

**WAUKEE
MUNICIPAL GAS
UTILITY**

**BCC
ADVISERS**



APPRAISAL REPORT

JUNE 30, 2024

August 26, 2024

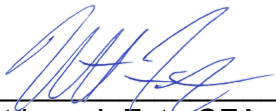
PFM
Attn. Benjamin Kapenstein
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To Mr. Kapenstein:

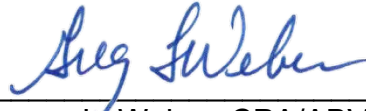
BCC Advisers was engaged by the City of Waukee to provide an independent opinion as to the fair market value of a controlling, non-marketable interest in the Waukee Municipal Gas Utility as of June 30, 2024. The intended users are the City of Waukee and its professional advisers, and the intended use is for a potential transaction. The information in the attached report may not be used for any other purpose without the written consent of BCC Advisers.

Based upon the entire analysis and for the intended use stated above, it is our opinion that the fair market value of the subject interest was \$19,555,000. Reliance on this value should include a full reading of the Appraisal Report for an understanding of the assumptions, limiting conditions and methodology underlying the appraised value.

BCC ADVISERS



Matthew J. Fett, CFA, ASA
Vice President



Gregory L. Weber, CPA/ABV, ASA
Senior Vice President

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INTRODUCTION

Description of Assignment

BCC Advisers was engaged by the City of Waukee to provide an independent opinion as to the fair market value of a controlling, non-marketable interest in the Waukee Municipal Gas Utility (“WMGU” or the “Utility”) as of June 30, 2024. The intended users are the City of Waukee and its professional advisers, and the intended use is for a potential transaction. This opinion may not be used for any other purpose without the written consent of BCC Advisers.

This appraisal has been prepared in conformity with the following professional standards:

- Uniform Standards of Professional Appraisal Practice (“USPAP”) of the Appraisal Foundation,
- Business Valuation Standards (“BVS”), Principles of Appraisal Practice and Code of Professional Ethics of the American Society of Appraisers,
- Statement on Standards for Valuation Services (“SSVS”) No. 1, Statement on Standards for Consulting Services (“SSCS”) No. 1 and Code of Professional Conduct of the American Institute of Certified Public Accountants,
- National Association of Certified Valuation Analysts Professional Standards.

This report is an Appraisal Report as defined by USPAP and a Detailed Report as defined by SSVS No. 1.

Statement of Independence

BCC Advisers has no financial interest in the property being appraised, does not act as an employee or agent of the subject company, and has had no dealing with the subject company that would prejudice its ability to render a fair and impartial opinion of value. The value opinion is independent of the fee paid.

Standard of Value

Since the Utility is privately held, this valuation relies on traditionally accepted techniques to simulate market considerations in establishing fair market value. This concept of value is defined in The International Glossary of Business Valuation Terms as:

“The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and

INTRODUCTION (Continued)

able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”

This appraisal follows the established guidelines for estimating fair market value found in Internal Revenue Service Revenue Ruling 59-60, which requires that the valuation of closely held stocks include the following:

- The nature of the business and history of the enterprise.
- The economic outlook in general and condition and outlook of the specific industry.
- The book value of the stock and the financial condition of the business.
- The company's earning capacity.
- The company's dividend paying capacity.
- Whether or not the enterprise has goodwill or other intangible value.
- Sales of stock and size of the block to be valued.
- The market prices of stocks of corporations engaged in the same or similar lines of business whose stocks are actively traded in a free and open market, either on an exchange or over the counter.

Fair market value cannot be determined exactly because there is no universally accepted formula for computing value. The value opinion in this analysis should be interpreted as an experienced opinion regarding fair market value as of the date of this report.

Premise of Value

Premise of value is defined in The International Glossary of Business Valuation Terms as:

“An assumption as to the set of actual or hypothetical transactional circumstances applicable to the subject valuation.”

An interest in a business can be analyzed under various premises of value, resulting in varying conclusions. The Utility was analyzed under the *going concern* premise of value, which is defined in Valuing a Business as:

“The value in continued use, as a mass assemblage of income producing assets, and as a going-concern business enterprise.”

INTRODUCTION (Continued)

Sources of Information

Information was received from Benjamin Kapenstein, professional adviser to the City of Waukee, and Rudy Koester, Director of Public Works/City Engineer. Appendix 1 lists documents and various sources of information used in this appraisal. Historical and prospective information provided was reviewed, and its reasonableness and appropriateness for use in the valuation process was considered. However, no procedures have been performed by BCC Advisers to authenticate the information received.

DESCRIPTION OF UTILITY

History

Waukee Municipal Gas Utility is a not-for-profit government entity owned by the City of Waukee, Iowa (the “City”), which had an estimated population of 29,167 in 2023. The Utility provides gas utility transmission and distribution to residents of Waukee. During 2023 approximately 99% of WMGU’s 9,162 customers were small volume users, including residential households. The remaining 1% of users were classified as large volume users and include large commercial and industrial users. Of the 784 million cubic feet of gas sold in 2023, approximately 81% was for sold to small volume users.

The city of Waukee was incorporated in 1878. During the 2020 census, the City reported 23,940 residents, a 71% increase from 2010. As of the valuation date, the City consisted of 13 square miles of land in Dallas County. The Utility’s distribution system consists of 185 miles worth of pipes, ranging from 2 inches to 10 inches in diameter. Approximately 14 miles of this system is comprised of high-pressure distribution mains. The system is operated under 4 different pressure levels.

WMGU purchases its natural gas from Clayton Energy Corporation, a Wahoo, Nebraska based municipal utilities supplier. The purchased gas is delivered to the city within pipeline and storage facilities owned by Northern Natural Gas before being distributed to residents.

Employees

The Utility employs five city staff members including a superintendent and four technicians. The members of the staff have substantial experience in the industry and with the city. The average tenure of Utility staff was nearly 20 years as of the valuation date.

The City entered into a service agreement with Clayton Energy Corporation (“CEC”) on September 21, 2015, under which the City is fully responsible for all gas purchasing, capital project financing, customer service, rate setting, billing, regulatory compliance, and all other activities relating to the delivery of natural gas to the customers in the City. CEC is responsible for the following services:

- Delivery of natural gas supplies sufficient to provide for all of Waukee’s System Supply Requirements,
- Administration of Waukee’s Transportation Agreement with interstate pipelines,
- Advise the City of proposed changes to interstate pipeline’s tariffs,
- Attend WMGU meetings,
- Assist the City in releasing excess capacity.

DESCRIPTION OF THE UTILITY (Continued)

The City also entered into a Firm Deferred Delivery (“FDD”) Service agreement and Firm Throughput Service agreement with Northern Natural Gas Co. (“NNGC”). The agreement expires on May 31, 2028.

City Gas Rates Compared to Peers

Based on information gathered from annual reports to the Iowa Utilities Board, the residents of the City consistently pay higher rates for their natural gas. The following table compares the revenue per MCF sold to the ultimate customer for Waukee and the four large gas utilities within Iowa.

TABLE 1

| REVENUE PER MCF SOLD TO ULTIMATE CUSTOMER | | | | |
|---|---------|---------|---------|---------|
| | 2020 | 2021 | 2022 | Average |
| Waukee | \$11.32 | \$17.78 | \$14.85 | \$14.65 |
| Liberty Utilities | \$7.08 | \$10.30 | \$13.69 | \$10.35 |
| Black Hills Energy | \$7.20 | \$9.40 | \$14.01 | \$10.20 |
| Interstate Power | \$7.16 | \$9.51 | \$11.06 | \$9.24 |
| MidAmerican | \$5.88 | \$10.50 | \$9.14 | \$8.51 |

Source: Annual reports to the Iowa Utilities Board

Environmental, Regulatory and Other Conflicts

Management represents that there are no known problems with environmental, tax, or other regulatory matters nor any material personnel issues. There are no in-progress or pending litigation issues involving the Utility as of the valuation date.

INDUSTRY

An understanding of the nature and outlook of the industry in which the Utility operates allows the Utility to be evaluated in that context. The Utility operates in the natural gas distribution industry. A review of this industry was considered in this appraisal. Key industry conditions as of the valuation date are discussed in detail in Appendix 5 and summarized below.

Natural Gas Distribution Industry

- There is little competition within the industry due to the regional nature of the industry. Furthermore, the capital intensity and heavy regulation make it very difficult for new entrants to become established.
- Residential households have historically represented the largest market for the industry, regularly accounting for over one-third of total industry revenue. Other major markets include the industrial, electrical power, and commercial markets.
- The industry is subject to high levels of volatility in market conditions as well as commodity prices. The price of natural gas fell in 2020 as weak demand from downstream users during the COVID-19 pandemic caused excess supply to build. The price of natural gas then spiked in 2021 and 2022, before falling again in 2023.
- Over the last five years, demand from the commercial and industrial sectors declined amid mandatory shutdowns for non-essential businesses while the residential sector excelled as housing starts increased and people spent more time at home during the COVID-19 pandemic. Industry revenue decreased at a real annualized rate of 1.1% over the last five years as a result of these mixed trends.
- Over the next five-year period, total domestic consumption of natural gas is expected to increase, while prices are anticipated to fall slightly. The forecast decrease in the price of natural gas is expected to hamper the industry's expansion, causing industry revenue to increase only by a real annualized rate of 1.3%.

The current outlook for the industry is reflected in the discount rate as discussed in the Discounted Cash Flow Method and in the selection of the multiples under the Market Approach.

ECONOMY

A review of the general economic factors prevailing at the valuation date provides insight into the economic climate in which "willing and able" buyers and sellers transact. Investors' perceptions are influenced by the overall economic environment and its outlook. A detailed analysis of national and local economic conditions as of the valuation date is presented in detail in Appendix 6 and summarized below.

National Economy

- Gross domestic product ("GDP") increased 1.6% in the first quarter of 2024 after increasing 2.5% in 2023. First quarter GDP growth reflected increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending.
- Consumer spending, which accounts for approximately 70% of the U.S. GDP, increased 2.5% during the first quarter of 2024 and 2.2% during 2023.
- The unemployment rate declined slightly to 3.8% in March from 3.9% in February. Average hourly earnings were up 4.1% over the prior twelve months.
- Stock markets ended the first quarter of 2024 with gains following a significant increase in the prior quarter. The Treasury yield curve gradually increased throughout the quarter.
- Real GDP is expected to increase 2.2% in 2024, 1.6% in 2025, and an average rate of 1.8% between 2026 and 2033. The unemployment rate is expected to average 4.0% in 2024 and 4.2% in 2025.

Local Economy - State of Iowa

- Iowa's real GDP decreased at a real annualized rate of 3.3% in the first quarter of 2024 after increasing 1.7% in the prior quarter. The decrease in GDP in the first quarter of 2024 was the 4th largest among states.
- Iowa's unemployment rate was 2.8% in June 2024, unchanged from the prior month.
- The Iowa Business Council quarterly economic survey increased in the first quarter of 2024 and indicated positive sentiment. Concerns related to workforce attraction and retention remained the top concern of surveyed executives.

The current outlook for the local economy is reflected in the discount rate as discussed in the Discounted Cash Flow Method and in the selection of the multiples under the Market Approach.

FINANCIAL STATEMENT ANALYSIS

In the following section, the operating performance and financial condition of the Utility are analyzed and compared to industry averages. The City of Waukee has a June 30 fiscal year end. Financial statements of the Utility from FY 2018 through the last twelve months ended April 30, 2024 (“LTM 2024”) are summarized in Appendix 7.

The operating performance of the Utility is analyzed and compared to industry medians published by the Risk Management Association (“RMA”). Although industry statistics are a useful source of general analytical data, significant variation can exist in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

Operating Performance

Revenue

Total revenue of \$10.66 million in LTM 2024 decreased 15.1% from FY 2023. Total operating revenues increased at a compound annual rate of 11.2% from FY 2018 to FY 2023 (the “period analyzed”). Annual changes over the period analyzed ranged from a 1.3% increase to a 37.8% increase. Utility revenues benefitted from rapid population growth increasing gas volume sold over the period analyzed with the number of customers increasing in each year. Rising natural gas costs also bolstered Utility revenue. The volume of gas sold increased in each of the last two fiscal years.

Expenses & Net Operating Income

Operating expenses of \$10.11 million in FY 2023 increased 73.5% from FY 2022 due, in large part, to rising costs of natural gas. As a percentage of total revenue, operating expenses represented 80.6% during FY 2023, the highest over the period analyzed. The resulting operating margin of 19.4% was the lowest over the period analyzed but higher than the industry median of 12.2%.

Non-operating income (expense) over the period analyzed consisted primarily of interest income on reserves and gains on the disposal of assets. Net non-operating income of \$250,000 increased 495.2% from FY 2022. The resulting net operating margin of 21.4% for FY 2023 was the lowest over the period analyzed but higher than the industry median of 11.5%. The Utility’s net operating margin averaged 31.2% over the period analyzed.

