

North Fork Water Company (NFWC)

VALUATION

Shareholders Meeting
January 18, 2018



Valuation Assignment

- ◆ Summarize the condition of NFWC's existing system
- ◆ Characterize and value NFWC's assets and liabilities (using three methods)
- ◆ Determine the current value of NFWC on a per share basis.
- ◆ Conform to the Uniform Standards of Professional Appraisal Practice (USPAP)

Important Valuation Assumptions

- ◆ Specialty Property – An Ongoing Utility Business (since 1885).
- ◆ For purposes of this valuation, it is assumed the value of real estate easements is \$0
- ◆ No major construction work is in progress. All assets are “as-is”
- ◆ All assets are owned “free and clear”

This Indenture, made the fifth day of February in the year of our Lord One thousand eight hundred and eighty five between L. C. Peattie, H. W. Sears, G. W. Peattie, Wm. H. Abner, M. Abghorn, S. L. Grow and Mrs. J. L. Grow his wife, George Mellin, Mrs. D. C. Randall, Anglica Peattie, M. M. Strong, J. S. Ingham, W. R. Ingham, John W. Downs, J. R. Greer, J. S. LaPray, P. S. Pessenden, L. E. Rice, W. C. Anderson, W. D. Grow, D. A. Coddington, R. Birmingham, John Stone, A. Wooley, Dodd & W. Hamilton, S. R. Magee, Mrs. L. R. Wicker, Nelson Laycock, Mrs. L. V. Henderson, John Thayer parties of the first part and the North &

Summary of Share Value

- ◆ Total active shares: **7156**
- ◆ Average annual delivery benefit per share is **0.579** acre-feet (188,789 gal.)
- ◆ Net present value (NPV) per share equates to **\$546**

NORTH FORK PIPE SIZE & MATERIAL

Legend

	Cement_Mortar_Pipe
	Ductile_Iron_Pipe
	Null
	Polyvinyl_Chloride
	Reinforced_Concrete_Pipe
	Riveted_Steel
	Steel
	ServiceArea_Boundary

MATERIAL	SIZE	LENGTH
CMP	48	1,420.56
DIP	16	1,216.68
DIP	30	2,327.45
DIP	36	13,702.20
NULL	0	0.00
PVC	12	481.68
RCP	18	707.66
RCP	27	458.66
RCP	30	5,034.46
RCP	36	13,992.45
RCP	39	552.48
RS	36	847.48
STL	12	961.04
STL	36	660.50

- Eight-mile gravity pipeline (12 to 48 inch dia.)
- Service life depreciation: 40% Functional depreciation: 25%
- 13 active weirs serving 12 shareholders
- Raw Santa Ana River water from Bear Valley Mutual Water Company
- State Water Project connection (untreated water)

Value of Operating Assets

- ◆ \$4,686,533 (replacement new)
- ◆ \$2,562,278 (total depreciation)
- ◆ \$2,124,255 (depreciated value)

- ◆ \$1,062,128 represents NFWC's 50% ownership share



Value of NFWC Santa Ana River Water Rights

- ◆ Pre-1914 Water rights
- ◆ Contract deliveries (June-November): 3769 acre-feet
- ◆ $\frac{1}{4}$ Flow of S.A. Riv. (December-May): 377 acre-feet (approx.)
- ◆ 0.579 acre-feet per NFWC share annual benefit
- ◆ Substitute Water: State Water Project (SWP)
- ◆ Reduced quality of S.A. Riv. Water vs. SWP water: 20%
- ◆ Annual benefit per acre-foot: **\$100**

NFWC Value by Method

◆ Income Approach:	\$3,043,000
◆ Comparable Sales Approach:	\$4,280,000
◆ Cost Approach (RCNLD):	\$ 5,818,000

NFWC Shareholders

Each Shareholder:

- ◆ Has a right to the annual yield of the North Fork Canal proportionate to shares held
- ◆ Must take the water allocation from an approved turnout (weir) on the canal
- ◆ Can only take delivery a maximum of two times per month
- ◆ Must take delivery of a minimum of 10 miner's inches in a 24-hour run (129,250 gal.)

Shareholders unable to comply with the above forfeit their access to canal water

Delivery Characteristics

- ◆ Raw water quality highly variable; at times , unusable.
- ◆ Deliveries must be scheduled. Are not on demand.
- ◆ Deliveries subject to curtailment based upon hydrology.
- ◆ Non-pressurized delivery.

Questions

Bear Valley Mutual Water Company Stock Value

- ◆ Each share equals .27 miner's inch
- ◆ Deliveries From March through November
- ◆ Some additional deliveries possible
- ◆ Valued at .106 acre-feet* per year per share
- ◆ Stock value \$101 to \$157 per share

* 110% of delivery schedule