

## **Filing Receipt**

Filing Date - 2023-08-16 02:22:52 PM

**Control Number - 55378** 

Item Number - 1



# Application for Sale, Transfer, or Merger of a Retail Public Utility

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.109

#### Sale, Transfer, or Merger (STM) Application Instructions

- I. **COMPLETE**: In order for the Commission to find the application sufficient for filing, the Applicant should:
  - Provide an answer to every question and submit any required attachment applicable to the STM request (i.e., agreements or contracts).
  - ii. Use attachments or additional pages to answer questions as necessary. If you use attachments or additional pages, reference their inclusion in the form.
  - iii. Provide all mapping information as detailed in Part G: Mapping & Affidavits.
- II. **FILE**: Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
  - i. <u>SEND TO</u>: Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (NOTE: Electronic documents may be sent in advance of the paper copy, however they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records).
- III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
  - i. <u>DEFICIENT (Administratively Incomplete):</u> Applicants will be ordered to provide information to cure the deficiencies by a certain date, usually 30 days from ALJ's order. *Application is not accepted for filing*.
  - ii. <u>SUFFICIENT (Administratively Complete):</u> Applicants will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. *Application is accepted for filing*.
- IV. Once the Applicants issue notice, a copy of the actual notice sent and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may request a hearing on the merits.

<u>HEARING ON THE MERITS</u>: An affected party may request a hearing within 30 days of notice. In this event, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.

- V. **TRANSACTION TO PROCEED**: at any time following the provision of notice, or prior to 120 days from the last date that proper notice was given, Commission Staff will file a recommendation for the transaction to proceed as proposed or recommend that the STM be referred to SOAH for further investigation. The Applicants will be required to file an <u>update in the docket to the ALJ every 30 days</u> following the approval of the transaction. The <u>transaction must be completed within six (6) months from the ALJ's order</u> (Note: The Applicants may request an extension to the 6 month provision for good cause).
- VI. **FILE**: Seven (7) copies of completed transaction documents and documentation addressing the transfer or disposition of any outstanding deposits. After receiving all required documents from the Applicants, the application will be granted a procedural schedule for final processing. The Applicants are requested to consent in writing to the proposed maps and certificates, or tariff if applicable.
- VII. **FINAL ORDER:** The ALJ will issue a final order issuing or amending the applicable CCNs.

#### FAQ:

Who can use this form?

Any retail public utility that provides water or wastewater service in Texas.

Who is required to use this form?

A retail public utility that is an investor owned utility (IOU) or a water supply corporation (WSC) prior to any STM of a water or sewer system, or utility, or prior to the transfer of a portion of a certificated service area.

**Terms** 

<u>Transferor</u>: Seller <u>Transferee</u>: Purchaser

**<u>CCN</u>**: Certificate of Convenience and Necessity

<u>STM</u>: Sale, Transfer, or Merger <u>IOU</u>: Investor Owned Utility

			Application	Summary			
Transferor:	Guadalu	upe-Blanco River	Authority (GBRA	٨)			
(selling entity)  CCN No.s:							
CCN No.s.					_		
	Sale	Transfer	Merger	Consolidation	Lease/Rental		
X 00" (W-00000000 10000 10000 1000000	Undine T	exas Environmenta	II, LLC				
(acquiring entity)  CCN No.s:	20816						
	1						
	Water	<b>⊠</b> Sewer	<u>All</u> CCN	Portion CCN	Facilities transfer		
County(ies):	Calhoun						
			Table of (				
<del>-</del>							
	Part F: TCEQ Public Water System or Sewer (Wastewater) Information9						
• •	Part G: Mapping & Affidavits						
	Part H: Notice Information						
Appendix B: Pr	ojected In	formation				18	
Please mark the ite	ms include	ed in this filing					
	se, Purchase	, or Sale Agreement	Part A:	Question 1			
X Tariff including				Question 4			
List of Custon  Rartnership A		8		Question 5			
		and By-Laws (WSC)		Question 7 Question 7			
X Certificate of				Question 7			
Financial Aud	it			Question 10			
Application A				Question 10			
Disclosure of Capital Impro				Question 10 Question 10			
Capital Impro  K List of Assets			Part D:				
		ontracts or Agreement					
Enforcement A	Action Corre	espondence	Part E:	Question 18 (Part D: Q12)			
TCEQ Compl				Question 22			
TCEQ Engine		ovals or Treatment Agreeme		Question 24			
Detailed (large				Question 26 Question 29			
X General Locat				Question 29			
Digital Mappi	ng Data	ž <u>i</u>		Question 29			
X Signed & Not	arized Oath		Page 13	5-14			

	Part A: General Information
1.	Describe the proposed transaction, including the effect on all CCNs involved, and provide details on the existing or expected land use in the area affected by the proposed transaction. Attach all supporting documentation, such as a contract, a lease, or proposed purchase agreements:
	Sale of Crestview Subdivision to Undine Texas Environmental, LLC (Undine). Please see Purchase Agreement in Attachment C. Transfer of all utility assets as listed in Attachment A and all customers as listed in Attachment E. As GBRA does not currently hold a CCN in this area, Undine is simultaneously seeking a sewer CCN amendment to include the existing Crestview customers and those additional areas needed to extend service to a growing community. Please see proposed CCN service area in Attachment N.
2.	The proposed transaction will require (check all applicable):
	For Transferee (Purchaser) CCN: For Transferor (Seller) CCN:
	□ Obtaining a NEW CCN for Purchaser       □ Cancellation of Seller's CCN         □ Transfer all CCN into Purchaser's CCN (Merger)       □ Transfer of a Portion of Seller's CCN to Purchaser         □ Transfer Portion of CCN into Purchaser's CCN       □ Only Transfer of Facilities, No CCN or Customers         □ Transfer all CCN to Purchaser and retain Seller CCN       □ Only Transfer of Customers, No CCN or Facilities         □ Uncertificated area added to Purchaser's CCN       □ Only Transfer CCN Area, No Customers or Facilities
	Part B: Transferor Information
	Questions 3 through 5 apply only to the transferor (current service provider or seller)
3.	A. Name: Guadalupe-Blanco River Authority (GBRA)  (individual, corporation, or other legal entity)  Individual Corporation WSC Special Water District  B. Mailing Address: 2225 E. Common Street, New Braunfels, Texas 78130
	Phone: (830) 379-5822 Email:
	C. <u>Contact Person</u> . Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.
	Name: Darrell Nichols Title: General Manager/CEO
	Mailing Address: 2225 E. Common St., New Braunfels, Texas 78130
	Phone: (830) 379-5882 Email: dnichols@gbra.org
4.	If the utility to be transferred is an Investor Owned Utility (IOU), for the most recent rate change, attach a copy of the current tariff and complete A through B:
	A. Effective date for most recent rates:
	<b>B.</b> Was notice of this increase provided to the Public Utility Commission of Texas (Commission) or a predecessor regulatory authority?
	No Yes Application or Docket Number: Please see GBRA Rates in Attachment D
	If the transferor is a Water Supply or Sewer Service Corporation, provide a copy of the current tariff.

5.	For the customers that will be transferred following the approval of the proposed transaction, check all that apply:
Э.	
	There are <u>no</u> customers that will be transferred
	# of customers without deposits held by the transferor  68
	# of customers with deposits held by the transferor*
	*Attach a list of all customers affected by the proposed transaction that have deposits held, and include a customer indicator (name or account number), date of each deposit, amount of each deposit, and any unpaid interest on each deposit.
	Part C: Transferee Information
	Questions 6 through 10 apply only to the transferee (purchaser or proposed service provider)
6.	A. Name: Undine Texas Environmental, LLC
	Individual (individual, corporation, or other legal entity)  Corporation WSC Other: LLC
	B. Mailing Address: 17681 Telge Road, Cypress, Texas 77429
	Phone: (713) 574-5953 Email: info@undinellc.com
	C. <u>Contact Person</u> . Provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.
	Name: Carey A.Thomas Title: Senior Vice President
	Address: 17681 Telge Road, Cypress, Texas 77429
	Phone: (713) 574-5953 Email: cthomas@undinellc.com
	<b>D.</b> If the transferee is someone other than a municipality, is the transferee current on the Regulatory Assessment Fees (RAF) with the Texas Commission on Environmental Quality (TCEQ)?
	□ No □ Yes □ N/A
	<b>E.</b> If the transferee is an IOU, is the transferee current on the Annual Report filings with the Commission?
	☐ No ☐ Yes ☐ N/A
7.	The legal status of the transferee is:
	Individual or sole proprietorship
	Partnership or limited partnership (attach Partnership agreement)
Ī	Corporation
	Charter number (as recorded with the Texas Secretary of State):
	Non-profit, member-owned, member controlled Cooperative Corporation [Article 1434(a) Water Supply or Sewer Service Corporation, incorporated under TWC Chapter 67]  Charter number (as recorded with the Texas Secretary of State):
_	Articles of Incorporation and By-Laws established (attach)
L	Municipally-owned utility
	District (MUD, SUD, WCID, FWSD, etc.)

County	
Affecte	d County (a county to which Subchapter B, Chapter 232, Local Government Code, applies)
Other (	please explain): LLC, Please see LLC Agreement in Attachment F
Z omer (	prouse explains.
	ansferee operates under any d/b/a, provide the name below:
rvaine.	
membe	ansferee's legal status is anything other than an individual, provide the following information regarding the officers, rs, or partners of the legal entity applying for the transfer:  Confidential - Please see Attachment H
Position:	Ownership % (if applicable): 0.00%
Address:	
Phone:	Email:
Name:	
Position:	Ownership % (if applicable): 0.00%
Address:	For all
Phone:	Email:
Name:	
Position:	Ownership % (if applicable): 0.00%
Address:	
Phone:	Email:
Name:	
Position:	Ownership % (if applicable): 0.00%
Address:	
Phone:	Email:

#### 10. Financial Information

The transferee Applicant must provide accounting information typically included within a balance sheet, income statement, and statement of cash flows. If the Applicant is an existing retail public utility, this must include historical financial information and projected financial information. However, projected financial information is only required if the Applicant proposes new service connections and new investment in plant, or if requested by Staff. If the Applicant is a new market entrant and does not have its own historical balance sheet, income statement, and statement of cash flows information, then the Applicant should establish a five-year projection taking the historical information of the transferor Applicant into consideration when establishing the projections.

*Historical Financial Information* may be shown by providing any combination of the following that includes necessary information found in a balance sheet, income statement, and statement of cash flows:

- 1. Completed Appendix A;
- 2. Documentation that includes all of the information required in Appendix A in a concise format; or
- 3. Audited financial statements issued within 18 months of the application filing date. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Projected Financial Information may be shown by providing any of the following:

- 1. Completed Appendix B;
- 2. Documentation that includes all of the information required in Appendix B in a concise format;
- 3. A detailed budget or capital improvement plan, which indicates sources and uses of funds required, including improvements to the system being transferred; or
- 4. A recent budget and capital improvements plan that includes information needed for analysis of the operations test (16 Tex. Admin. Code § 24.11(e)(3)) for the system being transferred and any operations combined with the system. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

		Part D: Proposed Transaction Details
11.	A.	Proposed Purchase Price: \$
	If th	e transferee Applicant is an investor owned utility (IOU) provide answers to B through D.
	B.	Transferee has a copy of an inventory list of assets to be transferred (attach):
		☐ No ☐ Yes ☐ N/A
		Total Original Cost of Plant in Service: \$
		Accumulated Depreciation: \$
		Net Book Value: _\$
	C.	<u>Customer contributions in aid of construction (CIAC):</u> Have the customers been billed for any surcharges approved by the Commission or TCEQ to fund any assets currently used and useful in providing utility service? Identify which assets were funded, or are being funded, by surcharges on the list of assets.
		No Yes
		Total Customer CIAC: \$ Accumulated Amortization: \$
	D.	<u>Developer CIAC:</u> Did the transferor receive any developer contributions to pay for the assets proposed to be transferred in this application? If so, identify which assets were funded by developer contributions on the list of assets and provide any applicable developer agreements.
		No Yes
		Total developer CIAC: \$ Accumulated Amortization: \$
12.	A.	Are any improvements or construction required to meet the minimum requirements of the TCEQ or Commission and to ensure continuous and adequate service to the requested area to be transferred plus any area currently certificated to the transferee Applicant? Attach supporting documentation and any necessary TCEQ approvals, if applicable.
		X No Yes

The wastewater treatment plant is new, and i	is not in need of improvements.
Provide any other information concerning the nature	of the transaction you believe should be given consideration:
and 16 TAC 24.238 in connection with this Appli Purchase Price as the "Ratemaking rate base" ir	new Fair Market Value process authorized by TWC § 13.305 cation. Undine requests the Commission approve the in this proceeding, which is the lesser of the two amounts plus raisal process. See Attachment B for appraisal reports.
acquisition. Debits (positive numbers) should equal c	ow) as shown in the books of the Transferee (purchaser) after the credits (negative numbers) so that all line items added together equal are suggested only, and not intended to pose descriptive limitations:
Utility Plant in Service:	\$
	\$
Notes Payable:	\$
	\$
(Proposed) Acquisition Adjustment*:	\$     *Acquisition Adjustments will be subject to review under 16 TAC § 24.31(d) and (e)
Other (NARUC account name & No.):	*Acquisition Adjustments will be subject to review under 16 1AC § 24.31(d) and (e)
Other (NARUC account name & No.):	
	The acquiring entity is an IOU, the IOU may not change the rates lication. Rates can only be changed through the approval of a rate
Indine will continue to charge the existing 202 Subdivison sewer rates	23 GBRA rates. See Attachment D for Crestview
	ransferee intends to file with the Commission, or an applicable change rates for some or all of its customers as a result of the provide details below:
	Provide any other information concerning the nature of the Applicants have utilized the Commission's nand 16 TAC 24.238 in connection with this Applicants Price as the "Ratemaking rate base" in costs associated with the Fair Market Value application. Debits (positive numbers) should equal of zero. Additional entries may be made; the following a Utility Plant in Service:  Accumulated Depreciation of Plant:  Cash:  Notes Payable:  Mortgage Payable:  (Proposed) Acquisition Adjustment*:  Other (NARUC account name & No.):  Other (NARUC account name & No.):  A. Explain any proposed billing change (NOTE: If charged to the customers through this STM app change application.)  Indine will continue to charge the existing 202 ubdivison sewer rates

	Part E: CCN Obtain or Amend Criteria Considerations
16.	Describe, in detail, the anticipated impact or changes in the quality of retail public utility service in the requested area as a result of the proposed transaction:
	Undine Texas Environmental, LLC intends to raise the standards of quality for: 1) customer service, 2) customer and regulatory communications, 3) all regulatory compliance issues.
17.	Describe the transferee's experience and qualifications in providing continuous and adequate service. This should include, but is not limited to: other CCN numbers, water and wastewater systems details, and any corresponding compliance history for all operations.
	Undine has substantial experience operating water and wastewater utilities in the state of Texas. They have acquired several other utilities in the area and can offer economies of scale for mediating costs of operations. Undine provides centralized customer service that exceeds AWWA best practices as well as TCEQ and PUC standards. Please see Attachment J.  Undine contracts its O&M endeavors with H2O Innovation, winner of the prestigious Water Company of the Year award at the 2020 Global Water Awards. H2O serves more than 60,000 connections in Texas each month. They have more than 100 water professionals in the greater Houston area, with 40 of their operators certified by the TCEQ.
18.	Has the transferee been under an enforcement action by the Commission, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG), or the Environmental Protection Agency (EPA) in the past five (5) years for non-compliance with rules, orders, or state statutes? Attach copies of any correspondence with the applicable regulatory agency(ies)  No X Yes
19.	Explain how the environmental integrity or the land will be impacted or disrupted as a result of the proposed transaction:
	There will be no change with respect to environmental integrity or land impact/disruption as a result of the proposed transaction. Our commitment to maintaining regulatory standards in all of our systems means a safe, clean water supply and a healthy living environment.
20.	How will the proposed transaction serve the public interest?
	The public will be better served through Undine Texas, LLC ownership of water and/or wastewater utilities due to the improvements to utility customer service and the improvements to operations and maintenance. The EPA reports to Congress state that the best possible future for small to midsize privately owned utilities is to be acquired by a larger more responsible provider that possesses the financial, managerial and technical experience to ensure the system meets regulatory requirements.
21.	List all neighboring water or sewer utilities, cities, districts (including ground water conservation districts), counties, or other political subdivisions (including river authorities) providing the same service within two (2) miles from the outer boundary of the requested area affected by the proposed transaction:
	Please see Attachment K