FINANCIAL STATEMENT ANALYSIS (Continued)

Financial Condition

Total Assets

FYE 2023 total assets of \$23.48 million increased 4.1% from FYE 2022. Total assets are comprised of current assets (25.9%), fixed assets (72.9%) and other assets (1.2%). These percentages compare to industry medians of 44.0%, 41.9% and 14.1%, respectively. The above percentages indicate that the Utility has a higher percentage of fixed assets and a lower percentage of current and other assets as compared to the industry median.

The Utility's FYE 2023 quick and current ratios of 7.8 and 9.0 compared to the industry medians of 1.0 and 1.3, respectively. The FY 2023 revenue to working capital ratio of 2.3 was much lower than the industry median of 22.1. These ratios indicate that short-term liquidity needs are not a problem for the Utility and the Utility has greater short-term liquidity than the industry median.

During FY 2023, the Utility's receivables turned an average of 36.9 times, which increased from the prior year's 36.4 times. Based on fiscal year-end receivable figures, it took the Utility approximately 10 days, on average, to collect its receivables in FY 2023. These ratios compare to the industry median of 12.0 turns or 30 days.

Liabilities and Net Position

FYE 2023 total liabilities of \$840,000 decreased 21.0% from FYE 2022. Total liabilities represented 3.6% of total assets. This ratio is much lower than the industry ratio of 53.3%. FYE 2023 total net position of \$22.64 million increased 5.4% from FYE 2022. The Utility's liabilities to book equity ratio was 0.0 as compared to the industry median of 1.0. This indicates that the Utility uses less leverage in its capital structure than the industry. A lower ratio generally indicates greater long-term financial security.

The above factors are reflected in the discount rate as discussed in the Discounted Cash Flow Method and in the selection of multiples under the Market Approach.

APPRAISAL OF FAIR MARKET VALUE

Three approaches for valuing closely held companies were considered in estimating the fair market value of the Utility. The Income Approach, Market Approach, and Asset Approach are discussed in the following paragraphs.

Income Approach

The Income Approach uses methods that base value on future cash flow provided by a business to an owner or investor. Analysis of value under the Discounted Cash Flow Method is presented in Appendix 8.

Market Approach

The Market Approach estimates the value of a company based on comparisons to companies with similar characteristics, or “guideline” companies. Market data is used to calculate ratios which represent relationships set by investors in the market. The ratios can be applied to the subject company to provide an indication of value. Generally, two sources of guideline transaction data are used: stock market data on publicly traded companies and data from recent mergers and acquisitions in the same or similar industry to the subject company. Methods are discussed below.

- *Merger/Acquisition Method* - Data from merger and acquisition transactions in the industry in which a subject company operates can provide an estimate of the price a buyer might be willing to pay for a company similar to the subject company. Analysis of value under this method is presented in Appendix 9.
- *Guideline Public Company Method* - Multiples implied by stock prices of publicly traded companies can also be used to provide an estimate of fair market value. However, given the nature and size of the Utility’s operations, appropriately comparable public companies could not be identified, and this method was not used to indicate values for the Utility.
- *Prior Transactions in Stock* - Under certain circumstances, transactions involving the sale or purchase of a subject company’s stock may be used to provide an indication of that company's value. The transactions must be at arm’s length and for a negotiated price. Additionally, a sufficient number of transactions is required to indicate a consistent value. No transactions met these requirements during the five most recent years.

APPRAISAL OF FAIR MARKET VALUE (Continued)

Asset Approach

The Asset Approach uses methods that base value on the book value of a business, adjusted for various items. This approach is most appropriate for a non-operating company or a business that is capital or intangible asset intensive. An analysis of the depreciated value of the capital assets of the Utility is presented in Appendix 10.

Valuation Summary

A comparison of the values indicated under the Income, Market, and Asset Approaches for a controlling, marketable interest in the Utility is shown in the following table.

TABLE 2

| CONCLUSION OF VALUE | | | |
|---|------------------|-----------------------|---------------|
| Approach / Method | Reference | Indicated MVIC | Weight |
| Income Approach | | | |
| <u>Discounted Cash Flow Method</u> | Appendix 8 | \$20,160,000 | 100% |
| Market Approach | | | |
| <u>Merger and Acquisition Method</u> | | | |
| Revenue | Appendix 9 | \$20,077,000 | 0% |
| EBITDA | Appendix 9 | \$19,578,000 | 0% |
| Rate base | Appendix 9 | \$19,731,000 | 0% |
| Customers | Appendix 9 | \$18,600,000 | 0% |
| Asset-Based Approach | | | |
| <u>Adjusted Book Value Method</u> | Appendix 10 | \$21,623,000 | 0% |
| Indicated controlling, marketable MVIC | | \$20,160,000 | 100% |

The values above are prior to the application of a discount for lack of marketability which is discussed later in the report. Since the information available under the Merger and Acquisition Method was somewhat limited, indications of value provided by the Market Approach were not given weighting and were used to assess the reasonableness of the values indicated under the Discounted Cash Flow Method.

The value indicated under the Asset Approach does not provide a reasonable estimate of the value of the Utility since these assets cannot be moved. Therefore, a buyer would

APPRAISAL OF FAIR MARKET VALUE (Continued)

more likely offer a price based on the cash flow the assets would generate, and the value of assets for any given buyer may differ from the value calculated under the Discounted Cash Flow Method herein due to the buyer's specific circumstances including its costs of providing the gas service and its economies of scale, with such factors producing a more representative value of what a buyer would pay to acquire the Utility. Therefore, the Asset Approach was not assigned weighting in estimating a value of \$20,160,000 for a controlling, marketable interest in the invested capital of the Utility.

Discount for Lack of Control

Distinct differences are apparent between company owners with the rights to exercise control and those with little or no ability to exercise significant influence over an entity's affairs. Holders of a controlling interest in a company are able to determine corporate policies and procedures and to direct the daily operations of the company. Powers typically exclusive to a company's controlling shareholders include the ability to:

- Elect directors and appoint management.
- Declare and pay dividends.
- Set compensation levels, including their own.
- Liquidate, sell, or merge the business or certain assets of the business.
- Amend the certificate of incorporation, charter, bylaws, and other corporate documents.
- Block any of the above actions.

The values calculated using the Income and Market Approaches represent a controlling interest in the Utility. As the interest being appraised is a controlling interest, no discount for lack of control or control premium was applied.

Discount for Lack of Marketability

With all other things being equal, a company is worth more if it is readily marketable, or less if it is not. Shares of non-publicly held companies generally suffer from a lack of marketability. It is, therefore, a common practice in business valuations to discount the value of a non-publicly held company to account for this lack of marketability. The term *marketability discount* is defined in The International Glossary of Business Valuation Terms as "an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability."

For a controlling interest, the typical means of liquidating ownership is selling either the entire business or a controlling block of stock in a private transaction. Transactions are

APPRAISAL OF FAIR MARKET VALUE (Continued)

often lengthy, expensive, and uncertain. To sell a company similar to the Utility, brokerage fees generally range from 2% to 4% of the transaction price, with the total transaction costs ranging from 2% to 5%. Associated risks and costs to create a market increases the relative size of the discount for lack of marketability to be applied when valuing the Utility.

The size of the discount for lack of marketability depends on various factors specific to a given valuation. Factors that may increase the discount include restrictions on transfer, little or no dividend history, and little or no prospect of public offering or sale of the company. Factors that may decrease the discount include a “put” option, the existence of a limited market available that may purchase shares, an imminent public offering or sale of the company, and a history of high dividends. Other factors whose effect may either increase or decrease the discount include the size of the block of stock and the existence of a buy-sell agreement. The impact of these factors is discussed below:

- Restrictions on transfer – The sale of the Utility requires approval from the Waukegan City Council. This provision restricts the transferability of the Utility and its assets, which warrants an increase in the discount for lack of marketability.
- Distribution history– The owner of a controlling interest could initiate distributions as desired (assuming the Utility had adequate funds). This ability to make distributions as desired warrants a slightly reduced discount for lack of marketability.
- Prospect of public offering or sale of the company – As of the valuation date, the City was exploring the possibility of a sale of the Utility. As a known liquidity event is expected, a lower discount for lack of marketability is warranted. This reduction is limited by the fact that the Utility would still incur professional fees and transaction-related expenses in selling the Utility.
- Size of the block of interest – The size of the block does not have an impact on the discount.
- Financial statement analysis – The number of customers serviced, and the volume of gas sold by the Utility increased in each year over the period analyzed which indicates lower risk to ownership of the Utility. Furthermore, the Utility generated higher margins, on average, than the industry median. The financial condition and earnings history warrant a slight decrease to the discount for lack of marketability.

Since this valuation represents a controlling interest in a privately held company for which no public market exists, it is appropriate to apply a discount for lack of marketability. By analyzing specific attributes of the Utility, a discount for lack of marketability of 3% was applied.

CONCLUSION OF VALUE

It is our opinion that the market value of invested capital of the Utility was \$20,160,000. After subtracting the debt, the fair market value of a controlling, marketable equity interest was \$20,160,000 as of June 30, 2024. Applying a discount for lack of marketability of 3% resulted in a controlling, non-marketable value of \$19,555,000. This value excludes the Utility's cash since it will not be included in a transaction.

TABLE 3

| | |
|---|----------------------------|
| Controlling, marketable market value of invested capital | \$20,160,000 |
| Less: debt | \$0 |
| Controlling, marketable equity value | <u>\$20,160,000</u> |
| Discount for lack of marketability | 3% <u>(\$605,000)</u> |
| Per share value for non-controlling, non-marketable interest | <u>\$19,555,000</u> |

Considerations Under Iowa Code

In accordance with Iowa Code 388.2A, the following items were considered:

1. The depreciated value of the capital assets to be sold was estimated to be \$21,280,000 as shown in Appendix 10. This value does not include the value of cash.
2. The present value of the future cash flows to the City Utility was \$20,160,000 as shown in Appendix 8.
3. The Utility indicated that they expect to spend between \$1,095,000 and \$2,140,000 each year over the next four years to provide adequate service and facilities to the Utility's customers.

Utility Information

Audited financial statements for the City of Waukee for the years-ended June 30, 2018 through 2023, prepared by Denman and Co., LLP in West Des Moines, Iowa.

Internally prepared schedule of operating revenues and expenses for the year-to-date periods ended April 30, 2023, and 2024.

7-year operating forecast prepared by the City of Waukee.

Fixed asset schedule as of June 30, 2023.

Gas inventory report as of June 30, 2023.

Service and Purchase agreements in place with Clayton Energy Corporation and Northern Natural Gas Co. as of the valuation date.

Schedule of expansions and rehabilitations of city gas networks for FY 2024 through FY 2028.

Utility Distribution Management Plans and written procedures effective as of the valuation date.

Waukee Gas System Sale Exploration presentation dated April 30, 2024.

Economic Information

“Economic Outlook Update 1Q 2024.” *Business Valuation Resources*, May 2024, www.bvresources.com.

“2023 State Profile.” *Woods & Poole Economics, Inc*, 2023.

“BEA: Gross Domestic Product and Personal Income by State.” *U.S. Bureau of Economic Analysis*, www.bea.gov/data/gdp/gdp-state.

“Housing Units Authorized by Building Permits.” *U.S. Census Bureau*, www.census.gov/construction/bps/.

“IBC Projects Positive Six-Month Economic Outlook.” *Iowa Business Council*, 3 Apr. 2024, iowabusinesscouncil.org.

“Iowa Corporate Income Tax Rate Changes for 2023.” *Iowa Department of Revenue*, tax.iowa.gov.

“Iowa Leading Indicators Index March 2024 Report.” *Iowa Department of Revenue*, 1 May. 2024, www.tax.iowa.gov/report/economic-indicators.

“Land Values 2023 Summary.” *United States Department of Agriculture*, Aug. 2023, www.nass.usda.gov/Publications.

“Mid-American Economy Historical Data by State.” *Creighton University*, Apr. 2024, creighton.edu/economicoutlook/midamericaneconomy.

“Monthly Indicators – State of Iowa.” *Iowa Association of Realtors*, March. 2024, iowarealtors.com.

“Monthly Labor Force Data.” *Iowa Department of Labor*.

“State and Area Employment, Hours, and Earnings.” U.S. *Department of Labor. Bureau of Labor Statistics*, data.bls.gov.

“State Income and Employment Summary.” *United States Bureau of Economic Analysis*, www.bea.gov.

Walczak, Jared, et. al. “2024 State Business Tax Climate Index.” *Tax Foundation*, www.taxfoundation.org.

Industry Information

“Annual Statement Studies, Financial Ratio Benchmarks.” *The Risk Management Association*, 2023-2024, www.rmahq.org.

“Cost of Capital Navigator.” *Kroll, LLC*, 2023, costofcapital.kroll.com.

“Natural Gas Distribution in the US: 22121.” *IBISWorld Industry Report*, Feb. 2024.

“Deal & Market Data.” *Business Valuation Resources, LLC*, www.bvmarketdata.com.

