

ORIGINAL

OPEN MEETING ITEM



COMMISSIONERS  
MIKE GLEASON - Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE



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ARIZONA CORPORATION COMMISSION

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DATE: OCTOBER 10, 2007  
DOCKET NO: WS-03478A-07-0442  
TO ALL PARTIES:

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission  
DOCKETED  
OCT 10 2007

DOCKETED BY  
MM

Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Order on:

FAR WEST WATER & SEWER, INC.  
(FINANCING)

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

**Company has waived the 10 days for filing of exceptions.**

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

OCTOBER 23, 2007 and OCTOBER 24, 2007

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MIKE GLEASON, Chairman  
4 WILLIAM A. MUNDELL  
5 JEFF HATCH-MILLER  
6 KRISTIN K. MAYES  
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF FAR  
9 WEST WATER & SEWER, INC., AN ARIZONA  
10 CORPORATION, FOR AUTHORITY (1) TO ISSUE  
11 EVIDENCE OF INDEBTEDNESS IN AN AMOUNT  
12 NOT TO EXCEED \$25,215,000 IN CONNECTION  
13 WITH (A) THE CONSTRUCTION OF SEWER  
14 SYSTEM INFRASTRUCTURE IMPROVEMENTS  
15 AND (B) REPAYMENT AND CONSOLIDATION OF  
16 EXISTING DEBT; AND (2) TO ENCUMBER ITS  
17 REAL PROPERTY AND PLANT AS SECURITY FOR  
18 SUCH INDEBTEDNESS.

DOCKET NO. WS-03478A-07-0442

DECISION NO. \_\_\_\_\_

**ORDER**

13 Open Meeting  
14 October 23 and 24, 2007  
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 On July 26, 2007, Far West Water & Sewer, Inc. ("Far West" or "Company") filed with the  
18 Arizona Corporation Commission ("Commission") an application requesting authorization to (1)  
19 issue evidence of indebtedness in an amount not to exceed \$25,215,000; and (2) encumber its real  
20 property and utility plant as security for such indebtedness. The application states that the purpose of  
21 the debt is to construct additional plant and infrastructure improvements to the Company's sewer  
22 system necessary to comply with two Consent Orders between the Company and the Arizona  
23 Department of Environmental Quality ("ADEQ"), and for the repayment and consolidation of  
24 existing long-term and short-term debt.

25 \* \* \* \* \*

26 Having considered the entire record herein and being fully advised in the premises, the  
27 Commission finds, concludes, and orders that:  
28

**FINDINGS OF FACT**

1  
2 1. Far West is a public service corporation engaged in providing water and sewer utility  
3 services to the public in unincorporated portions of Yuma County, Arizona. As of December 31,  
4 2006, Far West provided sewer utility services to approximately 6,800 permanent sewer connections  
5 and 14,600 permanent water service connections, pursuant to authority granted by the Commission.

6 2. On July 26, 2007, Far West filed an application requesting authorization to (1) issue  
7 evidence of indebtedness in an amount not to exceed \$25,215,000; and (2) encumber its real property  
8 and utility plant as security for such indebtedness.

9 3. On August 30, 2007, Far West filed a Notice of Filing Certification of Publication.

10 4. On September 26, 2007, Staff filed its Staff Report in this matter, recommending  
11 approval of the financing request.

Purpose of the Financing

12  
13 5. The Company estimates the total costs of sewer system improvements necessary to  
14 comply with the ADEQ Consent Orders (dated March 13, 2006 and October 31, 2006) to be  
15 \$17,365,765. The Company plans to use a portion of the proceeds of the proposed financing to  
16 complete the improvements.

17 6. The Company plans to use a portion of the proceeds from the financing to retire an  
18 existing long-term loan from the Water Infrastructure Financing Authority ("WIFA") obtained in  
19 1999, which had a principal balance at December 31, 2006 of \$4,686,466. The proceeds of the  
20 WIFA loan were used to finance the construction of the Company's water treatment plant. The  
21 lender for the proposed new debt requires repayment of the WIFA loan so that it may hold a first-  
22 position encumbrance to secure repayment of the new debt.

23 7. The Company also plans to use a portion of the financing proceeds to retire short-term  
24 debt incurred in December 2006 in order to undertake emergency sewer plant upgrades and  
25 improvements necessary to comply with requirements imposed by ADEQ in the Consent Orders.  
26 The principal total amount of the short-term debt is \$17,735,000, and must be repaid, along with  
27 accrued interest, in December 2007.

