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MEMORANDUM RECEIVED

TO: Docket Control

2014 JUN 23 A 10:15

FROM: Steven M. Olea
Director
Utilities Division

ARIZONA CORP COMMISSION
DOCKET CONTROL

DATE: June 23, 2014

RE: **STAFF REPORT** FOR COMMUNITY WATER COMPANY OF GREEN VALLEY FOR AUTHORITY TO BORROW UP TO \$3.4 MILLION FROM COMPASS BANK AND COMPASS MORTGAGE CORPORATION FOR THE PURPOSES OF (1) REFINANCING UP TO \$2.2 MILLION IN EXISTING LONG-TERM DEBT; AND (2) ISSUING AN ADDITIONAL \$1.2 MILLION IN LONG-TERM DEBT, UNDER A.R.S. §§ 40-301 AND 40-302. (DOCKET NO. W-02304A-14-0041)

Attached is the Staff Report for Community Water Company of Green Valley's application requesting authorization to incur long term debt from Compass Bank and Compass Mortgage Corporation in an amount of \$3,400,000 ("Financing Application"). Staff recommends approval for the authorization of \$2,120,000 of debt, along with Staff's recommended conditions.

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 July 3, 2014.

SMO:TBH:red\CHH

Originator: Teresa B. Hunsaker

Arizona Corporation Commission
DOCKETED
JUN 23 2014

DOCKETED BY *NR*

Service List for: Community Water Company of Green Valley
Docket No. W-02304A-14-0041

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**COMMUNITY WATER COMPANY OF GREEN VALLEY
DOCKET NO. W-02304A-14-0041**

APPLICATION FOR FINANCING AUTHORIZATION

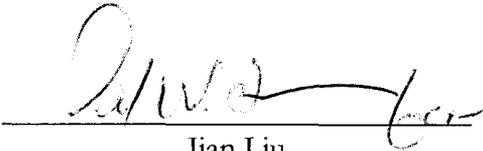
JUNE 23, 2014

STAFF ACKNOWLEDGMENT

The Staff Report for Community Water Company of Green Valley, Docket No. W-02304A-14-0041, is the responsibility of the Staff members listed below. Teresa B. Hunsaker is responsible for the financial analysis. Jian Liu is responsible for the engineering review.



Teresa B. Hunsaker
Public Utilities Analyst II



Jian Liu
Water/Wastewater Engineer

**EXECUTIVE SUMMARY
COMMUNITY WATER COMPANY OF GREEN VALLEY
DOCKET NO. W-02304A-14-0041**

On February 12, 2014, Community Water Company of Green Valley, ("CWCGV" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to borrow up to \$3,400,000 from Compass Bank and Compass Mortgage Corporation ("Compass").

CWCGV is a Class "A" Arizona public service corporation and a non-profit corporation located in Green Valley, Arizona. CWCGV is located approximately 25 miles south of Tucson on Interstate Highway 19 and serves an area in Pima County. The Company's existing Certificate of Convenience and Necessity includes an area totaling approximately 6,000 acres or 9.44 square miles. The Company's water system served approximately 13,000 connections as of December 2013.

The Company requests authorization to issue debt in an amount not to exceed \$3,400,000 in the form of a loan with a 20-year amortization and a 15-year maturity with any principal not paid to be due in 2029. The terms of the loan with Compass include a fixed principal repayment based on a 20-year amortization and a fixed interest rate not to exceed 5.8 percent per annum. Compass provided the Company two options for establishing the interest rates to be associated with this loan arrangement. The terms of the refinancing do include a balloon payment of approximately \$777,000 for the remaining principal due in 2029. The terms of the anticipated loan provide for encumbrance of all the Company's assets and revenues. The Company proposes to use the proceeds of the debt financing for the following purposes:

- Refinance up to \$2,200,000 in existing long-term debt; and,
- Issue up to \$1,200,000 in additional debt for the replacement of CWCGV's existing 1,000,000 gallon Reservoir No. 2, with an aboveground 2,000,000 gallon steel storage tank.

Staff recommends authorizing the Company to borrow up to \$2,120,000 from Compass and that the Commission approve the Company's request to use that loan to fund the refinancing up to \$2,120,000 in existing long-term debt. Staff recommends not granting financing authority for the installation of an aboveground 2,000,000 gallon steel storage tank based on the fact that the additional storage capacity is not needed in the foreseeable future. The Company's pro forma DSC indicates that CWCGV would have sufficient cash flow to meet all obligations under either interest rate option. Staff further concludes that issuance of the proposed debt financing for the purposes stated within the financing application is compatible with the public interest, should not impair the Company's ability to provide services, and is generally consistent with sound financial practices.

