



AMWA 2011

Newport, RI

WHAT EVERY
UTILITY EXECUTIVE
SHOULD KNOW ABOUT THE
**CAPITAL PLANNING &
FINANCING PROCESS**



WHAT EVERY UTILITY EXECUTIVE
SHOULD KNOW ABOUT THE
CAPITAL PLANNING &
FINANCING PROCESS

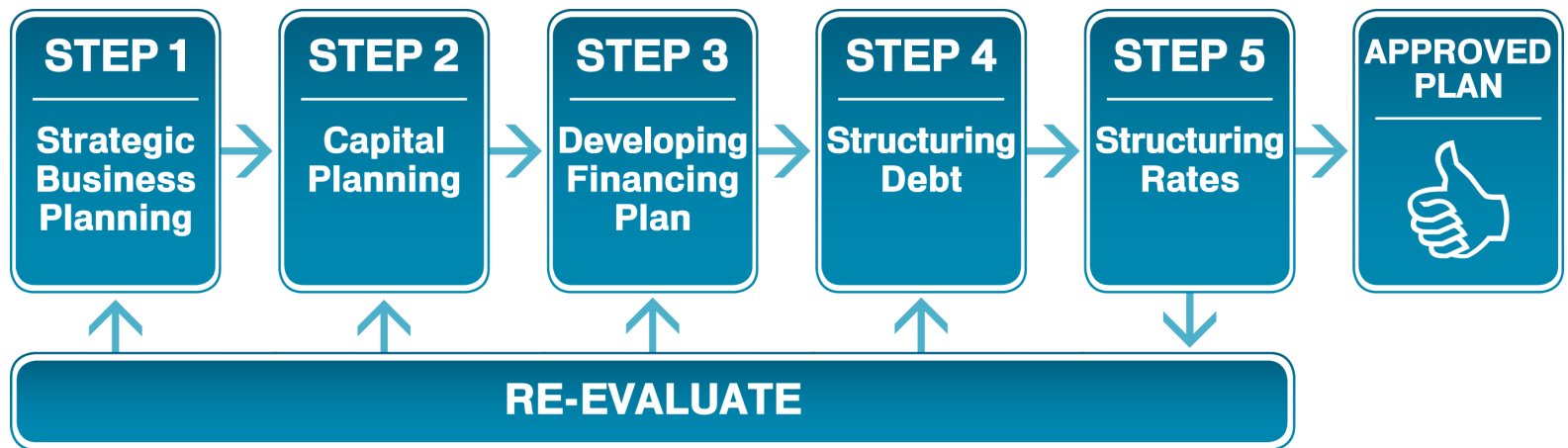
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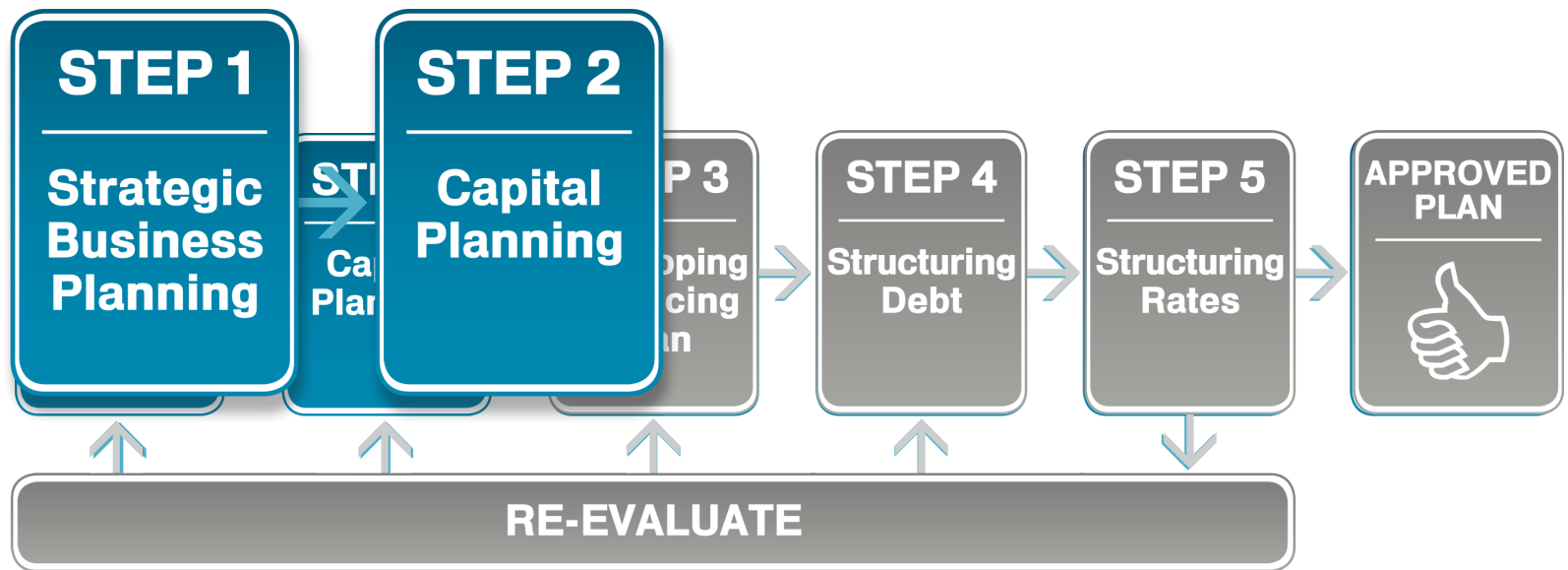
Today's Utilities are Faced with Significant Capital Financial Demands Driven By:

- 1) Unfunded state and federal regulatory mandates
- 2) Rapid Growth/no growth
- 3) Aging infrastructure
- 4) Other

Capital Financial Planning Framework



Capital Financial Planning Framework



Doug Bean, Director of Government Services
Raftelis Financial Consultants, Inc.

WHAT EVERY UTILITY EXECUTIVE
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What is a Strategic Plan?



5 Keys to Management Success



WHAT EVERY UTILITY EXECUTIVE SHOULD KNOW ABOUT THE CAPITAL PLANNING & FINANCING PROCESS

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Utilities Strategic Plan

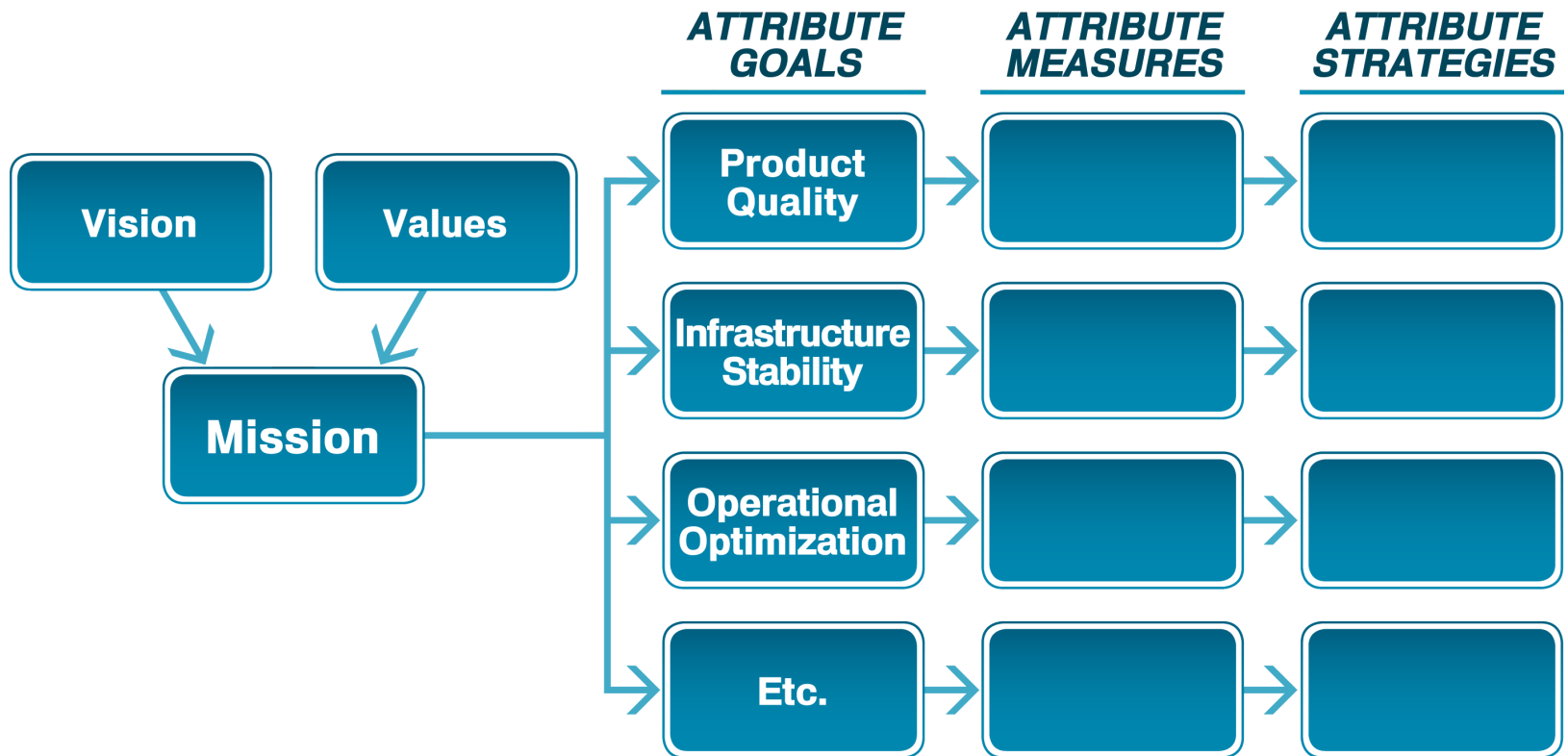


KEYS TO MANAGEMENT SUCCESS

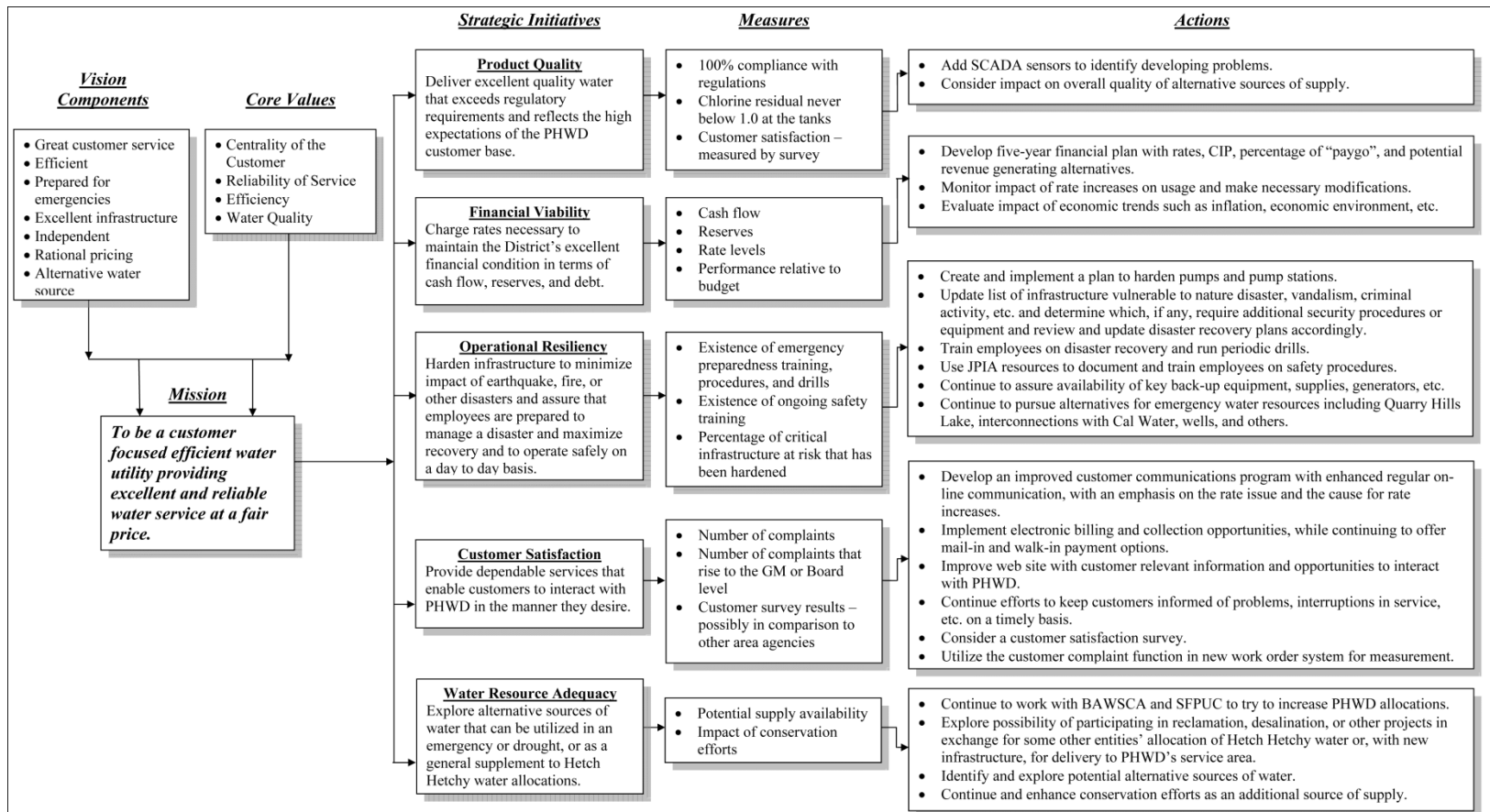


- **Vision:** Premier Public Utility
- **Mission:** Protect Public Health
- **Goal:** Quality Water (PQ)
- **Strategies:** 100% Compliance
- **Tactics:** Upgrade SCADA

Strategic Plan



Strategic Framework



WHY IS IT IMPORTANT?

Mission

“It is the mission of Nirvana Public Utilities to **sell** water and wastewater **services** to **maximize its profitability** for the owners of the system.”

or

“It is the mission of Nirvana Public Utilities to **protect public health** and the **environment while** serving as a platform for **economic development.**”

**WHY IS IT
IMPORTANT?**

Long-Term View

Utilities with long-term plans that are updated regularly are more resilient and successful.

WHY IS IT IMPORTANT?

Establishes Priorities

New normal's impact

- Funds
- Public support
- People



WHY IS IT IMPORTANT?

Integrates and Directs Implementation Plans

- Capital Plan
- Operating Plan
- Master Plan
- Community Plan

**WHY IS IT
IMPORTANT?**

Communicates the “Why”

**Stakeholder
Understanding of Value = SUPPORT**

Who Does the Strategic Plan?

