

ORIGINAL

NEW APPLICATION



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5 Phoenix, Arizona 85012

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
NOV -8 2011

6 Attorneys for Pima Utility Company

DOCKETED BY
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BEFORE THE ARIZONA CORPORATION COMMISSION

W-02199A-11-0403

8 IN THE MATTER OF THE APPLICATION
9 OF PIMA UTILITY COMPANY, AN
10 ARIZONA CORPORATION, FOR
11 AUTHORITY TO: (1) ISSUE EVIDENCE OF
12 INDEBTEDNESS IN AN AMOUNT NOT TO
13 EXCEED \$8,370,000 IN CONNECTION
14 WITH (A) INFRASTRUCTURE
IMPROVEMENTS TO THE UTILITY
SYSTEM AND (B) THE PURCHASE OF
EQUITY; AND (2) ENCUMBER REAL
PROPERTY AND PLANT AS SECURITY
FOR SUCH INDEBTEDNESS.

DOCKET NO: W-02199A- _____
APPLICATION (FINANCING)

15 Pursuant to A.R.S. §§ 40-301 and 40-302, Pima Utility Company ("Pima" or the
16 "Company"), an Arizona public service corporation, hereby applies for authority from the
17 Arizona Corporation Commission ("Commission") to (1) issue evidence of indebtedness
18 in an amount not to exceed \$8,370,000 on the terms and conditions set forth below, and
19 (2) encumber its real property and utility plant as security for such indebtedness. Roughly
20 \$4,370,000 of this new debt will be used to replace existing debt at a reduced interest rate.
21 Additionally, \$1,500,000 of debt will be used to fund infrastructure improvements to
22 Pima's water and wastewater systems. The remaining \$2,500,000 of funding will be used
23 to rebalance the Company's capital structure to reflect a higher amount of debt.

1 Pima addresses both utility systems in this Application, which is being filed under
2 both Company numbers, W-02199A (water) and SW-02199A (wastewater). Pima will
3 file a motion to consolidate these matters into one docket.

4 In support of this Application, Pima states as follows:

5 **A. General Background.**

6 1. Pima is a public service corporation engaged in providing water and
7 wastewater utility services in portions of Maricopa County, Arizona, pursuant to
8 certificates of convenience and necessity granted by the Commission.

9 2. Pima served approximately 10,175 water service connections during the test
10 year (12-month period that ended December 31, 2010). The Company's present rates and
11 charges for water utility service were approved by the Commission in Decision No. 58743
12 (August 11, 1994) using a test year ending December 31, 1992.

13 3. Pima served approximately 10,050 wastewater service connections during
14 the test year (12-month period that ended December 31, 2010). The Company's present
15 rates and charges for wastewater utility service were approved by the Commission in
16 Decision No. 62184 (January 5, 2000) using a test year ending December 31, 1997.

17 4. Pima's business office is located at 9532 E. Riggs Road, Sun Lakes,
18 Arizona 85248 and its telephone number is (480) 895-4200. The Company's primary
19 management contact is Steve Soriano. Mr. Soriano is employed by the Company as its
20 Vice President and General Manager.

21 5. Mr. Soriano is the person responsible for overseeing and directing the
22 conduct of this Application. His mailing address is 9532 E. Riggs Road, Sun Lakes,
23 Arizona 85248 and his telephone number is (480) 895-4200; his telecopier number is
24 (480) 895-5455, and his email address is steve.soriano@robson.com. **All discovery,
25 data requests and other requests for information concerning this Application should**
26

1 be directed by email to Mr. Soriano, with a copy to undersigned counsel for the
2 Company, including by e-mail to jshapiro@fclaw.com and wbirk@fclaw.com.

3 6. Financial statements for the twelve-month period ending December 31,
4 2010, are attached at **Exhibit 1**.

