



0000032952

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission  
DOCKETED

MAY 13 1999

JIM IRVIN  
COMMISSIONER-CHAIRMAN  
TONY WEST  
COMMISSIONER  
CARL J. KUNASEK  
COMMISSIONER

DOCKETED BY *red*

IN THE MATTER OF THE APPLICATION OF  
CHINO MEADOWS II WATER COMPANY, INC.  
FOR APPROVAL OF LONG-TERM DEBT IN AN  
AMOUNT NOT TO EXCEED \$41,287.

DOCKET NO. W-02370A-98-0392

IN THE MATTER OF THE APPLICATION OF  
CHINO MEADOWS II WATER COMPANY, INC.  
FOR APPROVAL OF LONG-TERM DEBT IN AN  
AMOUNT NOT TO EXCEED \$9,000.

DOCKET NO. W-02370A-98-0750

DECISION NO. 61714

ORDER

Open Meeting  
May 11 and 12, 1999  
Phoenix, Arizona

**BY THE COMMISSION:**

On July 16, 1998, Chino Meadows II Water Company, Inc. ("Company" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an application requesting that retroactive approval for a long-term bank loan in the amount of \$11,287. Subsequently, the application was amended to request retroactive approval for an additional \$30,000 in long-term debt evidenced by promissory notes and other evidences of indebtedness.<sup>1</sup>

On December 23, 1998, Applicant filed another request for the Commission's authorization for long-term debt in the amount of \$9,000 to be utilized to purchase a parcel of land adjacent to its wellsite.

On March 29, 1999, Staff filed its Staff Report with respect to the above-captioned applications. Although neither the Company nor Staff have requested consolidation, of the applications, we find the issues are substantially the same and as a result the above-captioned applications will be consolidated for purposes of this Order.

<sup>1</sup> The amendment of the application in Docket No. W-02370A-98-0392 came about in response to a data request from the Commission's Utilities Division ("Staff") which revealed prior loans which had not been approved by the Commission.

\* \* \* \* \*

1  
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. Applicant is an Arizona corporation engaged in providing water utility service to  
6 approximately 583 customers in various parts of Chino Valley, Yavapai County, Arizona.

7 2. On July 16, 1998, the Company filed with the Commission in Docket No. W-02370A-  
8 98-0392 an application requesting the Commission's retroactive approval for the issuance of long-  
9 term debt in the form of a five year bank loan from Bank One Arizona dated July 3, 1998, in the  
10 amount of \$11,287 with interest at 8.25 percent per annum for the purchase of a 1998 Ford Ranger  
11 truck.

12 3. Subsequently, the Company amended its initial application herein by requesting  
13 additional retroactive approval for long-term debt totaling \$30,000 evidenced by notes and other  
14 evidences of indebtedness dated February 22, 1996 for the following construction equipn  
15 purchases: a 1964 International dump truck (\$6,000); a 1975 Ford water truck (\$7,500); a 1973 Ford  
16 dump truck (\$1,500); a 1973 Ford service truck (\$1,500); a 1972 Ziema trailer (\$1,000); a model F-  
17 12 grader (\$6,500); a 1978 Case backhoe (\$5,000); and a rubber tire compactor (\$1,000).<sup>2</sup>

18 4. On December 23, 1998, the Company filed an application requesting the  
19 Commission's approval for additional long-term debt in the amount of \$9,000 which is to be utilized  
20 for the purchase of a lot adjacent to Applicant's main well and storage facility. The terms of said  
21 purchase agreement provide for interest at ten percent per annum for a period of ten years.

22 5. On March 29, 1999, Staff filed its Staff Report, and recommended that the  
23 Commission approve \$11,287 for the long-term debt for the purchase of the 1998 Ford Ranger truck  
24 and \$3,000 for the long-term debt for the purchase of the lot adjacent to its main well and storage  
25 facility.

26  
27 <sup>2</sup> This information was provided to Staff on December 23, 1998, in response to Staff's July 21, 1998  
28 request. The data showed that Applicant had purchased the construction equipment on or about February 22, 1996, fi  
Equestrian Development Corporation, an Arizona corporation, which is controlled by Mr. Paul D. Levie, Applicant's  
Vice President.

1           6.     On April 1, 1999, Applicant notified its customers of its applications for the long-term  
2 financing described herein, and in response thereto, the Commission has received no protests.