- City/County Utility
 - Governing board – Organization
 - Utility specific “rolls up”
- Independent Authority
 - Governing board involvement
 - Top down – Bottom up

WHAT EVERY UTILITY EXECUTIVE SHOULD KNOW ABOUT THE CAPITAL PLANNING & FINANCING PROCESS

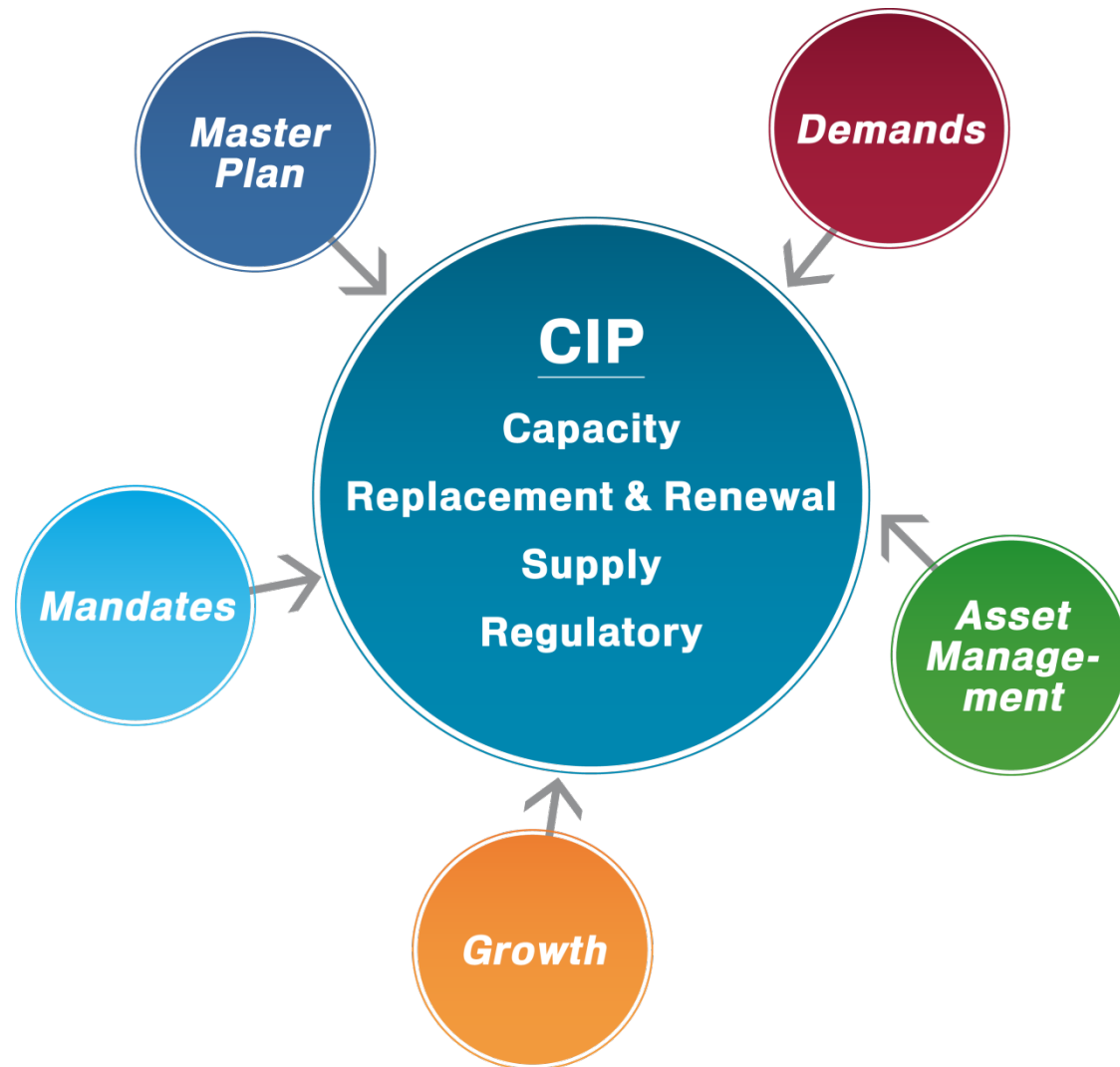
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How Does This Relate to Capital Planning?



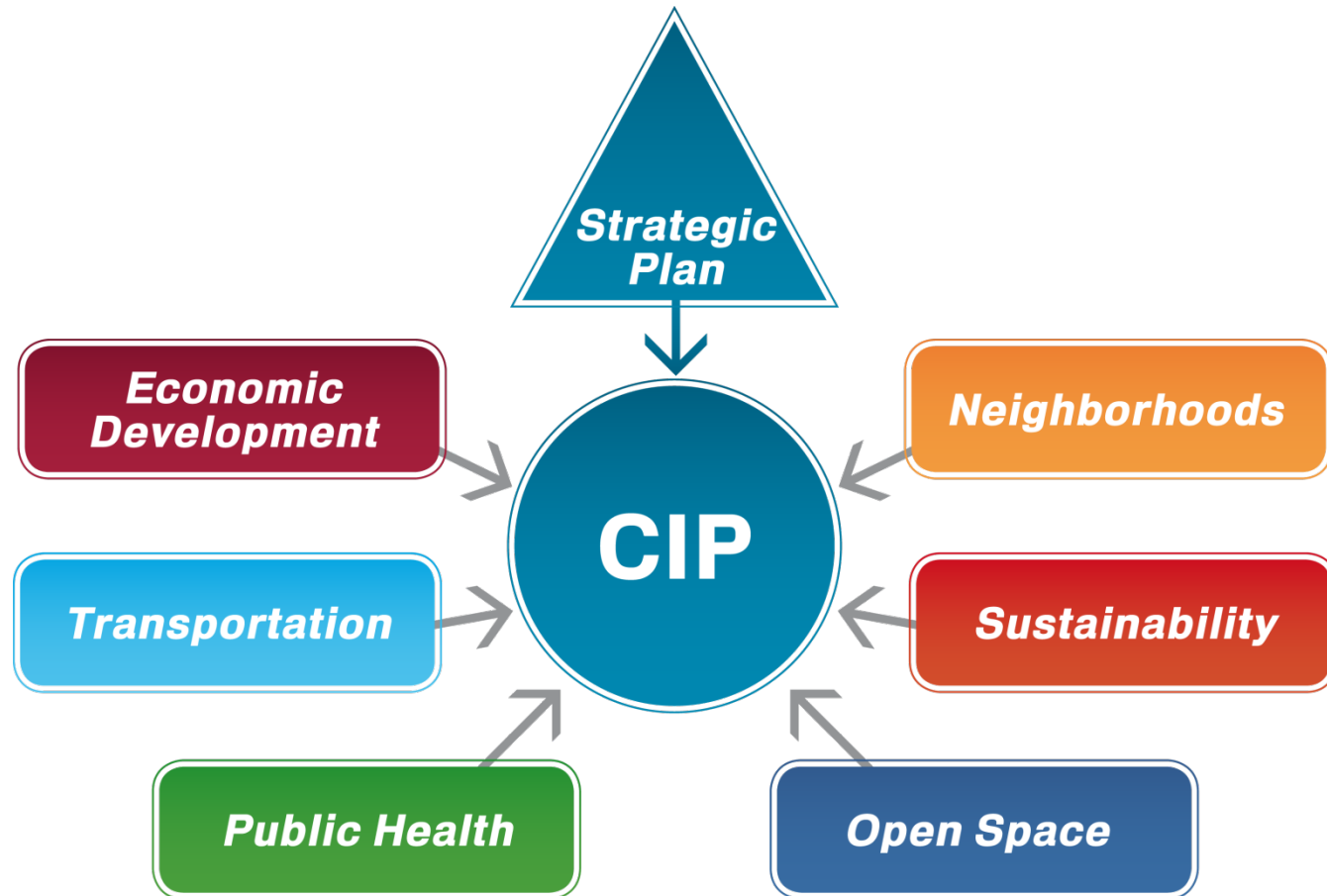
Traditional Approach *“The What”*



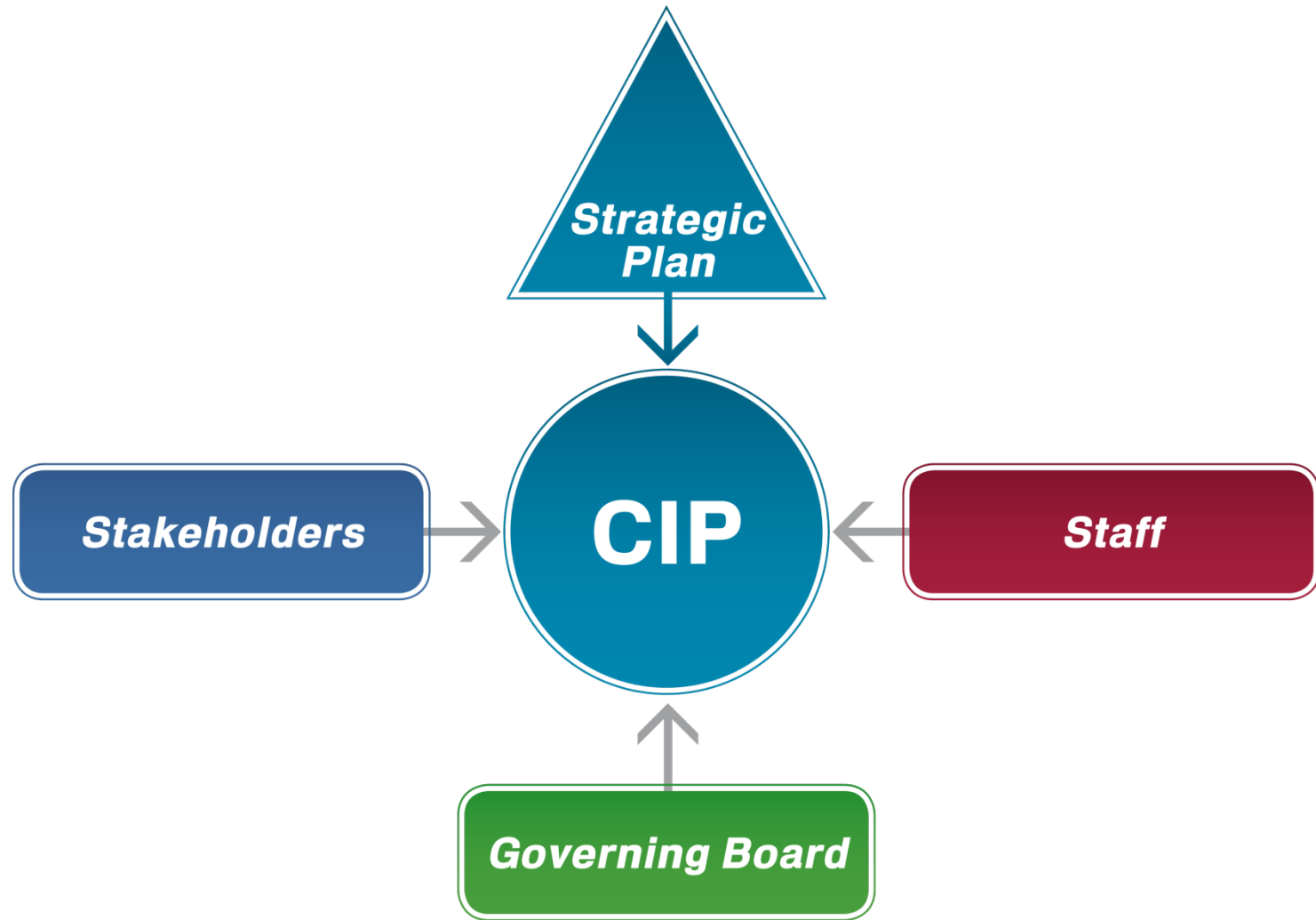
FY 08-12 Capital Investment Projects/Water

Project Title	Prior Appro	Estimat ed Bal	FY08	FY09	FY10	FY11	FY12	5 Year Totals
Water Dist. System Study	\$2,250,000	\$50,000	\$150,000	\$0	\$0	\$0	\$0	\$150,000
Water Line Rehabilitation/ Replacement	\$64,994,887	\$2,000	\$5,000,000	\$5,500,000	\$6,100,000	\$6,000,000	\$6,000,000	\$28,600,000
Water Lines for Street Improv.	\$40,519,871	\$0	\$5,000,000	\$3,000,000	\$3,000,000	\$2,000,000	\$1,000,000	\$14,000,000
West Transit Corridor Improvements - Wilkinson	\$0	\$0	\$0	\$0	\$0	\$0	\$1,000,000	\$1,000,000
West Water Main	\$22,500,000	\$5,000	\$19,500,000	\$0	\$0	\$0	\$0	\$19,500,000
WM Beatties Ford Road - Phase II	\$1,510,000	\$454,950	\$150,000	\$0	\$0	\$0	\$0	\$150,000
WM NC 115 Bailey Rd. to Washam Potts	\$1,920,950	\$5,000	\$300,000	\$0	\$0	\$0	\$0	\$300,000
WM Nevada & Wilmar Boulevards	\$1,500,000	\$1,300,000	\$650,000	\$0	\$0	\$0	\$0	\$650,000
WM Bailey Road	\$0	\$0	\$0	\$0	\$0	\$0	\$1,100,000	\$1,100,000
WM New Dixie River Road	\$0	\$0	\$0	\$0	\$0	\$0	\$450,000	\$450,000
WTP's and BP Stations Upgrades and Rehab	\$900,000	\$350,000	\$150,000	\$250,000	\$200,000	\$150,000	\$150,000	\$900,000
Water CIP Total			\$104,675,000	\$42,795,000	\$55,820,000	\$62,700,000	\$87,335,000	\$353,325,000

New Normal Strategic Planning *“The Why”*



Involvement



Program Category: Sewer
Project Title: Street and Minor Sewer Main Extension

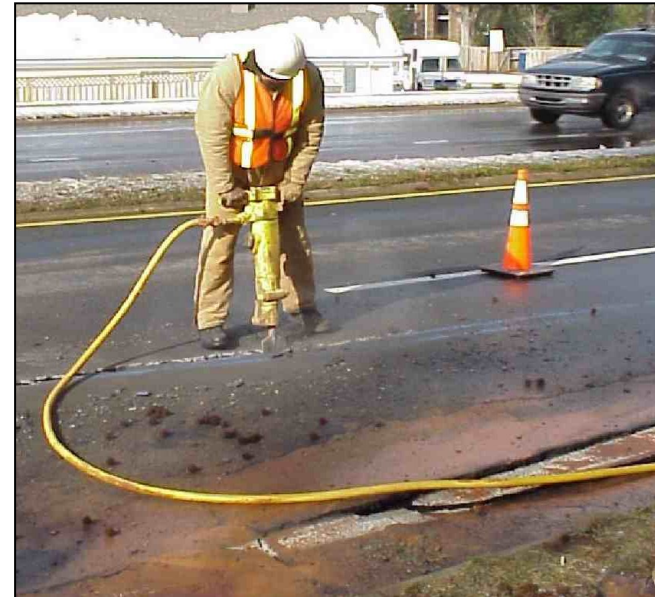
- Project provides for sewer service extensions to residential customers 1,000 feet or less from an existing sewer line per Council approved policy.
- Project also provides for extensions when health hazards are created in association with septic tank deterioration, sewage demand beyond capacity, or when on-site disposal systems are constructed in unsuitable soil conditions.
- Need is based on customer requests and on the presence of sewer health hazards.

Notes:

Account Number: 633.79

Appropriations to Date: \$112,800,000

Estimated Balance June 30, 2008: \$1,261,080



Costs	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Planning/ Design	\$1,750,000	\$1,020,000	\$1,125,000	\$1,150,000	\$1,275,000	\$6,320,000
Acquisition	\$100,000	\$100,000	\$100,000	\$100,000	\$0	\$400,000
Construction	\$5,150,000	\$6,230,000	\$6,475,000	\$6,850,000	\$7,225,000	\$31,930,000
Equipment	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$7,000,000	\$7,350,000	\$7,700,000	\$8,100,000	\$8,500,000	\$38,650,000
	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Water/Sewer Operating Fund	\$1,850,000	\$350,000	\$0	\$8,100,000	\$8,500,000	\$18,800,000
Sewer Revenue Bonds	\$5,150,000	\$7,000,000	\$7,700,000	\$0	\$0	\$19,850,000
Total	\$7,000,000	\$7,350,000	\$7,700,000	\$8,100,000	\$8,500,000	\$38,650,000

Operating Budget Impact: Additional costs are anticipated for labor, service call response and routine maintenance.