5 **B. Purposes of Financial Transaction.**

6 7. The debt financing contemplated herein will be used for three purposes:

7 A. To fund force main replacement projects in Pima's sewer system and
8 the refurbishing of certain of Pima's outdated water facilities. The
9 total estimated cost of the plant improvements is approximately
10 \$1,500,000. A detailed breakdown of the estimated costs is attached
11 as **Exhibit 2**.

12 B. To refinance existing IDA bonds in the amount of \$4,370,000 at a
13 lower interest rate. The current debt was approved by the
14 Commission in Decision No. 59130 (June 27, 1995). There is no
15 prepayment penalty.

16 C. To buy back \$2,500,000 worth of equity using \$2,500,000 of debt
17 capital.

18 These actions will move the Company's current capital structure of approximately
19 76 percent equity and 24 percent debt to a capital structure consisting of approximately
20 67 percent equity and 33 percent debt. The new capital structure is more balanced and
21 favors ratepayers as the cost of debt is less than the cost of equity.

22 **C. Terms and Conditions of Financial Transactions.**

23 8. The lender will most likely be Wells Fargo. The lender's term sheet is
24 attached hereto as **Exhibit 3**. Wells Fargo has represented that it will provide the subject
25 financing at an interest rate not to exceed 5.5 percent with a maturity of 7 years. As a
26

1 result, Pima is undertaking to negotiate a loan agreement with Wells Fargo. Such
2 agreement will be subject to the Commission approval sought in this docket.

3 9. Pima's repayment obligation to Wells Fargo will be secured by the grant of
4 a security interest in Pima's real property and its water and wastewater plants and
5 systems.

6 **D. Effects of Financial Transactions.**

7 10. Pima's pro forma balance sheet for the period ending December 31, 2010 is
8 attached at **Exhibit 4**. The pro forma balance sheet reflects the impact of the financing
9 transactions that are the subject of this Application. The Company's pro forma capital
10 structure is approximately 33 percent debt and 67 percent common equity.

11 11. With the proposed new debt, Pima will have a Debt Service Coverage Ratio
12 (DSCR) of 2.44 and a Times Interest Earned Ratio (TIER) of 1.90. The DSCR and TIER
13 calculations, as shown on **Exhibit 5**, were calculated using an interest rate of 5.50 percent,
14 the maximum interest rate represented by the lender.

15 12. The loan proceeds will be issued for lawful purposes, as discussed herein,
16 and the execution of the loan agreement with Wells Fargo and the grant of a security
17 interest in Pima's real property, plant and system, and the undertaking of the obligations
18 set forth therein are within the Company's corporate powers. A Corporate Resolution
19 authorizing the contemplated transaction is attached at **Exhibit 6**.

20 13. Pima will file true and correct copies of all debt instruments issued within
21 thirty (30) days from the date of issuance.

22 14. The approvals sought herein are compatible with the public interest and with
23 the proper performance of Pima's duties as a public service corporation.

24 15. The financing contemplated herein will not impair Pima's ability to perform
25 its duties as a public service corporation providing water and wastewater utility service.
26

1 ORIGINAL and fifteen (15) copies
2 of the foregoing were delivered
3 this 8th day of November, 2011, to:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, AZ 85007

5 COPY of the foregoing delivered
6 this 8th day of November, 2011, to:

7 Robin Mitchell, Esq.
8 Nancy Scott, Esq.
9 Legal Division
10 Arizona Corporation Commission
11 1200 W. Washington St.
12 Phoenix, AZ 85007

10 Steve Olea, Director
11 Utilities Division
12 Arizona Corporation Commission
13 1200 W. Washington St.
14 Phoenix, AZ 85007

14 By: 

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Pima Utility Company
Financing Application

Exhibit 1

**Financial statements
for the twelve-month period ending December 31, 2010**

PIMA UTILITY COMPANY

FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

B A R R Y & M O O R E , P . C .

