Agenda Item: 7.

MEMORANDUM

TO: Board of Directors

FROM: Zach Nelson, Project Manager

SUBJECT: Review of Proposals for the Appraisal of the Washington County Rural Water System

DATE: September 6, 2013

Per the request of the Board of Directors, staff evaluated the scope of work required to perform an appraisal of the Washington County Rural Water System. Proposals were received from two specialized firms. A third firm, Acclaro Valuation Advisors was contacted, but was unable to provide a proposal at the time of this memo. Below is a brief summary of the scope of work proposed by each firm and the anticipated costs.

Veenstra & Kimm

Veenstra & Kimm was highly recommended by the City of Blair for the services and engineering consulting studies they had provided to the City in the past. Veenstra & Kimm proposed an evaluation of the water system developed on the following four methods:

- Total net book value (cost approach)
- Adjusted replacement value (cost approach)
- Capitalized cash flow value with assumed debt (income approach)
- Capitalized cash flow with retained debt (income approach)

The anticipated duration to perform the study is 45 days, with a not to exceed cost of $16,800. See the attached proposal for a detailed breakdown of the services to be performed.

Bartlett & West

The PMNRD has had a relationship with Bartlett & West for over 30 years. They were the original design engineer for the Dakota County and Thurston County Rural Water Systems and have provided ongoing survey services and hydraulic calculations over the years. Bartlett & West proposed analyzing the system to determine the present day value of each component based upon current market construction trends. After the present day values are determined, the design life and current age would be used to calculate a depreciated value for each component. This methodology would provide a cost approach to appraise the system. Barlett & West proposed completing the work in 60 days, at a lump sum cost of $3,650. Attached is a detailed scope of work to be performed.
August 29, 2013

Zack Nelson
Project Manager
Papio-Missouri River Natural Resources District
8901 South 154th Street
Omaha, Nebraska 68138

WASHINGTON COUNTY RURAL WATER SYSTEMS
PROPOSAL FOR WATER SYSTEM APPRAISAL

In response to your request of August 22, 2013, this letter is to present Veenstra & Kimm, Inc.'s proposal to provide professional services to the Papio-Missouri River Natural Resources District to develop a valuation appraisal for the Washington County Rural Water #1 System and the Washington County Rural Water #2 System.

There are three general approaches that are used to value a water utility. These approaches are:

- Cost approach
- Income approach
- Market approach

The market approach is based on comparison to similar sales and purchases of water utilities. In some areas, such as California, there are a sufficient number of water system transactions to allow for use of the market approach. In the Midwest, where most water systems are publicly owned, the number of sales and purchase transactions is very small. The market approach is not commonly used in the Midwest due to this very small number of transactions on which to develop a valuation of the water system.

Veenstra & Kimm, Inc. generally recommends any valuation of a utility be developed using both a cost approach method and an income approach method.

The cost approach method is based on the total assets less depreciation or net value. The method can use actual cost or replacement cost as the basis of calculating the valuation. This approach is often used when there will be a complete water system sale with the purchaser assuming all assets and liabilities of the water utility, including debt. The most common income approach is based on capitalized cash flow. The income approach focuses on determining the purchase price based on the affordability to the purchaser. The income approach can be used for an asset sale or a complete sale. If the
income approach is used for an asset sale the debt would be the responsibility of the seller. If a water system has significant debt, such as the Washington County Rural Water #2 System, the net proceeds of an asset sale would need to recognize the debt that continues to be the seller’s responsibility.

Within the cost approach method and the income approach method there are alternative valuation procedures and adaptations of the valuation procedures. For example, with an older water distribution system that remains in good condition one alternative cost approach is based on replacement cost less depreciation and less projected rehabilitation and replacement cost. When an older system is in good condition with relatively low projected rehabilitation costs, this method results in a higher valuation than a net book value based on the original construction cost less depreciation.

To provide the Papio-Missouri River Natural Resources District a broad view of valuation of the Washington County Rural Water #1 System and the Washington County Rural Water #2 System the writer would propose the valuation of each water system be developed based on four methods as follows:

- Total net book value (cost approach)
- Adjusted replacement value (cost approach)
- Capitalized cash flow value with assumed debt (income approach)
- Capitalized cash flow value with retained debt (income approach)

The work required for the two alternatives within each approach is similar. The work for the cost approach and income approach is quite distinct as one focuses on assets and the other focuses on operational cash flow.

