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Application to the
Representative Policy Board
For Approval to Purchase the Assets of a
Confidential Plumbing Company

 Regional **Water** Authority

March 2023

South Central Connecticut Regional Water Authority
90 Sargent Drive
New Haven, CT 06511

Application to the Representative Policy Board

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Confidential Exhibits (APPENDICIES)

Exhibit A:	Statement of Costs
Exhibit B:	Statement of Facts
Exhibit C:	General Background of Company
Exhibit D:	Business Location
Exhibit E:	State and Federal Legislative Drivers
Exhibit F:	Development of Timeline
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Statement of Application and Executive Summary

In accordance with Section 19 of Special Act 77-98, as amended, the South Central Connecticut Regional Water Authority (RWA) is pleased to present this application to the Representative Policy Board (RPB) for review and approval of the acquisition of all physical and intangible assets of a Plumbing and Well Services Company and the building and property it occupies in Connecticut. Section 19 of Special Act 77-98, as amended, requires RPB approval before the RWA acquires or makes a subsequent investment in any non-core business in an amount more than \$1 million. Due to the confidential nature of negotiations, the proposed asset purchase cost is confidential, however, it is between \$1.5 - \$2.5 million dollars. The statement of cost figures can be found in confidential Exhibit A.

With the objective of mitigating water rate increases, the RWA worked with local and state elected officials, environmental groups and community organizations to make changes to our enabling legislation that governs what we can do as an organization. In 2017, Special Act 17-5 amended our enabling legislation allowing the RWA to conduct and invest in non-core business activities defined as including water related, environment, agriculture, and certain renewable energy sources. This allows the RWA to enhance its revenue sources, especially with a mature service territory and an approximately 1% year-over-year decline in consumption.

After working with bond and legal counsel regarding the structure for these non-core initiatives and building on this strategic approach, the RWA entered into the Well Services market with the acquisition of two smaller well service companies, Roach Plumbing in 2021 and Water System Specialties in 2022, both operating under RWA Well Services, LLC. In addition the RWA has launched the WellSafe product – a protection plan solution offering maintenance and repair services to well owners throughout the state. These initial acquisitions, also structured as an asset purchase, have exceeded their valuation earning's targets and are cash flow positive.

The proposed asset purchase and building acquisition will build on this earlier work and expand the RWA's Well Services footprint and market share as well as support the proliferation of our WellSafe protection plan product. This action further supports the RWA's mission to provide customers with high-quality water and services at a reasonable cost by expanding commercial revenue sources to invest in the utility infrastructure and mitigate water rate increases by transferring monies into the Construction Fund, to help fund the RWA's capital program and reduce debt leverage. Due to the confidential nature of negotiations, the name of the company has been protected and are herein referred to as Target One.

The proposed purchase will be executed through an asset transaction – not a stock transaction – thereby resulting in the RWA not retaining any liabilities of the target company, henceforth called Target One. The legal purchasing entity would be RWA Well Services, LLC, further protecting the RWA and its customers from risk. Associated with this proposed transaction, the RWA plans on entering into an employment agreement with the two primary leaders of the management team and employing the balance of the current staff as “employees at will.” These individuals would become employees of RWA Well Services.

Target One has a strong service reputation, a stable, healthy earnings profile and is uniquely positioned to compliment RWA Well Services' prior smaller plumbing acquisitions from a scale and geographic expansion perspective.

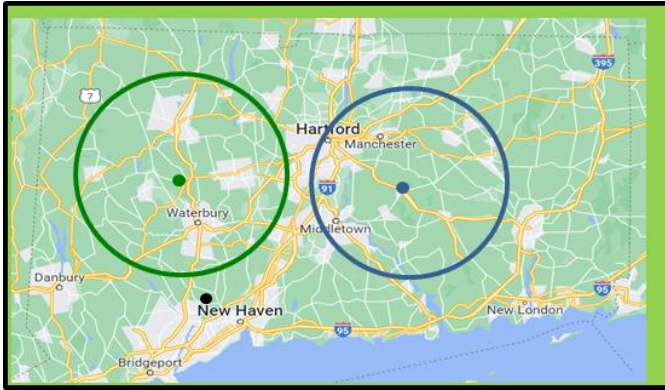
This application will provide a description of the investment, an explanation of why it is favorable, a discussion of the alternatives considered, and the estimated cost. The accuracy and completeness of this document are critical to the RPB's ability to make an informed decision on behalf of the RWA's customers and member communities. To that end, the RWA worked with Murtha Cullina LLP attorneys at law and Cohn Reznick, an advisory, accounting assurance and tax firm on various legal and financial considerations of the proposed asset purchase.

