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ORIGINAL

MEMORANDUM

RECEIVED

2002 OCT 24 P 2:57

AZ CORP COMMISSION
DOCUMENT CONTROL

TO: Ron Ludders
Utilities Division

FROM: Jim Fisher
Utilities Division

DATE: October 24, 2002

RE: Cibola Mutual Water Company - Docket No. W-04106A-02-0312
Copy of Loan Documents from USDA

Attached you will find a copy of Cibola Mutual Water Company's Loan Documentation with the USDA.

My review of the documents indicates they provide pro forma customer, customer usage, and proposed rate information to support the loan request.

It is my belief that this information could assist your group formulate recommendations for the Application.

Arizona Corporation Commission
DOCKETED
OCT 24 2002
DOCKETED BY *CA*

USDA-RD

Form RD 1942-45
(Automated 8-97)

Position 1

**PROJECT SUMMARY - WATER AND WASTE DISPOSAL
AND OTHER UTILITY-TYPE PROJECTS**

(direct) (Guaranteed)

Case Number
2 26 860994635

A. APPLICANT/BORROWER:

Name: **Cibola Mutual Water Company** Address: **Route 2, Box 77 Cibola**

State: **AZ** County: **La Paz** Zip Code: **85328** Congressional District: **3**

Tax-Exempt Public Body Corporation Non-Profit Indian Tribe Other **Cooperative**

B. SERVICE TO BE PROVIDED Domestic Water Sewage Collection Sewage Treatment
 Solid Waste Disposal Storm Drainage Other

C. RD LOAN/GUARANTEED LOAN

Direct Loan Interest Rate **4.5000%** Repayment **40** Years Guaranteed Loan Interest rate _____
Type Interest: Poverty Intermediate Market Fixed
Deferred Principal Payment **1** Years Variable
Maximum Repayment Period Authorized by State Law **40** Percent of Guarantee _____

D. SECURITY: (Check the appropriate item(s))

General Obligation Bonds-Amount _____ Special Assessments-Amount _____
 Revenue Bonds-Amount _____ Notes-Amount **\$ 238,000**
 Statutory Lien _____ Assignment of Income _____
 Real Estate **2.00** acres **238000** mortgage Other (Explain) _____
 Chattel Mortgage or Financing Statement

E. LAND AND RIGHTS:

	Fee Simple	Lease	Purchase Price	Present Market Value
To be acquired: (Acres)		2.00		
Now owned: (Acres)				

Describe other rights: (such as water rights or rights-of-way)
See attached.

F. DEVELOPMENT COST SUMMARY (Total Project Cost): (Identify source in columns (C), (D) & (E))

(A) Item	(B) Applicant Contribution	Other (C) Funds	Other (D) Funds	Other (E) Funds	USDA (F) Grants	USDA (G) Loan	Total Project (H) Cost
1. Water				396,460	507,540	200,000	\$1,104,000
2. Sewage Collection							\$0
3. Sewage Treatment							
4. Solid Waste							
5. Storm Drainage							
6. Other							
7. TOTALS	\$0	\$0	\$0	\$396,460	\$507,540	\$200,000	\$1,104,000
Source				Colonia			

REVISED 06/20/2001

G. BRIEF DESCRIPTION OF PROPOSED FACILITY AND EXISTING FACILITIES WHICH ARE TO BE USED IN CONNECTION WITH PROPOSED SYSTEM (Include estimated present market value for existing system): (Describe)

This system would take water from the Colorado River, process it through a treatment plant, provide storage and distribution to the residents of rural Cibola. This community has approximately 115 dwellings and the potential for about 200. The Colorado River water has been allocated for domestic use for many years.

There is no delivery system at present and the few wells provide unusable water.

H. USER CONSIDERATION:

	Before Improvement (Existing Systems Only)		After Improvement (First Full Year of Operation)		After Improvement (Extensions/Additions only) (First Full Year of Operation)	
	Water	Waste	Water	Waste	Water	Waste
(A) Total Number of Users						
(1) Residential Users			115			
(2) Other Users (Based on Equivalent Dwelling Units) (EDU)						
(3) Total Equivalent Users(EDU) (Sum of 1 and 2)			115			
(4) RD Debt Per EDU			\$1,739			
(5) Total Debt Per EDU			\$1,739			
(B) Residential Users						
(1) Minimum Monthly User Cost			\$26.00			
(2) Average Monthly User Cost			\$33.19			
(a) User Fees			\$25.29			
(b) Tax Assessments						
(c) General Obligation Bonds			\$7.90			
(3) Average Monthly User Cost for similar Systems			\$27.00			
(4) Connection Fees and Other Charges Per User			\$450.00			

