



Monterey

Peninsula Water Management District

**Preliminary Valuation and Cost of Service
Analysis California-American Water (CAW)
Monterey District Water Facilities**

November 12, 2019

Presentation Outline



**PURPOSE AND
OBJECTIVE**



**VALUATION
ASSESSMENT AND
RESULTS**



**COST OF SERVICE
ANALYSIS AND
SCENARIO RESULTS**



CONCLUSIONS



Purpose and Objectives

Assess

Assess the financial feasibility of public ownership of the Monterey Water System

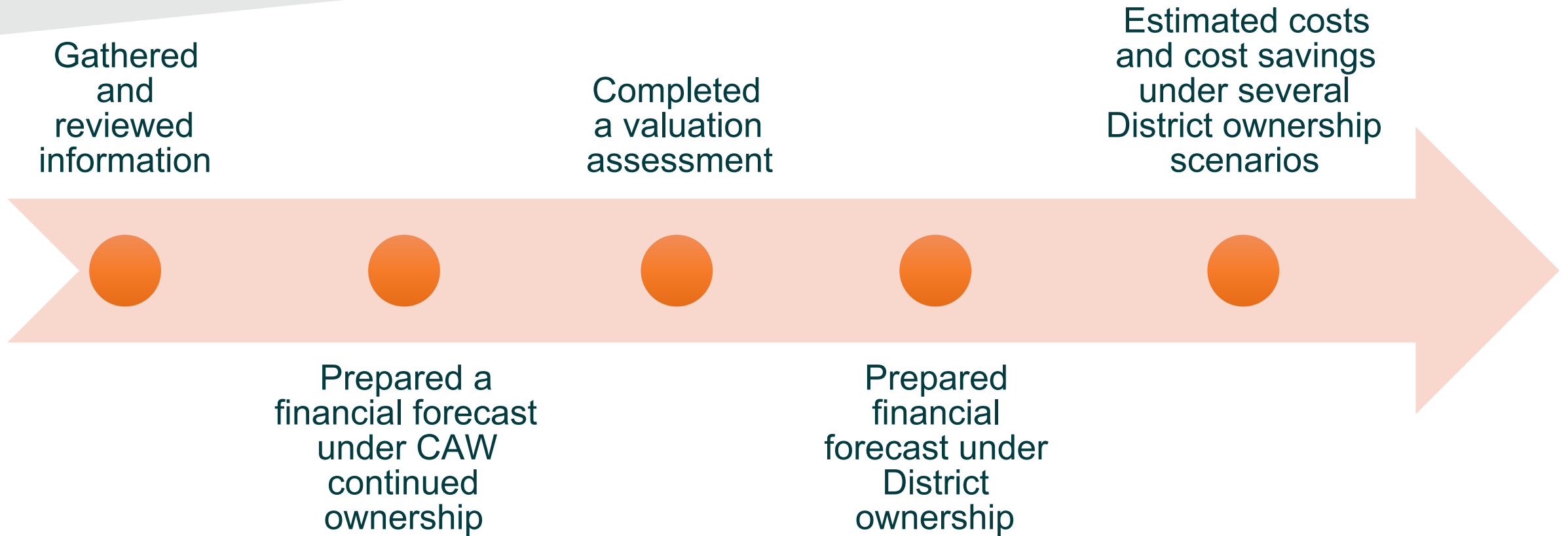
Complete

Complete a valuation assessment to estimate cost to acquire the Monterey Water System

Compare

Compare the cost of continued private ownership with the cost of District ownership of the system.

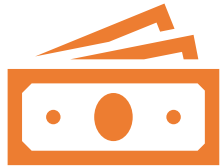
Analysis Process





Valuation Assessment

Valuation Methods



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.



Cost Approach

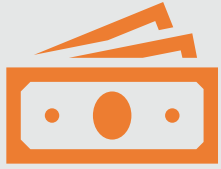
Value estimate reflects the cost of reproducing the system adjusting for its estimated remaining useful life.