28

1        8.     A portion of the loan proceeds will also be used to establish a \$0.9 million debt service  
2 reserve and to pay \$1.3 million in issuance costs.

3     Terms of the Financing

4        9.     The Industrial Development Authority of the County of Yuma ("Yuma IDA") adopted  
5 a resolution on June 26, 2007, granting preliminary approval for it to issue tax-exempt revenue bonds  
6 in an aggregate principal amount not to exceed \$32,500,000 ("IDA Bonds"), and to loan the proceeds  
7 to Far West for the purposes of the proposed financing as described in the Company's financing  
8 request. The application states that the IDA Bonds will be sold or placed by the bond underwriter  
9 Crews and Associates, Inc., of Little Rock, Arkansas, and the Yuma IDA will in turn loan the  
10 proceeds from the sale or placement of the IDA Bonds to Far West. Far West will enter into a loan  
11 agreement with the Yuma IDA that grants security interests in the Company's assets to secure  
12 repayment.

13        10.    The IDA Bonds will have a face value not to exceed \$25,215,000 and carry an  
14 anticipated weighted average coupon rate of 6.27 percent. The IDA Bonds will be repaid in a term  
15 not to exceed 30 years.

16     Engineering Analysis

17        11.    Staff reviewed the material cost estimates of Far West's sewer construction budget,  
18 and concluded that the cost estimates appear reasonable and appropriate. No ratemaking treatment  
19 should be inferred from Staff's analysis.

20     Financial Analysis

21        12.    Staff's financial analysis to determine the effects of the proposed financing used the  
22 Company's financial results for the year ended December 31, 2006.

23        13.    Staff's analysis indicates that the proposed debt will result in a pro forma debt service  
24 coverage ratio ("DSC")<sup>1</sup> of 1.15 and a times interest earned ratio ("TIER")<sup>2</sup> of 0.50.

25  
26  
27     <sup>1</sup> DSC represents the number of times internally generated cash will cover required principal and interest payments on  
long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations.

28     <sup>2</sup> TIER represents the number of times earnings will cover interest expense on long-term debt. A TIER greater than 1.0  
means that operating income is greater than interest expense.

1 14. Staff states that a TIER of less than 1.0, while not sustainable in the long term, does  
2 not mean that debt obligations cannot be met in the short term, and that the pro forma DSC of 1.15  
3 shows that Far West would have adequate cash flow to meet all obligations.

#### 4 Compliance Issues

5 15. There are no outstanding compliance issues for the Company

#### 6 Staff Recommendations

7 16. Staff recommends that the Commission approve Far West's application for  
8 authorization to issue evidence of indebtedness not to exceed \$25,215,000 and to encumber real  
9 property and plant assets to serve as collateral for the proposed IDA Bond offering.

10 17. Staff further recommends that the interest rate on the proposed \$25,215,000 bond  
11 issuance should not exceed 6.5 percent.

12 18. Staff further recommends that the Commission authorize Far West to engage in any  
13 transaction and to execute any documents necessary to effectuate the authorizations granted.

14 19. Staff further recommends that Far West file the executed bond/loan documents with  
15 Docket Control, as a compliance item in this case, within 90 days of this Decision.

#### 16 Conclusion

17 20. It is reasonable, consistent with sound financial practices, and in the public interest to  
18 grant Far West the requested financing authority, including the authority to encumber assets to  
19 collateralize a bond offering in order to secure financing for the purposes set forth in the application.

20 21. Staff's recommendations are reasonable and should be adopted.

#### 21 CONCLUSIONS OF LAW

22 1. Far West is a public service corporation within the meaning of Article XV of the  
23 Arizona Constitution and A.R.S. §§ 40-301 and 40-302.

24 2. The Commission has jurisdiction over Far West and the subject matter of the request.

25 3. Notice of the financing was provided in accordance with law.

26 4. Staff's recommendations set forth in Findings of Fact Nos. 16-19 are reasonable and  
27 should be adopted.

28 5. The borrowing under the IDA Bond offering approved herein is for lawful purposes



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IT IS FURTHER ORDERED that Far West Water & Sewer, Inc. shall file with the Commission's Docket Control, as a compliance item in this docket, within ninety days of this Decision, copies of the executed bond and loan documents memorializing the authorized transactions.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN \_\_\_\_\_ COMMISSIONER

COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_ COMMISSIONER

IN WITNESS WHEREOF, I, DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_ day of \_\_\_\_\_, 2007.

DEAN S. MILLER  
INTERIM EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

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SERVICE LIST FOR: FAR WEST WATER & SEWER, INC.

DOCKET NO.: WS-03478A-07-0442

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