The RWA's Commercial Enterprises (non-core) mission is to expand commercial revenue sources to mitigate prospective water rate increases. The Target One acquisition furthers that mission and the RWA's goal to expand into water and environmental-related services.

1 Need for Proposed Action

Strategically, the RWA has entered into the Well Services market with the acquisition of two smaller well service companies, Roach Plumbing in 2021 and Water System Specialties in 2022. These initial investments have exceeded their earnings targets and have resulted in positive cash flow. In addition the RWA has launched the WellSafe product – a protection plan product offering maintenance and repair services to well owners.

The proposed acquisition will expand the RWA’s Well Services footprint and market share, and support the proliferation of its growing WellSafe products and services in Connecticut.



The asset purchases of this target will benefit the RWA and its customers. Commercial Enterprises’ (non-core) mission is to expand commercial revenue sources to mitigate rate increases through transfers into the Construction Fund to help fund the utility capital program, mitigate future water rate increases, and reduce debt leverage. This acquisition is consistent with that mission and the RWA’s goal to expand into water and environmental-related services.

2 Analysis of Alternatives

The alternative action is to not pursue the proposed acquisition – No Action Alternative – or to grow organically by expanding the existing well service operations. – **Figure 2.1.0 Analysis of Alternatives.**

Figure 2.1.0 Analysis of Alternatives – Comparative Analytics

	No Action	Organic Growth	Asset Purchase
Growth Rate	(-)	(0)	(+)
Returns	(-)	(0)	(+)
Market Share	(-)	(0)	(+)
Labor Risk	(-)	(+)	(0)
Execution Risk	(+)	(-)	(0)

Application to the Representative Policy Board

The asset purchase is preferred:

1. Captures immediate market share and critical labor resources compared to the organic growth option. This option does not preclude organic expansion of our existing commercial offers.
2. Secures a sustainable cash flow and expands the RWA customer base compared to the no action alternative.
3. Structuring the acquisition as an asset purchase mitigates the risk as no liabilities are acquired under this structure. Risk is also mitigated by RWA Well Services, LLC being the legal entity executing the transaction. In addition, management has successfully acquired and integrated two similar entities See Section 14 Risks and the associated mitigations.

Alternatively, in theory, these funds could be redistributed from the Growth Fund into the Construction Fund directly. While this action would result in mitigating debt financing for our capital program in a future rate application, there would not be a continuing cash flow and earnings growth potential available to be transferred into the Construction Fund. In addition, the annual debt service savings is less than the expected annual cash flow

3 General Background of Target One

Target One is a second-generation family-owned plumbing and well services company that is located in Connecticut and has been serving the region for several decades. The company does business out of a 5,000-square-foot facility. The building is owned by the company's owner. The company registered in the State of Connecticut consisting of 10 total employees including the owner; his wife, who runs the office; one office associate; four licensed plumbers; and three apprentices. The revenues of the last four years are as follows:

- 2019 - \$1.8M
- 2020 - \$1.4M*
- 2021 - \$2.1M
- 2022 - \$2.3M

Note* - reflects the impact of COVID

There are no other subsidiaries or affiliations. The business does lease the facility which is wholly owned, as mentioned above, by the principal of the business. Associated with the proposed asset purchase of the business, this application also includes a proposed purchase of the land and building occupied by Target One.