		Part F: TCEQ P	ublic W	/ater System or Sev	wer (	Wastev	vater) Information	
		ete Part F for <u>EACH</u> Public ch a separate sheet with this						
22.	A.	For Public Water System (	(PWS):					
0 - 00 - 00 - 00	1000	-		S Identification Num	ıber:			(7 digit ID)
			<i>5</i> <b>24</b> 1 ()					
		D-461	4 TOE					(attach TCEQ letter)
		Date of 18	ast ICE	Q compliance inspec				
				Subdivisions ser	ved:			
	B.	For Sewer service:						
		TCEQ Water Quality	(WQ) D	ischarge Permit Num	ıber:	WQ 13	3954 - 001	(8 digit ID)
			Nam	e of Wastewater Faci	ility:	Crestvi	ew Subdivision	
				Name of Perm	itee:	Guadal	upe-Blanco River Auth	ority
		Date of l	ast TCE	Q compliance inspec	tion:	July 6, 2	022	(attach TCEQ letter)
				Subdivisions ser				
		Date of application to tra	onefor ne					
		——————————————————————————————————————	misici pe	to TC	EQ.		_	
23.	List	ist the number of <u>existing</u> connections, by meter/connection type, to be affected by the proposed transaction:						
	Wat					Sewer		
		Non-metered		2"		68	Residential	
:		5/8" or 3/4"		3"			Commercial	
1		1"		4"			Industrial	
		Total Water Conne	ations	Other		Т	Other otal Sewer Connection	ns: 68
		Total Water Conne	ctions.			10	otal Sewel Connection	115.   00
24.	A. B.	Are any improvements req  No Yes  Provide details on each rec  Commission standards (att	quired m	najor capital improver	ment 1	necessai	ry to correct deficienc	sies to meet the TCEQ or
		Description of the Cap	ital Imp	provement:	Est	timated	Completion Date:	<b>Estimated Cost:</b>
	Plea	se see Attachment P						
		C. Is there a moratoriu	ım on ne	ww.connections?				
		No Ye		,, comicetions.				
25.	Does	s the system being transferred	l operate	within the corporate	boun	daries o	f a municipality?	
		No Ye	es:					(name of municipality)
							mers within the muni	· · · · · · · · · · · · · · · · · · ·
				-				cipai boundary.

26.	Α.	Does the s	ystem being tra	nsferred pu	ırchase water or	sewer treatment c	apacity from anoth	er source?
		No No	Yes:	If yes, atta	ch a copy of pu	rchase agreement	or contract.	
	Capacity	is purchased	from:				_	
			V	Water:			_	
			S	Sewer:				
	В.	Is the PWS	S required to pu	- rchase wat	er to meet canac	eity requirements o	· or drinking water st	randards?
	2.	No No	Yes	remase was	or to moor supur	nty requirements of	or unming water st	undurus.
	C.					ent purchased, per water or sewer tr	the agreement or c eatment (if any)?	ontract? What is
				Amount	in Gallons	Percent o	of demand	
			Water:				.00%	
			Sewer:			0.0	00%	l
	D.	Will the po	urchase agreeme	ent or conti	ract be transferre	ed to the Transfere	ee?	
		No No	Yes:					
27.	Does the Parea?	WS or sewer	treatment plant	have adequ	nate capacity to	meet the current a	nd projected demar	nds in the requested
		☐ No	Yes:					
28.	List the nar		TCEQ license	number of	the operator tha	t will be responsib	le for the operation	ns of the water or
	Nam	ne (as it appea	ars on license)	Class	License No.		Water or	Sewer
	Please see Attac	chment M						
				l ser			L	
				Part G: N	lapping & Affi	davits		
	<u>ALL</u>			_			vith the STM appl or your application	
29.					tire CCN, witho (7) copies of the		ry adjustment, prov	ide the following
						ng the requested ar the should be adher	rea in reference to the	he nearest county
		i.		_	equests to transf be provided for		vice areas for both	water and sewer,
		ii.			p, graphic, or g document.	diagram of the re	equested area is n	ot considered an

- To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
- 2. A detailed (large scale) map identifying the requested area in reference to verifiable man-made and natural landmarks such as roads, rivers, and railroads. The Applicant should adhere to the following guidance:
  - i. The map must be clearly labeled and the outer boundary of the requested area should be marked in reference to the verifiable man-made or natural landmarks. These verifiable man-made or natural landmarks must be labeled and marked on the map as well.
  - ii. If the application requests an amendment for both water and sewer certificated service area, separate maps need to be provided for each.
  - To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
  - iv. The outer boundary of the requested area should not be covered by any labels, roads, city limits or extraterritorial jurisdiction (ETJ) boundaries.
- **B.** For applications that are requesting to include area not currently within a CCN, or for applications that require a CCN amendment (any change in a CCN boundary), such as the transfer of only a portion of a certificated service area, provide the following mapping information with each of the seven (7) copies of the application:
  - 1. A general location (small scale) map identifying the requested area with enough detail to locate the requested area in reference to the nearest county boundary, city, or town. Please refer to the mapping guidance in part A 1 (above).
  - 2. A detailed (large scale) map identifying the requested area with enough detail to accurately locate the requested area in reference to verifiable man-made or natural landmarks such as roads, rivers, or railroads. Please refer to the mapping guidance in part A 2 (above).
  - 3. One of the following identifying the requested area:
    - i. A metes and bounds survey sealed or embossed by either a licensed state land surveyor or a registered professional land surveyor. Please refer to the mapping guidance in part A 2 (above);
    - ii. A recorded plat. If the plat does not provide sufficient detail, Staff may request additional mapping information. Please refer to the mapping guidance in part A 2 (above); or
    - iii. Digital mapping data in a shapefile (SHP) format georeferenced in either NAD 83 Texas State Plane Coordinate System (US Feet) or in NAD 83 Texas Statewide Mapping System (Meters). The digital mapping data shall include a single, continuous polygon record. The following guidance should be adhered to:
      - a. The digital mapping data must correspond to the same requested area as shown on the general location and detailed maps. The requested area must be clearly labeled as either the water or sewer requested area.
      - **b.** A shapefile should include six files (.dbf, .shp, .shx, .sbx, .sbn, and the projection (.prj) file).
      - c. The digital mapping data shall be filed on a data disk (CD or USB drive), clearly labeled, and filed with Central Records. Seven (7) copies of the digital mapping data is also required.

	Part H: Notice Information
	The following information will be used to generate the proposed notice for the application. <b>DO NOT provide notice</b> of the application until it is found sufficient and the Applicants are ordered to provide notice.
30.	Complete the following using verifiable man-made or natural landmarks such as roads, rivers, or railroads to describe the requested area (to be stated in the notice documents). Measurements should be approximated from the outermost boundary of the requested area:
	The total acreage of the requested area is approximately:
	Number of customer connections in the requested area:
	Affected subdivision: Please see Attachment N and Attachment O
	The closest city or town:
	Approximate mileage to closest city or town center:
	Direction to closest city or town:
	The requested area is generally bounded on the North by:
	on the <u>East</u> by:
	on the <u>South</u> by:
	on the West by:
31.	A copy of the proposed map will be available at: 17681 Telgle Road, Cypress, Texas 77429
32.	What effect will the proposed transaction have on an average bill to be charged to the affected customers? Take into consideration the average consumption of the requested area, as well as any other factors that would increase or decrease a customer's monthly bill.
	All of the customers will be charged the same rates they were charged before the transaction.
	All of the customers will be charged different rates than they were charged before the transaction.
	higher monthly bill   lower monthly bill
	Some customers will be charged different rates than they were charged before  (i.e. inside city limit customers)  higher monthly bill lower monthly bill
	higher monthly bill lower monthly bill

	Oath for Transfer	or (Transferring Entity)
STATE OF	Техав	
COUNTY OF	Comal	
I, Darrell Nichols		eing duly sworn, file this application for sale, ansfer,
familiar with the documents contained in the application; a to Applicant are true and corr	con, lease, or  General  General  (owner, member of partners am qualified and authorized to filed with this application, a and, that all such statements meet. Statements about other partners is made in good faith and the	al Manager/CEO of Guadalupe-Blance River Authority hip, title as officer of corporation, or authorized representative) file and verify such application, am personally nd have complied with all the requirements hade and matters set forth therein with respect parties are made on information and belief. I hat this application does not duplicate any filing
contributed property as requienforcement Orders of the Te	ired under Texas Water Code xas Commission on Environn	feree a written disclosure statement about any  § 13.301(j) and copies of any outstanding mental Quality, the Public Utility Commission the notice requirements in Texas Water Code
	·	AFFIANT  ity's Authorized Representative)  owner, partner, officer of the Applicant, or its
SUBSCRIBED AND SWOI		ublic in and for the State of Texas  e 14th of August , 20 23
SEAL		
My Note	C. NEWMAN ry ID # 5132625 May 19, 2025	Male I want for the state of texas
		Mary C. Newman PRINT OR TYPE NAME OF NOTARY
	My commission expire	May 19, 2025

### Oath for Transferee (Acquiring Entity) STATE OF Texas COUNTY OF Harris I. Carey A. Thomas being duly sworn, file this application for sale, transfer, Senior Vice President merger, consolidation, acquisition, lease, or rental, as (owner, member of partnership, title as officer of corporation, or authorized representative) I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission. I further state that I have been provided with a copy of the 16 TAC § 24.109 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply. (Utility's Authorized Representative) If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed. SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas this day the **SEAL** NICIA ROTERMUND Notary Public, State of Texas Comm. Expires 01-28-2025 TARY PUBLIC IN AND FOR THE

My commission expires:

## TABLE OF CONTENTS



Attachment A

Confidential

System information and Utility Asset List

**Attachment B** 

Fair Market Value Appraisals

**Attachment C** 

Part A: Question 1
Confidential

Purchase Agreement and Transaction and Closing Costs

**Attachment D** 

Part B: Question 4

**Current Tariffs** 

Attachment E

Part B: Question 5 Confidential **Customer and Deposit Information** 

Attachment F

Part C: Question 7 Confidential LLC Agreement Undine Texas, LLC and

Organizational Chart

Attachment G

Part C: Question 7

Certificate of Account Status

Attachment H

Part C: Question 9 Confidential Officers of Undine Texas Environmental, LLC

Attachment I

Part D Confidential Financial Information

Attachment J

Evidence of Financial, Managerial and Technical, and

Part E: Question 17 Capabilities

List of Currently Held Utilities

## TABLE OF CONTENTS



Attachment K

Part E: Question 21

Utilities Within 2 Miles and 25+ Acre Landowners

Attachment L

Part F: Question 22

Inspection Reports for Each System

**Attachment M** 

Part F: Question 28 Confidential **Operators Information** 

Attachment N

Part G

CCN Maps to be Certified with this Application

Attachment O

Part H

**CCN Descriptions** 

Attachment P

Part D: Question 12 Confidential **Capital Improvements** 

**Attachment Q** 

Wastewater Permit and Transfer Application





## **Attachment A**

Confidential

System Information

Utility Asset List

## **CONFIDENTIAL**

DOCKET N	0.:
STYLE:	Application of Guadalupe-Blanco River Authority and Undine Texas Environmental, LLC for Sale, Transfer, or Merger of Facilities and Certificate Rights in Calhoun County, Texas
SUBMITTI	NG PARTY: Undine Texas Environmental, LLC
BRIEF DES Asset List	CRIPTION OF CONTENTS: Attachment A – System Information and Utility
BATES STA	AMP OR SEQUENTIAL PAGE NUMBER RANGE: 18 to 20
ENVELOPE	E #: 1 OF 1
ADDITION	AL INFORMATION REQUIRED BY PROTECTIVE ORDER:

**DATE SUBMITTED TO COMMISSION:** August 16, 2023





### **VALUATION REPORT**

GUADALUPE-BLANCO RIVER AUTHORITY
CALHOUN COUNTY RURAL WATER – WATER
DISTRIBUTION SYSTEM
CRESTVIEW SUBDIVISION – WASTEWATER
COLLECTION AND TREATMENT SYSTEM

PREPARED FOR
Ms. CAREY A. THOMAS
SR. VICE PRESIDENT
UNDINE GROUP, LLC
17681 TELGE ROAD
CYPRESS, TEXAS 77429





## Valuation Analysis & Consulting 313 N. Chicago Street, Suite 101 Joliet, Illinois 60432

(888) 416-3797





Joseph E. Batis, MAI, AI-GRS

June 16, 2023

Ms. Carey A. Thomas Sr. Vice President Undine Group, LLC 17681 Telge Road Cypress, Texas 77429

Re: Guadalupe-Blanco River Authority

Rural Water – Water Distribution System Crestview – Wastewater Treatment Plant

Dear Ms. Thomas:

In accordance with your request, I have made a physical inspection on January 27, 2023 of the facilities and real estate that comprise the Guadalupe-Blanco River Authority (GBRA) Calhoun County Rural Water system and Crestview subdivision wastewater system, referred to collectively herein as the "subject property".<sup>1</sup>

The subject property water and wastewater systems are located near Port Lavaca in Calhoun County, Texas. The purpose of the inspection was to arrive at an opinion of market value of the subject property as of January 27, 2023.



<sup>&</sup>lt;sup>1</sup> Throughout the attached appraisal report, any reference to the appraiser's "inspection", "inspection of the subject property", "inspection of the subject water and wastewater systems", etc., refers to the appraiser's customary task of viewing the subject property for purposes of observing the condition, layout, design, and utility of the real property (land and building), as is typical in the appraisal professional and in the framework of completing the appraisal process. The reference to the term "inspection" in the context of the appraiser's work should not be interpreted to suggest the appraiser has any expertise and/or qualifications in the assessment of the condition and functionality of any mechanical and non-mechanical components of the subject property water and wastewater systems. The appraiser refers the client and intended users of the attached appraisal report to the engineer's report for an assessment of the water and wastewater systems' infrastructure components. The appraiser signing the attached appraisal report is not qualified to independently detect and assess the condition and functionality of the water and wastewater systems' infrastructure components. However, the appraiser signing the attached appraisal report assumes that the water and wastewater systems' components (including the lift stations, wells, pumps, treatment plants, and all related facilities) are in proper working order and have been maintained adequately to meet all applicable codes and regulatory requirements.

Ms. Carey A. Thomas Undine Group, LLC June 16, 2023 Page 2

This restricted appraisal report is prepared in conformance with Standards Rule 2-2(b) of the 2022-2023 Edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP). This report may not contain supporting rationale for all of the opinions and conclusions set forth in the report. In addition to being prepared in compliance with USPAP, this appraisal has been prepared in accordance with the *Code of Ethics* and *Standards of Professional Practice* of the Appraisal Institute.

In completing my analysis of the subject property, I relied on a report prepared by MRB Group ("MRB"), dated May 8, 2023. The MRB report is attached to this appraisal report. Based upon my analysis of the subject property system and taking into consideration the independent report prepared by MRB, it is my opinion the market value of the subject property was \$8,200,000 as of January 27, 2023.

