

*SELA
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Appraisal Report
Southeastern Louisiana Water &
Sewer Co., LLC

Prepared for
St. Tammany Parish, Louisiana



2010-11212-5
FILED

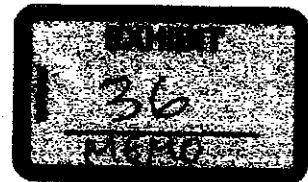
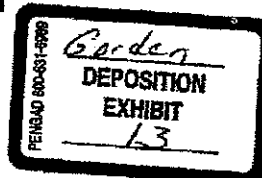
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October 2009



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STP-004148

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Section 1 PREMISE OF THE APPRAISAL

Purpose and Intended Use

R. W. Beck, Inc., was retained by St. Tammany Parish, Louisiana (the Parish) to perform an independent appraisal to determine the fair market value of the water and wastewater systems presently owned and operated in the Parish by Southeastern Louisiana Water & Sewer Co., LLC (SELA). The Parish, located on the north shore of Lake Pontchartrain, is one of the fastest growing parishes in the state. SELA is a private water and sewer company located in Mandeville, Louisiana, that provides water and wastewater service to customers throughout St. Tammany Parish and in part of Tangipahoa Parish.

SELA and the Parish have had discussions regarding the potential sale of SELA's water and wastewater assets that are located in the Parish (hereinafter referred to as the "Subject Property" or "SELA System"). The Parish retained R. W. Beck to perform an appraisal to determine the fair market value of the SELA System.

In undertaking the studies and analyses required to provide an opinion with respect to the fair market value of the Subject Property, we have relied on generally accepted valuation methods and procedures. This appraisal is a Complete Appraisal utilizing a Summary Appraisal Report format as those terms are defined in the Uniform Standards of Professional Appraisal Practice (USPAP).

Date of Valuation

The fair market value of the Subject Property was estimated as of October 1, 2009.

Definition of Fair Market Value

The definition of fair market value used in this appraisal report is as follows:

"The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts."¹

¹ *Valuing a Business, The Analysis and Appraisal of Closely Held Companies*, Fourth Edition, Pratt, Reilly and Schwichs, Appendix A, International Glossary of Business Valuation Terms, page 913. See also *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets*, Second Edition, American Society of Appraisers, Glossary of Terms, page 566.



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PREMISE OF THE APPRAISAL

Property Interest Appraised

The property interest being valued is the ownership rights of SELA in the Subject Property with no restrictions, indebtedness, or other encumbrances. A description of the Subject Property is provided in Section 3 of this report.

Highest and Best Use

Highest and best use is defined as the reasonably probable and legal use of the property being appraised "that is physically possible, appropriately supported, and financially feasible, and that results in the highest value."² In our opinion, the highest and best use of the Subject Property is its current use, to provide water and wastewater utility service.

Scope of Work

This appraisal addresses the fair market value of SELA's water and wastewater systems located in the Parish.

In undertaking the studies and analyses required to provide an opinion of the fair market value of the Subject Property, we have relied on generally accepted valuation methods and procedures in accordance with USPAP. As part of the appraisal, R. W. Beck considered all three generally accepted approaches to valuation (cost, income, and market) and their degree of applicability in estimating the value of the Subject Property. The results of our analyses and the indicators of value developed are described in Section 5 of this appraisal report.

R. W. Beck performed a field review of the accessible and visible facilities comprising the Subject Property from July 31 through August 3, 2006. The purpose of the field reviews was to see the property, verify data on maps and inventory records provided by SELA, determine typical construction practices and assess the condition of the facilities. R. W. Beck performed another field review of the Subject Property on July 13 and 14, 2009, to review changes to the system since our initial field review and update the inventory of facilities. The results of the field reviews are summarized in Section 3 of this appraisal report.

R. W. Beck also performed a limited review of data received from a records request made of the Louisiana Department of Environmental Quality (DEQ) and the Louisiana Department of Health regarding SELA's compliance with environmental regulations, such as the Safe Drinking Water Act and Clean Water Act requirements. The results of our limited environmental review are discussed in Section 4 of this appraisal report.

² USPAP.

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Information Reviewed

In performing the appraisal, R. W. Beck reviewed data provided by SELA and the Parish. We also relied on other publicly available information and R. W. Beck's knowledge and expertise of water and wastewater systems in preparing the appraisal. Following is a list of some of the documents reviewed:

- *Company Perspective* dated April 2005 and *Company Perspective, Executive Summary* dated July 20, 2006, prepared by SELA.
- *Water and Wastewater Systems Depreciated Asset Valuation of Southeastern Louisiana Water and Sewer Co., LLC*, prepared for SELA by Professional Engineering Consultants Corporation (PEC), August 2005, and the updated PEC report of the same title, April 2009.
- Map showing SELA's water well and wastewater treatment facility locations.
- SELA audited financial statements as of September 30, 2002 and 2003.
- SELA audited financial statements for the three-month period ended December 31, 2003.
- SELA draft audited financial statements as of December 31, 2004 and 2005
- SELA audited financial statements as of December 31, 2005 and 2006.
- SELA audited financial statements as of December 31, 2006 and 2007.
- SELA audited financial statements as of December 31, 2007 and 2008.
- SELA website, www.selawater.com.
- SELA Current and Future Business Activity, document from SELA.
- *St. Tammany Parish Wastewater Consolidation Program – Phase II, Final Report*, prepared for the Parish by CDM, August 2004.
- *St. Tammany Parish, 10-Year Infrastructure Plant*, presentation and Fact Sheet.
- Louisiana Public Service Commission Order 22311 in Docket U-22311 re: SELA application for authority to revise its water and sewer rates, dated April 27, 1998.
- Louisiana Public Service Commission Order 27232(B) in Docket U-27232 re: SELA application for authority to revise its water and sewer rates, dated December 1, 2004 and Staff Report and Recommendation dated December 31, 2003 in the docket.
- Louisiana Public Service Commission Order in Docket U-31108 re: SELA application for authority to revise its water and sewer rates, September 2009.
- Tariff sheets showing SELA water and wastewater rates approved by the Louisiana Public Service Commission.
- Financial data provided by SELA, which was updated monthly to reflect current operating results.

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- Inventory data provided by SELA, including supplemental data provided to R. W. Beck in November 2006 and September 2009.
- Records provided by DEQ and the Louisiana Department of Health regarding SELA compliance with environmental regulations.
- *Blue Chip Economic Indicators*, March 30, 2009.
- *Handy-Whitman Index of Public Utility Construction Costs*, Whitman, Requardt and Associates.

R. W. Beck, Inc.

R. W. Beck, Inc., an SAIC company, provides independent consulting and engineering services to clients in the utility industry. Since it was founded, R. W. Beck has been involved in property valuation and has provided appraisal reports for a wide range of facilities used in providing utility services. Our clients for this work include financial lending institutions, municipal utility systems, utility districts, joint action agencies, cooperatives, investor-owned utilities and others. With a staff having significant experience in providing services related to the valuation, design, construction and operation of utility property, R. W. Beck is well qualified to prepare appraisal reports. Specifically, the appraisers and other personnel working on this assignment have the knowledge and experience to complete the assignment competently. A list of individuals contributing to the appraisal report and a summary of their qualifications and experience are provided in Exhibit I to this report.