(**Exhibit C** contains the confidential proprietary Target One background information)

3.1 Type of Business

Target One offers plumbing, repair, and installation, upgrade services to residential, and light commercial customers including water pumps, tanks, water treatment, water heaters and steam radiant heating.

3.2 Products and Services Offered

- Well pump installation and repairs including jet pumps, submersible pumps, water storage tanks and sump pumps
- Steam heating system repair and replacement, including water heaters, condensing systems, high efficient boilers and on-demand water heaters

3.3 Business Location

Target One currently operates in the State of Connecticut.

(**Exhibit D** contains the specific confidential location)

3.4 Real-estate Owned and Leased

As noted above, Target One leases a 5,000-square-foot facility at its current location. The facility is wholly owned by the current principal of the business. The RWA plans to enter into a separate and dependent arrangement to purchase the land and building.

3.5 Annual Revenue for Prior Four Years

The RWA retained Cohn Reznick, an advisory, assurance and tax firm, to conduct financial due diligence. This included reviewing Target One's QuickBooks accounting records. The revenues of the last four years are as follows:

- 2019 - \$1.8M
- 2020 - \$1.4M*
- 2021 - \$2.1M
- 2022 - \$2.3M

Note* - reflects the impact of COVID

3.6 Number of Employees

The Company currently has 10 total employees:

- 1 – Principal and owner
- 2 – Office Staff
- 4 – Licensed Plumbers
- 3 – Apprentices

3.7 Form of Organization

Target One is a Corporation in the State of Connecticut. Its legal entity structure is such that it elects to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. However, this is not relevant to the transaction as the RWA is not purchasing the corporation, it is acquiring the assets of the business.

(**Exhibit G** contains the confidential further details on the form of organization)

3.8 Subsidiaries and Company Affiliations

The Company has no known subsidiaries.

3.9 State & Federal Legislative Drivers

Target One holds and maintains all the necessary state licensing and filing requirements to conduct plumbing services to customers in the state of Connecticut.

(**Exhibit E** contains the confidential proprietary summary of licensure)

4 History of Company

4.1 Development Time Line

Target One was founded in the 1960s by the original owner. Target One's current owner joined the Company in the early 1970s after graduating from technical school. He was employed full time at Target One for 15 years gaining industry knowledge and earning all necessary licenses. He purchased the business in the late 1980's.

(**Exhibit F** contains the confidential proprietary key dates and full history of the Company)

This purchase opportunity came about as a result of the RWA targeting strategic entities for potential acquisition to support its commercial growth goals.

4.2 Ownership and Control

The Company is an S-Corporation with all the shares being retained and owned by one owner, the President & Treasurer.

(**Exhibit G** contains the confidential proprietary ownership and control details)

4.3 Key Individuals

- President & Treasurer – Owner
- Secretary – Owner's Wife

4.4 Why the Business is For Sale

The sole owner of the business is looking to transition into retirement. He has agreed to stay with Target One for a period of two years to help transition the business to the RWA.

5 Management and Employees

5.1 Leadership Team Overview

The Management Team consists of the owner and his wife. The owner runs field service operations including bid and quote, pricing and managing the field crews. In addition, he manages the vendor relationships, work order review and the sub-contractors. Finally, he directs the client side of the business including collections. His wife serves as the office manager and oversees all aspects of the back office including accounts payable, accounts receivables, invoicing, insurance, payroll and HR. In addition, she manages Target One's showroom and in-bound customer calls.

5.2 Key Employees

In addition to management, the lead foreman has been with the Company since 2000. As Lead Foreman he is responsible for daily management and long-term field projects. He holds a P-2 License, which is an unlimited journeyman plumbing certificate.

Furthermore, Target One employs three additional licensed journeymen responsible for customer repair and installations.

As outlined in the asset purchase agreement, the business intent is to retain the owner and his wife under two-year employment agreements. This will allow ample time for knowledge transfer and the building of a succession plan. All other personnel will be employees at will.

(**Exhibit H** contains the confidential management and key employee details)

5.3 Employee Matters

- **Non-competes** – There are no known non-competes currently in place, however, if approved, the asset purchase agreement contains a non-compete for the principal.
- **Union / Non-Union** – Target One personnel would be employed by RWA Well Services, LLC, as non-union employees.
- **Planned Management Changes** – There are no planned changes in management or the number of employee's in the near term.

