

NEW APPLICATION



0000034821

RECEIVED

2000 NOV 22 P 3:43

BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION  
DOCUMENT CONTROL

CARL J. KUNASEK  
CHAIRMAN

JIM IRVIN  
COMMISSIONER

WILLIAM A. MUNDELL  
COMMISSIONER

IN THE MATTER OF THE APPLICATION ) DOCKET NO. W-02859A-00-0964  
OF DIVERSIFIED WATER UTILITIES, )  
INC., AN ARIZONA CORPORATION, FOR ) APPLICATION FOR APPROVAL  
AUTHORITY TO ISSUE DEBT. ) OF FINANCING  
)

Diversified Water Utilities, Inc. ("Applicant") pursuant to A.R.S. § 40-301, *et seq.*, seeks Arizona Corporation Commission ("Commission") authorization to issue up to Four Hundred Thirty-Seven Thousand Three Hundred Twenty-Eight Dollars and Thirty Cents (\$437,328.30) in long-term indebtedness with a combination of various lenders on the terms and conditions and for the purposes set forth below. This Application is supported by the following:

1. Applicant is an Arizona corporation authorized by the Commission to operate as a public service corporation providing water service to customers within its certificated area in Pinal County, Arizona.

2. Applicant's Board of Directors has authorized the Applicant to enter into Fifty Eight Thousand Four Hundred Twenty Eight Dollars and Thirty Cents (\$58,428.30) of long-term indebtedness with Skyline Vista Ranch, L.L.C., and Three Hundred Seventy-Eight Thousand Nine Hundred Dollars (\$378,900) with WIFA. A copy of the authorizing resolution is attached as Exhibit A.

1           3.     The financing will be used to make significant improvements to  
2 Applicant's system, including:

3           a)     Installing a twelve inch (12") and eight (8") interconnection and  
4 line extension along Skyline Road to enhance system reliability.  
5 This project has an estimated cost of One Hundred Thirty One  
6 Thousand One Hundred Nine Dollars and Thirty Cents  
7 (\$131,109.30) of which Seventy Two Thousand Six Hundred  
8 Eighty One Dollars (\$72,681) is funded as an advance and the  
9 remaining \$58,428.30 is to be financed as a loan;

10           b)     Installing up to 250,000 gallons of storage, and developing a new  
11 well by either refurbishing an existing irrigation well or drilling a  
12 new well. The storage and well are estimated to cost Three  
13 Hundred Seventy-Eight Thousand Nine Hundred Dollars  
14 (\$378,900) all as more fully set forth in Exhibit B attached here to  
15 and incorporated herein by this reference.  
16

17           4.     Skyline Vista Ranch, L.L.C., has indicated it is willing to lend  
18 Applicant Fifty Eight Thousand Four Hundred Twenty Eight Dollars and Thirty Cents  
19 (\$58,428.30) over a five (5) year term at an annual interest rate of eight percent (8%)  
20 which is less than the current prime rate. A copy of the Promissory Note is attached as  
21 Exhibit C.  
22

23           5.     WIFA has ranked Applicant as 25<sup>th</sup> and in the fundable range for a  
24 loan of up to \$378,900 to fund the well and storage tank. Although the exact proposed  
25

26

1 terms and conditions are not currently known to Applicant, it is anticipated the loan will  
2 be payable over a period of up to twenty (20) years, at an interest rate to be determined at  
3 funding, estimated at 70% of prime.  
4

5 6. Copies of a compilation of Applicant's statement of assets, liabilities  
6 and equities as of December 31, 1999 and the related statement of revenue and expenses  
7 as prepared by Ullmann & Company, P.L.C. are attached as Exhibit D.