Section 2

ASSUMPTIONS AND LIMITING CONDITIONS

In the preparation of this appraisal report and the opinions that follow, we have made certain assumptions with respect to conditions that may occur in the future. In addition, we have used and relied upon certain information and assumptions provided to us by sources which we believe to be reliable. We believe the use of such information and assumptions is reasonable for the purposes of this report. To the extent there are changes to the underlying data and assumptions, the results of the study may change. The conclusions and opinions of value found in this report are made expressly subject to the following conditions and stipulations:

1. No responsibility is assumed by R. W. Beck for matters that are legal in nature, nor do we render any opinion as to the title, land and/or land rights, which are assumed to be good and marketable.
2. Except as otherwise stated in this report, no opinion is intended to be expressed for matters that would require specialized investigation or knowledge beyond that normally used by an appraiser engaged in valuing the type of assets described in this report.
3. All existing liens and encumbrances have been disregarded and the value of the property was appraised as though free and clear and under responsible ownership.
4. R. W. Beck personnel performed a field review of the Subject Property from July 31 through August 3, 2006, and July 13 and 14, 2007. Based on our observations of the accessible and visible equipment, the facilities appear to be in good condition for plant of comparable type, age and location. In performing the appraisal, we assumed that there are no other hidden or unapparent conditions that would make the Subject Property more or less valuable.
5. Inventory quantities used in the appraisal were developed by R. W. Beck based on data supplied by SELA, which were reviewed and verified by R. W. Beck during the field reviews. R. W. Beck developed current planning level construction cost estimates based on typical industry practices.
6. R. W. Beck did not perform analyses to determine the value of land, easements and other property rights of way. As discussed in Section 5, we relied on information provided by SELA to estimate the value of land, which is incorporated into the cost approach indicators of value.
7. For the purpose of the appraisal, we have assumed that the Subject Property conforms to all applicable zoning and use regulations and restrictions.
8. R. W. Beck has not conducted any investigations, nor have we reviewed studies performed by others, regarding environmental issues. In 2006, R. W. Beck



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ASSUMPTIONS AND LIMITING CONDITIONS

performed a limited review of records obtained from DEQ and the Department of Health regarding SELA's compliance with environmental regulations for appraisal purposes. R. W. Beck did not update or perform a more recent review of environmental records in connection with this appraisal.

9. As described in Section 4, SELA pled guilty in December 2005 in a plea agreement to violations of the Federal Clean Water Act that occurred between January 1, 1991 and October 1, 2002. It is assumed that the entire fine related to the December 2005 consent decree will be paid in full by SELA prior to the sale of the water and sewer systems; i.e., the buyer of the SELA system will not be responsible for payment of any portion of the fine.
10. In performing the appraisal, we have assumed that SELA is presently in compliance with all federal, state and local environmental and regulatory requirements and that there will be no further fines or corrective action taken against the company.
11. No one outside R. W. Beck has provided significant assistance to the preparation of this report. Individuals affiliated with R. W. Beck and contributing to this report are Nancy Heller Hughes, ASA, Senior Appraiser and Project Manager; Edward Wetzell, Ph.D., P.E., Client Liaison; Paul Johnson, P.E., Engineer; John McNurney, Environmental/Regulatory Compliance; Arthur J. Griffith, P.E., Senior Utility Analyst; Timothy L. Baars, Analyst; and Michael G. Lane, ASA, Review Appraiser. A description of the qualifications and experience of the individuals contributing to the appraisal report is provided in Exhibit 1.
12. The studies and analyses undertaken in the preparation of the opinion contained herein were performed in accordance with standard engineering practices and the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation.

Section 4 ENVIRONMENTAL

Violation of Federal Clean Water Act

In December 2005, SELA pled guilty to a felony violation of the Federal Clean Water Act and agreed to pay a \$2.1 million fine for improperly operating sewer systems throughout southwestern St. Tammany Parish and polluting local waterways over an 11-year period. On March 29, 2006, SELA was sentenced in Federal District Court pursuant to the plea agreement to five years probation and fined \$2.1 million for violating the Federal Clean Water Act. The fine was reported to be "the largest single corporate environmental criminal fine ever in Louisiana".

The Louisiana Department of Environmental Quality (DEQ) and the United States Environmental Protection Agency (USEPA) alleged that during an 11-year period from January 1, 1991 to October 1, 2002, SELA repeatedly violated discharge limits of federal and state permits at more than two dozen wastewater treatment plants throughout southwestern St. Tammany Parish. Investigators charged that in some instances, SELA operated treatment plants without permits, failed to report violations to DEQ and falsified reports to the state. SELA also overloaded some plants by continuing to add more homes to systems that did not have the capacity to handle the extra sewage.

The plea agreement acknowledged that SELA had spent approximately \$12 million since the investigation began to correct the violations charged by the Government. There has also been a change in SELA management since 2003 with Mr. Jared Riecke taking over as Chief Executive Officer and Mr. Bruce Cucchiara joining SELA as President. In addition, SELA hired Ms. Heather Salyer to serve as the company's environmental compliance officer.

Bruce Cucchiara, President of SELA, has stated that SELA will pay all remaining amounts owed to the federal government in connection with the EPA fine when the System is sold. Our appraisal of the System assumes that SELA will be responsible for paying all remaining amounts in connection with the USEPA fine. However, there could be additional fines or corrective measures in the future. In a press release issued March 29, 2006 at the time of SELA's sentencing, the United States Attorney's Office stated "Now that the criminal case is concluded, our civil enforcement side will review SELA's activities and corrective measures and determine whether additional potential fines or actions are necessary to protect our environment."¹²

¹² Press release, March 29, 2006, United States Attorney's Office, Eastern District of Louisiana, "SELA Sentenced."

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Table 5-1
Estimated RCNLD and OCLD Values

	RCN	RCNLD	OC	OCLD
Water System¹				
Well Sites				
Wells	\$6,592,906	\$4,659,292	\$4,530,403	\$3,341,150
Pumps	2,620,304	824,861	1,850,976	662,353
Reservoirs	5,915,807	4,155,334	2,339,326	1,773,275
Distribution System				
Water Mains	18,332,777	13,444,037	9,590,989	7,033,392
Water Meters	1,487,456	966,846	825,478	638,561
Service Laterals	2,289,797	1,588,858	1,187,469	831,228
Hydrants	3,068,264	2,250,060	2,054,641	1,506,737
Total Water System	\$40,287,310	\$27,889,289	\$22,379,282	\$15,684,698
Wastewater System¹				
Treatment Plants	\$32,028,615	\$17,471,851	\$21,961,351	\$12,816,098
Collection System				
Forcemains	5,098,120	3,568,684	2,792,159	1,854,512
Gravity Pipe	20,729,584	16,682,041	11,353,260	9,136,486
Lift Stations	9,305,708	5,397,711	6,859,975	3,898,524
Total Wastewater System	\$67,162,027	\$43,120,287	\$42,966,745	\$27,605,618
Other Assets²				
Vehicles	\$813,701	\$316,825	\$813,701	\$316,825
Tools & Field Equipment	154,123	51,829	154,123	51,829
Office Furniture & Equipment	55,067	35,542	55,067	35,542
Computer Equipment	141,825	34,536	141,825	34,536
Total Other Assets	\$1,164,716	\$438,732	\$1,164,716	\$438,732
Land³	\$1,727,700	\$1,727,700	\$496,909	\$496,909
Total System	\$110,341,753	\$73,176,008	\$67,007,652	\$44,225,955
Less Contributed Plant⁴	35,309,361	23,416,323	21,442,449	14,152,306
Total Value of SELA System	\$75,032,392	\$49,759,685	\$45,565,203	\$30,073,649
Rounded	\$75,032,400	\$49,759,700	\$45,565,200	\$30,073,600

(1) R. W. Beck RCNLD/OCLD analysis (Exhibit 3).