Income Approach

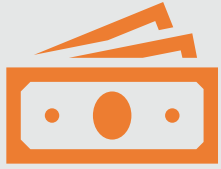
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Income Approach Factors

- California American Water (CAW) is regulated by the CPUC and allowed to earn a return on assets (rate base)
- Approved CPUC rate of return for CAW of 7.61% used as basis for net earnings and the discount rate
- Annual recurring capital expense projections of approximately \$14 million per year assumed
- Value of the desalination plant handled separately



Income Approach

**Discounted Cash Flow
Method**

\$222.3 M

**Direct Capitalization
Method**

\$254.5 M

Average: \$238.4 M



Market Approach

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



VALUE DRIVERS

Customer
Connections

Earnings

Net Book Value

Rate Base





Market Approach

Example Sales Information

Seller	Purchase Price (\$000)	Equivalent Residential Connections	Price Per Connection	Net Plant Book Value (\$000)	Price to Book	EBITDA (\$000)	P/E
Meadowbrook Water Company	\$4,000	2,196	\$1,984	\$2,782	1.4	\$178	22.5
Valencia Water Company	\$82,794	65,587	\$1,527	\$129,666	0.6	\$9,145	9.1
Park Water and Apple Valley Ranchos, Mtn Water	\$327,000	109,843	\$3,341	\$235,725	1.4	\$45,538	7.2
Mid-Sierra Water Company, Tahoe Cedars Water and Madden Creek Water	\$4,550	2,083	\$2,292	\$1,434	3.2	\$68	67.0