5.4 Employee Benefits

Currently Target One offers certain medical and retirement benefits. It is the intent to have all employees be eligible for RWA Well Services, LLC benefits. Variances in costs and entitlements have been identified and accounted for in both the valuation and projections.

5.5 RWA Employee Interaction & Qualifications

The Target One entity will be a part of RWA Well Services LLC. RWA Well Services LLC is a wholly-owned entity of RWA Commercial Services LLC. RWA Commercial Services LLC is a wholly-owned entity of the RWA subject to all the controls, limitations and approvals therein, including the governance by the Authority Board and RPB. Larry Bingaman, RWA President & CEO, and Rochelle Kowalski, Vice President & Chief Financial Officer are the current managers. of RWA Well Services, LLC. Dennis Donovan, Head of Commercial Enterprises, runs the day-to-day activities of RWA Well Services LLC.

Qualifications for Dennis Donovan: Dennis has over 25 years of progressive experience in Consumer Services. For 13 years, Dennis worked at Nicor Gas, in their deregulated energy and home services division serving in several management roles culminating as a Vice President of Retail Operations. In 2012, Dennis took a leadership role at Direct Energy with their Home Services Division, serving in different business development, and operations roles from 2012-2017. In 2017, Dennis helped found Home Experience LLC and joined the management team as Co-Founder and Vice President, buying and running several plumbing companies. Through a graduate fellowship, Dennis earned a MS in economics from Illinois State University. Currently, Dennis is a member of the RWA Leadership Team serving as Head of Commercial Enterprises.

In addition, the core people and accounting functions will be administered by the RWA, including Human Resources, Payroll, Banking Activity, Accounts Payable, Procurement, and Information Technology. This will result in both scale efficiencies and a tight control structure. Any cost incurred for these functions will be incurred by RWA Well Services LLC.

6 Financial Records

6.1 Financial Summary

As stated in Section 1.5, the RWA retained the firm Cohn Reznick, an advisory, assurance, and tax firm, to conduct a financial due diligence. Figure 6.1.1 summarizes the normalized financial metrics from their accounting review report.

Figure 6.1 .1 Target One’s Prior 3-Year Normalized Financial Summary

Adjusted results of operations summary			
US\$ in thousands	2020	2021	2022
Net sales	1,437	2,120	2,322
Gross profit	652	872	1,037
EBITDA	48	213	330
Key metrics			
Net sales growth	NQ	47.5%	9.5%
Gross profit margin	45.4%	41.1%	44.7%
EBITDA margin	3.4%	10.1%	14.2%
Key balance sheet metrics			
Adjusted net working capital	89	69	139
Average net working capital	39	39	40
Free cash flow	(15)	234	259
Key financial ratios - Average			
Average DSO	19	16	18
Average DPO	17	18	17

Notes and adjustments include:

1. 2020 represented a COVID year
2. Normalizing events include management add backs, PPP loan and non-recurring adjustment
3. Pro forma adjustments include, benefits, salaries, lease and property tax modifications

6.2 Financial Records and Tax Returns

(*Exhibit I* financial records and tax returns)

6.3 Significant Contracts

Target One has several standard vendor relationships that will be transferred to RWA Well Services, LLC as with the previous acquisitions. The majority of the customer jobs are on-demand repair or replacement events. Therefore, it is anticipated that there will be no material vendor or customer contracts as a part of the acquisition.

There are three additional buy-side contracts in addition to the Asset Purchase Agreement:

1. Two-year employment agreement with the company president
2. Two-year employment agreement with the company secretary
3. Purchase of the commercial property

33-A Acquisition Special Financial Components

6.4 Financial Condition of the RWA

The financial condition of the RWA is stable and improving as well positioned for growth. The source of the funding for the proposed asset and building purchase is the Growth Fund.

6.5 Financial Condition of Target One

The financial condition of Target One is well balanced with a stable revenue stream and positive cash flow.