(2) Original cost based on SELA 2008 audited financial statement. Assumed the percentage of accumulated depreciation in 2008 is similar to 2005. Also, assumed that replacement cost of Other Assets, which are relatively short lived, is equal to original cost.

(3) Replacement (current) cost of land at well sites per PEC Valuation Report; current cost of land at wastewater sites per SELA (R. Cucchiara). Original cost investment in land per SELA 2008 audited financial statement.

(4) Based on SELA audited financial statements as of December 31, 2008, contributions in aid of construction are equal to approximately 32 percent of SELA's gross investment in property and equipment. Assumed that the percent depreciation for contributed plant is similar to the percent depreciation for the total system.

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Depreciation

USPAP defines depreciation as "a loss in property value from any cause."¹³ There are three basic types of depreciation:

- Physical deterioration – the loss in value resulting from the wear and tear of an asset in operation and exposure to various elements.
- Functional obsolescence – the loss in value caused by inefficiencies or inadequacies of the property itself, when compared to a more efficient or less costly replacement property that new technology has developed.
- Economic obsolescence – the loss in value caused by factors external to the property.¹⁴

The deduction for depreciation made to the values shown in Table 5-1 reflects the physical deterioration based on the observed age, physical condition and expected life of the facilities.

Functional obsolescence is reflected in the shorter average service life (10 years) used to depreciate the steel wastewater treatment plants. Under the Parish's Wastewater Consolidation Program, the Parish will construct large regional wastewater treatment plants to serve the East Tchefuncte, West Tchefuncte and East Slidell Wastewater Management Areas (WWMAs), which include the areas where SELA primarily provides service. The Parish Wastewater Consolidation Program will "allow the existing wastewater treatment plants located within each of these three WWMA's to be decommissioned as soon as practical and financially feasible."¹⁵

Utility rate regulation, which allows the utility to earn an allowed rate of return times an original cost rate base, is a form of economic obsolescence. Thus, the amount of economic obsolescence would be equal to the difference between the utility's RCNLD value and its OCLD rate base value. We have not made this adjustment to the RCNLD value shown in Table 5-1, preferring to show both the RCNLD and OCLD values separately. However, the effect of rate regulation on value and the relationship between the cost and income approaches to valuation for regulated utility property is discussed later in this report.

Contributed Plant

A significant portion of SELA's infrastructure is contributed plant that has been paid for by developers (i.e., customers). The RCNLD and OCLD values were adjusted to deduct the estimated value of contributed plant. Under utility rate regulation, the value of contributed plant is excluded from the calculation of rate base. In other words, the value of the System on which SELA can earn its authorized rate of return excludes the value of contributed plant. Any private buyer of the System would be

¹³ USPAP, Glossary.

¹⁴ American Society of Appraisers, *Appraising Machinery and Equipment*, 2000, pages 86, 97 and 104.

¹⁵ CDM Report, St. Tammany Parish Wastewater Consolidation Program – Phase II, Final Report, August 2004, Summary of Recommendations, page ES-2.

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subject to LPSC rate regulation and would only be allowed to earn its authorized rate of return on the same OCLD rate base as SELA, which excludes the value of contributed plant. Similarly, a government entity interested in buying the System would be reluctant to pay for contributed plant that its citizens/customers already paid for (since the developer's cost for utility infrastructure would be built into the price of the new homes). Lastly, as discussed below, SELA's accounting policy is to report the value of property and equipment net of contributed plant on its balance sheet.

Based on data in SELA's audited financial statements for years ended December 31, 2008 and 2007, contributions in aid of construction are equal to approximately 32 percent of total assets. This percentage was applied to the total estimated RCN and OC values to estimate the value of contributed plant. It was assumed that the percentage of accumulated depreciation for contributed plant is similar to the total system. This calculation is shown at the bottom of Table 5-1.

Net Book Value

The net book value of property and equipment on SELA's books at December 31, 2008 is equal to \$15,512,533. This amount is net of accumulated depreciation and contributions in aid of construction.

Table 5-2 shows a breakdown of SELA's property and equipment. A significant portion of the SELA system has been paid for by developers (i.e., customers) in the form of contributions in aid of construction.

**Table 5-2
Net Book Value of Property and Equipment
at December 31, 2008**

Total property and equipment	\$33,316,498
Less accumulated depreciation	(6,915,563)
Less contributions in aid of construction	<u>(10,888,402)</u>
Net book value	\$15,512,533

Source: SELA audited financial statements for December 31, 2008 and 2007,
Note 2 - Property and Equipment.

The following excerpt from the notes to SELA's financial statements explains the accounting treatment for contributions in aid of construction:

"The Company occasionally receives contributions of water and sewer equipment in conjunction with providing services to given area. The equipment received is recorded at fair market value with a corresponding credit that effectively nets the equipment off the financial statements (See Note 2). U.S. generally accepted accounting principles require that these contributions should be recorded at fair market value with the relating gain included as income in the year received. The Company's treatment of this is

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consistent with tax law and the Louisiana Public Service Commission which mandates that the contributions be excluded in determining the rate base."¹⁶

Comparison of Cost Approach Indicators of Value

Table 5-3 is a comparison of R. W. Beck's cost approach indicators of value with data reported in SELA's financial statements and the PEC Valuation Study performed for SELA.

Table 5-3
Comparison of Cost Approach Indicators of Value

	SELA Financial Statements 12/31/08	PEC Valuation Study April 2009	R. W. Beck Appraisal October 2009
RCNLD	NA	\$80,923,378	\$73,176,008
RCNLD less contributed plant	NA	Not estimated	\$49,759,700
OCLD including contributed plant	\$26,400,935	Not estimated	\$44,225,955
OCLD less contributed plant	\$15,512,533	Not estimated	\$30,073,600

The trended OCLD value developed in this appraisal is an independent estimate of the net book value of the SELA system based on a current inventory of facilities, estimated construction costs, and the age and average service lives of the facilities. R. W. Beck's RCNLD value including contributed plant results shown in Table 5-3 above are similar to PEC's RCNLD valuation. PEC did not estimate the value of contributed plant, nor did it estimate the OCLD value of the System.

R. W. Beck's OCLD indicator of value is substantially higher than the net book value of property and equipment reported on SELA's financial statements. We do not have a full explanation for the difference. Some of the difference may be due to the incidence of contributed plant, e.g., the investment may not have been recorded on SELA's books as property and equipment if the plant was paid for by the developer. In addition, the use of refurbished wastewater treatment plants could account for some of the difference in the OCLD values. SELA may be booking only the cost to refurbish the package treatment plants, which would be less than purchasing a new plant. (The unit costs used in our RCNLD/OCLE analyses are based on the cost of new package treatment plants). Also, the cost of SELA's fabrication department may be recorded as an expense (salaries) instead of capitalized as plant investment. We conclude that our estimate is a conservative estimate of the OCLD indicator of value.