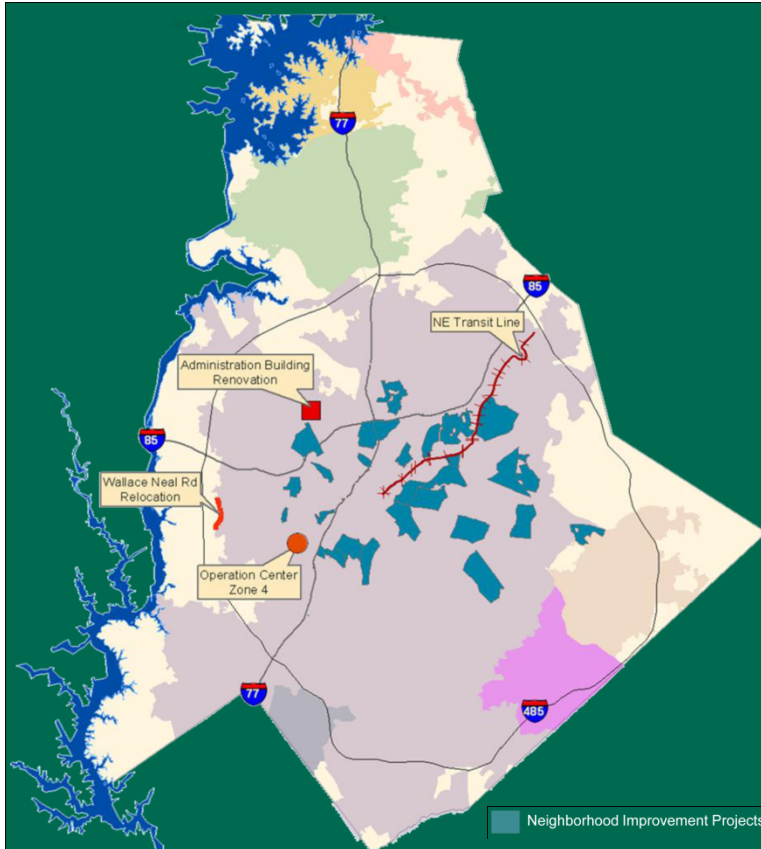
Priorities

- Public health
- Environmental protection
- Support community objectives
- Maintain and improve service levels

Priority Rating System

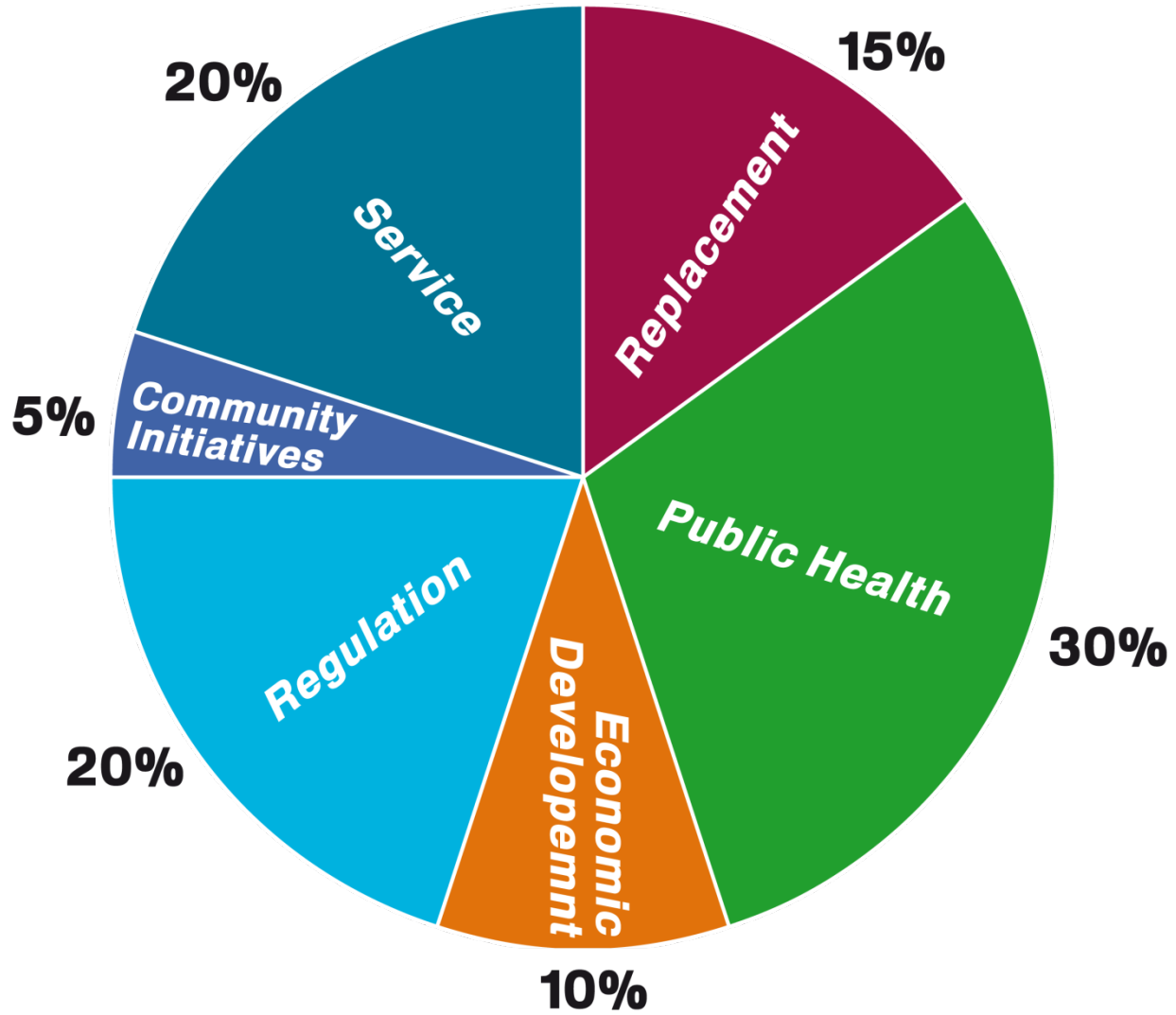
Rating Question	Clearly No						Clearly Yes	
Legally Mandated?	0	1	2	3	4	5	6	
Eliminate a threat to public health?	0	1	2	3	4	5	6	
Fit with goals of the governing board?	0	1	2	3	4	5	6	
Support economic development?	0	1	2	3	4	5	6	
Consequences severe if not funded?	0	1	2	3	4	5	6	
Benefits balance or exceed the costs (benefit/cost ratio)?	0	1	2	3	4	5	6	
Administrative Ease	0	1	2	3	4	5	6	
Affordability	0/1	1/1	2/1	3/1	4/1	5/1	6/1	
Total Score or Rating	0	6	12	18	24	30	36	

Public Projects & Operations



- Neighborhood Improvement Projects
- NC DOT & CDOT Projects
- Administration Building Renovation
- Field Operations Center
- Wallace Neal Road Relocations
- N.E. Transit Corridor (Engineering)

CIP



WHAT EVERY UTILITY EXECUTIVE SHOULD KNOW ABOUT THE CAPITAL PLANNING & FINANCING PROCESS

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Strategic Plans & Capital Programs

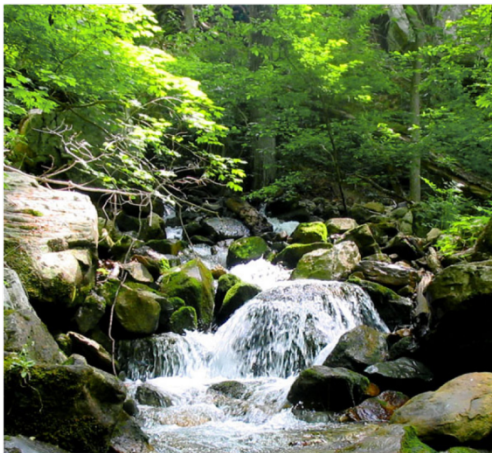
An Integrated Approach

- Relates to public purpose and mission
- Allocates resources
- Leads to greater understanding and support

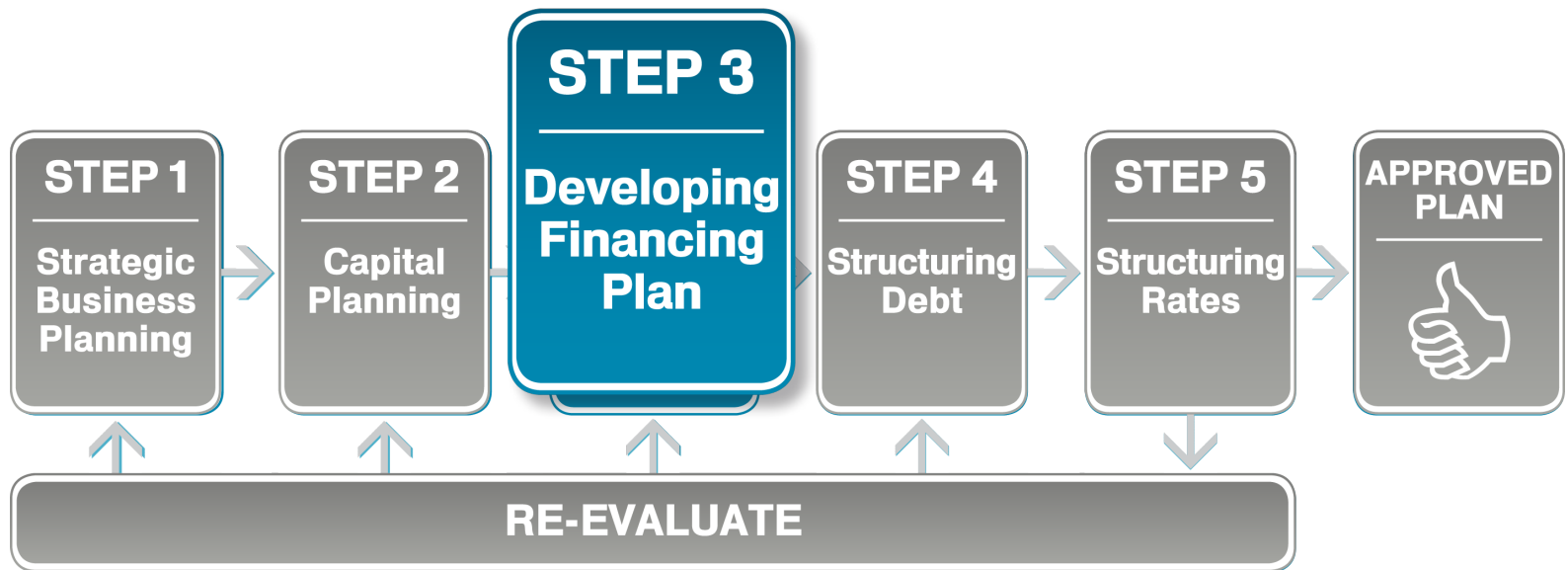
An Integrated Approach

Provides context for the CIP to be a prime strategy for achieving Nirvana's mission:

“to protect public health and the environment while serving as a platform for economic development.”



Capital Financial Planning Framework



George Raftelis, Chief Executive Officer
Raftelis Financial Consultants, Inc.

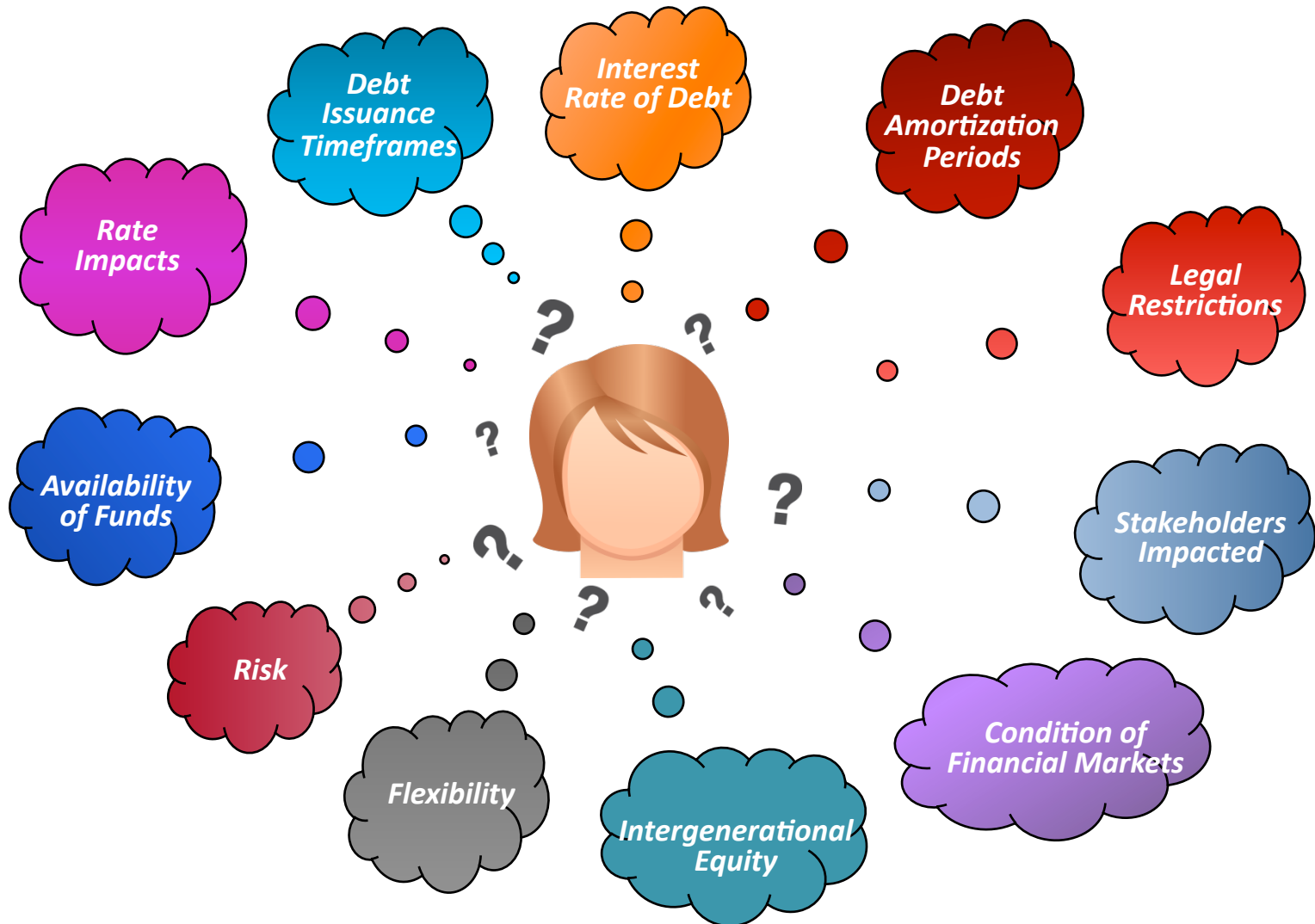
Identifying Capital Sources to Fund the Capital Improvement Program



Your Financing Techniques Toolbox



Considerations in Selecting Optimal Financing Plan



Example of \$1 Billion Financing Plan

Facilities	Method	Annual \$ (in millions)
New Treatment Plant	Debt	\$400
Transmission Lines	Debt	\$225
Water Treatment Plant Expansion	Development Fees	\$100
Distribution Lines	Assessments & Developer Contributions	\$75
Storage Facilities	Reserves	\$100
Vehicles	Rates (Pay Go)	\$50
Equipment & Other Capital	Rates (Pay Go)	\$50
		\$1.0 Billion



Debt is Most Common Financing Technique

NEW ISSUE

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Fiscal 2011 BB Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Fiscal 2011 BB Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Fiscal 2011 BB Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof, including The City of New York. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Fiscal 2011 BB Bonds. See "TAX MATTERS."

\$210,040,000

New York City

Municipal Water Finance Authority

**Water and Sewer System Second General Resolution Revenue Bonds,
Fiscal 2011 Series BB**

Dated: Date of Delivery

The Fiscal 2011 BB Bonds will be issued as registered bonds and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York which will act as securities depository for the Fiscal 2011 BB Bonds. Purchases of beneficial interests in such Fiscal 2011 BB Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing the ownership interest in the Fiscal 2011 BB Bonds purchased by them. See "BOOK-ENTRY-ONLY SYSTEM."

Due: June 15, as shown on the inside cover

Interest on the Fiscal 2011 BB Bonds will accrue from their date of delivery and will be payable semiannually on each June 15th and December 15th, commencing December 15, 2010. The Fiscal 2011 BB Bonds will be issued in authorized denominations of \$5,000 and integral multiples thereof. The Fiscal 2011 BB Bonds are subject to redemption prior to maturity as described herein. The proceeds of the Fiscal 2011 BB Bonds are expected to be applied (i) to pay principal and interest on a portion of the Authority's Outstanding First Resolution Bonds and (ii) to pay certain costs of issuance.

The Fiscal 2011 BB Bonds are special obligations of the Authority, payable solely from and secured by a pledge of and subordinate lien on the gross revenues of the System. The Authority has no taxing power. The Fiscal 2011 BB Bonds are not a debt of the State of New York, The City of New York or the New York City Water Board and none of the State of New York, The City of New York or the New York City Water Board is liable on the Fiscal 2011 BB Bonds.