“FactSet Review.” *FactSet Research Systems Inc.*, 2023.

“Valuation Handbook: Industry Cost of Capital.” *Kroll, LLC*, 2023, Chicago, Illinois.

May 2023 Short-Term Energy Outlook; U.S. Energy Information Administration.

PHMSA FY 2023 Natural Gas Distribution Infrastructure Safety and Modernization Grants.

Annual Gas Distribution Report. Department of Transportation. Pipeline and Hazardous Materials Safety Administration. 2023.

Iowa Utilities Commission. IUB 24/7. iub247.iowa.gov/dashboard.

This Appraisal Report is made subject to the following general contingent and limiting conditions:

1. The analyses presented in this Appraisal apply to this engagement only and may not be used out of the context presented. This report is valid only for the effective date(s) and purpose(s) specified.
2. BCC Advisers has compiled summary financial data and ratios in the Appraisal and various exhibits. The data in these exhibits represent financial data extracted from the Company's historical financial statements as well as other sources. BCC Advisers has not audited or reviewed this financial data and expresses no opinion or other form of assurance on it. The financial summaries presented in the exhibits do not constitute a complete presentation of the Company's financial statements in accordance with generally accepted accounting principles.
3. Public information, as well as industry and statistical information, has been obtained from sources believed to be reliable. However, BCC Advisers makes no representation as to the accuracy or completeness of the information and has performed no procedures to corroborate the information.
4. The projections of earnings or cash flows used in the analysis are solely to assist in the development of the calculated value(s) presented in this Appraisal. These presentations do not include all disclosures required by the guidelines established by the American Institute of Certified Public Accountants for the presentation of a financial projection. The projections have been based upon identified assumptions. Some of the assumptions may not materialize and unanticipated events in the actual results may occur, resulting in variations from the projection which may be substantial. Therefore, BCC Advisers expresses no assurance on these projections.
5. BCC assumes responsible ownership and competent management with respect to the subject assets, properties, or business interests. The calculated value(s) assume that the current level of management expertise and effectiveness continues to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of owners' participation would not be materially or significantly changed.
6. BCC assumes that there is full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the Appraisal. Unless otherwise stated, no effort has been made to determine any possible effect on the subject business due to future federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

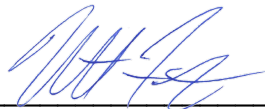
7. BCC assumes that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can be obtained or reviewed for any use on which the analyses contained in this Appraisal are based.
8. Unless otherwise stated in this Appraisal Report, BCC did not observe, and has no knowledge of, the existence of hazardous materials with regard to the subject assets, properties, or business interests. However, BCC is not qualified to detect such materials and assumes no responsibility for such conditions or for any expertise required to discover them.
9. This Appraisal and the conclusion of value are for the exclusive use of our client for the sole and specific purposes stated. The Appraisal may not be used for any other purpose or by any other party for any purpose. Furthermore, the Appraisal and calculated value(s) are not intended by BCC Advisers and should not be construed by the reader to be investment advice.
10. The conclusion of value represents the considered opinion of BCC, based on the information furnished to us by representatives of the business and other sources.
11. No change to any item in this Appraisal shall be made by anyone other than BCC, and BCC shall have no responsibility for any unauthorized change.
12. Neither all nor any part of the contents of this Appraisal (including the calculated value(s), the identity of any valuation specialists, the firm with which the valuation specialists are associated, or reference to any of their professional designations) shall be disseminated to the public through advertising, media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of BCC Advisers.
13. Future services regarding the subject matter of this Appraisal including, but not limited to, testimony or attendance in court, shall not be required of BCC Advisers unless previous arrangements have been made in writing.
14. BCC Advisers has conducted interviews with current management of the subject business concerning past, present, and prospective operating results of the Company.
15. Except as noted, BCC Advisers has relied upon the representations of the owners, management, and other third parties concerning the value and useful conditions of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as otherwise stated in the Appraisal Report. BCC has not attempted to confirm if all assets of the business are free and clear

of liens and encumbrances or that the entity holds good title to all assets. BCC assumes no hidden or unapparent conditions regarding the subject assets, properties, or business interests.

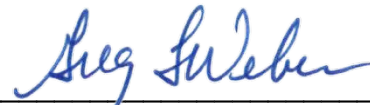
We hereby certify the following statements regarding this Appraisal:

1. Mr. Fett and Mr. Weber have personally inspected the assets, properties, or business interests encompassed by this Appraisal.
2. The parties for whom the information and use of the Appraisal Report is restricted have been specifically identified in the Appraisal Report. The Appraisal Report should not be used by anyone other than the identified parties.
3. We hold ourselves out to the public as appraisers, we perform appraisals on a regular basis, and we are qualified to make appraisals of the type of property being valued.
4. We have no past, present or prospective future interest in the assets, properties, or business interests that are the subject of this Appraisal Report.
5. We have no personal interest or bias with respect to the subject matter of this Appraisal Report or the parties involved.
6. None of the individuals, involved in the valuation, nor BCC Advisers, has been subject to any prior criminal, civil or regulatory proceeding related to prior valuation work.
7. Compensation for making the Appraisal is in no way contingent upon the value reported or upon any predetermined value.
8. We have not been engaged to provide business appraisal services or other consulting services related to the subject property within the prior three years.
9. We understand that a substantial or gross valuation misstatement resulting from an appraisal of the value of property that the appraiser knows, or reasonably should have known, would be used in connection with a return or claim for refund, may subject the appraiser to a civil penalty under IRC Section 6695A.
10. There were no departures from standard valuation methodologies and all standard metrics were considered.
11. The economic and industry data included in this Appraisal Report have been obtained from various printed or electronic reference sources that we believe to be reliable. We have not performed any corroborating procedures to substantiate that data. To the best of our knowledge and belief, the statements of facts contained in this Appraisal Report, upon which the analyses, conclusions, and opinions expressed herein are based, are true and correct.

12. Our analyses, opinions, and conclusions were developed, and this Appraisal Report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as promulgated by The Appraisal Foundation, the Business Valuation Standards, Principles of Appraisal Practice and Code of Professional Ethics of the American Society of Appraisers; the Statement on Standards for Valuation Services of the American Institute of Certified Public Accountants; and the National Association of Certified Valuation Analysts Professional Standards.
13. The following individual provided significant professional assistance to the persons signing this Appraisal Report:
 - Trevor Yuska, Financial Analyst – Provided economic, industry, financial statement, and guideline data research, analysis, and narrative.
14. The reported analyses, opinions, and conclusions are limited only by the reported contingent and limiting conditions, and they represent our unbiased professional analyses, opinions, and conclusions.
15. We have no obligation to update this Appraisal Report or the conclusion of value for information that may come to our attention after the date of the Appraisal Report.
16. Disclosure of the contents of this Appraisal Report is subject to the requirements of The Appraisal Institute, the American Society of Appraisers, the American Institute of Certified Public Accountants, and the other professional organizations, of which we are members, related to review by their duly authorized representatives.
17. The American Society of Appraisers and the National Association of Certified Valuation Analysts have mandatory re-certification programs for all their accredited members. All of BCC Advisers' personnel, who hold ASA or CVA credentials, comply with these respective programs.



Matthew J. Fett, CFA, ASA



Gregory L. Weber, CPA/ABV, ASA

MATT J. FETT, CFA, ASA

Vice President/Shareholder

Matt provides business valuations for closely held companies in a variety of industries, for purposes including ESOP's, mergers/acquisitions, SBA 7(a) loans, estate taxes, buy/sell agreements, intra-family transfers/gifting, charitable donations, and management decision-making. Matt joined BCC in 2009 after graduating from Iowa State University.

OTHER PROFESSIONAL EXPERIENCE

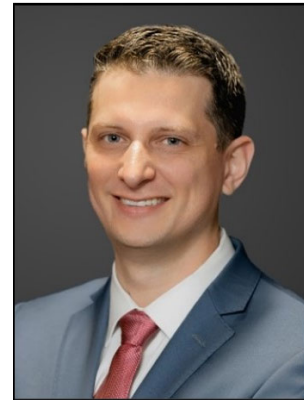
- Aegon Real Estate Investors, Cedar Rapids, IA Intern, Real Estate Valuation Team
- City of Ames, Ames, IA
Housing Inspector

EDUCATION, LICENSES, & CERTIFICATIONS

- B.A. in Finance, Iowa State University
Studied international business in Alicante, Spain
- Chartered Financial Analyst (CFA), CFA Institute
- Accredited Senior Appraiser (ASA), American Society of Appraisers

PROFESSIONAL & COMMUNITY INVOLVEMENT

- CFA Society of Iowa – Member
- Iowa-Nebraska Chapter of the American Society of Appraisers – Former President, Former Vice President, Former Treasurer, Former Secretary
- Rotary Club, Norwalk, Iowa – Charter Member
- Leadership Iowa Class of 2017-2018, Iowa Association of Business and Industry



- Employee Stock Ownership Plans
- Corporate planning
- Mergers & acquisitions
- Buy/sell agreements
- Estate taxation
- Transfers/gifting
- Regulatory compliance
- Shareholder transactions
- SBA 7(a) loan valuations
- Fairness opinions

GREGORY L. WEBER, CPA/ABV, ASA Senior Vice President/Shareholder

Greg is a consultant and business adviser focusing on business valuations for closely held businesses. His expertise extends to a wide range of industries, employing a personalized approach to each assignment from the typical to the very complex. Greg joined BCC in 1998 and has particular expertise in appraisals for Employee Stock Ownership Plans (ESOPs) and estate and gift tax filings. His ESOP work includes initial and transaction consulting, fairness opinions, and ongoing appraisals.

OTHER PROFESSIONAL EXPERIENCE

- KPMG, LLP, Des Moines, IA
Assurance Manager
- Arthur Andersen & Co., Minneapolis, MN
Audit and Business Advisory Experienced Senior

EDUCATION, LICENSES, & CERTIFICATIONS

- B.A. in Accounting, University of Northern Iowa
- Certified Public Accountant (CPA), State of Iowa
- Accredited in Business Valuation (ABV),
American Institute of CPAs
- Accredited Senior Appraiser (ASA), American Society
of Appraisers
- Elijah Watt Sells Award recipient

PROFESSIONAL & COMMUNITY INVOLVEMENT

- Iowa Society of CPAs - Member
- American Institute of CPAs - Member
- American Society of Appraisers, Iowa Chapter -
Member, Past President
- St. Francis of Assisi Catholic Church – Past Finance
Council
- “The Morning Club” Breakfast Club – Past Treasurer,
Past President
- Des Moines Business Record “Forty Under 40”
honoree



- Estate taxation
- Transfers/gifting
- Employee Stock Ownership
Plans
- Corporate planning
- Mergers & acquisitions
- Buy/sell agreements
- Shareholder transactions
- Purchase price allocation
- Fairness opinions

TREVOR A. YUSKA

Financial Analyst

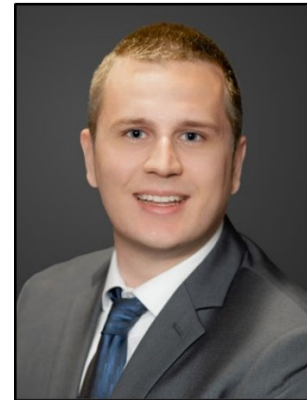
Trevor is primarily responsible for gathering, analyzing, and documenting company background, financial, comparable company, economic, and industry information. Prior to joining BCC in 2019, Trevor completed an internship with the Dallas County Assessor as a residential real estate appraiser. He also worked in the University of Northern Iowa's Office of Business Operations working within the accounts receivable division and performing audits for the university. Trevor competed in national competitions for business valuation issues and real estate investment while attending UNI.

EDUCATION, LICENSES, & CERTIFICATIONS

- B.A. in Finance and Real Estate, University of Northern Iowa
- National Association of Certified Valuators and Analysts (NACVA) "30 Under 30" recipient

PROFESSIONAL & COMMUNITY INVOLVEMENT

- American Society of Appraisers - Candidate Member
- American Society of Appraisers – Iowa-Nebraska Chapter Vice President, Former Treasurer
- Ankeny Leadership Institute – Class of 2024-2025
- United Way LINC (Lead, Impact, Network, Change) - Member
- The Loop Des Moines – Member



- ESOP
 - Valuation, consulting
- Business valuation
 - Corporate/strategic planning
 - Mergers & acquisitions
 - Buy/sell agreements
 - Estate taxation
 - Transfers/gifting
 - Regulatory compliance
 - Shareholder transactions

Natural Gas Distribution Industry

There is little competition within the industry, with operators often having near monopolies in certain areas. Natural gas distributors usually operate at a local or regional level and experience little threat of an outside company encroaching on their territory due to high barriers to entry and heavy regulation which make it very difficult for new entrants to become established and compete.