3           7.     Upon Staff's review of Applicant's initial application herein for approval of the loan  
4 agreement for the 1998 Ford Ranger truck, Staff noted that the Company's 1997 Utilities Annual  
5 Report included unauthorized long-term debt in the amount of \$30,000 for the construction  
6 equipment described hereinabove.

7           8.     Staff had intended for Applicant to incorporate the previously unapproved loans  
8 totaling \$30,000 into the financing request for the 1998 truck.

9           9.     However, Staff became concerned with the propriety of the loans because Applicant is  
10 operated by an individual and his family that is also involved in land development in the Company's  
11 certificated service area and adjacent areas.

12          10.    Applicant's data response reflected general usage of the construction equipment  
13 noting that most of the equipment had been sold in January 1998 to a related developer, Levie-  
14 Antelope Lakes, Inc. and moved to Utah. Applicant's Vice President, Mr. Levie, advised Staff that  
15 most of the construction equipment had been transferred in order to consolidate ownership for  
16 insurance purposes.

17          11.    The Company indicated that Applicant still owns and operates the 1975 Ford water  
18 truck, but with respect to the 1978 Case backhoe, it was sold to Granite Mountain Water Company,  
19 Inc. another water utility owned by Mr. Levie.

20          12.    The dispositions of the construction equipment by Applicant took place without  
21 Commission approval as required pursuant to A.R.S. § 40-285.<sup>3</sup>

22          13.    As a result of the aforementioned actions, according to Staff, Applicant agreed to the  
23 revision of its financing request with respect to Docket No. W-02370A-98-0392 to include only the  
24 retroactive authorization for the execution of the loan documents for the purchase of the 1998 Ford  
25 Ranger truck and the 1975 water truck which the Company still owns.

26          14.    Following Staff's review of Applicant's data, Staff is recommending denial of the  
27

28 <sup>3</sup>           Additionally, because Applicant was unable to locate the rubber tire compactor, the Company withdrew  
that portion of its financing request for the \$1,000 purchase price.

1 amended financing request regarding the purchase of the construction equipment.

2 15. Staff recommends denial of this portion of the amended application because Applicant  
3 has already paid approximately \$13,000 of the unauthorized debt which exceeds the \$1,500 purchase  
4 price for the water truck.

5 16. Staff recommends that only the long-term debt for the 1998 Ford Ranger truck in the  
6 amount of \$11,287 be approved by the Commission because it is necessary for the operation of the  
7 Company and its purchase price has been verified.

8 17. With respect to the application for financing approval for the lot adjacent to the  
9 Company's main well and storage facility, Staff is concerned with respect to the necessity of the lot  
10 purchase and its valuation for sale purposes.

11 18. The Company presently owns two lots which it uses for storage and for its well site.  
12 The additional lot which is the subject of the financing in Docket No. W-02370A-98-0750 is not  
13 readily saleable because it is too close to the Company's main well which prevents a prospective lot  
14 owner from securing health department approval to construct a septic tank for the property.

15 19. The lot in question is owned by a trust of which Mr. Levie is a beneficiary.

16 20. If the lot were able to be built upon, it would be worth \$12,000, but because of the  
17 construction problem an arbitrary value of \$9,000 was assigned to the lot.

18 21. Staff reviewed the transaction surrounding the lot in question and determined that it  
19 was purchased in 1980 as part of a group of 189 lots and had a purchase price of approximately \$405.

20 22. Because the lot is not readily saleable for building purposes, Staff calculated an annual  
21 return of ten percent per annum compounded annually on the purchase price of the lot and  
22 determined that its 1999 value is only \$2,476 when utilizing the original cost and a ten percent return.

23 23. Staff opined that the Company should pay no more than \$3,000 for the lot because of  
24 the aforementioned factors, but believes it would be a "worthwhile investment for future growth and  
25 for the protection of its main well's integrity...." If Applicant purchases the lot, a future lot owner  
26 would be precluded from building on the lot and illegally placing a septic tank too close to the  
27 Company's main well.

28 24. Staff recommends that the Commission approve the purchase of the lot at a cost not to

1 exceed \$3,000 at ten percent interest and payable over five years instead of ten years as requested by  
2 the Company.

