

ORIGINAL

MEMORANDUM



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2010 APR 30 A 9:09

AZ CORP COMMISSION
DOCKET CONTROL

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: April 30, 2010

RE: STAFF REPORT FOR BIG PARK WATER COMPANY, INC.'S
APPLICATION FOR AUTHORITY TO INCUR LONG-TERM DEBT FROM
THE WATER INFRASTRUCTURE FINANCE AUTHORITY OF ARIZONA
(DOCKET NO. W-01624A-10-0009)

Attached is the Staff Report for Big Park Water Company, Inc.'s application for authority to incur debt from Water Infrastructure Finance Authority of Arizona. Staff recommends approval.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before May 14, 2010.

SMO:JCM:red

Originator: Juan C. Manrique

Attachment: Original and thirteen copies

Arizona Corporation Commission
DOCKETED

APR 30 2010

DOCKETED BY

Service List for: Big Park Water Company Inc.
Docket No. W-01624A-10-0009

Mr. Craig Marks
10645 North Tatum Boulevard
Suite 200-676
Phoenix, Arizona 85028

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**BIG PARK WATER COMPANY, INC.
DOCKET NO. W-01624A-10-0009**

**APPLICATION TO INCUR LONG-TERM DEBT
FROM THE WATER INFRASTRUCTURE FINANCE
AUTHORITY OF ARIZONA**

APRIL 30, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Big Park Water Company, Inc., Docket No. W-01624A-10-0009 is the responsibility of the Staff members listed below. Juan C. Manrique is responsible for the financial analysis. Del Smith is responsible for the Engineering review.



JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I



DEL SMITH
ENGINEERING SUPERVISOR

**EXECUTIVE SUMMARY
BIG PARK WATER COMPANY INC.
DOCKET NO. W-01624A-10-0009**

On January 13, 2010, Big Park Water Company, Inc. ("Big Park" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to incur long-term debt from the Water Infrastructure Finance Authority of Arizona ("WIFA").

The Company is a for-profit Class "A" Arizona public service corporation engaged in providing water services in Yavapai County, Arizona. The Company seeks to borrow \$415,000 from WIFA to fund Arsenic Treatment Facilities for its two remaining untreated wells (Well Nos. 1 and 5). The Company anticipates borrowing these funds at a rate not to exceed 7 percent per annum.

As of December 31, 2008, Big Park's capital structure consisted of 5.3 percent short-term debt, 0.0 percent long-term debt, and 94.7 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$415,000, 20-year amortizing loan at 7.0 percent per annum and repayment of a \$47,350 short-term debt, and it is composed of 0.8 percent short-term debt, 32.3 percent long-term debt and 66.9 percent equity. Staff also calculated pro forma times interest earned ("TIER") and debt service coverage ("DSC") ratios of 1.44 and 2.28 respectively. The DSC results show that cash flow from operations is sufficient to cover all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service.

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within Big Park's corporate powers, is compatible with the public interest, and is consistent with sound financial practices.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$415,000 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff further recommends authorizing Big Park to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Big Park file with Docket Control, as a compliance item in this matter, copies of the loan documents within 60 days of the execution of any financing transaction authorized herein.

Staff further recommends that the Company be required to file the ADEQ Approval of Construction for the arsenic treatment facilities, as a compliance item in this docket, by April 29, 2011.

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INTRODUCTION

On January 13, 2010, Big Park Water Company Inc. ("Big Park" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to incur long-term debt from the Water Infrastructure Finance Authority of Arizona ("WIFA").

PUBLIC NOTICE

On March 8, 2010, the Company filed an affidavit of publication verifying public notice of its financing application. The Company published notice of its financing application in the *The Sedona Red Rock News*, a newspaper of general circulation in the County of Yavapai, Arizona, on March 3, 2010. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND

The Company is a for-profit Class "A" Arizona public service corporation engaged in providing water services in Yavapai County, Arizona. The Company presently provides utility service to approximately 3,000 water customers.

COMPLIANCE

A check of the Compliance Database indicates that there are currently no delinquencies for Big Park Water Company.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The Company seeks to borrow \$415,000 from WIFA to fund Arsenic Treatment Facilities for its two remaining untreated wells (Well Nos. 1 and 5). The Company anticipates borrowing these funds at a rate not to exceed 7 percent per annum.

FINANCIAL ANALYSIS

Staff's analysis is illustrated in Schedule JCM-1. Column [A] reflects The Company's historical financial information for the year ended December 31, 2008. Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a 20-year, \$415,000 amortizing loan at 7.0 percent per annum and repayment of a \$47,350 short-term debt.

