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BEFORE THE ARIZONA CORPORATION COMMISSION  
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Arizona Corporation Commission

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AZ CORP COMMISSION  
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IN THE MATTER OF THE  
APPLICATION OF PERKINS  
MOUNTAIN WATER COMPANY  
FOR A CERTIFICATE OF  
CONVENIENCE AND NECESSITY  
IN MOHAVE COUNTY

DOCKET NO. W-20380A-05-0490

DOCKET NO. SW-20379A-05-0489

IN THE MATTER OF THE  
APPLICATION OF PERKINS  
MOUNTAIN UTILITY COMPANY  
FOR A CERTIFICATE OF  
CONVENIENCE AND NECESSITY  
IN MOHAVE COUNTY

NOTICE OF FILING LATE  
EXHIBITS

Snell & Wilmer

LLP  
LAW OFFICES  
One Arizona Center, 400 E. Van Buren  
Phoenix, Arizona 85004-2202  
(602) 382-6000

Perkins Mountain Water Company and Perkins Mountain Utility Company ("Companies") were requested by the Administrative Law Judge ("ALJ") at the hearing on March 6, 2007, in the above-captioned proceeding, to file the following exhibits:

- 1) Standard & Poor's Credit Rating and any updates.
- 2) Update to Moody's Credit Rating.
- 3) Update to Staff Exhibit S-4 Schedule LAJ-1.

The ALJ also requested information on existing capitalization plans for the Companies and information on whether Spirit Underground participated in a competitive bid process for the utility infrastructure work undertaken at Golden Valley South.

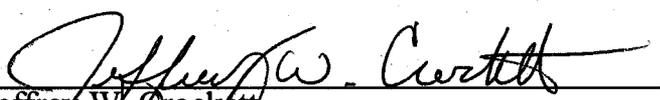
Attached to this pleading are the Standard & Poor's Credit Rating of October 2005 and a draft of an update to the Moody's Credit Rating. The Companies have put in a request to S&P for any updated ratings and to Moody's for a final copy of the most current rating. There is no written capitalization plan for the Companies. As was stated

1 by Mr. Fred Chin in his testimony on March 6, 2007, the Companies will be capitalized  
2 as necessary at the appropriate time.

3 An updated LAJ-1 is forthcoming and the Companies are researching if a bidding  
4 process was used for the work that Spirit Underground is performing in Golden Valley.

5 DATED this 7th day of March, 2007.

6 SNELL & WILMER L.L.P.

7  
8 By   
9 Jeffrey W. Crockett  
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14 Attorneys for Perkins Mountain Water Company

13 ORIGINAL and 15 copies filed this  
14 7th day of March, 2007, with:

15 Docket Control  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

19 COPY hand-delivered this 7th  
20 day of March, 2007, to:

21 Dwight Nodes, Administrative Law Judge  
22 Hearing Division  
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24 1200 West Washington  
25 Phoenix, Arizona 85007

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**STANDARD  
& POOR'S**

# Structured Finance

## *Real Estate Companies*

### Research Update: Rhodes Cos. LLC Assigned 'B' Corporate Credit Rating, Preliminary Term Loan Ratings

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**Rationale**

On Oct. 24, 2005, Standard & Poor's Ratings Services assigned its 'B' corporate credit rating (CCR) to The Rhodes Cos. LLC (Rhodes) and its affiliates/co-borrowers (Heritage Land Co. LLC and Rhodes General Partnership). At the same time, a preliminary 'B+' rating with a recovery rating of '1' is assigned to the company's pending \$450 million first lien term loan and a preliminary 'B-' rating with a recovery rating of '4' is assigned to the company's pending \$150 million second lien secured term loan (see list). Roughly half of the expected proceeds from these financings will repay existing secured debt and fund a sizeable dividend, with the remainder being made available for general working capital purposes and future land acquisitions. The outlook is stable.

The 'B' CCR primarily reflects the company's smaller size, very significant single market exposure, and a highly leveraged pro forma financial profile. Offsetting credit considerations include an established, profitable track record and favorable land positions in one of the fastest growing housing markets in the country.

