

NEW APPLICATION



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FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
2394 East Camelback Road
Suite 600
Phoenix, Arizona 85016

2013 JUL 10 P 4 31

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Attorneys for Lago Del Oro Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF LAGO DEL ORO WATER COMPANY,
AN ARIZONA CORPORATION, FOR
AUTHORITY TO: (1) ISSUE EVIDENCE OF
INDEBTEDNESS IN AN AMOUNT NOT TO
EXCEED \$3,900,000 IN CONNECTION
WITH THE PURCHASE OF EQUITY; AND
(2) ENCUMBER REAL PROPERTY AND
PLANT AS SECURITY FOR SUCH
INDEBTEDNESS.

DOCKET NO: W-01944A-13-0242

APPLICATION (FINANCING)

Pursuant to A.R.S. §§ 40-301 and 40-302, Lago Del Oro Water Company ("LDO" or the "Company"), an Arizona public service corporation, hereby applies for authority from the Arizona Corporation Commission ("Commission") to (1) issue evidence of indebtedness in an amount not to exceed \$3,900,000 on the terms and conditions set forth below, and (2) encumber its real property and utility plant as security for such indebtedness. In December 2012, LDO purchased a significant portion of its water system. This funding will be used to repay the shareholders for this asset purchase and rebalance the Company's capital structure to reflect a higher amount of debt.

In support of this Application, LDO states as follows:

Arizona Corporation Commission

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JUL 10 2013

DOCKETED BY *NR*

1 **A. General Background.**

2 1. LDO is a public service corporation engaged in providing water utility
3 service in portions of Pima County and Pinal County, Arizona, pursuant to a certificate of
4 convenience and necessity granted by the Commission.

5 2. LDO serves approximately 6,400 connections. The Company's present rates
6 and charges for water utility service were approved by the Commission in Decision
7 No. 56464 (April 26, 1989) using a test year ending April 30, 1988. A rate case seeking
8 new rates is being filed at roughly the same time as this application using a test year
9 ending December 31, 2012.

10 3. LDO's business office is located at 9532 E. Riggs Road, Sun Lakes, Arizona
11 85248 and its telephone number is (480) 895-4200. The Company's primary management
12 contact is Steve Soriano. Mr. Soriano is employed by the Company as its Vice President
13 and General Manager.

14 4. Mr. Soriano is the person responsible for overseeing and directing the
15 conduct of this Application. His mailing address is 9532 E. Riggs Road, Sun Lakes,
16 Arizona 85248 and his telephone number is (480) 895-4200; his telecopier number is
17 (480) 895-5455, and his email address is steve.soriano@robson.com. **All discovery,**
18 **data requests and other requests for information concerning this Application should**
19 **be directed by email to Mr. Soriano, with a copy to undersigned counsel for the**
20 **Company, including by e-mail to jshapiro@fclaw.com and wbirk@fclaw.com.**

21 5. Financial statements for the twelve-month period ending December 31,
22 2012, are attached at **Exhibit 1**.

23 **B. Purposes of Financial Transaction.**

24 6. The debt financing contemplated herein will be used to purchase \$3,900,000
25 of equity to rebalance LDO's capital structure by returning the paid in capital recently
26

1 used to fund a recent significant asset purchase. A list of the purchased facilities is
2 attached as **Exhibit 2**.

3 7. The Company's capital structure is presently 100 percent equity. This
4 transaction, if approved and when complete, will leave LDO with a capital structure
5 consisting of approximately 59.79 percent equity and 40.21 percent debt. The new capital
6 structure is more balanced and favors customers as the cost of debt is less than the cost of
7 equity.

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

9 8. The lender will most likely be Wells Fargo. The lender's term sheet is
10 attached hereto as **Exhibit 3**. Wells Fargo has represented that it will provide the subject
11 financing at an interest rate not to exceed 6 percent with a maturity of 5 years. As a result,
12 LDO is undertaking to negotiate a loan agreement with Wells Fargo. Such agreement will
13 be subject to the Commission approval sought in this docket.

14 9. LDO's repayment obligation to Wells Fargo will be secured by the grant of a
15 security interest in LDO's real property and its water plants and systems.

