

CARL J. KUNASEK  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
WILLIAM A. MUNDELL  
COMMISSIONER



0000000135

ARIZONA CORPORATION COMMISSION

DATE: April 6, 2000

DOCKET NO.: W-02451A-98-0326

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Alicia Grantham. The recommendation has been filed in the form of an Order on:

WATER UTILITY OF GREATER BUCKEYE, INC.  
(FINANCE)

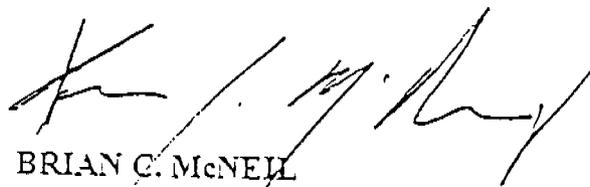
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

APRIL 17, 2000

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

APRIL 25, 2000 AND APRIL 26, 2000

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250.

  
BRIAN C. McNEIL  
EXECUTIVE SECRETARY

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

CARL J. KUNASEK  
CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
WILLIAM A. MUNDELL  
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF  
WATER UTILITY OF GREATER BUCKEYE, INC.  
TO ISSUE LONG-TERM DEBT

DOCKET NO. W-02451A-98-0326  
DECISION NO.

**ORDER**

Open Meeting  
April 25 and 26, 2000  
Phoenix, Arizona

**BY THE COMMISSION:**

On June 22, 1998, Water Utility of Greater Buckeye, Inc. ("WUGB" or "Applicant") filed an application to borrow \$48,300 in long-term debt. On December 9, 1999, WUGB filed an amendment to its application modifying the purpose of the debt and lowering the requested amount to \$32,000. On March 8, 2000, the Commission's Utilities Division Staff ("Staff") filed a Staff Report, in which it recommended approval of the application without a hearing. WUGB notified its customers of the application by U.S. Mail on June 19, 1998.

**DISCUSSION**

Introduction

WUGB is a subsidiary of West Maricopa Combine, Inc., operating seven water systems in west central Maricopa County. WUGB is a Class D water utility providing service to approximately two hundred twenty-eight customers.

WUGB has two wells located at its Sweetwater II system near 175<sup>th</sup> Avenue and Yuma Road. One of the wells was shut down in 1997 due to excessive levels of nitrate. In 1998, WUGB requested emergency financing in the amount of \$48,300 when the remaining well approached maximum contaminant level allowed by law. The requested financing would provide funds to drill a new well at the site, move the pump and column pipe, and install a treatment process.

WUGB filed an amendment to its application on December 9, 1999, lowering the requested

1 amount of financing to \$32,000. Instead of drilling a new well, the amended request for financing  
2 would provide the funds necessary to interconnect its system with the Town of Goodyear, and  
3 provide a source of safe water. Staff reviewed the application and determined the work was  
4 necessary and the costs indicated were reasonable.

5 WUGB has requested approval of primary funding from the Water Infrastructure Finance  
6 Authority ("WIFA"). As of January 12, 2000, WIFA's Prime Interest Rate Index was 8.34 percent  
7 with a Subsidy Rate Index of 70.00 percent and a term of twenty years. In the event that WIFA  
8 funding is unavailable at the time of construction, WUGB plans to pursue funding from another  
9 financial institution such as CoBank. At this time, CoBank's terms are at an interest rate of 9.50  
10 percent (the current prime rate of 8.50 percent plus 1.00 percent) and a term of twenty years.

#### 11 Financial Impact

12 The Staff Report shows that WUGB's 1998 year-end capital structure consisted of 53.80  
13 percent long-term debt and 46.20 percent common equity. Under the terms of the proposed WIFA  
14 loan described, the annual debt service requirement will be approximately \$2,715, plus a  
15 reserve/replacement fund deposit of \$543, for a total annual fiscal impact of \$3,258. This is equal to  
16 \$271.50 per month, or \$1.19 per customer (based on the current customer base of 228).

17 If WIFA financing is unavailable, under the terms of the proposed CoBank loan described  
18 above, the annual debt service requirement will be approximately \$3,579.38, equaling \$298.28 per  
19 month, or \$1.38 per customer.

20 Staff examined the effects of the debt on the Times Interest Earned Ratio (TIER) and Debt  
21 Service Coverage (DSC) ratio of WUGB for both the WIFA loan and the alternate proposed CoBank  
22 financing. These ratios measure the number of times earnings will cover interest payments (TIER)  
23 and the number of times cash flow will cover principal and interest payments (DSC). Staff's  
24 projected ratios indicate that WUGB would not likely experience any difficulty in either servicing the  
25 proposed WIFA debt or the alternate proposed CoBank financing.

26 Staff also examined the pro forma effects that the proposed debt will have on WUGB's capital  
27 structure. Assuming approval of the financing request, the resulting capital structure would be 60.90  
28 percent long-term debt and 39.10 percent common equity. The resulting capital structure will remain

1 balanced and consistent with other Arizona investor-owned water utilities.