¹⁶ SELA draft financial statements for December 31, 2008 and 2007, Note I – Nature of Business and Significant Accounting Policies, Property and Equipment, page 13.

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Income Approach

The income approach estimates the value of property by capitalizing or determining the present worth of anticipated economic benefits from the property as a going concern. Under the discounted cash flow (DCF) method, the direct economic benefits derived from continued ownership of the system are expressed in terms of free cash flow, which represents the total cash flow generated by the going concern that is available to the providers of both debt and equity capital.

The DCF model used to estimate the value of the SELA system is essentially an after-tax cash flow model of annual revenues and expenses over the 2007-2016 time period. The calculation of free cash flow is illustrated as follows:

<i>Annual Operating Revenues</i>	
<i>Less:</i>	<i>Annual Operating Expenses</i>
<i>Equals:</i>	<i>Pre-tax Net Operating Income</i>
<i>Less:</i>	<i>Income Taxes</i>
<i>Equals:</i>	<i>Earnings Before Interest, Depreciation & Amortization (EBIDA)</i>
<i>Less:</i>	<i>Future Capital Expenditures</i>
<i>Less:</i>	<i>Net Changes in Working Capital</i>
<i>Equals:</i>	<i>Free Cash Flow</i>

Table 5-4 shows the calculation of the income value for the SELA system. A description of the key assumptions used in the DCF model and a copy of the supporting analyses are provided in Exhibit 4.

Table 5-4
Discounted Cash Flow Indicator of Value
(\$000)

Net Cash Flow	2010	2011	2012	2013	2014	2015	2016	2017	2018	Notes
1 Revenues	\$8,352	\$8,700	\$9,154	\$9,742	\$10,132	\$10,606	\$11,076	\$11,561	\$12,061	1
2 Operation and Maintenance Expenditures	5,837	6,037	6,240	6,460	6,722	6,971	7,227	7,492	7,764	
3 Other Expenses										
4 Property Taxes	275	286	294	303	313	321	331	344	355	
5 Depreciation & Amortization	841	848	855	863	872	882	892	902	912	
6 Income Taxes	233	283	361	479	539	600	687	755	805	
7 Net Operating Income	\$1,168	\$1,247	\$1,882	\$1,987	\$1,708	\$1,829	\$1,958	\$2,088	\$2,225	
8 Add Back Depreciation Expenses	\$841	\$848	\$856	\$863	\$872	\$882	\$892	\$902	\$912	
9 Less Capital Expenditures	1,173	1,194	1,277	1,407	1,433	1,460	1,489	1,518	1,548	2
10 Less Changes in Working Capital	32	33	35	38	40	41	42	43	45	
11 Net Cash Flow	\$794	\$858	\$935	\$1,005	\$1,106	\$1,210	\$1,317	\$1,429	\$1,544	
12 Discount Rate	8.00%	3								
13 Future Growth Rate	5.00%	4								
14 Capitalization Rate for Terminal Value	3.00%									
15 Net Present Value of FY 2010 - 2018 Cash Flow	\$6,769									
16 Terminal Value	\$54,052	5								
17 Net Present Value of Terminal Value	\$23,692									
18 Enterprise Value as of Jan. 1, 2010	\$35,531	6								
19 Rounded	\$36,000									

Notes:

- (1) Revenues include an 11.45% rate increase effective Sept. 2008. Rates assumed to increase at rate of inflation in 2012-2018.
- (2) Based on 5% of gross revenues for renewals and replacements, \$200,000 for infiltration and inflow, and other capital expenditures equal to capacity fees for water and wastewater.
- (3) See cost of capital analysis.
- (4) Assumed annual growth in future net cash flows.
- (5) Equals the projected FY 2018 net cash flow times the future growth rate, divided by the capitalization rate for the terminal value.
- (6) Equals line 15 plus line 17.

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Under the DCF method, the income indicator of value is equal to the sum of the present value of the projected cash flows plus the present value of the projected terminal value. The series of annual cash flows from 2010 to 2018 was discounted using an 8.00 percent discount rate. The estimated terminal (residual) value at the end of the projection period, discounted to the date of valuation, was added to the net present value of the earnings stream over the projection period to determine the estimated fair market value based on the income approach.

The discount rate used to calculate the net present value of the projected cash flow stream is equal to the weighted average cost of capital for a typical purchaser of the SELA System, rather than any actual financing associated with the Subject Property. For the purpose of this appraisal, R. W. Beck assumed the typical purchaser would be a taxable entity, i.e., a corporate buyer. However, we are fully aware that the Parish, which intends to purchase the SELA System, is a government entity. The cost of capital is generally less for a government buyer than for a corporate buyer, which suggests that the value of the property is higher for the government buyer than for a corporate buyer. However, in an open and competitive market with all parties having reasonable knowledge of the relevant facts, there is no reason for a government buyer to pay substantially more than a corporate buyer would pay to purchase the same property. Therefore, to estimate the income value of the SELA System, we assumed the typical purchaser would be a corporate entity. The development of the discount rate used in the DCF analysis is shown in Exhibit 5.

As shown in Table 5-4, the income value of the Subject Property method is equal to \$36,000,000.

Market Approach

The comparable sales method under the market approach involves review of recent sales of similar facilities between a willing buyer and a willing seller, who are unrelated, as an indication of the general market price for such facilities. Caution must be exercised when using the comparable sales method as an indicator of value for utility property. Normally, the appraiser will, when necessary, make adjustments to the comparables in order to correlate the sales price to the characteristics of the subject property. However, there are many factors that can influence sales price including, among others, market area, age and other considerations that may be reflected in the sales price. Each party's motivation can affect the negotiation and the terms of the sale. Strategic objectives are the driving motivator for some sales. These objectives are often kept confidential and are not available to an appraiser for evaluation.

The market approach was not relied upon in this appraisal due to the lack of utility sales transactions that are comparable to the Subject Property.

**Section 6
CONCLUSIONS**

Based on the results of our analyses and the limiting assumptions and conditions described in this report, R. W. Beck developed indicators of value using generally accepted approaches to valuation. These indicators of value are summarized in Table 6-1 below.

**Table 6-1
Summary of Indicators of Value**

	<u>Indicators of Value</u>
Cost Approach:	
Original Cost Less Depreciation (OCLD)	\$30,074,000
Reproduction Cost New Less Depreciation (RCNLD)	\$49,760,000
Income Approach:	
Discounted Cash Flow (DCF) Value	\$36,000,000
Market Approach:	Not relied upon
Estimated Fair Market Value as of October 1, 2009	\$36,000,000

Fair market value is the price for a property on the date of valuation that would be agreed to by a willing seller and willing buyer. Under the principle of substitution, an informed buyer would pay no more than the cost of producing a substitute property with the same utility as the Subject Property, i.e., the RCNLD value. However, an informed buyer would not be willing to pay a price for the Subject Property that exceeds the income value of the property.

The effect of utility rate regulation is an important consideration in valuing public utility property. Under standard ratemaking procedures, rate regulated utilities are allowed to earn a fair and reasonable rate of return on their OCLD rate base. Thus, in theory, one would expect the income value for rate regulated utility property to be close to the OCLD value. For the Subject Property, the income value supports a value above the OCLD value.