16 **D. Effects of Financial Transactions.**

17 10. LDO's pro forma balance sheet for the period ending December 31, 2012 is
18 attached at **Exhibit 4**. The pro forma balance sheet reflects the impact of the financing
19 transactions that are the subject of this Application. As noted, the Company's pro forma
20 capital structure is approximately 40.21 percent debt and 59.79 percent common equity.

21 11. With the proposed new debt, LDO will have a Debt Service Coverage Ratio
22 (DSCR) of 2.07 and a Times Interest Earned Ratio (TIER) of negative 0.25. The DSCR
23 and TIER calculations, as shown on **Exhibit 5**, were calculated using an interest rate of
24 6 percent.

25 12. The loan proceeds will be issued for lawful purposes, as discussed herein,
26 and the execution of the loan agreement with Wells Fargo and the grant of a security

1 interest in LDO's real property, plant and system, and the undertaking of the obligations
2 set forth therein are within the Company's corporate powers. A Corporate Resolution
3 authorizing the contemplated transaction is attached at **Exhibit 6**.

4 13. LDO will file true and correct copies of all debt instruments issued within
5 thirty (30) days from the date of finalizing the loan.

6 14. The approvals sought herein are compatible with the public interest and with
7 the proper performance of LDO's duties as a public service corporation.

8 15. The financing contemplated herein will not impair LDO's ability to perform
9 its duties as a public service corporation providing water utility service.

10 16. LDO is in the process of providing notice of this Application by publishing
11 notice, in the form provided by the Commission, in a newspaper of general circulation in
12 the area in which the Company provides service. Proof of publication and a true copy of
13 the notice will be filed with the Commission.

14 Based on the foregoing, LDO respectfully requests the following:

15 A. That the Commission consider this Application on an expedited basis,
16 including the scheduling of a hearing only if necessary, on this matter as soon as
17 practicable;

18 B. That the Commission enter an order approving this Application and
19 authorizing LDO to incur indebtedness in an amount not to exceed \$3,900,000 for a term
20 not to exceed 5 years at an interest rate not to exceed 6 percent, and to encumber its real
21 property and utility plant and system to secure such indebtedness for the purposes
22 described hereinabove; and

23 C. That the Commission authorize LDO to take such other and further action as
24 may be necessary to effectuate the purposes of this Application, as may be appropriate
25 under the circumstances herein.

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RESPECTFULLY SUBMITTED this 10th day of July, 2013.

FENNEMORE CRAIG, P.C.

By


Jay L. Shapiro
2394 East Camelback Road
Suite 600
Phoenix, Arizona 85016
Attorneys for Lago Del Oro Water
Company

ORIGINAL and fifteen (15) copies
of the foregoing were delivered
this 10th day of July, 2013, to:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

By: 
8266630.1/058113.0010

EXHIBIT

1

LAGO DEL ORO WATER COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

LAGO DEL ORO WATER COMPANY

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

In thousands

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
PLANT IN SERVICE AND UNDER CONSTRUCTION, NET	\$ 9,463	\$ 6,191
CURRENT ASSETS:		
Cash	87	107
Customer accounts receivable	165	144
Other receivables	24	24
Receivable from affiliate	526	200
Prepayments	862	35
Total current assets	1,664	510
DEFERRED CHARGES	20	300
	<u>\$ 11,147</u>	<u>\$ 7,001</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 85	\$ 23
Accrued liabilities	126	296
Total current liabilities	211	319
CUSTOMER DEPOSITS	112	146
ACCUMULATED DEFERRED INCOME TAX	431	0
ADVANCES IN AID OF CONSTRUCTION	298	360
CONTRIBUTIONS IN AID OF CONSTRUCTION, NET	396	360
Total liabilities	1,448	1,185
CAPITALIZATION:		
Common stock, \$100 par value; 50,000 shares authorized; 2,000 shares issued and outstanding	150	150
Additional paid-in capital	8,223	4,323
Retained earnings	1,326	1,343
Total capitalization	9,699	5,816
	<u>\$ 11,147</u>	<u>\$ 7,001</u>

