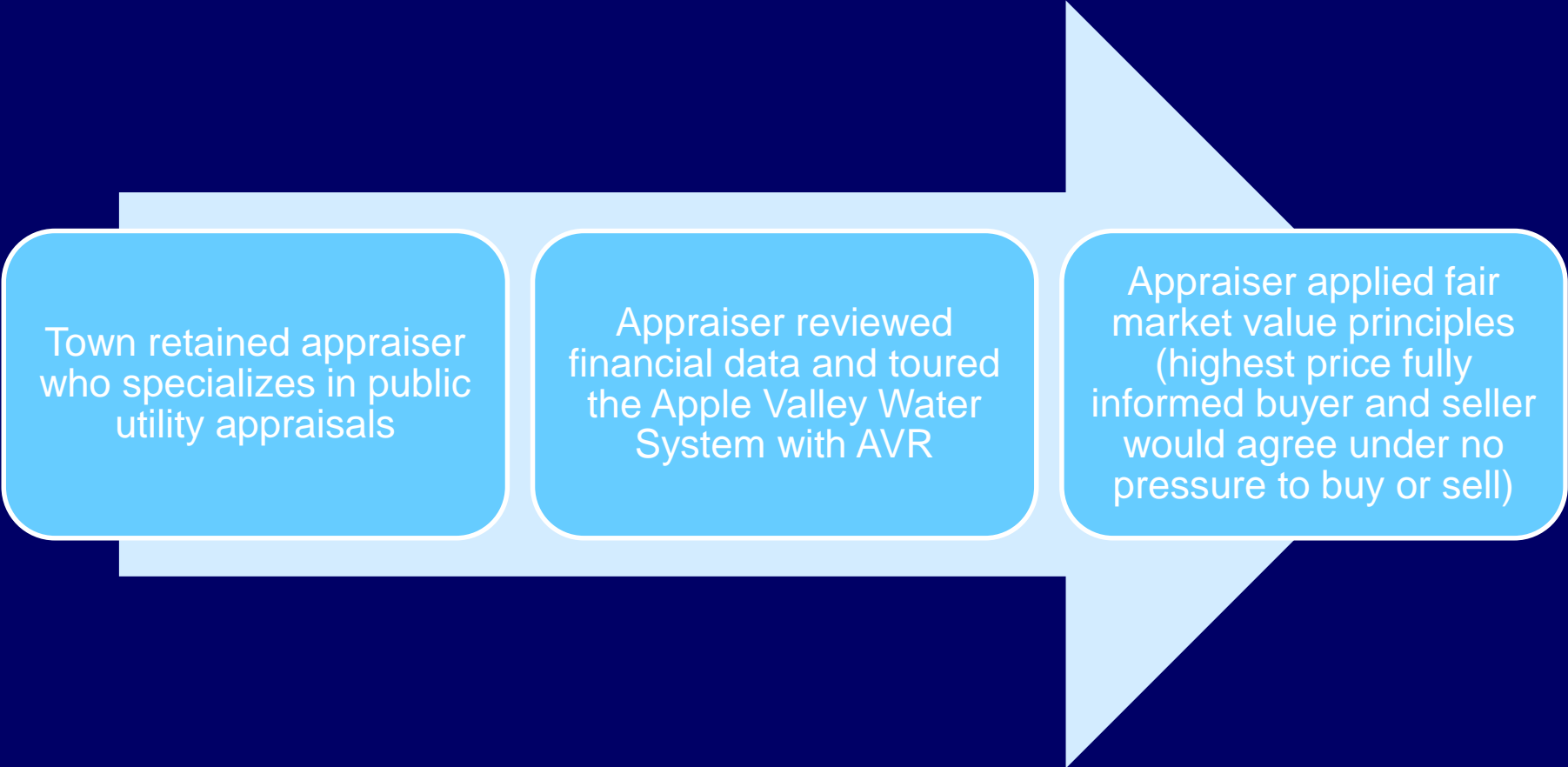




Apple Valley Water System

- 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

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)

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

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 <u>Marketability Discount (10%)</u> CONCLUSION OF VALUE	\$50.6 million <u>(\$5.06 million)</u> \$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**

Received _____
Examined _____

U# _____

2015
ANNUAL REPORT
OF

APPLE VALLEY RANCHOS WATER COMPANY
(NAME UNDER WHICH CORPORATION, PARTNERSHIP, OR INDIVIDUAL IS DOING BUSINESS)