Staff Recommends:

- The Company be granted the authorization to incur a loan with a 20-year amortization and a 15-year maturity with any principal not paid due in 2029 in an amount not to exceed \$2,120,000 for existing long-term debt pursuant to a loan agreement with

Compass and at an interest rate not to exceed 5.8 percent per annum. The remainder of the Company's \$3,400,000 request for authorization to borrow funds should be denied.

- The Company be authorized to pledge its assets and revenues in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the Compass loan.
- The Company be directed to file as a compliance item in this Docket, within 60 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.
- The Company be directed to provide to the Utilities Division, upon Staff request, a copy of any Compass loan documents executed pursuant to the authorizations granted herein.
- The Company be directed to file as a compliance item in this Docket, within 120 days of the approval of this application, a repayment plan by year for the balloon payment for the remaining principal due in 2029.
- The Commission rescind any unused authorizations to issue debt granted from the previous financing authorization in Decision No. 71259.
- The Commission set an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2017.
- The Commission deny the Company's application to incur debt to finance the installation of an aboveground 2,000,000 gallon steel storage tank.
- The Company investigate the possibility of upgrading one of its two on-site generators so the upgraded on-site generator can power the well pumps in case of an emergency.

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INTRODUCTION

On February 12, 2014, Community Water Company of Green Valley, (“CWCGV” or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) requesting authorization to borrow up to \$3,400,000¹ from Compass Bank and Compass Mortgage Corporation (“Compass”).

The Company requests authorization to issue debt in an amount not to exceed \$3,400,000 in the form of a loan with a 20-year amortization and a 15-year maturity with any principal not paid to be due in 2029. The terms of the loan with Compass include a fixed principal repayment based on a 20-year amortization and a fixed interest rate not to exceed 5.8 percent per annum. Compass provided the Company two options for establishing the interest rates to be associated with this loan arrangement. The terms of the refinancing do include a balloon payment of approximately \$777,000 for the remaining principal due in 2029. The terms of the anticipated loan provide for encumbrance of all the Company’s assets and revenues.

PUBLIC NOTICE

The Company published notice of its financing application on February 23, 2014, in the *Green Valley News and Sun*. The *Green Valley News and Sun* is a newspaper of general circulation in Pima County.

BACKGROUND

CWCGV is a Class “A” Arizona public service corporation and a non-profit corporation located in Green Valley, Arizona. CWCGV is located approximately 25 miles south of Tucson on Interstate Highway 19 and serves an area in Pima County. The Company’s existing Certificate of Convenience and Necessity (“CC&N”) includes an area totaling approximately 6,000 acres or 9.44 square miles. CWCGV’s CC&N was granted in Commission Decision No. 47912, dated May 1, 1977, when it received assets from Arizona Water Company. The Company’s water system served approximately 13,000 connections as of December 2013. The current rates were established in Decision No. 71478, dated February 3, 2010.

CWCGV’s last financing application was approved in Decision No. 71259, dated September 3, 2009. The Commission authorized CWCGV to incur up to \$2.81 million of debt financing for paying off the \$2.50 million balance of the non-revolving line of credit authorized by Decision No. 67515, and to fund \$310,000 of planned capital improvements. Decision No. 67515, dated January 20, 2005, granted CWCGV the following authorizations: 18-month non-revolving line of credit in the amount of \$4.0 million to finance arsenic treatment equipment, Central Arizona Project (“CAP”) rights, refinance long-term debt, other miscellaneous equipment (“Facility 1”) and a 60-month term loan in the amount of \$4.0 million to pay off Facility 1.

¹ The Financing Application Exhibit 2 – Summary of Non-Binding Indicative Terms and Conditions for the proposed \$4,000,000 Financing Revised on February 10, 2014 by Compass Bank and Compass Mortgage Corporation indicates an obligation amount of up to \$4,000,000.

CONSUMER SERVICES

The Corporations Division reported that the Company is in Good Standing. A search of the Consumer Services database from January 1, 2011 to June 5, 2014, indicated that a total of two complaints were received; one in 2012 for a service issue and the other in 2013 for a billing dispute. Both complaints have been resolved and closed.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The Company proposes to use the proceeds of the debt financing for the following purposes:

- Refinance up to \$2,200,000 in existing long-term debt; and
- Issue up to \$1,200,000 in additional debt for the replacement of CWCGV's existing 1,000,000 gallon Reservoir No. 2, with an aboveground 2,000,000 gallon steel storage tank.