LAGO DEL ORO WATER COMPANY

STATEMENTS OF INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Metered	1,865	1,867
Miscellaneous service revenue	17	16
Total revenues	<u>1,882</u>	<u>1,883</u>
OPERATING EXPENSES:		
Salaries and employee benefits	205	176
Purchased power	419	464
Chemicals	22	16
Repairs and maintenance	83	63
Office supplies and expense	67	54
Contractual services	105	64
Rents	9	3
Transportation	42	32
Insurance	25	31
Property taxes	111	110
Depreciation	828	641
Income taxes	(15)	85
Other miscellaneous expense	25	28
Total operating expenses	<u>1,926</u>	<u>1,767</u>
Operating income (loss)	(44)	116
OTHER INCOME (EXPENSE):		
Interest income (expense), net	7	(4)
Other income	20	7
Total other income (expense)	<u>27</u>	<u>3</u>
NET INCOME (LOSS)	<u>\$ (17)</u>	<u>\$ 119</u>

LAGO DEL ORO WATER COMPANY

STATEMENTS OF CAPITALIZATION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL CAPITALIZATION</u>
BALANCES, December 31, 2010	\$ 150	\$ 4,323	\$ 1,224	\$ 5,697
NET INCOME	<u>0</u>	<u>0</u>	<u>119</u>	<u>119</u>
BALANCES, December 31, 2011	150	4,323	1,343	5,816
NET LOSS	0	0	(17)	(17)
CONTRIBUTIONS	<u>0</u>	<u>3,900</u>	<u>0</u>	<u>3,900</u>
BALANCES, December 31, 2012	<u>\$ 150</u>	<u>\$ 8,223</u>	<u>\$ 1,326</u>	<u>\$ 9,699</u>

LAGO DEL ORO WATER COMPANY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

In thousands

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (17)	\$ 119
Adjustments to reconcile net income (loss) to net cash flows from operating activities-		
Depreciation	828	641
Amortization	3	3
(Increase) decrease in-		
Customer accounts receivable	(21)	9
Other receivables	0	(24)
Prepayments	(830)	(34)
Deferred charges	280	(169)
Increase (decrease) in-		
Accounts payable	62	(43)
Accrued liabilities	(170)	198
Customer deposits	(34)	(36)
Accumulated deferred income taxes	431	0
Total adjustments	<u>549</u>	<u>545</u>
Net cash flows from operating activities	<u>532</u>	<u>664</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in receivable from affiliate	(326)	(126)
Plant additions	<u>(4,124)</u>	<u>(124)</u>
Net cash flows from investing activities	<u>(4,450)</u>	<u>(250)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note/bonds payable	0	(327)
Advances in aid of construction	(2)	(2)
Contributions	<u>3,900</u>	<u>0</u>
Net cash flows from financing activities	<u>3,898</u>	<u>(329)</u>
INCREASE (DECREASE) IN CASH	(20)	85
CASH, beginning of year	<u>107</u>	<u>22</u>
CASH, end of year	<u>\$ 87</u>	<u>\$ 107</u>

LAGO DEL ORO WATER COMPANY

SUPPORTING SCHEDULES
DECEMBER 31, 2012 AND 2011

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

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

	<i>In thousands</i>	
	<u>2012</u>	<u>2011</u>
Construction work-in progress	\$ 31	\$ 0
Land	43	43
Wells and springs	2,421	1,924
Electric pumping equipment	2,609	2,378
Distribution reservoirs and standpipes-storage tanks	3,805	3,061
Transmission and distribution mains	5,729	3,949
Services	1,890	1,581
Hydrants	719	530
Structures and improvements	335	184
Power generating equipment	67	4
Office furniture and equipment	47	41
Transportation equipment	105	81
Power operated equipment	110	108
Communication equipment	368	313
Miscellaneous equipment	49	45
Meters	566	537
Water treatment equipment	14	6
	<u>18,908</u>	<u>14,785</u>
Less accumulated depreciation	<u>9,445</u>	<u>8,594</u>
	<u>\$ 9,463</u>	<u>\$ 6,191</u>

(2) PREPAYMENTS:

Prepayments consist of the following-

	<i>In thousands</i>	
	<u>2012</u>	<u>2011</u>
Loan fees	\$ 32	\$ 35
Federal taxes	688	0
State taxes	142	0
	<u>\$ 862</u>	<u>\$ 35</u>

(3) DEFERRED CHARGES:

Deferred charges, net of amortization, consist of the following-

	<i>In thousands</i>	
	<u>2012</u>	<u>2011</u>
Accumulated income tax benefit	\$ 0	\$ 294
Rate hearing costs	20	6
	<u>\$ 20</u>	<u>\$ 300</u>

(4) ACCRUED LIABILITIES:

Accrued liabilities consist of the following-

	<i>In thousands</i>	
	<u>2012</u>	<u>2011</u>
Sales tax	\$ 23	\$ 21
ACC/RUCO tax	4	4
Real estate tax	55	55
Federal income tax	0	149
State income tax	0	31
Payroll	29	24
Prepaid service revenue	15	12
	<u>\$ 126</u>	<u>\$ 296</u>

(5) CONTRACTURAL SERVICES:

Contractural services consist of the following-

	<i>In thousands</i>	
	<u>2012</u>	<u>2011</u>
Engineering	\$ (4)	\$ 4
Accounting	1	1
Administrative services	58	53
Testing	50	6
	<u>\$ 105</u>	<u>\$ 64</u>

(6) INTEREST INCOME (EXPENSE), NET:

Interest income (expense), net consists of the following-

	<i>In thousands</i>	
	<u>2012</u>	<u>2011</u>
Interest income	\$ 7	\$ 0
Interest expense	0	(4)
	<u>\$ 7</u>	<u>\$ (4)</u>

EXHIBIT

2

Lago Del Oro Water Company
2012 Asset Purchases From Saddlebrooke Development
January 1, 2012

Asset Description	Amount
Unit Infrastructure:	
Unit 46	228,171
Unit 46A	7,386
Unit 47	323,381
Unit 48 & 48A	227,131
Unit 49	501,861
Backbone:	
Water Plant 5	983,357
Well 22	817,107
Phase 2 Offsite Water Mains	537,979
Transmission Lines	261,625
	<hr/>
	3,887,998

EXHIBIT

3



Lago Del Oro Water Company Discussion Items

This 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:	Lago Del Oro Company
Term Loan Amount:	Up to \$4,000,000
Maturity:	5 Years
Amortization:	Up to 15 Years
Interest Rate:	L + 2.00% / P + 0.00%
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.
Financial Reporting:	Annual CPA [Audited/Reviewed] Financial Statements and Covenant Compliance Certificate due 120 days after FYE; Quarterly Company Prepared Financial Statements and Covenant Compliance Certificate due 45 days after each quarter end.
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.

EXHIBIT

4

Lago Del Oro Water Company
Actual and Proforma Balance Sheet

Line No.	Actual Year Ended 12/31/2012	Proforma Adjustments			Proforma Year Ended 12/31/2012
		1 Issue Debt	2 Buy Back Equity	Net Change	
ASSETS					
1	\$ 9,463,218	\$ -	\$ -	\$ -	\$ 9,463,218
2					
3					
4					
5	\$ 87,341				\$ 87,341
6					
7	188,500				188,500
8	525,606				525,606
9	861,877				861,877
10					
11	\$ 1,663,324	\$ 3,900,000	\$ (3,900,000)	\$ -	\$ 1,663,324
12					
13	\$ 20,262				\$ 20,262
14					
15	\$ 11,146,804	\$ 3,900,000	\$ (3,900,000)	\$ -	\$ 11,146,804
16					
17					
LIABILITIES AND STOCKHOLDERS' EQUITY					
18					
19					
20	\$ 9,699,340			\$ (3,900,000)	\$ 5,799,340
21					
22	\$ -	\$ 3,900,000	\$ -	\$ 3,900,000	\$ 3,900,000
23					
24					
25	\$ 84,583			\$ -	\$ 84,583
26					
27	111,854				111,854
28	81,483				81,483
29	44,455				44,455
30	\$ 322,375			\$ -	\$ 322,375
31					
32	297,640				297,640
33	431,031				431,031
34	396,418				396,418
35	\$ 1,125,089			\$ -	\$ 1,125,089
36					
37	\$ 11,146,804	\$ 3,900,000	\$ (3,900,000)	\$ -	\$ 11,146,804
38					