Market Approach

SALES COMPARISON APPROACH

Price/Eq
Connection

Price/Earnings

Price/NBV

Price/Rate
Base

\$185.2 M

\$279.5 M

\$250.1 M

\$372.0 M

Average: \$269.9M



\$ Cost Approach

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

Water System Asset Components

Supply Wells and Reservoirs +

Water Rights +

Treatment Plants +

Transmission Piping +

Pump Stations +

Storage Tanks +

Distribution Piping +

Land +

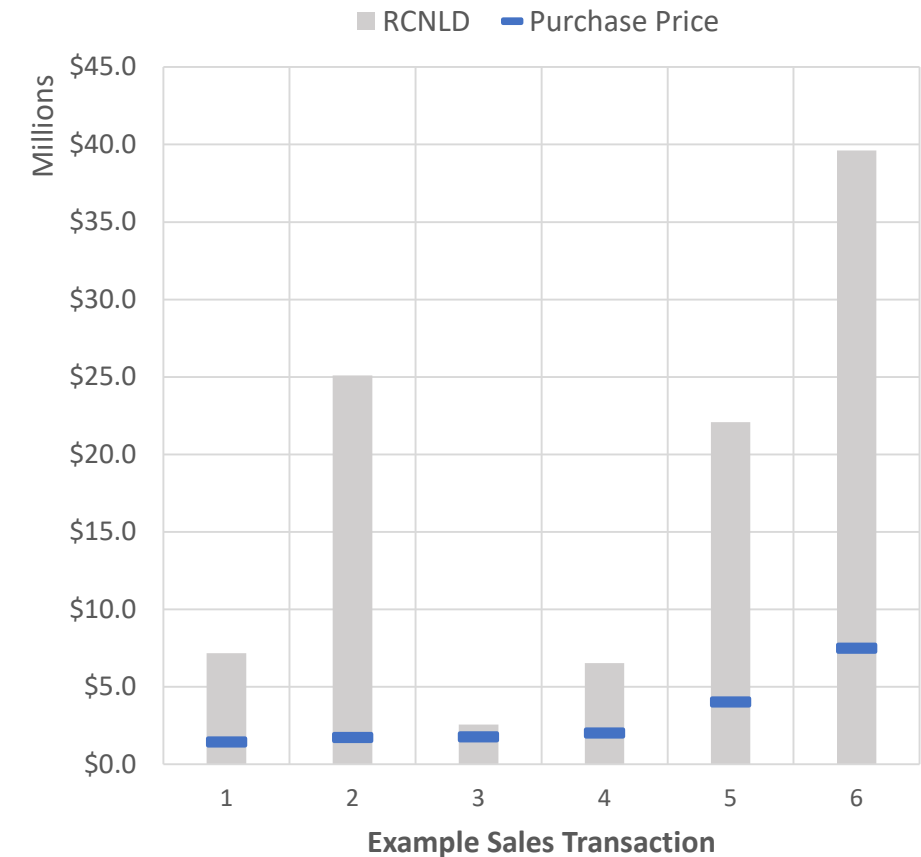
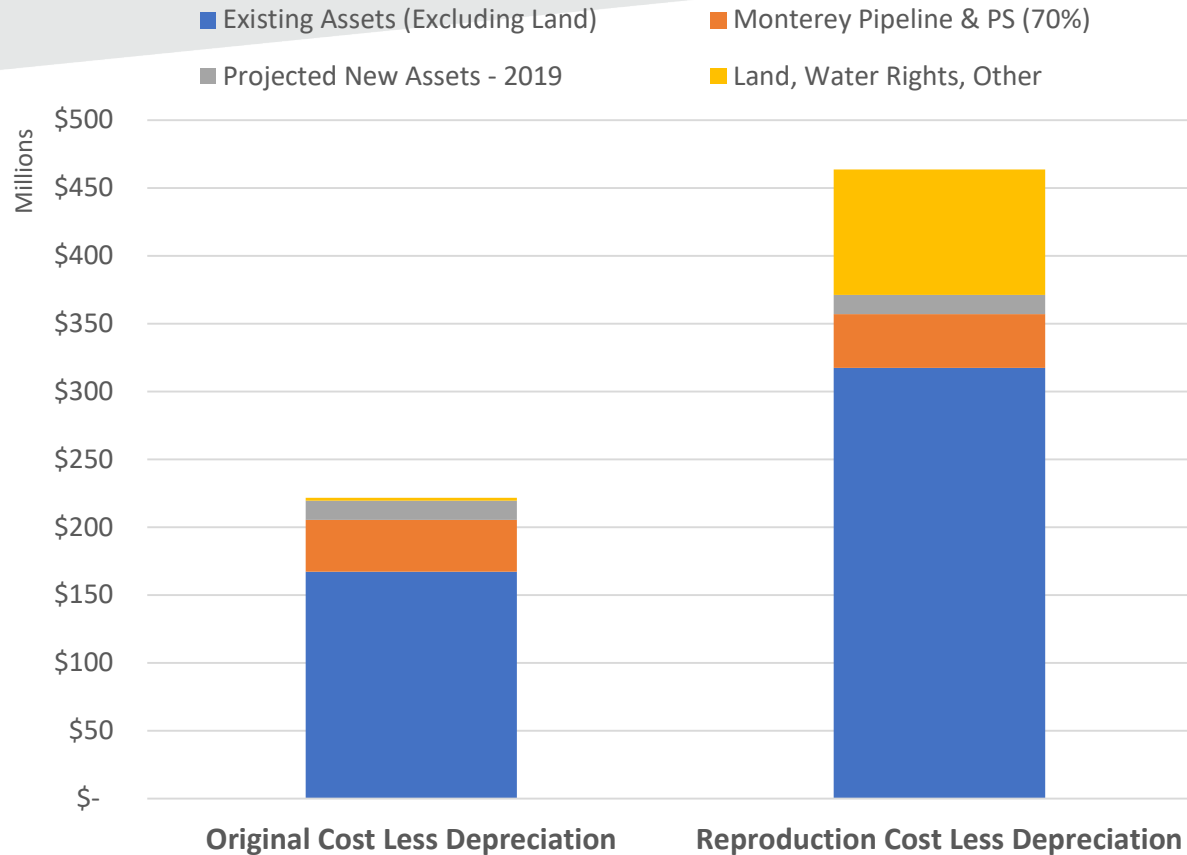
Fire Hydrants +

Meters & Services +




Reproduction Cost
Less Depreciation

\$ Cost Approach

Purchase prices for water utilities in California do not typically correlate to RCNLD



Combined Base Value

Valuation Estimate Approach	Estimated Value	x	Weighting	=	Weighted Value
Base Water System (Including 70% of Monterey Pipeline and PS)					
 Income Approach					
Discounted Net Cash Flow Method	\$ 222,346		40%		\$ 88,938
Direct Capitalization Method	254,499		40%		101,800
 Sales Comparison Approach					
Market Transaction Method (Price/Eq Connection)	185,214		5%		9,261
Market Transaction Method (Price/Earnings)	279,480		5%		13,974
Adjusted Net Asset Value Method (Price/NBV)	250,066		5%		12,503
Adjusted Net Asset Value Method (Price/Rate Base)	371,981		5%		18,599
 Cost Approach					
RCNLD Method	463,686		0%		-
OCLD x 1.3x	288,119		0%		-
Estimated Value of the Base System					\$ 245,075