STAFF SUMMARY CONCLUSION

After review of the Company's refinancing application, Staff had concerns regarding the level of existing debt required to refinance. Staff determined that \$23,417 of the total that the Company indicated was required to be financed prior to November 18, 2014, is not required to be refinanced. Staff also discovered a rounding problem of approximately \$57,000 within the Company's Exhibit 1 data. Staff concluded that \$2,120,000 would need to be refinanced. Within the Engineering Analysis discussed below, Staff determined that no new borrowing is required to fund new planned construction. Therefore, Staff recommends the authorization to borrow up to \$2,120,000 from Compass.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is at Attachment B. Staff reviewed the Company's proposed replacement of CWCGV's existing 1,000,000 gallon Reservoir No. 2, with an aboveground 2,000,000 gallon steel storage tank. The Company's cost estimates for the proposed replacement of the existing Reservoir No. 2 with an aboveground 2,000,000 gallon steel storage tank to be financed total \$1,200,000. Staff recommends no authorization for the installation of an aboveground 2,000,000 gallon steel storage tank based on the fact that the additional storage capacity is not needed in the foreseeable future. Additionally, Staff recommends that the Company investigate the possibility of upgrading one of its two on-site generators so the upgraded on-site generator could run the well pumps in case of an emergency.

FINANCIAL ANALYSIS

Staff recommends authorizing the Company to borrow up to \$2,120,000 from Compass and that the Commission approve the Company's request to use that loan to fund the refinancing up to \$2,120,000 in existing long-term debt. Staff recommends not granting financing authority for

construction of planned improvements due to lack of need. Compass provided the Company two options for the interest rates based on the Company's ability to legally qualify as tax exempt. Staff provided analysis of both interest options within TBH-1. The remainder of the Company's \$3,400,000 request for authorization to borrow should be denied.

Staff's analysis is presented in Schedule TBH-1. Column [A] of the schedule reflects the Company's revised historical financial information for the year ended December 31, 2013, and Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a \$2,120,000, 20-year amortizing loan at the Taxable Swap Rate of 5.80 percent per annum. Column [C] presents pro forma financial information that modifies Column [A] to reflect issuance of a \$2,120,000, 20-year amortizing loan at the Tax Exempt Swap Rate of 3.97 percent per annum.

Schedule TBH-2 reflects Income Statements utilized for selected financial information. Schedule TBH-2 Column [A] reflects the 2012 Income Statement provided with the Annual Report to the Commission, Column [B] reflects the Company Actual 2012 Income Statement, Column [C] reflects the Company Projected 2013 Income Statement and Column [D] reflects the Company Projected 2014 Income Statement.

Schedule TBH-3 is the Loan Amortization Schedule for a 20-year loan at the Taxable Swap Rate of 5.80 percent per annum. Based on Schedule TBH-3, the remaining principal due in 2029 is approximately \$777,000. Schedule TBH-4 is the Loan Amortization Schedule for a 20-year loan at the Tax Exempt Swap Rate of 3.97 percent per annum. Based on Schedule TBH-4, the remaining principal due in 2029 is approximately \$696,000. Based on the Balance Sheet as of December 31, 2013, provided by the Company, the Cash and Cash Equivalents were \$659,956 and the Temporary Cash Investments were \$1,416,163. Based on the Company's previous financing applications² to refinance long-term debt and current assets, Staff is recommending within 120 days of the approval of this application, the Company provide to the Utilities Division, a repayment plan by year for the balloon payment for the remaining principal due in 2029.

Debt Service Coverage

Debt service coverage ("DSC") ratio 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 under either interest rate option. 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.

On Schedule TBH-1, the Company's current 5.16 DSC results as of December 31, 2013, with existing debt from Column [A] Line 13. A pro forma 6.90 DSC results for the scenario described above for Column [B] Line 13, and a pro forma 8.05 DSC results for the scenario described above for Column [C] Line 13. The DSC from both scenarios shows that cash flow from operations is sufficient to cover debt service.

² Previous Financing Decision No. 71259, dated September 3, 2009 and Financing Decision No. 67515, dated January 20, 2005.

Income Statement

Schedule TBH-2 provided the selected financial information from Column [A] from the 2012 Annual Report provided to the Commission. The Income Statements that form Column [B], Column [C] and Column [D] were docketed in an amendment to the application on February 19, 2014. Staff utilized Column [C] the 2013 Projected Income Statement in TBH-1 for the Financial Analysis.

Capital Structure

As of December 31, 2013, CWCGV's capital structure consisted of \$460,752 of short-term debt, \$2,236,291 of long-term debt, and \$8,735,686 of equity (TBH-1, Column [A], lines 18-22). Staff calculated a pro forma capital structure for the scenario described above for Column [B], which represents issuance of the proposed loan, and it is composed of \$518,652 of short-term debt, \$2,062,100 of long-term debt and \$8,735,686 of equity (TBH-1, Column [B], lines 18-22). Staff calculated a pro forma capital structure for the scenario described above for Column [C], which represents issuance of the proposed loan, and it is composed of \$531,628 of short-term debt, \$2,049,124 of long-term debt and \$8,735,686 of equity (TBH-1, Column [C], lines 18-22).