This appraisal of the subject property system is prepared in compliance with the Texas Administrative Code, §24.238 (Fair Market Valuation; under Subchapter H. - CERTIFICATES OF CONVENIENCE AND NECESSITY) and applies to a voluntary arm's length transaction between an acquiring utility and a retail public utility under TWC §13.305 for which approval is required under TWC §13.301.

I certify that I personally have no undisclosed interest, either present or contemplated, in the real estate described herein as the subject property; furthermore, neither the procurement of this appraisal assignment nor the negotiated compensation was contingent upon a predetermined conclusion of value, a value estimate which advocates the client's position, or the occurrence of any subsequent event.

On behalf of UTILTY VALUATION EXPERTS, INC., I appreciate the opportunity to prepare this appraisal report for you and UNDINE GROUP, LLC. Please feel free to contact the undersigned should you have any questions regarding the assignment.

Sincerely,

UTILITY VAR PATION EX

Joseph E. Batis, MAI, AI-GRS, R/W-AC

General Certification Lic. #553.000493 (IL; Expires 09/23)

General Certification Lic. #2016044083 (MO; Expires 06/24)

General Certification Lic. #5660 (TN; Expires 06/23)

General Certification Lic. #4001017857 (VA; Expires 06/23)

General Certification Lic. #TX 131049 G (TX; Expires 11/24)

General Certification Lic. #CGA-1027103 (AZ; Expires 07/23)

General Certification Lic. #NHCG-1081 (NH; Expires 04/25)

General Certification Lic. #GA004696 (PA; Expires 06/23)

General Certification Lic. #34627 (MD; Expires 04/25)





#### TABLE OF CONTENTS

### Letter of Transmittal Identification of the Subject Property......4 Purpose of the Assignment and Type of Value ......11 Property Rights Appraised ......12 Income Capitalization Approach......74 Final Reconciliation .......87

#### **ADDENDA**



#### **Summary of Salient Facts**

Property Identification: Guadalupe-Blanco River Authority ("GBRA")

Calhoun County Rural Water system and Crestview subdivision collection system and

Wastewater treatment plant

Located near Port Lavaca, Texas

Facilities: A water distribution system with 1,494 water

connections (1,585 equivalent residential connections) and a wastewater collection and treatment system with 65 customers. Please refer to the attached report prepared by MRB, dated May 8, 2023, for a detailed description of the infrastructure, system assets, and facilities.

Date of Inspection: January 27, 2023

Date of Value: January 27, 2023

Date of Report: June 16, 2023

Type of Value: Market Value

Property Rights: Fee Simple Estate

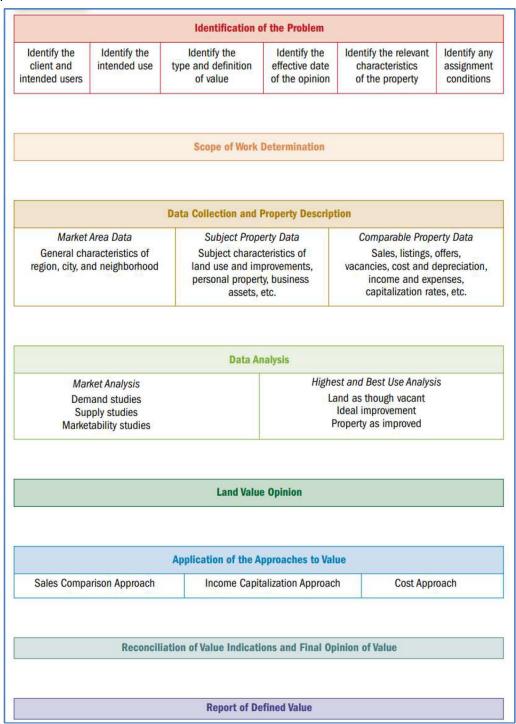
Final Opinion of Market Value: \$8,250,000

Eight Million Two Hundred Fifty Thousand Dollars



#### **Appraisal Process**

In arriving at an opinion of value for the subject property, I have followed an orderly set of steps that has led me to a final conclusion of market value. This procedure is known as the "Appraisal Process" and is summarized in the chart below.

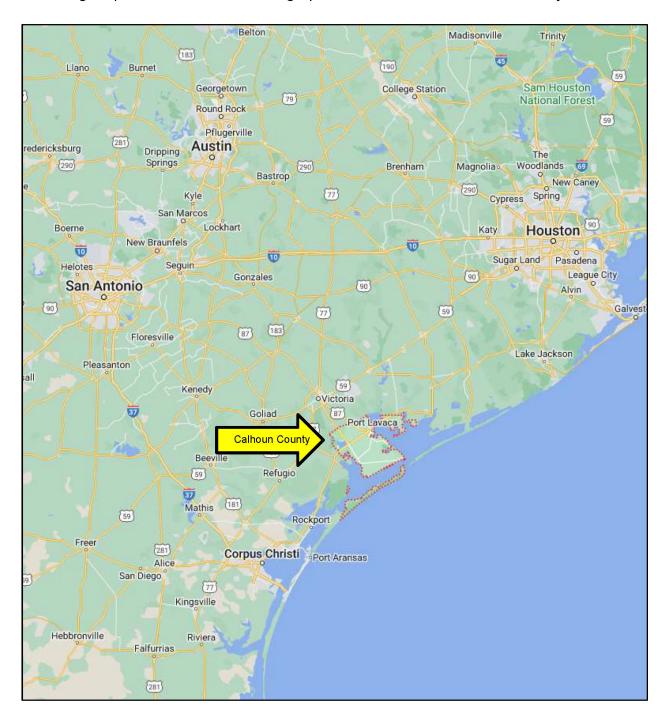


Source: The Appraisal of Real Estate, 15<sup>th</sup> Ed., Published by the *Appraisal Institute*, 2020; P. 31.



#### **Identification of the Subject Property**

The real estate identified herein as the subject property consists of the GBRA Calhoun County rural water distribution system ("the water system") and the Crestview subdivision wastewater collection and treatment system ("the wastewater system") are located near Port Lavaca, Texas in Calhoun County. Below and on the following pages are exhibits including maps and tables with demographic information for Calhoun County.





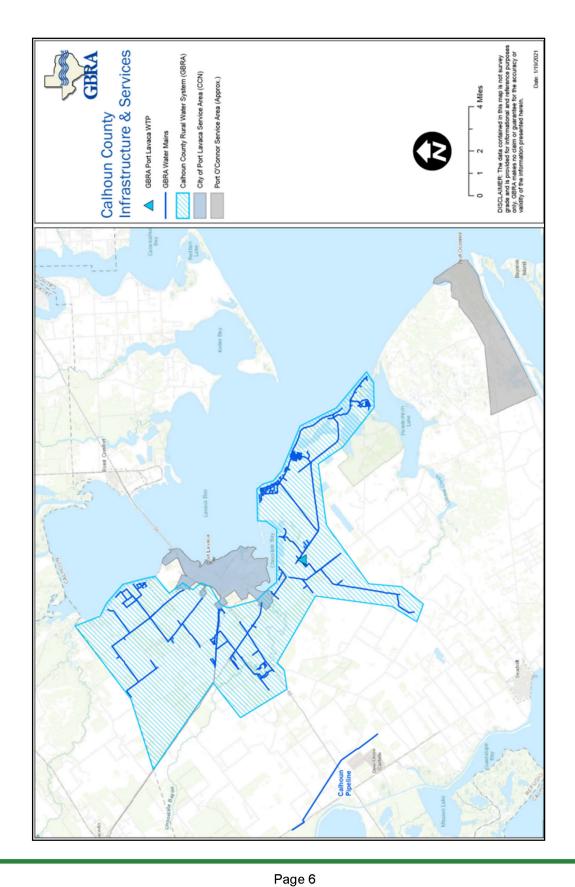
#### **Identification of the Subject Property**

(Continued)





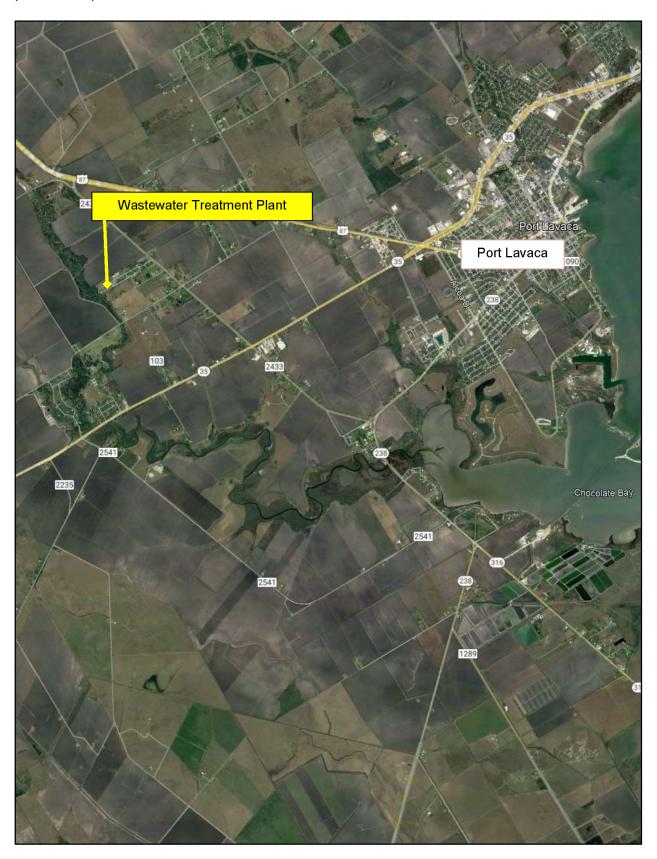
## Identification of the Subject Property (Continued)





#### **Identification of the Subject Property**

(Continued)



Page 7



## Identification of the Subject Property (Continued)



Page 8



## Identification of the Subject Property (Continued)

Calhoun County, Texas  July 2022			
Population Data			
Total County Population			19,846
Population in households	19,636	98.9%	23,010
Population in group quarters	210	1.1%	
Housing Data			
Total Housing Units			10,523
Owner-occupied	5,501	52.3%	
Renter-occupied	2,050	19.5%	
Vacant units	2,972	28.2%	
County Income Data			
Median Household Income			\$66,206
Average Household Income			\$82,692
Population Growth Trend			
Growth Rate per Year	2020-2022	2022-2027	
Population	-0.58%	-0.55%	
Population and Income Rankings			
State Rankings (out of 254 counties)			
Total Population	#120		
Population Density	#91		
Median Household Income	#61		
Housing Affordability Index	#160		
Per Capita Income	#118		
Diversity Index	#19		



#### **Identification of the Subject Property**

(Continued)

According to the MRB report, assets that comprise the subject property system include the following (taken from the MRB report):

A wastewater treatment plant that consists of a lift station, plant headworks, one aeration basin, one mechanical clarifier, one aerobic digester/sludge holding basin, and one chlorine contact basin for final disinfection. The blowers for the aeration basin and digester are located inside small sound reducing enclosures adjacent to the treatment structure. A sodium hypochlorite drum is located inside a wood structure adjacent to the chlorine contact basin. An emergency generator, powered by propane, is also located on the site. The wastewater treatment plant is constructed on land owned by GBRA, according to information on the Calhoun County Appraisal District website.

The booster pump station consists of one (1) hydropneumatic storage tank and one (1) above-ground storage tank. The hydropneumatic tank has a capacity of 5,000 gallons. The site has a welded steel 34,000-gallon ground storage tank. The two (2) distribution system pumps, reportedly rated at 225 gallons per minute each, are located within a building on the site. Sodium hypochlorite is stored in a 30-gallon drum in the pump building. Treated surface water is received from GBRA Port Lavaca Surface Water Treatment Plant and direct pressure from Port Lavaca. According to the Calhoun County Appraisal District website, the water plant is constructed on land owned by the GBRA.

The distribution system consists of various sizes of pipe and is constructed of various pipe materials. There are approximately fifty (50) isolation valves and fifteen (15) flush valves indicated on the available plans for the system.

The water distribution system includes approximately 75 miles of mains that range in size from 1.5" to 6" diameter and which were installed from 1969 to 2006.

MRB uses a priority rating system (1 to 5; 1 = effective life exceeded; excessive maintenance observed; 5 = fully operable, like-new, well maintained) for the assets.

The majority of the wastewater treatment plant components are rated either 2, 3 or 4; the wastewater collection system components are rated 4; the water distribution pump station components are primarily rated 1 (with one 3 and two 4s); and, the water distribution mains have a condition rating of 3.



#### Purpose of the Assignment and Type of Value

The purpose of this appraisal assignment is to arrive at an opinion of market value for the GBRA Calhoun County Rural Water distribution system and Crestview subdivision wastewater collection system and treatment plant. Market value is defined as:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.<sup>2</sup>

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1. Buyer and seller are typically motivated;
- 2. Both parties are well informed or well advised, and acting in what they consider their best interest;
- 3. A reasonable time is allowed for exposure in the open market;
- 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

#### **Relevant Assignment Dates**

Date of physical inspection of the property:

Effective date of value:

Date of report:

January 27, 2023

January 27, 2023

June 16, 2023

Page 11 035

<sup>&</sup>lt;sup>2</sup> The Appraisal of Real Estate, 15<sup>th</sup> Edition, (Chicago, Illinois: Appraisal Institute, 2020), p. 48



#### **Property Rights Appraised**

This appraisal pertains to the fee simple estate which is defined as:

Absolute ownership unencumbered by any other interest or estate subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.<sup>3</sup>

A fee simple estate implies absolute ownership unencumbered by any other interest or estate.

#### **Exposure Time and Marketing Time**

The estimated marketing time of a property implicitly assumes the property would be marketed in a manner typical in the market for that particular type of property, including utilization of the normal channels of exposure; also, implicit is the assumption that the asking price would be reasonably close to the market value of the property; and, the sale terms would conform to the market value definition included herein.

Based upon the conditions which prevailed in the relevant market effective January 27, 2023, I have concluded a reasonable market time for the subject property is 12 to 24 months and the exposure time for the subject property is also estimated to be from 12 to 24 months.

Page 12 036

<sup>&</sup>lt;sup>3</sup> The Appraisal of Real Estate, 15<sup>th</sup> Edition, (Chicago, Illinois: Appraisal Institute, 2020), p. 60.



#### **Intended Use and Intended User of the Appraisal**

The intended use of this appraisal report is to assist the client (Ms. Carey A. Thomas of Undine Group, LLC) with the acquisition of the subject property water and wastewater systems. The intended users of this appraisal report include Ms. Thomas, Mr. Darrell Nichols of Guadalupe-Blanco River Authority, and Mr. Thomas Gleeson, Executive Director of the Public Utility Commission of Texas.

#### **History of the Subject Property**

Pursuant to Standards Rule 1-5 of USPAP, I am required to "consider and analyze any current Agreement of Sale, option, or listing of the property being appraised". I must further consider and analyze any sales of the subject properties that have occurred within the last three years. The client is in negotiations to acquire the subject property system at the present time. No details regarding the proposed acquisition were provided. To the best of my knowledge, there have not been any sales, listings, offerings, etc., pertaining to the subject property during the last five years.



## **Scope of Work**

The purpose of this assignment is to develop an opinion of fair market value for the CS Water Corporation water system, identified by the Texas PUC as CCN 11441. The appraisal is prepared in compliance with the Texas Administrative Code, §24.238 (Fair Market Valuation; under Subchapter H. - CERTIFICATES OF CONVENIENCE AND NECESSITY) and applies to a voluntary arm's length transaction between an acquiring utility and a retail public utility under TWC §13.305 for which approval is required under TWC §13.301.

