



NEPTUNE INVESTMENT COMPANY

Refund Contract Investment
Opportunity

Celebrating 50 Years of Service

480-922-1000

How Refund Contracts Are Originated

When real estate developers build new projects, one of the project costs is the extension of water mains, which are the water pipes laying beneath the streets. In many areas in California, the water company must refund the developers cost for the water mains.

A Water Main Extension Contract or "**Refund Contract**" is entered into between the Water Company and the real estate developer who needs additional water services extended for their project.

Rule 15 of the California Public Utilities Commission governs developer advances for Water Company main extensions and establishes the rules for the repayment by the Water Company to the developer.

The Refund Contract includes the following key terms:

- The developer advances all of the funds needed by the Water Company to pay for the cost of the water facilities, that may include water mains, which are the pipes lying in the streets, and special facilities such as wells, tanks and pumps for larger projects.
- The Water Company installs the water infrastructure, and retains ownership of the facilities.
- Following completion of construction, the Water Company begins making refund payments to the developer. Rule 15 requires that the Water Company pay the developer 2.5% of the original cost each year for a period not to exceed 40 years. For example, if the original cost is \$100,000, the Water Company will pay \$2,500 every year for 40 years to repay the full refund amount of \$100,000.

While Refund Contracts start out with a 40 year term. Remaining terms at the time of purchase vary, generally between 25 – 40 years remaining term.

In a world of uncertainty, it is comforting to have an investment alternative that is reliable, easy to understand, and offers exceptional long-term returns with very low risk.

Since our founding 50 years ago, **Refund Contracts** have never defaulted. How many other investments have that track record?

The reason no default has ever occurred is because all of the characteristics of a good investment are present:

- **CREDIT RISK:**

Water Companies are regulated utilities with their profit margins built into their rate structure. It is in the public interest for water companies to operate profitably so they can deliver water to their customers. Water Companies can neither make too much or too little profit. Excess profits are returned to customers as rebates while insufficient revenues result in a profitability surcharge to customers.

- **NO COMPETITION:**

Water Companies are allowed to operate within their service boundary free from competition.

- **CORPORATE DEBT OBLIGATION:**

Refund Contracts are corporate debt obligations, listed as long-term liabilities, advances for construction, on the water company balance sheet.

- **UNIFORM STRUCTURE:**

All Refund Contracts in California are governed by Rule 15 of the California Public Utilities Commission, and therefore all Refund Contracts in California have the exact same payment terms. The payments are fixed annual payments, to occur each year until the refundable balance is paid in full. Refund Contracts are never repaid prematurely.



Invest With Confidence: When you purchase a Refund Contract, you are purchasing the future annual payments at a significant discount. The discount is your profit, paid over the remaining term.

Annual Payment		\$10,000	\$10,000	\$10,000	\$10,000
Number of Years	x	10	20	30	40
Total Payments	=	\$100,000	\$200,000	\$300,000	\$400,000
Price Paid*		\$64,177	\$91,285	\$102,737	\$107,574
Profit		\$35,823	\$108,715	\$197,263	\$292,426

Who Buys Refund Contracts?

Investors that purchase Refund Contracts include:

- Individuals
- Family Trusts
- Foundations
- Family Offices
- IRA, 401K, pension and profit sharing plans, defined benefit plans
- Pension Trust Funds
- Insurance Companies



The Business of Neptune Investment Company

Neptune Investment Company's business is buying and selling Refund Contracts. Real estate developers and sometimes investors re-sell their Refund Contracts to Neptune Investment Company. We then place the Refund Contracts with investors.

Ownership Title and Payments

Refund Contracts are transferred by an assignment document and the transaction occurs through escrow. A Refund Contract purchaser receives a fully executed original assignment directly from the Water Company, acknowledging the transfer, and stating the address where the Water Company will send the annual payments. The owner receives their annual payment directly from the Water Company.



Liquidity

Investors that wish to sell their Refund Contracts are free to do so at any time. Neptune Investment Company can facilitate the sale of Refund Contracts providing a means of liquidity. We typically charge a fee of 3% – 5% on the sale price to place the Refund Contracts with a different investor.

Summary

Neptune Investment Company only purchases Refund Contracts of the "A" rated companies, which is a CPUC rating scale for the largest Water Companies operating in the State of California. There are only 9 Water Companies operating in California that are Class A companies. At a minimum, the Class A Water Companies serve entire cities or substantial portions thereof. Most are in numerous markets and several are National in scope. Most Class A Water Companies are publicly traded Water Companies. Together, the 9 Class A Water Companies have approximately 1.5 million customer accounts in California, serving approximately 6 million persons or approximately 15% of the State.

Class A Water Companies have never defaulted on Refund Contract obligations in any respect whatsoever, which knowledge extends to the early 1970's.

Water Companies are afforded exclusive operations within their tariff boundaries – no competitors and a captive market. Water is a necessary resource. The CPUC sets Water Company Authorized Profit Margins. Therefore, Water Companies operate as an authorized monopoly providing reliable safe drinking water to their customers while earning their approved profit margins.

About Neptune Investment Company

Neptune Investment Company has been active for 50 years and have transacted more than 5,000 Refund Contracts during our history.

*Based upon a 9.0% discount rate, for example only. Actual yields may vary.

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