P.O. BOX 7005 APPLE VALLEY, CA 92307-7005
(OFFICIAL MAILING ADDRESS) ZIP

CLASS A
WATER UTILITIES

SELECTED FINANCIAL DATA - CLASS A, B, C AND D WATER COMPANIES

PHONE: (562) 923-0711

Annual Amount	Jan. 1 16,143	Dec. 31 16,323	Annual Average 16,233
285,215			
1,324,536			
20,140,218			
21,748,969			
11,719,948			
2,800,190			
66,827			
413,513			
252,705			
15,252,163			
561,118			
2,203,148			
18,066,447			
3,663,523			
(34,865)			
3,618,658			
(6,595)			
3,623,617			
3,623,617			
963,225			
3,327,140			
0			
1,115,322			
328,061			
11,017			
9,918,592			
28,967,062			

TO THE
PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
FOR THE
YEAR ENDED DECEMBER 31, 2015

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2016
(FILE TWO COPIES IF THREE RECEIVED)

SCHEDULE B
Account for the Year

Account	Schedule Page No.	Amount
(A)	(B)	(C)
	B-1	21,748,969
eductions:		
ns	B-2	11,719,948
ad-term utility investments	A-3	2,800,190
ry plant acquisition adjustments	A-3	66,827
argable to operations	B-3	0
	B-4	3,510,481
venue deductions		18,066,445
venues		3,653,523
nt leased to others		
plant		
ng income		3,653,523
operations (Net)	B-5	
Other physical property		
		47,193,602
g and other funds	B-7	13,823
raising revenues	B-8	
eductions - Cr.		13,823
re income deductions		3,667,345
debt		
account and expense		
on on debt - Cr.		
leased		
socialized companies		(15,873)
raction - Cr.	B-9	10,914
ation		
eductions	B-10	48,687
		47,238
		3,623,617
ME		
itions of net income		
d to Earned Surplus or		3,623,617
ounts scheduled on A-C)		

Schedule Page No.	Balance End of Year	Balance Beginning of Year
(D)	(E)	(F)
	117,365,153	110,897,485
	589,852	438,270
	2,832,538	2,897,528
	120,767,744	113,912,763
	30,874,120	28,362,591
	1,952,717	1,912,474
	32,776,837	30,275,065
	12,268,171	11,477,912
	(94,118)	(104,606)
	12,174,055	11,373,303
	2,246,671	2,203,387
	20,008,106	30,601,334
	31,254,780	32,254,721
	363,860	372,079
	2,267,680	2,219,341
	47,193,602	42,651,715
	11,488,867	11,202,676
	1,115,323	1,001,277
	16,747,190	18,532,204
	367,049	314,610
	20,114,172	18,846,225
	9,01625	0,01666
	2,351,880	2,296,003
	8,744	9,778
	92,943	83,440
	2,267,680	2,219,341

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

#### #	Acct. No	Account	2009	2010	2011	2012	2013	2014	2015
1		I. UTILITY OPERATING INCOME							
2	501	Operating revenues	20,370,311	20,213,167	19,705,781	22,145,793	21,749,969	21,881,817	23,200,353
3									
4		Operating revenue deductions							
5	502	Operating expenses	12,120,426	11,827,387	11,319,593	11,418,458	11,719,948	10,505,760	11,773,536
6	503	Depreciation	2,284,316	2,363,337	2,444,421	2,650,768	2,800,190	3,057,100	3,190,495
7	504	Amortization of limited-term utility investments	56,139	56,139	64,245	64,242	65,017	(138,424)	8,488
8	505	Amortization of utility plant acquisition adjustments	810	810	810	810	810	810	810
9	506	Property losses chargeable to operations	0	0	0	0	0	0	0
10	507	Taxes	2,584,935	2,716,677	2,676,910	3,358,011	3,510,481	3,800,909	3,990,445
11		Total operating revenue deductions	17,046,626	16,964,350	16,505,979	17,492,289	18,096,446	17,228,155	18,963,774
12		Net operating revenues	3,323,685	3,248,817	3,199,802	4,653,504	3,653,523	4,655,662	4,236,579
13	508	Income from utility plant leased to others							
14	510	Rent for lease of utility plant							
15		Total utility operating income	3,323,685	3,248,817	3,199,802	4,653,504	3,653,523	4,655,662	4,236,579
16									
17		II. OTHER INCOME							
18	521	Income from non-utility operations (Net)							
19	522	Revenues from lease of other physical prop.							
20	523	Dividend revenues							
21	524	Interest revenues							
22	525	Revenues from sinking and other funds							
23	526	Miscellaneous non-operating revenue	10,998	10,998	13,736	12,107	13,823	43,918	96,848
24	527	Non-operating revenue deductions (Dr.)							
25		Total other income	10,998	10,998	13,736	12,107	13,823	43,918	96,848
26		Gross income	3,334,683	3,259,815	3,213,538	4,665,611	3,667,345	4,699,580	4,333,427
27									
28		III. INCOME DEDUCTIONS							
29	530	Interest on long-term debt							
30	531	Amortization of debt discount and expense							
31	532	Amortization of premium on debt-Cr.							
32	533	Taxes assumed on interest							
33	534	Interest on debt to associated companies	108,695	61,791	28,327	3,687	(15,873)	(39,056)	(8,815)
34	535	Other interest charges	7,919	8,721	8,295	8,224	10,914	12,430	7,914
35	536	Interest charged to construction - Cr.							
36	537	Miscellaneous amortization							
37	538	Miscellaneous Income deductions	24,597	23,526	42,584	49,684	48,687	34,566	49,854
38		Total income deductions	141,211	94,038	79,206	61,595	43,729	7,940	49,953
39		Net income	3,193,472	3,165,777	3,134,332	4,604,015	3,623,617	4,691,639	4,284,474
40									
41		IV. DISPOSITION OF NET INCOME							
42	540	Miscellaneous reservations of net income							
43									
44		Balance transferred to Eamed Surplus or Proprietary Accts	3,193,472	3,165,777	3,134,332	4,604,015	3,623,617	4,691,639	4,284,474

