



Monterey Water Utility System

Appraisal Summary

April 3, 2023

(Value as of Dec 31, 2022)

**Prepared for:
Monterey Peninsula Water
Management District**

Objective and Purpose

Objective



Prepare and provide an opinion of the fair market value of the Monterey Water System

Purpose

Provide an offer to Cal-Am for the purchase of the system through a negotiated sale or condemnation

Fair Market Value

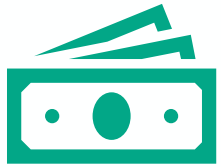
*“The **highest price** on the date of valuation that would be agreed to by a **seller**, being **willing to sell** but under no particular or urgent necessity for doing so, or obligated to sell, and a **buyer**, being **ready, willing, and able to buy** but under no particular necessity for doing so, each dealing with the other with **full knowledge of all the uses and purposes** for which the property is reasonably adaptable and available.”*

The fair market value of property taken for which there is no relevant, comparable market is its value on the date of valuation as determined by any method of valuation that is just and reasonable.

California Code of Civil Procedures Section 1263.320-.330

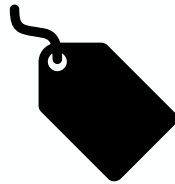


Appraisal Approaches



Income Approach

Value reflects the present value of future economic benefits of owning the property.



Market Approach

Value estimated by comparing to the price of similar systems that have previously sold.



Asset Approach

Value estimate reflects the cost of reproducing the system adjusting for its estimated remaining useful life.



Income Approach

- The value indicator = Present value of the future economic benefits.



Income Approach



- Relevant when the property being valued generates or is anticipated to generate net income, profits, or free cash flows.



Income Approach Considerations

- Cal-Am is regulated by the CPUC and allowed to earn a return on assets (rate base).
- Cal-Am's projected revenues, expenses, and income for 2023 through 2026 contained in the 2022 GRC application.
- Cal-Am's proposed rate of return of 8.0% used as basis for earnings and the discount rate.
- Annual recurring capital expense projections of approximately \$18 million per year based on historical and projected spend.



Income Approach Value Indicator

Line	Description	1 FY 2023	2 FY 2024	3 FY 2025	4 FY 2026	Terminal Value
1	Net Cash Flow (Before CAPEX)	\$ 29,418.9	\$ 32,746.3	\$ 35,798.7	\$ 37,668.9	
2	Less: Annual Capital Expenditures	<u>(17,965.1)</u>	<u>(25,652.4)</u>	<u>(30,525.9)</u>	<u>(22,677.9)</u>	
3	Net Cash Flow	\$ 11,453.8	\$ 7,093.9	\$ 5,272.8	\$ 14,991.0	\$ 14,991.0
4	Discount Rate	8.00%	8.00%	8.00%	8.00%	
5	PV Factor	0.9623	0.8910	0.8250	0.7639	
6	PV of Net Cash Flows	\$ 11,021.4	\$ 6,320.5	\$ 4,349.9	\$ 11,451.1	
7	PV of Interim Cash Flows					\$ 33,142.9
8	<u>Terminal Value Calculations</u>					
9	Terminal Year Net Cash Flow					\$ 14,991.0
10	Long-Term Growth Rate					3.80%
11	Discount Rate					8.00%
12	PV of Terminal Value					\$ 283,005
13	Value Indicator for the Central Division					\$ 316,148
14	Adjustment for the Monterey Water System					95.3%
15	Value Indicator for the Monterey Water System					\$ 301,289

Amounts shown in \$1,000s. Fiscal Year Ending December 31st



Market Approach

Guideline Transaction Method

Identify sales transactions that are similar or comparable to the subject

Guideline Company Method

Identify publicly traded companies that are similar or comparable to the subject

- Various value multiples are calculated
- The value multiples are compared to the subject company
- The different indicators of value are reconciled



Market Approach Value Indicator

Transaction	Price / Sales	Price / Con	Price / OCLD	Price / EBITDA	Price / EBIT
Guideline Transactions	4.79	5,898	1.61	13.82	20.07
Central Division Value Indication (in \$000s)	\$432,335	\$240,880	\$464,552	\$482,733	\$485,734
Weighted Central Division Value Indication (in \$000s)					\$394,943
Adjustment for Monterey Water System					95.3%
Value Indicator for the Monterey Water System					\$376,381
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Guideline Companies	5.28	8,254	1.49	14.06	18.04
Central Division Value Indication (in \$000s)	\$476,562	\$337,102	\$429,927	\$491,116	\$436,604
Weighted Central Division Value Indication (in \$000s)					\$410,366
Adjustment for Monterey Water System					95.3%
Value Indicator for the Monterey Water System					\$391,079

Con - Customer Connections, OCLD - Original cost less depreciation, EBITDA - Earnings before interest, taxes, and depreciation, EBIT - Earnings before interest and taxes.