TIER and DSC

Times Interest Earned Ratio ("TIER") represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long-term but does not mean that debt obligations cannot be met in the short-term.

Debt Service Coverage (“DSC”) represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JCM-1, Column [A] shows that for the year ended December 31, 2008, the Company’s TIER and DSC were 6.31 and 8.20, respectively. The pro forma TIER and DSC for the Company under the scenario described above for Column [B] are 1.44 and 2.28, respectively.

Capital Structure

At December 31, 2008, the Company’s capital structure consisted of 5.3 percent short-term debt, 0.0 percent long-term debt, and 94.7 percent equity (Schedule JCM-1, Column [A], lines 20-26). Staff calculated a pro forma capital structure reflecting issuance of a \$415,000 20-year amortizing loan at 7.0 percent per annum and repayment of a \$47,350 short-term debt, and it is composed of 0.8 percent short-term debt, 32.3 percent long-term debt and 66.9 percent equity (Schedule JCM-1, Column [B], lines 20-26).

Capital Structure inclusive of AIAC and CIAC

As of December 31, 2008, the Company’s capital structure, inclusive of Advances-In-Aid-of-Construction (“AIAC”) and Net Contributions-In-Aid-of-Construction (“CIAC”)¹ consisted of 1.2 percent short-term debt, 0.0 percent long-term debt, 20.8 percent equity, 39.6 percent AIAC and 38.5 percent CIAC (Schedule JCM-1, Column [A], lines 31-41).

CONCLUSION AND RECOMMENDATIONS

Staff concludes that the Company’s proposed capital projects are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within Big Park’s corporate powers, is compatible with the public interest, and is consistent with sound financial practices.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$415,000 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

¹ Contributions in Aid of Construction less Accumulated Amortization of Contributions in Aid of Construction.

Staff further recommends authorizing Big Park to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Big Park file with Docket Control, as a compliance item in this matter, copies of the loan documents within 60 days of the execution of any financing transaction authorized herein.

Staff further recommends that the Company be required to file the ADEQ Approval of Construction for the arsenic treatment facilities, as a compliance item in this docket, by April 29, 2011.

FINANCIAL ANALYSIS

| | [A] ¹ <u>12/31/2008</u> | | [B] ² <u>Pro forma</u> | |
|----|--|-------------|--------------------------------------|---------------------------|
| 1 | Operating Income | \$40,623 | | \$40,623 |
| 2 | Depreciation & Amort. | \$159,682 | | \$159,682 |
| 3 | Income Tax Expense | \$9,097 | | \$9,097 |
| 4 | | | | |
| 5 | Interest Expense | \$7,879 | | \$34,485 |
| 6 | Repayment of Principal | \$17,650 | | \$57,223 |
| 7 | | | | |
| 8 | | | | |
| 9 | TIER | | | |
| 10 | [1+3] + [5] | 6.31 | | 1.44 |
| 11 | | | | |
| 12 | DSC | | | |
| 13 | [1+2+3] + [5+6] | 8.20 | | 2.28 |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | | | | |
| 18 | Capital Structure | | | |
| 19 | | | | |
| 20 | Short-term Debt | \$47,350 | 5.3% | \$9,873 ³ 0.8% |
| 21 | | | | |
| 22 | Long-term Debt | \$0 | 0.0% | \$405,127 32.3% |
| 23 | | | | |
| 24 | Common Equity | \$839,910 | 94.7% | \$839,910 66.9% |
| 25 | | | | |
| 26 | Total Capital | \$887,260 | 100.0% | \$1,254,910 100.0% |
| 27 | | | | |
| 28 | | | | |
| 29 | Capital Structure (inclusive of AIAC and Net CIAC) | | | |
| 30 | | | | |
| 31 | Short-term Debt | \$47,350 | 1.2% | \$9,873 0.2% |
| 32 | | | | |
| 33 | Long-term Debt | \$0 | 0.0% | \$405,127 9.2% |
| 34 | | | | |
| 35 | Common Equity | \$839,910 | 20.8% | \$839,910 19.1% |
| 36 | | | | |
| 37 | Advances in Aid of Construction ("AIAC") | \$1,598,788 | 39.6% | \$1,598,788 36.3% |
| 38 | | | | |
| 39 | Contributions in Aid of Construction ("CIAC") ⁴ | \$1,553,032 | 38.5% | \$1,553,032 35.2% |
| 40 | | | | |
| 41 | Total Capital (Inclusive of AIAC and CIAC) | \$4,039,080 | 100.0% | \$4,406,730 100.0% |
| 42 | | | | |
| 43 | AIAC and CIAC Funding Ratio⁵ | 78.0% | | 71.5% |
| 44 | (37+39)/(41) | | | |
| 45 | | | | |
| 46 | | | | |

¹ Column [A] is based on the Company's Financial Statements for the year ended December 31, 2008.