A summary of the tasks be required to develop the four method of valuation is as follows:

- Compile inventory of water system fixed and liquid assets
- Determine the original construction cost from District records, or comparable construction costs at the time of construction
- Calculate a current replacement cost
- Based on the time of construction of various components of the water system, calculate the depreciation factors
- Develop a projection of future replacement or rehabilitation costs over an agreed to period of time (e.g. 10 years or 20 years)
- Develop total net book value based on original cost less depreciation
- Develop adjusted replacement value based on current replacement costs less depreciation and capitalized replacement or rehabilitation cost
- Review the revenues and expenses of the District for at least 5 years
- Determine the annual debt service for the District
- Determine annual projected cash flow, with debt service and without debt service
Zack Nelson  
August 29, 2013  
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- Determine capitalization factors for cash  
- Determine capitalized cash flow  
- Adjust capitalized cash flow for debt service  
- Develop capitalized cash flow with transferred debt service  
- Determine capitalized cash flow value with assumed debt service  
- Determine capitalized cash flow value with retained net of debt service

The results of the valuation will be set forth in a letter report summarizing the analysis and assumptions used to determine each of the four methods of valuation. The letter report will separately set forth the valuation analysis for Washington County Rural Water #1 System and Washington County Rural Water #2 System. If requested, a composite valuation of the combined water Districts can be set forth for each of the four valuation methodologies.

Veenstra & Kimm, Inc. would anticipate the work on the valuation study would be completed within 45 days after receipt of the background information necessary to develop the analysis.

Veenstra & Kimm, Inc. would propose to undertake the valuation studies on an hourly fee basis with a maximum not to exceed fee of $16,800.

The maximum fee for the two Districts is summarized as follows:

- Washington County Rural Water #1 System $ 8,108  
- Washington County Rural Water # # System  $ 8,692  
  Total  $16,800

The estimated cost for the valuation study of the Washington County Rural Water #2 System is slightly higher because of the time needed to evaluate the capitalized cash value method with and without the debt.

For your information, the writer has included a spreadsheet showing the hours by task for the completion of the valuation studies.
If you have any question or comments concerning Veenstra & Kimm, Inc.'s proposal please contact the writer at 800-241-8000.

VEENSTRA & KIMM, INC.

H.R. Veenstra Jr.

HRVjr;pjh
600-11
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August 29, 2013

Board of Directors
Papio Missouri River NRD
8901 S. 154th St. # A
Omaha, NE 68138

Re: Washington #1 & #2 System Appraisals

Dear Board Members:

Bartlett & West has over 60 years experience in the Water Industry and most specifically in the rural and regional water market. Over that time we have been involved in the development, design, construction and day to day maintenance/management of numerous water systems throughout the Midwest. Bartlett & West has the experience and expertise along with a long existing relationship with the NRD through its Thurston and Dakota County Systems to assist the NRD with its current water system needs. At the current time, it is our understanding that the NRD would like to have an appraisal performed to evaluate the value of its Washington County Rural Water System.

To complete System Appraisal for the Washington County Rural Water System the following scope is proposed:

1. Facility data consisting of; pipe age, size and material, fittings, valves and hydrants age, size and material, meter setting age, type and size, master meter age, components, capacity and size, booster station age, components, capacity, size and construction material, water tower age, size, style, type, and capacity, parcel ownership boundaries or lease agreements size, and purchase price, water purchase contracts, and all other necessary system information to complete the analysis. We will create a list of the information that is required and coordinate with the NRD for acquisition of this information from the staff. We are aware of the GPS data that has been collected for the Washington System we plan to use this data to determine pipe lengths and sizes.

2. After all necessary data is acquired the data will be analyzed by determining the present day value of each component within the system using current construction market trends in your area. After the present day values are determined each components design life and current age will be used to calculate the depreciated value of each component.

3. All of the analyzed data will be provided in spreadsheets that show the value of each component and the overall value of the system. Along with the spreadsheet a cover letter will be provided that explains the methodologies used and summarizes the outcomes.
Based on the scope of work outlined above, we propose to perform the services for a lump sum fee of $3,650. Once all data is collected, we would request 60 days for completing the mapping upgrade. If requested additional services and their associated fees can be provided. If this proposal is acceptable, please sign on the Accepted By line. Please return one copy of this letter to our office. A schedule of hourly charge rates and the company’s standard provision for agreements are attached to this proposal.

Sincerely,

Bryan Ford, P.E.

Enclosure

ACCEPTED BY: PAPIO MISSOURI RIVER NRD

Chairman

DATE: ________________________________