The subject property is located in Calhoun County, Texas. After receiving and reviewing numerous pertinent documents from the client pertaining to the subject property water and wastewater systems, I inspected the subject property on January 27, 2023, and began collecting market data for this assignment. I applied the cost approach, the sales comparison approach, and the income capitalization approach to value. In developing my opinion of value, I am relying, in part, on a report prepared by MRB, INC., dated May 8, 2023, in which MRB arrives at an opinion of the reproduction cost new of the infrastructure components of the subject property system. I have reviewed the MRB report and reviewed the data MRB relied on in forming its opinions. Furthermore, I reviewed other data and reports pertaining to the subject system as well as several other systems. I find the MRB report to be reliable and credible.

The Appraisal Institute has supplemental professional standards, rules, and guidelines for its members that exceed the requirements established by state licensing bodies for state-certified appraisers. The Appraisal Institute's Guide Note 4 (*Reliance on Reports Prepared by Others*), which is a publication dealing specifically with the criteria for proper reliance by an appraiser on the work of another, identifies four major classifications of reports. Guide Note 4 includes a list of six items the appraiser(s) must satisfy before relying on the third-party report. The items are:

- (1) Have a reasonable basis for believing the individuals preparing the report are competent;
- (2) Have no reason to doubt the credibility of the work of the work preparer;
- (3) Consider the criteria under which the report was prepared;
- (4) Consider the source and extent of the instructions given to the preparer of the report;
- (5) Determine how the appraiser might rely on this information in making decisions and preparing his or her report; and,
- (6) Determine the process and procedures used to evaluate the reports prepared by others.

My reliance on the MRB report is consistent with the Appraisal Institute's Guide Note 4 which addresses the conditions for an appropriate reliance by appraisers of reports prepared by others.<sup>4</sup>

<sup>&</sup>lt;sup>4</sup> The Appraisal Institute has adopted Guide Notes to the Institute's Standards of Professional Practice ("SPP"). The Guide Notes are not part of the SSP but provide guidance on how the standards requirements may apply to specific situations.



## **Extraordinary Assumptions**

The 2022-2023 Edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP) defines an extraordinary assumption as follows:

An assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions and conclusions.

This appraisal report is prepared subject to the following Extraordinary Assumptions.

#### THE MRB ENGINEERING REPORT

This appraisal report is based, in part, on information contained in the MRB report (dated May 8, 2023). I reserve the right to revise all opinions and conclusions presented herein upon receiving or becoming aware of any information that is inconsistent with and/or contradicts the information, analysis, opinions, and conclusions pertaining to the depreciated cost data presented in the MRB report. The intended users of this appraisal assignment are advised that if this assumption is found to be false, the assignment results could be impacted.

#### **CUSTOMER COUNTS**

According to the MRB report, the subject property water system has 1,494 customers (1,585 equivalent residential connections) and 56 wastewater connections. This appraisal assumes the current customer counts are accurate. I reserve the right to revise all opinions and conclusions presented herein upon receiving or becoming aware of any information that is inconsistent with and/or contradicts the customer count information provided for this assignment. The intended users of this appraisal assignment are advised that if this assumption is found to be false, the assignment results could be impacted.



## **Extraordinary Assumptions**

(Continued)

#### THE TERM "INSPECTION"

Throughout the attached appraisal report, any reference to the appraiser's "inspection", "inspection of the subject property", "inspection of the subject water and wastewater systems", etc., refers to the appraiser's customary task of viewing the subject property for purposes of observing the condition, layout, design, and utility of the real property (land and building), as is typical in the appraisal professional and in the framework of completing the appraisal process. The reference to the term "inspection" in the context of the appraiser's work should not be interpreted to suggest the appraiser has any expertise and/or qualifications in the assessment of the condition and functionality of any mechanical and non-mechanical components of the subject property water and wastewater systems. The appraiser refers the client and intended users of the attached appraisal report to the engineer's report for an assessment of the water and wastewater systems' infrastructure components. The appraiser signing the attached appraisal report is not qualified to independently detect and assess the condition and functionality of the water and wastewater systems' infrastructure components. However, the appraiser signing the attached appraisal report assumes that the water and wastewater systems' components (including the lift stations, wells, pumps, treatment plants, and all related facilities) are in proper working order and have been maintained adequately to meet all applicable codes and regulatory requirements. The intended users of this appraisal assignment are advised that if this assumption is found to be false, the assignment results could be impacted.



## **Extraordinary Assumptions**

(Continued)

#### **REAL PROPERTY RIGHTS**

The subject property includes assets located in public rights-of-way and assets located on fee parcels (applies to the booster pump and the wastewater treatment plant). This appraisal assumes there are (or will be) permanent easements in place for the remaining facilities.

For purposes of this assignment, it is reasonable to assume that permanent easements for the applicable properties will provide the proposed purchaser/operator the necessary rights for the continued use and operation of the subject property water and wastewater systems, including the right to repair, replace, inspect, and modify the facilities as needed by the owner.

It is also reasonable to assume the following with respect to all permanent easements that are (or will be) in place for the subject property systems:

- the easements are not exclusive;
- the owners' rights in the encumbered areas do not restrict the reasonable crossing
  of the easement area with any foreign lines or utility services, including, but not
  limited to, utility services, telephone, cable, and fiber optic lines/services, interstate
  and intrastate natural gas, petroleum, refined products, or oil pipelines, or
  overhead power transmission lines;
- the owners' rights in the encumbered areas do not restrict the reasonable use of the surface of the area of the easement, including the use of the easement strips for driveways, access points for ingress/egress, and the construction of any nonpermanent structures.



## **Hypothetical Conditions**

The 2022-2023 Edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP) defines a hypothetical condition as follows:

A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

This appraisal did not include any hypothetical conditions.

## **General Assumptions and Limiting Conditions**

#### **ENVIRONMENTAL ISSUES**

This report has not taken into consideration the possibility of the existence of any environmental hazards or substances, including but not limited to asbestos, PCB transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (hazardous material), or the cost of encapsulation or removal thereof. Should the client have concern over the existence of such substances or any other hazardous items on the subject properties, the appraisers consider it imperative for the client to retain the services of a qualified, independent engineer or contractor to determine the existence and extent of any hazardous materials, as well as the cost associated with any required or desirable treatment or removal thereof. Under such circumstances, the valuation stated herein would be void.

#### **SOILS AND SUBSOILS**

This appraisal report gives no consideration to the potential impact on the subject property regarding any archeological findings; in addition, the cost of preparing any archeological studies/reports for the subject property is not incorporated into this valuation. It is assumed for purposes of this appraisal that there are no hidden or unapparent conditions of the property or subsoils that render the subject property more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them. It is also assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.



## **Highest and Best Use Analysis**

The beginning point in the valuation of any real estate is the determination of the property's highest and best use. Highest and Best Use is defined in the 15<sup>th</sup> Edition of *The Appraisal of Real Estate* as follows:

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value.

The 15<sup>th</sup> Edition states that there are four implicit steps as part of the analysis that are applied in the following order: (1) Legally Permissible, (2) Physically Possible, (3) Financially Feasible, and (4) Maximally Productive.

After considering the components of the subject property's infrastructure, and taking into account the analysis and report prepared by MRB, it is my opinion the highest and best use of the subject property as of January 27, 2023, is the present use as a water and wastewater system. Furthermore, it is my opinion the highest and best use of the system's land, as vacant, is also for its present use as part of a utility infrastructure system.



## **Valuation Analysis**

Normally included within the steps of the valuation process are the three classic approaches to a value estimate: the cost Approach, the sales comparison approach and the income capitalization approach. Each of these approaches tends to independently serve as a guide to the valuation of the appraised property with varying degrees of validity. Each approach to value has its inherent strengths and weaknesses, particularly pertaining to the availability of relevant and current market evidence to support their respective applications.

The cost approach gives recognition to the fact that buyers have available to them the alternative of constructing a new building when contemplating the purchase of an existing building. Thus, the cost to reproduce the property is utilized as a measure of value. However, most properties experience varying degrees of accrued depreciation which result from physical depreciation, functional obsolescence and external obsolescence. Any of these three types of depreciation (or a combination thereof) from which the property suffers must be deducted from the estimated cost new of the improvements. The difficulty, then, in applying the cost approach is the ability of the appraiser to accurately extract or estimate the amount of depreciation the property being appraised suffers.

The sales comparison approach is based upon the theory that the value of a property is determined by the actions of buyers and sellers in the market for comparable types of property. Recognizing no two properties are identical and that properties sell at different times under different market conditions, the application of the sales comparison approach requires the appraiser to consider any differences between a respective sale and the subject property which may affect value. After the relevant differences are adjusted for, an indicated range of value results.

The theory of the sales comparison approach also realizes that buyers and sellers often have motivations that are unknown to the appraiser and difficult to quantify in the adjustment process. Therefore, while this approach has certain strengths and foundation, it must be carefully applied in order to lead the appraiser to a realistic opinion of value.

And lastly, the income capitalization approach is typically given very much consideration in the appraisal process for income-producing properties. The income capitalization approach gives recognition to the subject property's capabilities of producing an income and that investors in the real estate market will pay a specific amount of cash, or its equivalency, to receive that income, as well as the rights of ownership of the property at the end of the income period.



## **Valuation Analysis**

(Continued)

The income capitalization approach is applied based upon market-extracted information, most notably the income and expenses that prevail in the market for the type of property being appraised. After an appropriate estimate of income is arrived at, the income is converted to an estimate of value via a capitalization rate. The capitalization rate is also either extracted from the market, based upon industry surveys, or may be derived based upon a built-up method.

After the appraiser independently applies each approach to value, the three resultant value estimates are reconciled into an overall estimate of value. In the reconciliation process, the appraiser analyzes each approach with respect to its applicability to the property being appraised. Also considered in the reconciliation process is the strength and weakness of each approach with regards to supporting market data.

Regarding the valuation of the subject property, I have applied all three approaches to value. Following this section is a more detailed explanation of the three approaches to value.



## **Cost Approach**

The cost approach to value is a technique in the appraisal process which recognizes that a prudent purchaser/investor of real estate may consider constructing a new property as an alternative to buying an existing property.

Although it holds true that a prudent purchaser would not pay more for a property than the cost of buying the land and constructing a new property which would offer similar utility, the estimated cost new of the property must be adjusted for items of depreciation which the property being appraised has suffered. Only then will the Cost Approach yield an indication of value which can be correlated with the other two approaches to arrive at the market value of the property.

The beginning point of the typical Cost Approach is to arrive at an estimate of the land value as vacant. The land value is arrived at by applying the sales comparison approach utilizing vacant land sales from the market. The next step is to estimate the cost new of system assets. If a property suffers any functional obsolescence, it is necessary to utilize the Reproduction Cost estimate. The measure of loss of value from the functional inadequacy (or superadequacy) would then be deducted as an item of depreciation.

After the cost of the property is estimated, all items of depreciation are measured and deducted from the cost to arrive at an estimate of the depreciated cost new of the improvements. The land value as vacant is then added to arrive at a total estimate of the property via the cost approach. The land value for this assignment includes two parcels in fee and the contributory value of the permanent easements for the remaining assets.

The real property rights for the land pertaining to the fee sites and permanent easements that are presumed to be affected by permanent easements is arrived at by measuring the actions of buyers and sellers in the market for comparable property. For the valuation of utility systems, it is common to arrive at an opinion of the contributory value of the fee and easement rights (the grantee's real property rights) based upon an analysis and comparison of rights transferred for other utility systems.

For purposes of this assignment, it is reasonable to assume the permanent easement rights are typical of other systems' easement rights, and that the owners of the underlying fee parcels are not restricted from using their respective parcels in accordance with the highest and best use of each parcel, as long as there is no interference with the grantee's real property rights. For the subject assignment, I have concluded the contributory value of the land rights which comprise the subject property system is \$20,000.



## **Cost Approach**

(Continued)

With respect to the cost new estimate of the subject property assets, I have relied on the calculations contained in the MRB report. The MRB report includes a line-item cost estimate for the components that comprise the subject property. In addition to the current cost estimates, the MRB report includes the TECQ Expected Useful Life and Remaining Useful Life for each component. Based upon the MRB calculations, the total cost new estimate for the assets that comprise the subject property assets is \$35,614,215.

With respect to depreciation estimates, I calculated the depreciation and resultant RCNLD (Reproduction Cost New Less Depreciation) using an age/life method that utilizes the remaining useful life estimate (provided in the MRB report) and the TCEQ Expected Useful Life of the asset. On the following page is a modification of the MRB exhibit (Attachment A) that includes the depreciation calculations and resultant depreciation cost new estimates. Based upon the calculated depreciated cost new for the water distribution system and the wastewater assets, the total depreciated cost new is rounded to \$11,480,000.

Based upon this analysis, my opinion of the value of the subject property as indicated by the Cost Approach is as follows:

Contributory value of land rights: \$ 20,000 RCNLD of improvements: \$ 11,480,000 Total: \$ 11,500,000



# Cost Approach (Continued)

Asset	Year Installed (if known)*	Condition	TCEQ Expected Useful Life (years)	Remaining Useful Life (years)	Replacement Cost	Depreciation Using Age/Life Method	Depreciated Cost New
<u> </u>	Crestview Subd	livision Wast	ewater Treatr	nent Plant - 636	Bayou Drive, Calhoun	County, TX	
6' High Chain-link Perimeter Fence with Gates and Barbed Wire	2000	3	20	5	\$26,650	75%	\$6,663
Access Drive	2000	3	20	5	\$10,000	75%	\$2,500
Lift Station at Plant Headworks with 2 submersible pumps and valves	2000	4	30	7	\$100,000	77%	\$23,333
Static Wedge Wire Screen	2021*	4	15	13	\$75,000	13%	\$65,000
Aeration Basin #1 - Structure	2021*	4	30	28	\$150,000	7%	\$140,000
Aeration Basin #1 - Equipment	2021*	3	12	10	\$50,000	17%	\$41,667
7.5 HP Blower #1 with Sound Enclosure	2021*	2	15	5	\$15,000	67%	\$5,000
7.5 HP Blower #2 with Sound Enclosure	2021*	2	15	5	\$15,000	67%	\$5,000
7.5 HP Blower #3 with Sound Enclosure	2021*	2	15	5	\$15,000	67%	\$5,000
Mechanical Clarifier #1	2021*	3	30	20	\$100,000	33%	\$66,667
Chlorine Contact Tank #1 with "V"	2021*	4	30	28	\$30,000	7%	\$28,000
Hypochlorite Storage Building	2021	3	10	8	\$1,500	20%	\$1,200
Sodium Hypochlorite Tank	2021	4	20	18	\$1,000	10%	\$900
Chlorine Metering System	2021	4	7	5	\$2,000	29%	\$1,429
Flow Meter	2021	4	15	13	\$6,000	13%	\$5,200
Outfall Pipe - Approx. 250 LF	2000	4	50	27	\$25,000	46%	\$13,500
Aerobic Digester/Sludge Holding Basin #1 - Structure	2021*	4	30	28	\$100,000	7%	\$93,333
Aerobic Digester/Sludge Holding Basin #1 - Equipment	2021*	3	15	13	\$30,000	13%	\$26,000
Shed Building #1 - Wood Siding	2000	2	20	2	\$10,000	90%	\$1,000
Shed Building #2 - Metal Siding	2010	2	20	2	\$5,000	90%	\$500
85 kW Emergency Generator (Propane), and Site Electrical	2021*	1	20	2	\$250,000	90%	\$25,000
Propane Above Ground Storage Tank	2021	4	25	23	\$5,000	8%	\$4,600
To the state of					\$1,022,150		\$561,491