Values shown in \$1,000s

Adjustments to Combined Base Value

Estimated Value of the Base System	\$ 245,075
Asset Additions:	
Construction Work in Progress (Reported 2019 value)	\$ 2,199
Portion of Monterey Pipeline and PS Not Included Above (30%)	16,865
Desal Plant (Excl SRF, Surcharge, and Public Agency Funded Portions)	92,749
Land - Not "Used and Useful"	1,977
Other Non-Regulated Assets (e.g., contributions-in-aid-of-construction, plant, equipment)	TBD
Estimated Value with Asset Additions	\$ 358,866
<hr/>	
Potential Additional Items:	
Tank Painting (PV Amount)	\$ 4,459
Citizens Acquisition (PV Amount)	9,458
San Clemente Dam (PV Amount)	63,509
New UPAA (PV Amount)	6,508
Other Balancing Account Items (Net under-collection as of 5/31/19)	70,585
Severance	TBD
Estimated Total Including Potential Additional Items	\$ 513,384

Values shown in \$1,000s



Cost of Service Evaluation



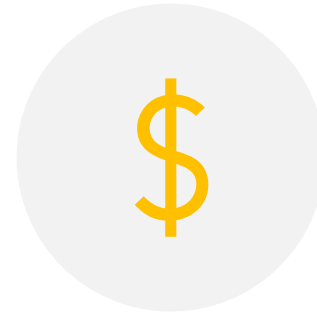
Cost of Service Evaluation



Gathered and reviewed publicly available data and information



Prepared a forecast of financial results under CAW continued ownership and operation



Identified costs under District ownership*



Prepared revenue requirement forecasts under several scenarios

**Cost information provided by District and other consulting team members.*



Cost of Service Evaluation

- A. Status Quo– CAW Ownership
- B. MPWMD Ownership with District staff operations
- C. MPWMD Ownership with contract operations



Cost of Service Assumptions

1. Average 2.3% operating cost escalation per year under both ownership scenarios
2. System acquisition costs financed over 30 years at 4.0% interest
3. District to assume the desalination plant SRF and public agency debt
4. Cash funding of District's annual recurring repair / replacement costs
5. No property PILOT payments by the District