8 7. The execution of the necessary documents to effectuate the loans in a  
9 total amount not to exceed Four Hundred Thirty-Seven Thousand Three Hundred Twenty  
10 Eight Dollars and Thirty Cents (\$437,238.30) is for lawful purposes which are within the  
11 corporate powers of Applicant, are compatible with the public interest, with sound  
12 financial practices, and with the proper performance of Applicant of service as a public  
13 service corporation and will not impair Applicant's ability to perform that service.  
14

15 8. Applicant proposes to give notice of this application by publishing  
16 Public Notice, in the form attached hereto as Exhibit E, once in a newspaper of general  
17 circulation available to customers within Applicant's certificated area. The Applicant  
18 requests this form of notice be approved by the Commission.

19 WHEREFORE, Diversified Water Utilities, Inc. respectfully requests the  
20 Commission enter its order:

- 21 1. Authorizing the form of Public Notice proposed above;
- 22 2. Authorizing Applicant to execute promissory notes and related  
23 agreements with Skyline Vista Ranch, L.L.C., in the amount of \$58,428.30 at a rate of  
24 interest of 8% per annum with 60 monthly payments of \$1,184.72;  
25

26

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

3. Authorizing Applicant to execute promissory notes and related agreements with WIFA in the cumulative amount not to exceed Three Hundred Twenty-Eight Thousand Nine Hundred Dollars (\$328,900) on the terms and for the purposes set forth above; and

4. Granting such other relief as the Commission deems appropriate under the circumstances.

DATED this 22nd day of November, 2000.

By:   
William P. Sullivan  
2712 North Seventh Street  
Phoenix, Arizona 85006-1090  
(602) 248-0372

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

**PROOF OF AND  
CERTIFICATE OF MAILING**

I HEREBY CERTIFY that on this 22nd day of November, 2000, I caused the foregoing document to be served on the Arizona Corporation Commission by delivering the original and ten (10) copies of the above to:

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007



1620\4\documents\financing app.2000

**EXHIBIT A**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF DIVERSIFIED WATER UTILITIES, INC.**

WHEREAS, Diversified Water Utilities, Inc. has identified miscellaneous improvements, upgrades and additions needed to enhance system reliability, including (1) oversizing the Skyline Road line extension; and (2) developing a new storage and water source, all as more fully set forth in the application prepared for submittal to the Water Infrastructure Financing Authority ("WIFA");

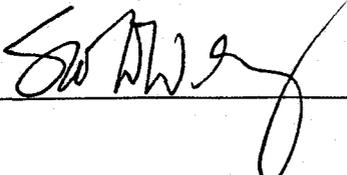
WHEREAS, the total costs for the foregoing projects are estimated at \$ 437,328.30;

WHEREAS, the Board of Directors deems it appropriate for Diversified Water Utilities, Inc. to secure funding from Skyline Vista Ranch, L.L.C. for parts, materials and engineering related to the Skyline Road water line improvements in the amount of \$58,428.30 over 60 months at an interest rate of 8% per annum and from WIFA and/or other sources, for the storage tank and well improvements in an amount not to exceed \$378,900.00 for a term not to exceed twenty (20) years at the most favorable interest rate available, but not exceeding prime, plus two percent (2%) per annum;

BE IT THEREFORE RESOLVED, that the undersigned, being all of the Board of Directors of Diversified Water Utilities, Inc., do hereby authorize the President of Diversified Water Utilities, Inc., to execute the documentation necessary or appropriate to apply for and thereafter enter into a loan or loans with Skyline Vista Ranches, L.L.C. in the amount of \$58,428.30 and with WIFA and/or other sources, for up to \$378,900.00 on the terms and for the purposes outlined above, subject to receiving Arizona Corporation Commission authorization to secure such indebtedness.

BE IT FURTHER RESOLVED, that the President be, and is hereby authorized, to take any and all action necessary or appropriate to obtain authorization from the Arizona Corporation Commission for Diversified Water Utilities, Inc. to enter into said loans.

Dated this 27<sup>th</sup> day of July, 2000.