			Sewer C	ollection System			
Sanitary Sewer - 8" Gravity	2000-2015	4	75	52	\$485,200	31%	\$336,405
Manholes	2000-2015	4	75	52	\$42,000	31%	\$29,120
Sanitary Sewer Service Laterals	2000-2015	4	50	50	\$122,000	0%	\$122,000
					\$649,200		\$487,525



# Cost Approach (Continued)

- X	Six-Mile Booster Pump Station - Lake Placedo Road						
6' High Chain-link Perimeter Fence with Gates and Barbed Wire	1972	1	20	2	\$11,050	90%	\$1,10
Access Drive	1972	1	20	2	\$4,000	90%	\$400
5,000 gal Hydropneumatic Tank #1	1972	1	25	2	\$40,000	92%	\$3,200
34,000 gal Ground Storage Tank #1 with Concrete Ring Beam	1972	1	40	2	\$170,000	95%	\$8,500
Chlorine Metering System	2020	4	7	4	\$10,000	43%	\$5,714
Distribution System Pumps (2), piping and electric	2014	3	10	2	\$20,000	80%	\$4,000
Emergency Generator Connection	2014	4	20	11	\$5,000	45%	\$2,750
Pump Building	1972	1	30	2	\$40,000	93%	\$2,667
					\$300,050		\$28,336

			Water Di	stribution System			
1.5" Watermain	1969-2006	3	75	21	\$624,800	72%	\$174,944
2" Watermain	1969-2006	3	75	21	\$6,059,160	72%	\$1,696,565
2.5" Watermain	1969-2006	3	75	21	\$1,255,605	72%	\$351,569
3" Watermain	1969-2006	3	75	21	\$6,750,170	72%	\$1,890,048
4" Watermain	1969-2006	3	75	21	\$2,217,600	72%	\$620,928
6" Watermain	1969-2006	3	75	21	\$10,833,280	72%	\$3,033,318
Isolation Valves	1969-2006	3	35	15	\$150,000	57%	\$64,286
Flush Valves	1969-2006	3	35	15	\$75,000	57%	\$32,143
Water Connections	1969-2006	3	50	15	\$4,482,000	70%	\$1,344,600
Water Meters	1969-2006	3	10	10	\$1,195,200	0%	\$1,195,200
we in the second		1000		062	\$33,642,815	12.5	\$10,403,601

TOTAL FOR SUBJECT PROPERTY \$35,614,215 \$11,480,953



The sales comparison approach is an approach to value which measures the actions and activity of buyers and sellers in the market and relates those actions to the property being appraised. Also referred to as the market approach, the underlying premise of this approach to value is that no prudent purchaser will pay more for a property than the cost of acquiring an equally suitable parcel. The fundamental concept of the sales comparison approach is the principle of substitution, which is defined as:

A valuation principle that states that a prudent purchaser would pay no more for real property than the cost of acquiring an equally desirable substitute on the open market. The principle of substitution presumes that the purchaser will consider the alternatives available and will act rationally or prudently on the basis of the information about those alternatives, and that reasonable time is available for the decision. Substitution may assume the form of the purchase of an existing property, with the same utility, or of acquiring an investment which will produce an income stream of the same size with the same risk as that involved in the property in question.<sup>5</sup>

Research of the area, state and national real estate market was completed in order to find sales of water distribution systems that included comparable features to the subject property. There have been several sale properties selected from all available sale transactions for analysis in this approach.

The sales were considered to be the most comparable to the subject property in terms of arms-length sales transactions, location of the system, capital improvements supporting the water and wastewater systems, and number of water and wastewater customer accounts in the entire system. All information of the sale transactions and properties was confirmed by the previously mentioned party or parties to the transaction.

#### THE AUTHENTICITY OF THE DATA RELIED ON BY UVE

The data presented in this report has been researched independently by *Utility Valuation Experts, Inc.* ("UVE") and has been confirmed and verified directly by UVE. Confirmation includes a combination of review of financial statements, review of documents and reports provided by the client and/or owner of the subject system, review of public filings, review of annual reports, interviews with system operators, interviews with professional engineers, interviews with accounting and auditing professionals, interviews with agents/representatives of the buyer.

Page 26

<sup>&</sup>lt;sup>5</sup> Byrl N. Boyce, Ph. D., SRPA, Real Estate Appraisal Terminology, 2nd ed., (Cambridge, Mass.: Ballinger Publishing Company, 1984), p. 234.



(Continued)

#### CONFIDENTIALITY ISSUES RELATING TO THE DATA UTILIZIED BY UVE

For the collection, research, verification, and analysis of market data for this valuation assignment, various data sources were utilized and, in some cases, confidential and privileged information was provided to UVE by a party or parties to the respective transaction. Confidential and privileged information is retained in the work file maintained by UVE and is not improperly disclosed, in part or whole, in this report in accordance with the *Confidentiality Section* of the *Ethics Rule* of the 2020-2023 edition of the *Uniform Standards of Professional Appraisal Practice* ("USPAP").

The reliance by UVE of any confidential information for this assignment has been with the proper express authorization of the respective client/provider of the proprietary/confidential information. Therefore, the analysis, as explained and described in this valuation report, in some cases may not include specific details and supporting data/information due to confidentiality issues and non-disclosure agreements.

Confidential information from a client may not be disclosed by the appraiser to anyone other than: the client, parties specifically authorized by the client, state appraiser regulatory agencies, third parties as may be authorized by due process of law, or a duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation.

#### UVE PROPRIETARY DATA, RESEARCH, ANALYSIS, AND WORK PRODUCT

Unlike typical valuation assignments in which much of the necessary detailed market data is relatively available from multiple public and/or private (subscription) sources, the valuation assignment pertaining to a privately-held or publicly-owned utility system requires a substantial amount of data that is not easily obtainable, particularly the transactional data necessary for a competently-developed sales comparison analysis and a valuation report that is not misleading.

In many cases, the data sources containing the necessary information for credible utility system valuations may include hundreds of documents, years of public filings, voluminous records of testimony and third-party reports, numerous rate case filings, applications, amended or revised applications, Commission reports and findings, Certificate of Convenience and Necessity ("CCN") maps, records, and documents, and thousands of pages of other information and data.



(Continued

UVE maintains a comprehensive database regarding transactional data, cost data, depreciation data, income and expense data, rate or return and yield data, and other relevant information for utility systems. The data maintained in UVE's proprietary database is voluminous, and the summary presentation of any market data in this valuation report represents a relatively small part of the total amount of data pertaining to the respective market data collected, researched, verified, and retained in the subject work file and database of UVE.

Although the market data relied on by UVE in the subject matter includes some information available through public records, much of the data is the result of independent market research utilizing multiple public, trade industry, subscription, and private sources. Although some of the data might have been publicly disclosed or available to the public through appropriate channels, the UVE analysis that results from the market data, including the summary presentation of the data contained in this report for this assignment, is privileged work product that is to be relied on <u>only</u> by the intended users identified in this report and *only* for the intended use set forth in this valuation report.

The proper use of and appropriate reliance on the market data and work product contained in this valuation report by an ethical and competent valuation professional requires knowledge of the relevant supporting documents and information, and may include, but not be limited to, the following: financial records, income and expense documents, depreciation schedules, capital investment plans and expenditures, original cost data, repairs and replacements of components and systems, engineering assessments, inventory lists, in-service cost and date data (including the source of the data: i.e., estimates from engineers/third parties v. detailed historic system records), loss ratios, land rights and valuation for fee parcels and easements, parcel splits and shared access rights, water rights, water purchase costs, water sale revenues, the use of shared facilities (treatment facilities, etc., whether partially owned or used by agreement for a fee), easements and leases entered into for the purpose of the operations, easements and leases entered into for the purpose of access, redundancy and operational safeguards, backup systems, expansion plans, capacity ratings, existing use and current capacity use, known/reported violations (EPA, DNR, other agencies with regulatory oversight), anticipated growth and expansion including tap-on and service fees, anticipated tariff consolidations and impacts to customer rates, condition of the existing assets, remaining useful life expectancies for assets, equity rates of return, debt and equity components of investments, actual v. anticipated discount/yield rates, etc., all of which impact the transaction price.



(Continued

Using, referencing, comparing, considering, or relying on the market data and work product, in whole or part, contained in this report by anyone who is not fully aware of and properly taking into consideration the extensive supporting documents and information (listed above) collected and verified by UVE is unethical, contrary to the professional standards established by USPAP, not authorized by UVE, and will most likely result in valuation conclusions that are not credible or meaningful.

Although it is reasonable to expect this valuation report might be lawfully or unlawfully filed, recorded, copied, disseminated, shared, published, and/or made available, in whole or part, to parties other than the intended users of this assignment -- including the general public, utility industry participants, governmental/regulatory agencies, engineering professionals, municipal officials and representatives, investor-owned utility representatives, and other valuation professionals -- the market data as presented herein is the work product of UVE and is restricted exclusively to the intended user(s) of this assignment and exclusively for the intended use explained in this valuation report.

To protect the proprietary nature of the data and work product in this report and to discourage its unlawful, unethical, inappropriate, improper and unauthorized use by others, UVE has intentionally modified some the market data included in this valuation report to include false/incorrect information. The modified data contained in this valuation report is known *only to UVE*; the modifications are not intended to mislead the client and intended user(s), nor are the modifications intended to result in an analysis that is not credible and/or a report that is misleading.

The sole purpose of the modifications of the facts and data presented in this valuation report is to prevent the unauthorized use of and reliance on this market data and work product and to insure that others are not simply and inappropriately copying, reproducing, and reformatting the data into their respective reports for their own unauthorized use and consequently to benefit their respective client(s).

The specifics pertaining to the incorrect information contained in this report have not been disclosed to the client or the intended user(s). The data modifications are known *only to UVE* and, consequently do not impact the analysis performed by UVE or the development of the opinions expressed in this report. However, the use of this data by unauthorized parties will likely result in assignment results that are not credible and a report that is misleading.



(Continued

Examples of the modifications included in this valuation report may include intentional revisions to the customer counts, financial data, sale price, sale date, sale terms, asset purchase agreement date, asset purchase agreement terms, licensing agreement terms, location characteristics, site data, fee parcel and easement details, system capacities, projected expenditures, inventory lists, plant in-service dates, expansion plans, capital investment plans, dates and costs of repairs, upgrades, and replacements, repairs needed, rates, ratios, multipliers, original cost and depreciation data, filing and regulatory details, etc.

Copying, reproducing, and/or reformatting the market data and work product in this report is an inappropriate substitution for the independent and competently-developed assignment results that are required of professional valuation experts by USPAP.

Any unauthorized party or individual who uses the market data and work product contained in this valuation report does so with the knowledge that they are relying, in part, on false data that will result in an analysis that is known to be not credible and a report that is known to be misleading. It is an ethical violation for valuation professionals to rely on information that is known to be false, not credible, and misleading. The unauthorized reliance by a valuation professional on the information in this report that might be false could result in the filing of a formal complaint to the appropriate state licensing board for willfully and knowingly relying on false data.

The following pages of this report includes a summary of descriptions of the sale properties and analysis of the transactions for comparison with the subject property, in order to estimate a market value using this approach. There is not adequate income information available for the sale properties to extract income multipliers and overall rates. The most appropriate method of comparison for the subject property in this appraisal is the sale price per customer accounts.



(Continued)

## Water Sale 1

### Villa Grove (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Location:
Seller:
City of Villa Grove
Purchaser:
Illinois American Water
Date of Sale:
September 2022

Date of Sale: September 2 Sale Price: \$11,000,000

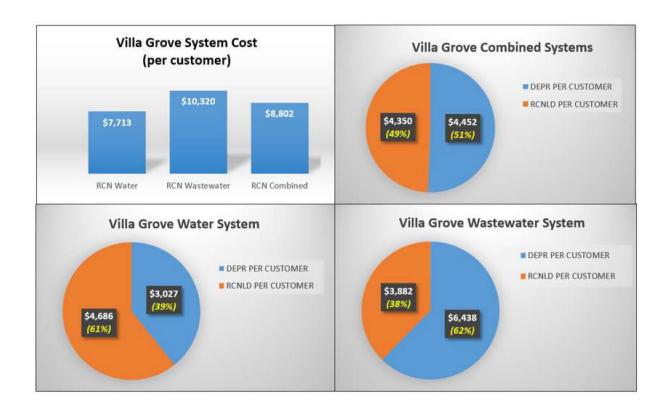




# Sales Comparison Approach (Continued)

## Water Sale 1

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	1,489	1,069	2,558
SALE PRICE	\$7,000,000	\$4,000,000	\$11,000,000
SALE PRICE	\$4,701	\$3,742	\$4,300
REPRODUCTION COST NEW	\$11,484,000	\$11,032,000	\$22,516,000
REPRODUCTION COST NEW	\$7,713	\$10,320	\$8,802
DEPRECIATION	\$4,507,000	\$6,882,000	\$11,389,000
DEPRECIATION	\$3,027	\$6,438	\$4,452
RCN LESS DEPRECIATION	\$6,977,000	\$4,150,000	\$11,127,000
NCIV LESS DEFRECIATION	\$4,686	\$3,882	\$4,350
DEPRECIATION	39%	62%	51%





(Continued)

### Water Sale 1

The water system includes four parcels of land owned in fee, one water treatment plant, one active well, one water 75,000 gallon elevated storage tank, one 150,000 gallon elevated storage tank, meters, hydrants, and approximately 96,500 linear feet of water mains. There are 1,543 connections (1,453 connections plus an equivalency of another 90 water customers from wholesale metering). The water system operations are very good for the general age of the system. The new 500 gpm ion-exchange water softening facility with refurbished wells and new appurtenances was on-line in May 2019 at a cost of \$4.6 million. The system has two elevated storage tanks; one built in 1919 and refurbished in 1935 of 75,000 gallons at 85' in height and one built in 1993 of 150,000 gallons with an elevation to base bottom of 103 feet and over-flow at 135 feet. Both are routinely inspected and refurbished. There are 140 hydrants. The current annual average water demand is near 500,000 gpd. The WTP capacity is 720,000gpd AADF. The WTP capacity is 720,000 gpd AADF.