C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pima Utility Company

We have audited the accompanying balance sheets of *Pima Utility Company* as of December 31, 2010 and 2009, and the related statements of income, capitalization and cash flows for the years then ended. These financial statements are the responsibility of the management of *Pima Utility Company*. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Pima Utility Company* as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 22, 2011

Barry Moore, P.C.

PIMA UTILITY COMPANY
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

In thousands

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
PLANT IN SERVICE AND UNDER CONSTRUCTION, NET	\$ 21,540	\$ 21,999
CURRENT ASSETS:		
Cash	169	92
Service customers receivable	479	431
Receivable from affiliate	872	1,835
Other assets	<u>0</u>	<u>2</u>
Total current assets	1,520	2,360
RESTRICTED FUNDS	2,425	957
DEFERRED CHARGES	<u>1,796</u>	<u>1,855</u>
	<u>\$ 27,281</u>	<u>\$ 27,171</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 335	\$ 247
Accrued liabilities	455	454
Current portion of bonds payable	<u>505</u>	<u>470</u>
Total current liabilities	1,295	1,171
BONDS PAYABLE, NET OF CURRENT PORTION	5,620	6,125
ADVANCES IN AID OF CONSTRUCTION	660	683
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>274</u>	<u>335</u>
Total liabilities	<u>7,849</u>	<u>8,314</u>
CAPITALIZATION:		
Common stock; \$1 par value; 10,000,000 shares authorized; 180,041 shares issued and outstanding	180	180
Additional paid-in capital	10,801	10,801
Retained earnings	<u>8,451</u>	<u>7,876</u>
Total capitalization	<u>19,432</u>	<u>18,857</u>
	<u>\$ 27,281</u>	<u>\$ 27,171</u>

See accompanying notes and auditors' report.

PIMA UTILITY COMPANY

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

In thousands

	<u>2010</u>	<u>2009</u>
REVENUE:		
Water	\$ 1,658	\$ 1,711
Wastewater	2,956	2,959
Irrigation	411	486
Excess capacity	1	2
Establishment fees	1	2
Other income	<u>48</u>	<u>9</u>
Total revenue	<u>5,075</u>	<u>5,169</u>
OPERATING EXPENSES:		
Salaries and employee benefits	931	827
Electricity	334	387
Repairs and maintenance	514	417
Chemicals	101	118
Testing, fees and permits	85	76
Insurance	52	82
Property taxes	259	257
Professional services	59	31
Administrative services	105	105
Other expense	<u>141</u>	<u>152</u>
Total operating expenses	<u>2,581</u>	<u>2,452</u>
Income before depreciation, amortization and interest	2,494	2,717
NON-OPERATING EXPENSES:		
Depreciation	1,148	1,188
Amortization	32	32
Interest expense, net	<u>439</u>	<u>399</u>
NET INCOME	<u>\$ 875</u>	<u>\$ 1,098</u>

See accompanying notes and auditors' report.

PIMA UTILITY COMPANY

STATEMENTS OF CAPITALIZATION
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

In thousands

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL CAPITALIZATION</u>
BALANCES, December 31, 2008	\$ 180	\$ 10,801	\$ 10,218	\$ 21,199
NET INCOME	0	0	1,098	1,098
DISTRIBUTIONS	<u>0</u>	<u>0</u>	<u>(3,440)</u>	<u>(3,440)</u>
BALANCES, December 31, 2009	\$ 180	\$ 10,801	\$ 7,876	\$ 18,857
NET INCOME	0	0	875	875
DISTRIBUTIONS	<u>0</u>	<u>0</u>	<u>(300)</u>	<u>(300)</u>
BALANCES, December 31, 2010	<u>\$ 180</u>	<u>\$ 10,801</u>	<u>\$ 8,451</u>	<u>\$ 19,432</u>

See accompanying notes and auditors' report.