* REVISION 6/19/2001

I. REVENUE PROJECTION:

1. Basis for Annual Income Estimate:

Rate Schedule:

(A) Residential size service

Minimum bill	\$26.00	for	1	gallons	
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Over	1	gallons for \$	1.20	per	1,000

(B) Other

Minimum bill	\$26.00	for	1*	gallons	
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Next		gallons for \$		per	gallons
Over	1	gallons for \$	1.20	per	1,000

* REVISION 06/19/2001

Income Estimate:

(C) Residential size service:

60	users @	3,000	gallons @ \$	29.60	per user = \$	1,775.93	monthly
29	users @	6,500	gallons @ \$	33.80	per user = \$	980.17	monthly
26	users @	11,000	gallons @ \$	39.20	per user = \$	1,019.17	monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
Total = \$		3,775.26	monthly X 12 = \$	45,303.14	annually		

(C) Other:

	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
	users @		gallons @ \$		per user = \$		monthly
Total = \$			monthly X 12 = \$		annually		

Total Income (Residential & Other) = \$ 3,775.26 monthly X 12 = \$ 45,303.14 annually

J. CASH FLOW SUMMARY:

	After Improvements (First Full Year of Operations)		After Improvements (Extensions/Additions only) (First Full Year of Operations)	
	Water	Waste	Water	Waste
Total Annual Revenue	\$49,803			
(a) O & M Costs (Less Depreciation)	\$34,900			
(b) Capital Improvements	\$1,500			
(c) Debt Service	\$10,896			
(d) Reserve	\$1,092			
(e) Other				
Total Annual Costs	\$48,388			
Balance Available (Revenue Minus Costs)	\$1,415			

K. GENERAL OBLIGATION BONDING CAPACITY:

Total Capacity \$ _____ Amount Unobligated \$ _____
 Planned use of any amount unobligated _____

L. EXISTING LONG-TERM INDEBTEDNESS NOT TO BE REFINANCED:

(A) Owed to	(B) Purpose	(C) Balance Owed	(D) Amort- ization Period	(E) Date Payment Duc	(F) Final Due Date	(G) Annual Payment	(H) Interest Rate	(I) Security
1. None								
2.								
3.								
4.								
5.								
6.								
TOTAL		\$0				\$0		

M. FACILITY CHARACTERISTICS: (Planned Project):

1. a. Population served by project 500 c. Total possible users in the service area 200
 b. Median Household Income \$ 16,555 d. Statewide Nonmetropolitan
 Median Household Income \$ 24,737

2. Water Supply System:
 Water Source: Well Spring Stream Impoundment Purchase

Adequacy: good

Quality Good when treated

If being purchased, give cost per 1,000 gallons: \$ _____

3. Type of Sewage Stabilization Lagoon Aerated Lagoon Mechanical Plant
 Land Treatment Treatment by Contract Other _____

If Sewage Treatment is by Contract, Give Cost: _____

4. Method of Disposing of Solid Waste: County transfer station

If Solid Waste Disposal is by Contract, Give Cost: in taxes

5. Type of Users
 Number of Residential Users in the Service Area:

White, Not of Hispanic Origin	Black, Not of Hispanic Origin	American Indian or Alaskan Native	Hispanic	Asian or Pacific Islander	TOTAL
34		8	68	5	115

N. APPLICANT REPRESENTATIVES:

President, Chairman, etc.: (Name and Title) DAVE GRUNDY
J.L. Woodland, President

Address: RR 2, Box 77, Cibola, AZ 85328

Phone No. (520) 857-4001 ³³⁹³

Contact Person: (Name and Title) Jack Woodland

Address: P.O. Box 6, Palo Verde, CA 92266

Phone No. (520) 857-4001

Bond Counsel: (Name) _____

Address: _____

Phone No. _____

Legal Counsel: (Name) Gerald Hunt

Address: 330 W. 24th Street, Yuma, AZ 85364

Phone No. (520) 783-0101

Architect/Engineer: (Name) Territorial Engineers, Inc., Charles K. Dewald, PE

Address: 1610 Riverview Dr, Suite 7, Bullhead City, AZ 85442

Phone No. (520) 758-7600

Financial Advisor: (Name) Sherwin Heaton

Address: 3150 Gopher Dr., Chino Valley, AZ 86323

Phone No. (520) 636-0494

O.	LENDER (Name) (Guaranteed loans only)	Percent of Guarantee Requested %
	Lender's Address _____	
	Contact Person _____	Telephone Number _____