(Continued)

Location: Seller:

Purchaser:

## Water Sale #2

#### Mt. Pulaski (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Logan County, Illinois City of Mt. Pulaski Illinois American Water

Date of Sale:

Sale Price:

December 2021

\$5,250,000

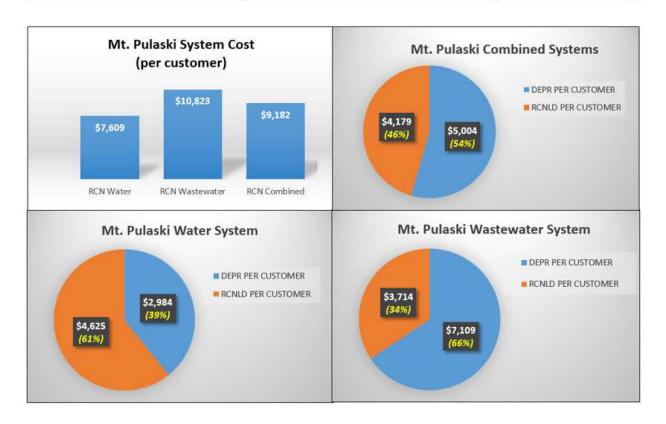




# Sales Comparison Approach (Continued)

## Water Sale #2

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	834	800	1,634
SALE PRICE	\$3,800,000	\$1,450,000	\$5,250,000
SALE PRICE	\$4,556	\$1,813	\$3,213
DEDD OF LETTING COST NEW	\$6,346,000	\$8,658,000	\$15,004,000
REPRODUCTION COST NEW	\$7,609	\$10,823	\$9,182
	\$2,489,000	\$5,687,000	\$8,176,000
DEPRECIATION	\$2,984	\$7,109	\$5,004
DOLLIES DEDDEGLATION	\$3,857,000	\$2,971,000	\$6,828,000
RCN LESS DEPRECIATION	\$4,625	\$3,714	\$4,179
DEPRECIATION	39%	66%	54%



Page 35



(Continued)

### Water Sale #2

The water system provides service for 834 customers and includes a pump/treatment building, four wells, a 300,000-gallon elevated water tower (built in 1997), and approximately 72,000 feet of mains with the majority being 6" and 8". The public water supply was first built in 1895 with renewals, replacements, additions, and modifications through 2020. The system includes four wells (100 GPM, built in 1960; 100 GPM, built in 1963; 100 GPM built in 1976; and, 100 GPM built in 2012) and two of the wells have varying nitrate concentrations. In December of 2019, the testing showed a level of 11 mg/l of nitrate. The USEPA standard is 10 mg/l. In early 2020 the nitrate levels dropped below the 10 mg/l maximum contaminate level. The hydrogeology will need to be analyzed for retrofit or relocation. The four (4) existing groundwater (sand and gravel aquifer) wells discharge to a water treatment plant that only provides hypo-chlorination, fluoridation, polyphosphate addition (corrosion control), and the ability to add other chemicals and repumping into the system. Water treatment is accomplished by chemical addition housed in a metal building. The water treatment plant was built in 1997. The water treatment plant is only a chemical storage and addition facility in average condition. There is one elevated storage tank built-in 1987 year with a capacity of 300,000 gallons. The tank was repainted and refurbished in 2015 and re-inspected in 2020. There are approximately 834 water customers. There are approximately 100 fire hydrants. The water main length estimates include 4,000 feet of 2", 9,000 feet of 4", 35,000 feet of 6" (of which 4,000 feet were added within the last year), and 24,000 feet of 8".



(Continued)

Location:

Date of Sale:

Sale Price:

Seller: Purchaser:

## Water Sale #3

## Hardin (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Calhoun County, Illinois

Village of Hardin

Illinois American Water

July 2022 \$3,300,000

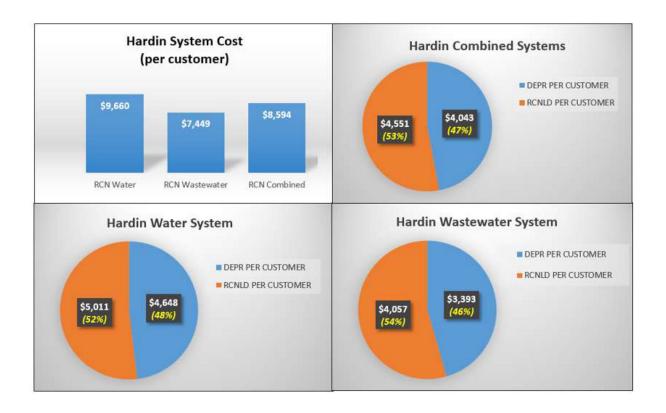




# Sales Comparison Approach (Continued)

## Water Sale #3

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	435	405	840
SALE PRICE	\$2,300,000	\$1,000,000	\$3,300,000
SALE PRICE	\$5,287	\$2,469	\$3,929
DEDDODUCTION COST NEW	\$4,202,000	\$3,017,000	\$7,219,000
REPRODUCTION COST NEW	\$9,660	\$7,449	\$8,594
DEDDECIATION	\$2,022,000	\$1,374,000	\$3,396,000
DEPRECIATION	\$4,648	\$3,393	\$4,043
DON LESS DEPOSSIATION	\$2,180,000	\$1,643,000	\$3,823,000
RCN LESS DEPRECIATION	\$5,011	\$4,057	\$4,551
DEPRECIATION	48%	46%	47%





(Continued)

### Water Sale #3

<u>Water System</u>: The water system includes two active wells, both operating at 340 GPM and includes 2,000 feet of 6" raw water main. The water treatment plant is a 490,000 GPD greensand system with aerator and fluoride chemical addition. There is a 12,000-gallon "stilling well" and a 40,000-gallon clear well at the water treatment plant and two high-service pumps (each at 340 GPM). The system also includes a 212,000-gallon ground storage tank, and a booster pump station with 25-HP pumps. The water distribution system is estimated to include 1,500 feet of 2" mains, 4,000 feet of 4" mains, 12,600 feet of 6" mains, and 6,800 feet of 8" mains. There are approximately 90 fire hydrants in the system.



(Continued)

Location:

Seller: Purchaser:

## Water Sale #4

## Jerseyville (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Jersey County, Illinois City of Jerseyville Illinois American Water

Date of Sale: October 2020 Sale Price: \$43,250,000

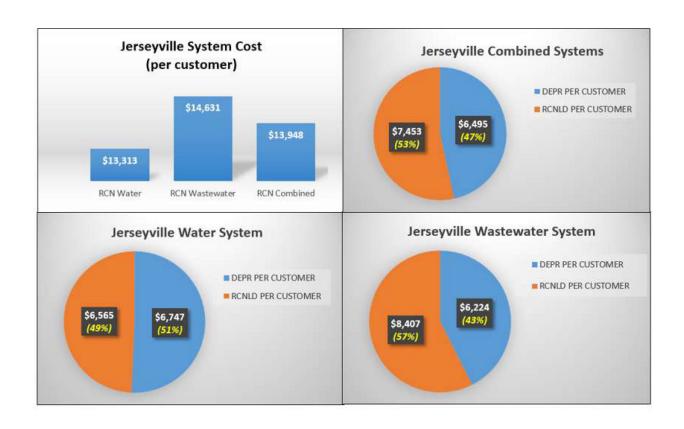




# Sales Comparison Approach (Continued)

## Water Sale #4

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	4,259	3,959	8,218
SALE PRICE	\$26,250,000	\$17,000,000	\$43,250,000
	\$6,163	<i>\$4,294</i>	<i>\$5,263</i>
REPRODUCTION COST NEW	\$56,698,000	\$57,924,000	\$114,622,000
	\$13,313	\$14,631	<i>\$13,948</i>
DEPRECIATION	\$28,736,000	\$24,641,000	\$53,377,000
	<i>\$6,747</i>	\$6,224	<i>\$6,495</i>
RCN LESS DEPRECIATION	\$27,962,000	\$33,283,000	\$61,245,000
	\$6,565	\$8,407	<i>\$7,453</i>
DEPRECIATION	51%	43%	47%





(Continued)

### Water Sale #4

The water system includes three parcels of land owned in fee, one water treatment plant, three active wells, one water tower, one water storage tank, meters, hydrants, and approximately 649,000 linear feet of water mains. The water treatment plant is a 2 MGD plant expandable to 4 MGD. The water treatment system is a conventional lime softening facility. Water is pumped from one of three wells. The plant was constructed in the 1960s and has had minor upgrades over time. In 1993, work was authorized and funded by a matching grant to add the third well and to extend the wellheads above the 1993 flood level. The wastewater system includes 10 wastewater lift stations, two wastewater treatment plants, and approximately 438,000 linear feet of mains. The wastewater treatment plant is a new state-of-the-art Activated Sludge – SBR – Sequential Bath Reactor Facility that was completed in 2014 with the final chemical feed systems put online in 2015.



(Continued)

## Water Sale #5

## Waverly (Virginia)

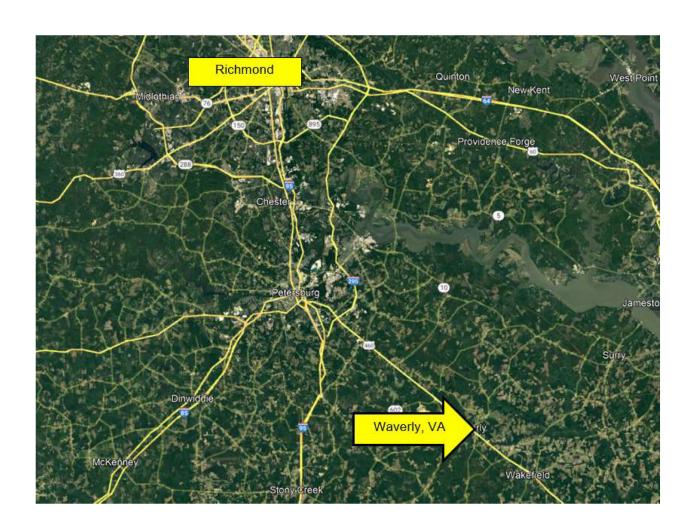
Type of System: Water treatment, water distribution

Location: Sussex County, Virginia

Seller: Town of Waverly

Purchaser: Virginia American Water

Date of Sale: May 2022 Sale Price: \$2,200,000





# Sales Comparison Approach (Continued)

# Water Sale #5

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	905	o	905
SALE PRICE	\$2,200,000	\$0	\$2,200,000
SALE PRICE	\$2,431	N/A	\$2,431
DEBBODUCTION COST NEW	\$5,693,000	\$0	\$5,693,000
REPRODUCTION COST NEW	\$6,291	N/A	\$6,291
DEDDECIATION	\$3,122,000	\$0	\$3,122,000
DEPRECIATION	\$3,450	N/A	\$3,450
DCN LESS DEDDECIATION	\$2,571,000	\$0	\$2,571,000
RCN LESS DEPRECIATION	\$2,841	N/A	\$2,841
DEPRECIATION	55%	N/A	55%





(Continued)

#### Water Sale #5

Water System: The total storage is 250,000 gallons (100,000 Downtown + 150,000 Commercial Area (West Main St.) gallon tanks). There are two primary Wells, # 3 and # 4, that have a capacity of approximately 800 gpm. The current demand is less than 200 gpm. Water treatment is chlorination. Well # 1 is 240 feet to be retired. Well # 2 is 249 feet to be retired – used in standby mode. Well # 3 is 455 feet and 450 gpm maximum and current capacity of 350 gpm. Well # 4 replaces Wells # 1 and # 2 and is 555 feet deep and has a maximum yield of 555 gpm and a current capacity of 450 gpm. The finished water is relatively hard with elevated iron and manganese. Both plants # 3 (at Well # 3) at 100 KW and # 4 (at Well # 4) at 150 KW have auxiliary generator sets. The Well #4 generator set is automatic and in excellent condition. The system includes 24,775 feet of 2" mains, 20,283 feet of 4" mains, 60,080 feet of 6" mains, and 11,936 feet of 8" mains. Material used include in the 1930 – 1960 period galvanized pipe, thereafter DIP (ductile iron pipe) and over the past forty years. PVC has been also used. There are 87 hydrants in the system. Lines are flushed twice a year. It takes three (3) nights of flushing to do this system.



(Continued)

Location:

## Water Sale #6

#### Andalusia (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Rock Island County, Illinois

Seller: City of Andalusia

Purchaser: Illinois American Water

Date of Sale: April 2020 Sale Price: \$3,300,000



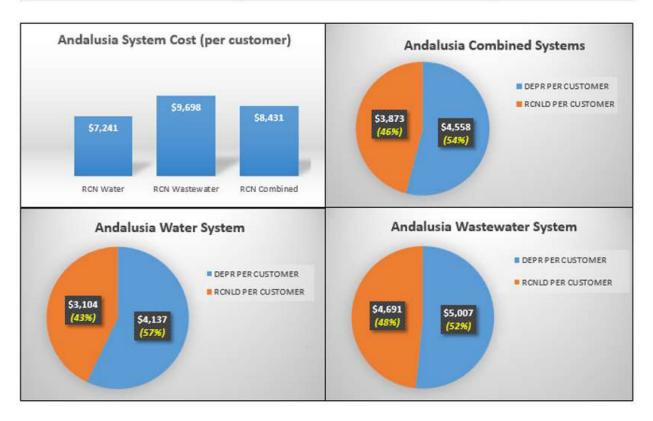
Page 46



# Sales Comparison Approach (Continued)

## Water Sale #6

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	490	460	950
SALE PRICE	\$1,800,000	\$1,500,000	\$3,300,000
SALL PRICE	\$3,673	\$3,261	\$3,474
REPRODUCTION COST NEW	\$3,548,000	\$4,461,000	\$8,009,000
REPRODUCTION COST NEW	\$7,241	\$9,698	\$8,431
DEPRECIATION	\$2,027,000	\$2,303,000	\$4,330,000
DEFRECIATION	\$4,137	\$5,007	\$4,558
RCN LESS DEPRECIATION	\$1,521,000	\$2,158,000	\$3,679,000
NON LESS DEFRECIATION	\$3,104	\$4,691	\$3,873
DEPRECIATION	57%	52%	54%





(Continued)

### Water Sale #6

The water system includes two wells. The distribution system includes lead and copper exceedances and many coliform exceedances. A cross connection control survey and program has been required by the IEPA, but not yet completed by the Village. The storage tank was built in 1980 with a 314,000-gallon volume of which 310,000 gallons is useable. The tank appears to be in good condition. The containment of chemicals, tank level and other chemical feed facilities need improvement. The plant operates in the 60 to 80 psi range. The distribution system has several dead-ends which require flushing. There are older 2" and 4" water mains which need replacing. There is a need for additional looping of the system. 28 of the 106 hydrants are inadequately served by 2" or 4" water mains. Water pressures reportedly have varied from approximately 21 psi to 82 psi. The Wild Acres in-line Booster Pump Station at the entrance to the subdivision increases water pressures approximately 35 psi for the homes in the area (previously very low pressures). This in-line station is constant speed and needs to be improved to variable speed or have a Hydro-pneumatic tank installed on the discharge site. IEPA found the following water needs: • a fixed generator at the WTP • a new 3rd Well at higher elevation pressures correction of low in the system at higher elevations renewal/replacement/major maintenance for the altitude valve and pit • replacement of undersized water mains • a distribution system valve and hydrant exercise, preventive maintenance and management program • adjustment of the water rates for sufficient revenues to fund proper operations • a 200 foot well head protection/setback zone and ordinance for all wells • that no water system improvements had been made in the 5/9/2014 - 3/22/2017 period. Water loss is calculated for 2016 values at 14.9%. The average daily use is approximately 50 gpd per capita or 57,000 gpd. There are 2 wells installed with a total of 445,000 gpd. The WTP firm capacity is 215,000 gpd. The WTP is a standard Chlorination and Fluoridation Facility. There is no arsenic or radium in the water. The system firm capacity is 215,000 gpd MDF. The current MDF demand is approximately 264,500 gpd. Water mains are estimated from 2007 maps and updates and include 2,700 feet of 2", 23,400 feet of 4", 19,600 feet of 6", 5,500 feet of 8", and 3,900 feet of 12".