After consideration of the indicators of value developed using generally accepted approaches of valuation, given the relative strengths and weaknesses of each, and the analyses and assumptions used therein, we are of the opinion that the fair market value of the SELA System at October 1, 2009 is equal to \$36,000,000.



An SAIC Company

**Qualifications and Experience
of the
Appraisal Project Team**

Nancy Heller Hughes, ASA | Project Manager and Senior Appraiser

B.A. in Business and Statistics, University of Chicago
M.B.A. in Finance and Accounting, University of Chicago

Ms. Hughes is an Accredited Senior Appraiser (ASA) of Public Utility property certified by the American Society of Appraisers. She has worked in the public utility industry since 1977 specializing in valuation, depreciation, utility rates and regulation. She has testified as an expert witness on these issues before federal and state regulatory commissions, city councils and courts of law.

Ms. Hughes has performed valuation and appraisal studies to determine the value of a wide range of utility property including water, wastewater, electric, natural gas, telecommunications and solid waste property. These studies have been performed in connection with the sale and acquisition of property, eminent domain cases, property tax issues, fixed asset inventory development and utility rate cases.

Edward Wetzel, Ph.D., P.E. | Client Liaison and QA/QC

PhD, Sanitary Engineering, Lehigh University
M.S. in Civil and Sanitary Engineering, Lehigh University
B.S. in Civil Engineering, Lafayette College

Dr. Wetzel has served in a variety of academic, technical, project, marketing and management roles over his 30 years of service to water, wastewater and environmental clients. He is experienced in utility acquisitions, systems planning, alternative project delivery and program management. Dr. Wetzel has represented various governments in over two dozen due diligence investigations and negotiations for the purchase of private utilities. Acquisitions have been both by negotiated agreement and condemnation, with settlements ranging from \$3 million to \$136 million. Services provided have included system inventory, condition assessment, RCNLD valuation, public presentations and expert testimony.

Dr. Wetzel has managed a variety of projects for municipal clients. Projects include water treatment process studies, water quality investigations, privatization studies, utility acquisitions, rate and connection fee studies, bond reports, resource recovery facility feasibility study, manhole rehabilitation, sewer system modeling, wastewater reuse and wastewater treatment plant design and performance evaluation. He is a contributing author to the Water Environment Federation's *Manual of Practice No. 8, "Design of Municipal Wastewater Treatment Plants."* Dr. Wetzel has served as client sponsor and led Quality Assurance teams for numerous water and wastewater planning and design projects.

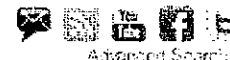
Paul Johnson, P.E. | Staff Engineer

B.S. in Civil/Environmental Engineering, University of Colorado-Boulder

Mr. Johnson is experienced in the planning and design of water and wastewater collection/treatment facilities, as well as water and wastewater infrastructure appraisal, hydraulic modeling, pipeline relocation benefit analysis, and water conservation planning. As project engineer for multiple projects, his responsibilities include performing site investigations, initial designs and cost estimates. Mr. Johnson has worked on water and wastewater system appraisals, compiling the inventory of facility data (i.e., location, age, condition), developing service lives, and preparing replacement cost estimates.

R. W. Beck

STP-004163



Each depositor insured to at least \$250,000 per insured bank

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{{09-30-05 p.12426.1}}

[12,426] In the Matter of Bruce F. Cucchiara, Resource Bank, Mandeville, Louisiana, Docket No. 02-122e (7-8-05).

Respondent is prohibited from participating in the conduct of affairs of, or exercising voting rights in, any insured institution without the prior written approval of the FDIC.

[1] Prohibition, Removal, or Suspension—Prohibition From—Participation in Conduct of Affairs

[2] Prohibition, Removal, or Suspension—Prohibition From—Voting Rights, exercise of

**In the Matter of
BRUCE F. CUCCHIARA,
individually, and as an
institution-affiliated party of
RESOURCE BANK
MANDEVILLE, LOUISIANA
(Insured State Nonmember Bank)
ORDER OF PROHIBITION FROM FURTHER PARTICIPATION**

FDIC-02-122e

BRUCE F. CUCCHIARA ("Respondent") has received a NOTICE OF INTENTION TO PROHIBIT FROM FURTHER PARTICIPATION ("NOTICE") issued by the Federal Deposit Insurance Corporation ("FDIC") on April 8, 2005, detailing the violations of law, unsafe or unsound banking practices, and/or breaches of fiduciary duty for which an ORDER OF PROHIBITION FROM FURTHER PARTICIPATION ("ORDER") may issue. On April 28, 2005, Respondent filed an answer to the Notice.

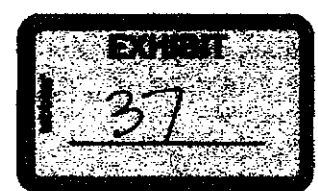
Respondent and Enforcement Counsel for the FDIC thereafter executed a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER OF PROHIBITION FROM FURTHER PARTICIPATION ("CONSENT AGREEMENT") whereby solely for the purpose of this proceeding and without admitting or denying any violations, unsafe or unsound banking practices, and/or breaches of fiduciary duty, Respondent waived his right to a hearing on the Notice and consented to the issuance of an ORDER by the FDIC.

The FDIC considered the matter and determined it had reason to believe that:

2010-11212 "5"
FILED

MAR 19 2013

MALISE PRIETO - CLERK
[Signature]



(a) As an institution-affiliated party of Resource Bank, Mandeville, Louisiana ("Bank"), Respondent violated law and regulations, engaged or participated in unsafe or unsound banking practices, and/or breached his fiduciary duty to the Bank;

(b) By reason of such violations, practices, and/or breaches of fiduciary duty,

{{09-30-05 p.12427.1}}

the Respondent was likely to cause more than a minimal loss to the Bank and/or Respondent received financial gain or other benefit; and

(c) Such violations, practices, and/or breaches of fiduciary duty involve personal dishonesty on the part of the Respondent or demonstrate the Respondent's willful and/or continuing disregard for the safety or soundness of the Bank.

The FDIC further determined that such violations, practices, and/or breaches of fiduciary duty demonstrate the Respondent's unfitness to serve as a director, officer, person participating in the conduct of the affairs, or as an institution-affiliated party of the Bank, any other insured depository institution, or any other agency or organization enumerated in section 8(e)(7)(A) of the Act, 12 U.S.C. §1818(e)(7)(A).

The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER OF PROHIBITION FROM FURTHER PARTICIPATION

1. BRUCE F. CUCCHIARA is hereby, without the prior written approval of the FDIC and the appropriate Federal financial institutions regulatory agency, as that term is defined in section 8(e)(7)(D) of the Act, 12 U.S.C. §1818(e)(7)(D), prohibited from:

[.1] (a) participating in any manner in the conduct of the affairs of any financial institution or organization enumerated in section 8(e)(7)(A) of the Act, 12 U.S.C. §1818(e)(7)(A);

[.2] (b) soliciting, procuring, transferring, attempting to transfer, voting, or attempting to vote any proxy, consent, or authorization with respect to any voting rights in any financial institution enumerated in section 8(e)(7)(A) of the Act, 12 U.S.C. §1818(e)(7)(A);

(c) violating any voting agreement previously approved by the appropriate Federal banking agency; or

(d) voting for a director, or serving or acting as an institution-affiliated party.