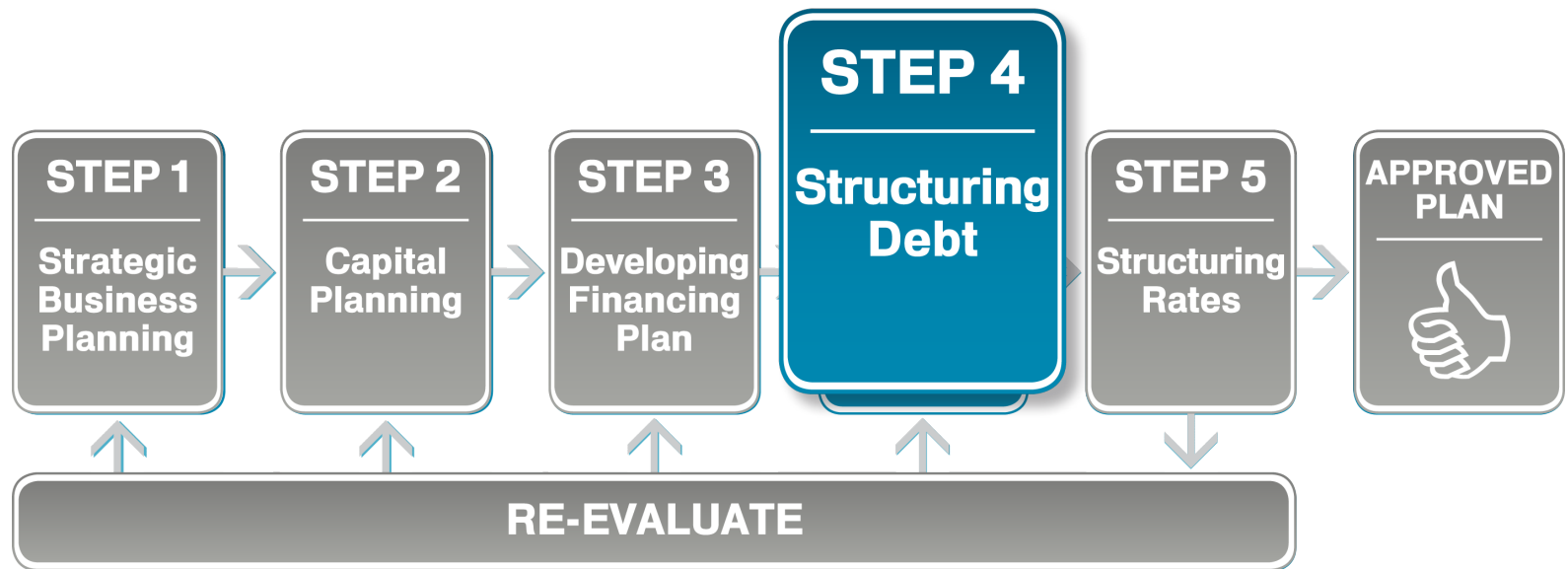
The Fiscal 2011 BB Bonds are offered when, as and if issued by the Authority and received by the Underwriters and subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York. It is anticipated that the Fiscal 2011 BB Bonds will be available for delivery to The Depository Trust Company in New York, New York, on or about September 30, 2010.

Rice Financial Products Company

Barclays Capital		Jefferies & Company
Morgan Keegan & Company, Inc.	M.R. Beal & Company	Ramirez & Co., Inc.
BofA Merrill Lynch	Citi	Fidelity Capital Markets
Goldman, Sachs & Co.	J.P. Morgan	Loop Capital Markets, LLC
Morgan Stanley	Raymond James & Associates, Inc.	RBC Capital Markets
Roosevelt & Cross Incorporated	Siebert Brandford Shank & Co., LLC	Wells Fargo Bank, National Association
BB & T Capital Markets	Lebenthal & Co., LLC	Oppenheimer & Co., Inc.
Piper Jaffray	Stifel Nicolaus	Stone & Youngberg

September 22, 2010

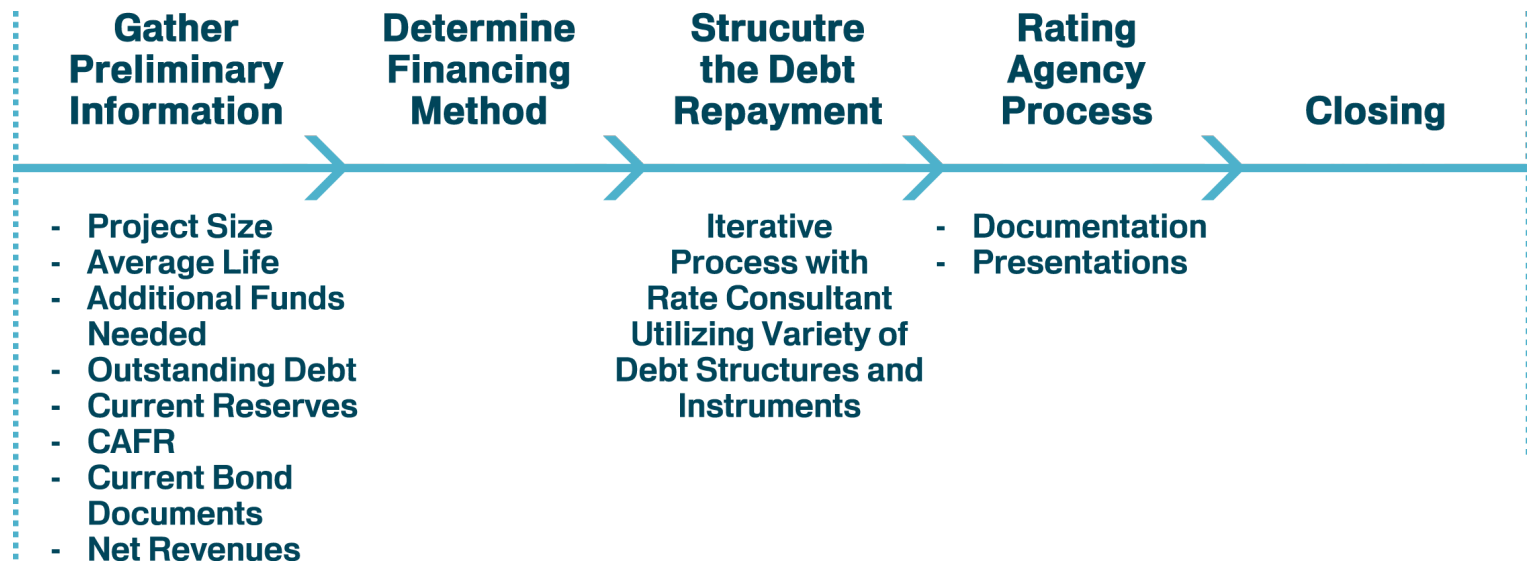
Capital Financial Planning Framework



Kevin Schuyler, Managing Director
Rice Financial Products Company

Financing Time Line: Structuring and Sale of Bonds

Time frame: 2-4 months



Gather Preliminary Information

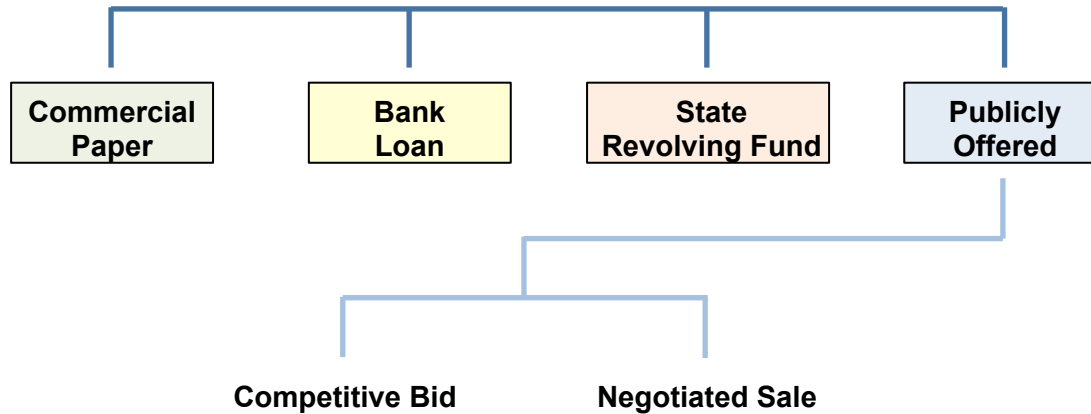
- Takes staff time
 - **Project information**
 - Total cost
 - Available funds
 - Debt
 - Pay-as-you-go
 - Construction period
 - Proceeds spend-down
 - Safe harbor
 - ❖ 5% within 6 months
 - ❖ 85% with 3 years
 - Average life
 - **Outstanding debt**
 - **Current revenues and operating results**
 - **Major customers**
 - Contract terms (if any)
 - **System engineer's report**

Determine strength
of system.

Determine amount of
project that can be
financed by bonds.

Determine current
debt coverage levels,
health of system.

Determine Financing Method



Other Services Needed

- Financial Advisor
- Bond Counsel
- Disclosure Counsel
- Engineering Consultant
- Rate Consultant
- Feasibility Consultant
- Trustee/Paying Agent
- Rating Agencies
- Bond Insurers
- Printer

State law may require the use of competitive bid.

Negotiated sales provide greater flexibility and ability to market bonds to investors prior to the sale.

Competitive bids are generally used for very highly rated, uncomplicated, straightforward transactions.

Negotiated sales bring the underwriter and the investment bank into the structuring and sale process.

Structuring the Debt Repayment

Projected Operating Results (Initial Rate Model)

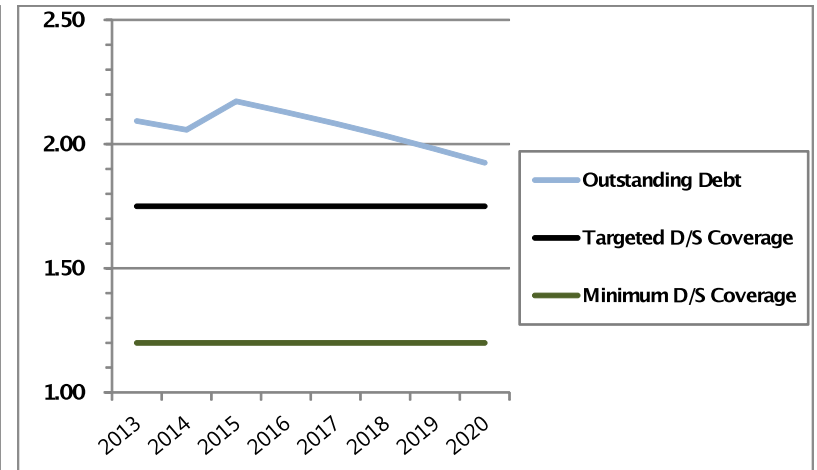
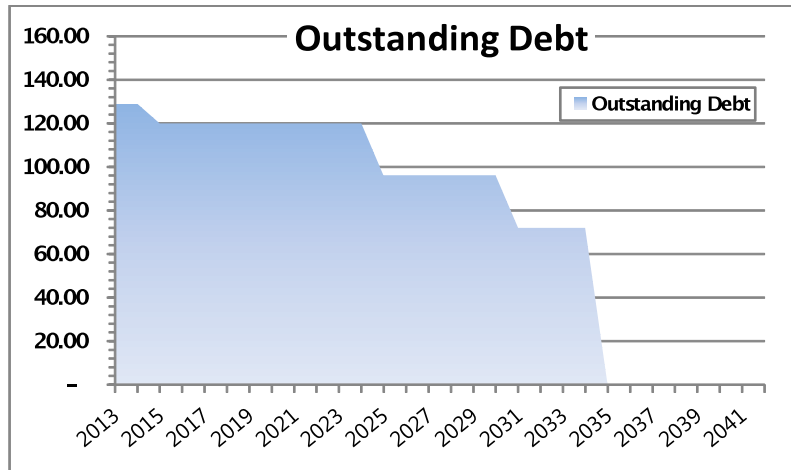
Example

Estimated Future Net Revenues and Debt Service Coverage							
(\$ million)	2013	2014	2015	2016	2017	2018	2019
System revenues (1% Growth)	<u>510.00</u>	<u>515.10</u>	<u>520.25</u>	<u>525.45</u>	<u>530.71</u>	<u>536.02</u>	<u>541.38</u>
Operating Expenses (4% Growth)	<u>240.00</u>	<u>249.60</u>	<u>259.58</u>	<u>269.97</u>	<u>280.77</u>	<u>292.00</u>	<u>303.68</u>
Net Revenues Available for D/S	<u><u>270.00</u></u>	<u><u>265.50</u></u>	<u><u>260.67</u></u>	<u><u>255.49</u></u>	<u><u>249.94</u></u>	<u><u>244.02</u></u>	<u><u>237.70</u></u>
Current Debt Service	129.00	129.00	120.00	120.00	120.00	120.00	120.00
Current Debt Service Coverage	2.09x	2.06x	2.17x	2.13x	2.08x	2.03x	1.98x

Structuring the Debt Repayment: Assumptions

Financing Proceeds Needed	\$300 million (2012) \$150 million (2015) <u>\$175 million (2018)</u> \$625 million
Date Funds Needed	January 1, 2012 (\$300 million) January 1, 2015 (\$150 million) January 1, 2018 (\$175 million)
Construction Period (Per Bond Series).....	24-36 Months
Average Life of Improvements	60 Years
Required Debt Service Coverage Ratio	1.20x
Targeted Minimum Debt Service Coverage to Maintain Ratings	1.75x

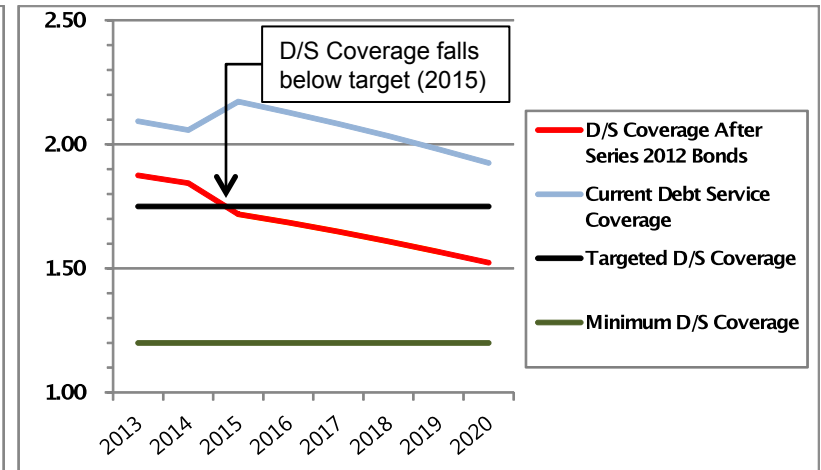
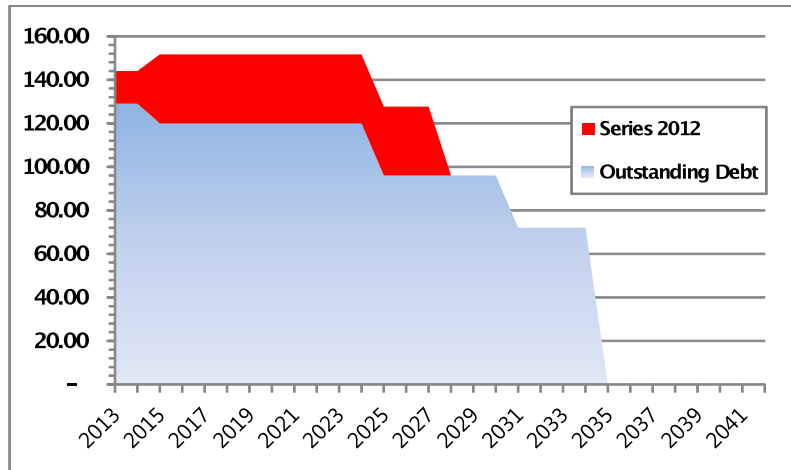
Outstanding Debt



- Outstanding debt matures in 2035.
- Debt service coverage is in great shape.



Proposed 2012 Bonds: 15-Year Term



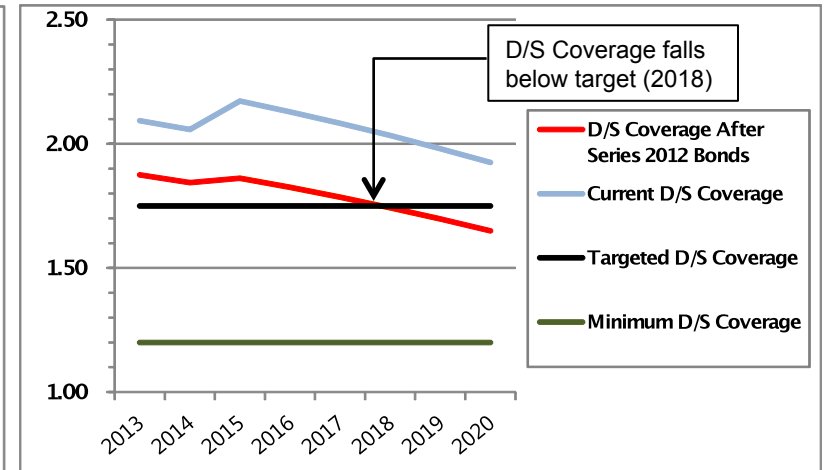
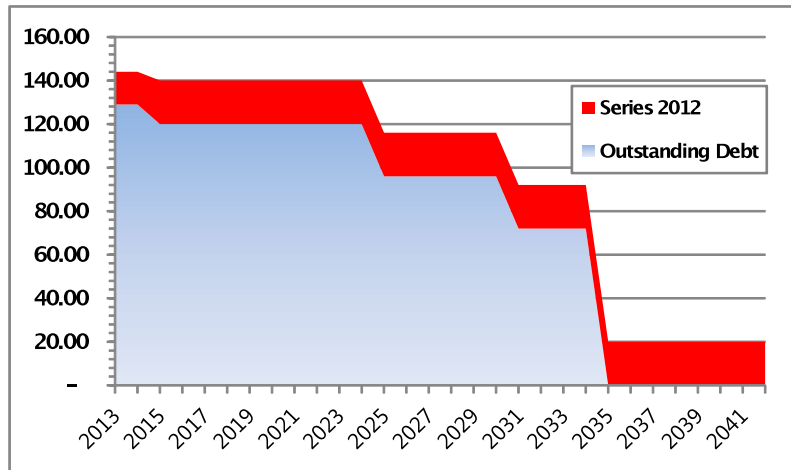
Assumptions

2012 Bonds
Amount: \$300 million
Term: 15 Years
Interest Only: 2 Years
Interest Rate: 5%

- Begin process with 15-year term, 2 years interest only.
- Debt service coverage falls below target in 2015.