(Continued)

Location:

## Water Sale #7

#### Bolivar (Missouri)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Polk County, Missouri

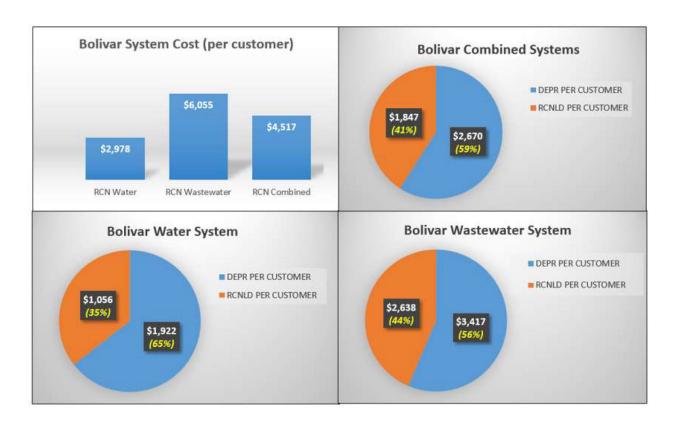
Seller: City of Bolivar
Purchaser: Liberty Utilities
Date of Sale: February 2022
Sale Price: \$23,500,000





## Water Sale #7

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	4,500	4,500	9,000
SALE PRICE	\$9,423,398	\$14,076,602	\$23,500,000
SALE PRICE	\$2,094	\$3,128	\$2,611
DEDD OF LICENS COST MEN	\$13,401,852	\$27,246,932	\$40,648,784
REPRODUCTION COST NEW	\$2,978	\$6,055	\$4,517
DEPRECIATION	\$8,648,208	\$15,377,588	\$24,025,796
	\$1,922	\$3,417	\$2,670
RCN LESS DEPRECIATION	\$4,753,644	\$11,869,344	\$16,622,988
	\$1,056	\$2,638	\$1,847
DEPRECIATION	65%	56%	59%





(Continued)

### Water Sale #7

This system is located in Polk County, has 4,500 sewer customers, 4,500 water customers, and sold in February 2022 for \$23,500,000 (\$9,423,397 for water system; \$14,076,602 for wastewater system). The City owns two (2) separate systems: The City of Bolivar and Southtown Utilities systems. The Southtown Utilities system is also referred to as Karlin Acres. The City water system includes six (6) wells, three (3) storage tanks, and the water distribution system. The Southtown water system includes two (2) wells, two (2) storage tanks, and the water distribution system. The City wastewater system includes a wastewater treatment plant (WWTP), nine (9) lift stations, and the sewer collection system. The Southtown wastewater system includes a WWTP, four (4) lift stations, and the sewer collection system. Three of the wells also include elevated storage tanks. All wells include chlorine feed for disinfection. The MDNR Water Permit issued on December 13, 2018 states the Wells #2, #3, and #4 are grandfathered and are subject to special conditions outlined in the permit. Wells #5 and #6 are listed as non-compliant and also subject to special conditions outlined in the permit. The City provided water loss reports for 2015, 2016, and 2017. The percentage of water loss was 11.79% in 2015, 8.38% in 2016, and 8.0% in 2017. Items that could contribute to water loss include water main breaks, inaccurate water meters, and water theft. Many systems consider a water loss percentage less than 15% as being acceptable. The asset list includes several investments for water lines and water line improvements from 1946 to 2016. Based on the condition of the assets that were observed, the continuous investment in water lines and improvements, as well as the acceptable water loss percentages, it is assumed that the water distribution system is also well-maintained and is assumed to be in good condition.



(Continued)

### Water Sale #8

# Livingston (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Location: Madison County, Illinois
Seller: Village of Livingston
Purchaser: Illinois American Water

Date of Sale:

Sale Price:

August 2021

\$550,001

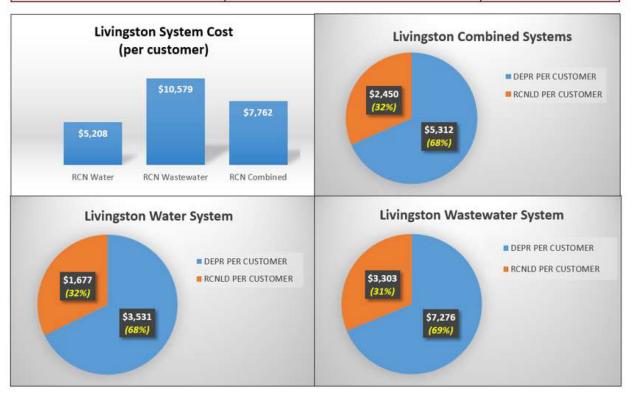


Page 52



## Water Sale #8

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	375	340	715
SALE PRICE	\$550,000	\$1	\$550,001
SALE PRICE	\$1,467	\$0	\$769
DEDDODUCTION COST NEW	\$1,953,000	\$3,597,000	\$5,550,000
REPRODUCTION COST NEW	\$5,208	\$10,579	\$7,762
DEPRECIATION	\$1,324,000	\$2,474,000	\$3,798,000
	\$3,531	\$7,276	\$5,312
RCN LESS DEPRECIATION	\$629,000	\$1,123,000	\$1,752,000
	\$1,677	\$3,303	\$2,450
DEPRECIATION	68%	69%	68%





(Continued)

### Water Sale #8

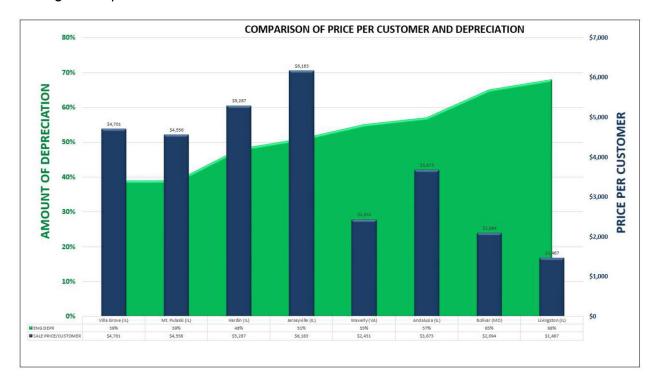
Much of the water distribution system was built by the 1950s. The old wells have been abandoned and the old water treatment plant has been taken out of service. However, the site is still in use as a rechlorination and repumping location. The Village purchases water from the Bond Madison Water Company through a 4" meter and is interconnected with the Village of Staunton via the Village of Williamson on the north side of the Village through a 2" meter. In addition, there is a valved 6" interconnect with Lynchfield for emergency purposes only that is not metered. The water system has an ADF of approximately 56,000 GPD and a MDF of approximately 80,000 GPD. The pressure range for the system is from 35 psi to 60 psi. Unaccounted water is approximately 6.2%. The supply capacity of the system is 230,400 GPD and the system includes two 160-GPM booster pumps (pressure controlled) built in 1999 with a pump house. The system includes a 100,000-gallon elevated storage tank built in 1952. Most of the water mains were built in 1930 to 2000. The system is estimated to include 1,054 feet of 2" mains, 447 feet of 3" mains, 31,845 feet of 4" mains, and 11,939 feet of 6" mains. There are 45 hydrants, but the system lacks the ability to provide adequate fire fighting capacity.



(Continued)

### Summary of Water System Comparable Sales

The eight comparable sales range in unit prices from \$1,467 per customer to \$6,163 per customer. The primary factors that were adjusted for include the size of the system, the condition of the system, and the fact that it does not include a water treatment plant. The subject property water system has total depreciation estimated at 69% of cost new (a total replacement cost new of \$33,942,865 and a depreciated cost new estimate of \$10,431,937). The comparable sales range in depreciation from a low of 39% to a high of 68%. The chart below shows the correlation between depreciation and unit price for the eight comparable sales.



### Conclusion - Subject Property Water System

Based on this market data, I have concluded the unit value applicable to the subject property water system is \$3,000 per customer (applied to equivalent residential connections) which results in a rounded value conclusion of \$4,745,000 (Four Million Seven Hundred Forty-Five Thousand Dollars).

Page 55



(Continued)

Location:

Seller: Purchaser:

### Wastewater Sale #1

### Jerseyville (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Jersey County, Illinois City of Jerseyville Illinois American Water

Date of Sale: October 2020 Sale Price: \$43,250,000

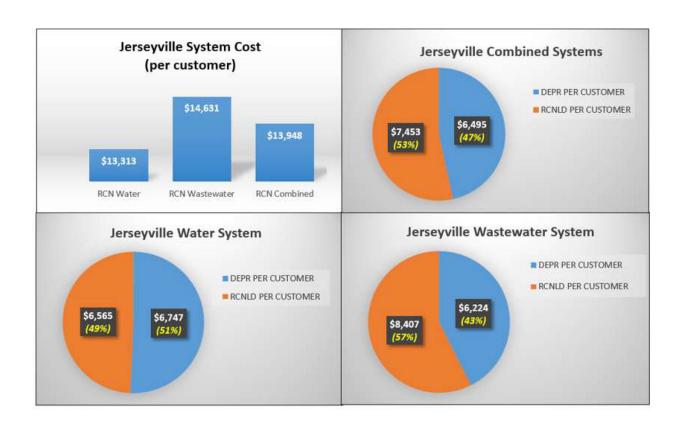




(Continued)

## Wastewater Sale #1

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	4,259	3,959	8,218
SALE PRICE	\$26,250,000	\$17,000,000	\$43,250,000
SALETRICE	\$6,163	\$4,294	\$5,263
REPRODUCTION COST NEW	\$56,698,000	\$57,924,000	\$114,622,000
REPRODUCTION COST NEW	\$13,313	\$14,631	\$13,948
DEPRECIATION	\$28,736,000	\$24,641,000	\$53,377,000
DEPRECIATION	\$6,747	\$6,224	\$6,495
RCN LESS DEPRECIATION	\$27,962,000	\$33,283,000	\$61,245,000
	\$6,565	\$8,407	\$7,453
DEPRECIATION	51%	43%	47%





(Continued)

### Wastewater Sale #1

The wastewater system includes 10 wastewater lift stations, two wastewater treatment plants, and approximately 438,000 linear feet of mains. The wastewater treatment plant is a new state-of-the-art Activated Sludge – SBR – Sequential Bath Reactor Facility that was completed in 2014 with the final chemical feed systems put online in 2015.



(Continued)

Location:

### Wastewater Sale #2

### Hardin (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Calhoun County, Illinois

Seller: Village of Hardin

Purchaser: Illinois American Water

Date of Sale: July 2022 Sale Price: \$3,300,000

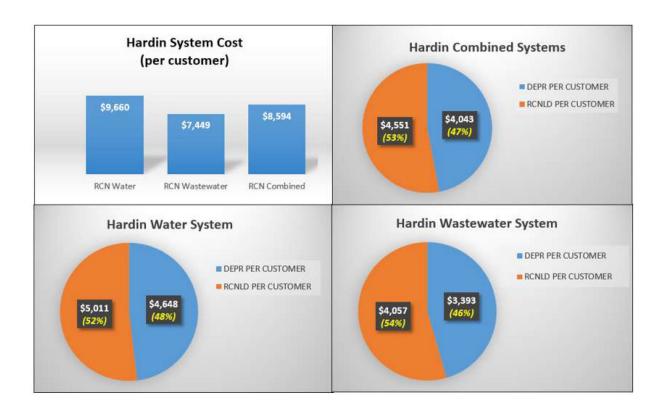


Page 59



# Wastewater Sale #2

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	435	405	840
SALE PRICE	\$2,300,000	\$1,000,000	\$3,300,000
SALE PRICE	\$5,287	\$2,469	\$3,929
DEDDODUCTION COST NEW	\$4,202,000	\$3,017,000	\$7,219,000
REPRODUCTION COST NEW	\$9,660	\$7,449	\$8,594
DEPRECIATION	\$2,022,000	\$1,374,000	\$3,396,000
	\$4,648	\$3,393	\$4,043
RCN LESS DEPRECIATION	\$2,180,000	\$1,643,000	\$3,823,000
	\$5,011	\$4,057	\$4,551
DEPRECIATION	48%	46%	47%





(Continued)

### Wastewater Sale #2

The wastewater system includes a well-run basic secondary conventional lagoon plant operated in an extended aeration process mode. The capacity of the plant is 0.15 MGD DAF (AADF) and 0.90 MGD DMF. The plant was constructed in 1997 after the original plant was damaged in a flood in 1993. There are five lift stations/pumping stations that vary from 20 GPM to 400 GPM with a range of 2-HP to 20-HP. The collection system is a gravity system that includes 3,000 feet of 4" mains and approximately 25,700 feet of 8" mains. There are three force mains in the system that are estimated to contain 3,000 feet of 4" mains. There are approximately 100 man holes in the system.



(Continued)

Location:

### Wastewater Sale #3

#### Andalusia (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Rock Island County, Illinois

Seller: City of Andalusia

Purchaser: Illinois American Water

Date of Sale: April 2020 Sale Price: \$3,300,000

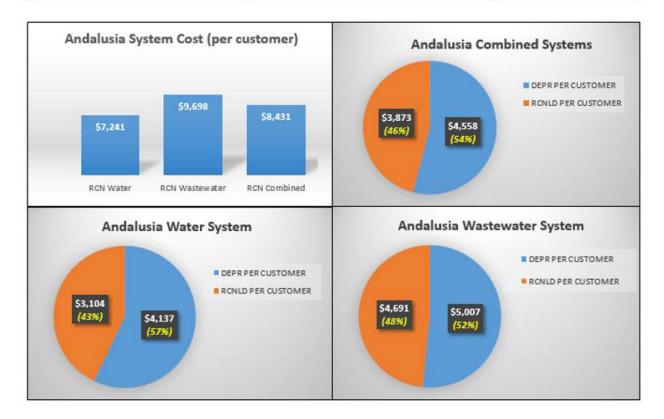


Page 62



## Wastewater Sale #3

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	490	460	950
SALE PRICE	\$1,800,000	\$1,500,000	\$3,300,000
SALE PRICE	\$3,673	\$3,261	\$3,474
REPRODUCTION COST NEW	\$3,548,000	\$4,461,000	\$8,009,000
REPRODUCTION COST NEW	\$7,241	\$9,698	\$8,431
DEPRECIATION	\$2,027,000	\$2,303,000	\$4,330,000
	\$4,137	\$5,007	\$4,558
RCN LESS DEPRECIATION	\$1,521,000	\$2,158,000	\$3,679,000
	\$3,104	\$4,691	\$3,873
DEPRECIATION	57%	52%	54%





(Continued)

### Wastewater Sale #4

### Bolivar (Missouri)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Polk County, Missouri

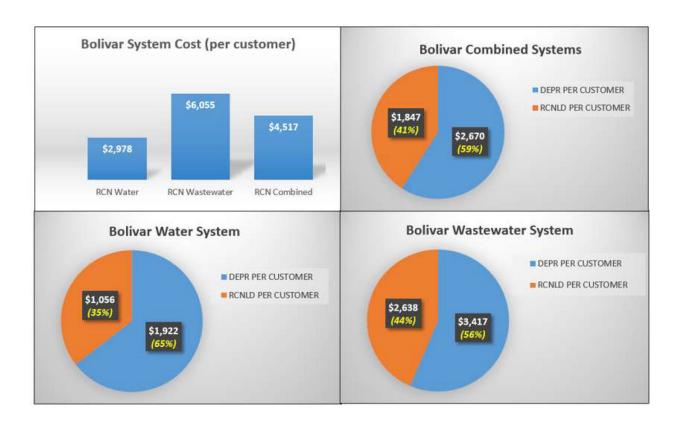
Location: City of Bolivar Seller: Purchaser: Liberty Utilities February 2022 Date of Sale: \$23,500,000 Sale Price:





## Wastewater Sale #4

ITEM	WATER	WASTEWATER	COMBINED
	PER CUSTOMER	PER CUSTOMER	PER CUSTOMER
NUMBER OF CUSTOMERS	4,500	4,500	9,000
SALE PRICE	\$9,423,398	\$14,076,602	\$23,500,000
	<i>\$2,094</i>	\$3,128	<i>\$2,611</i>
REPRODUCTION COST NEW	\$13,401,852	\$27,246,932	\$40,648,784
	<i>\$2,978</i>	\$6,055	<i>\$4,517</i>
DEPRECIATION	\$8,648,208	\$15,377,588	\$24,025,796
	\$1,922	<i>\$3,417</i>	<i>\$2,670</i>
RCN LESS DEPRECIATION	\$4,753,644	\$11,869,344	\$16,622,988
	\$1,056	<i>\$2,638</i>	<i>\$1,847</i>
DEPRECIATION	65%	56%	59%





(Continued)

#### Wastewater Sale #4

The City's wastewater treatment plant includes influent pumps, primary screening, grit removal, parallel oxidation ditches, final clarifiers, ultraviolet disinfection, and sludge storage tanks. The treatment plant has a rated capacity of 2.55 million gallons per day. The asset list includes significant investments in the plant in 1990, 1999, 2009, and 2013. The ultraviolet disinfection facility was included in the 2013 investment and appears to be in excellent condition. The rest of the plant appears to be well-maintained and in good condition. The Southtown wastewater treatment plant includes bio-filters, recirculating sand filter, and ultraviolet disinfection. The sludge is removed by a contractor. The treatment plant has a rated capacity of 51,000 gallons per day. Much of the treatment equipment is below grade and could not be observed. The above-ground facilities that were observed appear to be in good condition. The City indicated that they plan to abandon the treatment plant and install a lift station to send the sewage to the City's WWTP.