6.6 Financial Condition of the RWA Post Acquisition

The financial condition of the RWA post acquisition remains stable and well positioned. While financial results of RWA Well Services are tracking separately, RWA's audited financials are reported on a consolidated basis.

6.7 Property Acquisition

As a part of the contemplated asset purchase, the RWA is proposing to acquire the property, land and building of the Target One business. The building is a block and pre-engineered steel light industrial building built in the 1980's. The building contains approximately 5,000 square feet and is in good condition.

The site is comprised of an irregular-shaped parcel which contains an estimated 2.3 acres. (*Exhibit J* contains the confidential property acquisition details)

The RWA had two independent appraisals performed. One performed by Nadeau & Associates Real Estate Appraisers & Consultants, and the other by Steven L. Frey & Associates, Inc. The appraisals were made in compliance with the Code of Professional Ethics and Uniform Standards of Professional Appraisals Practice.

(*Exhibit K* contains the confidential property appraisals)

7 Regulatory

7.1 Environmental and Legal Issues

The RWA retained the firm of Murtha Cullina LLP, attorneys at law, to perform legal diligence as well as WSP USA, Inc., an environmental engineering firm, to perform an environmental assessment. The Company and property are in good standing as there are no known environmental or legal issues.

7.2 Current or Threatened Litigation

The RWA retained the firm of Murtha Cullina LLP, attorneys at law, to perform legal diligence. The review did not identify any current or threatened litigation against Target One.

7.3 Undisclosed Liabilities

The proposed transaction is an asset-based purchase and, as such, the RWA will not assume any liabilities. In addition, operational and legal due diligence activity have not identified undisclosed Target One liabilities.

7.4 Contractual Obligations

The proposed transaction is an asset-based purchase and, as such, the RWA will not assume any contractual obligations. In addition, operational and legal due diligence activity have not identified any Target One contractual obligations.

In addition, the proposed transaction is an asset purchase whereas the transaction contemplates only the purchase of the physical and intangible assets of the Company. The liabilities remain with the previous entity. The Asset Purchase Agreement is clear in this construct and contains customary disclosures, representations and warrants.

The purchasing entity is RWA Well Services LLC, a separate legal entity, providing additional insulation for the RWA and its customers from any environmental and legal matters.

8. Sales and Marketing

Target One uses a traditional approach to sales and marketing, budgeting approximately 2% of its annual sales to marketing efforts up to and including a web presence, advertising in local papers, direct mail, post cards and local community sponsorships.

(*Exhibit L* contains the confidential and proprietary elements of sales and marketing)

8.1 Sales and Marketing of Products and Services

Sales of residential products and services are primarily referral related, which are rooted in the Company's several decade's presence in the community. The RWA, as a part of the transaction, will retain the use of the Target One brand in combination with the RWA.

The sales of the commercial-related products and services are a combination of referrals and responding to RFP's. The current owner performs the bulk of the bidding work. The transaction contemplates the owner being retained under a two-year employment agreement allowing for time to develop a transition and succession plan.

8.2 Sales Compensation

There are currently no commission or salaried sales representatives in the organization.

8.3 Customer Transition

The Company serves the community principally with a break fix, on-demand model. With the retention of the principal and the Target One brand, the RWA anticipates little to no risk with customer transitions.

8.4 Product and Services Pricing

The Company's product and service pricing approach is based on time and material. Actual

material and labor cost are generally a known element at the time of customer quotes.
(**Exhibit L** contains the confidential and proprietary product and pricing)

8.5 Target One's Market

Target One currently has an addressable market of approximately \$35M annually.
(**Exhibit L** contains the confidential property elements of the Target Ones market)

8.6 Market Growth

See Confidential **Exhibit L**

9. Customer Diversification

On average, Target One has a customer mix of approximately 65% residential work and 35% commercial work.

For the period of the second half of 2021 and the majority of 2022, a large commercial project represented approximately 31% of Target One's revenue. It is anticipated that this particular project will be completed prior to the close of the transaction.