2 Having considered the entire record herein and being fully advised in the premises, the  
3 Commission finds, concludes and orders that:

4 **FINDINGS OF FACT**

5 1. Water Utility of Greater Buckeye, Inc. ("WUGB" or "Applicant") is an Arizona  
6 Corporation engaged in the business of providing water utility service to the public in an area near the  
7 City of Buckeye, Maricopa County, Arizona, pursuant to authority granted by the Arizona  
8 Corporation Commission ("Commission").

9 2. On June 22, 1998, WUGB filed with the Commission an application to issue long-  
10 term debt in the amount of \$48,300.

11 3. On December 9, 1999, WUGB filed an amendment to its application modifying the  
12 purpose of the debt and lowering the requested amount to \$32,000.

13 4. On March 8, 2000, Staff filed its Report on WUGB's application.

14 5. In 1997, one of two wells at WUGB's Sweetwater II system was shut down due to  
15 excessive levels of nitrates.

16 6. In 1998, WUGB's remaining well at the Sweetwater II system approached maximum  
17 contaminant level allowed by law, requiring WUGB to request emergency financing.

18 7. WUGB's June 2, 1998 application requested a loan in the amount of \$48,300 to  
19 provide funds necessary to drill a new well site, move the well pump and column pipe from the old  
20 well to the new well, and install a treatment process in the new well.

21 8. WUGB's amended application lowered the requested amount of financing to \$32,000,  
22 allowing WUGB to interconnect the Sweetwater II system with the Town of Goodyear instead of  
23 dwelling the new well.

24 9. Staff recommends the following:

- 25 • The proposed financing is for lawful purposes.
- 26 • The proposed financing is consistent with sound, financial practices and within the public  
27 interest.
- 28 • WUGB's application should be approved, issuing up to \$32,000 in long-term debt

1 financing from WIFA, and/or another financial institution for a period up to twenty years, at  
2 an interest rate not to exceed the prime rate at the time of the loan plus one percent.

- 3 • The application should be approved without a hearing.

4 10. Staff's recommendations are reasonable and should be adopted.

5 **CONCLUSIONS OF LAW**

6 1. WUGB is a public service corporation within the meaning of Article XV of the  
7 Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

8 2. The Commission has jurisdiction over WUGB and the subject matter of the  
9 application.

10 3. Notice of the application was given in accordance with the law.

11 4. Staff's recommendations contained in Findings of Fact Number 9 are just and  
12 reasonable.

13 5. The financing approved herein for lawful purposes within WUGB's corporate powers,  
14 is compatible with the public interest, with sound financial practices, and with the proper  
15 performance by WUGB of service as a public service corporation and will not impair WUGB's  
16 ability to perform that service.

17 6. The financing approved herein is for the purpose stated in the application and is  
18 reasonably necessary for those purposes.

19 **ORDER**

20 IT IS THEREFORE ORDERED that Water Utility of Greater Buckeye, Inc. is hereby  
21 authorized to borrow \$32,000 from WIFA or another financial institution for a term up to twenty (20)  
22 years with an annual interest rate not to exceed the prime rate at the time of the loan plus one percent.

23 IT IS FURTHER ORDERED that Water Utility of Greater Buckeye, Inc. is hereby authorized  
24 to engage in any transactions and to execute any documents necessary to effectuate the authorization  
25 granted hereinabove.

26 IT IS FURTHER ORDERED that Water Utility of Greater Buckeye, Inc. shall file a copy of  
27 all completed loan documents with the Commission within thirty (30) days of the completion of the  
28 transaction.

1 IT IS FURTHER ORDERED that such authority is expressly contingent upon Water Utility  
2 of Greater Buckeye, Inc.'s use of the proceeds for the purposes set forth in its application.

3 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
4 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
5 proceeds derived thereby for purposes of establishing just and reasonable rates.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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10 CHAIRMAN

COMMISSIONER

COMMISSIONER

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13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
14 Secretary of the Arizona Corporation Commission, have  
15 Hereunto set my hand and caused the official seal of the  
16 Commission to be affixed at the Capitol, in the City of Phoenix,  
17 this \_\_\_\_\_ day of \_\_\_\_\_, 2000.

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22 BRIAN C. McNEIL  
23 EXECUTIVE SECRETARY

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21 DISSENT \_\_\_\_\_  
AG:bbs

1 SERVICE LIST FOR: WATER UTILITY OF GREATER BUCKEYE, INC.

2 DOCKET NO.: W-02451A-98-0326

3  
4 J. John Mihlik, President  
5 WATER UTILITY OF GREATER BUCKEYE, INC.  
6 3800 North Central Avenue, Suite #500  
7 Phoenix, AZ 85012

8 Lyn Farmer, Chief Counsel  
9 Legal Division  
10 ARIZONA CORPORATION COMMISSION  
11 1200 West Washington Street  
12 Phoenix, AZ 85007

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