(Continued)

Location:

Date of Sale:

Sale Price:

Seller: Purchaser:

### Wastewater Sale #5

### Villa Grove (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Douglas County, Illinois

City of Villa Grove

Illinois American Water

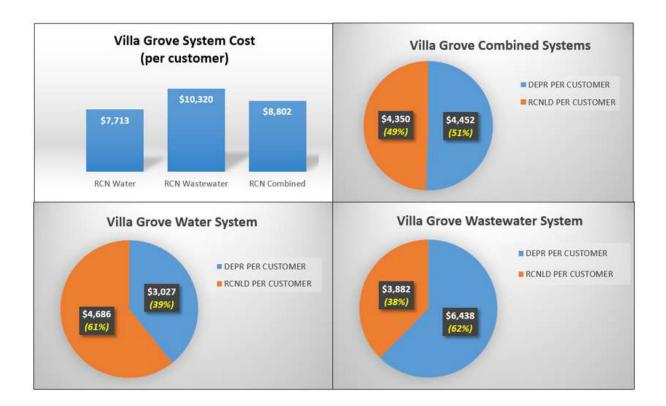
September 2022 \$11,000,000





### Wastewater Sale 5

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	1,489	1,069	2,558
SALE PRICE	\$7,000,000	\$4,000,000	\$11,000,000
SALL PRICE	\$4,701	\$3,742	\$4,300
REPRODUCTION COST NEW	\$11,484,000	\$11,032,000	\$22,516,000
REPRODUCTION COST NEW	\$7,713	\$10,320	\$8,802
DEPRECIATION	\$4,507,000	\$6,882,000	\$11,389,000
	\$3,027	\$6,438	\$4,452
RCN LESS DEPRECIATION	\$6,977,000	\$4,150,000	\$11,127,000
	\$4,686	\$3,882	\$4,350
DEPRECIATION	39%	62%	51%





(Continued)

### Wastewater Sale 5

The wastewater system includes two parcels of land owned in fee, six wastewater lift stations, a wastewater treatment plant, and approximately 84,100 linear feet of mains. There are 1,069 connections. The current wastewater facilities were built in 1978 and are in need of refurbishment or replacement. The facility is a conventional complete mix activated sludge CMAS pre-engineered facility. There are two sanitary type 300,000 gpd AADF concrete/steel package plants trains. The current flow rate is in the 350,000 to 400,000 gpd AADF range. There are six wastewater lift/pumping stations: McCoy, Old Sewer Plant, Birch Lane, Industrial Park, Adams Avenue, and Harrison Park.



(Continued)

Location:

Purchaser:

Seller:

### Wastewater Sale #6

#### Mt. Pulaski (Illinois)

Type of System: Water treatment, water distribution

Wastewater collection, wastewater treatment

Logan County, Illinois City of Mt. Pulaski Illinois American Water

Date of Sale:

Sale Price:

December 2021

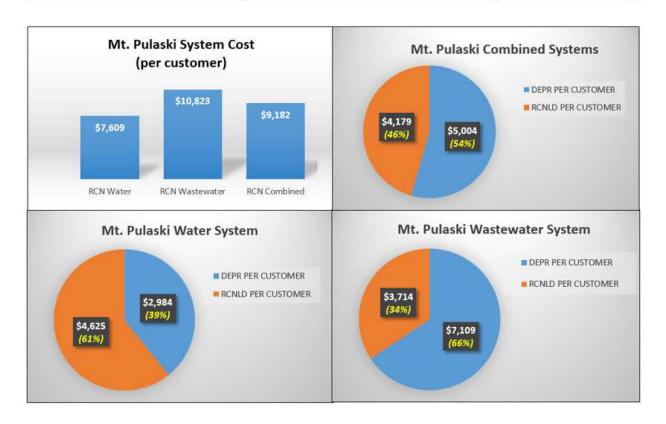
\$5,250,000





## Wastewater Sale #6

ITEM	WATER PER CUSTOMER	WASTEWATER PER CUSTOMER	COMBINED PER CUSTOMER
NUMBER OF CUSTOMERS	834	800	1,634
SALE PRICE	\$3,800,000	\$1,450,000	\$5,250,000
SALE PRICE	\$4,556	\$1,813	\$3,213
DEDD OF LETTING COST NEW	\$6,346,000	\$8,658,000	\$15,004,000
REPRODUCTION COST NEW	\$7,609	\$10,823	\$9,182
	\$2,489,000	\$5,687,000	\$8,176,000
DEPRECIATION	\$2,984	\$7,109	\$5,004
RCN LESS DEPRECIATION	\$3,857,000	\$2,971,000	\$6,828,000
	\$4,625	\$3,714	\$4,179
DEPRECIATION	39%	66%	54%





(Continued)

### Water Sale #6

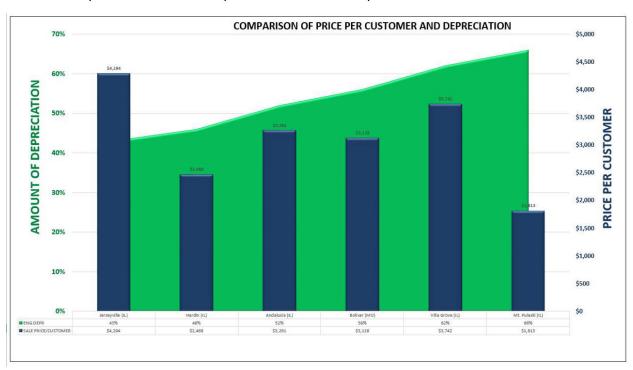
The collection and treatment system began in 1959. The major WWTP improvements were made in 1979. The lagoon secondary wastewater treatment plant has a design average daily flow of 440,000 gpd with a design maximum of 1,100,000 gpd. There are four wastewater lift stations (580 GPM, two 40 HP pumps, built in 2002; 400 GPM, two 5 HP pumps, built in 2020; 620 GPM, two 25 HP pumps, built in 1985; and, 900 GPM, two 30 HP pumps, built in 2010). The wastewater system provides service for 800 customers and includes a lagoon system with its discharge to a tributary of Salt Creek. The system includes a total of five operational lift stations. The system includes 22,600 feet of force mains and 49,000 feet of gravity mains. Of the total 71,600 feet of mains, 47,400 feet are 8" mains.



(Continued)

#### Summary of Wastewater System Comparable Sales

The six comparable sales range in unit prices from \$1,813 per customer to \$4,294 per customer. The primary factors that were adjusted for include the size of the system and the condition of the system. The subject property wastewater system has total depreciation estimated at 37% of cost new (total cost new of \$1,671,350 and a total depreciated cost new estimate of \$1,049,016). The comparable sales range in depreciation from a low of 43% to a high of 66%. The chart below shows the correlation between depreciation and unit price for the six comparable sales.



#### Conclusion – Subject Property Wastewater System

Based on this market data, I have concluded the unit value applicable to the subject property wastewater system is \$4,000 per customer which results in a rounded value conclusion of \$260,000 (Two Hundred Sixty Thousand Dollars).

## Conclusion – Water and Wastewater Systems Combined

Based on the analysis of water system and wastewater system sales data, the total indicated value (rounded) for the subject property based upon the application of the sales comparison approach is \$5,000,000 (Five Million Dollars).



The income capitalization approach has its strengths and weaknesses, similar to the inherent weaknesses and strengths that exist in the application of the cost approach and the market approach. The valuation expert's reconciliation of the value(s) indicated by the income approach takes into consideration various factors.

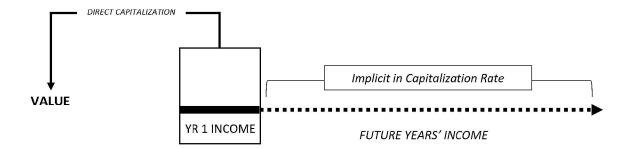
The income capitalization approach is a technique in which the value of assets are arrived at by capitalizing future (anticipated) benefits into a present value. The capitalization process includes one of two methods: (1) direct capitalization or (2) yield capitalization. The distinction between the two capitalization methods pertains to the perspective of the future benefits (cash flows).

#### **Direct Capitalization**

Direct capitalization involves the conversion of a single-year's income (referred to as "first-year income") by applying an overall capitalization rate and using the following formula.

Where INCOME = First Year Income and RATE = Capitalization Rate

The capitalization rate may be developed through a market extraction process or by utilizing built-up techniques in which the rates of return (dividend rates) of the respective property components are weighted (for example, debt and equity investment returns, land and building investment returns, etc.). In direct capitalization, change in value (over the investment/holding term) and change in income (over the investment/holding term) are implicit in the capitalization rate.





(Continued)

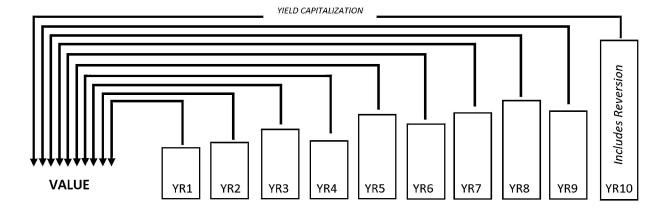
### **Yield Capitalization**

Yield capitalization involves a more detailed analysis of the projected income of the asset. Anticipated changes in (1) income patterns and (2) overall value are explicitly stated. In yield capitalization, the conversion of each anticipated future cash flow (plus the reversion at the end of the income/investment period) is by means of discounting using a discount rate (also referred to as a yield rate). The resultant net present value is the sum of the present value calculations for each individual periodic cash flow plus the present value of the reversion.

Below is the formula for the discounting process followed by an illustration depicting the discounting of each individual periodic cash flow.

$$V = \frac{l_1}{(1+Y)^1} + \frac{l_2}{(1+Y)^2} + \frac{l_3}{(1+Y)^3} + \cdots + \frac{l_n}{(1+Y)^n} + \frac{V_n}{(1+Y)^n}$$

Where I = Income, Y = discount rate, and n = term (years)





(Continued)

### Factors significant to the income capitalization methodology

A proper analysis in the valuation of a utility system will take into account the fact that there are many issues relating to the income capitalization process, whether that process includes direct capitalization or yield capitalization.

The issues that are inherent in the projection of cash flows for the income capitalization process pertaining to the valuation of public utility systems include:

- the fact that revenue (potential income) generated through customer rates is determined based upon the tariff or service area of which the subject system becomes part and impacted by rate cases;
- (2) the changes in revenue resulting from changes in the level of income and expenses for the tariff resulting from, amongst other issues, the management and operational efficiencies of the IOU;
- (3) changes in the rate base of the tariff resulting from acquisitions, mergers, and consolidations, and consequently the revenues that are generated by tariffs tend to experience irregular patterns of change over time;
- (4) the changes in the rate base of the tariff resulting from qualified capital investment projects impacting systems within the tariff;
- (5) the concept of *investment value* (value to a *particular* purchaser based on buyer-specific investment returns and criteria) v. *market value* (value of the system to a *typical* purchaser and not influenced by that particular buyer's specific returns generated by its respective tariffs).

The last factor (6) that impacts yield capitalization (DCF) exclusively goes to the issue of assumptions that are incorporated into the discounting model and how sensitive net present values can be to seemingly subtle variances in the valuation expert's inputs (DCF assumptions).

Additionally, yield capitalization models that use a pre-tax cash flow are not impacted by changes in tax rates and tax codes. However, after-tax DCF models can be affected by changing tax rates, similar to the situation that might occur in the near future based upon the current administration's proposed revisions to the federal tax code.

The following provides additional explanations regarding the issues inherent in the income capitalization approach.



(Continued)

#### (1) Revenue influenced by systems in the tariff and rate cases

Tariffs often include assets from multiple systems, combined for investment, management, operational, and regulatory agency-influenced purposes. In many cases, the applicable customer rates are the same for all customers in the tariff, regardless of the system or service area of which they were part prior to acquisition and placement in the tariff; and, the applicable customer rates for the tariff are impacted by financial and regulatory components for the systems in the tariff collectively. Thus, often there is no tariff revenue (income and expense) data that can be credibly attributed to one particular system that is part of a multiple-system tariff. Additionally, the customer rates (income) and operating expenses for one IOU may vary amongst that IOU's different tariffs, and likewise there may be no correlation between the projected income and expenses of a service area as part of one IOU's holdings as opposed to the projected income and expenses for that same service area that would pertain to a different IOU's tariff in the same general geographical location or market area.

Tariffs are highly regulated and changes in allowed revenues, and ultimately changes in rates, can be granted provided the applicant meets extensive application and regulatory requirements. Rate cases provide mechanisms for the applicants to have allowed revenues and customer rates adjusted by the regulating authority. It is the role of the regulating authority (commission, for example) to review the applicant's request and, assuming the applicant and its operations meet the requirements established by the agency, adjust the revenues and rates, if deemed appropriate by the agency, in an effort to provide the applicant the opportunity to receive a fair and reasonable rate of return on its investment. As part of the rate case process, IOUs are required to validate operating expenses and operational efficiencies, which contribute to the respective commission's decision and determination regarding a rate change. Rate cases can impact all of a tariff's customers — even though the customers may have come from various independent service areas. Examples of approved rate cases impacting multiple service areas include the 2016 rate case in Illinois involving Illinois American Water<sup>6</sup> and the 2017 rate case in Illinois involving Aqua Illinois.<sup>7</sup>

Page 77

<sup>&</sup>lt;sup>6</sup> In January 2016, Illinois American Water requested a change in its water and wastewater rates of \$340 million, due to substantial capital investments including a \$76 million investment in its Chicago Metro service area. The Illinois Commerce Commission (ICC) issued an Order in 2016 that allowed Illinois American Water to adjust its rates effective January 1, 2017. The Order provided a decrease in monthly water rates applicable to its customers in Arlington Heights, Bolingbrook, Des Plaines, Elk Grove, Homer Glen, Homer Township, Lemont, Lockport, Mount Prospect, Norwood Park Township, Orland Hills, Orland Park, Prospect Heights, Romeoville, Wheeling, and Woodridge; but, increases (ranging from \$6.51 per month to \$17.70 per month) for wastewater services. For Illinois American Water customers in Carol Stream, Elmhurst, Glen Ellyn, Lisle, Lisle Township, Lombard, Villa Park, Winfield, and Wheaton, the monthly water rates decreased by \$5.57 while wastewater service rates had increases by up to \$17.70 per month on top of the pre-existing rates; and, for its water customers in Glenview and Rolling Meadows, the wastewater rates increased by \$6.57 per month.

<sup>&</sup>lt;sup>7</sup> In May 2017, Aqua Illinois, Inc., filed revised tariff sheets with the Illinois Commerce Commission which included the request for increases in water and wastewater service rates affecting numerous service areas throughout Illinois and a consolidation of multiple service areas into one extensive service area. (Case 17-0259). In its Final Order, filed March 7, 2018, the Commission authorized Aqua to file new tariff sheets for its Consolidated Sewer Division and Consolidated Water Division and further amended the original cost of plant for the water division of more than \$382