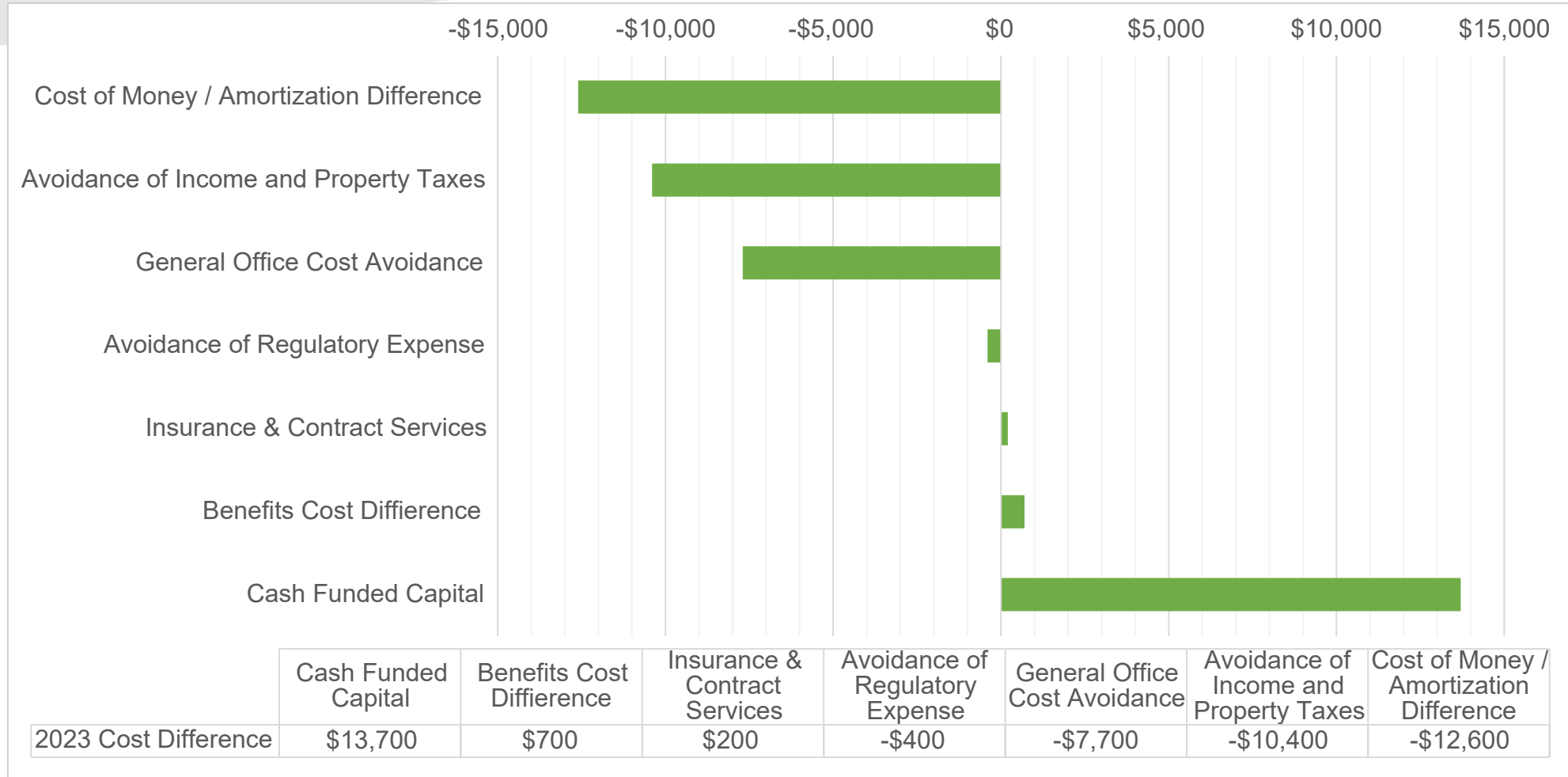
Line	Description	Projected FY 2021	Projected FY 2022	Projected FY 2023
1	Operating Expenses	\$ 54,350.0	\$ 59,077.6	\$ 59,357.7
2	Less Adjustments	(18,332.9)	(18,478.6)	(18,702.0)
3	Adjusted Operating Expenses	\$ 36,017.0	\$ 40,599.1	\$ 40,655.7
	Debt Service			
4	Debt Service (Acquisition & Transition Cost)	\$ 33,555.2	33,555.2	33,555.2
5	Debt Service (Desal SRF Financed Portion)	4,700.0	4,700.0	4,700.0
6	Debt Service (Desal Public Agency Financed Portion)	5,800.0	5,800.0	5,800.0
7	Total Debt Service	\$ 44,055.2	\$ 44,055.2	\$ 44,055.2
8	Other Revenue Requirements			
9	Capital Expenditures	\$ 12,946.0	\$ 13,341.0	\$ 13,747.2
10	Working Capital	-	2,291.0	28.3
11	Total Revenue Requirements	\$ 93,018.2	\$ 100,286.3	\$ 98,486.4
12	Beginning Cash Balance	\$ 18,008.5	\$ 18,008.5	\$ 20,299.5
13	Revenues Over (Under) Expenditures	-	2,291.0	28.3
14	Ending Cash Balance	\$ 18,008.5	\$ 20,299.5	\$ 20,327.9
15	Ending Cash Balance (Days of O&M)	180	180	180
16	Debt Service Coverage (All-In)	1.29	1.35	1.31
17	Financing Assumptions:			
18	Acquisition Cost (in \$ thousands)	\$ 513,384		
19	Transition Cost	9,500		
20	Initial 180 Day Cash Reserve (Debt Funded)	18,009		
21	Total Financing	\$ 540,893		
22	Debt Service Reserve	33,600	1 yr of DS	
23	Financing Including Debt Service Reserve	574,493		
24	Interest Rate	4.0%		
25	Term	30 yrs		
26	Issuance Cost	1.00%		