2. This ORDER will become effective upon its issuance by the FDIC. The provisions of this ORDER will remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated this 8th day of July, 2005.

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MALISE PRIETO, CLERK
Deputy

TWENTY-SECOND JUDICIAL DISTRICT COURT

PARISH OF ST. TAMMANY

STATE OF LOUISIANA

NO. 2010-11212

DIVISION "J"

KENNETH E. DUTRUCH

VERSUS

SOUTHEASTERN LOUISIANA WATER & SEWER CO., LLC and JARED J. RIECKE

FILED: _____

DEPUTY CLERK

**DEFENDANT'S RESPONSES TO PLAINTIFF'S FIRST SET OF WRITTEN
REQUESTS FOR DISCOVERY
TO SOUTHEASTERN LOUISIANA WATER & SEWER CO., LLC**

NOW INTO COURT, through undersigned counsel, comes defendant, Southeastern Louisiana Water & Sewer Co., LLC ("SELA"), who in response to the written requests for interrogatories and requests for production of documents propounded by Plaintiff, respectfully responds as follows:

GENERAL OBJECTIONS

1.

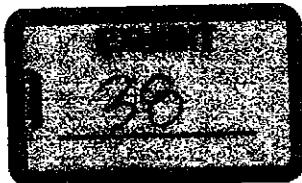
SELA generally objects to these Interrogatories and Requests for Production as overly broad and unduly burdensome.

2.

SELA generally objects to these Interrogatories and Requests for Production insofar as they seek to impose obligations and/or responsibilities on SELA beyond those required by the Louisiana Code of Civil Procedure and/or the Louisiana Code of Evidence.

3.

SELA generally objects to these Interrogatories and Requests for Production to the extent that they call for the disclosure of any information that is protected from discovery by any absolute or qualified privilege, including, but not limited to, the attorney/client privilege, and the work product privilege. Any information that is withheld on the basis of privilege will be



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alluded to in the particular response. However, SELA's failure to do so shall not be construed as a waiver of any of the privileges it hereby asserts.

4.

In responding to these interrogatories and request for production, SELA does not waive and specifically reserves all general and specific objections. Additionally, SELA does not concede by responding that the information sought or provided is relevant to the subject matter of this action or is calculated to lead to the discovery of admissible evidence. The production of any information cannot be construed as an admission by SELA that the information is relevant, material, authentic, or otherwise admissible as evidence. SELA expressly reserves the right to object to further discovery and to the subject matter of these interrogatories, as well as to the introduction into evidence of any responses to these interrogatories.

5.

SELA generally objects to Plaintiffs' Interrogatories and Requests for Production to the extent they purport to require supplementation beyond that required by the Louisiana Code of Procedure.

6.

Subject to the foregoing objections, SELA avers that it will respond to these Interrogatories and Requests for Production based upon its knowledge of its Manager, Jared Riecke, and cannot answer on behalf of other individuals out of its control for which it has no knowledge of what items may or may not be in their possession.

7.

These general objections apply to every response provided in the future, as if set forth fully in each specific response.

8.

SELA further objects to the Interrogatories and Requests for Production as many of them fail to provide a determination of time whereby their suggestive language may have occurred. As such, any response, without a specific time period, could misconstrue or misrepresent the facts.

9.

2

SELA further objects as the use of words and language included within the Interrogatories and Requests for Production are written in such a way to misconstrue and misrepresent the facts in dispute such that any response cannot be entirely accurate.

10.

SELA further objects to the conjunctive and complex nature of the use of words and language such that no response can be provided without the possibility of misrepresenting the facts.

11.

SELA expressly reserves the right to amend and/or further supplement these responses.

INTERROGATORY NO. 1:

Please state the name, address and telephone number of each and every witness you may or will call at the hearing of this matter.

RESPONSE TO INTERROGATORY NO. 1:

SELA further objects that discovery has only just begun and is ongoing. Subject to these and the foregoing general objections, SELA will comply with the production of its witness list in accordance with the pre-trial order of the court. SELA reserves the right to supplement this response within the time periods provided in the court's pre-trial order. However, in the spirit of cooperation and in good faith, SELA may call the following:

- 1. Plaintiff, Kenneth E. Dutruch
- 2. Jared J. Ricke
- 3. Bruce Cucchiana
- 4. Gerald P. Gilbert

INTERROGATORY NO. 2:

Please state the name, address and telephone number of each and every person that SELA knows or believes has or may have information relevant to the claims of either party to this action.

RESPONSE TO INTERROGATORY NO. 2:

Subject to these and the forgoing general objections and without waiving same, see answer to interrogatory No. 1.

INTERROGATORY NO. 3:

Identify and provide the addresses, telephone numbers and titles for the organizers of SELA.

RESPONSE TO INTERROGATORY NO. 3:

Subject to the forgoing objections, the organizer for SELA was Jean M. Champagne. Mr. Champagne's professional address is unknown at this time.

INTERROGATORY NO. 4:

Identify the names and addresses of SELA's members, managers, and executive officers from 2004 – present.

RESPONSE TO INTERROGATORY NO. 4:

Subject to the forgoing objections, SELA's member was the Karen S. Riecke Inter Vivos Trust and its manager was Jared J. Riecke. As for executive officers, Jared J. Riecke was the CEO, Bruce Cucchiara was the President, Jenny Volz was the Vice President/Treasurer and Heather Saylor was the Vice President for regulatory compliance. The professional address for the above is 350 N. Causeway Approach, Mandeville, Louisiana.

INTERROGATORY NO. 5:

Identify the name(s) of all individual(s) who were in any way involved in the negotiation, drafting and/or confection of the exclusive Agency Agreement attached hereto as Exhibit "A" (dated November 15, 2004, and amended on January 31, 2007).

RESPONSE TO INTERROGATORY NO. 5:

Subject to the forgoing general objections and without waiving same, Kenneth Dutruch, Bruce Cucchiara, Gerald Gilbert and Jared Riecke were the parties to the documents dated November 15, 2004 and January 31, 2007. Upon information and belief, the November 15, 2004 document was prepared by Mr. Dutruch on behalf of himself, Bruce Cucchiara, and Gerald Gilbert.

INTERROGATORY NO. 6:

Identify the name(s) of any SELA officer, member, manager, employee, agent, or anyone else on SELA's behalf, who was involved in the negotiations, discussions, or any other communications related to the prospective sale of SELA.

RESPONSE TO INTERROGATORY NO. 6:

Subject to the forgoing objections, Jared J. Riecke.

INTERROGATORY NO. 7:

Identify the name(s) of any individual, entity, or other party who expressed an interest in purchasing or acquiring SELA from 2004 to the present. For each, provide a name, address, telephone number and company/corporate affiliation (if applicable).

RESPONSE TO INTERROGATORY NO. 7:

Subject to the forgoing objections, St. Tammany Parish, P.O. Box 628 Covington, LA. 70434. (985) 898-2362. Defendant reserves the right to supplement this response.

INTERROGATORY NO. 8:

For each individual, person, entity, or other party identified in Answer to Interrogatory No. 7, state whether an offer to purchase or acquire SELA was tendered by such party, and if so, provide the date and terms of both the offer and SELA's response to same.