Residential households have historically represented the largest market for the industry, regularly accounting for over one-third of total industry revenue. Consumers use natural gas for numerous applications, including to power household appliances and for heating. Since residential consumers lack access to wholesale gas markets, these customers typically pay higher retail prices for natural gas compared with industrial users. Other major markets for the industry include the industrial, electrical power, and commercial markets.

Demand for the industry depends on the price and availability of natural gas, economic growth, and the presence of alternative sources of energy. When economic activity is high, businesses and manufacturers demand more energy to power lighting and machinery, thereby bolstering demand for natural gas.

A large proportion of households obtain their heat and electricity from natural gas. Households also use natural gas for a variety of appliances, such as stoves, dryers, furnaces, lights and water heaters. In turn, a growing number of households results in greater demand for natural gas. The number of housing starts has increased over the last five years, strengthening domestic consumption of natural gas. In addition to rising housing starts, the COVID-19 pandemic benefitted this sector as the amount of people who stay at home, whether during non-essential business closures or the subsequent spike in working from home, increased.

Electric power generators are the largest consumers of natural gas by volume, accounting nearly 40% of total natural gas consumption. Falling natural gas prices and efforts to reduce carbon emissions have bolstered consumption of natural gas by utility producers over the past several decades. According to data from the Energy Information Administration, natural gas surpassed coal as the greatest source of electric power in 2015 and has continued to grow to account for nearly half of all electric power generation.

The industry has benefited greatly from the outburst of natural gas availability since the early 2000's as a result of the growing prevalence of advanced drilling techniques. Many end users, particularly electric power plants, have been pressed to transition to this energy source at the expense of others, such as coal, due to its increased affordability and comparatively lower environmental impact.

Over the last five years, the industry has experienced mixed results. The commercial and industrial sectors experienced large revenue declines in 2020 amid mandatory shutdowns for non-essential businesses. The residential sector, however, excelled over the last five years as housing starts increased significantly and people spent more time at home during the COVID-19 pandemic. Industry revenue decreased at a real annualized rate of 1.1% over the last five years as a result of these mixed trends.

Despite revenue growing at a swift rate as demand overwhelmingly increased during the last five years, distributors have endured wild swings in revenue as a result of extremely volatile market conditions. The price of natural gas fell in 2020 as weak demand from downstream users during the COVID-19 pandemic caused excess supply to build. The price of natural gas then spiked in 2021 and 2022, before falling again in 2023.

Over the next five-year period, natural gas production is expected to rise marginally, while infrastructure investments will boost pipeline and export capacity. Total domestic consumption is expected to increase, while prices are anticipated to fall slightly. The forecast decrease in the price of natural gas is expected to hamper the industry's expansion. Industry revenue is forecast to increase at a real annualized rate of 1.3% over the next five years.

National Economy¹

General Economic Conditions

The U.S. economy expanded in the first quarter of 2024 after growing in the prior quarter. The unemployment rate decreased to 3.8% in March 2024, but inflation remained elevated. The federal funds rate was maintained between 5.25% and 5.50%, up from recent historical lows in efforts to combat inflation. All major U.S. equity indices posted gains in the first quarter of 2024. The following table summarizes historical financial statistics from 2020 to 2023.

TABLE 6-1

| HISTORICAL ECONOMIC DATA | | | | |
|---|-------|-------|-------|------|
| | 2020 | 2021 | 2022 | 2023 |
| <i>Percentage Change:</i> | | | | |
| Real GDP | -2.2% | 5.8% | 1.9% | 2.5% |
| Industrial production | -7.2% | 4.4% | 3.4% | 0.2% |
| Consumer spending | -2.5% | 8.4% | 2.5% | 2.2% |
| Business investment | -4.7% | 5.9% | 5.2% | 4.5% |
| Government spending | 3.2% | -0.3% | -0.9% | 4.1% |
| Consumer price index | 1.2% | 4.7% | 8.0% | 4.1% |
| Unemployment rate | 8.1% | 5.4% | 3.6% | 3.6% |
| <i>Actual (in millions):</i> | | | | |
| Housing starts | 1.40 | 1.61 | 1.55 | 1.42 |
| Source: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board. | | | | |

The Bureau of Economic Analysis reported that real GDP increased at an annualized rate of 1.6% in the first quarter of 2024 after increasing 3.4% in the prior quarter. GDP is the total market value of goods and services produced in the U.S. economy and is generally considered the most comprehensive measure of economic growth. First quarter GDP growth reflected increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending. A decline in private inventory investment partially offset these increases. Imports, which are subtracted from GDP, increased.

¹ All of the contents of the national economic section are quoted from the Economic Outlook Update™ IQ 2024 published by Business Valuation Resources, LLC, © 2024, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report

Consumer spending, also referred to as “personal consumption,” accounts for approximately 70% of the U.S. GDP. In the first quarter of 2024, consumer spending increased at an annual rate of 2.5% after increasing 3.3% in the prior quarter. Consumer spending increased on services while spending on goods decreased.

Business investment increased at an annual rate of 2.9% in the first quarter of 2024 after rising 3.7% in the prior quarter. The first quarter increase resulted from greater spending on intellectual property products and equipment. Residential fixed investment, often considered a proxy for the housing market, increased at an annual rate of 13.9% in the first quarter of 2024.

America’s trade deficit decreased 0.1% in the first quarter compared to the prior quarter. Exports increased at an annual rate of 0.9% in the first quarter of 2024, after increasing 5.1% in the prior quarter. Imports, which are subtracted from GDP, increased at an annual rate of 7.2% in the first quarter of 2024 after increasing 2.2% in the prior quarter.

Consumer Prices and Inflation Rates

According to the Bureau of Economic Analysis, the price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 3.1% in the first quarter of 2024, following an increase of 1.9% in the prior quarter. Excluding food and energy prices, the price index for gross domestic purchases rose 3.7% in the first quarter after rising 2.0% in the prior quarter.

The Consumer Price Index (“CPI”) is a measure of a basket of products and services, including housing, electricity, food, and transportation, and is used as a measure of inflation. The CPI is comprised of three main indices: the food index, the energy index, and all items less food and energy indices (“Core CPI”). The CPI rose 0.4% in March, mainly due to increases in shelter and gasoline. Core CPI increased 0.4% in March. Over the prior twelve months, the CPI increased by 3.5%, and the Core CPI increased by 3.8%.

The Bureau of Labor Statistics reported that the Producer Price Index (“PPI”) increased 2.1% over the prior twelve months. PPI is a gauge of inflation in the manufacturing process that can be a precursor to inflation in consumer prices. Core PPI, the index for final demand excluding food, energy, and trade services, increased 2.8% over the prior twelve months.

Energy Prices

The Energy Information Administration reported that the West Texas Intermediate crude oil spot price averaged \$77.58 per barrel in 2023 and predicted the price will average

\$83.78 per barrel in 2024. The retail price for regular-grade gas averaged \$3.52 in 2023 and is expected to average \$3.59 in 2024.

Interest Rates

The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

From the onset of COVID-19 in 2020 until 2022, the Federal Open Market Committee (“FOMC”) maintained the federal funds rate between 0.00% and 0.25%. In 2022, the FOMC began increasing the rate in efforts to combat inflation. The rate reached a high of between 5.25% and 5.50% in July 2023, and the FOMC has maintained that rate through the first quarter of 2024. The FOMC stated that economic activity expanded at a solid pace in recent quarters, job gains remained strong, and the unemployment rate remained low, while inflation eased yet remained elevated. The FOMC cited a goal to return inflation to its 2.0% objective.

Unemployment

The U.S. economy added 303,000 jobs to the labor market in March, and the unemployment rate declined slightly to 3.8% from 3.9% in February. Job gains were most notable in the healthcare, government, leisure, hospitality, social assistance, retail, and construction sectors.

The labor-force participation rate increased 0.2 points in March to 62.7% after remaining unchanged for three consecutive months. The employment-population ratio, which is the share of the working-age population with a job, increased by 0.2% in March to 60.3%. The number of long-term unemployed (those jobless for 27 weeks or more) was 1.25 million in March 2024, which was higher than 1.05 million in the prior year. The US Department of Labor reported that average hourly earnings of \$34.69 in March 2024 increased 4.1% over the prior twelve months.

Consumer Confidence

The Conference Board Consumer Confidence Index is an indicator that measures the degree of optimism about the state of the economy that consumers express through saving and spending. A decreasing month-over-month trend in the Consumer Confidence Index suggests that consumers have a negative outlook about their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns.

The Consumer Confidence Index decreased 0.1 point to 104.7 in March. March's index reflected consumers' improved assessment of their present situation but also reflected a more pessimistic view of the future.

Stock and Bond Markets

All major U.S. equity indices ended the first quarter of 2024 with gains following a significant increase in the prior quarter. The Dow Jones Industrial Average, an index of 30 of the largest and most widely held public companies in the U.S., increased 5.6% during the first quarter after increasing 12.5% in the prior quarter. The S&P 500 consists of a representative sample of 500 leading companies of the U.S. economy and is commonly viewed as a proxy for the market. The S&P 500 increased 10.2% in the first quarter, after increasing 11.2% in the prior quarter. The NASDAQ Composite Index, consisting mainly of high-tech stocks, rose 9.1% in the first quarter, after increasing 13.6% in the prior quarter. The small-cap Russell 2000 Index increased 4.8% in the first quarter of 2024, after increasing 13.6% in the prior quarter.

The Treasury yield curve gradually increased throughout the quarter. The 10-year Treasury yield increased from 4.0% to 4.2%, while the 20-year Treasury yield increased from 4.3% to 4.5%. The 30-day T-bill rate declined slightly during the first quarter from 5.6% to 5.5%.

Construction

According to the U.S. Census Bureau, U.S. housing starts in March decreased 14.7% from the prior month and 4.3% from the prior year. Housing starts for single-family homes in March were 12.4% lower than the prior month but 21.2% higher than March 2023. Multifamily housing starts in March 2024 were 20.8% lower than the prior month and 43.7% lower than the prior year. The multifamily-home sector consists of buildings with five units or more and tends to be more volatile than the single-family-home sector.

Building permit authorizations for privately owned housing units, considered a leading indicator of demand for new homes, decreased 4.3% in March 2024 but were 1.5% higher than the prior year. Overall, spending on construction in the first quarter of 2024 was 10.6% higher than the first quarter of 2023, driven by increases in spending on private nonresidential construction and total public construction.

Manufacturing

The Federal Reserve reported that total industrial production increased 0.4% in March but declined at an annual rate of 1.8% in the first quarter of 2024. Industrial production is an output measure of the industrial sector of the economy, including manufacturing, mining, and utilities. Manufacturing accounts for approximately 75% of total industrial

production. Capacity utilization for the industrial sector increased 0.2 percentage points in March to 78.4%, a rate that is 1.2% lower than its long-run (1972 to 2023) average. Capacity utilization is the percentage of production capacity manufacturers actually use.

The Institute for Supply Management reported a manufacturing index (“PMI”) in December of 50.3%, an increase of 2.5 percentage points from the prior month. A reading above 50% indicates that the manufacturing economy is generally expanding; a reading below 50% indicates that it is generally contracting. The March 2024 reading indicated the first month of expansion after 16 consecutive months of contractions.

Real Estate

Existing home sales are completed transactions that include single-family houses, townhomes, condominiums, and co-ops. The National Association of Realtors reported that existing home sales decreased 3.7% over the prior twelve months. Shares of distressed home sales, which include both foreclosures and short sales, accounted for 2.0% of all home sales in March, unchanged from the prior month and prior year.

Home sales are forecast to increase in each of the next two years as consumers benefit from subsiding mortgage rates, steady home prices, and increased inventory. The national median existing-home price for all housing types of \$393,500 in March was up 4.8% from a year prior. Over the previous twelve months, prices increased in all U.S. regions.

Economic Outlook

Consensus Economics Inc. reports that a consensus of U.S. forecasts expect real GDP to increase at annual rates of 1.0% in the second and third quarters of 2024. Every month, Consensus Economics surveys a panel of 28 prominent U.S. economic and financial forecasters for predictions on a range of variables, including future growth, inflation, current account and budget balances, and interest rates. These forecasts expect GDP to increase 2.2% in 2024 and 1.6% in 2025. The following table summarizes key forecast economic statistics.

TABLE 6-2

| CONSENSUS FORECASTS | | | | |
|--------------------------------|------|------|-----------|-----------|
| | 2024 | 2025 | 2026-2028 | 2029-2033 |
| <i>Percentage Change:</i> | | | | |
| Real GDP | 2.2% | 1.6% | 1.9% | 1.7% |
| Industrial production | 0.2% | 1.3% | 2.1% | 1.6% |
| Consumer spending | 2.0% | 1.7% | 2.0% | 1.8% |
| Business investment | 1.8% | 2.4% | 3.0% | 2.6% |
| Government spending | 2.4% | 0.9% | N/A | N/A |
| Consumer price index | 2.8% | 2.2% | 2.2% | 2.2% |
| Unemployment rate | 4.0% | 4.2% | N/A | N/A |
| <i>Forecast (in millions):</i> | | | | |
| Housing starts | 1.40 | 1.46 | N/A | NA |

Source: Consensus Forecasts - USA, March 2023

Consumer prices are expected to increase 2.8% in 2024 and 2.2% in 2025. Producer prices are expected to increase 0.7% in 2024 and 1.5% in 2025. Real disposable personal income is expected to increase 2.1% in 2024 and 2.2% in 2025. The unemployment rate is expected to average 4.0% in 2024 and 4.2% in 2025.