² Column [B] is Column [A] modified to reflect issuance of the proposed \$415,000 debt financing amortized for 20 years at 7.00 percent and repayment of the \$47,350 short-term debt.

³ Pro Forma Short-term Debt represents the annual principal portion of the proposed loan.

⁴ Net CIAC balance (i.e. less: amortization of contributions).

⁵ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

Juan

BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
SANDRA D. KENNEDY
PAUL NEWMAN
BOB STUMP

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AZ CORP COMMISSION
DOCKET CONTROL

AZ CORP COMM
Director Utilities

APPLICATION OF BIG PARK WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR AUTHORITY TO
INCUR LONG-TERM DEBT FROM THE
WATER INFRASTRUCTURE FINANCE
AUTHORITY OF ARIZONA

DOCKET NO. W-01624A-10-0009

NOTICE OF FILING

AFFIDAVIT OF PUBLICATION

1 Big Park Water Company, Inc., hereby files the attached Affidavit of Publication from
2 the Sedona Red Rock News.

3 Respectfully submitted on March 8, 2010 by:

4
5
6 /s/Craig A. Marks
7 Craig A. Marks
8 Craig A. Marks, PLC
9 10645 N. Tatum Blvd
10 Suite 200-676
11 Phoenix, Arizona 85028
12 (480) 367-1956
13 Craig.Marks@azbar.org
14 Attorney for Big Park Water Company
15

16 **Original** and 13 copies **filed**
17 on March 8, 2010, with:

18
19 Docket Control
20 Arizona Corporation Commission
21 1200 West Washington
22 Phoenix, Arizona 85007
23

24
25 By: /s/Craig A. Marks
26 Craig A. Marks

AFFIDAVIT OF PUBLICATION

PUBLIC NOTICES

Public Notice of An Application for an Order

Authorizing the issuance of \$415,000 long term debt by Big Park Water Company ("BPWC").

BPWC ("Company") filed an Application on January 13, 2010 with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to issue \$415,000 of long term debt in order to finance the construction of water system facilities. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona and the Company's offices at 45 Castle Rock Road, #4, Sedona, Arizona 86351. The Application has been assigned Docket No. W-01624A-10-0009.

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

1. The name, address and telephone

PUBLIC NOTICES

number of the proposed intervener and of any person upon whom service of documents is to be made if different than the intervener.

2. A short statement of the proposed intervener's interest in the proceeding.

3. Whether the proposed intervener 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. R-14-3-105, except that all Motions to Intervene must be filed on or before the 15th day after this notice.

Publish: March 3, 2010.

STATE OF ARIZONA)
) ss.
COUNTY OF YAVAPAI)

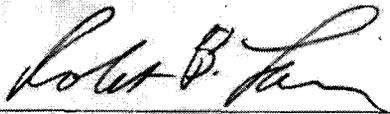
I, ROBERT B. LARSON, Publisher of the
SEDONA RED ROCK NEWS,

a newspaper of general circulation, printed and published in the County of Yavapai, State of Arizona, do solemnly swear that a copy of the attached notice, in the matter of

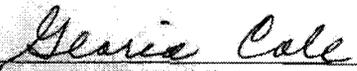
Notice of An Application for an Order
Big Park Water Company
Docket No. W-01624A-10-0009

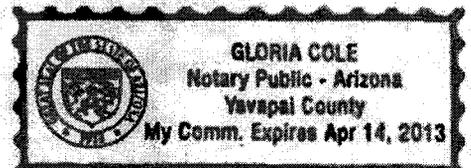
as per clipping attached, was published in the regular and entire section of said newspaper and not in any supplement thereof, on the following schedule:

March 3, 2010.


