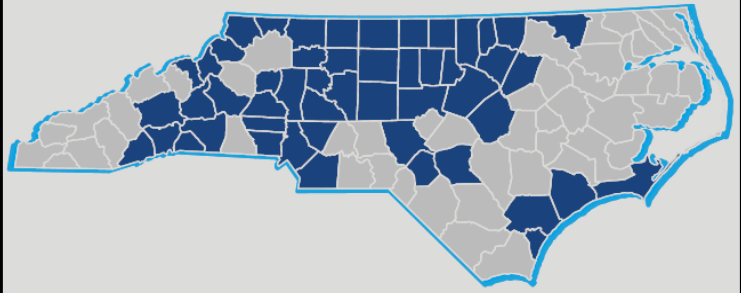


# Fair Market Value Legislation

AQUA

## North Carolina Service Territory



## Legislation

Fair Market Value (“FMV”) legislation established a new valuation process enabling municipalities and authorities across the state to receive a **fair market value for their water and sewer systems**. This, among other factors, should be a driver providing an option for many municipalities to consider and evaluate a sale of their assets. Previously, system values were determined by their **depreciated original cost** value, which worked as a disincentive to municipalities that wanted to exit the water and/or wastewater business. The FMV valuation process has changed the game for municipalities.

## Definitions

**Purchase Price** — Price of the system agreed upon by the buyer and seller.

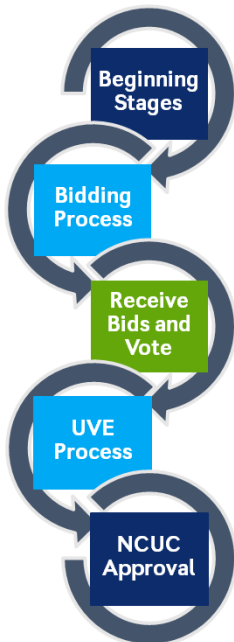
**Depreciated Original Cost** —Original cost of the system when first placed into service, less the total accumulated depreciation expense.

**Utility Valuation Expert (UVE)** — Performs independent appraisals of the system used in establishing its fair market value. Complies with the Uniform Standards of Professional Appraisal Practice (USPAP) and utilizes the Cost, Market, and Income methods of valuation.

**Public Utility** — A water and/or wastewater company that provides services to the public, and is regulated by the North Carolina Utilities Commission (NCUC).

**Rate Base** — The total value of the property used by a utility in providing service on which a public utility is allowed to earn a specified rate of return.

## How Does This Process Work?



- Municipality decides to evaluate a sale of water or sewer assets
- Municipality provides documents for review and on-site tour of facilities
- Municipality can use professional staff, financial advisor, or outside consultant

- Utility prepares high level proposal for municipality to evaluate
- Municipality determines asset sale is beneficial and feasible

- Public meeting to announce sale
- Bidding process (RFB, RFQ or RFP)
- Accept bid, vote, and execute Asset Purchase Agreement

- Licensed engineer establishes asset inventory
- Three utility evaluation experts (UVEs) work off asset inventory to determine valuations
- New Rate Base: NCUC uses average of the valuations or purchase price

- NCUC has six months to approve the deal once filed & application is deemed complete
- Deal closing occurs upon approval

## Why Are Municipalities Embracing FMV?

- Desire to focus on core operations
- Proceeds can be used for economic development, to pay down debt, offset future tax hikes, provide tax rebates/decreases, or otherwise invest in the future
- Aging infrastructure requires significant capital investment
- Increased regulations
- Avoid the risk of potential future liabilities
- Aging workforce
- Continued delivery of high quality water and wastewater services

### Municipality and purchaser agree on a fixed sale price.

3

#### Separate Appraisals

Note: Assessment does not change the sale price both parties agree upon.

VALUATION

Protects Ratepayers



If appraiser's average is higher than sale price = rates based on sale price



If appraiser's average is lower than sale price = rates based on appraiser average

### Key Concerns

#### **Q: How will our rates be affected?**

A: New systems keep their existing rates upon closing. Public utilities can only change rates after a rate case, and all rates must be justified. Aqua will be transparent about its projections for future rates.

#### **Q: How can we ensure local interests are considered during and after the process?**

A: The NCUC must approve any rate changes through an extensive base rate proceeding that includes public input hearings.

#### **Q: How do we know we are getting a fair price?**

A: The average of the UVE's valuations will be compared to the agreed-on purchase price to determine the new rate base.

#### **Q: How can we ensure the system is maintained?**

A: Aqua will execute focused capital plans and will be overseen by both the NCUC and DEQ.

#### **Q: What are the local benefits of working with a corporation like Aqua?**

A: Aqua has been in business for 130+ years and is an active member of communities we serve. In fact, many of our employees live in an Aqua service territory. We pay local taxes, local wages, donate to the community and will often keep the same suppliers.

#### **Q: What is Aqua's core focus as a business?**

A: Aqua focuses on providing the **best quality of service** to its customers and on **sustainable** growth. We recognize that each municipality is different and actively work with municipal governing bodies on their local priorities.

#### **Q: What if the water and wastewater systems are owned separately?**

A: This fact does not preclude the sale of the system. There are numerous instances where public utilities own a municipalities' water, sewer, or both systems.