

## **Additional Questions & Answers Regarding Indiana American Water Company (“IAWC”) Acquisition**

This is a list of questions from members that the Board of Directors have received and responded to since 8/11/23

### **Where can SCWC members obtain a copy of the proposed contract for the sale?**

It will be posted this week and can be found under the Rates / Rules / By-Laws/ APA section.

**5.6% of the \$45M sale price is \$2.52M. How much (in dollars, not percentage) is each of the directors going to receive if the sale is completed? How much is each employee getting under this proposed sale?** Regarding the justification for the retention package and payment outlined in the FAQs, the board is estimated to receive \$900K split evenly amongst the 7 board members. The 11 employees are estimated to receive a combined retention package worth \$1.6M based on years of service.

### **Why does the Board believe that a continuing substantial increase in water fees for customers is in the best interest of those customers?**

We don't think raising water fees viewed independent of other factors is in the best interest of member, but with looking at all the positive and negative impacts that we have laid out in the letter, we think it's a unique opportunity for the Corporation to obtain maximum value for its assets. The Board thought it was appropriate to bring this opportunity to the members to see if they wanted to take advantage of this opportunity at this time. We have been able to keep rates down over the years, but as explained in Section 4 of the letter from the board, we still will need to look at raising rates if an acquisition does not occur due to rising expenses (which includes a proposed increase on water we currently purchase from IAW), and lower growth projections.

### **Is there a public hearing scheduled so that water corporation customers can publicly be heard about this proposed sale?**

There will be a public evidentiary hearing with the IURC (Indiana Utility Regulatory Commission) at a later date if membership approves the transaction.

### **What are the names and contact information for all the SCWC Board members?**

Doug Chumbler, Chris Snyder, Mark Belles, Patricia Byrd, Sam Kelley, Tim Peoples, and Kenny Rush. Please continue to contact us through this email address as board members don't have designated SCWC Email Addresses or Phone Numbers. Each board member receives emails sent to this address.

### **When is the hearing before the IURC at which the proposed sale will be considered?**

The board anticipates a hearing in the first quarter of 2024.

### **The information sent by the Board says that members are entitled to vote on the proposed sale. It does not say when, where, or how those votes can be cast. Please provide that information.**

There is a ballot being mailed to all members with a pre-addressed/pre-paid return envelope. This was mailed out on 8/14 and members should receive it a day or two later.

### **Who is the attorney that represented the interests of the SCWC in this proposed transaction?**

Chris Janak with Bose McKinney & Evans

### **Please clarify the rights of Landlords / Property Owners.**

The right to vote and to receive a distribution will be by membership alone and will not consider if the underlying member is a landlord, property owner, tenant, or corporation.

**I see that our costs will raise. Looking at the table of rates provided in the letter, I see that a lot of the increased rate is made up of two fees: an SEI fee of (\$1.07) and a DSIC fee of (7.98). What are these fees and what am I receiving for this money?**

Per Indiana American Water:

SEI

The Service Enhancement Improvements (SEI) Charge is used to recover charges for investments in infrastructure for health, safety or environmental protection of customers, employees or the public.

DSIC

The Distribution System Improvement Charge (DSIC) mechanism encourages water utilities to continue to invest in their distribution systems by reducing regulatory lag between investment in system improvements and recognition of that investment in rates. The projects typically covered by DSIC are replacements, relocations and reinforcement of existing water mains, valves, hydrants, customer service lines and meters, and tank rehabilitation & painting projects. The DSIC helps complete the replacement of certain types of aging water infrastructure, which need to be upgraded to meet water service requirements and/or service standards.

Both the SEI and DSIC were authorized by the Indiana Legislature to allow water utilities to make periodic adjustments to their rates and charges for investments to maintain system reliability and safety without delay which may occur if the utility is required to file a burdensome general rate case

**IAWC treats wastewater also. Will we be paying for wastewater treatment that we do not use? I currently pay New Albany Municipal Utilities for my wastewater.**

IAWC has separate rates for water and wastewater service. If you are only connected to IAWC for water service, then you will only pay the water rate. If New Albany Municipal Utilities is your wastewater provider, then you would still need to pay them for your wastewater moving forward.

**What is the number of employees?**

11

**What is the number of board members?**

7

**Is estimated payment based on years of membership?**

No, this is an acquisition based on an asset purchase agreement. Each meter is valued as an asset, and a member's years of membership doesn't change the value.

**Which of your statements is true-'its growing membership" or #4 "lower growth projections"?**

Both, we are still growing, but not as fast as recent years and future projections slow down even more.

**Are the "payment" and "membership fee" taxable income thus lowering the actual benefit?**

A 1099 will be issued in January of the year following payment and that each member will need to consult their tax preparer regarding appropriate tax treatment. The membership fee would be a reimbursement and therefore not taxable.