The three-month Treasury bill rate is expected to be 5.1% at the end of the second of 2024 and 4.7% at the end of the third quarter. The 10-year Treasury bond yield is expected to be 4.0% at the end of the second quarter of 2024 and 3.9% at the end of the third quarter.

Local Economy - State of Iowa and Dallas County

The operations of the Utility are located in Waukee, Iowa (Dallas County). Therefore, a review of the Iowa economy and demographic information for Dallas County were considered in this appraisal.

Iowa’s real GDP decreased at a real annualized rate of 3.3% in the first quarter of 2024 after increasing 1.7% in the prior quarter. The decrease in GDP in the first quarter of 2024 was the 4th largest among states. The decrease was driven by the agriculture sector while growth in the construction and finance sectors partially offset the decline. Iowa’s unemployment rate was 2.8% in June 2024, unchanged from the prior month. The following table shows key economic data for the state from 2020 to 2023.

TABLE 6-3

| IOWA ECONOMIC DATA | | | | |
|---------------------------|-----------------|---------|---------|---------|
| | Historical Data | | | |
| | 2020 | 2021 | 2022 | 2023 |
| <i>Percentage Change:</i> | | | | |
| Iowa real GDP | -0.6% | 6.1% | -0.3% | 1.3% |
| Personal income | 6.1% | 10.6% | 3.8% | 3.7% |
| Non-farm personal income | 6.5% | 7.7% | 2.8% | 4.2% |
| Farm income * | -15.9% | 218.1% | 29.2% | -4.3% |
| Non-farm employment | -4.5% | 2.5% | 1.6% | 1.1% |
| Manufacturing employment | -3.4% | 1.5% | 2.2% | 1.2% |
| Construction employment | -1.0% | 4.4% | 0.2% | 4.2% |
| Construction permits | 6.3% | 8.4% | -7.1% | -12.7% |
| <i>Actual:</i> | | | | |
| Farm land values | \$7,070 | \$7,740 | \$9,400 | \$9,930 |
| State unemployment rate | 4.3% | 2.7% | 2.9% | 2.6% |

*The increase in 2021 and 2022 farm income includes government payments.

Sources: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau, U.S. Department of Agriculture

The Iowa Business Council quarterly economic survey reported its overall economic outlook index increased to 63.2 in the first quarter of 2024, up 3.5 index points from the prior quarter. The fourth quarter reading marks the 15th consecutive quarter where the index measured above 50, indicating positive sentiment. The report cited an increase in sales expectations and employment over the next six months but a decrease in capital spending. Concerns related to workforce attraction and retention remained the top concern of surveyed executives.

According to the Iowa Association of Realtors, the median sales price of homes in March 2024 was 7.1% greater than the prior year. However, 8.5% fewer homes were sold in March 2024 than the prior year. The pace of home sales slowed as the average number of days on the market increased to 56 days in March 2024 as compared to 52 days in the prior year. Home inventory was 28.3% higher in March 2024 as compared to the prior year. The March home inventory represented 2.3 months’ supply of inventory, an improvement from 1.6 months in the prior year.

The Iowa Leading Indicators Index increased to 105.6 in March 2024 from 105.2 in February. The index is based on eight economic indicators determined by the Iowa Department of Revenue to be significantly correlated to the immediate future direction of

the Iowa economy. Long-term trends suggest that non-farm employment will increase over the next three to six months.

Iowa's Business Conditions Index increased to 51.8 in March from 49.3 in February. An index greater than 50 suggests an expansionary economy over the following three to six months. The production, delivery lead time, and inventory components of the index were above growth neutral while new orders and employment components were below.

Iowa passed a comprehensive tax reform package that plans to reduce individual and corporate income tax rates. This package will reduce the state's high graduated individual income tax rate to a flat tax of 3.9% by 2026. In 2023, the state's income tax rate decreased from 8.5% to 6.0%. Additionally, subject to corporate tax receipts exceeding \$700 million in the preceding fiscal year, the state targets a decrease in the corporate income tax rate to 5.5%.

Each year, the Tax Foundation releases the "State Business Tax Climate Index," which compares the various state tax systems. States with the best tax systems are likely to be competitive in attracting new businesses and effective at generating economic and employment growth. As a result of the tax reform package that began in 2023, Iowa's ranking improved from 38th for 2023 to 33rd for 2024. Iowa ranks 29th for corporate taxes, 41st for property taxes, 32nd for unemployment insurance taxes, 22nd for individual income taxes, and 15th for sales taxes.

The Dallas County labor force reported an unemployment rate of 2.4% in May 2024, which was below the rates for Iowa and the nation. Median household income for Dallas County was greater than the medians for the state and nation. The total population of Dallas County is forecast to grow at an annualized rate of 2.3% over the next ten years. The following table summarizes statistics relating to the national, state, and local economic conditions affecting the Utility.

TABLE 6-4

| ECONOMIC STATISTICS SUMMARY | | | | | | |
|-----------------------------|-------------------------|-------------|-------------|------|-------------|-------------------|
| Region | Median Household Income | Population | | | Labor Force | Unemployment Rate |
| | | 2023 | 2033 | CAGR | | |
| | (a) | (b) | (b) | | (c) | (c) |
| United States | \$74,580 | 335,546,979 | 357,682,296 | 0.7% | 167,576,000 | 3.7% |
| State of Iowa | \$76,320 | 3,211,200 | 3,306,293 | 0.3% | 1,679,905 | 2.7% |
| Dallas County | \$109,138 | 110,391 | 136,050 | 2.3% | 53,786 | 2.4% |

Sources:
 (a) Census Reporter; Federal Reserve Economic Data - Federal Reserve Bank of St. Louis
 (b) Woods & Poole Economics, Inc.
 (c) U.S. Department of Labor; Bureau of Labor Statistics - May 2024

Summary

Real GDP rose in the first quarter but at a rate slower than the prior quarter. Inflation remained elevated and the unemployment rate declined slightly. The U.S. stock markets reported gains during the first quarter of 2024 after posting strong gains in the prior quarter. Housing starts and existing-home sales decreased, while the median home price reached a record high. The consensus forecasts for GDP, along with other key indicators, indicated moderate growth in both the near-term and mid-term as inflation and interest rates stabilize.

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

| Income Statement (amounts in thousands) | Audit | | | | | | Internal |
|--|-------|-------|-------|--------|--------|--------|----------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | LTM 4/30/24 |
| Operating revenues: | | | | | | | |
| Total operating revenues | 7,390 | 7,734 | 7,838 | 10,800 | 11,396 | 12,548 | 10,655 |
| Operating expenses: | | | | | | | |
| Cost of sales and services | 5,205 | 5,331 | 5,351 | 6,297 | 5,281 | 9,552 | 8,584 |
| Depreciation and amortization | 366 | 381 | 427 | 452 | 546 | 558 | |
| Total operating expenses | 5,571 | 5,712 | 5,778 | 6,749 | 5,827 | 10,110 | |
| Operating income | 1,819 | 2,022 | 2,060 | 4,051 | 5,569 | 2,438 | |
| Nonoperating revenues (expenses): | | | | | | | |
| Interest income | 43 | 79 | 61 | 12 | 27 | 234 | |
| Interest expense & fiscal charges | (52) | (42) | (32) | 0 | 0 | 0 | |
| Gain (loss) on disposal of assets | 8 | 25 | 25 | 28 | 15 | 16 | |
| Total nonoperating rev. (expenses) | (1) | 62 | 54 | 40 | 42 | 250 | |
| Net operating income | 1,818 | 2,084 | 2,114 | 4,091 | 5,611 | 2,688 | |
| Net operating income | 1,818 | 2,084 | 2,114 | 4,091 | 5,611 | 2,688 | |
| Interest on reserves | (43) | (79) | (61) | (12) | (27) | (234) | |
| Interest expense & fiscal charges | 52 | 42 | 32 | 0 | 0 | 0 | |
| Depreciation & amortization | 366 | 381 | 427 | 452 | 546 | 558 | |
| EBITDA | 2,193 | 2,428 | 2,512 | 4,531 | 6,130 | 3,012 | |
| Gas sold (100 cubic feet): | | | | | | | |
| Small volume users | N/A | N/A | N/A | 5,327 | 5,843 | 6,347 | |
| Large volume users | N/A | N/A | N/A | 1,319 | 1,421 | 1,497 | |
| Total gas sold | N/A | N/A | N/A | 6,646 | 7,264 | 7,844 | |
| Customers: | | | | | | | |
| Small volume users | N/A | 7,152 | 7,591 | 7,876 | 8,550 | 9,083 | |
| Large volume users | N/A | 53 | 60 | 69 | 77 | 79 | |
| Total number of customers | N/A | 7,205 | 7,651 | 7,945 | 8,627 | 9,162 | |

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Income Statement

% of total revenue

| | Audit | | | | | | Industry |
|------------------------------------|--------|--------|--------|--------|--------|--------|------------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | NAICS #221210 |
| Operating revenues: | | | | | | | |
| Total operating revenues | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating expenses: | | | | | | | |
| Cost of sales and services | 70.4% | 68.9% | 68.3% | 58.3% | 46.3% | 76.1% | |
| Depreciation and amortization | 5.0% | 4.9% | 5.4% | 4.2% | 4.8% | 4.4% | |
| Total operating expenses | 75.4% | 73.9% | 73.7% | 62.5% | 51.1% | 80.6% | 87.8% |
| Operating income | 24.6% | 26.1% | 26.3% | 37.5% | 48.9% | 19.4% | 12.2% |
| Nonoperating revenues (expenses): | | | | | | | |
| Interest income | 0.6% | 1.0% | 0.8% | 0.1% | 0.2% | 1.9% | |
| Interest expense & fiscal charges | -0.7% | -0.5% | -0.4% | 0.0% | 0.0% | 0.0% | |
| Gain (loss) on disposal of assets | 0.1% | 0.3% | 0.3% | 0.3% | 0.1% | 0.1% | |
| Total nonoperating rev. (expenses) | 0.0% | 0.8% | 0.7% | 0.4% | 0.4% | 2.0% | |
| Net operating income | 24.6% | 26.9% | 27.0% | 37.9% | 49.2% | 21.4% | 11.5% |
| Net operating income | 24.6% | 26.9% | 27.0% | 37.9% | 49.2% | 21.4% | |
| Interest on reserves | -0.6% | -1.0% | -0.8% | -0.1% | -0.2% | -1.9% | |
| Interest expense & fiscal charges | 0.7% | 0.5% | 0.4% | 0.0% | 0.0% | 0.0% | |
| Depreciation & amortization | 5.0% | 4.9% | 5.4% | 4.2% | 4.8% | 4.4% | 4.8% |
| EBITDA | 29.7% | 31.4% | 32.0% | 42.0% | 53.8% | 24.0% | 17.0% |

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Income Statement

% increase over prior year

| | Audit | | | | | | CAGR |
|------------------------------------|-------|----------|--------|---------|--------|--------|---------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | |
| Operating revenues: | | | | | | | |
| Total operating revenues | N/A | 4.7% | 1.3% | 37.8% | 5.5% | 10.1% | 11.2% |
| Operating expenses: | | | | | | | |
| Cost of sales and services | N/A | 2.4% | 0.4% | 17.7% | -16.1% | 80.9% | 12.9% |
| Depreciation and amortization | N/A | 4.1% | 12.1% | 5.9% | 20.8% | 2.2% | 8.8% |
| Total operating expenses | N/A | 2.5% | 1.2% | 16.8% | -13.7% | 73.5% | 12.7% |
| Operating income | N/A | 11.2% | 1.9% | 96.7% | 37.5% | -56.2% | 6.0% |
| Nonoperating revenues (expenses): | | | | | | | |
| Interest income | N/A | 83.7% | -22.8% | -80.3% | 125.0% | 766.7% | 40.3% |
| Interest expense & fiscal charges | N/A | -19.2% | -23.8% | -100.0% | N/A | N/A | -100.0% |
| Gain (loss) on disposal of assets | N/A | 212.5% | 0.0% | 12.0% | -46.4% | 6.7% | 14.9% |
| Total nonoperating rev. (expenses) | N/A | -6300.0% | -12.9% | -25.9% | 5.0% | 495.2% | N/A |
| Net operating income | N/A | 14.6% | 1.4% | 93.5% | 37.2% | -52.1% | 8.1% |
| Net operating income | N/A | 14.6% | 1.4% | 93.5% | 37.2% | -52.1% | 8.1% |
| Interest on reserves | N/A | 83.7% | -22.8% | -80.3% | 125.0% | 766.7% | 40.3% |
| Interest expense & fiscal charges | N/A | -19.2% | -23.8% | -100.0% | N/A | N/A | -100.0% |
| Depreciation & amortization | N/A | 4.1% | 12.1% | 5.9% | 20.8% | 2.2% | 8.8% |
| EBITDA | N/A | 10.7% | 3.5% | 80.4% | 35.3% | -50.9% | 6.6% |