The company, which is based in Las Vegas, Nev., and controlled by founder, James M. Rhodes, is a vertically integrated and profitable land developer and homebuilder. Although much smaller and less geographically diversified than its publicly rated peers, Rhodes has built more than 5,800 homes in 24 communities in Las Vegas since 1991, and currently controls a sizeable land position of more than 700 acres or roughly 7,300 lots in several well positioned metro Las Vegas master planned communities (primarily Rhodes Ranch and Tuscany).

Rhodes' strategy of buying, entitling, and improving the land on which it will eventually exclusively construct and sell its homes does result in materially higher operating margins. In addition, these communities' expanding product price points should attract more potential buyers as the market matures and/or softens. Ongoing capital expenditures, related to new investments however, can be quite large and uneven for Rhodes, given the more highly amenitized nature of its development projects. The company's direct purchase versus option approach to controlling its land inventory also results in much lower inventory turnover, which may meaningfully weigh on returns in a slowing market.

**RatingsDirect  
Publication Date**

Oct. 24, 2005

The company delivered 437 homes in 2004 at an average price of \$389,000 (the bulk of which were detached single-family homes) generating roughly \$143 million in revenues, which contributed to cash EBITDA of \$64 million and an operating margin of around 40%. Year-to-date (through Aug. 31, 2005) revenue, EBITDA, and margins are running ahead of last year, but with a higher average selling price (up 14%), offsetting lower unit volume (down 22%). The current contract backlog, however, is strong at just over \$150 million (comprising 295 homes with an average price of \$519,000). This backlog also results in fairly good earnings visibility, given the company's lower-than-average cancellation rate, which is well below most market competitors at less than 10%.

Total leverage (on a book value basis and giving no credit for cash balances) will rise materially immediately following the refinancing, to more than 90% from the low 60% area. Total debt (\$604 million) to adjusted EBITDA (\$103 million) will initially climb to 5.8x, and adjusted cash EBITDA to interest coverage will drop to roughly 2.0x. However, these debt protection metrics could improve fairly quickly and significantly if projected cash flows over the next two years are achievable, enabling the paydown of roughly 25% of total debt.

#### *Liquidity*

Internal liquidity will be driven by free cash flow (largely from home and lot net sales profits), forecast in the \$25 million range for the balance of 2005, and \$60 million for 2006. External liquidity will be derived entirely from cash balances, which are expected to be a high \$275 million post closing of the combined \$600 million in new secured term debt. However, there are no restrictions against the company's discretionary reinvestment of this cash into additional projects. The new term debt replaces roughly \$211 million of secured, short-term floating-rate development and construction loans, much of which previously required personal guarantees from Mr. Rhodes. The new loans do not require any such guarantees and mature in 2010 (\$450 million first lien facility) and 2011 (\$150 million second lien facility). The loans require only minimal amortization (1% annually for the first lien facility only) and may not be redrawn. Mr. Rhodes will receive a sizeable dividend of roughly \$100 million from this refinancing. There will be a 100% cash sweep in place until 50% (or \$300 million) of debt is repaid and total debt/total net value is less than 30%. Once this debt reduction is achieved, Mr. Rhodes may withdraw up to 50% of excess cash flow.

#### *Recovery analysis*

The preliminary 'B+' rating for the first priority lien term facility is rated one notch higher than the CCR and has a recovery rating of '1', reflecting reasonable confidence of full recovery (100%) of principal. The preliminary 'B-' rating assigned to the second priority lien facility is rated one notch lower than the CCR and has a recovery rating of '4', reflecting only marginal confidence of principal recovery (in the 25%-50% range) due to this loan's subordinate standing relative to the first lien facility. Both loans are secured by substantially all real and personal property (including, without limitation, cash and securities) of the borrowers and the guarantors, including a pledge of equity in all current and future direct and indirect subsidiaries of the Borrowers.

A default scenario could occur as a result of adverse business, financial, or economic conditions, which would likely impair both absorption and pricing within the communities that serve as loan collateral. Specifically, Standard & Poor's default scenario assumes a material weakening of the currently robust Las Vegas housing market over the next two years, due to both an increase in competitive supply and a concurrent softening in demand. Slowing absorption would prompt potentially dramatic price concessions, which would materially pressure land and homebuilding profit margins. It is further assumed that only the required loan amortization occurs and that currently strong cash balances erode, as capital is expended to maintain the quality and competitiveness of the current projects, as well as support any projects that could be added to the collateral base between now and the point of an assumed default in late 2007.