\$ Asset or Cost Approach

Water System Asset Components

Value estimate reflects the cost of reproducing the system adjusting for depreciation including obsolescence.

Supply Wells and Reservoirs +

Water Rights +

Treatment Plants +

Transmission Piping +

Pump Stations +

Storage Tanks +

Distribution Piping +

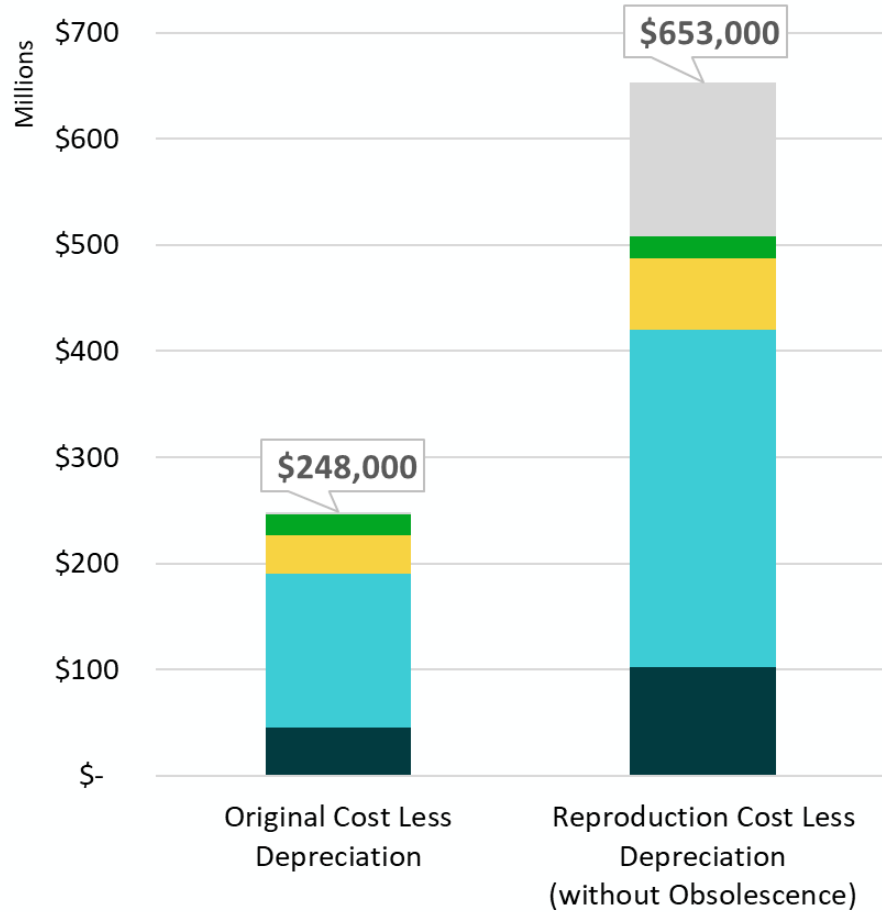
Land +

Fire Hydrants +

Meters & Services +

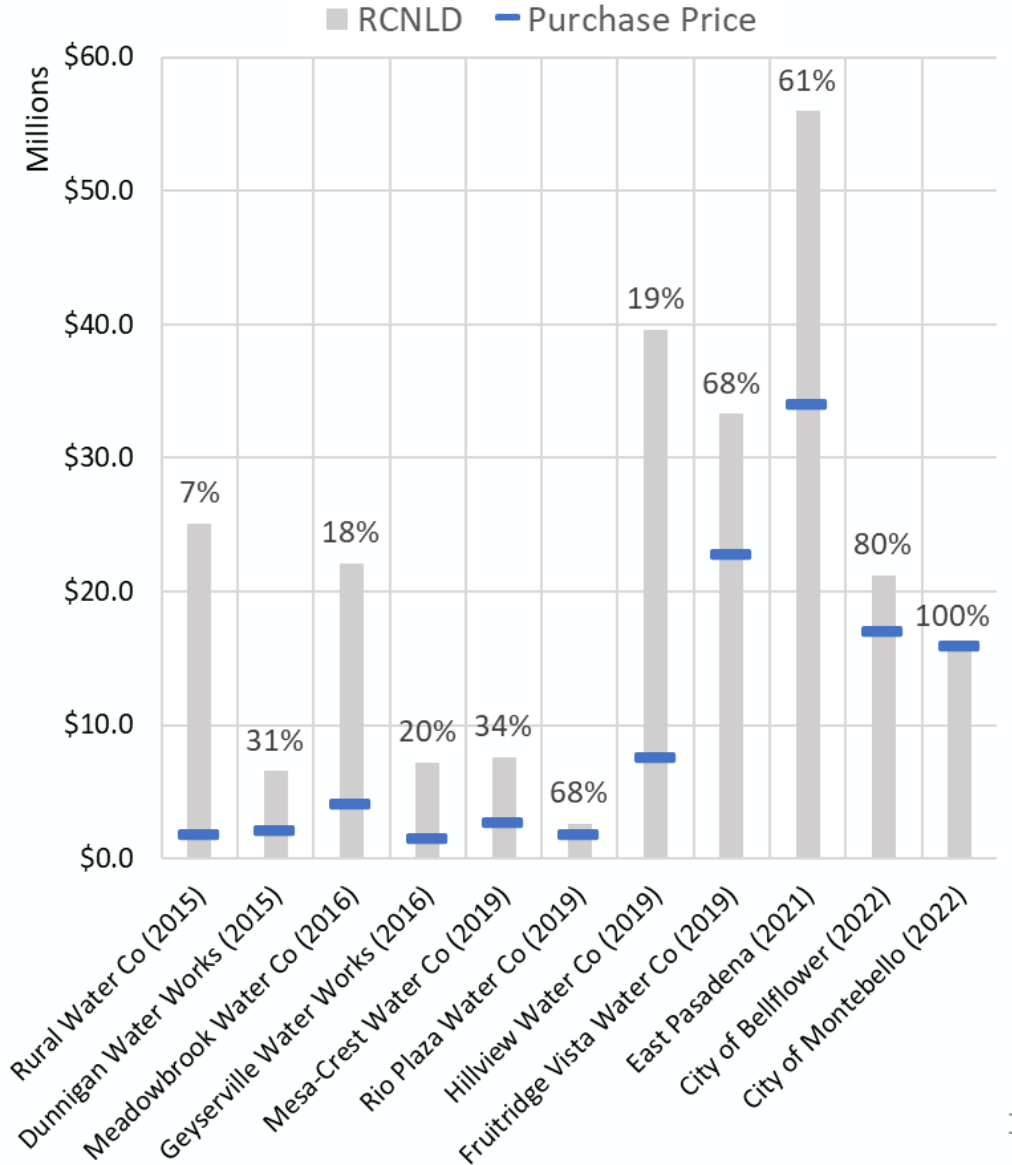
Reproduction Cost
Less Depreciation

\$ Asset Approach



- Supply, Pumping, Treatment
- Transmission, Distribution, Storage
- Meters, Services, Other
- New Assets Not Categorized (2022)
- Land & Water Rights

California Water Utility Transactions have been for less than RCNLD






\$ Asset Approach

Asset Categories		RCNLD Estimate
<i>Tangible Property and Improvements</i>		
Central Division Assets Installed Prior to 2022	\$ 511,779	
Adjusted for Monterey Water System	95.3%	\$ 487,725
New Assets in 2022		<u>20,099</u>
Subtotal		507,824
<i>Real Estate Used for Utility Service</i>		
		20,378
<i>Intangible Assets (Water Rights & Other)</i>		
		<u>120,745</u>
RCNLD (Without Obsolescence)		\$ 648,948
<i>Less: Economic Obsolescence</i>	48.0%	<u>(311,495)</u>
Value Indicator (Assets Used for Utility Service)		\$ 337,453
<i>Real Estate Not Used for Utility Service</i>		
		4,425

Opinion of Fair Market Value

(As of December 31, 2022)

Description	Value Indicator	x	Weighting	=	Weighted Value
 Income Approach					