ROBERT B. LARSON, Publisher

Subscribed and sworn to before me this
3 day of March, 2010


Notary Public



MEMORANDUM

DATE: April 20, 2010

TO: Juan Manrique
Public Utilities Analyst I

FROM: Del Smith 
Engineering Supervisor

RE: Big Park Water Company, Inc.
Application for Authority to Incur Long Term Debt from the Water
Infrastructure Finance Authority of Arizona
Docket No. W-01624A-10-0009

Introduction and Background

On January 13, 2010, Big Park Water Company, Inc. ("Big Park" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting authorization to incur long term debt from the Water Infrastructure Finance Authority of Arizona in an amount up to \$415,000 ("Financing Application"). Proceeds from the loan would be used to fund arsenic treatment facilities for two remaining untreated wells (Well Nos. 1 & 5). Big Park's other wells have already been equipped with arsenic remediation facilities. These facilities were funded by equity and through Arsenic Impact Hook-up Fees approved by the ACC in Decision No. 67882, effective June 1, 2005 ("2005 Fee Application"). Because of significantly slower customer growth in the last two years, the Arsenic Impact Hook-up Fees will not generate the funds required to construct and install arsenic treatment facilities at the two remaining wells.¹

Big Park provides water utility service in the Village of Oak Creek, just south of Sedona, in Yavapai County. The Company's water system consists of seven wells, five storage tanks and booster systems serving approximately 3,000 metered connections.²

At the time the Arsenic Impact Hook-up Fees were approved in 2005 Big Park was projected to grow at a rate of 70 connections per year or 350 new connections in five years. The actual growth rate since 2005 has averaged 44 connections per year³ with, according to the Company, only 4-5 new connections added per year in the last two years.

¹ Per Application at Page 2 Paragraph 7

² Per Big Park 2008 ACC Annual Report filing (See Water Company Plant Description Data)

³ Based on number of customers currently served per Company response to Staff Data Request JCM 1.4

Construction Projects and Budgets to be Financed

The following table compares the arsenic treatment cost estimates provided by the Company in its 2005 Fee Application with the arsenic treatment cost estimates provided by the Company in this Financing Application.

Arsenic Treatment Cost Estimate Comparison

| Project Description | Estimated Cost – 2005 Fee Application | Estimated Cost - Financing Application |
|------------------------------------|---------------------------------------|--|
| Arsenic Treatment Plant Well No. 1 | \$154,850 | \$ 118,000 |
| Arsenic Treatment Plant Well No. 5 | \$328,410 | \$ 297,000 |
| Totals | \$483,260 | \$415,000 |

Note:

1) Staff found the 2005 Fee Application cost estimates reasonable.

The specific projects and cost estimates identified in the Company's budget⁴ appear to be reasonable and appropriate.

Water Quality Compliance

The Arizona Department of Environmental Quality ("ADEQ") regulates the Big Park water system under ADEQ Public Water System ("PWS") ID No. 13-012. According to ADEQ Drinking Water Compliance Status Report dated March 16, 2010, "This system has an ongoing arsenic MCL compliance issue with the most recent values from the 4th quarter 2009. . ." Well Nos. 1 & 5 are listed as having arsenic concentrations which exceed the arsenic MCL of 10 parts per billion.⁵ Based on these monitoring and reporting deficiencies ADEQ cannot determine if PWS No. 13-012 is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS No. 13-012 is not in compliance.

ACC Compliance Status

A check of the Commission's Utilities Division compliance database indicated that there were no delinquencies for Big Park.⁶

⁴ See Exhibit A – Project Budget in the Application

⁵ According to the ADEQ compliance status report arsenic treatment has been installed for three of the Company's wells

⁶ Per compliance check dated January 25, 2010

Arizona Department of Water Resources (“ADWR”) Compliance Status

Big Park is not located within any ADWR Active Management Area. As of January 25, 2010, ADWR has determined that Big Park is currently compliant with departmental requirements governing water providers and/or community water systems.

Curtailment Tariff

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not have a curtailment tariff, this application provides an opportune time to prepare and file such a tariff. Staff recommends that Big Park file a curtailment tariff as soon as possible, but no later than forty-five (45) days after the effective date of the Commission Decision in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff’s review and certification.

Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission’s web site at <http://www.azcc.gov/Divisions/Utilities/forms/Curtailment%20Standard%202009.doc>. Staff recognizes that the Company may need to make minor modifications according to their specific management, operational, and design requirements as necessary and appropriate.

Conclusions and Recommendations

The specific projects and cost estimates identified in this Financing Application appear to be reasonable and appropriate. However, approval of this application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for rate making or rate base purposes.

Staff recommends that the Company be required to file the ADEQ Approval of Construction for the arsenic treatment facilities, as a compliance item in this docket, by April 29, 2011.