3 25. According to Staff, the Company experienced a \$3,441 operating loss for the year  
4 ended December 31, 1996.

5 26. However, by the end of 1997, Applicant had \$34,481 in operating income due in large  
6 part to a \$20,000 increase in operating revenues and a decrease in operation and maintenance  
7 expenses. Applicant has been experiencing customer growth averaging 14 percent per year.

8 27. Although Staff found Applicant had been carrying excessive short-term debt without  
9 the Commission's approval, as of March 1999, the Company indicates that it no longer has any short-  
10 term debt.

11 28. With the adoption of Staff's recommendations, Applicant's capital structure including  
12 the recommended financing for the 1998 Ford Ranger truck and \$3,000 for the adjacent lot, would be  
13 only minimally effected. As a result of the removal of the unauthorized long-term debt, Applicant's  
14 long-term debt would decrease to 44.7 percent from 46.4 percent and equity would increase from  
15 53.6 percent to 55.3 percent.

16 29. Staff concludes that after reviewing Applicant's ability to service its debt that the  
17 Company's Times Interest Earned Ratio ("TIER") and its Debt Service Coverage ("DSC") are both  
18 strong after the removal of the short-term debt and are reflected by a TIER of 3.03 and its DSC of  
19 2.71.<sup>4</sup>

20 30. After our review of these applications, we believe that \$11,287 for the 1998 Ford  
21 Ranger truck and \$3,000 for the adjacent lot are appropriate forms of long-term debt for Applicant  
22 and that said sums are reasonable and prudent amounts at the terms and conditions recommended by  
23 Staff. Additionally, the Company should file copies of all executed loan documents as soon as they  
24 are available and should not enter into any long-term financing agreements without prior Commission  
25 approval.

26 ...

27

28 <sup>4</sup> TIER and DSC of 1.50 and 1.25, respectively, are generally preferred as the minimum ratios necessary to service utility debt.

**CONCLUSIONS OF LAW**

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

4 2. The Commission has jurisdiction over Applicant and of the subject matter of the  
5 applications.

6 3. Notice of the applications was provided in the manner prescribed by law.

7 4. The Company's application with respect for long-term debt for the 1998 Ford Ranger  
8 truck should be approved in an amount not to exceed \$11,287 repayable at 8.25 percent for a period  
9 of five years.

10 5. The Company's application for long-term debt for the lot adjacent to its main well and  
11 storage facility should be approved in an amount not to exceed \$3,000 repayable at 10 percent  
12 interest per year for a period of five years.

13 6. The proposed long-term financings for \$11,287 and \$3,000 and subject to the  
14 recommended terms and conditions by Staff are for lawful purposes within Applicant's corpo-  
15 powers, are compatible with the public interest, with sound financial practices, and with the proper  
16 performance by Applicant of service as a public service corporation, and will not impair Applicant's  
17 ability to perform that service.

18 7. The financings approved herein are for the purposes stated in the applications and are  
19 reasonably necessary for those purposes, and such purposes are not wholly or in part reasonably  
20 chargeable to operating expenses or to income.

21 8. The Company's applications for long-term debt not to exceed \$11,287 and \$3,000,  
22 respectively, and subject to Staff's recommendations as to the terms and conditions should be  
23 summarily granted.

24 **ORDER**

25 IT IS THEREFORE ORDERED that Chino Meadows II Water Company, Inc. be, and the  
26 same hereby is, authorized to incur long-term debt as follows: in an amount not to exceed \$11,287 at  
27 no greater rate of interest than 8.25 percent per annum for a period of five years; and in an amc  
28 not to exceed \$3,000 at no greater rate of interest than ten percent per annum for a period of five

1 years.

2 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. is hereby  
3 authorized to engage in any transactions and to execute any documents necessary to effectuate the  
4 authorizations granted hereinabove.

5 IT IS FURTHER ORDERED that such authority shall be expressly contingent upon Chino  
6 Meadows II Water Company, Inc.'s use of the proceeds for the purposes set forth in the applications.

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

10 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. shall, in the  
11 future, not issue any long-term debt or other evidences of indebtedness without prior Commission  
12 approval.

13 ...

14 ...