1. If proposed lender is not a local lender, explain how such lender will make and service the loan:

2. Lender's financial interests in the borrower or vice versa: (If any conflict, explain)

3. Lender's plan for funding the loan

(1) Lender retains entire loan YES NO

(2) If lender plans to utilize secondary market for guaranteed portion of loan. (indicate by check)

Assignment , No. Assignments _____ ; Multi-Notes, No. of Notes _____ ; Participation

(3) Lender's plans for sale of unguaranteed portion through participation:

4. Has USDA guaranteed any program loan to this lender? YES NO
If, yes, comment on quality of loans previously submitted and adequacy of servicing by lender in carrying out his agreements.

5. How long has lender financed this borrower?

P. ENVIRONMENTAL REVIEW AND IMPACTS:

1. Form RD 1940-22 Completed (Categorical exclusion)?

3. Environmental impact statement required? Yes No

2. Form RD 1940-21 Completed (Class I assessment)?

If Yes

Class II Assessment?

Draft Statement Completed (Date) _____ Yes No

Public notification completed? Yes No

Final Statement Completed (Date) _____ Yes No

4. The following resource(s) apply to the assessment:

Floodplain _____ Wetland _____ Important Farm Land _____ Prime rangeland _____
Prime Forest Land _____ Archaeological Survey _____ Hazardous Waste _____
Sole Source Aquifer _____ Coastal Barrier _____ Historical Preservation _____
Endangered/Threatened Species _____

5. The environmental assessment or impact statement resulted in the selection of alternative courses of action other than that originally requested by the applicant: Yes No

6. The environmental assessment or impact statement resulted in a mitigation measures(s) being required: Yes No
If yes, summarize:

Q. DOES THE APPLICANT HAVE A WORKABLE PLAN FOR:

1. Collection of Delinquent Accounts: Yes No

2. Establishing Records and Maintaining Management and Audit Reports: Yes No

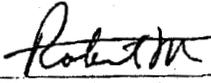
3. Facility Maintenance: Yes No

4. Necessary Operator Training: Yes No

T. COMMUNITY OR COMMUNITY AND BUSINESS PROGRAMS CHIEF'S RECOMMENDATIONS:

06/29/2001

(Date)



(Community or Community and Business Programs Chief)

Copies of Form RD 442-7, "Operating Budget", and Form RD 1942-14, "Association Project Fund Analysis", must be attached to the Project Summary and are an integral part of the summary.

Project Summary - Water & Waste

Borrower : Cibola Mutual Water Company

District Director's Recommendations

I recommend approval of this project as a "Borrower Method" of construction with 75% grant and a small colonia grant to make the project affordable for this low income area. The area health hazard is that there is no potable water in the valley. There is no fire protection. This project would provide clean, sanitary and reliable water for the residents. The current source of water is hauling from Blythe or Palo Verde, CA 20 - 30 miles away by the individual families. Some low income families must take their water from the area irrigation ditches. This poses a risk from chemicals and biological substances harmful to humans. There are a few local wells which produce water unfit for even livestock consumption. Therefore, the best source of water is from the Colorado River with treatment. Advanced treatment is required to remove the high concentration of minerals and flora & fauna to make the water potable. This system is a new start up. Management is provided by J.L. Woodland with years of experience in advanced water treatment. The operator will be a person from the area who will participate in construction of the project. Oversight will be provided by Rural Community Assistance Corporation circuit rider and ASUA as needed.

No other credit is available as this is a brand new system with no assets or track record.

Financial feasibility is based on information from the Chloride Water facility in Mohave County with a nano filtration plant. Although it does not use the advanced water treatment methods of this design it is the nearest comparison available. The Operating budget takes into account the membership fees for the initial operating expenses. Construction time will spread the income over two accounting periods however the full years operating budget shows a positive cash flow.

The number of users has been verified by visual inspection and will be supported by User Agreements and a membership fee deposit prior to loan closing.

I recommend approval of this much needed project to provide water and fire protection to this rural, low income, colonia area.