  
\_\_\_\_\_

## EXHIBIT B

# Project Description Diversified Water Utilities, Inc. Water System Improvements

This water system is located in Pinal County in the southeast  $\frac{1}{4}$  of Section 2, Township 3 South, Range 8 East. The project site is located 300 yards south of Combs Road and Ghost rider Road in Pinal County, Arizona and has been the subject of significant and numerous difficulties and ADEQ violations as set forth in the attached summary. The project is for the correction of water storage and water production short falls and adds an additional storage tank and additional well to correct the ADEQ violations.

### Storage Requirements

The water storage requirements for this system per the Arizona Administrative Code, Title 18, Chapter 4, Section R18-4-503 are "average daily demand during the peak month of the year". Based on the water usage records provided by Diversified Water Utilities, Inc. the highest monthly usage within the last year was 1,482,830 gallons in July of 1999. This equates to a daily usage of approximately 48,000 gallons. The current storage tank is a 20,000 gallon tank and therefore an additional 28,000 gallons of storage is needed immediately.

Significant lot splitting activity has occurred in the service area, which has resulted in additional storage requirements that are not met by the water system. Thus, the company requires the addition of a 250,000 gallon water storage tank to ensure the health, safety, and viability of the water system. The project also entails the purchase and installation of a hydropneumatic storage tank and booster pumps to achieve system pressure. In addition, appropriate electrical service and control equipment must be provided.

### Production Requirements

In order to better serve the users in emergency situations and to meet guidelines for an emergency operations plan as set forth in per the Arizona Administrative Code, Title 18, Chapter 4, Section R18-4-116, an alternate water source is required. This additional well serve as the alternate water source in emergency situations and provide for ease of operation during periods of maintenance and repair.

### Professional Engineering Services

Professional engineering services are required to complete this project as described. The expected service include securing an Approval to Construct from ADEQ with its attendant design report, preparation of engineering plans and specifications, and sufficient construction administration and inspection to insure the specifications are met. The probable services include preparation of the operation & maintenance manual, a hydrogeologic study to site the new well, a geotechnical investigation for the tank foundation design, and a survey to establish the well site and prepare suitable plans.

**SUNRISE ENGINEERING, INC.**

3660 East University Drive, Suite 2  
 Mesa, Arizona 85205  
 Tel: (480) 832-4420 Fax: (480) 830-4150  
 E-mail: mesa@sunrise-eng.com

Engineers Preliminary Cost Estimate

Project: New Water Storage Tank  
 Owner: Diversified Water Improvement District

Date: 7/21/00  
 Estimate By: Husk  
 Filename: Cost Est.xls

No.	Item Description	Quantity	Unit	Unit Price	Amount
1	<u>CONSTRUCTION COSTS</u>				
2	250K gallon water storage tank	1	LS	\$95,000.00	\$95,000.00
3	Site Grading	1	LS	\$4,000.00	\$4,000.00
4	Mechanical piping	1	LS	\$7,500.00	\$7,500.00
5	Hydropneumatic tank	1	LS	\$15,000.00	\$15,000.00
6	Well Drilling	1	LS	\$100,000.00	\$100,000.00
7	Booster Pumps	1	LS	\$15,000.00	\$15,000.00
8	Fencing	1	LS	\$5,000.00	\$5,000.00
9	New controls/electrical	1	LS	\$20,000.00	\$20,000.00
10		<b>Subtotal Construction</b>			<b>\$261,500.00</b>
11		Contingency @ 15%			\$39,200.00
12		<b>TOTAL CONSTRUCTION COST</b>			<b>\$300,700.00</b>
13					
14					
15	<u>INCIDENTAL COSTS</u>				
16	ADEQ Approval to Construct				\$3,000.00
17	Engineering Plans, Specifications and Bidding				\$24,100.00
18	Credit for 250K Storage Tank Plans				(\$7,500.00)
18	Construction Administration, Inspection, Testing & Staking				\$24,100.00
19	Additional Services - O&M Manual, Geotechnical Study.				\$23,000.00
20	Survey for Well Site, Hydrologic Study & Testing.				
21	WIFA Loan Application				\$1,500.00
22	Printing and Publishing				\$0.00
23					
24		<b>Subtotal Incidentals</b>			<b>\$68,200.00</b>
25					
26					
27	<u>ADDITIONAL COSTS</u>				
28	Land acquisition				\$10,000.00
29	Water Quality Testing				\$5,000.00
30					
31					
32		<b>PROJECT GRAND TOTAL</b>			<b>\$ 378,900.00</b>
33					
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
46					
47					
48					