Actual Cap Structure % 100.00%

Proforma Cap Structure % 59.79%

Proforma Cap Structure % 40.21%

EXHIBIT

5

Exhibit

Lago Del Oro Water Company
 Debt Service Coverage Ratio ("DSCR") and Times Interest Earned Ratio ("TIER")

Line No.			
1			
2	[1]	Operating Income Per 2012 Unaudited Financial Statements	\$ (44,520)
3		Add:	
4	[2]	Depreciation and Amortization	\$ 827,650
5	[3]	Income Taxes	(14,956)
6	[4]		
7			
8		Less:	
9	[5]	Refund Payments for Advances-in-aid of Construction	\$ (62,412)
10	[6]	Debt Reserve Requirement	-
11			
12	[7]	Cash Available for Debt Service	<u>\$ 830,586</u>
13			
14	[8]	Total Debt	\$ 3,900,000
15	[9]	Term (Years)	5
16	[10]	Amortization Period (Years)	15
17	[11]	Interest Rate	6.00%
18			
19	[12]	Interest	\$ 234,000
20	[13]	Principal	167,555
21	[14]	Annual Debt Service [1] plus [12]	<u>\$ 401,555</u>
22			
23	[15]	DSCR [[7] divided by [14]	2.07
24	[16]	TIER [1] plus [3] divided by [12]	(0.25)
25			
26			
27			
28			
29			
30			

EXHIBIT

6

**CERTIFIED RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
LAGO DEL ORO WATER COMPANY**

James D. Hubbard, the Treasurer and Assistant Secretary of Lago Del Oro Water Company (the "Corporation"), hereby certifies that the following resolutions of the Board of Directors of the Corporation were adopted by the Board of Directors by unanimous written consent, dated July 10, 2013, that such resolutions have not been amended, altered or repealed, and that such resolutions remain in full force and effect on the date hereof:

Financing Application to Arizona Corporation Commission

RESOLVED, that the Corporation seek authority from the Arizona Corporation Commission to issue up to \$3,900,000 of long-term debt (the "Debt") for recapitalization purposes, and for other Corporation purposes;

FURTHER RESOLVED, that the Corporation file a financing application with the Arizona Corporation Commission and take all other appropriate action in order to obtain the Arizona Corporation Commission's approval for the Debt; and

FURTHER RESOLVED, that the attorneys, officers and agents of the Corporation are hereby authorized and directed to file all such schedules and disclosures with the Arizona Corporation Commission and take such other reasonable action as may be necessary or appropriate to obtain such approval for the Debt.

Incurring of the Debt

RESOLVED, that the Corporation, upon receipt of approval from the Arizona Corporation Commission, incur the Debt;

FURTHER RESOLVED, that the Debt shall be upon such terms and conditions as comply with the order of the Arizona Corporation Commission and that are approved by Edward J. Robson, as Chairman of the Board, Mark E. Robson, as President, or Steven Soriano, as Vice President, of the Corporation and that upon such approval by any of them, any the proper officers of the Corporation be, and they hereby are, authorized and directed to execute such promissory notes, security instruments and/or other evidence of the Debt, and related documents, as such officers deem reasonable and appropriate.

General

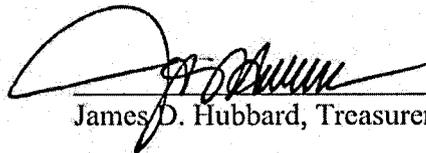
RESOLVED, that (a) Steven M. Soriano, the Vice President and General Manager of the Corporation, (b) Peter M. Gerstman, the General Counsel of Robson Communities, Inc., and (c) the law firm of Fennemore Craig by and through Jay

Shapiro, each be and each hereby is, authorized to represent the Corporation in all matters before the Arizona Corporation Commission;

FURTHER RESOLVED, that all acts of the Corporation's officers and directors for and on behalf of the Corporation since the last meeting of the Board of Directors be, and they hereby are, ratified and affirmed;

FURTHER RESOLVED, that the officers of the Corporation be, and they hereby are, authorized and directed to take such further actions as may be necessary or advisable to carry out the intent of these resolutions.

DATED: July 10 2013.

A handwritten signature in black ink, appearing to read "J. D. Hubbard", is written over a horizontal line.

James D. Hubbard, Treasurer and Assistant Secretary