Although an "as-is" appraisal was not provided for the collateral properties, Standard & Poor's was given a forecast of aggregate projected cash flows prepared by an appraisal firm. Taking a net present value approach to this income stream (using a 40% discount rate), adjusted for the market stress described above, but giving credit for the

fully entitled nature of much of the land serving as collateral, the estimated value upon default would be sufficient to cover the first lien facility, although coverage of the second lien facility would fall well below 50%. However, the first and second lien loans are governed by the same total leverage and cash EBITDA/interest covenants, and following a 180-day standstill, the second lien lenders would be able to exercise any of their rights or remedies with respect to the collateral (unless the first lien lenders have already done so).

### Outlook

The outlook is stable. While Rhodes' balance sheet recapitalization is potentially being pursued at this housing cycle's peak, the company's well-positioned master planned communities should prove fairly resilient in the event of a material market softening.

### *Ratings List*

#### New Ratings Assigned

The Rhodes Cos. LLC/Heritage Land Co. LLC/Rhodes Ranch General Partnership

Corporate credit rating	B/Stable/—
Secured bank debt – first lien	B+ (recovery rating 1)
Secured bank debt – second lien	B- (recovery rating 4)

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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# Rhodes Companies, LLC (The) - DRAFT - In Progress or Approved Version

Las Vegas, Nevada, United States

## Ratings and Contacts

Category	Moody's Rating	Analyst	Phone
Outlook	Stable	Joseph A. Snider/New York	1.212.553.1653
Corporate Family Rating	B1	Tom Marshella/New York	
Bkd Sr Sec Bank Credit Facility	B1/B3		

## Opinion

### Company Profile

Headquartered in Las Vegas, Nevada, The Rhodes Companies, LLC and its co-borrowers (Heritage Land Company, LLC and Rhodes Ranch General Partnership) comprise the largest private community developer and homebuilder in Las Vegas. Revenues and net income (essentially pretax income, since the company pays no income taxes) for the nine months ended September 30, 2006 were \$284.2 million and \$64.2 million, respectively.

### Recent Developments

On October 7, 2005, Moody's assigned first-time ratings to Rhodes, including a B1 corporate family rating, a Ba3 rating on the proposed \$450 million senior secured first lien term loan, and a B1 rating on the proposed \$150 million senior secured second lien term loan. The ratings outlook assigned at the time was stable. The transaction was downsized by \$100 million (to \$430 million 1st lien and \$70 million 2nd lien) and closed on November 21, 2005.

On September 22, 2006, Moody's implemented its Probability-of-Default (PD) and Loss-Given-Default (LGD) rating methodology for the homebuilding and construction-related sectors. As a result of this action, the ratings on the second-lien senior secured term loans of Rhodes and of four other publicly-rated land developers were dropped two notches. In the case of Rhodes, the rating on its second-lien senior secured term loan was lowered to B3 from B1. In addition, the rating on its first-lien senior secured term loan was lowered to B1 from Ba3. These rating reductions were not as a result of anything Rhodes did or failed to do. They were purely as a result of a change in the Moody's rating methodology.

### Recent Results

As a result of a weakening local housing market, Rhodes delivered 121 homes and generated \$64.6 million of revenues for its third quarter ended September 30, 2006 vs. 200 deliveries and \$111.6 million of revenues in its second quarter and 223 deliveries and \$118 million of revenues in its first quarter. The company maintained substantial liquidity and was comfortably in compliance with its financial covenants.

### Rating Rationale

The ratings reflect the company's aggressive debt leverage, relatively small size and scale, limited geographic reach and product diversity, indications of speculative excess in the Las Vegas housing market, and the cyclical nature of the homebuilding and land development industries.

At the same time, the ratings recognize the significant collateral in the structure (as represented by a recent Cushman & Wakefield undiscounted asset appraisal of \$1.48 billion), the ongoing long-term strength of the Las Vegas housing market, the company's reasonably strong historical track record, and the considerable infrastructure spending completed to date in the Rhodes Homes' master planned communities.

In accordance with Moody's rating methodology for homebuilding companies, Rhodes' overall performance measurements map to the upper end of the B category, which is consistent with its B1 corporate family rating.