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Balance Sheet

(amounts in thousands)

| | Audit | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| | 6/30/18 | 6/30/19 | 6/30/20 | 6/30/21 | 6/30/22 | 6/30/23 |
| Current assets: | | | | | | |
| Cash & investments | 3,379 | 4,426 | 4,901 | 5,449 | 6,527 | 4,926 |
| Accounts receivable | 144 | 233 | 257 | 397 | 313 | 340 |
| Inventory | 158 | 292 | 204 | 320 | 453 | 824 |
| Other current assets | 0 | 0 | 0 | 93 | 0 | 0 |
| Total current assets | 3,681 | 4,951 | 5,362 | 6,259 | 7,293 | 6,090 |
| Property, plant & equipment: | | | | | | |
| Capital assets, net | 11,129 | 11,555 | 11,957 | 12,860 | 14,868 | 17,113 |
| Other long-term assets: | | | | | | |
| Restricted cash & investments | 110 | 104 | 101 | 168 | 169 | 171 |
| Deferred outflows | 111 | 103 | 78 | 87 | 85 | 101 |
| Net pension asset | 0 | 0 | 0 | 0 | 132 | 0 |
| Other assets | 37 | 39 | 40 | 0 | 0 | 0 |
| Total other long-term assets | 258 | 246 | 219 | 255 | 386 | 272 |
| Total assets | 15,068 | 16,752 | 17,538 | 19,374 | 22,547 | 23,475 |
| Current liabilities: | | | | | | |
| Accounts payable | 84 | 174 | 166 | 296 | 561 | 483 |
| Other current liabilities | 510 | 525 | 141 | 175 | 174 | 190 |
| Total current liabilities | 594 | 699 | 307 | 471 | 735 | 673 |
| Long-term liabilities: | | | | | | |
| Net pension liability | 215 | 198 | 156 | 206 | 0 | 73 |
| Total OPEB liability | 32 | 32 | 32 | 36 | 46 | 48 |
| Deferred inflows | 11 | 20 | 45 | 13 | 282 | 46 |
| Revenue notes payable, net | 1,195 | 807 | 0 | 0 | 0 | 0 |
| Total long-term liabilities | 1,453 | 1,057 | 233 | 255 | 328 | 167 |
| Total liabilities | 2,047 | 1,756 | 540 | 726 | 1,063 | 840 |
| Net position: | | | | | | |
| Total net position | 13,021 | 14,996 | 16,998 | 18,648 | 21,484 | 22,635 |
| Total liabilities & net position | 15,068 | 16,752 | 17,538 | 19,374 | 22,547 | 23,475 |

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Balance Sheet

% of total assets

| | Audit | | | | | | Industry |
|---|---------------|---------------|---------------|---------------|---------------|---------------|------------------|
| | 6/30/18 | 6/30/19 | 6/30/20 | 6/30/21 | 6/30/22 | 6/30/23 | NAICS #221210 |
| Current assets: | | | | | | | |
| Cash & investments | 22.4% | 26.4% | 27.9% | 28.1% | 28.9% | 21.0% | 15.4% |
| Accounts receivable | 1.0% | 1.4% | 1.5% | 2.0% | 1.4% | 1.4% | 17.2% |
| Inventory | 1.0% | 1.7% | 1.2% | 1.7% | 2.0% | 3.5% | 7.5% |
| Other current assets | 0.0% | 0.0% | 0.0% | 0.5% | 0.0% | 0.0% | 3.9% |
| Total current assets | 24.4% | 29.6% | 30.6% | 32.3% | 32.3% | 25.9% | 44.0% |
| Property, plant & equipment: | | | | | | | |
| Capital assets, net | 73.9% | 69.0% | 68.2% | 66.4% | 65.9% | 72.9% | 41.9% |
| Other long-term assets: | | | | | | | |
| Restricted cash & investments | 0.7% | 0.6% | 0.6% | 0.9% | 0.7% | 0.7% | |
| Deferred outflows | 0.7% | 0.6% | 0.4% | 0.4% | 0.4% | 0.4% | |
| Net pension asset | 0.0% | 0.0% | 0.0% | 0.0% | 0.6% | 0.0% | |
| Other assets | 0.2% | 0.2% | 0.2% | 0.0% | 0.0% | 0.0% | |
| Total other long-term assets | 1.7% | 1.5% | 1.2% | 1.3% | 1.7% | 1.2% | 14.1% |
| Total assets | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Current liabilities: | | | | | | | |
| Accounts payable | 0.6% | 1.0% | 0.9% | 1.5% | 2.5% | 2.1% | 14.4% |
| Other current liabilities | 3.4% | 3.1% | 0.8% | 0.9% | 0.8% | 0.8% | |
| Total current liabilities | 3.9% | 4.2% | 1.8% | 2.4% | 3.3% | 2.9% | 30.0% |
| Long-term liabilities: | | | | | | | |
| Net pension liability | 1.4% | 1.2% | 0.9% | 1.1% | 0.0% | 0.3% | |
| Total OPEB liability | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | |
| Deferred inflows | 0.1% | 0.1% | 0.3% | 0.1% | 1.3% | 0.2% | |
| Revenue notes payable, net | 7.9% | 4.8% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Total long-term liabilities | 9.6% | 6.3% | 1.3% | 1.3% | 1.5% | 0.7% | 23.3% |
| Total liabilities | 13.6% | 10.5% | 3.1% | 3.7% | 4.7% | 3.6% | 53.3% |
| Net position: | | | | | | | |
| Total net position | 86.4% | 89.5% | 96.9% | 96.3% | 95.3% | 96.4% | 46.7% |
| Total liabilities & net position | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Balance Sheet

% increase over prior year

| | Audit | | | | | | CAGR |
|---|------------|---------------|---------------|--------------|--------------|---------------|----------------|
| | 6/30/18 | 6/30/19 | 6/30/20 | 6/30/21 | 6/30/22 | 6/30/23 | |
| Current assets: | | | | | | | |
| Cash & investments | N/A | 31.0% | 10.7% | 11.2% | 19.8% | -24.5% | 7.8% |
| Accounts receivable | N/A | 61.8% | 10.3% | 54.5% | -21.2% | 8.6% | 18.7% |
| Inventory | N/A | 84.8% | -30.1% | 56.9% | 41.6% | 81.9% | 39.1% |
| Other current assets | N/A | N/A | N/A | N/A | -100.0% | N/A | 0.0% |
| Total current assets | N/A | 34.5% | 8.3% | 16.7% | 16.5% | -16.5% | 10.6% |
| Property, plant & equipment: | | | | | | | |
| Capital assets, net | N/A | 3.8% | 3.5% | 7.6% | 15.6% | 15.1% | 9.0% |
| Other long-term assets: | | | | | | | |
| Restricted cash & investments | N/A | -5.5% | -2.9% | 66.3% | 0.6% | 1.2% | 9.2% |
| Deferred outflows | N/A | -7.2% | -24.3% | 11.5% | -2.3% | 18.8% | -1.9% |
| Net pension asset | N/A | N/A | N/A | N/A | N/A | -100.0% | 0.0% |
| Other assets | N/A | 5.4% | 2.6% | -100.0% | N/A | N/A | -100.0% |
| Total other long-term assets | N/A | -4.7% | -11.0% | 16.4% | 51.4% | -29.5% | 1.1% |
| Total assets | N/A | 11.2% | 4.7% | 10.5% | 16.4% | 4.1% | 9.3% |
| Current liabilities: | | | | | | | |
| Accounts payable | N/A | 107.1% | -4.6% | 78.3% | 89.5% | -13.9% | 41.9% |
| Other current liabilities | N/A | 2.9% | -73.1% | 24.1% | -0.6% | 9.2% | -17.9% |
| Total current liabilities | N/A | 17.7% | -56.1% | 53.4% | 56.1% | -8.4% | 2.5% |
| Long-term liabilities: | | | | | | | |
| Net pension liability | N/A | -7.9% | -21.2% | 32.1% | -100.0% | N/A | -19.4% |
| Total OPEB liability | N/A | 0.0% | 0.0% | 12.5% | 27.8% | 4.3% | 8.4% |
| Deferred inflows | N/A | 81.8% | 125.0% | -71.1% | 2069.2% | -83.7% | 33.1% |
| Revenue notes payable, net | N/A | -32.5% | -100.0% | N/A | N/A | N/A | -100.0% |
| Total long-term liabilities | N/A | -27.3% | -78.0% | 9.4% | 28.6% | -49.1% | -100.0% |
| Total liabilities | N/A | -14.2% | -69.2% | 34.4% | 46.4% | -21.0% | -35.1% |
| Net position: | | | | | | | |
| Total net position | N/A | 15.2% | 13.4% | 9.7% | 15.2% | 5.4% | 0.0% |
| Total liabilities & net position | N/A | 11.2% | 4.7% | 10.5% | 16.4% | 4.1% | 11.7% |

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

| Financial Ratios | Audit | | | | | | Industry |
|-----------------------------------|-------|-------|-------|-------|-------|-------|------------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | NAICS #221210 |
| Liquidity Ratios: | | | | | | | |
| Quick ratio | 5.9 | 6.7 | 16.8 | 12.4 | 9.3 | 7.8 | 1.0 |
| Current ratio | 6.2 | 7.1 | 17.5 | 13.3 | 9.9 | 9.0 | 1.3 |
| Working capital excl debt (\$000) | 3,087 | 4,252 | 5,055 | 5,788 | 6,558 | 5,417 | N/A |
| Revenue / working capital | 2.4 | 1.8 | 1.6 | 1.9 | 1.7 | 2.3 | 22.1 |
| Activity Ratios: | | | | | | | |
| Receivable turns (X) | 51.3 | 33.2 | 30.5 | 27.2 | 36.4 | 36.9 | 12.0 |
| Collection period (days) | 7 | 11 | 12 | 13 | 10 | 10 | 30 |
| Leverage Ratios: | | | | | | | |
| Liabilities / book equity | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Total assets / book equity * | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 2.1 |
| Operating Ratios: | | | | | | | |
| NPBT / net worth | 14.0% | 13.9% | 12.4% | 21.9% | 26.1% | 11.9% | 12.2% |
| NPBT / total assets | 12.1% | 12.4% | 12.1% | 21.1% | 24.9% | 11.5% | 5.0% |
| Operating profit / revenue | 24.6% | 26.1% | 26.3% | 37.5% | 48.9% | 19.4% | 12.2% |
| Revenue / total assets * | 49.0% | 46.2% | 44.7% | 55.7% | 50.5% | 53.5% | 90.0% |
| NPBT / revenue * | 24.6% | 26.9% | 27.0% | 37.9% | 49.2% | 21.4% | 11.5% |
| EBITDA / revenue | 29.7% | 31.4% | 32.0% | 42.0% | 53.8% | 24.0% | 17.0% |
| Capital expenditures, net | | | 808 | 1,328 | 2,540 | 2,785 | N/A |
| Capital expenditures / revenues | 0.0% | 0.0% | 10.3% | 12.3% | 22.3% | 22.2% | N/A |
| Coverage Ratios: | | | | | | | |
| EBIT / interest expense | 35.1 | 48.7 | 65.2 | N/A | N/A | N/A | 26.3 |
| DuPont Ratio Analysis: | | | | | | | |
| Return on revenue | 24.6% | 26.9% | 27.0% | 37.9% | 49.2% | 21.4% | 11.5% |
| Asset multiplier | 0.5 | 0.5 | 0.4 | 0.6 | 0.5 | 0.5 | 0.9 |
| Leverage multiplier | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 2.1 |
| ROI | 14.0% | 13.9% | 12.4% | 21.9% | 26.1% | 11.9% | 22.2% |

* Ratios used to compute ROI under DuPont method.

The Discounted Cash Flow Method uses the present value of a company's forecast cash flow to indicate fair market value. A forecast was prepared by the City of Waukee. Our analysis included a review of the Utility's historical performance, industry trends, economic considerations in the City's market area, and communication with management regarding specific assumptions. Amounts and assumptions used are discussed in the notes in this appendix.