PIMA UTILITY COMPANY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 875	\$ 1,098
Adjustments to reconcile net income to net cash flows from operating activities-		
Amortization of bond issue costs	26	26
Depreciation and amortization	1,181	1,220
Loss on sale of assets	1	0
(Increase) decrease in-		
Service customers receivable	(48)	(11)
Other assets	2	5
Increase (decrease) in-		
Accounts payable	88	91
Accrued liabilities	<u>1</u>	<u>(34)</u>
Total adjustments	<u>1,251</u>	<u>1,297</u>
Net cash flows from operating activities	<u>2,126</u>	<u>2,395</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted funds	(1,468)	255
Decrease in receivable from affiliate	963	2,013
Plant additions	<u>(751)</u>	<u>(751)</u>
Net cash flows from investing activities	<u>(1,256)</u>	<u>1,517</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bonds payable	(470)	(440)
Advances in aid of construction	(23)	(84)
Distributions	<u>(300)</u>	<u>(3,440)</u>
Net cash flows from financing activities	<u>(793)</u>	<u>(3,964)</u>
INCREASE (DECREASE) IN CASH	77	(52)
CASH, beginning of year	<u>92</u>	<u>144</u>
CASH, end of year	<u>\$ 169</u>	<u>\$ 92</u>

See accompanying notes and auditors' report.

PIMA UTILITY COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business Activity-

Pima Utility Company (Company), an Arizona corporation organized in 1972, provides water and wastewater services to substantially all of the homes in the Sun Lakes retirement community.

The rates for water and wastewater services are authorized by the Arizona Corporation Commission.

Recognition of Revenue and Expenses-

Revenue and expenses are recognized on the accrual method. Under this method, revenue is recognized when earned rather than when collected, and expenses are recognized when incurred rather than when paid.

Income Taxes-

As permitted by the *Income Taxes* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company evaluates all tax positions as required by the *Contingencies* topic of the FASB ASC, which requires a more likely-than not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in the Company's tax return. Management believes the tax positions taken on the Company's tax returns are fairly stated. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2006.

The Company and its stockholders have elected to be taxed as an S corporation. In lieu of corporate income taxes, the stockholders are personally taxed on the Company's taxable income. Therefore, no provision or liability for income taxes has been included in these financial statements.

Plant in Service-

Plant in service is stated at original cost. All water assets are depreciated on the straight-line method at 3% annually. Wastewater assets are depreciated on the straight-line method over the following useful lives-

Collection system, manholes and cleanouts and service laterals	50 years
Lift stations	10 – 28 years
Treatment and disposal systems	20 years
Structures and improvements	4 – 20 years
Equipment	5 – 10 years
Effluent lines	10 – 50 years

Repairs and maintenance to plant in service are generally expensed as incurred. Expenditures determined to represent additions and improvements are capitalized.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Charges-

Deferred charges represent costs amortizable pursuant to rulings by the Arizona Corporation Commission over the following lives-

Bond issue costs	23.5 years
Allowance for funds used during construction	22 years
Deferred operating costs for 1996 and 1997	5 years
Deferred operating costs for 1998 and 1999	Pending
Rate hearing costs	Pending

Estimates-

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Long-Lived Assets-

The Company periodically evaluates the carrying value of the long-lived assets in accordance with the FASB ASC. Under the FASB ASC, long-lived assets and certain identifiable intangible assets to be held and used in operations are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company does not believe impairment exists at December 31, 2010.

Supplemental Cash Flow Information-

Interest paid totaled \$478,000 and \$510,000 in 2010 and 2009, respectively.

(2) PLANT IN SERVICE AND UNDER CONSTRUCTION, NET:

Plant in service and under construction, net consists of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Construction work-in progress	\$ <u>20</u>	\$ <u>0</u>
Land	<u>189</u>	<u>189</u>
Wastewater:		
Collection system	4,201	4,201
Manholes and cleanouts	1,792	1,718
Lift stations	1,589	1,527
Treatment and disposal systems	10,656	10,583
Service laterals	629	629
Structures and improvements	9	5
Equipment	341	327
Effluent lines	<u>538</u>	<u>536</u>
	<u>19,755</u>	<u>19,526</u>
Water:		
Mains	3,057	3,057
Services	4,499	4,321
Hydrants	892	892
Tanks	2,708	2,679
Water supply	1,789	1,692
Meters	1,011	975
Pumps	830	731
Equipment	730	700
Structures and improvements	<u>2,292</u>	<u>2,285</u>
	<u>17,808</u>	<u>17,332</u>
Total plant in service and under construction	37,772	37,047
Less accumulated depreciation	<u>16,232</u>	<u>15,048</u>
	<u>\$ 21,540</u>	<u>\$ 21,999</u>

(3) RESTRICTED FUNDS:

Restricted funds consist of investments held by a trustee to comply with the requirements of the Trust Indenture related to the Industrial Development Authority Bonds.

The restricted funds are invested in money markets and are recorded at cost in the following trustee accounts-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Reserve fund	\$ 953	\$ 952
Bond fund	<u>1,472</u>	<u>5</u>
	<u>\$ 2,425</u>	<u>\$ 957</u>

(4) DEFERRED CHARGES:

Deferred charges consist of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Bond issue costs, net of amortization	\$ 221	\$ 247
Allowance for funds used during construction, net of amortization	360	393
Deferred operating costs for 1996 and 1997	1	1
Deferred operating costs for 1998 and 1999	1,049	1,049
Rate hearing costs	<u>165</u>	<u>165</u>
	<u>\$ 1,796</u>	<u>\$ 1,855</u>

Pursuant to an order from the Arizona Corporation Commission, from 1996 to 1999, the Company was authorized to defer 30% of the incremental operating costs of the new wastewater treatment facilities.

(5) ACCRUED LIABILITIES:

Accrued liabilities consist of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Payroll and taxes	\$ 67	\$ 54
Sales tax	27	23
Property taxes	129	128
Regulatory taxes	10	10
Interest	<u>222</u>	<u>239</u>
	<u>\$ 455</u>	<u>\$ 454</u>

(6) BONDS PAYABLE:

In December, 1995, the Company received \$10,300,000 from the sale of Industrial Development Authority Bonds of Maricopa County, which financed the construction of the wastewater treatment facility.

The bonds bear interest at 7.25% and require annual debt service of approximately \$951,000 through July, 2019.

Annual principal payments are as follows-

<u>Year Ending December 31</u>	<i>In thousands</i>
2011	\$ 505
2012	545
2013	580
2014	625
2015	670
Thereafter	<u>3,200</u>
	<u>\$ 6,125</u>

(7) ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION:

The advances in aid of construction contracts provide that a percentage of gross revenues from each applicable unit over a specified period will be paid to reimburse the customer for the cost of the water system.

Any unrefunded portion upon the contract expiration is transferred to contributions in aid of construction.

(8) INTEREST EXPENSE, NET:

Interest expense, net consists of the following-

	<i>In thousands</i>	
	<u>2010</u>	<u>2009</u>
Interest income	\$ 48	\$ 121
Interest expense	(461)	(494)
Amortization of bond issue costs	<u>(26)</u>	<u>(26)</u>
	<u>\$ (439)</u>	<u>\$ (399)</u>

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS:

In accordance with the *Fair Value Measurements and Disclosures* topic of the FASB ASC, the carrying amount reported in the balance sheet for current assets, restricted funds and current liabilities approximate fair values due to the short maturity of these instruments.

At December 31, 2010, the fair value of long-term debt was equal to the carrying amount.

(10) TRANSACTIONS WITH RELATED PARTIES:

On an ongoing basis, Pima Utility Company engages in certain business activities with affiliates which arise through the normal course of business.

The Company has an agreement with an affiliated developer where the developer pays a monthly fee to reserve capacity of the new wastewater treatment plant for its undeveloped lots. The Company earned \$1,000 and \$2,000 during 2010 and 2009, respectively, pursuant to this agreement.