111 United States
Department of
Agriculture



Rural
Development

Yuma Regional Office
2450 S. Main Ave., Suite 401
Yuma, AZ 85364
520/726-4707, FAX 520/341-1499
TDD 602/280-8705

June 29, 2001

FILE COPY

Cibola Mutual Water Company, Inc.
Jack L. Woodland, President
RR2, Box 77
Cibloa, AZ 85328

RE: Letter of Conditions -- Water Improvement Project

Dear Mr. Woodland:

This letter establishes the conditions which must be understood and agreed to by Cibola Mutual Water Company, Inc. (hereinafter referred to as Applicant) before further consideration may be given to the application for financial assistance on the Water Project. Any changes in project cost, source of funds, scope of services, or any other significant changes in the project or your organization must be reported to and approved by the United States Department of Agriculture -- Rural Development (USDA -- Rural Development) formerly Farmers Home Administration (FmHA) by written amendment to this letter. The actual agency that will make the loan and grant and will provide the financial assistance is the United States Department of Agriculture -- Rural Utilities Service (RUS). The USDA -- Rural Development mission area for Arizona however will administer the Water and Waste loan and grant programs for the RUS. To simplify all this, all references to making the loan and grant will be RUS. All references to administration of the loan and grant will be USDA -- Rural Development.

Any changes not approved by RUS shall be cause for discontinuing processing of the application. References to FmHA Instruction and FmHA forms are still included in this letter of conditions as the changes to the agency name have not been incorporated to this extent.

This letter is not to be considered as approval of the loan and grant application or as a representation as to the availability of funds. The docket may be completed on the basis of an RUS loan, grant and colonia grant not to exceed \$200,000, \$507,540 and \$396,460 respectively.

Med
If RUS makes the loan, a written request that the interest rate be the lower of the rate in effect at the time of loan approval or the time of loan closing has been incorporated into Form 1942-16. "Letter of Intent to Meet Conditions". The loan will be considered approved on the date a signed copy of Form FmHA 1940-1 - "Request for Obligation of Funds", is mailed to you.

Please complete and return the attached Form FmHA 1942-46 - "Letter of Intent to Meet Conditions", and Form 1940-1 - "Request for Obligation of Funds", if you desire that further consideration be given your application. Also, submit a schedule showing completion dates of

Rural Development is an Equal Opportunity Lender, Provider and Employer.

Complaints of discrimination should be sent to:

USDA -- Rural Development, Director, Office of Civil Rights, 326-W Whitten Bldg., Washington, D.C. 20250-0410



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the final plans and specifications and a schedule for completion of the final bidding documents, start of construction and project completion.

The completion and execution of these forms, or any other form required by RUS, must be authorized by an appropriate resolution.

Please complete and return the attached Form FmHA 1942-46 - "Letter of Intent to Meet Conditions", for both the loan and grant if you desire that further consideration be given your application. The "Letter of Intent ..." must be executed within three (3) weeks from the date of this letter or it becomes invalid, unless a time extension is granted by USDA -- Rural Development.

If conditions set forth in this letter are not met within 150 days from the date hereon, RUS reserves the right to discontinue processing the application.

In signing Form FmHA 1942-46 - "Letter of Intent to Meet Conditions", you are agreeing to the following:

1. REPAYMENT SCHEDULE

The Loan will be scheduled for repayment over a period not to exceed 40 years from the date of the "Promissory Note". The interest rate will be the at 4.500 percent or at the rate in effect at the time of loan closing, which ever is lower. The first monthly principal and interest payment will be deferred for one year from the date of the promissory note. The amortized payment will be in the approximate amount of \$908.00 per month. The interest and principal payments will be made on the due dates to the USDA -- Rural Development by participating in the pre-authorized debit (PAD) payment process. It will allow for your payment to be electronically debited from your account on the day your payment is due. A PAD authorization form is attached for your signature.

2. PROJECT FUNDING

Loan and grant funds will be used as follows:

PURPOSE	RUS LOAN	COLONIA GRANT	RUS GRANT	TOTALS
Development	\$ 75,000	\$ 396,460	\$ 387,120	\$ 858,580
Engineering	100,000	- 0 -	47,080	147,080
Legal	25,000	- 0 -	25,000	50,000
Contingency	- 0 -	- 0 -	48,340	48,340
TOTAL	\$ 200,000	\$ 396,460	\$ 507,540	\$ 1,104,000

3. PRIORITY OF FUNDING EXPENDITURES

A. Attached is a copy of RUS Bulletin 1780-12 - "Water and Waste System Grant Agreement" for your review. The Applicant will be required to execute a completed form at the time of grant closing



B. The Applicant contribution shall be considered as the first funds expended. Loan funds shall be considered as the second funds expended. After providing for all authorized costs, any remaining USDA -- Rural Development project funds will be considered grant funds and refunded to USDA -- Rural Development. If the amount of unused USDA -- Rural Development project funds exceeds the USDA -- Rural Development grant, that part would be USDA -- Rural Development loan funds.