However, Target One has a proven history of securing and executing on larger plumbing projects. On average, over the last six years, the percent of their revenue that is comprised of their top three customers is approximately 36%. It can be concluded that Target One has a sustainable ability to win larger scope plumbing work. Thus the retention of the owner is an important risk mitigation factor.

Furthermore, plumbing and well services is a supply constrained market, as such, demand regularly outpaces supply resulting in a dissipation of residential work.

Management is confident that Target One's current capacity will be utilized to the fullest since they regularly decline work that they are not readily available to handle such as residential repairs and additional bid work.

Mitigation efforts for the concentration risk include:

- 1.) Demand generation activity through traditional marketing
- 2.) Leveraging the RWA's full-time commercial marketing manager
- 3.) Target One is participating in more bid work including with the current large project customer, as they have additional projects on the horizon. The potential pending work includes additional prospects totaling an estimated \$250-\$350K.
- 4.) Earn out structure. The principal will be financially incentivized to maximize earning potential as there is a performance-based element to the deal structure.

(**Exhibit M** contains the confidential and proprietary elements of the customer diversification)

10. Competition

10.1 Description of Competitive Market

The plumbing and well services space – nationally, regionally and locally – is highly fragmented. One of the key competitive landscape realities is the space is labor constrained.

Specifically, less of the labor force is entering the skilled labor trades today and much of the current work force is aging. Successful entities will need to compete for talent.

(*Exhibit N* contains the confidential and proprietary elements of the competitive market)

10.2 Primary Competitors

See Confidential *Exhibit N*

10.3 Barriers to Entry

The most significant barrier to entry is the training and licensing requirements to be a Connecticut registered and licensed plumber and general contractor. There are several different clarifications with each requiring distinctive levels of training and regulating scope. **Figure 10.3.1** provides an overview.

Figure 10.3.1 Plumbing Licenses and Scope of Work

J-1 LIMITED CONTRACTOR

The holder of this license may perform only work limited to domestic water pumps and water conditioning. The requirements to qualify for this license examination shall be two (2) years as a journeyman or equivalent experience and training.

J-2 LIMITED WELL PUMPS AND PIPING JOURNEYPERSON

The holder of this license may perform only work limited to domestic water pumps and water conditioning and only while in the employ of a contractor licensed for such work. The requirements to qualify for this license examination shall be the completion of a registered apprenticeship program or equivalent experience and training.

P-1 UNLIMITED PLUMBING CONTRACTOR

The holder of this license may do all plumbing and piping work as defined in section 20-330 of the Connecticut General Statutes. The requirements to qualify for this license examination shall be two (2) years as an unlimited licensed journeyman or equivalent experience and training.

P-2 UNLIMITED JOURNEYPERSON PLUMBER

The holder of this license may do all plumbing and piping work as so defined and only while in the employ of a contractor licensed for such work. The requirements to qualify for this license examination shall be the completion of a registered apprenticeship program or equivalent experience and training.

P-6 LIMITED SEWER, STORM, AND WATER JOURNEYPERSON

The requirements for examination for this license shall be the completion of a registered one-year apprenticeship program or equivalent experience and training. This license permits the installation, repair, replacement, alteration or maintenance of piping limited to water, sewer and storm lines from the point of utility responsibility to a point immediately inside a structure and only while in the employ of a contractor licensed for such work.

P-7 LIMITED SEWER, STORM, AND WATER CONTRACTOR

The requirements for examination for this license shall be two (2) years as a journeyman or equivalent experience and training. This license permits the installation, repair, replacement, alteration or maintenance of piping limited to water, sewer and storm lines from the point of utility responsibility to a point immediately inside a structure.

11. Industry Trends (Smart Technology / Increased Service Expectations / Digital Transformation / Constrained Labor Pool)

The plumbing industry remains fragmented with no one provider having any material commanding market share. There are several consolidators and franchise entities attempting to scale including American Residential Services; Service Experts; Mr. Rooter; Roto-Rooter and Sears Home Services to name a few. Four industry trends will shape the future of the plumbing industry: 1) smart technology; 2) increased service expectations; 3) the digital transformation; and 4) the constrained labor pool.