The Company provides water services to affiliates for construction activity and golf courses. Revenue earned from these affiliates during 2010 and 2009 was \$59,000 and \$211,000, respectively.

The Company paid \$105,000 in 2010 and 2009, respectively, to an affiliate for administrative and accounting services.

The Company also advances excess funds to an affiliate. The advances are payable on demand and provide for monthly interest at the affiliates borrowing rate. The Company earned \$48,000 and \$120,000 of interest on the advances during 2010 and 2009, respectively. At December 31, 2010 and 2009, the outstanding receivable from affiliate was \$872,000 and \$1,835,000, respectively.

(11) RETIREMENT PLAN AND TRUST:

The Company and affiliated entities have a multi-employer trust profit sharing plan under Section 401 and 401(K) of the Internal Revenue Code. The Plan and Trust provides for retirement, disability and accidental benefits for eligible employees. The Company matches employee contributions at a rate of 25%. The Plan and Trust also provides for additional contributions by the employer, at management's discretion. As of December 31, 2010, the Company had no liability to the Plan and Trust for matching or additional contributions. The Company contributed approximately \$9,000 in 2010 and 2009, respectively to the Plan.

(12) CONCENTRATIONS OF CREDIT RISK:

The *Risk and Uncertainties* topic of the FASB ASC requires certain disclosures relating to concentrations and the general risk associated with those concentrations.

Substantially all customers reside within the Sun Lakes community.

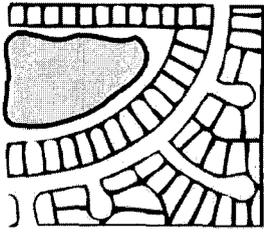
(13) SUBSEQUENT EVENTS:

Management has evaluated all subsequent events through the date the financial statements were available to be issued on April 22, 2011. No subsequent events occurred during this period which require adjustment to or disclosure in the financial statements.

Pima Utility Company
Financing Application

Exhibit 2

Detailed breakdown of the estimated costs of plant improvements



B & R ENGINEERING, INC.

LAND PLANNING - CIVIL ENGINEERING - SURVEYING

9666 E. Riggs Road, Suite 118, Sun Lakes, AZ 85248-7404 • (480) 895-0799 • FAX (480) 895-5557

September 1, 2011

Mr. Steve Soriano
General Manager
Pima Utility Company
9532 E. Riggs Road
Sun Lakes AZ 85248

Re: Hunt Highway – Price Road Force Main and Lift Station improvements

Dear Mr. Soriano:

B&R Engineering, Inc. has completed and reviewed the design plans for the Hunt Highway – Price Road Sewer Force Main Improvements and associated lift station upgrade. We feel that the design is an efficient, cost-effective solution that will greatly improve service in the area. The following is a break down of the estimate of probable cost for the project;

Piping	\$865,259
Valves/Fittings	\$201,365
Lift Station Improvements	\$375,000
Pavement Replacement	\$25,698
Traffic Control	<u>\$50,000</u>
Subtotal	\$1,517,322

Please do not hesitate to contact me with any questions or should you wish to meet to discuss this project further.

Sincerely,

Todd M. Fitzgerald, P.E.
V.P./Director of Engineering

Pima Utility Company
Financing Application

Exhibit 3

Lender's Term Sheet



Pima Utility Company Conceptual Term Sheet

This Conceptual Term Sheet is not intended to constitute a commitment or offer to lend on the part of WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank"), but only to summarize for discussion purposes our thoughts on a possible structure for the contemplated financing so that we can get your input into structuring and designing a customized financing structure for the company.