2012 Bonds with 30-Year Term



Assumptions

2012 Bonds

Amount: \$300 million

Term: 30 Years

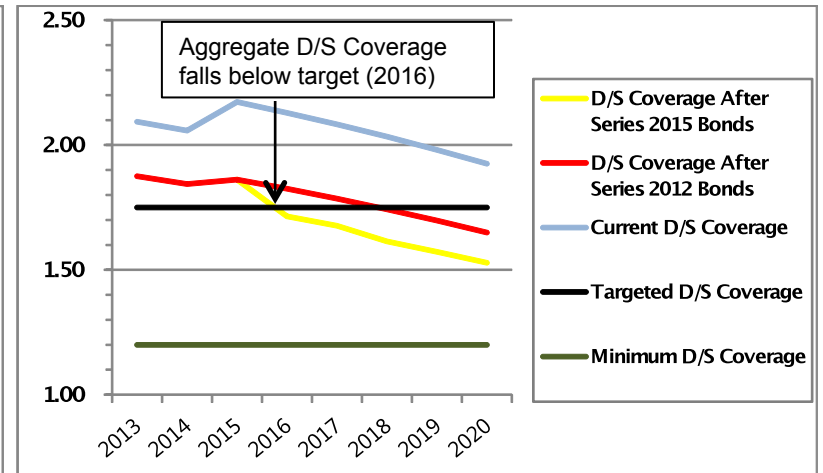
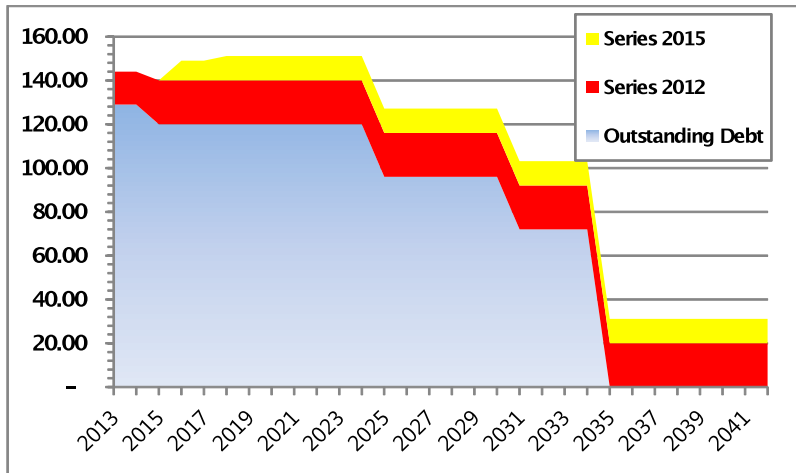
Interest Only: 2 Years

Interest Rate: 5%

- Look at increasing term to 30 years to more closely match average life of project.
- Rating Agencies typically only look at debt service coverage over the first 5 years.
- Debt service coverage increases but still falls below target in 2018.
 - New revenues need to be found to prevent possible credit rating downgrade.



Future Proposed Bonds Issuance – 2015 Bonds with 30-Year Term



Assumptions

2012 Bonds

Amount: \$300 million
Term: 30 Years
Interest Only: 2 Years
Interest Rate: 5%

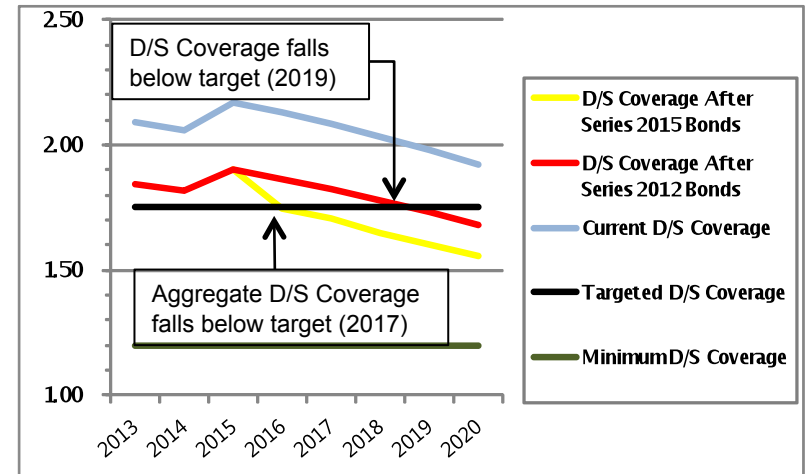
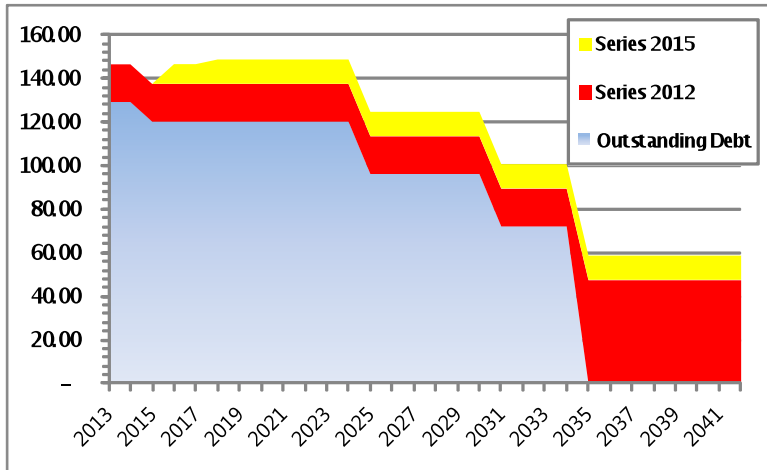
2015 Bonds

Amount: \$150 million
Term: 30 Years
Interest Only: 2 Years
Interest Rate: 6%

- For future debt issuance, we have assumed a higher interest rate.
- Since debt service coverage is already being stressed, we only looked at a 30-year term.
- Debt service coverage looks even bleaker after modeling the proposed Series 2015 Bonds.
- Target is breached in 2016.



Back loading of 2012 Principal Deferred Structure



Assumptions

2012 Bonds

Amount: \$300 million
Term: 30 Years

Interest Only: 22 Years

Interest Rate: 5.75%

2015 Bonds

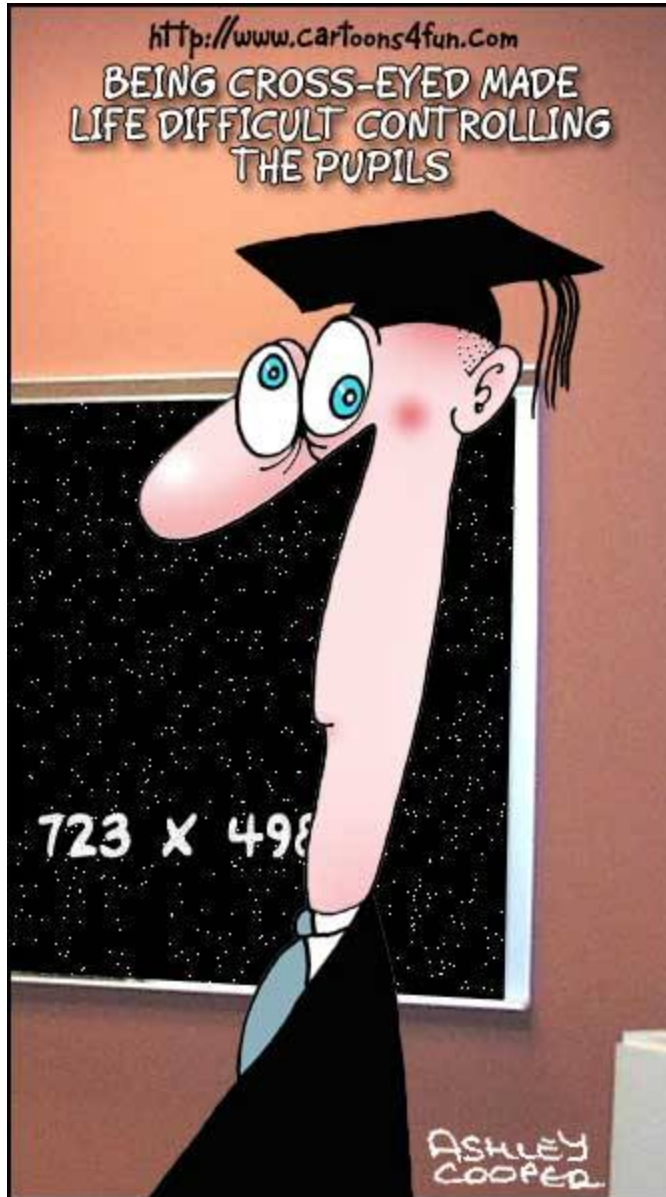
Amount: \$150 million
Term: 30 Years

Interest Only: 2 Years
Interest Rate: 6%

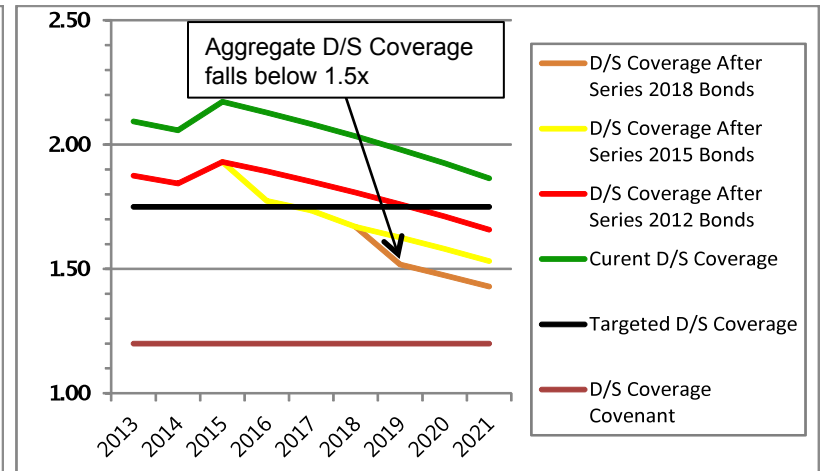
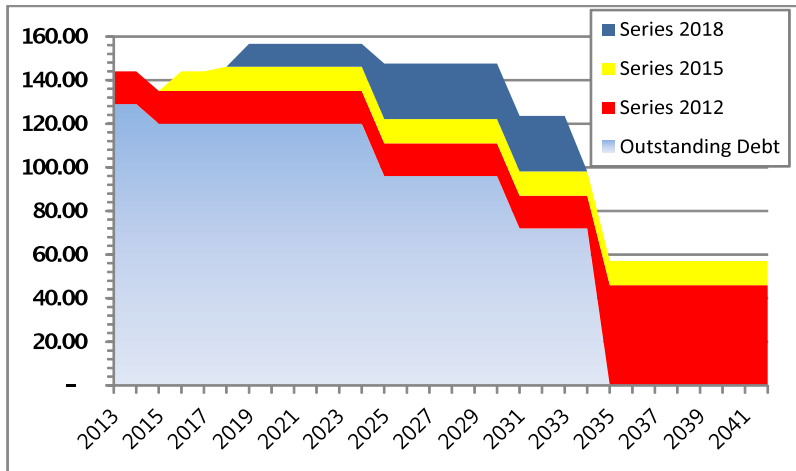
- By deferring principal, we can increase near-term debt service coverage.
 - Interest rate on 2012 Bonds rises since longer maturities cost more than shorter maturities.
 - Debt capacity is reduced in later years.
- Debt service coverage does increase and stays above target for 2012 Bonds over the next five years but not after the 2015 Bonds.
- Aggregate debt service falls below target in 2017.

WHAT EVERY UTILITY EXECUTIVE
SHOULD KNOW ABOUT THE
**CAPITAL PLANNING &
FINANCING PROCESS**

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Future Proposed Bonds Issuance – 2018 Bonds with Fill Structure



Assumptions

2012 Bonds

Amount: \$300 million
Term: 30 Years
Interest Only: 2 Years
Interest Rate: 5%

2015 Bonds

Amount: \$150 million
Term: 30 Years
Interest Only: 2 Years
Interest Rate: 6%

2018 Bonds

Amount: \$225 million
Term: 15 Years
Structure: Fill
Interest Rate: 6%

- To complete the \$625 million 10-year capital plan, creative solutions are employed.
- With the conclusion of the major capital improvement plan, 2018 debt service is structured to mature quickly.
- Significant reductions in debt service coverage can be seen in 2019.



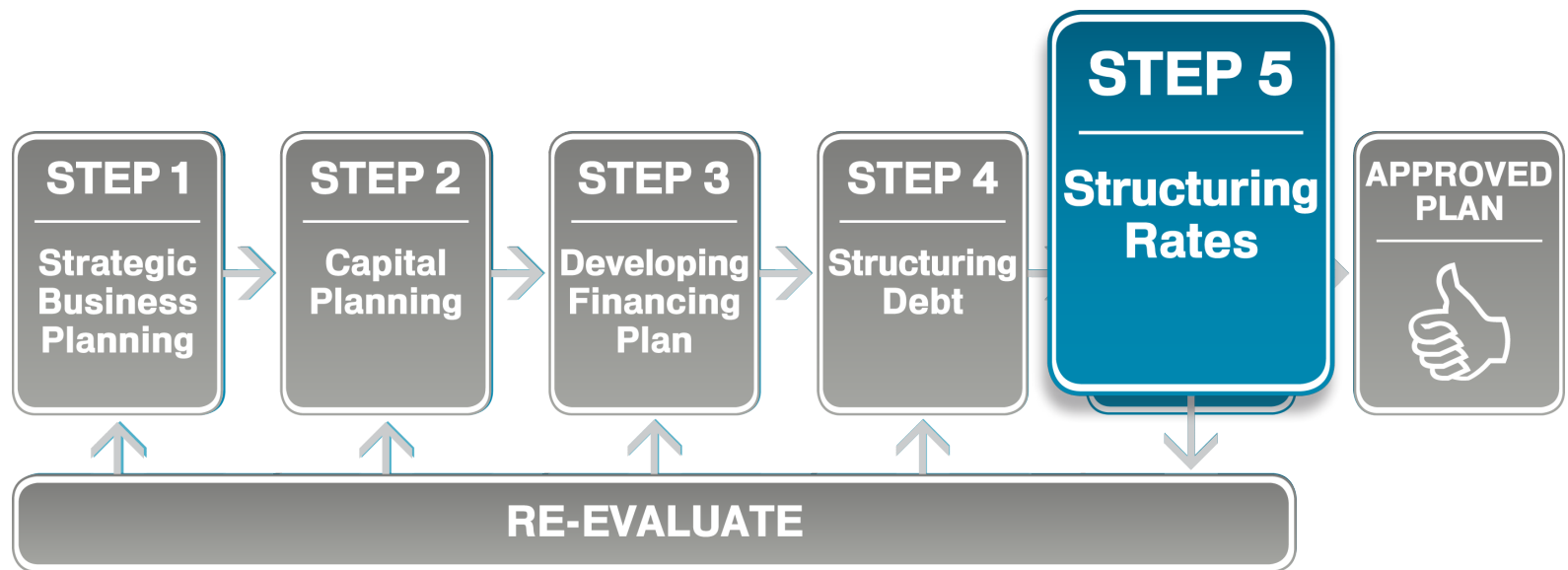
Iterative Process with Rate Consultant, Marketing and Closing

- Issuer needs to obtain additional revenues or face rating downgrade.
 - Increase user rates
 - Reduce expenses
 - Delay projects
 - Increase utilization of available cash
 - Create a rate stabilization fund
 - Use other short-term, lower cost funding, although unknown future interest rates create risks
- We will provide the issuer and rate consultant with our findings and look for new net revenue projections to begin iterative process again.
- Once complete, debt funding package is sent to rating agencies in order to obtain ratings.
- With ratings in hand, the underwriter will begin marketing process culminating in the public sale of bonds.
- Within 7-30 days, the bond closing occurs, and proceeds are made available for the project.