4. NUMBER OF USERS

Wash
The Applicant must certify that there will be at least 115 equivalent dwelling units prior to loan closing. The number of users will be verified by USDA -- Rural Development prior to advertising for construction bids. RUS Instruction 1780.39 (c) user estimates will apply with respect to new users cash contributions. A minimum user deposit in the amount of \$398.00 will be placed in escrow for each user prior to loan closing. Applicant must provide a positive program to encourage connection by all users as soon as service is available. A public meeting shall be held prior to loan closing with the prospective users to notify them of this requirement and to explain the details of the water system project. A representative of Rural Development must be present at this meeting.

5. RATES AND CHARGES

Use of water must be monitored through the use of individual metering devices. Rates and Charges must be adequate to meet the cost of maintaining and operating the system and meeting the required debt and reserve payment requirements. The minimum user rate that may be charged to pay operating and maintenance and debt service is shown on Exhibit A with a minimum charge of \$26. An enforceable water usage agreement will be obtained from each user. RUS Bulletin 1780-9, "Water Users Agreement" or similar form can be used for this agreement. The water rates must be approved by the Arizona Corporation Commission (ACC) prior to loan closing.

6. SECURITY REQUIREMENTS

Security for repayment of the loan will consist of the following:

- A. Form FmHA 440-22, "Promissory Note".
- B. An "Assignment of Income and Assessments", (sample copy attached).
- C. RUS Bulletin 1780-28, "Loan Resolution Security Agreement", (copy attached), will be signed at loan closing. This form repeats some covenants contained in this Letter of Conditions, as well as establishing several additional requirements. The Applicant should carefully review this document and if questions arise, should contact USDA -- Rural Development for clarification before its adoption. A copy of the Applicant Board Resolutions authorizing the execution of the necessary closing documents will be



attached thereto. The opinion of your Attorney as to the legal validity of the Instruments will be required.

D. Attached is a copy of Form FmHA 1942-31, "Association Water or Sewer System Grant Agreement", for your review. The Applicant will be required to execute a completed form at the time of grant closing.

E. A first lien position secured by a Deed of Trust on the land and facilities presently owned and to be acquired by the Applicant for this project. The Applicant will provide a title status report as assurance that this security requirement can be met. The Applicant will provide an ALTA Lenders policy in an amount equal to the loan of \$200,000.

F. Form FmHA 440-25, "Financing Statement", and Form FmHA 440-4, "Security Agreement" will be executed at loan closing.

G. Additional security requirements may be required by our Office of General Counsel which must be met.

The completion and execution of these forms or any other forms required by USDA -- Rural Development must be authorized by an appropriate Board Resolution.

7. ORGANIZATION

The Applicant will furnish documentation regarding organization and that it includes the legal authority under Arizona Revised Statutes necessary for construction, operating, and maintaining the proposed facility and for obtaining, giving security for, and repaying the proposed loan.

8. BUSINESS OPERATION

A. Management reports, financial information and audits will be provided as outlined in Section 1780.47 of RUS Instruction 1780, (copy attached). In summary, 1) a budget must be established annually and adopted by the Applicant after review by USDA -- Rural Development, 2) schedule 1 on Form FmHA 442-2, "Statement of Budget, Income and Equity", will be submitted at the end of each fiscal year, schedules 1 & 2 will be completed along with a list of the names and addresses of all members of the governing body, (3) an annual audit will be required under OMB Circular A-133 for the first year that Federal Funds are received. These will be sent to the USDA -- Rural Development State Office in Phoenix, AZ. USDA -- Rural Development must review and approve the Auditing Agreement prior to loan closing.

B. A Reserve Account will be established in an amount equal to 10% of each monthly payment so that by the end of 10 years one full year of installments will have been accrued. This reserve will be maintained throughout the life of the loan, except that it may be used for emergency purposes when approved by the USDA -- Rural Development.

Handwritten initials

Handwritten initials

Handwritten initials



C. At no later than loan closing, the Applicant will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, miscellaneous services, billing, collection, bookkeeping, making and delivering required reports and audits. USDA -- Rural Development will review and approve the accounting system prior to loan closing.

D. Applicant shall utilize technical assistance program available through Rural Utilities Service (RUS).

E. Prior to loan closing, a written Operator Agreement with a qualified operator must be executed for concurrence by USDA -- Rural Development for \$750 per month for the initial start up period. The operator must meet the training requirements of ADEQ. The Agreement may be amended from time to time by the Applicant in accordance with good business practices to retain a good and qualified operator.