## EXHIBIT C

### AGREEMENT AND PROMISSORY NOTE

Diversified Water Utilities, Inc., an Arizona corporation ("Diversified"), is a provider of domestic water in accordance with Arizona Corporation Commission laws and regulations.

Skyline Vista Ranch, L.L.C., an Arizona limited liability company ("Skyline"), is the owner of subdivided property known as Skyline Vista Ranch (the "Subdivision") in Pinal County, Arizona to be served by Diversified.

Diversified is further developing its water system, which includes service to the Subdivision, and is desirous of obtaining assistance in the funding of its expansion of Skyline Road.

Skyline is willing to provide certain financing in conjunction with the obtaining of water pipes, valves and other water line materials ("Materials") and the installation of same.

The total monies to be paid by Skyline and repaid by Diversified are, subject to final variations based on actual costs, the sum of \$58,428.30 for parts, materials and engineering.

Diversified, for value received, hereby promises to pay to the order of Skyline the sum of \$58,428.30 (subject to the above referred to possible adjustment) at Phoenix, Arizona as designated by Skyline, together with interest at the rate of eight percent (8%) per annum as follows:

The sum of \$58,428.30 shall bear interest from the date this loan is approved by the Arizona Corporation Commission and shall be payable, principal and interest, in 60 equal monthly installments of One Thousand One Hundred Eighty Four Dollars and Seventy Two Cents (\$1,184.72) with the first payment due the first day of the month following the Arizona Corporation Commission's approval of this loan, or May 1, 2001, whichever is later, and subsequent installments on each monthly anniversary date thereafter until paid.

Diversified shall have the right to prepay this obligation, in part or whole, at any time without penalty.

Upon default of Diversified in making any payment due under this Note, within 15 days after written notice of delinquency, the principal balance and accrued interest shall, at the option of the holder, in addition to any other rights of the holder, and without notice, be declared immediately all due and payable, and further, bear interest at the rate of twelve percent (12%) per annum, while any default exists under this Note.

The undersigned and any endorsers, guarantors or sureties on this Note and all other persons who may become liable for the payment hereof, do hereby severally waive presentment and demand for payment, notice of nonpayment, protest, notice of protest, and any and all lack of diligence or delays in collection which may occur.

This Note is unsecured, and is subject to approval of the Arizona Corporation Commission, Utilities Division, as a precondition to the indebtedness of Diversified.

Any notice to be sent to Diversified shall be deemed received, when received if by personal delivery, or 48 hours after deposit, postage prepaid, with the U.S. Postal Service.

SKYLINE VISTA RANCH, L.L.C.

DIVERSIFIED WATER UTILITIES, INC.

By: \_\_\_\_\_

By: \_\_\_\_\_

Address: Post Office Box 17357  
Phoenix, Arizona 85011

 **ULLMANN  
& COMPANY P.L.C.**  
Certified Public Accountants

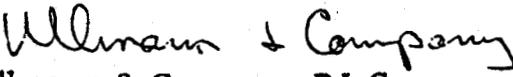
To The Board of Directors  
Diversified Water Utilities, Inc.  
Phoenix, Arizona

We have compiled the accompanying statement of assets, liabilities and equity - modified accrual basis of Diversified Water Utilities, Inc. (a corporation) as of December 31, 1999 and the related statement of revenue and expenses - modified accrual basis for the year then ended, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the modified accrual basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the modified accrual basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's assets, liabilities, equity, revenue and expenses. Accordingly, these financial statements are not designed for those who are not informed about such matters.