RESPONSE TO INTERROGATORY NO. 8:

Subject to the forgoing objections, by correspondence dated on or about May 17, 2007, St. Tammany Parish made an offer to acquire SELA for \$39,000,000. SELA responded with a counter-offer in the amount of \$54,000,000 on or about May 23, 2007. The Parish re-iterated its \$39,000,000 offer for the purchase of SELA on or about October 25, 2007, and SELA rejected this offer on or about November 5, 2007. See attached.

INTERROGATORY NO. 9:

Identify the name(s) and address(es) of all individuals with whom you had any discussions or other communications regarding the purchase or acquisition of SELA by St. Tammany Parish.

RESPONSE TO INTERROGATORY NO. 9:

Subject to the forgoing objections, defendant further objects to this interrogatory in that it is overbroad and seeks identification of all individuals with whom it had any communications

regarding the acquisition of SELA. However, in the spirit of cooperation, defendant offers that Jared Riecke had substantive discussions on the topic with Greg Gordon, Kevin Davis, Kenneth Dutruch, Bruce Cucchiara, and Gerald Gilbert.

INTERROGATORY NO. 10:

Describe the negotiations regarding the purchase or acquisition of SELA by St. Tammany Parish, including the dates, amounts and terms of any offers, counteroffers, or acceptances, for the periods between: (a) January 1, 2004 and November 15, 2007; and (b) November 16, 2007 to present; and including without limitation the date negotiations with St. Tammany Parish commenced and terminated.

RESPONSE TO INTERROGATORY NO. 10:

Subject to the forgoing objections and without waiving same:

(a) Prior to November 15, 2007. By correspondence dated on or about May 17, 2007, St. Tammany Parish made an offer to acquire SELA for \$39,000,000. SELA responded with a counter-offer in the amount of \$54,000,000 on or about May 23, 2007. The Parish re-iterated its \$39,000,000 offer for the purchase of SELA on or about October 25, 2007, and SELA rejected this offer on or about November 5, 2007. See attached.

(b) After November 16, 2007. It is defendant's understanding that Greg Gordon of the Parish approached Bruce Cucchiara around February of 2008 in an effort by the Parish to attempt a negotiation for the purchase of SELA. The sale of SELA never occurred due to legal obstacles prohibiting the Parish from purchasing a privately owned entity. By late June/early July of 2009, there were no longer any negotiations regarding the purchase of SELA by the Parish of St. Tammany. Subsequently, the Parish of St. Tammany issued correspondence to SELA of its intent to expropriate the assets of SELA. Ultimately, the Parish of St. Tammany, through its counsel, issued a resolution for the expropriation of the assets of SELA. Thereafter, a contract for the purchase of the assets of SELA was executed, and in March, 2010, the Parish of St. Tammany purchased the assets of SELA.

INTERROGATORY NO. 11:

If an agreement to purchase has been reached between SELA and St. Tammany Parish, provide the purchase price, the terms of said purchase and the anticipated closing date and location.

RESPONSE TO INTERROGATORY NO. 11:

Subject to the forgoing objections and without waiving same, the Parish of St. Tammany and SELA never entered into a purchase agreement for the purchase of SELA. St. Tammany Parish did not purchase SELA. However, by threat of expropriation, St. Tammany Parish entered into a contract for the purchase of the assets of SELA on or about January 13, 2010 for \$36,000,000.

INTERROGATORY NO. 12:

Identify the name(s) of any potential buyers (of SELA) which were directed to Mr. Dutruich by SELA or anyone on SELA's behalf, as set forth in the exclusive Agency Agreement attached hereto as Exhibit A.

RESPONSE TO INTERROGATORY NO. 12:

Subject to the forgoing objections and without waiving same, none.

INTERROGATORY NO. 13:

Identify the total compensation, benefits, expenses, or any other amounts paid to or for the benefit of Kenneth E. Dutruich in connection with the exclusive Agency Agreement attached hereto as Exhibit A.

RESPONSE TO INTERROGATORY NO. 13:

Subject to the forgoing objections and without waiving same, none.

INTERROGATORY NO. 14:

Identify the total compensation, benefits, expenses, or any other amounts paid to or for the benefit of Bruce Cucchiara in connection with: (a) the exclusive Agency Agreement attached as Exhibit A; (b) his employment with or other compensation from SELA, if any; and (c) any other ventures between Bruce Cucchiara and SELA, Jared Riecke, or any other member or agent of the Riecke family.

RESPONSE TO INTERROGATORY NO. 14:

Subject to the forgoing objections and without waiving same,

a) None.

b) SELA further objects as it cannot disclose the personnel information of one of its employees.

SELA objects to the interrogatory as irrelevant.

c) SELA further objects as it cannot disclose the personnel information of one of its employees.

SELA objects to the interrogatory as irrelevant.

INTERROGATORY NO. 15:

Identify the total compensation, benefits, expenses, or any other amounts paid to or for the benefit of Gerald Gilbert in connection with: (a) the exclusive Agency Agreement attached as Exhibit A; (b) his employment with or other compensation from SELA, if any; and (c) any other ventures between Gerald Gilbert and SELA, Jared Riecke, or any other member or agent of the Riecke family.

RESPONSE TO INTERROGATORY NO. 15:

Subject to the forgoing objections and without waiving same,

a) None.

b) SELA objects to this interrogatory as irrelevant.

c) SELA objects to this interrogatory as irrelevant.

INTERROGATORY NO. 16:

Identify the total amounts potentially due to the exclusive agents under the exclusive Agency Agreement with respect to the written offer from St. Tammany Parish dated prior to October 25, 2007 (which same offer was tendered again by St. Tammany Parish in writing dated October 25, 2007) (a copy of which is attached as Exhibit B), provided that the sale of SELA had closed: (i) on or prior to November 15, 2007; or (ii) on November 16, 2007 or later.

RESPONSE TO INTERROGATORY NO. 16:

Subject to the forgoing objections and without waiving same, SELA objects to the interrogatory as it requires SELA to interpret the documents dated November 15, 2004 and January 31, 2007 which are specifically made the object of Mr. Dutruich's pending litigation. Ultimately, the court will determine the valuation, if any, attributable to the sale of SELA.

INTERROGATORY NO. 17:

Identify any and all property or other assets which have been agreed to be or which have been sold, donated, expropriated, or otherwise disposed of by SELA, for value or otherwise, from 2004 to present. Provide the sales price or fair market value of such property on the date of donation, expropriation, or other disposition.

RESPONSE TO INTERROGATORY NO. 17:

Subject to the forgoing objections, SELA further objects to this interrogatory as it is overly broad and unduly burdensome. This interrogatory is designed solely to harass and cause undue hardship upon defendants. However, in the spirit of cooperation and responsive to Mr. Dutruch's request, SELA submits that SELA's assets were sold to St. Tammany Parish for \$36,000,000 on or about March 2, 2010.

INTERROGATORY NO. 18:

Identify any and all property or other assets acquired by SELA, for value or otherwise, from 2004 to present. Provide the sales price or fair market value of such property on the date of such acquisition.

RESPONSE TO INTERROGATORY NO. 18:

Subject to the forgoing objections, SELA further objects to this interrogatory as it is overly broad and unduly burdensome. This interrogatory is designed solely to harass and cause undue hardship upon defendants.