**Within the near future we will be moving outside the current Silver Creek Water servicing area. How will we be receiving our share of the potential distribution?**

You are entitled to any disbursement payments if the transaction occurs. If you move before payments are sent, please call the office, and notify them of your new mailing address so we have an accurate address on file to send the disbursement check and reimbursement of your membership fee.

**Is every current customer of SCWC a member that qualifies for the asset distribution?**

Current memberships as of 7/28/23 qualify.

**Your letter states that a significant increase in rates will take place. Your letter also states, "...Because SCWC currently purchases water from IAWC, any rate increase by IAWC is already typically passed through to members..." If customers of SCWC already are billed for the IAWC water, then why will the rates go up significantly after the sale.**

SCWC purchases water on a wholesale basis from IAWC. The wholesale rates are less expensive than IAWC's retail rates. Although IAWC is proposing to significantly increase SCWC's wholesale rates if the acquisition does not close, the IAWC's retail rates are still higher and will result in a higher retail rate upon closing.

**Does a membership equate to one household receiving water from Silver Creek Water Corporation?**

Membership equates to the number of meters each member has paid a membership fee for. For example, there are some residents that have a meter for their house, as well as a meter for their irrigation system. These members paid a membership fee for each meter and would therefore have 2 memberships.

**Roughly, how many times in the past has Indiana American Water Company approached the board for buying silver Creek? What were the reasons for not selling previously?**

IAWC has approached SCWC every 2-3 years for the past 24 years to see if there was any interest in selling.

Some of the reasons for not moving forward previously are the following:

- Management was younger and succession plan wasn't a concern
- Exponential growth was happening in the area
- Economy was in a much better spot allowing us to keep rates low, but we're in a position now where we'll have to continue to raise rates to stay ahead of rising costs and slower growth in the area
- Selling has been a thought & suggested for many years by different board members, but felt there was more value to maximize on before bringing it to membership to consider

**Would current employees of Silver Creek Water Corporation have to potentially move for employment with Indiana American Water Company if they continued employment?**

No, the board ensured that every current SCWC employee would have a position available at IAWC without the need to move.

**In one of the frequently asked questions, it states that IAWC will provide a dedicated customer service line for SCWC customers for one year after the purchase. What will happen to SCWC customer service after that initial year?**

The dedicated line would dissolve after one year, and all customer service calls would go to their main call centers.

**In the outline of the proposed sale, you note that if the sale does not go through then SCWC will increase rates. If that were to happen what would be the anticipated rate increase?**

We do not know for sure what the rates would go to if the sell did not go through, however IAWC is proposing to increase the wholesale rates by approximately 50% and SCWC has experienced a material increase in operating and maintenance costs with not as much growth since it's last rate case. It depends on usage, but our current estimate with what we know today is around a 21% increase.

**Were bids sought from other companies which can provide our water services?**

No, as part of our contract with IAW, they have the first right of refusal.

**In the letter, the allocation of proceeds of the sale are somewhat described, however it does not appear all proceeds are accounted for. 5.6% of the sales price of \$45M for employee and board member compensation is \$2.52M. Payments made to members is listed to range from \$4,500 to \$4,800 with approximately 8,000 members that is \$36M to 38.4M. Assuming my math and understanding of the sales proceeds are correct, this leaves \$4.08M to \$6.48M in proceeds I am otherwise unable to account for. Can you provide a breakdown of who/what the remaining \$4.08M to \$6.48M is allocated for?**

In addition to the \$2.52M, we expect the payouts to be closer to \$5,150 per membership but wanted to provide a lower estimate to not promise more to the members than they might receive. The final number will depend on the cash of hand available once all expenses have been accounted for and SCWC is fully dissolved. Also, as of the date of the letter, there were closer to 8,100 members (\$41.7M). There is also approximately \$937K in membership fees to reimburse.

**What is the expected monthly charge for 5000 gpm if SCWC went to the higher cost treatment?**

We do not know for sure what the rates would go to if the sell did not go through, however IAWC is proposing to increase the wholesale rates by approximately 50% and SCWC has experienced a material increase in operating and maintenance costs with not as much growth since it's last rate case. Our current estimate with what we know today is around a 21% increase. At our current 5,000 gallon per month usage, this would take the bill from \$34.75 today to \$41.70 (a total increase of 23% as this includes the increased \$ sales tax amount as well).

**How was 5.6% of the sale price determined?**

We looked at retention and severance bonuses by employee based on years of service and position. We added that to a 2% disbursement for the board. We had brokers quote us from 6-10% in brokerage fees to handle the work the board has done over the past year and a half, so we thought this was a fair amount to recognize the work done through the process and over the years as mentioned in the FAQ.