- \$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

Expected Range of Values

- The Town's revised appraisal dated June, 2015, determined that the conclusion of value of the Apple Valley system is **\$50.3 million**.
- Liberty-AV rate base as of 2015 annual report (issued April, 2016) = **\$58,493,908**.
- Liberty - AV is asserting that the system is worth much more. (i.e. $\$257\text{m}/3 = \text{\$85.7m}$).
- Mountain Water System valued at **\\$88.7m**.

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

Estimated Debt Service Payments at Various Bond Sizings

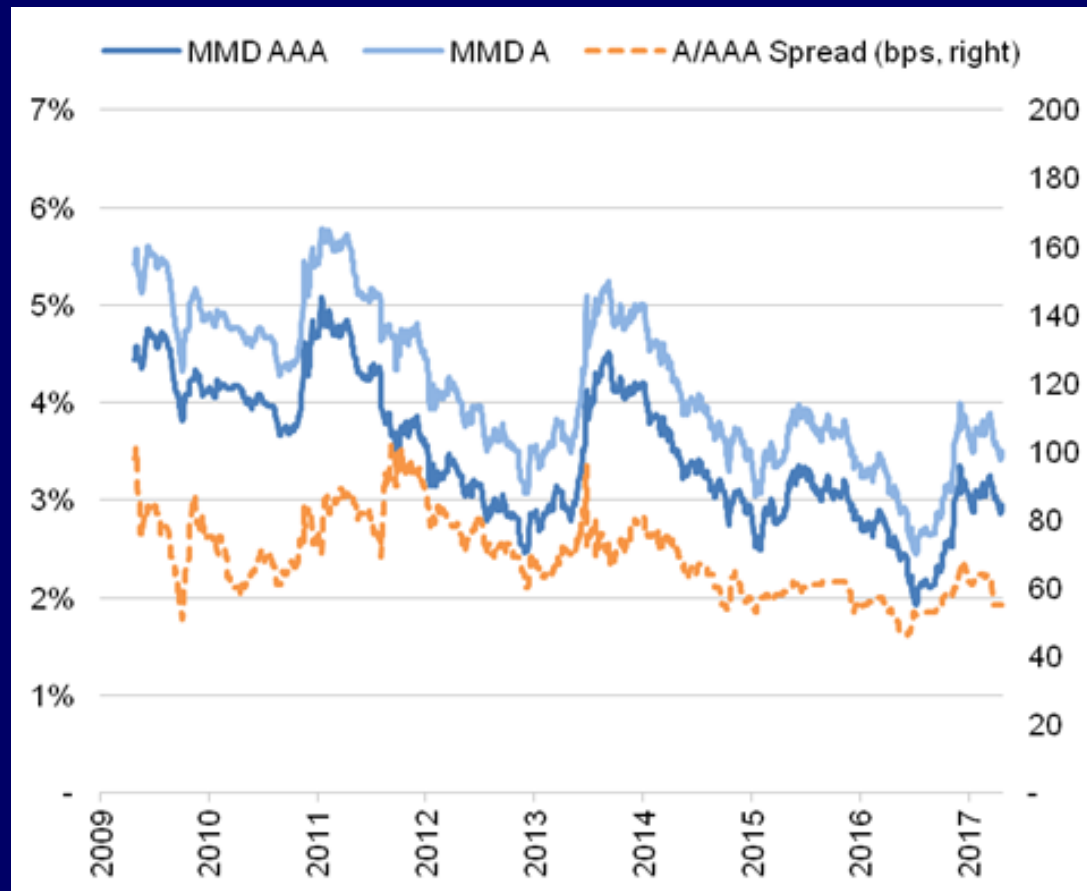
Bond Size (9/01/17 Issue Date)	Avg. Annual Debt Service at Various Interest Rate Scenarios		
	2% (SRF Loan)	(Est. Current Market Rate)	4.75% (Conservative Rate)
\$50 million	\$2,294,213	3,242,304	\$3,463,407
\$60 million	\$2,736,448	3,891,068	\$4,131,643
\$70 million	\$3,192,613	4,539,040	\$4,820,127
\$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.