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

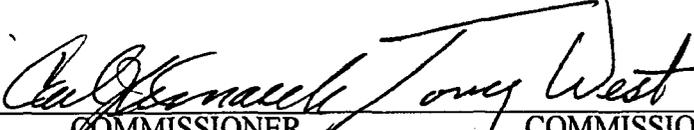
27 ...

28 ...

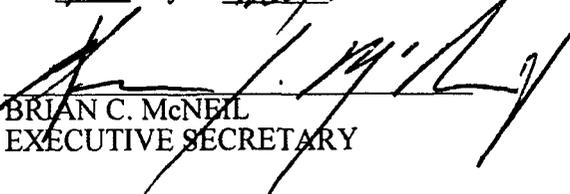
1 IT IS FURTHER ORDERED that Chino Meadows II Water Company, Inc. shall file, wit'  
2 30 days of finalization, with the Director of the Commission's Utilities Division a copy of all loan  
3 documents which set forth the terms of the long-term debt as approved herein if not previously filed.

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

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6  
7  
8  COMMISSIONER-CHAIRMAN  
9 COMMISSIONER COMMISSIONER  
10

11 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
12 Secretary of the Arizona Corporation Commission, have  
13 hereunto set my hand and caused the official seal of the  
14 Commission to be affixed at the Capitol, in the City of Phoenix,  
15 this 13<sup>th</sup> day of May, 1999.