Rhodes' key rating drivers and respective indicated ratings are as follows:

1) Operating and competitive position (strong B rating category) – Rhodes maps to B ratings in relative market share and geographic diversity in that even though it is the 12th largest builder in Las Vegas, it currently operates only in that one market. In cost structure, as measured by housing gross margin performance of 40.4% for the nine-month period ended September 30, 2006, the company maps to an A rating. However, the company's gross margin figure is expected to decline due to the housing slowdown as the company faces pricing challenges, the offering of additional incentives to buyers, and weakness in new orders. In product line and price point diversity, Rhodes performs at the B rating level as it primarily offers single-family homes and townhomes for first-time and the first-and second-time move-up buyers.

2) Capital structure (B rating category) – Given the company's negative net worth (from the capital withdrawn at the time of its financing in November 2005), the company's debt/capitalization ratio exceeded 100%, thus mapping to less than a B rating. However, since Rhodes is somewhat of a hybrid company, i.e., part homebuilder and part land developer, it is also measured on a debt/net value basis. On that basis, its metric was 31.5%, which was satisfactory.

3) Financial strength (Ba rating category) – The company's slightly better than 3x interest coverage for the 10 1/3 month period that began when the transaction was consummated on November 21, 2005 through September 30, 2006 maps to a weak Ba rating while its greater than 25% return on assets over the same period maps to an A rating. However, both metrics are expected to weaken as the housing slowdown continues and will probably return to levels more consistent with its current rating. In liquidity, the company maps to a Ba rating, given its nearly \$139 million of unrestricted cash on hand at 9/30/06. This metric, calculated at 29.8%, should strengthen if the company is successful in continuing to work down its spec inventories and build cash. In the two size metrics—total revenues and tangible net worth—the company maps to B ratings, given its \$284 million of nine-month revenue and negative tangible net worth.

4) Management quality (B rating category) – Despite the title of this category, it does not capture the multitude of qualitative rating factors that Moody's considers when evaluating management. It does capture the amount of land inventory (owned and optioned) that the company controls and the proportion of spec building in which it engages. The company maps to a B rating with regard to its estimated 10-year land supply and to a B in terms of its spec building practices (greater than 25% spec construction).

**Rating Outlook**

The stable ratings outlook is based on Moody's expectation that Rhodes 1) will maintain a satisfactory cushion in its financial covenants, 2) will maintain generally level collateral coverage through 2007 before beginning gradually to reduce debt/total net value in 2008 and beyond, and 3) will use the approximate \$139 million of unrestricted cash on hand largely for seasonal working capital needs and/or for future land purchases which will be added to the collateral package.

**What Could Change the Rating - Up**

Going forward, the ratings and outlook would be strengthened by the company's building additional headroom in its

financial covenants, particularly interest coverage; by a significant build-up in its equity base; by successful diversification into other markets; and by a permanent reduction in the company's debt leverage metrics.

**What Could Change the Rating - Down**

The ratings and outlook would be stressed by a significant narrowing of the current cushion in the company's financial covenants, a misstep in its expansion process, a material increase in debt leverage, or use of the estimated \$139 million current cash balances for anything other than seasonal working capital needs and/or additional land purchases that would be added to the collateral package.

**Rating Factors****Rhodes Companies, LLC (The)**

808785295

**Fiscal Year Ends in December****Homebuilding Industry**

Factor 1: Operating &amp; Competitive Position

a) Relative Market Share

b) Geographic Diversity

c) Cost Structure (Gross Margin)

d) Product Line &amp; Price Point Diversity

Factor 2: Capital Structure

a) Homebuilding Debt / HB Capitalization

Factor 3: Financial Strength

a) EBIT / Interest Incurred

b) EBIT / Total Assets

c) Liquidity

d) Total Revenues

e) Tangible Net Worth

Factor 4: Management Quality

a) Supply of Lots in Inventory (Yrs)

b) Speculative Building Percentage

Rating:

a) Indicated Rating from Methodology

b) Actual Rating Assigned

A

Baa

Ba

B

X

X

&gt;30%

X

&gt;55%

3X-6X

&gt;20%

25-40%

&lt;\$1B

&lt;\$500MM

&gt;7 Yrs

&gt;25%

B1

B1