REQUEST FOR PRODUCTION NO. 1:

Please produce any and all documents referred to, relied upon or referenced by you in the course of answering any of the discovery set forth in *Plaintiff's First Set of Written Requests for Discovery to Southeastern Water & Sewer Co., LLC*.

RESPONSE TO REQUEST NO. 1:

Subject to the forgoing objections, see attached documents.

REQUEST FOR PRODUCTION NO. 2:

Please produce any and all documents that you may or will offer or use at trial of this matter.

RESPONSE TO REQUEST NO. 2:

Subject to the forgoing objections, SELA reasserts its prior objection that discovery has only just begun and is ongoing, and it cannot know each and every exhibit it intends to introduce at trial. SELA will comply with the production of its list in accordance with the pre-trial order which will eventually be generated by the court. SELA reserves the right to supplement this response within the time periods provided in the court's pre-trial order. However, in the spirit of cooperation and in good faith, SELA may offer the following at the trial of this matter:

- 1) The documents which were entered into by Mr. Riecke on behalf of SELA, and Plaintiff, Mr. Cucchiara, and Mr. Gilbert, dated November 15, 2004 and January 31, 2007.
- 2) Correspondence between Mr. Riecke and Mr. Dutruch, as well as correspondence between Mr. Dutruch and others regarding the pertinent documents.
- 3) Correspondence between Mr. Riecke and Kevin Davis and/or St. Tammany Parish.
- 4) Sale documents regarding the sale of SELA's assets to St. Tammany Parish.

REQUEST FOR PRODUCTION NO. 3:

Please produce any and all correspondence, memoranda, e-mails, spreadsheets and/or other documents, including any which may be electronically generated or stored, relating to the negotiation, drafting, confection and/or execution of the exclusive Agency Agreement attached hereto as Exhibit A, including without limitation those by, between, and among Bruce Cucchiara, Gerald Gilbert, Jared Riecke, and any other member or agent of the Riecke family.

RESPONSE TO REQUEST NO. 3:

Subject to the forgoing objections and without waiving same, see attached documents.

REQUEST FOR PRODUCTION NO. 4:

Please produce any and all correspondence, memoranda, e-mails, spreadsheets, valuations and/or other documents, including any which may be electronically generated or stored, relating to the sale of SELA to St. Tammany Parish, including without limitation: (a) those by, between, and among Bruce Cucchiara, Gerald Gilbert, Jared Riecke, and any other member or agent of the Riecke family; (b) the written offer from St. Tammany Parish dated prior to October 25, 2007; and (c) SELA's written offer to St. Tammany Parish dated on or about May 23, 2007.

RESPONSE TO REQUEST NO. 4:

Subject to the forgoing objections and without waiving same, see attached.

REQUEST FOR PRODUCTION NO. 5:

Please produce any and all documents related in any way to the payment or non-payment of the commission/fee contemplated by and in the exclusive Agency Agreement attached hereto as Exhibit A, including without limitation those by, between, and among Bruce Cucchiara, Gerald Gilbert, Jared Riecke, and any other member or agent of the Riecke family.

RESPONSE TO REQUEST NO. 5:

SELA objects as Plaintiff's request requires the interpretation of the documents dated November 15, 2004 and January 31, 2007. Subject to the forgoing objections and without waiving same, no commission or fee was paid to Mr. Dutruch, Mr. Cucchiara, or Mr. Gilbert.

REQUEST FOR PRODUCTION NO. 6:

Produce any and all documents related to or evidencing any compensation or benefits paid by SELA to Bruce Cucchiara and Gerald Gilbert, individually or otherwise.

RESPONSE TO REQUEST NO. 6:

Subject to the forgoing objections and without waiving same, Mr. Cucchiara was an employee of SELA. SELA objects to the disclosure of any personnel information of Mr. Cucchiara. Furthermore, Mr. Dutruch's request as to both Mr. Cucchiara and Mr. Gilbert is overbroad, irrelevant, and not reasonably calculated to lead to the discovery of admissible evidence.

REQUEST FOR PRODUCTION NO. 7:

Please produce any and all correspondence, including emails to, from or copied to any employee(s), members, managers, or agents of SELA regarding Mr. Dutruch that relate in any way to the terms, conditions or continuation of Mr. Dutruch's agency authority, to the pending sale of assets to St. Tammany Parish, or to this litigation, including without limitation those by, between, and among Bruce Cucchiara, Gerald Gilbert, Jared Riecke, and any other member or agent of the Riecke family.

RESPONSE TO REQUEST NO. 7:

SELA objects to Production No. 7 as it suggests there to have been a continuation of agency authority which SELA denies. There was no continuation of authority for Mr. Dutruch, Mr. Cucchiara, or Mr. Gilbert beyond November 15, 2007.

REQUEST FOR PRODUCTION NO. 8:

Please produce a copy of any and all documents related to the calculation of the valuation of SELA for purposes of the pending sale of its assets to St. Tammany Parish (or its related entity or district).

RESPONSE TO REQUEST NO. 8:

Subject to the forgoing objections and without waiving same, there is no pending sale of SELA's assets to St. Tammany Parish. The asset sale occurred on or about March 2, 2010. Further, the information sought by this request is irrelevant as whatever calculations that may have existed resulted in a price.

REQUEST FOR PRODUCTION NO. 9:

Please produce any written offers to purchase or acquire SELA from any party, including St. Tammany Parish (or its related entity or district).

RESPONSE TO REQUEST NO. 9:

Subject to the forgoing objections and without waiving same, see the attached documents.

REQUEST FOR PRODUCTION NO. 10:

Produce all closing documents relative to the sale of SELA to St. Tammany Parish (or its related entity or district).

RESPONSE TO REQUEST NO. 10:

Subject to the forgoing objections and without waiving same, no documents responsive to this request exist.

REQUEST FOR PRODUCTION NO. 11:

To the extent not produced in response to the previous document requests, please produce any and all documents (including without limitation all correspondence and e-mails) related to the exclusive Agency Agreement attached hereto as Exhibit A.

RESPONSE TO REQUEST NO. 11:

Subject to the forgoing objections and without waiving same, see the attached documents which include documents dated November 15, 2004 and January 31, 2007.

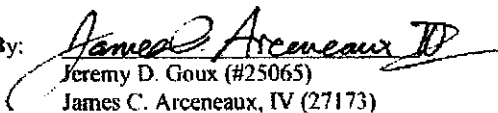
REQUEST FOR PRODUCTION NO. 12:

Please produce any and all correspondence, including emails to, from or copied to any employee(s) or agents of SELA that relate in any way to the anticipated claims, denials or defenses of SELA in this litigation.

RESPONSE TO REQUEST NO. 12:

SELA objects to this request in that it seeks information that is protected by the attorney-client privilege and/or attorney work-product and which was prepared in anticipation of litigation.

RESPECTFULLY SUBMITTED:
WYNNE, GOUX, & LOBELLO
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CERTIFICATE OF SERVICE

I hereby certify the above and foregoing Responses to Interrogatories and Requests for Production of Documents have been forwarded to all counsel of record by placing a copy of same in the U.S. Mail, postage prepaid, and properly addressed OR via facsimile transmission, this the 2nd day of July, 2010.


JAMES C. ARCENEAUX, IV