Primary Cost of Service Differences

CAW vs. District Ownership

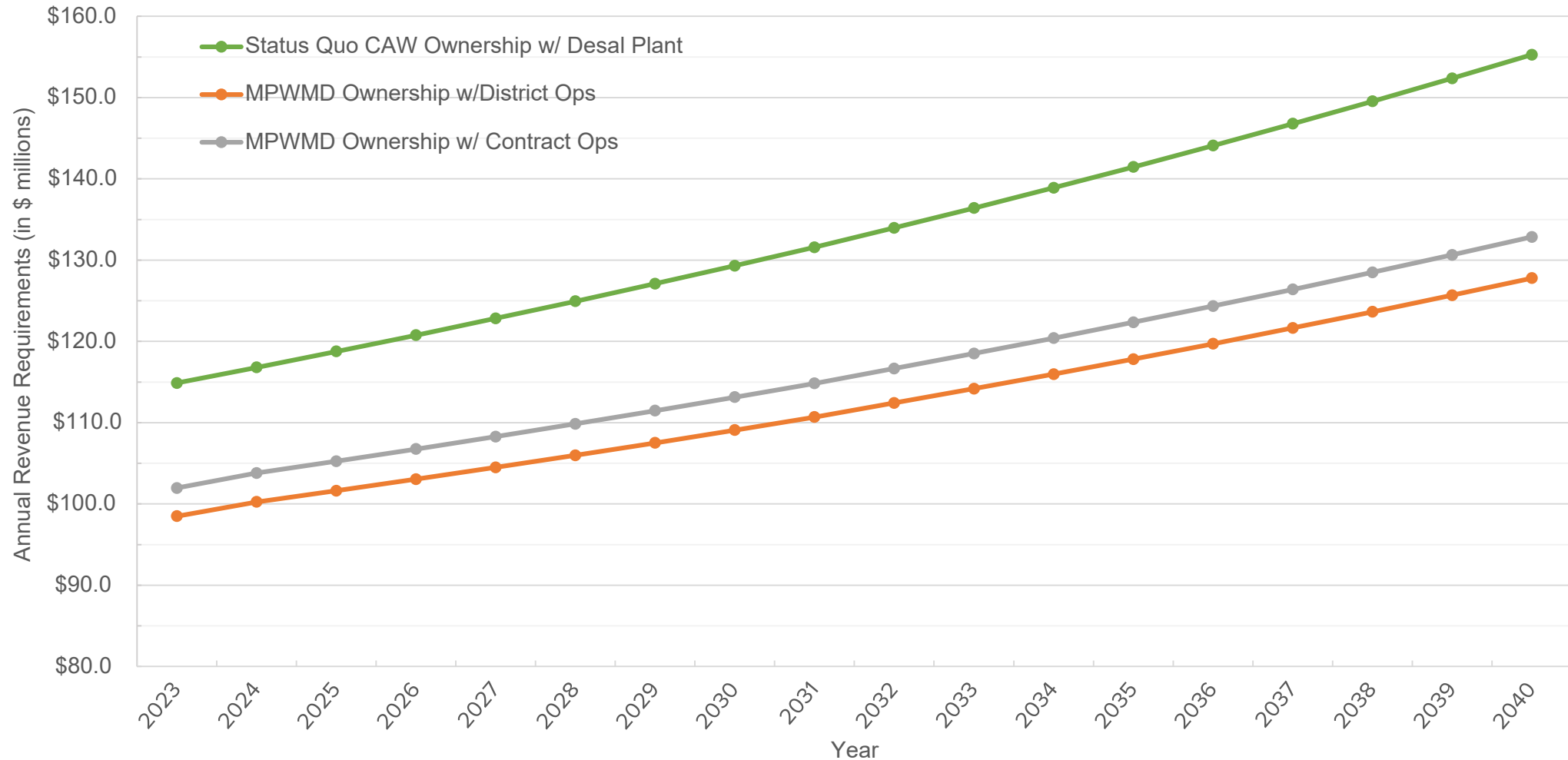
Estimated 2023 Cost Differences (in \$1,000s)





Cost of Service Evaluation Results

Comparison of Projected Annual Revenue Requirements





Conclusion:

The acquisition of the Monterey Water System by MPWMD appears to be economically feasible.

Economic feasibility was assessed by comparing the estimated revenue requirements of the water system under MPWMD ownership versus CAW ownership, which indicates significant revenue requirement savings could be achieved under the MPWMD ownership scenarios. These projections were based on the information and estimates summarized and documented in our report.

Questions and Discussion



Thank you!

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Disclaimers / Qualifiers

- The valuation assessment can be characterized as a preliminary desktop assessment and should not be considered a formal appraisal.
- Data and information associated with the Monterey Water System obtained from the District and public sources were assumed to be reliable.
- Valuation and cost of service results were based on data and information provided as of the date of the report. It does not incorporate facts or information which may come into existence after the date of the report.
- We have relied upon assumptions and information provided by others with respect to conditions which may exist or events which may occur in the future. As is often the case, there will likely be differences between actual and projected results, and those differences may be material.
- The opinions and conclusions contained in the report are as of a specific date, for a specific use and purpose, and made under specific assumptions and limiting conditions. Raftelis makes no warranty, expressed or implied, with respect to the opinions and conclusions contained in the report.