**If this was an unsolicited offer, why would we expect a broker to be used?**

IAW approached the Board if they would be interested in selling SCWC and have every 2-3 years for the past 24 years. Part of our 50-year water purchasing agreement with IAW (we're a wholesaler that buys water from them) is that they get first right of refusal. Once we agreed that we were interested in entertaining the idea and received an initial offer that we thought was too low we interviewed a couple of M&A Advisors/Brokers that would have handled the entire process from start to finish (appraisal, negotiations, legal & accounting matters, state filing, etc.). We decided against going this route and negotiated the deal ourselves securing an additional \$9M for the membership from the initial offer.

**What has SCWC compounded rate increase been since 2009?**

2.4%

**Why is 8-1-30.3-6 referenced if SCWC is not a distressed water utility?**

For purposes of Indiana Code § 8-1-30.3-6, the distressed utility statute, any water utilities that have less than 8,000 customers are considered an "offered utility" that is not large enough to capture economies of scale. As an offered utility, Silver Creek currently falls under the distressed utility statute, Indiana Code § 8-1-30.3-6.

**Has SCWC had any commission findings?**

The only commission findings are final orders for the one rate increase (2022), and a couple times when we filed for borrowing money (all loans are paid off).

**Please clarify why the board feels SCWC wouldn't be worth more in the future? What exactly is the expected reason for decrease in value?**

Once we move from a smaller utility to a larger utility (over 8,000 customers), current legislation states that IAW could no longer pay fair market value, but only net book value. Instead of \$45M today at FMV, it would go to our net book value of approximately \$19M when we first compared scenarios.

**Why is there not a members meeting (online or in person) to discuss the sale process and any questions and concerns that members may have? In my opinion a major decision like this needs more than just a letter in the mail to ensure that all members make an informed decision. Will all members questions and the SCWC Board answers to those questions be posted on the SCWC website to help members make an informed decision?**

Due to the large number of customers (i.e., approximately 8,000), the Board thought it was more practical and informative to prepare and send the members written information describing the details of the potential opportunity. In addition, the Board is reviewing and responding to all questions from the members so that the members can make an informed decision. Yes, we will be compiling Questions & Answers from this week on our website. We hope to have this posted over the weekend or early next week and will update if new questions come in.

**If the sale is approved by the SCWC members, will the members be notified of the IURC's rate setting hearing dates for public input?**

The IURC will hold a hearing most likely in the first quarter of 2024. Notice of the IURC's hearings on this issue will be published in the local newspaper. In addition, the IURC has a website on which customers can monitor all filings and orders issued by the IURC.

**Will the SCWC members receive notification of the results of the membership vote? I do not frequent the SCWC website. What date will the members voting results and the public accounting firm's letter of attestation to the accuracy of the vote be posted on the SCWC website?**

We will post the results to the website and through a follow-up mailing. SCWC anticipates receiving all votes by mid to late September 2023. The Board anticipates posting and notifying members of the results by November 1, 2023.

**How are the Board positions filled?**

You can find this in our By-Laws (Article IV) that's posted on our website. The Board of Directors of the Utility shall consist of seven (7) persons, all of who shall be Members of this Utility. At each annual meeting the Members shall elect directors for who's term has expired, for a term of three (3) years. All directors shall serve until their successors are elected and have been qualified. The President of the board shall appoint, no later than the first Monday in January of each year, a nominating committee comprised of two (2) board Members, whose term of office will not expire during the year of their appointment, and one (1) Member from the membership at large. This nominating committee shall present to the Board of Directors, no later than the 25th day of January of each year, a slate of nominees who will seek a position as a Director at the election to be held on the first Monday of March of each year. The President of the board shall not be a Member of this committee. Further, any Member of the Utility may submit their name in writing to the Secretary of the Board mailed to the office of the Utility, early enough so that it will be in the office of the Utility no later than the 25th day of January of each year. There will be no nominations from the floor at the annual meeting. Any Member who follows the above shall have his name placed on the ballot as seeking a position on the Board of Directors. All names of Members received as outlined above, and the names of Members selected by the nominating committee, shall be posted in a conspicuous place in the office of the Utility not less than thirty (30) days prior to the election to be held at the annual meeting Utility. Each person so nominated shall hold a membership in their name on the records of the Utility.

**Are Board members paid a monthly salary?**

No, they are paid by meeting. There is typically one meeting per month, but we do have special meetings occasionally. Officers (President, Vice President, Treasurer, and Secretary) are paid \$200 per meeting and Directors are paid \$175 per meeting. Last year the annual amounts paid to each Director was \$2,275 and \$2,600 for each Officer.