TABLE 8-1

| FORECAST CASH FLOW STREAM | | | | | | | | | | | |
|---|------------|---------|-----|----------|---------|---------|----------|----------|----------|----------|----------|
| (AMOUNTS IN THOUSANDS) | | | | | | | | | | | |
| | Historical | | | Forecast | | | | | | | Residual |
| | FY 21-23 | FY 2023 | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | |
| Total operating revenues | 11,581 | 12,548 | (1) | 10,453 | 10,678 | 11,366 | 11,569 | 11,647 | 12,351 | 12,500 | 12,688 |
| Cost of sales & services | (7,043) | (9,552) | (2) | (9,244) | (9,518) | (9,797) | (10,084) | (10,378) | (10,680) | (10,989) | (11,154) |
| Depreciation and amortization | (519) | (558) | (3) | (615) | (645) | (678) | (712) | (747) | (784) | (824) | (836) |
| Operating income | 4,019 | 2,438 | | 594 | 515 | 891 | 773 | 522 | 887 | 687 | 698 |
| Interest income | 91 | 234 | (4) | 113 | 116 | 119 | 122 | 126 | 130 | 133 | 135 |
| Other revenues (expenses) | 20 | 16 | (5) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net operating income | 4,130 | 2,688 | | 707 | 631 | 1,010 | 895 | 648 | 1,017 | 820 | 833 |
| Adjustments to invested capital cash flow: | | | | | | | | | | | |
| Depreciation | 519 | 558 | (3) | 615 | 645 | 678 | 712 | 747 | 784 | 824 | 836 |
| Capital expenditures | (2,218) | (2,785) | (6) | (580) | (580) | (580) | (580) | (580) | (580) | (580) | (295) |
| Invested capital net cash flow | 2,431 | 461 | (7) | 742 | 696 | 1,108 | 1,027 | 815 | 1,221 | 1,064 | 1,375 |
| Ratio analysis: | | | | | | | | | | | |
| Cost of sales & services ratio | 60.8% | 76.1% | (2) | 88.4% | 89.1% | 86.2% | 87.2% | 89.1% | 86.5% | 87.9% | 87.9% |
| Operating margin | 34.7% | 19.4% | | 5.7% | 4.8% | 7.8% | 6.7% | 4.5% | 7.2% | 5.5% | 5.5% |
| Cap ex / revenue | 19.1% | 22.2% | (6) | 5.5% | 5.4% | 5.1% | 5.0% | 5.0% | 4.7% | 4.6% | 2.3% |
| Costs per CCF | | 0.9012 | | 0.8900 | 0.9100 | 0.9300 | 0.9500 | 0.9700 | 0.9900 | 1.0100 | |
| Growth rates: | | | | | | | | | | | |
| Users | | | | 4.8% | 3.7% | 3.6% | 3.5% | 3.4% | 3.2% | 2.1% | |
| Revenue | | | (1) | -16.7% | 2.2% | 6.4% | 1.8% | 0.7% | 6.0% | 1.2% | 1.5% |

- (1) Total operating revenues during Years 1 through 7 are from a forecast prepared by the City of Waukee and include gas sales and connection fees. Revenues in Year 1 are forecast to decrease due to declining gas prices and the discontinuing of pipeline extension debt service revenues. During the remainder of the forecast period the price of gas was assumed to increase modestly; however, the usage purchased was assumed to be fixed. The forecast assumed 350 small users and 5 larger users were added each year. The resulting revenue growth was between 0.7% and 6.4%, annually. Forecast growth is lower than the Utility's compound annual growth rate ("CAGR") for revenues of 11.2% over the period analyzed.

Forecast growth is reasonable in comparison to real forecast annual growth in the industry of 1.3% (3.3% nominal rate) over the next five years.

- (2) Cost of sales and services are from a forecast prepared by the City of Waukee. Implied cost of sales and services ratios are greater than the Utility's historical range due to the discontinuation of pipeline extension debt service revenues, which reduces the Utility's revenue base.
- (3) Depreciation expense is from a forecast prepared by the City of Waukee. Since depreciation expense was deducted in the calculation of net profit but is a non-cash item, this amount is added back in estimating net cash flow.
- (4) Interest income on reserves is from a forecast prepared by the City of Waukee.
- (5) The forecast provided included no other revenues.
- (6) Capital expenditures are deducted from net profit in estimating net cash flow. Capital expenditures are reflective of the cost of Utility rehabilitation projects and service line installations, as estimated by management. Management's forecast assumes constant gas usage so capital expenditures related to expanding the distribution network were excluded.
- (7) These amounts represent the forecast invested capital net cash flow for the Company and are used to estimate the value of the Company's invested capital in Table 8-6.

Discount Rate

A discount rate or required rate of return was developed to convert future cash flow into present value. To calculate the value of a company's invested capital, the company's weighted average cost of capital ("WACC") is calculated and used as the discount rate. The WACC consists of a cost of equity component and a cost of debt component, as discussed below.

Cost of Equity

A widely used method of estimating the cost of equity capital is the build-up method in which certain risk premiums are added to a risk-free rate. This method is based on the premise that a company's discount rate is composed of identifiable risk (or return) factors, the sum of which represents the total return that a prudent investor would demand from the purchase of the company. Two data sets are commonly used to estimate the cost of equity: the Center for Research in Security Prices Deciles Size Premia exhibits (the "CRSP Method") and the Risk Premium Report exhibits (the "RPR

Method"). The following table estimates the cost of equity capital using the build-up method.

TABLE 8-2

| COST OF EQUITY CAPITAL | | | | |
|--|-------|-----------------|--------|-------------|
| | Notes | Build-Up Method | | |
| | | CRSP | RPR | |
| Risk-free rate | (1) | 4.20% | 4.20% | 4.20% |
| Equity risk premium | (2) | 5.50% | 5.50% | 5.50% |
| Size premium | (3) | 3.29% | 5.40% | 6.80% |
| Industry risk premium | (4) | -2.36% | -2.36% | -2.36% |
| Specific risk premium | (5) | -3.00% | -3.00% | -3.00% |
| Cost of equity estimate | | 7.63% | 9.74% | 11.14% |
| Cost of equity capital selected | | | | 9.6% |

- (1) The **risk-free investment rate** is the return available on a security that the market generally regards as free of the risk of default. The rate on U.S. Treasuries with a twenty-year maturity as of the valuation date was selected as the risk-free investment rate.
- (2) The **equity risk premium** is the extra return over the risk-free return investors expect to receive from an investment in a market portfolio of common stocks. ERP is estimated by several methods whose results are presented in the following table.

TABLE 8-3

| SUMMARY OF ERP ANALYSIS | |
|--|-------|
| Historical long-term ERP (1926-2022) | 7.17% |
| Historical long-term ERP adjusted for WWII bias | 6.00% |
| Supply side long-term ERP (1926-2022) | 6.35% |
| Supply side long-term ERP adjusted for WWII bias | 5.37% |
| Damodaran implied ERP model (2011-2022) | 7.16% |
| Default spread model | 5.18% |

ERP estimation methods inherently include weaknesses: Historical data may not indicate future performance, estimates vary according to the period selected, and some methods apply subjective assumptions that affect results. Despite inherent

weaknesses, these estimates provide a reasonable basis for an equity risk premium of 5.5% which was selected for this analysis.

- (3) The **size premium** is based on the empirical observation that companies of smaller size are associated with greater risk. The CRSP Deciles Size Premia Study and the Risk Premium Report's Size Study identifies a negative correlation between size and return. A comparison of the two data sets is discussed below.

CRSP method: The CRSP method classifies all companies listed on the NYSE, NYSE MKT, and NASDAQ into deciles based on market capitalization. Size premia were calculated for the period 1926 – 2023 for each decile. The smallest decile (companies with a market capitalization less than \$213 million) was further divided into two groups. The smallest group (Decile 10b) includes several larger companies that were classified into this group due to operating problems, so the size premium associated with Decile 10a was considered appropriate in this analysis.

RPR method: Using a portfolio method, the subject company's size characteristics in various categories are compared to 25 portfolios for similarity to indicate a size premium. An alternative method estimates an appropriate size premium using a regression equation. The following table presents results for both the portfolio method and the regression method.

TABLE 8-4

| Premium Over CAPM aka "Size Premium" | Company Size | Guideline Portfolio | Size Premium | Constant Term | Slope Term | log (Size) | Size Premium |
|---|------------------|---------------------|--------------|---------------------|------------|------------|--------------|
| | Portfolio Median | | | Regression Analysis | | | |
| Market value of equity (\$mills) | 29 | 25 | 5.9% | 10.540% | -1.983% | 1.463 | 7.6% |
| Book value of equity (\$mills) | 23 | 25 | 4.6% | 7.001% | -1.169% | 1.355 | 5.4% |
| 5-year average net income (\$mills) | 3 | 25 | 5.5% | 6.701% | -1.433% | 0.521 | 6.0% |
| MVC (\$mills) | 29 | 25 | 5.7% | 10.292% | -1.846% | 1.463 | 7.6% |
| Total assets (\$mills) | 23 | 25 | 5.2% | 8.634% | -1.449% | 1.371 | 6.6% |
| 5-year average EBITDA (\$mills) | 4 | 25 | 5.4% | 7.377% | -1.450% | 0.571 | 6.5% |
| Sales (\$mills) | 13 | 25 | 5.4% | 8.547% | -1.423% | 1.099 | 7.0% |
| Number of employees | 5 | 25 | 5.9% | 10.297% | -1.725% | 0.699 | 9.1% |
| Median size premium | | | 5.4% | | | | 6.8% |

- (4) The **industry risk premium** is a measure of beta risk or the tendency of a stock's price to correlate with changes in the market. A beta higher than one indicates more risk than the market while a beta less than one indicates less risk than the market. *Kroll Cost of Capital* includes estimates of industry betas based on Global

Classification Industry Standard (“GICS”) code, adjusted to an industry risk premium using the ERP. The Company is classified within GICS #55102010, Gas Utilities, indicating an industry risk premium of -2.36% as of the valuation date.

- (5) The **specific risk premium** relates to the particular risks perceived in investing in a business in consideration of its location, financial condition, operational diversity, management depth, etc. This adjustment, which may be either positive or negative, requires a judgmental analysis of risks associated with the subject business in comparison to the average small public company in the same industry.

In addition to the build-up method, we also reviewed the four investor-owned gas utilities that operate within Iowa. The authorized return on equity allowed by the Iowa Utilities Board ranged from 9.5% to 9.6%.

Based on our review of discount rate research, our experience in assigning premiums to other business entities, and the analysis of other factors relevant to the Company, the cost of equity was estimated as shown in Table 8-2 above.

Cost of Debt

The cost of debt component of the WACC is the rate of interest the Company must pay its creditors, net of tax savings realized because of the ability to deduct interest. The City of Waukee carries a credit rating of Aa1 based on Moody’s. As of June 30, 2024, the effective yield of AA corporate bonds was 5.14%. Using this data as guidance and considering characteristics specific to the City and the capital structure shown below, the cost of debt was estimated to be 5%.

WACC Calculation

The costs of equity and debt calculated above were weighted based on the respective market values of each component. Because this appraisal is of a controlling interest with the ability to change the capital structure, the capital structure was assumed to reflect a normal industry capital structure, consisting of 50% equity and 50% debt. This weighting is similar to capital structures allowed by the Iowa Utilities Board for the four investor-owned gas utilities that operate within Iowa. WACC calculations are shown in the following table.

TABLE 8-5

| WEIGHTED AVERAGE COST OF CAPITAL | | |
|---|-------------|-------------|
| | Equity | Debt |
| After-tax cost of capital | 9.6% | 5.0% |
| % of capital structure | 50% | 50% |
| Weighted cost of component | <u>4.8%</u> | <u>2.5%</u> |
| Weighted average cost of capital | 7.3% | |

Summary

The present value of the Company's forecast cash flow was calculated as shown in the following table.

TABLE 8-6

| DISCOUNTED CASH FLOW CALCULATION | | | | | | | | | |
|---|----------|------------|------------|------------|------------|------------|------------|------------|---------------|
| (AMOUNTS IN THOUSANDS) | | | | | | | | | |
| | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Residual |
| Invested capital net cash flow | (1) | 742 | 696 | 1,108 | 1,027 | 815 | 1,221 | 1,064 | 1,375 |
| Discount rate | (2) | | | | | | | | 7.3% |
| Long-term growth rate | (3) | | | | | | | | 1.5% |
| Capitalization rate | (4) | | | | | | | | <u>5.8%</u> |
| Residual value | (5) | | | | | | | | 23,698 |
| Present value factor | 7.3% (6) | 0.9654 | 0.8997 | 0.8385 | 0.7814 | 0.7283 | 0.6787 | 0.6326 | 0.6326 |
| Discounted cash flow | (7) | <u>716</u> | <u>626</u> | <u>929</u> | <u>803</u> | <u>594</u> | <u>829</u> | <u>673</u> | <u>14,990</u> |
| Total discounted cash flow = value of invested capital | | | | | | | | (7) | 20,160 |

- (1) The Company's forecast invested capital net cash flow is from Table 8-1.
- (2) The discount rate is from Table 8-5.
- (3) Long-term growth expectations are influenced by economic growth and inflationary expectations. The results of several surveys providing consensus estimates for expected inflation are shown in the following table.