16   
17 BRIAN C. McNEIL  
18 EXECUTIVE SECRETARY

19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100  
101  
102  
103  
104  
105  
106  
107  
108  
109  
110  
111  
112  
113  
114  
115  
116  
117  
118  
119  
120  
121  
122  
123  
124  
125  
126  
127  
128  
129  
130  
131  
132  
133  
134  
135  
136  
137  
138  
139  
140  
141  
142  
143  
144  
145  
146  
147  
148  
149  
150  
151  
152  
153  
154  
155  
156  
157  
158  
159  
160  
161  
162  
163  
164  
165  
166  
167  
168  
169  
170  
171  
172  
173  
174  
175  
176  
177  
178  
179  
180  
181  
182  
183  
184  
185  
186  
187  
188  
189  
190  
191  
192  
193  
194  
195  
196  
197  
198  
199  
200  
201  
202  
203  
204  
205  
206  
207  
208  
209  
210  
211  
212  
213  
214  
215  
216  
217  
218  
219  
220  
221  
222  
223  
224  
225  
226  
227  
228  
229  
230  
231  
232  
233  
234  
235  
236  
237  
238  
239  
240  
241  
242  
243  
244  
245  
246  
247  
248  
249  
250  
251  
252  
253  
254  
255  
256  
257  
258  
259  
260  
261  
262  
263  
264  
265  
266  
267  
268  
269  
270  
271  
272  
273  
274  
275  
276  
277  
278  
279  
280  
281  
282  
283  
284  
285  
286  
287  
288  
289  
290  
291  
292  
293  
294  
295  
296  
297  
298  
299  
300  
301  
302  
303  
304  
305  
306  
307  
308  
309  
310  
311  
312  
313  
314  
315  
316  
317  
318  
319  
320  
321  
322  
323  
324  
325  
326  
327  
328  
329  
330  
331  
332  
333  
334  
335  
336  
337  
338  
339  
340  
341  
342  
343  
344  
345  
346  
347  
348  
349  
350  
351  
352  
353  
354  
355  
356  
357  
358  
359  
360  
361  
362  
363  
364  
365  
366  
367  
368  
369  
370  
371  
372  
373  
374  
375  
376  
377  
378  
379  
380  
381  
382  
383  
384  
385  
386  
387  
388  
389  
390  
391  
392  
393  
394  
395  
396  
397  
398  
399  
400  
401  
402  
403  
404  
405  
406  
407  
408  
409  
410  
411  
412  
413  
414  
415  
416  
417  
418  
419  
420  
421  
422  
423  
424  
425  
426  
427  
428  
429  
430  
431  
432  
433  
434  
435  
436  
437  
438  
439  
440  
441  
442  
443  
444  
445  
446  
447  
448  
449  
450  
451  
452  
453  
454  
455  
456  
457  
458  
459  
460  
461  
462  
463  
464  
465  
466  
467  
468  
469  
470  
471  
472  
473  
474  
475  
476  
477  
478  
479  
480  
481  
482  
483  
484  
485  
486  
487  
488  
489  
490  
491  
492  
493  
494  
495  
496  
497  
498  
499  
500  
501  
502  
503  
504  
505  
506  
507  
508  
509  
510  
511  
512  
513  
514  
515  
516  
517  
518  
519  
520  
521  
522  
523  
524  
525  
526  
527  
528  
529  
530  
531  
532  
533  
534  
535  
536  
537  
538  
539  
540  
541  
542  
543  
544  
545  
546  
547  
548  
549  
550  
551  
552  
553  
554  
555  
556  
557  
558  
559  
560  
561  
562  
563  
564  
565  
566  
567  
568  
569  
570  
571  
572  
573  
574  
575  
576  
577  
578  
579  
580  
581  
582  
583  
584  
585  
586  
587  
588  
589  
590  
591  
592  
593  
594  
595  
596  
597  
598  
599  
600  
601  
602  
603  
604  
605  
606  
607  
608  
609  
610  
611  
612  
613  
614  
615  
616  
617  
618  
619  
620  
621  
622  
623  
624  
625  
626  
627  
628  
629  
630  
631  
632  
633  
634  
635  
636  
637  
638  
639  
640  
641  
642  
643  
644  
645  
646  
647  
648  
649  
650  
651  
652  
653  
654  
655  
656  
657  
658  
659  
660  
661  
662  
663  
664  
665  
666  
667  
668  
669  
670  
671  
672  
673  
674  
675  
676  
677  
678  
679  
680  
681  
682  
683  
684  
685  
686  
687  
688  
689  
690  
691  
692  
693  
694  
695  
696  
697  
698  
699  
700  
701  
702  
703  
704  
705  
706  
707  
708  
709  
710  
711  
712  
713  
714  
715  
716  
717  
718  
719  
720  
721  
722  
723  
724  
725  
726  
727  
728  
729  
730  
731  
732  
733  
734  
735  
736  
737  
738  
739  
740  
741  
742  
743  
744  
745  
746  
747  
748  
749  
750  
751  
752  
753  
754  
755  
756  
757  
758  
759  
760  
761  
762  
763  
764  
765  
766  
767  
768  
769  
770  
771  
772  
773  
774  
775  
776  
777  
778  
779  
780  
781  
782  
783  
784  
785  
786  
787  
788  
789  
790  
791  
792  
793  
794  
795  
796  
797  
798  
799  
800  
801  
802  
803  
804  
805  
806  
807  
808  
809  
810  
811  
812  
813  
814  
815  
816  
817  
818  
819  
820  
821  
822  
823  
824  
825  
826  
827  
828  
829  
830  
831  
832  
833  
834  
835  
836  
837  
838  
839  
840  
841  
842  
843  
844  
845  
846  
847  
848  
849  
850  
851  
852  
853  
854  
855  
856  
857  
858  
859  
860  
861  
862  
863  
864  
865  
866  
867  
868  
869  
870  
871  
872  
873  
874  
875  
876  
877  
878  
879  
880  
881  
882  
883  
884  
885  
886  
887  
888  
889  
890  
891  
892  
893  
894  
895  
896  
897  
898  
899  
900  
901  
902  
903  
904  
905  
906  
907  
908  
909  
910  
911  
912  
913  
914  
915  
916  
917  
918  
919  
920  
921  
922  
923  
924  
925  
926  
927  
928  
929  
930  
931  
932  
933  
934  
935  
936  
937  
938  
939  
940  
941  
942  
943  
944  
945  
946  
947  
948  
949  
950  
951  
952  
953  
954  
955  
956  
957  
958  
959  
960  
961  
962  
963  
964  
965  
966  
967  
968  
969  
970  
971  
972  
973  
974  
975  
976  
977  
978  
979  
980  
981  
982  
983  
984  
985  
986  
987  
988  
989  
990  
991  
992  
993  
994  
995  
996  
997  
998  
999  
1000

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

SERVICE LIST FOR:

CHINO MEADOWS II WATER COMPANY, INC.

DOCKET NO.

W-02370A-98-0392 AND W-02370A-98-0750

Paul D. Levie, Vice President  
CHINO MEADOWS II WATER COMPANY, INC.  
P.O. Box 450  
Chino Valley, Arizona 86323

Paul Bullis, Chief Counsel  
Legal Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Director, Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007