Key Points in Structuring Debt

- Issuer involvement and dedication of staff time is important to keep on schedule.
- Negotiated public offerings will enhance the structuring and sale of most large debt offerings.
- Ongoing interaction between the issuer, investment banker, and rate consultant will result in optimized and timely rate and debt structures.
- Creative, and yet risk adverse, debt structure can help reduce sudden rate increases with a holistic and long-term view.

Capital Financial Planning Framework



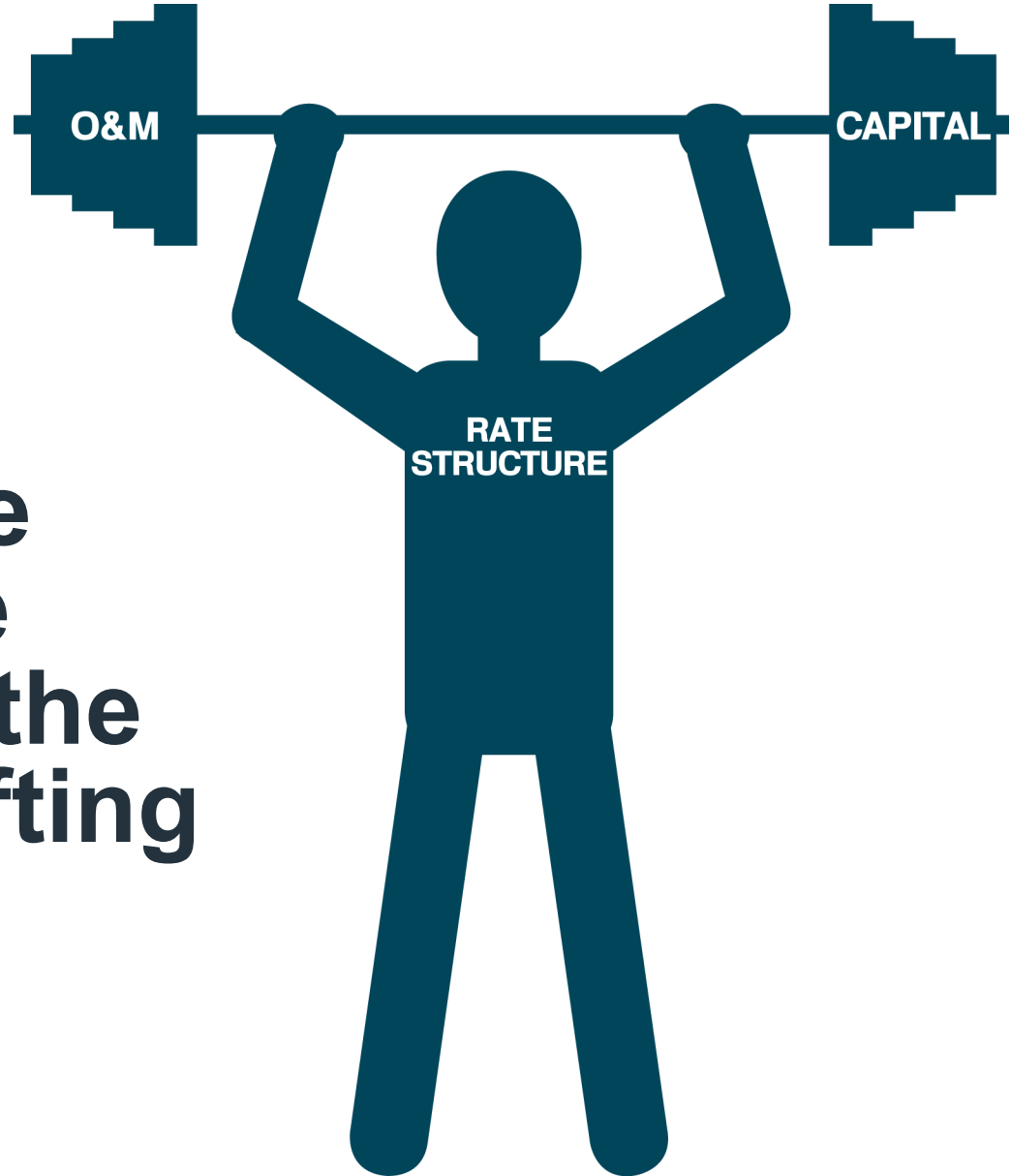
George Raftelis, Chief Executive Officer
Raftelis Financial Consultants, Inc.

WHAT EVERY UTILITY EXECUTIVE
SHOULD KNOW ABOUT THE
**CAPITAL PLANNING &
FINANCING PROCESS**

AMWA
2011 NEWPORT, RI



Your Rate Structure Must Do the Heavy Lifting



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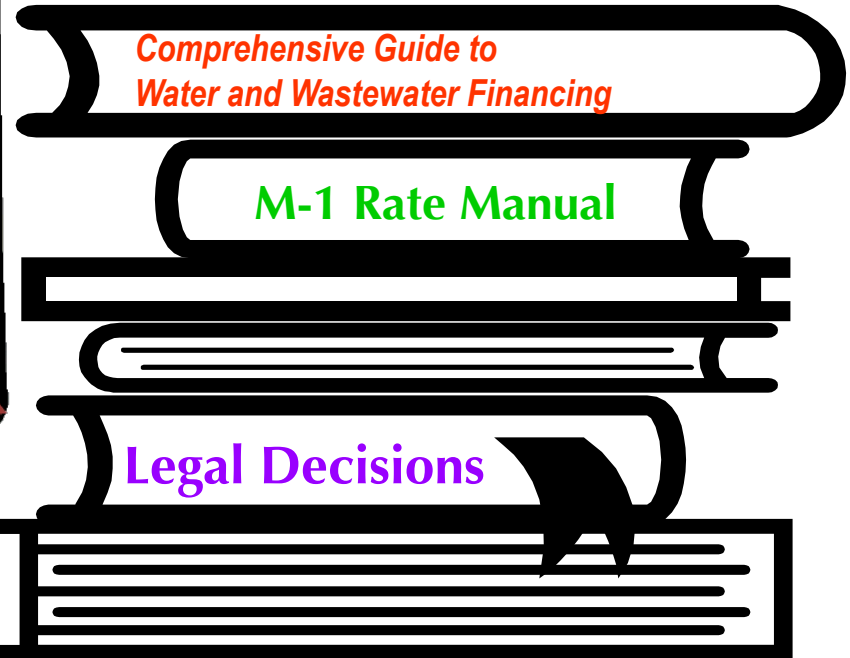
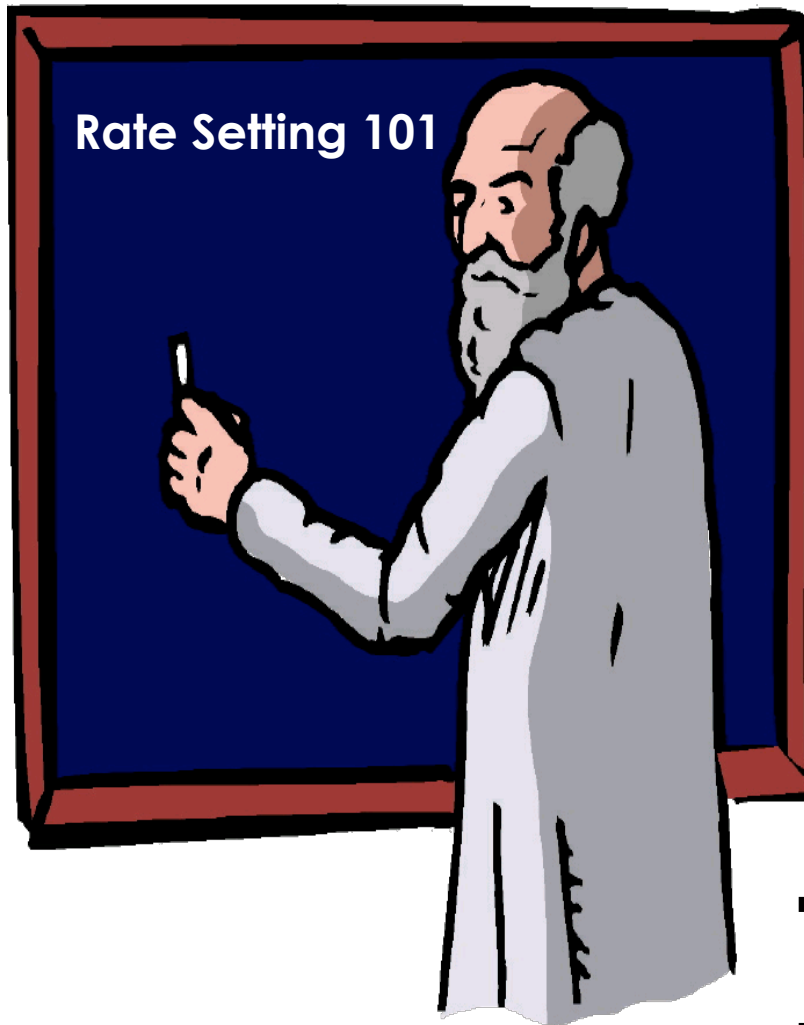


Rate design is as much of an art as it is a science!

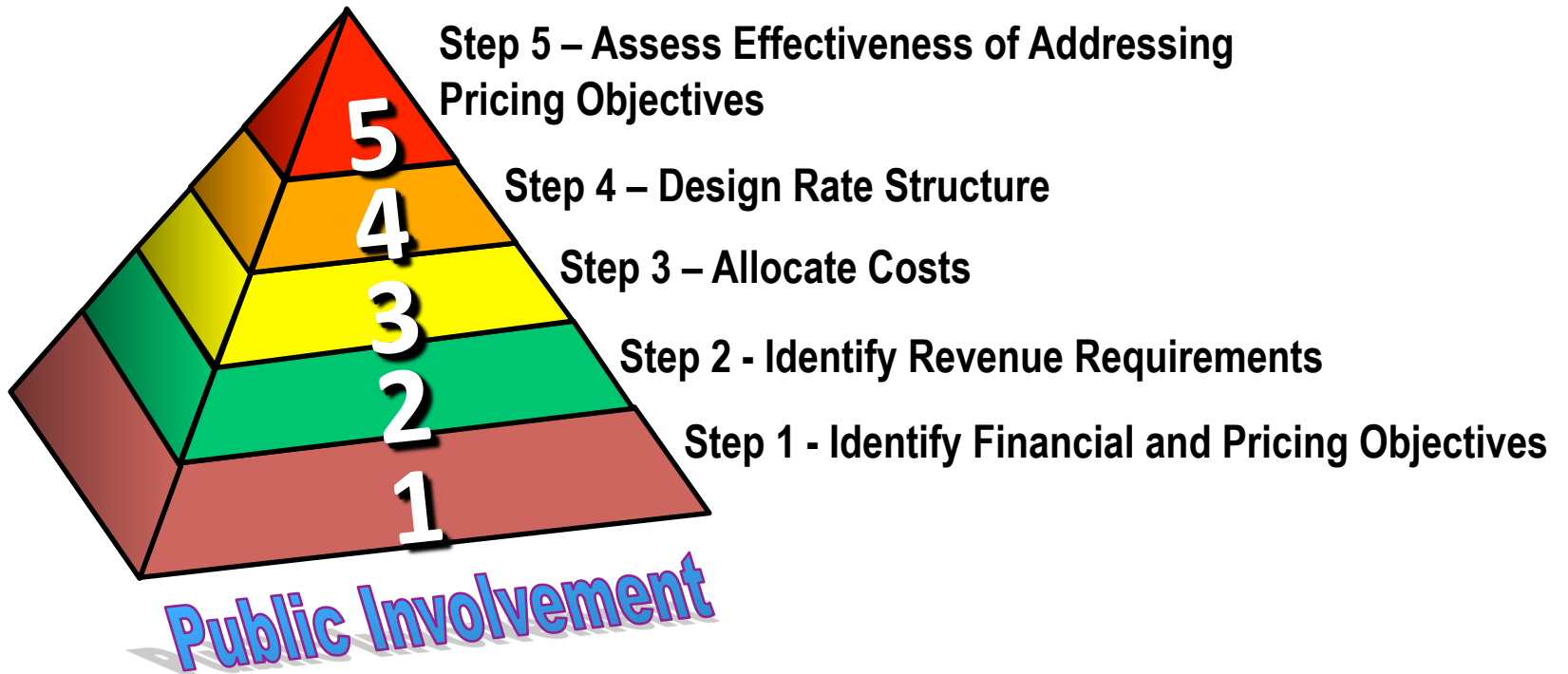


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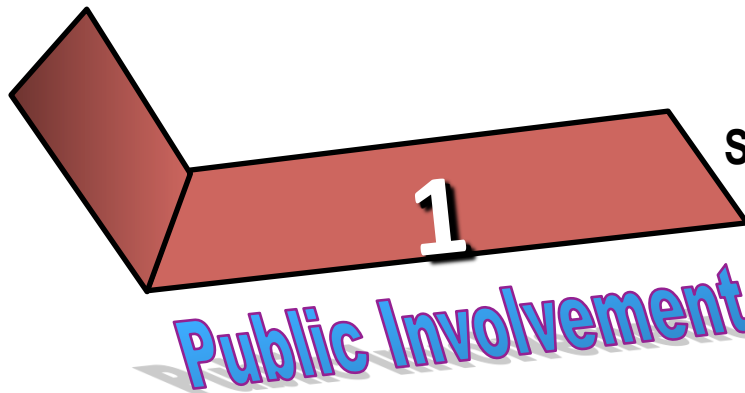
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Rate Setting Process