- **Smart Technology** Consumers today use technology to control everything from their smartphone, from regulating their home's indoor air temperature to creating a grocery list based on their smart refrigerator's notifications. Today's home buyers are extremely tech savvy. They want to work with service providers who use high-tech solutions, such as water leak detection, smart devices and smart pipes to prevent unexpected water damage.
- **Increased Service Expectation** Increased expectations will result in service expansion opportunities. We are moving from a service economy to an experience economy. Consumers will continue to compare the experience with their plumbers with their other service providers including Amazon, Google and Uber to name a few. Gone are four-hour service windows, paper invoices and phone conversations. Consumers are demanding on line scheduling, real time technician tracking and price transparency, for example.
- **Digital Transformation** This transformation will be felt by both the supply side, as well as the demand side. On the demand side, consumers will continue to insist on engaging with plumbers via their smart phone. Digital marketing, SEO, SEM and social media activity will play an increasing role in reaching customers. Digital reputation will soon outweigh consumer referrals for new leads. On the supply side, more and more digital tools will be introduced to technicians including mobile diagnosis, on line schematics and help tools, while digital debriefs and electronic work orders will replace paper transactions.
- **Constrained Labor Pool** Approximately 75 percent of tradespeople are expected to retire in the next 10 years, and younger workers seem less interested in skilled trades, so retirees won't be easily replaced. Successful plumbing companies will need to focus on having a competitive total rewards package, create advancement opportunities and offer a work environment of continuous improvement and a workplace culture of engagement and work-life balance.

12. Transaction Document(s)

(**Exhibit O** contains a summary of the proposed acquisition transaction documents)

The transaction documents are separately available for RPB review. These include;

- The Asset Purchase Agreement
- The Building Purchase and Sale Agreement
- The management Employment Agreements

13. Five-Year Forecast

See Confidential **Exhibit P**

14. Conflicts of Interest

Currently there are no conflicts of interest that impact RWA's existing operations. In addition, a "no conflict of interest" certification is being used associated with this application.

15. Valuation

The methodology for the Target One valuation was a Discounted Cash Flow model. A discounted cash flow (DCF) is a valuation method that estimates the value of an investment using its expected future cash flows. DCF analysis determines the value of an investment today, based on projections of how much money that investment will generate in the future.

(**Exhibit Q** contains the confidential and proprietary elements of the valuation)

16. Statement of Costs

The proposed asset purchase includes the purchase of all physical and intangible assets of Target One as well as the purchase of the land and building it occupies. The proposed project cost is a range of \$1.5 million to \$2.5 million.

The source of funding for this investment is the RWA's Growth Fund. In fiscal 2016, the RWA established the General Fund Corporate Development and in fiscal 2018 the balance was transferred to the newly created Growth Fund, established to support non-core activities.

The available cash flow generated from Target One's operations will subsequently be deposited into the Construction Fund to mitigate water rates, help fund the capital program, and reduce leverage

(**Exhibit A** contains the confidential and proprietary elements of the statement of costs)

17. Risks

The RWA retained the firm Cohn Reznick to perform financial due diligence and the law firm Murtha Cullina LLP to perform legal due diligence. No known financial or legal matters surfaced. Therefore, the scope of risk includes the associated integration and achieving targeted growth rates. Specifically:

1. **Execution Risk** – There is risk related to on boarding and integrating the Target One Company into the RWA environment. This risk is mitigated as a result of successfully performing these functions for two prior acquisitions.
2. **Employee Risk** – There is risk associated with converting employees to employees of RWA Well Services. This risk is mitigated with the employment contracts for the current management team. In addition, the RWA will only close on the transaction after verification that the other employees have accepted their contingent employment offers.
3. **Competitive Risk** – There is risk associated with industry competition as plumbing and well service customers have a choice in who they select as a provider. This risk will be managed by leveraging our competitive advantages, including scale and scope advantages, buying power, recruiting advantages and penetrating the market with the WellSafe product.
4. **Market & Growth Risk** – There is risk associated with a market downturn or challenging economic factors. This risk is somewhat mitigated by the nominal annual growth of approximately 4.6% required to achieve the desired returns. In addition, the product portfolio includes a significant portion of plumbing repair work. This service tends to be more recession resistant, as residential water delivery systems are a basic need. Furthermore, a portion of the purchase price is contingent on achieving growth targets.
5. **Concentration Risk** – There is risk associated with concentration. See Appendix L. for confidential details on the risk and mitigation
6. **Succession Risk** – There is risk associated with the replacement of the current management team as they near retirement. The primary mitigation tool is a two-year employment agreement with the owner, to allow for knowledge transfer and succession planning activity and the previously mentioned contingent purchase price incentive. See Appendix N. for confidential term details.

18. Explanation of Unusual Circumstances

The proposed transaction is an asset purchase, whereas the transaction contemplates only the purchase of the physical and intangible assets of Target One. The liabilities remain with the previous entity. The Asset Purchase Agreement is clear in this construct and contains customary representations and warrants.

The purchasing entity is RWA Well Services LLC, a separate legal entity, providing additional insulation for the RWA and its customers.

The source of funding for this investment is the RWA's Growth Fund.

The cash flow generated from Target One's operations will subsequently be deposited into the construction fund to provide funds for the investment in the utility infrastructure and offset future water rate increases.

19. Statement of Facts on Which the Board is Expected to Rely in Granting the Authorization Sought

- In 2017, Special Act 17-5 amended our enabling legislation allowing the RWA to conduct and invest in non-core business activities defined as including water related, environment, agriculture, and certain renewable energy sources.
- In fiscal 2018, the establishment of the Growth Fund was created as a means to reserve funds intended for non-core investments.
- The RWA's 2020-2025 Strategic Plan, which serves as a road map for achieving our vision to be an innovative water utility, outlines a non-core strategy to invest in environmental and water-related businesses to achieve commercial service net revenue of \$9.2 million by May 2025.
- The RWA has bought and integrated two similar smaller plumbing and well services entities. These entities are over performing their investment targets.
- Target One represents a solid strategic and economic fit with decades of experience serving communities in eastern Connecticut. Target One has a strong service reputation and a stable, healthy earnings profile.
- The available cash flow generated from the operations of Target One will result in transferring monies into the Construction Fund, to help fund RWA's capital program, mitigate future rate increases, and reduce debt leverage.
- The asset-based deal structure and purchase price result in a favorable return on investment, while mitigating both liability and execution risk.
- The funding source is the previously established Growth Fund and the purchasing entity is RWA Well Services, LLC.
- RWA Well Services LLC is a wholly-owned entity of RWA Commercial Enterprises, LLC, a wholly owned entity of the RWA, which is subject to the controls, limitations and approvals therein, including the governance by the Authority Board and the RPB.

(Exhibit B contains the confidential and proprietary elements of the statement of facts)

20. Conclusion

The annual declining trend in billed water consumption and replacement of aging infrastructure continues to have a financial impact on RWA customers as highlighted in the Ten-Year financial model. Consequently, the RWA places continuous emphasis on growing Commercial Enterprise (non-core) revenues to help mitigate future water rate increases, accomplished through transferring available cash flow into the Construction Fund to help fund the capital program and reduce debt leverage. These events drive the RWA's continuous emphasis on growing its Commercial Enterprises portfolio. As part of that focus, in December 2020, the RWA outlined a strategic road map with a multi-pronged approach for stimulating revenue growth from the RWA's non-core businesses by way of new product development, investments and acquisitions. This application is in direct alignment with that strategy and will help grow the portfolio and market share of the RWA's commercial activities.

Moreover, the proposed acquisition of Target One will expand our well services footprint, bolster our market share, support the proliferation of our new WellSafe product and services, and provide positive cash flow to the Construction Fund.

In summary, the purchase of the Target One assets will benefit the mission, vision and strategic goals of the RWA as well as its current and future customers.

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