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

  
Ullmann & Company, P.L.C.  
Certified Public Accountants

April 18, 2000

**Diversified Water Utilities, Inc.**  
**Statement of Assets, Liabilities and Equity**  
**Modified Accrual Basis**

Dec 31, '99

<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
Cash - Checking	2,260.80
<b>Total Checking/Savings</b>	2,260.80
<b>Other Current Assets</b>	
Accounts Receivable	13,651.06
<b>Total Other Current Assets</b>	13,651.06
<b>Total Current Assets</b>	15,911.86
<b>Fixed Assets</b>	
Plant in Service	
Land	3,200.00
Structures & Improvements	1,123.48
Wells & Springs	79,969.32
Pumping Equipment	42,311.09
Distribution Reservoirs	34,438.63
T&D Mains	22,227.23
Services	17,550.65
Meters	24,513.77
<b>Total Plant in Service</b>	225,334.17
Accumulated Depreciation	(57,698.00)
<b>Total Fixed Assets</b>	167,636.17
<b>TOTAL ASSETS</b>	183,548.03
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Other Current Liabilities</b>	
Accounts Payable	6,955.00
Due to Shareholder	65,617.76
Note Payable - Harris Trust	30,437.00
Note Payable - MBNA	10,748.33
Note Payable - First USA	4,737.65
Customer Deposits	5,590.00
Accrued Payroll Taxes	11,472.26
Sales Tax Payable	1,179.63
<b>Total Other Current Liabilities</b>	136,737.63
<b>Total Current Liabilities</b>	136,737.63
<b>Long Term Liabilities</b>	
Refundable Meter Deposits	68,542.00
<b>Total Long Term Liabilities</b>	68,542.00
<b>Total Liabilities</b>	205,279.63
<b>Equity</b>	
Common Stock	2,000.00
Retained Earnings	(22,019.27)
Net Income	(1,712.33)
<b>Total Equity</b>	(21,731.60)
<b>TOTAL LIABILITIES &amp; EQUITY</b>	183,548.03

**Diversified Water Utilities, Inc.**  
**Statement of Revenue and Expenses**  
**Modified Accrual Basis**

	<u>Jan - Dec '99</u>
<b>Ordinary Income/Expense</b>	
<b>Income</b>	
Water Revenue	90,159.92
Sales Tax	(5,723.72)
Other Revenue	9,552.00
<b>Total Income</b>	<u>93,988.20</u>
<b>Expense</b>	
Depreciation Expense	7,908.00
Property Taxes	940.68
Payroll Taxes	2,754.00
Officer Salaries	36,000.00
Purchased Power	6,369.78
Repairs & Maintenance	675.61
Billing Fees	6,252.91
Legal & Professional	8,910.22
Testing	5,085.60
Rents	4,800.00
Transportation	4,186.24
Insurance	976.00
Bank Charges	4.68
Miscellaneous	1,530.06
Office Expense	2,179.84
Telephone	1,101.25
Licenses & Fees	665.00
<b>Total Expense</b>	<u>90,339.87</u>
<b>Net Ordinary Income</b>	3,648.33
<b>Other Income/Expense</b>	
Other Expense	
Interest Expense	5,360.66
<b>Total Other Expense</b>	<u>5,360.66</u>
<b>Net Other Income</b>	(5,360.66)
<b>Net Income</b>	<u><u>(1,712.33)</u></u>

## EXHIBIT E

### PUBLIC NOTICE OF APPLICATION FOR APPROVAL OF FINANCING BY DIVERSIFIED WATER UTILITIES, INC.

Diversified Water Utilities, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue \$ 437,328.30 in debt to make improvements to its water system. The application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices in Phoenix, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and which, at a minimum shall contain the following information:

1. The name, address and telephone of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15<sup>th</sup> day after this notice.