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MEMORANDUM RECEIVED

2013 APR 10 P 2:12

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 10, 2013

RE: STAFF REPORT FOR SANDARIO WATER COMPANY'S APPLICATION FOR FINANCING APPROVAL. (DOCKET NO. W-01831A-12-0467)

Attached is the Staff Report for Sandario Water Company's, application for financing approval. Staff recommends denial of the requested financing.

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 April 11, 2013.

SMO:BCA:tdp

Originator: Brendan Aladi

Arizona Corporation Commission

DOCKETED

APR 10 2013

DOCKETED BY

Service List for: Sandario Water Company
Docket No. W-01831A-12-0467

Ms. Bonnie O'Connor
Sandario Water Company
Post Office Box 85160
Tucson, Arizona 85754

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

SANDARIO WATER COMPANY

**DOCKET NO.
W-01831A-12-0467**

**APPLICATION
FOR FINANCING APPROVAL**

APRIL 10, 2013

STAFF ACKNOWLEDGMENT

The Staff Report for Sandario Water Company, Docket No. W-01831A-12-0467 was the responsibility of the Staff members listed below. Brendan Aladi was responsible for the financial review and analysis of the Company's application. Dorothy Hains was responsible for the engineering and technical analysis.



Brendan C. Aladi
Public Utilities Analyst III



Dorothy Hains
Utilities Engineer

**EXECUTIVE SUMMARY
SANDARIO WATER COMPANY
DOCKET NO. W-01831A-12-0467**

On November 14, 2012, the Sandario Water Company, (“Sandario” or “Company”) filed an application for approval of financing for a Water Infrastructure Finance Authority of Arizona (“WIFA”) loan.

Sandario is a class D, for-profit S-Corporation, Arizona public service corporation that provides potable water service to approximately 330 metered customers. The Company is located approximately 11 miles south of the Marana Northwest Airport, and 22 miles northwest of the City of Tucson in the vicinity of Saguaro National Monument, in Pima County.

The Company is requesting approval for an amount not to exceed \$633,450 to fund the construction of a 100,000 gallon storage tank and electrical equipment. In addition, although Sandario makes no mention of a WIFA loan surcharge in its financing request, attached to the application is Exhibit 5, which is the Company’s calculation of a proposed WIFA loan surcharge to cover the debt service. However, a loan surcharge can only be approved in a rate case.

STAFF’S RECOMMENDATION:

Staff recommends that the Commission deny the Company’s request for approval of the loan to fund the construction of a storage tank because the Company cannot meet the minimum DSC requirements for the loan.

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Introduction

On August 31, 2012, Sandario Water Company (“Sandario” or “Company”) filed an application for a permanent rate increase (Docket No. W-01831A-12-0392) with the Arizona Corporation Commission (“Commission”). On November 14, 2012, Sandario filed an application for approval of financing for a Water Infrastructure Finance Authority of Arizona (“WIFA”) loan. The Company has objected to these dockets being consolidated.

Public Notice

The Company has not yet notified its customers about this financing application.

Background

Sandario is a class D, for-profit S-Corporation, Arizona public service corporation that provides potable water service to approximately 330 metered customers. The Company is located approximately 11 miles south of the Marana Northwest Airport, and 22 miles northwest of the City of Tucson in the vicinity of Saguaro National Monument, in Pima County.

Consumer Services

A review of the Consumer Services Section database for the Company from January 1, 2009, to October 30, 2012, revealed that there were no complaints.

Compliance

The Utilities Division Compliance Section shows no outstanding compliance issue.

Sandario is in good standing with the Corporations Division of the Commission.

Engineering Analysis

A complete discussion of Staff’s technical findings and recommendations, are provided in the attached Engineering Report. Staff notes that the Engineering Report revises the amount of financing that Staff would deem appropriate.

Use of Financial Proceeds

The proceeds of the financing will be used to construct a storage tank and electrical equipment. According to the application, the purpose of the loan was to install a storage tank and electrical equipment for approximately \$633,450. The Staff Engineering Report revises the amount of financing appropriate for this application to \$587,650.