Borrower:	Pima Utility Company
Term Loan Amount:	Up to \$8,500,000
Maturity:	5 or 7 Years
Amortization:	Up to 15 Years
Interest Rate:	5-Year Term: L + 2.00% / P + 0.00%, or 7-Year Term: L + 2.25% / P + 0.25% Tax-exempt interest rates are approximately 70% of market Libor plus loan spread.
Interest Rate Hedge*:	Borrower can use an Interest Rate Swap to synthetically fix the Libor portion of the interest rate. Based on current market rates, which are subject to change, indicative rates are as follows: 5 year Libor: 1.60% + 2.00% = 3.60% all-in rate 7 year Libor: 1.95% + 2.25% = 4.20% all-in rate
Upfront Fee:	None
Guarantors:	None
Collateral:	Pledge of all allowable Borrower assets including revenue pledge.
Indicative Covenants:	Mutually agreed-upon levels of fixed charge coverage ratio and balance sheet leverage.
Other Covenants:	Standard and customary for transactions of this nature including, but not limited to: restrictions on loans/advances/investments, pledge of assets, mergers/acquisitions, and additional indebtedness.
Expenses:	Borrower agrees to pay all reasonable out-of-pocket costs and expenses incurred by the Bank in connection with initiating and administering the loan, including, but not limited to, closing, legal, and administrative costs.
Other:	Borrower will establish depository/treasury management relationship with Wells Fargo Bank.

** Notwithstanding anything herein to the contrary, on and after July 16, 2011 the availability of any swap or other derivative mentioned herein is subject to the condition that borrower is an "eligible contract participant" (as defined in the Commodities Exchange Act) on the date the swap or derivative is entered into. Any discussion herein that a swap or other derivative is or may be available to borrower is subject to borrower demonstrating to Bank's satisfaction that this and all other applicable legal requirements are met. Nothing herein shall be construed as an offer or commitment by Bank to enter into a swap or other derivative.*

Pima Utility Company
Financing Application

Exhibit 4

Pro Forma Balance Sheet for Period Ending December 31, 2010

Pima Utility Company
Actual and Proforma Balance Sheet

Line No.	Actual Year Ended 12/31/2010	1 Issue Debt	2 2011 IDA Payments	3 Payoff IDA Bonds	Proforma Adjustments			6 Construct Plant	Net Change	Proforma Year Ended 12/31/2010
					4 Buy Back Equity	5 Transfer Restricted Cash	5 Transfer Restricted Cash			
1	\$ 21,540,625	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 23,040,625	
2										
3										
4										
5	\$ 168,136	\$ 8,370,000	\$ (1,755,000)	\$ (4,370,000)	\$ (2,500,000)	\$ 2,169,530	\$ (1,500,000)	\$ 669,530	\$ 837,666	
6	\$ 2,424,530					\$ (2,169,530)		\$ (2,424,530)	\$ 0	
7	\$ 479,269								\$ 479,269	
8	\$ 872,150								\$ 872,150	
9										
10	\$ 3,944,085	\$ 8,370,000	\$ (1,755,000)	\$ (4,370,000)	\$ (2,500,000)	\$ -	\$ (1,500,000)	\$ (1,755,000)	\$ 2,189,085	
11										
12	\$ 1,796,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,796,000	
13										
14	\$ 27,280,711	\$ 8,370,000	\$ (1,755,000)	\$ (4,370,000)	\$ (2,500,000)	\$ -	\$ -	\$ (255,000)	\$ 27,025,711	
15										
16										
17										
18										
19	\$ 19,432,404							\$ (2,500,000)	\$ 16,932,404	
20										
21	\$ 6,125,000	\$ 8,370,000	\$ (1,755,000)	\$ (4,370,000)				\$ 2,245,000	\$ 8,370,000	
22										
23										
24	\$ 316,245							\$ -	\$ 316,245	
25										
26	\$ 473,862								\$ 473,862	
27	\$ 790,107								\$ 790,107	
28										
29	\$ 659,549								\$ 659,549	
30										
31	\$ 273,652								\$ 273,652	
32	\$ 933,201								\$ 933,201	
33										
34	\$ 27,280,711	\$ 8,370,000	\$ (1,755,000)	\$ (4,370,000)	\$ (2,500,000)	\$ -	\$ -	\$ (255,000)	\$ 27,025,711	
35										