Discounted Net Cash Flow Method	\$ 301,298		60%		\$ 180,779
 Market Approach					
Guideline Public Company Method	391,079		0%		-
Guideline Transaction Method	376,381		10%		37,638
 Asset Approach					
Asset Accumulation Method	337,453		30%		101,236
Opinion of Value of the Monterey System					\$ 319,653

Opinion of Fair Market Value (With Adjustments to the Base Value)

Description	Value Estimate
Base Value of the Monterey Water System	\$ 319,653
Potential Asset Additions:	
1. Marketable Real Estate Not Used for Utility Service	\$ 4,425
2. Construction Work in Progress (CWIP), excluding MPWSP Phase 1	13,299
3. Customer Accounts Receivable and Unbilled Revenues	13,785
4. Memorandum & Balancing Accounts and Other Adjustments:	
San Clemente Dam	60,517
Other Memorandum and Balancing Account Items	15,973
Citizens Acquisition Premium	8,384
Tank Painting	2,861
Other Utility Plant Acquisition Adjustments ¹	9,911
Total of Potential Asset Additions	129,155
Opinion of Value with Potential Asset Additions (Rounded)	\$ 448,810

This value opinion is qualified based on the assumptions and limitation described on the Appraisal Report dated March 10, 2023.

Values shown in \$000s

¹Includes Meadowbrook, Rio Plaza, Hillview, Warring, Bass Lake, Bellflower, and East Pasadena UPAA.



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Prepared for:
**Monterey Peninsula Water Management
District**

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