9. INSURANCE AND BONDING

A. Property Insurance. As provided in RUS Instruction 1780, Section 1780.39 (g), fire and extended coverage will be carried on all above ground structures, including the Applicant owned equipment, machinery, and furnishings housed therein. This includes pumps and electrical equipment, but it does not include water reservoirs, standpipes, elevated tanks, and other noncombustible materials used in treatment plants, clarification units and the like.

B. Workers Compensation. The Applicant will be required to carry suitable Workers Compensation Insurance for all its employees in accordance with applicable Arizona Laws.

C. Liability and Property Damage Insurance. The Applicant will be required to carry suitable insurance in an amount acceptable to USDA -- Rural Development. The insurance company must provide USDA -- Rural Development with a 10-day notice of cancellation.

D. Fidelity bonds. The Applicant will provide fidelity bond coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required by USDA -- Rural Development will normally approximate the total annual debt service requirements for the USDA -- Rural Development loans. Form FmHA 440-24, "Position Fidelity Schedule Bond" (copy attached) may be used.

E. Flood insurance. The Applicant will carry flood insurance on any above ground structures located in designated flood prone areas.

F. Insurance Approval by USDA -- Rural Development. The Applicant will be required on an annual basis to provide to this office evidence of the above insurance



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coverage(s). The proposed coverage must be approved in advance by USDA -- Rural Development.

10. OBTAINING ADEQUATE, CONTINUOUS, AND VALID RIGHTS-OF-WAY FOR THE CONSTRUCTION, OPERATION, AND MAINTENANCE OF ITS FACILITIES

The Applicant will submit the following documentary evidence to the USDA -- Rural Development, prior to advertising for construction bids:

A. A copy of the form of right-of-way instrument to be used if it differs from Form FmHA 442-20 - "Right-of-Way Easement" (copy attached). Rights-of-way with restrictive provisions should be accepted only in very unusual circumstances. Whenever the form of the instrument differs from Form FmHA 442-20 or contains special provisions that are required by either the Applicant or the grantor, copies of such instruments will be submitted to the USDA -- Rural Development for review prior to acceptance and recording. Either specific rights-of-way containing a centerline description of the rights-of-way, or general rights-of-way containing only a description of the tract or parcel of land affected may be used.

B. A certificate by a duly authorized official of the Applicant that it has obtained and presently holds adequate and sufficient legal title to all rights-of-way, permits, licenses, and other authorizations deemed necessary by the Applicant, its engineer and its attorney for an uninterrupted right-of-way for the construction, operation and maintenance of the facilities. Please use Form FmHA 442-21 - "Right-of-Way Certificate", (copy attached).

Need
C. An opinion of the Applicant's attorney relating to the adequacy and legal sufficiency of the rights-of-way covered by the "Right-of-Way Certificate" and the right-of-way map. Use Form FmHA 442-22 - "Opinion of Counsel Relative To Rights-of-Way" (copy attached), to the extent possible. Counsel for the Applicant is hereby advised that USDA --Rural Development requires written consent for the granting of easements across private land from prior lienholders. The Applicant will be responsible for obtaining all such documentation. This will be required on all planned construction.

Need
D. A right-of-way map showing the location of all structures, pipelines, ditches, and the like. When completed, the map should show that the rights-of-way are continuous with no gaps. Rights-of-way acquired by use or adverse possession will be shown by some distinctive color. This map will be prepared by the Applicant's engineer, and it will bear the signature of the engineer.

11. PLANNING AND PERFORMING DEVELOPMENT

A. The attached RUS Instruction 1780 Subpart C - "Planning, Designing, Bidding, Contracting, Constructing and Inspections", along with RUS Bulletins 13 and 14 outlines the policies for planning and developing essential water and waste facilities.



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B. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost as shown in Item 2, "Project Funding", of this letter. When this determination has been made, USDA -- Rural Development should be so advised by letter. The engineer may then proceed to develop final plans and specifications that must be approved in writing by the Arizona Department of Environmental Quality, and USDA -- Rural Development prior to advertising for bids.

C. The project shall not be advertised for construction bids until all easements and enforceable options have been obtained, final design and specifications have been approved by USDA -- Rural Development and total funds are committed or available for the project.

D. The following documents will be submitted to USDA -- Rural Development for review and must be concurred in by USDA -- Rural Development prior to advertisement for construction bids. Revision in these documents will be subject to USDA -- Rural Development concurrence.

1. Final plans and specifications.
2. Contract documents and bid documents, with the Applicant's letter on efforts to encourage small business and minority-owned business participation.
3. Legal Service Agreements.
4. Engineering Service Agreements.