Actual Cap Structure %
76.03%

Proforma Cap Structure %
66.92%

33.08%

LIABILITIES AND STOCKHOLDERS' EQUITY

Common Equity	\$ 19,432,404
Long-Term Debt	\$ 6,125,000
CURRENT LIABILITIES	
Accounts Payable	\$ 316,245
Current Portion of Long-Term Debt	-
Accrued Liabilities	\$ 473,862
Total Current Liabilities	\$ 790,107
DEFERRED CREDITS	
Advances in Aid of Construction	\$ 659,549
Accumulated Deferred Income Taxes	-
Contributions in Aid of Construction, net	\$ 273,652
Total Deferred Credits	\$ 933,201
Total Liabilities & Common Equity	\$ 27,280,711

Pima Utility Company
Financing Application

Exhibit 5
DSCR and TIER calculations

Pima Utilities Company
Debt Service Coverage Ratio ("DSCR") and Times Interest Earned Ratio ("TIER")

Line No.			
1			
2	[1]	Operating Income Per 2010 Audited Financial Statements	\$ 875,217
3		Add:	
4	[2]	Depreciation and Amortization	\$ 1,180,076
5	[3]	Income Taxes	-
6	[4]		
7			
8		Less:	
9	[5]	Refund Payments for Advances-in-aid of Construction	\$ 23,000
10	[6]	Debt Reserve Requirement	-
11			
12	[7]	Cash Available for Debt Service	<u>\$ 2,032,292</u>
13			
14	[8]	Total Debt	\$ 8,370,000
15	[9]	Term (Years)	7
16	[10]	Amortization Period (Years)	15
17	[11]	Interest Rate	5.50%
18			
19	[12]	Interest	\$ 460,350
20	[13]	Principal	373,516
21	[14]	Annual Debt Service [11] plus [12]	<u>\$ 833,866</u>
22			
23	[15]	DSCR [7] divided by [14]	2.44
24	[16]	TIER [1] plus [3] divided by [12]	1.90
25			
26			
27			
28			
29			
30			

Pima Utility Company
Financing Application

Exhibit 6

Corporate Resolution authorizing contemplated transaction

**ACTION BY UNANIMOUS WRITTEN CONSENT
OF THE DIRECTORS OF PIMA UTILITY COMPANY**

We, the undersigned, being all the directors of Pima Utility Company ("Pima"), a corporation duly organized under the laws of the State of Arizona, hereby take the following action by unanimous written consent in lieu of a meeting of the directors, which consent may be executed in one or more counterparts, such resolutions having the same force and effect as if adopted at a formal meeting of the Board of Directors, pursuant to the authority of statutes and regulations governing Arizona for profit corporations and the By-Laws of Pima.

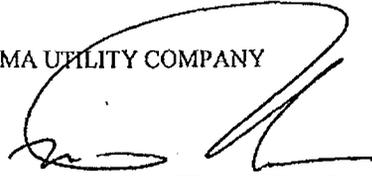
RESOLVED, that Pima is authorized to apply to the Commission to obtain approval of the financing contemplated in Pima's Application (Financing) ("Application"), in an amount necessary to: 1) replace Pima's existing debt at a reduced interest rate; 2) fund improvements to Pima's utility systems; and 3) rebalance Pima's capital structure,

RESOLVED, that Pima may obtain financing in an amount not to exceed \$8,370,000, at an interest rate not to exceed 5.5 percent, for a term not to exceed seven (7) years,

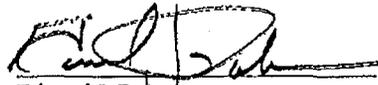
FURTHER RESOLVED, that Pima authorizes its officers, agents, and attorneys to prepare and submit all proper filings and disclosures, and seek and obtain any and all necessary permits and approvals in connection with the processing of the Application.

Dated: November 2, 2011

PIMA UTILITY COMPANY



Mark E. Robson



Edward J. Robson