Recently Issued Municipal Bonds

Issuer Series Par Amount Sale Date Ratings	City Of Fairfield Ca Water Revenue Refunding Bonds, Series 2017 \$40,320,000 3/22/2017 NR/AA-/NR				Brushy Creek Regional Utility Revenue Refunding Bonds, Series 2017 \$80,505,000 3/22/2017 NR/AA-/NR				Town Of Oak Island Nc System Revenue Refunding Bonds, Series 2017 \$32,695,000 2/3/2017 NR/A+/NR			
	Maturity	Coupon	Yield	Spread to MMD AAA	Maturity	Coupon	Yield	Spread to MMD AAA	Maturity	Coupon	Yield	Spread to MMD AAA
	4/1/2018	4.000%	0.89%	+2	8/1/2017	2.000%	0.80%	-6	6/1/2019	4.000%	1.36%	+22
	4/1/2019	4.000%	1.10%	+4	8/1/2018	3.000%	1.05%	+12	6/1/2020	5.000%	1.58%	+27
	4/1/2020	4.000%	1.30%	+5	8/1/2019	3.000%	1.29%	+18	6/1/2021	5.000%	1.82%	+32
	4/1/2021	4.000%	1.49%	+7	8/1/2020	3.000%	1.53%	+22	6/1/2022	5.000%	2.00%	+33
	4/1/2022	4.000%	1.75%	+13	8/1/2021	3.000%	1.75%	+27	6/1/2023	5.000%	2.19%	+36
	4/1/2023	4.000%	1.98%	+18	8/1/2022	3.000%	2.01%	+33	6/1/2024	5.000%	2.40%	+41
	4/1/2024	3.000%	2.17%	+20	8/1/2023	5.000%	2.21%	+35	6/1/2025	5.000%	2.56%	+42
	4/1/2025	3.000%	2.34%	+23	8/1/2024	5.000%	2.39%	+38	6/1/2026	5.000%	2.69%	+42
	4/1/2026	3.000%	2.47%	+25	8/1/2025	5.000%	2.54%	+40	6/1/2027	5.000%	2.82%	+47
	4/1/2027	5.000%	2.58%	+28	8/1/2026	5.000%	2.67%	+43	6/1/2028	5.000%	2.91%	+47
	4/1/2028	5.000%	2.72%	+33	8/1/2027	5.000%	2.75%	+43	6/1/2029	3.000%	3.12%	+60
	4/1/2029	3.000%	3.10%	+62	8/1/2028	3.000%	3.11%	+70	6/1/2030	3.000%	3.20%	+60
	4/1/2030	3.000%	3.25%	+68	8/1/2029	3.000%	3.16%	+66	6/1/2031	3.125%	3.33%	+65
	4/1/2031	3.125%	3.34%	+68	8/1/2030	4.000%	3.21%	+63	6/1/2032	5.000%	3.17%	+42
	4/1/2032	3.250%	3.47%	+73	8/1/2031	4.000%	3.34%	+68	6/1/2033	5.000%	3.23%	+42
	4/1/2033	3.375%	3.59%	+78	8/1/2032	4.000%	3.44%	+70	6/1/2034	3.375%	3.56%	+69
	4/1/2034	3.500%	3.65%	+78	8/1/2033	4.000%	3.51%	+70	6/1/2035	4.000%	3.63%	+71
	4/1/2035	3.500%	3.70%	+78	8/1/2034	5.000%	3.30%	+43	6/1/2036	3.625%	3.72%	+76
	4/1/2036	3.500%	3.74%	+78	8/1/2035	5.000%	3.35%	+43				
	4/1/2037	3.500%	3.76%	+78	8/1/2036	5.000%	3.39%	+43				
	4/1/2038	3.625%	3.78%	+78	8/1/2037	5.000%	3.41%	+43				
	4/1/2042	5.000%	3.40%	+35	8/1/2038	3.750%	3.87%	+87				

Peter Buffa, Director – Public Finance, Barclay Capital: “Our desk thinks that a reasonable estimated rate for an “A” rated 30-year muni bond issued today (04/25/17) is 4%. The analysts came up with this graph that shows both absolute levels and credit spreads over the last 8 years, which makes it obvious that any claims that the Town is going to be looking at rates of 10-12% a few months from now is very unrealistic.”



Town of Apple Valley

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

April 25, 2017

