

Town of Apple Valley

Preliminary Business Valuation Estimates Of Apple Valley Ranchos Water Company

March 24, 2015



Town Hires HCG

- In November 2014, the Town hired Hayward Consulting Group (HCG) to provide an analysis of the fair market value of Apple Valley Ranchos Water Company.
 - HCG was founded in 1993.
 - David Hayward, HCG's principal, has over 30 years of utility experience and has authored 6 utility-related technical books.

Preliminary Appraisal Summary Statement

- The formal appraisal is subject to privilege and protections from disclosure
- HCG has prepared a Preliminary Appraisal Summary Statement for release at this time
 - All materials in this presentation are based on the Preliminary Appraisal Summary Statement



Topics

- Overview
- Executive Summary
- Valuation Approaches/Methods
- Preliminary Valuation Result Details
- Questions & Answers



Overview

- Brief History of Project
 - Carlyle purchased Park Water Co. (operating companies AVR, Mountain, Park) in 2011
 - Liberty Utilities offered to purchase Park (9/14)
 - AVR's rate increases (ongoing – awaiting decision for 2015-2017)
 - Town hires HCG (Nov. 2014)
 - Preliminary Appraisal Summary presented to Town Council (3/24/15)



Overview

- Approaches: Three approaches & various methods used
- Primary Approach and Method: Income Approach – Discounted Cash Flow (DCF) Method
 - Common business valuation method
 - Other approaches and methods used as a check on the reasonableness of the DCF method
- Final adjustment (10% reduction) based on lack of marketability/liquidity of AVR



Executive Summary

- Standard of Value: Fair market value (Code Civ. Proc., § 1263.320)
- Interest Valued: All operating assets as a going concern
- Valuation Date: Current date
- Conclusion of Value: **\$45.54 million**



Valuation Approaches and Methods

Three Approaches:

- Cost (Asset) Approach
- Income Approach
- Market Approach

Cost (Asset) Approach

- Considerations Under Cost Approach:
 - Reproduction Cost New Less Depreciation (RCNLD)
 - Replacement Cost New Less Depreciation
 - Original Cost Less Depreciation (OCLD)
 - Asset Accumulation
 - Rate Base
- HCG considered Rate Base.
- Rate Base - The utility's operating assets and liabilities recognized by the California Public Utilities Commission as being "used and useful" and "prudent" in providing service to the Company's customers
- Total - \$46.2 million

Income Approach

- The income approach reflects the going concern value of the system as a whole. It indicates the highest reasonable price for the system that would be agreed to by a willing seller and willing buyer.
- Methods considered under Income Approach:
 - Enterprise Discounted Cash Flow (DCF)
 - Economic Value Added
 - Capitalized Income (no growth and growth)
- HCG considers the DCF Method to be the most appropriate indicator of value.
 - Value
 - \$50.6 million less 10% liquidity factor
 - \$45.54 million



Market Approach

- The market approach is based on the consideration of comparable sales.
- Here, given the wide disparity in: (a) location of water utilities, (b) terms included in the sales (e.g., debt and equity financing), (c) size of the utilities, and (d) when the transactions occurred, the market approach was considered but not relied upon.



Preliminary Valuation Result Details

- | | |
|--|-----------------------|
| ■ Asset/Cost Approach (rate base) | \$46.3 million |
| ■ Market Approach (comparable sales not found) | N/A |
| ■ Income approach | |
| – Enterprise DCF | \$50.6 million |
| – Capitalized earnings (no growth) | \$48.0 million |
| – Capitalized earnings (growth) | \$54.9 million |
| – Economic value added (EVA) | \$46.2 million |



Preliminary Valuation Result Details (Cont.)

- Conclusion of Value (millions):

– Enterprise DCF	\$50.6
– Marketability discount (10%)	<u>- \$5.06</u>
– Final value	\$45.54

Town of Apple Valley

Questions?

