

# COLUMBIA BASIN WATER TRANSACTIONS PROGRAM

## WATER VALUATION POLICY

### I. PURPOSE

The purpose of this memo is to outline the Columbia Basin Water Transaction Program (CBWTP) policy for valuation of transactions funded by the Program.

### II. STRATEGIC OBJECTIVE

To ensure a prudent and fiscally responsible allocation of funds, CBWTP shall evaluate price and terms of all transactions funded, in part or in full, by the program. The objective of the valuation review is to ensure that water right holders are fairly compensated and that transaction terms are reflective of market values or other verifiable economic basis that represent fair and reasonable compensation.

### III. VALUATION POLICY AND PARAMETERS

#### A. Engagement and Request of Valuation

- i. A valuation analysis is required for all transactions partially or wholly funded through the program.
- ii. One of three levels of analysis is required, depending on the funding request and specific circumstances of the proposed transaction:
  1. Full Valuation Report
  2. Basin Specific Valuation Report
  3. QLE Price Documentation
- iii. The following applies to all transactions requesting funding from the CBWTP for FY2012 and beyond.

#### B. Full Valuation Report:

- i. Value Requirement: Unless otherwise determined, CBWTP will require a Full Valuation Report for all transactions with a requested total funding amount of **\$500,000 or greater**. CBWTP may require a Full Valuation Report for transactions less than \$500,000 at its discretion.
- ii. Definition: A Full Valuation Report will provide an independent assessment of fair market value of the subject water right(s). The analysis will utilize a minimum of two valuation approaches and will assess current regional water supply and demand conditions

and alternative market opportunities for the subject water rights through a highest and best use analysis. The valuation report will evaluate the depth, or lack thereof, of a market for the subject water right, develop a profile of the most likely buyers, and an analysis of pricing issues under the identified market conditions. If appropriate, price adjustment premiums and discounts shall be analyzed and supported which address issues such as seniority, marketability, location, and other relevant factors. Market participant interviews, published data, and other research documents shall be used to assess market conditions, prospective buyer profiles, and regional water supply and demand conditions. All sources will be documented and referenced appropriately in a comprehensive valuation report.

- iii. Report Engagement: The QLE will be responsible for engaging a qualified valuation firm to conduct a full valuation report. The qualified valuation firm will identify and select the appropriate valuation approach based on the terms of the proposed transaction, market conditions and characteristics of the subject water right. Costs incurred may be reimbursable through the CBWTP on a case-by-case basis.
- iv. Timing: For transaction requests of \$500,000 or more, the Full Valuation Report is required as part of a complete transaction funding application, and must be submitted prior to TAC review. In the event that CBWTP requests a Full Valuation Report for transaction funding requests of less at \$500,000, the Report must be submitted prior to CBWTP submission of the transaction to the Council and BPA for funding.

### **C. Basin Specific Valuation Report:**

- i. Value Requirement: Unless otherwise determined, CBWTP will require a Basin Specific Valuation Report for all transactions with a requested funding amount of greater than **\$100,000** but less than **\$500,000**.
- ii. Definition: A Basin Specific Valuation Report will provide an independent assessment of value of water rights in the particular basin. The analysis will support a value range rather than a single value. In addition, the report will be provided in summary format and provide limited detail and documentation on data and analysis.
- iii. Timing: For transaction requests greater than \$100,000 but less than \$500,000, the Basin Specific Valuation Report is required as

part of a complete transaction funding application, and must be submitted prior to TAC review.

- iv. Report Engagement: CBWTP will be responsible for ordering and engaging WestWater Research or other qualified valuation firm to conduct the Basin Specific Valuation Report. In basins where such a report is not yet available, the QLE must provide a QLE Price Documentation Report as described below.

#### **D. QLE Price Documentation Report:**

- i. Value Requirement: All transactions requesting funding but not otherwise required to provide a Full or Basin Specific Valuation Report will provide a QLE Price Documentation Report.
- ii. Definition: A QLE Price Documentation Report is an internal evaluation developed by the QLE requesting transaction funding from CBWTP. The Price Evaluation Report will include a summary analysis that supports and justifies the transaction price. The valuation analysis will be presented in summary form and provide summary data and a description of the analytical framework used by the QLE to derive the transaction price.
- iii. Report Engagement: A QLE Price Evaluation Report shall be conducted by the QLE requesting transaction funding from CBWTP.

#### **E. Valuation Policy**

- i. Upon satisfactory review of the valuation analysis, the CBWTP will undertake the following actions:
  1. For transactions subject to the Full Valuation Report, CBWTP will recommend to BPA the full funding request (less cost-share, if any) if the valuation analysis demonstrates that the negotiated transaction price is within 15% the estimated fair market value for transactions under \$500,000 or within 10% for transactions over \$500,000; or
  2. For transactions subject to the Basin Specific Valuation Report, CBWTP will recommend to BPA the full funding request (less cost-share, if any) if the valuation analysis demonstrates that the negotiated transaction price is within the range presented by the Basin Specific Valuation Report.

3. The CBWTP is unable to recommend to BPA the full funding request of transactions where the negotiated transaction price significantly exceeds the supporting valuation analysis.
- ii. In the event of a valuation dispute, the QLE, at its own expense, may obtain a second independent valuation from a third party. The third party may not be furnished with the original valuation report prior to completing their analysis.
    1. If the second valuation does not differ by more than 10% from the initial valuation then the average of the two reports shall be considered the market value of the subject water right.
    2. If the second valuation differs by more than 10% from the initial valuation, CBWTP will have final determination of the fair market value for the valuation dispute and the amount it recommends to BPA for transaction funding. CBWTP may seek additional written comment from each valuation team to provide clarification on significant points of departure between the two valuations before making a funding recommendation to BPA.