TABLE 8-7

| LONG TERM EXPECTED INFLATION ESTIMATES | |
|--|------|
| Consensus Economics | 2.2% |
| Livingston Survey | 2.3% |
| Survey of Professional Forecasters | 2.4% |
| Cleveland Federal Reserve | 2.2% |
| University of Michigan Survey | 2.8% |
| Inflation implied using 20-Year U.S. TIPS (12/29/23) | 2.4% |

Sources: Federal Reserve Bank of Philadelphia, Federal Reserve Bank of Cleveland, Bloomberg, Board of Governors of the Federal Reserve

Considering expected demographic and industry trends and the Company's historical average growth rate, a 1.5% long-term growth rate was considered appropriate.

- (4) The capitalization rate is equal to the discount rate less the long-term growth rate.
- (5) The residual value at the end of Year 7 is calculated by capitalizing the residual cash flow at the applicable capitalization rate.
- (6) Forecast cash flow was assumed to be generated evenly throughout each year. Thus, each year's cash flow was discounted using the WACC in Table 8-5 at mid-year to calculate the net present value.
- (7) Discounted cash flow amounts equal the invested capital net cash flow from (1) or the residual value from (5) multiplied by the present value factor from (6). The total discounted cash flow represents the total value of invested capital (equity plus debt) of the Company.

Since the forecast cash flow stream includes normalizing adjustments reflective of the ability to control the operations and capital structure of the Company, the value indication represents a value attributable to a controlling interest in the Company.

MERGER & ACQUISITION METHOD

APPENDIX 9

This Appendix includes transactions obtained from the DealStats database, the S&P Capital IQ platform, and public company investor filings. Transactions involving companies considered most similar to the Utility are presented.

(amounts in thousands)

| Transaction Details | | | | Financial Information | | | | Multiple | | | |
|--|----------|--------------|---------|-----------------------|--------------------|--------------|--------------|-------------|-------------|----------------|------------|
| Date | Price | SIC | Revenue | EBITDA | EBITDA/ Revenue | Customers | Revenue | EBITDA | Customers | Rate Base | |
| (1) | 09/02/14 | \$1,529,900 | 4924 | \$559,550 | \$131,330 | 23.5% | 422 | 2.73 | 11.6 | \$3,625 | N/A |
| (2) | 02/12/16 | \$1,691,650 | 4924 | \$492,130 | \$109,560 | 22.3% | 429 | 3.44 | 15.4 | \$3,943 | N/A |
| (3) | 01/01/17 | \$2,413,607 | 4911 | \$605,573 | \$219,902 | 36.3% | 782 | 3.99 | 11.0 | \$3,086 | N/A |
| (4) | 08/04/17 | \$198,583 | 4923 | \$112,361 | \$12,244 | 10.9% | 70 | 1.77 | 16.2 | \$2,837 | N/A |
| (5) | 09/20/17 | \$217,629 | 4923 | \$68,840 | \$17,646 | 25.6% | 36 | 3.16 | 12.3 | \$6,045 | N/A |
| (6) | 03/16/20 | \$4,247,558 | 4923 | \$913,973 | \$284,613 | 31.1% | 740 | 4.65 | 14.9 | \$5,740 | N/A |
| (7) | 09/01/21 | \$540,000 | N/A | \$339,300 | \$47,000 | 13.9% | 215 | 1.59 | 11.5 | \$2,512 | 1.4 |
| (8) | 01/10/22 | \$2,150,000 | N/A | N/A | \$56,579 | N/A | 525 | N/A | 38.0 | \$4,095 | 2.5 |
| (9) | 05/20/22 | \$11,351,210 | N/A | \$4,520,810 | \$1,092,190 | 24.2% | 2,000 | 2.51 | 10.4 | \$5,676 | N/A |
| (10) | 07/06/22 | \$121,468 | 4924 | \$35,236 | \$7,697 | 21.8% | 15 | 3.45 | 15.8 | \$8,098 | N/A |
| (11) | 08/31/22 | \$690,000 | N/A | N/A | N/A | N/A | 111 | N/A | N/A | \$6,216 | 2.0 |
| (12) | 02/01/23 | \$8,013,390 | N/A | \$2,584,760 | \$561,570 | 21.7% | 700 | 3.10 | 14.3 | \$11,448 | 2.0 |
| (13) | 09/05/23 | \$14,000,000 | N/A | N/A | \$848,500 | N/A | 7,000 | N/A | 16.5 | \$2,000 | 1.3 |
| Median - EBITDA margin > 22.9% | | | | \$605,573 | \$219,902 | 25.6% | N/A | 3.16 | 12.3 | N/A | N/A |
| Median - all transactions | | | | \$525,840 | \$120,445 | 22.9% | 429.0 | 3.13 | 14.6 | \$4,095 | 2.0 |
| Median - EBITDA margin < 22.9% | | | | \$339,300 | \$47,000 | 21.7% | N/A | 3.10 | 15.4 | N/A | N/A |
| Company FY 2023 | | | | \$12,548 | \$3,012 | 24.0% | 9.3 | | | | |

Transactions were selected for companies that were determined to be most comparable to the Utility, with search criteria including companies located in the United States or Canada, in a similar industry, with similar revenue size and positive EBITDA, and with a transaction date in recent history. Circumstances impacting guideline transactions were diverse and differences exist between the Utility and the companies included in this analysis. Qualitative judgments were made comparing the characteristics of the companies acquired in the selected transactions and those of the Utility. EBITDA and revenue multiples were selected based upon these judgments, which included the following:

- Prices paid in some of the transactions are likely to have included synergies, but synergies are not a component of fair market value. The multiples selected are lower than those that would be warranted in a synergistic value analysis.
- Revenue multiples were generally higher for those businesses with higher EBITDA margins. Conversely, EBITDA multiples were lower for those businesses with higher EBITDA margins. The Utility's FY 2023 EBITDA margin (24.0%) was between the median of all transactions (22.9%) and the median for transactions with EBITDA

margins greater than 22.9% (25.6%). This suggests that an appropriate revenue multiple is between 3.13 and 3.16 and an appropriate EBITDA multiple is between 12.0 and 14.6 before adjustments for characteristics specific to the Utility.

- The price per customer paid ranged between \$2,000 and \$11,448 per customer, with a median of \$4,095 per customer.
- The median multiple of base rate was 2.0 with multiples ranging from 1.3 to 2.5.
- The Utility’s smaller size warrants a decrease in the multiples.

Considering the profitability analysis and other characteristics discussed above, a revenue multiple of 1.60, an EBITDA multiple of 6.5, a base rate multiple of 1.1 and a price of \$2,000 per customer were selected.

TABLE 9-1

| MERGER & ACQUISITION METHOD CONCLUSION | | | | |
|---|-----------------|-----------------|------------------|------------------|
| (AMOUNTS IN THOUSANDS) | | | | |
| | Revenue | EBITDA | Rate Base | Customers |
| Selected multiple | 1.60 | 6.5 | 1.1 | \$2,000 |
| x Company FY 2023 | \$12,548 | \$3,012 | \$17,937 | 9.3 |
| = Market value of invested capital | \$20,077 | \$19,578 | \$19,731 | \$18,600 |

“Transaction Price” obtained from transactions in the DealStats database represents the market value of invested capital (“MVIC”). The calculations in this method result in a value attributable to a controlling, marketable interest in the Utility.

The depreciated value of the capital assets was estimated as shown in the following table.

TABLE 10-1

| DEPRECIATED VALUE OF CAPITAL ASSETS | | | | | | |
|--|----------------------|--------------|---------------|-------------------------|---------------------|-----|
| | 4" or less PE | 6" PE | 10" PE | 4" or less Steel | 8" Steel | |
| Selected cost per mile to replace | \$200,000 | \$245,000 | \$425,000 | \$200,000 | \$375,000 | (1) |
| Miles to replace | 145 | 14 | 4 | 8 | 14 | (2) |
| Estimated cost of replacement assets | \$29,000,000 | \$3,430,000 | \$1,700,000 | \$1,600,000 | \$5,250,000 | (3) |
| Estimated useful life (years) | 60 | 60 | 60 | 50 | 50 | (4) |
| Annual depreciation | \$483,333 | \$57,167 | \$28,333 | \$32,000 | \$105,000 | (5) |
| Remaining useful life (years) | 35 | 35 | 35 | 10 | 10 | (6) |
| Remaining depreciable value (rounded) | \$16,917,000 | \$2,001,000 | \$992,000 | \$320,000 | \$1,050,000 | (7) |
| Estimated depreciated value of capital assets | | | | | \$21,280,000 | |

- (1) The City’s capital improvement plans included the following replacement costs per mile of the system:
 - a. \$200,000 per mile for 4-inch pipe or smaller,
 - b. \$245,000 per mile for 6-inch pipes,
 - c. \$375,000 per mile for 8-inch pipes, and
 - d. \$425,000 per mile for 10-inch pipes.

Expected replacement costs provided by the City were compared to PHMSA Grant awards. The Bipartisan Infrastructure Law appropriated \$1 billion to DOT-PHMSA for the agency’s infrastructure grant for pipelines aimed at mitigating safety risk from the highest-risk, legacy natural gas distribution pipes, particularly in underserved communities. In April 2024, PHMSA awarded nearly \$392 million in funding to modernize 594 miles of pipes in underserved and transportation-disadvantaged communities through over 50 projects in 26 states.

Of the grant recipients, Table 10-2 only includes cities with populations of less than 500,000 that were not a part of a larger metro statistical area. Additionally, some recipients were removed because they are located on mountains causing the construction costs to be higher. The following table shows the remaining grant recipients, the grant amount received, and the miles of gas pipeline that were to be replaced.

TABLE 10-2

| 2023 PHMSA GRANT AWARDS | | | | |
|--|--------------|--------------|---------------|-------------------|
| CITIES WITH LESS THAN 500,000 RESIDENTS | | | | |
| Applicant | State | Award | Miles | Award/Mile |
| Bath | NY | 9,377,000 | 11.90 | 787,983 |
| Berwick | LA | 4,035,045 | 7.09 | 569,118 |
| Ethel | LA | 15,500,000 | 100.00 | 155,000 |
| Hays | KS | 8,086,139 | 68.00 | 118,914 |
| Kennett | MO | 3,657,675 | 5.21 | 702,049 |
| Laurens | SC | 4,000,000 | 20.64 | 193,798 |
| Newark | OH | 6,598,252 | 10.06 | 655,890 |
| Omaha | NE | 25,225,287 | 89.10 | 283,112 |
| Pensacola | FL | 10,076,858 | 14.70 | 685,501 |
| Reklaw | TX | 5,404,259 | 13.12 | 411,910 |
| Roanoke | AL | 1,517,947 | 2.20 | 689,976 |
| Rocky Mount | NC | 5,428,269 | 9.80 | 553,905 |
| St. Francisville | LA | 2,339,165 | 8.70 | 268,870 |
| Tallassee | AL | 5,469,300 | 13.40 | 408,157 |
| Wahoo | NE | 1,347,078 | 2.15 | 626,548 |
| Walker | LA | 1,150,780 | 4.37 | 263,336 |
| Zachary | LA | 9,496,808 | 31.60 | 300,532 |
| | | | High | 787,983 |
| | | | Median | 411,910 |
| | | | Low | 118,914 |

Finally, we also reviewed a project that started in 2019 in which MidAmerican Energy Company planned to upgrade 345 miles of distribution system from a low-pressure system to a new intermediate-pressure system. The cost for this project was estimated to be \$72 million, or \$208,696 per mile.

Given this information, the estimated replacement costs provided by the City appear reasonable and were used to estimate the cost to replace the Utility network.

- (2) The breakout of pipe diameter and corresponding usage in the Utility system was provided by the City.
- (3) The estimated cost of replacement assets is equal to the replacement cost in Note (1) times the miles to replace from Note (2).
- (4) The pipes used in the Utility’s distribution include wrapped or coated steel with cathodic protection and medium or high-density polyethylene. The industry

standard expected age for gas pipelines is 50 years. However, Utility management expects the wrapped and cathodic protection to extend the life of the pipes beyond the normal useful life. Additionally, the polyethylene pipe is expected to have a longer useful life compared to the steel pipe. We estimated the useful life of the steel pipe to be 50 years and the useful life of the polyethylene pipe to be 60 years.

- (5) Annual depreciation is equal to the estimated cost of replacement assets in Note (3) divided by the estimated useful life from Note (4).
- (6) The Utility switched from installing mostly steel pipe to mostly polyethylene pipe starting around 2000. Therefore, the steel pipe is older than the polyethylene. It was estimated that the weighted average age of the steel pipe was 40 years and the weighted average age of the polyethylene pipe was 25 years. The remaining useful life was set equal to the estimated useful life in Note (4), minus the respective weighted average age.
- (7) The remaining depreciable value is equal to annual depreciation in Note (5) multiplied by the remaining useful life in Note (6).

Based on the analysis above, it was estimated that the current depreciated value of WMGU's capital assets was \$21,280,000 as of June 30, 2024. The calculation above is only an estimate and is not a formal opinion of value.