E. Contracts will not be awarded for at least a week from the date bids are opened. During this week, the consulting engineer will tabulate and review bids, investigate the successful bidder, and submit a written recommendation. This information will be reviewed by USDA -- Rural Development, which must concur in writing before the award of contract is made.

F. **PRIOR** to issuance of the **NOTICE TO PROCEED**, the applicant shall obtain all required construction reviews, approvals, and permits required by jurisdiction of the local government, county, state, or other federal agencies. The applicant through its consulting engineer shall provide a written certification to Rural Development that all reviews, approvals and permits for construction have been issued and are currently in effect.

Equipment and material must be purchased through a competitive sealed bid process.

G. Prior to loan closing the applicant shall provide a labor pool list of the persons to be utilized in construction of that portion planned to be built by "force account". The list shall itemize the name, address, phone number, planned type of work or position and rate of pay for that person.



12. DISBURSEMENT OF PROJECT FUNDS

A. During construction, the Applicant shall disburse project funds in a manner consistent with Section 1780.45 (e), of RUS Instruction 1780. Form FmHA 1924-18, "Partial Payment Estimates" or similar form approved by USDA -- Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to USDA -- Rural Development for review and acceptance. Prior to disbursement of funds the Applicant and USDA -- Rural Development will review and approve each payment estimate. All bills and vouchers must be approved by USDA -- Rural Development prior to payment by the Applicant.

B. In accordance with RUS Instruction 1780, 1780.36(d), the Applicant will make a diligent effort to obtain and accept interim financing in an amount equal to the loan portion of this project. Evidence of this attempt will be provided to USDA -- Rural Development at the time of loan approval. Should the Applicant be unable to secure interim financing at reasonable rates and terms, USDA -- Rural Development multiple advances will be utilized in accordance with RUS Instruction 1780.45.

C. Monthly audits of the Applicant's construction account records may be made by USDA -- Rural Development representatives.

D. The Applicant will be expected to acknowledge receipts of wire transfers as requested by USDA -- Rural Development /Arizona. If not acknowledged, funds control tracking may be affected, and processing of future pay estimates/reimbursements by USDA -- Rural Development may be delayed.

E. The USDA -- Rural Development loan funds shall be considered as the first funds expended. After providing for all authorized costs, any remaining USDA -- Rural Development project funds will be considered to be USDA -- Rural Development grant funds and refunded to USDA -- Rural Development. If the amount of unused USDA -- Rural Development project funds exceed the USDA -- Rural Development grant, that part would be USDA -- Rural Development loan funds. Any Savings in project costs will be reflected in a reduction in grant funding, it will not reduce the loan amount.

F. A supervised bank account will not be used. However, USDA -- Rural Development must monitor the use of funds during development of this project.

G. It should be understood that USDA -- Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

13. OTHER CONDITIONS

A. Prior to loan closing the Applicant must provide documentation that it has the proper water rights to withdraw, treat and deliver Colorado River water to the service area.



- B. The Applicant will provide proof of publication of the "notice of intent to file an application with USDA -- Rural Development".
- C. An Environmental Report has been reviewed by the USDA -- Rural Development State Director in accordance with FmHA Instruction 1940-G and the National Environmental Policy Act. USDA -- Rural Development has determined that an Environmental Impact Statement is not needed.
- D. In the event that an item of archaeological significance is encountered during the project, the Applicant is to comply with the National Historic Preservation Act of 1966.
- E. Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement", for your review. You will be required to execute a completed form at the time of grant closing.
- F. The Applicant will be required to conform with any and all state and local laws and regulations affecting this type of project. It is the Applicant's responsibility to work with other regulatory agencies in obtaining their approvals. Any additional financing cost that may result from the failure to timely obtain these approvals will have to be borne by the Applicant.
- G. Written evidence is to be submitted to show the proposed project is consistent with the requirements of the Arizona Department of Environmental Quality.
- H. Contracts for engineering services may be on Form FmHA 1942-19 - "Agreement for Engineering Services" or approved Engineers Joint Contract Document Committee (EJCDC) documents. All contracts and agreements must be submitted to USDA -- Rural Development.
- I. The Applicant will comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 US 794), which provided that no handicapped individual, solely by reason of their handicap, be excluded from use of any facility receiving USDA -- Rural Development assistance.
- J. Additional forms and requirements (copies attached).
1. Form FmHA 400-1 - "Equal Opportunity Agreement"
 2. Form FmHA 400-4 - "Assurance Agreement"
 3. Form FmHA 1910-11 - "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts".
 4. Form AD-1049 - "Certification Regarding Drug-Free Workplace requirements (Grants) Alternative I - For Grantees Other Than Individual".