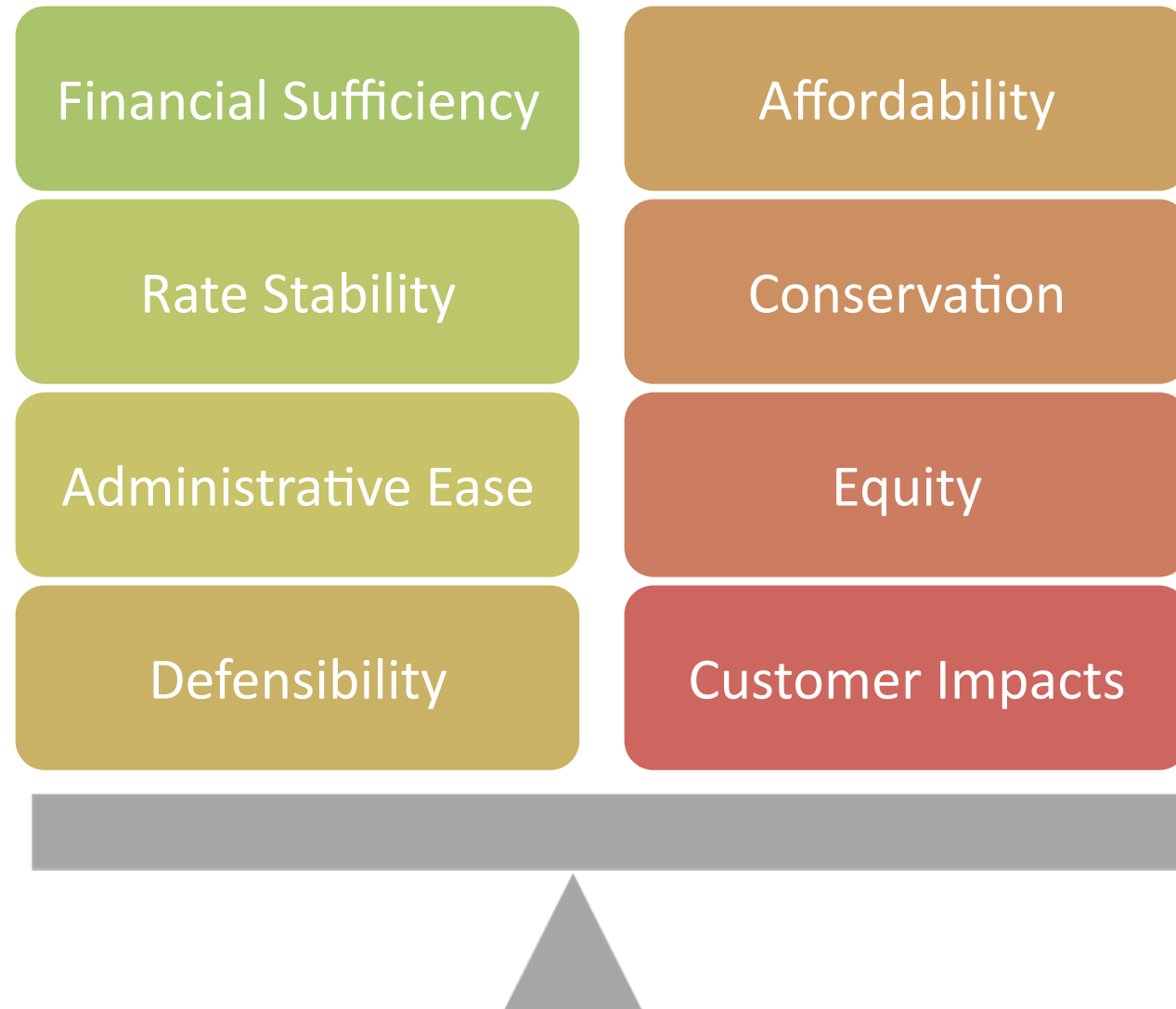


Rate Setting Process



Step 1 – Identify Pricing Objectives

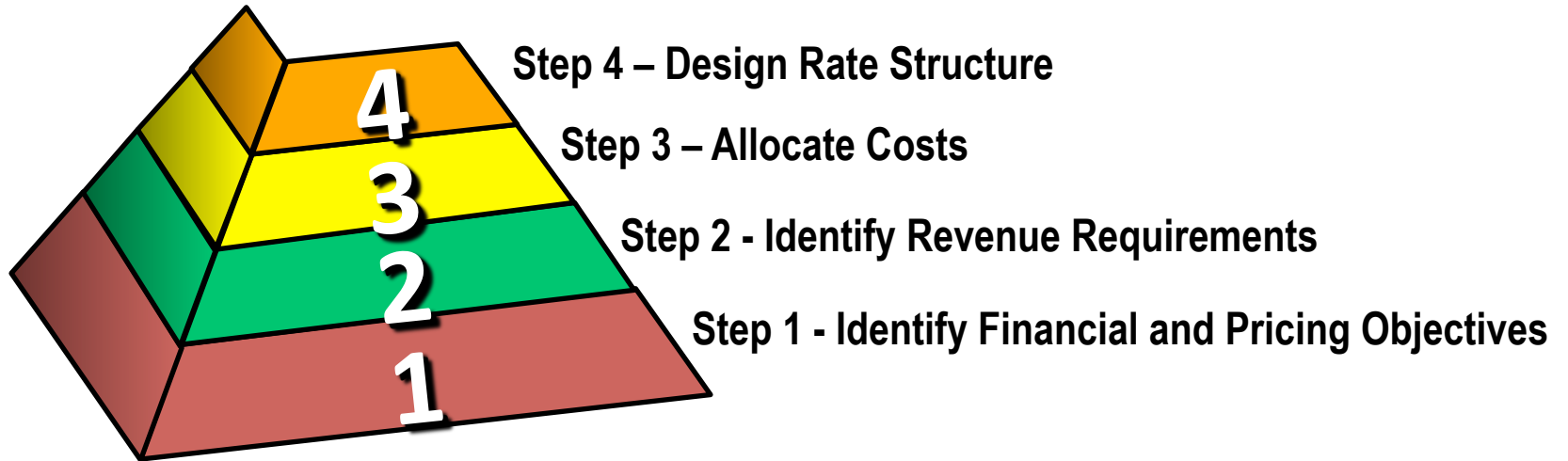
What Are the Utility's Pricing Objectives?



Example: Pricing Objectives Exercise

Classification	Rank	Objective	Score	%
Essential	1	Financial Sufficiency	16	19
	2	Rate Stability	14	17
Very Important	4	Cost of Service Based Allocations (Equity)	12	14
	4	Customer Impacts	12	14
Important	6	Conservation	10	12
	8	Defensibility	9	11
Least Important	9	Administrative Ease	6	7
	11	Affordability	5	6
Total			84	100%

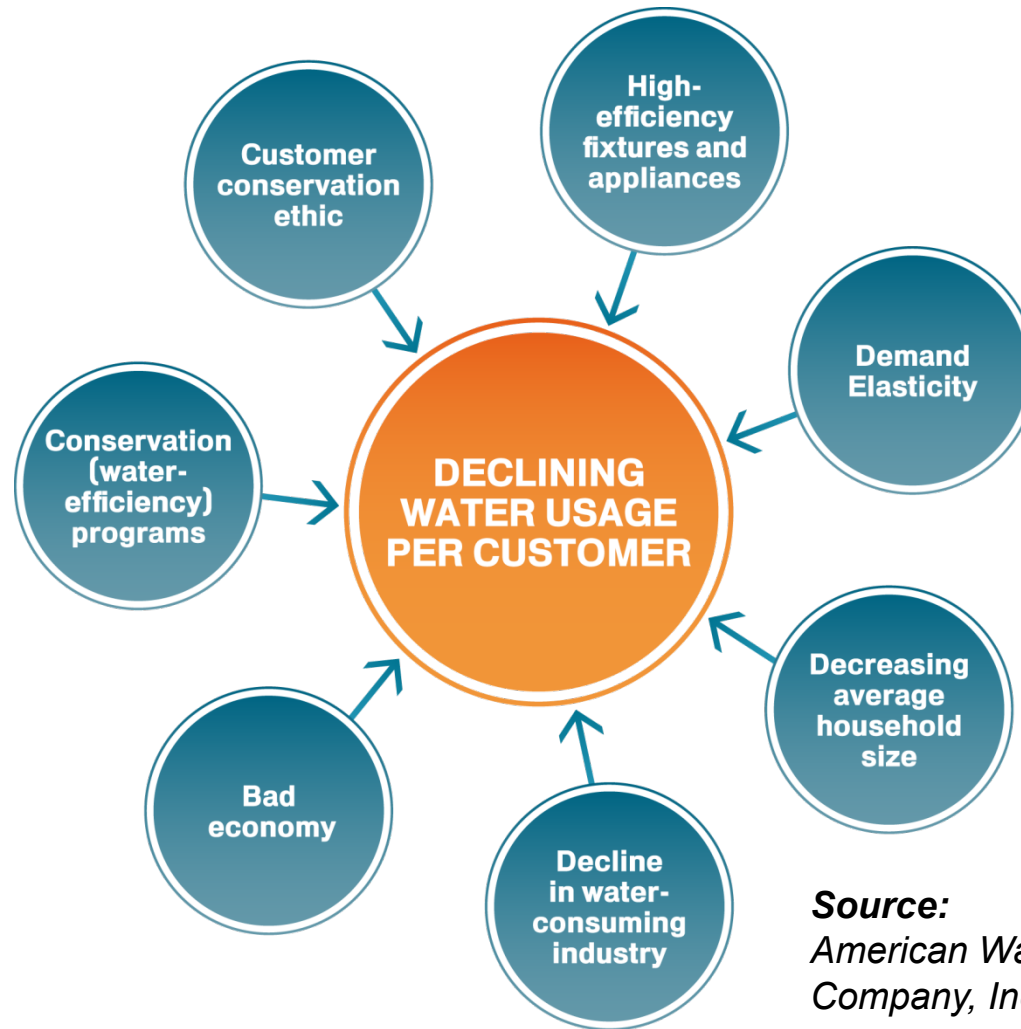
Rate Setting Process



Factors Affecting Rates

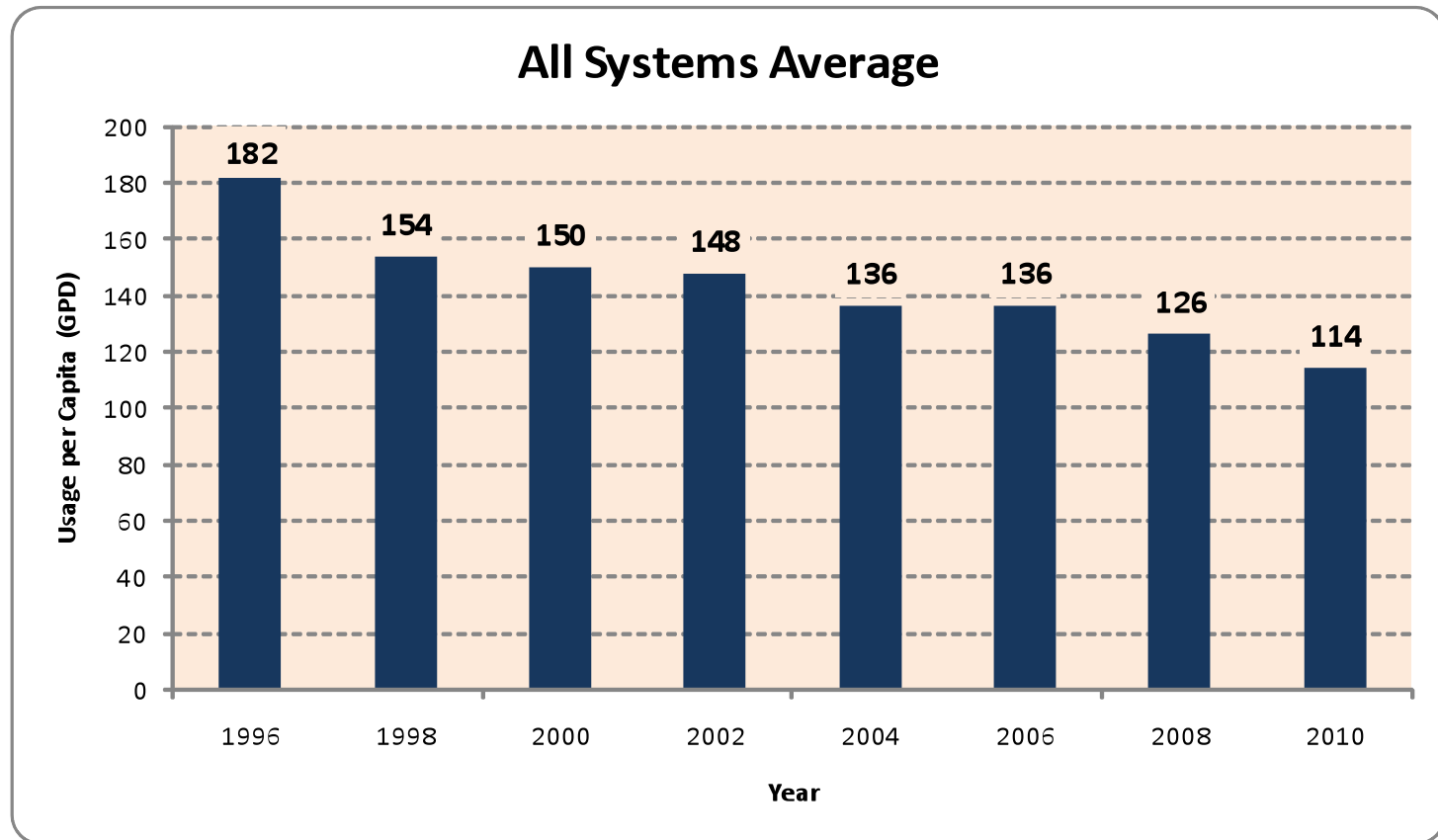


Declining Trends in Per Capita Water Consumption



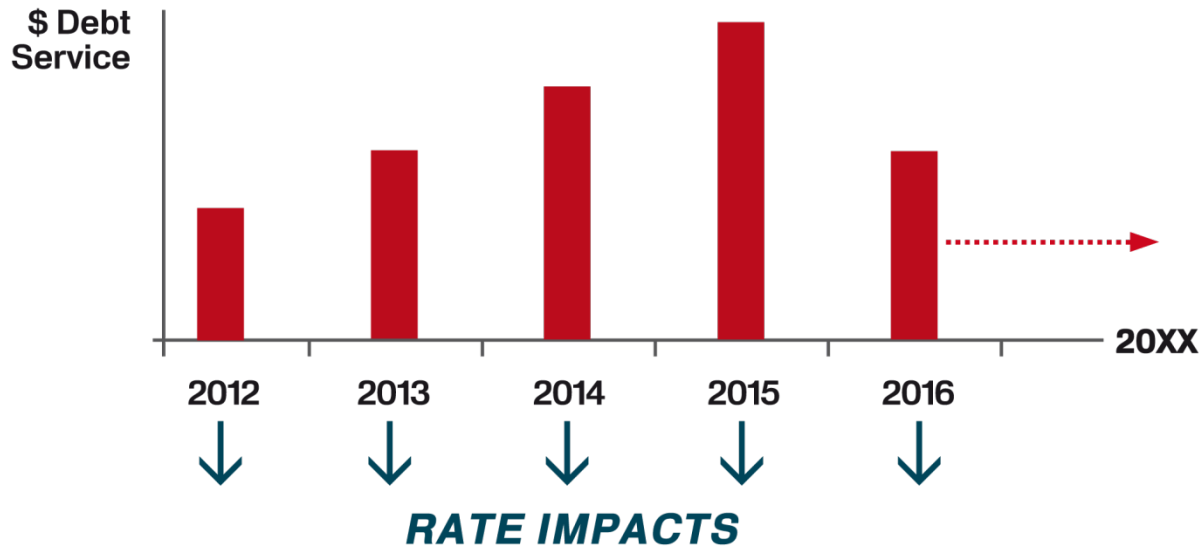
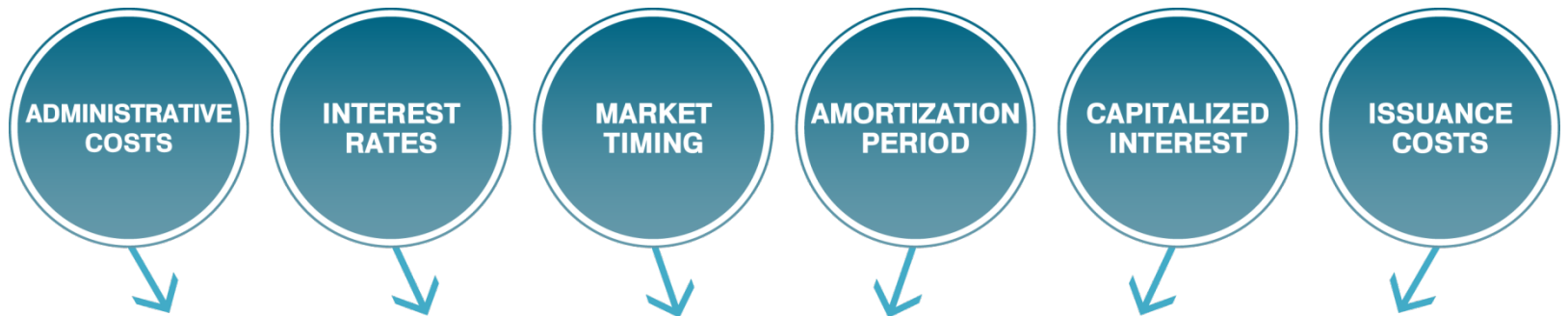
Source:
American Water Works Company, Inc.