Description of Proposed Financing

The Company has requested authorization to finance the \$633,450 related to the construction of a storage tank and electrical equipment through the use of a WIFA loan. The Company requested debt authorization to borrow \$633,450, at Prime + 2% x 85% subsidy rate ($4.46\% = 3.25\% + 2\% \times 85\%$), to be repaid over a period of 20 years. Although Sandario makes no mention of a WIFA loan surcharge in its financing request, attached to the application is Exhibit 5, which is the Company's calculation of a "proposed" WIFA loan surcharge to cover the debt service. Staff notes that a loan surcharge can only be approved in a rate case.

Financial Analysis

Staff examined the effects of the proposed financing on the Company's debt service coverage ("DSC"). DSC represents the number of times internally generated cash (i.e. earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligation.

Based upon Staff's review of the application and the Company's unaudited fiscal year ended June 30, 2012, financial statements, the Company lacks sufficient earnings and operating cash flow to meet its proposed long-term debt obligation. Even if we consider Staff's recommended revenue requirement in the pending rate case along with fully drawn WIFA loan in the amount of the lower Staff adjusted \$587,650, results in a pro forma DSC of 0.78. The pro forma DSC reveals that Sandario would not have adequate cash flow to meet all obligations including the proposed debt.

Staff's Recommendation

Staff recommends that the Commission deny the Company's request for approval of the loan to fund the construction of a storage tank because the Company cannot meet the minimum DSC requirements for the loan.

Sandario Water Company
Docket No. W-01831A-12-0467
Application for Financing

FINANCIAL ANALYSIS

	Company As Filed [A] 6/30/2012	[B] <i>Pro Forma</i>
1 Operating Income	\$ (5,477)	\$ 25,150
2 Depreciation & Amort.	-	9,697
3 Income Tax Expense	-	-
4		
5 Interest Expense	0	25,831
6 Repayment of Principal	0	18,630
7		
8		
9 TIER		
10 [1+3] / [5]	0	0.97
11		
12 DSC		
13 [1+2+3] / [5+6]	0	0.78
14		
15		
16		
17		
18 Capital Structure		
19		
20 Long-term Debt	\$ -	0.0%
21		
22 Common Equity	\$ (4,873)	100.0%
23		
24 Total Capital	\$ (4,873)	100.0%
25		
26		
27		
28		

MEMORANDUM

DATE: April 9, 2013

TO: Brendan Aladi
Public Utilities Analyst III
Utilities Division

FROM: Dorothy Hains, P. E. *DH*
Utilities Engineer
Utilities Division

RE: **Sandario Water Company, Inc.**
Docket Nos. W-01831A-12-0467 (Finance)

On November 14, 2012, Sandario Water Company, Inc. ("Company") submitted a finance application to the Arizona Corporation Commission ("Commission") for authority to incur long term debt in the amount of \$633,450 from the Water Infrastructure Finance Authority ("WIFA") of Arizona to fund water system improvements. The Company is seeking to borrow an amount not to exceed \$633,450 primarily to pay for the cost of adding a 100,000 gallon water storage tank to the Company's water system. In addition the Company needs to upgrade electrical equipment at its well site 3.

Staff evaluated the Company's application based on information obtained during Staff's field visit on October 24, 2012 in the Company's pending rate application (Docket No. W-01831A-12-0392). Staff's estimated cost for the stated improvements total \$587,650, as summarized in the Table below:

Item Description	Company Requested (\$)	Staff Estimated Costs (\$)	Staff Recommended (\$)
A 100,000 gallon steel tank (12' in height, 37.7' in diameter) installation @\$4.4/gallon	505,300	440,000	440,000
Review permit fee	N/A	1,000	1,000
Engineering design cost	N/A	10,000	10,000
Control panel upgrade	128,150	20,000	20,000
Survey/ earthwork	N/A	40,000	40,000
subtotal	633,450	511,000	511,000
Contingency cost (@15%)	N/A	76,650	76,650
Total	633,450	587,650	587,650

Staff believes that there is a potential for significant new growth in the area served by well site 3 and that adding storage in this area will improve service and benefit customers. Staff concludes that the listed system improvements are appropriate and the costs as adjusted by Staff reasonable. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes. If this Financing request is approved by the Commission Staff recommends that the Company file with Docket Control, as a compliance item in this docket, by December 31, 2015, a copy of the Arizona Department of Environmental

Quality Certificate of Approval of Construction for 100,000 gallons of additional storage capacity.