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5. Form AD-1047 - "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primarily Covered Transaction".
6. Exhibit A-I to FmHA Instruction 1940-Q, "Certification for Contracts, Grants and Loans" (copy attached). Certification required in connection with lobbying activities.

K. This loan will be subject to the provisions of equal opportunity and nondiscrimination in employment for construction, in accordance with Title VI of the Civil Rights Act of 1964.

14. GRADUATION REQUIREMENTS

USDA -- Rural Development loans are meant to be a temporary source of credit. If at some future date, it appears that the Applicant is able, the Applicant will be requested to refinance the loan with other lenders. The Applicant will be expected to comply with this requirement as evidenced by the legally enforceable clause contained in the "Loan Resolution Security Agreement", RUS Bulletin 1780-28 (copy attached).

15. CLOSING INSTRUCTIONS

This loan and grant will be closed subject to the availability of funds, applicable USDA -- Rural Development Instructions, this Letter of Conditions, and closing instructions from the USDA -- Rural Development Office of General Counsel

Respectfully yours,

for
LEONARD GRADILLAS
Business & Cooperatives Program Director

Attachments:

- Exhibit A -- "Rate Schedule & Income Estimate"
- Form 1940-1, "Request for Obligation of Funds"
- Form FmHA 1942-46 - "Letter of Intent to Meet Conditions"
- Form FmHA 400-1 - "Equal Opportunity Agreement"
- Form FmHA 400-4 - "Assurance Agreement"
- Form FHA 440-24 - "Position Fidelity Schedule Bond Declarations"
- Form FmHA 442-20 - "Right-of-Way Easement"
- Form FmHA 442-21 - "Right-of-Way Certificate"
- Form FmHA 442-22 -- "Opinion of Counsel Relative to Rights-of-Way"
- Form FmHA 440-11 -- "Estimate of Funds Needed"



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Form FmHA 1924-18 - "Partial Payment Estimate"
Form FmHA 442-2 - "Statement of Budget, Income and Equity"
Form FmHA 1942-19 - "Agreement for Engineering Services"
RUS Bulletin 1780-12 - "Water and Waste System Grant Agreement"
RUS Bulletin 1780-9, "Water Users Agreement"
RUS Instruction 1780 Subpart C - "Planning, Designing, Bidding, Contracting, Constructing and Inspections", along with RUS Bulletins 13 and 14
Form AD-1047 - "Certification Regarding Debarment, ..."
Form AD-1049 - "Certification Regarding Drug-Free Workplace ..."
Form FmHA 1910-11 - "Applicant Certification Federal Collection ..."
Exhibit A-I to FmHA Instruction 1940-Q, "Certification for Contracts, Grants and Loans"
RUS Bulletin 1780-28, "Loan Resolution Security Agreement"
PAD Authorization Form
Form FmHA 440-22, "Promissory Note"
Form FmHA 1927-1 AZ, "Real Estate Deed of Trust"
Form FmHA 440-A25 AZ, "Financing Statement"
Form FmHA 440-4, "Security Agreement"
RUS Instruction 1780, Section 1780.39
RUS Instruction 1780, Section 1780.47
"Assignment of Income and Assessments"

cc: Robert Lanford, Rural Development Specialist
Charles Dewald, PE, Territorial Engineers, Inc.
Gerald Hunt, Attorney
Douglas R. Bigler, CPA
Sherwin Heaton, Consultant

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ciboloc1.doc

I. REVENUE PROJECTION:

Cibola Letter of Conditions Exhibit A.

1. Basis for Annual Income Estimate:

Rate Schedule:

(A) Residential size service

Minimum bill	\$26.00	for	1	gallons		
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Over	1	gallons for \$	1.20		per	1,000 gallons

(B) Other

Minimum bill	\$26.00	for	1	gallons		
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Next		gallons for \$			per	gallons
Over	1	gallons for \$	1.20		per	1,000 gallons

Income Estimate:

(C) Residential size service:

60 users @	3,000	gallons @ \$	29.60	per user = \$	1,775.93	monthly
29 users @	6,500	gallons @ \$	33.80	per user = \$	980.17	monthly
26 users @	11,000	gallons @ \$	39.20	per user = \$	1,019.17	monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
Total = \$	3,775.26	monthly X 12 = \$	45,303.14	annually		

(C) Other:

users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly
users @		gallons @ \$		per user = \$		monthly

Total = \$ _____ monthly X 12 = \$ _____ annually

Total Income (Residential & Other) = \$ 3,775.26 monthly X 12 = \$ 45,303.14 annually