Decline in Per Capita Use

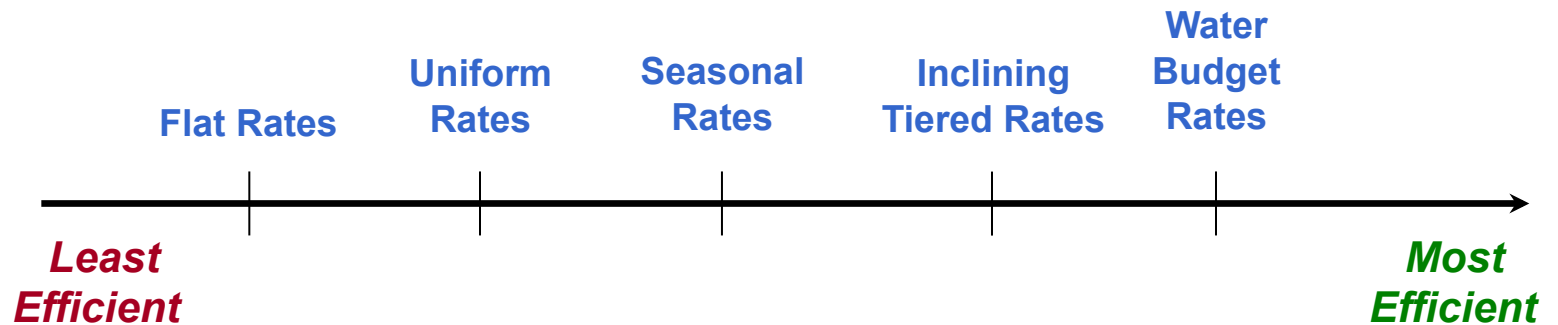


*Data from AWWA/RFC National Water and Wastewater Rate Survey

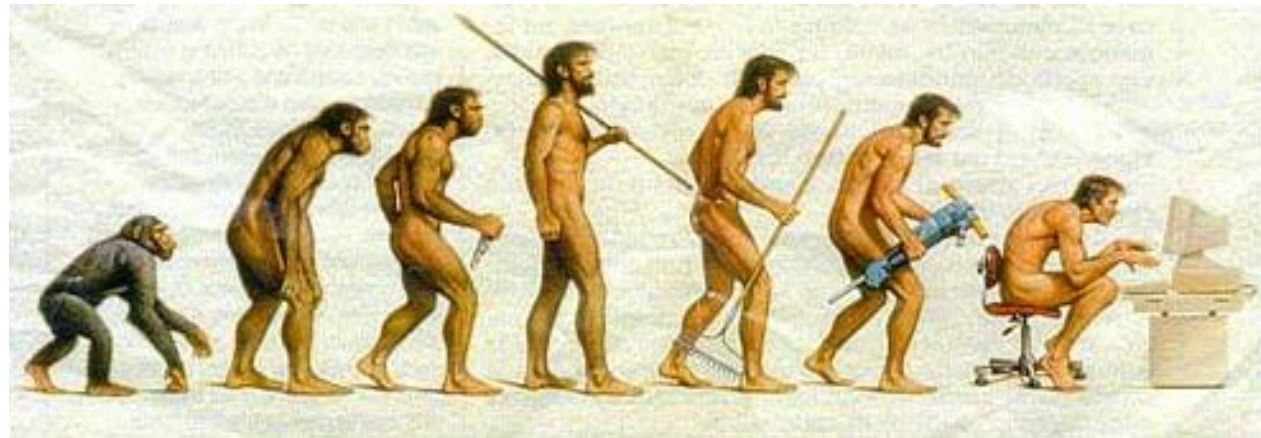
Debt Service Drivers



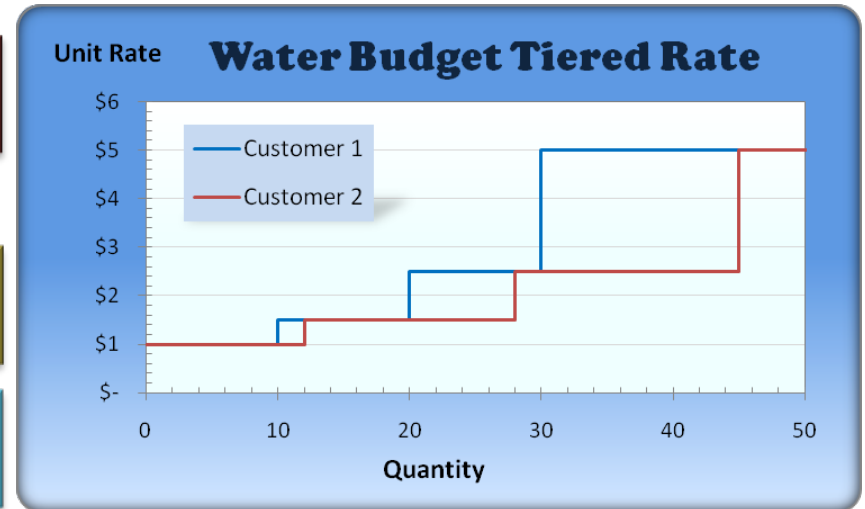
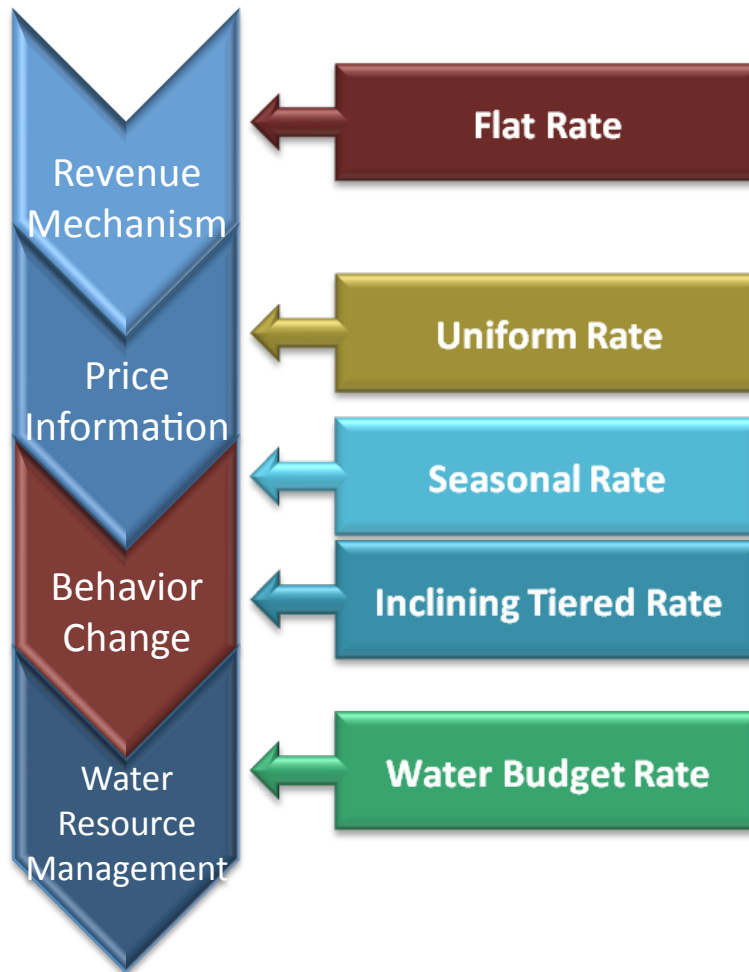
Evolution of Conservation Rate Approaches



* Based on water usage



Water Rate Structure Evolution



Water Budget Tiered Rate:

Pros: Promote water efficiency, equitable, affordable for essential use, drought allocation tool, revenue stability

Cons: High administrative cost, harder to understand

Rate Affordability is a Growing Utility Concern



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Rate Challenges Dominate Today's Headlines

Sinkhole gulps truck, scrambles commutes

SR puts \$19 million into infrastructure

Sewer bills likely to triple in 5 years

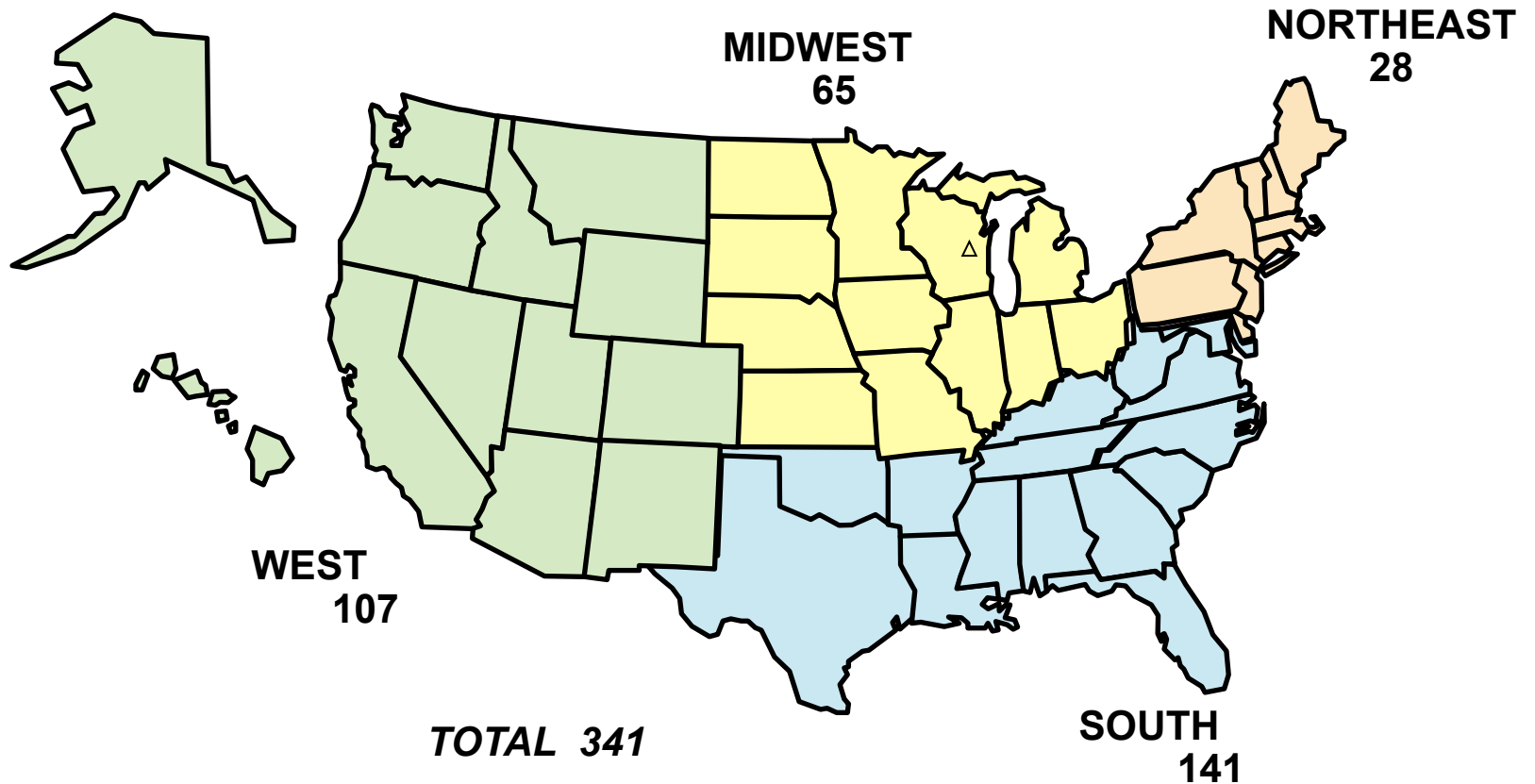
Another higher charge looms for Atlantans

SR sewer, water rates may jump 18%

	Current	Projected
Water service	\$24.00	\$28.00
Water treatment	\$0.00	\$6.00
Water supply	\$0.00	\$6.00
Water distribution	\$0.00	\$6.00
Water treatment plant	\$0.00	\$6.00
Water supply plant	\$0.00	\$6.00
Water distribution plant	\$0.00	\$6.00
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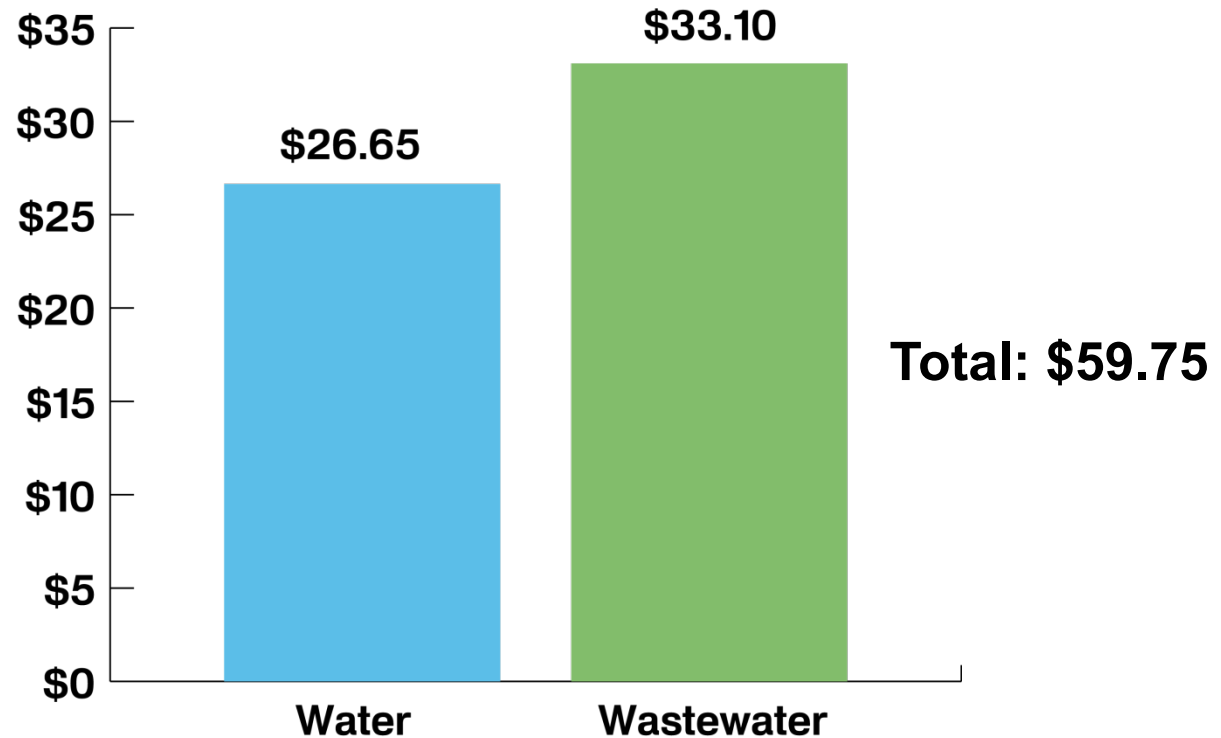
Source: AWWA

RFC/AWWA Survey: Distribution of 2010 Rate Survey Respondents



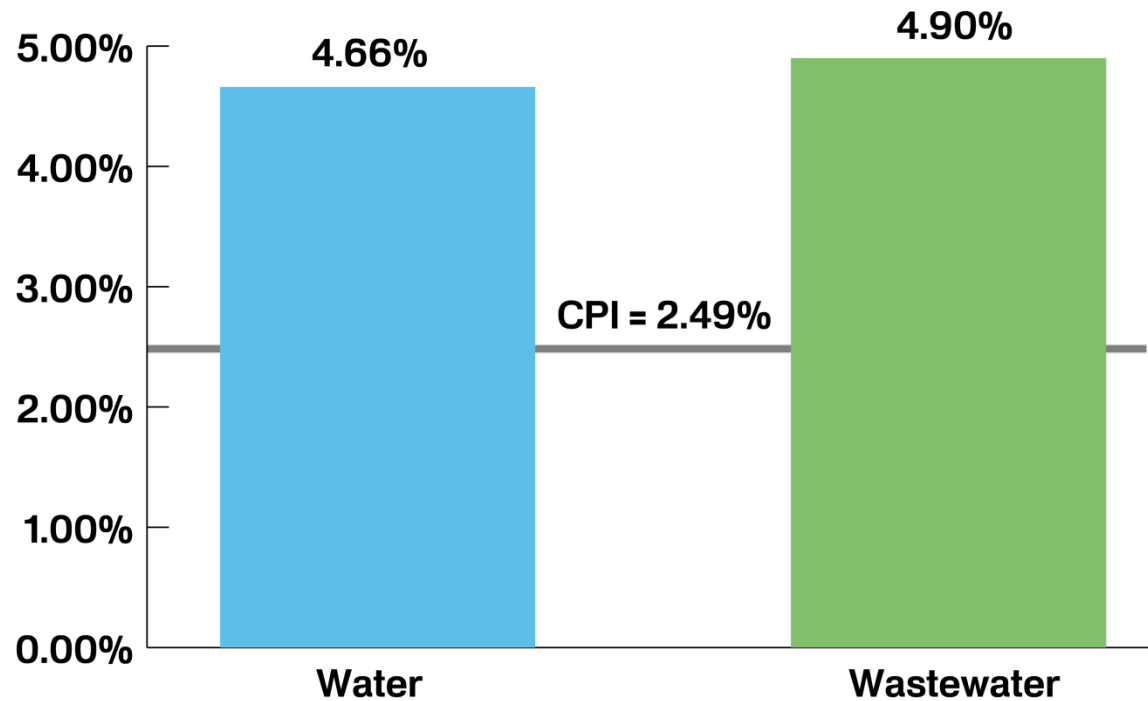
Median Residential Water and Wastewater Charge

10 ccf (7,500 gal) per month



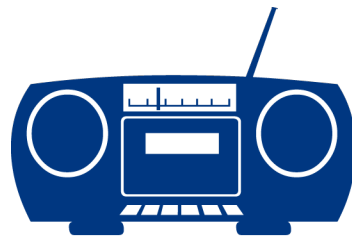
Annual Residential Charge Trends

1996 to 2010



The Key to Success!

Maintain effective communication program with key stakeholders.



Gaining Acceptance of Your Capital Program!

- 1) Understanding of the relationship between Strategic/Capital Planning, user rate development, and capital financing options is paramount
- 2) If rates are increased, develop business case for increase using Strategic/Capital Plan as a driver
- 3) Involve the public and key customer stakeholders during the process
- 4) Debt is likely to be a component, so choose your vehicle
- 5) Rate structure is an important component of the process

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