Capital Structure (inclusive of AIAC and Net CIAC)

As of December 31, 2013, CWCGV's capital structure inclusive of Advances in Aid of Construction ("AIAC") and Net Contributions in Aid of Construction ("CIAC"), consisted of \$460,752 of short-term debt, \$2,236,291 of long-term debt, \$8,735,686 of equity, AIAC of \$7,392,319 and Net CIAC of \$11,875,343 (TBH-1, Column [A], lines 29-37). The AIAC and CIAC Funding Ratio is 62.8 percent.

Staff calculated a pro forma capital structure for the scenario described above for Column [B], which represents issuance of the proposed loan at a Taxable Swap Rate of 5.80 percent per annum, and it is composed of \$518,652 of short-term debt, \$2,062,100 of long-term debt, \$8,735,686 of equity, AIAC of \$7,392,319 and Net CIAC of \$11,875,343 (TBH-1, Column [B], lines 29-37). The AIAC and CIAC Funding Ratio is 63.0 percent.

Staff calculated a pro forma capital structure for the scenario described above for Column [C], which represents issuance of the proposed loan at a Tax Exempt Swap Rate of 3.97 percent per annum, and it is composed of \$531,628 of short-term debt, \$2,049,124 of long-term debt, \$8,735,686 of equity, AIAC of \$7,392,319 and Net CIAC of \$11,875,343 (TBH-1, Column [C], lines 29-37). The AIAC and CIAC Funding Ratio is 63.0 percent.

Encumbrance

A.A.C. R18-15-104 requires borrowers to pledge their revenue sources to repay the financial assistance. Arizona Revised Statutes ("A.R.S.") § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility disposing of any of its assets that are necessary for the provision of

service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities. Staff recommends authorizing the Company to issue debt and pledge its assets and revenue as security.

Staff further concludes that issuance of the proposed debt financing for the purposes stated within the financing application is compatible with the public interest, should not impair its ability to provide services and is generally consistent with sound financial practices.

STAFF RECOMMENDS:

- The Company be granted the authorization to incur a loan with a 20-year amortization and a 15-year maturity with any principal not paid due in 2029 in an amount not to exceed \$2,120,000 for existing long-term debt pursuant to a loan agreement with Compass and at an interest rate not to exceed 5.8 percent per annum. The remainder of the Company's \$3,400,000 request for authorization to borrow funds should be denied.
- The Company be authorized to pledge its assets and revenues in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the Compass loan.
- The Company be directed to file as a compliance item in this Docket, within 60 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.
- The Company be directed to provide to the Utilities Division, upon Staff request, a copy of any Compass loan documents executed pursuant to the authorizations granted herein.
- The Company be directed to file as a compliance item in this Docket, within 120 days of the approval of this application, a repayment plan by year for the balloon payment for the remaining principal due in 2029.
- The Commission rescind any unused authorizations to issue debt granted from the previous financing authorization in Decision No. 71259.
- The Commission set an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2017.
- The Commission deny the Company's application to incur debt to finance the installation of an aboveground 2,000,000 gallon steel storage tank.

- The Company investigate the possibility of upgrading one of its two on-site generators so the upgraded on-site generator can power the well pumps in case of an emergency.

FINANCIAL ANALYSIS

Selected Financial Information

	[A] ¹		[B] ²		[C] ³	
	12/31/2013		Tax Swap Rate Pro Forma		Tax Exempt Swap Rate Pro Forma	
1 Operating Income	\$ 363,147		\$ 363,147		\$ 363,147	
2 Depreciation & Amort.	874,279		874,279		874,279	
3 Income Tax Expense	0		0		0	
4						
5 Interest Expense	99,373		121,437		82,884	
6 Repayment of Principal	140,500		57,900		70,876	
7						
8						
9 TIER						
10 [1+3] ÷ [5]	3.65		2.99		4.38	
11						
12 DSC						
13 [1+2+3] ÷ [5+6]	5.16		6.90		8.05	
14						
15						
16 Capital Structure						
17						
18 Short-term Debt	460,752	4.0%	518,652	4.6% ⁴	531,628	4.7% ⁴
19						
20 Long-term Debt ⁵	2,236,291	19.6%	2,062,100	18.2%	2,049,124	18.1%
21						
22 Common Equity	8,735,686	76.4%	8,735,686	77.2%	8,735,686	77.2%
23						
24 Total Capital	\$ 11,432,729	100.0%	\$ 11,316,438	100.0%	\$ 11,316,438	100.0%
25						
26						
27 Capital Structure (inclusive of AIAC and Net CIAC)						
28						
29 Short-term Debt	460,752	1.5%	518,652	1.7%	531,628	1.7%
30						
31 Long-term Debt ⁵	2,236,291	7.3%	2,062,100	6.7%	2,049,124	6.7%
32						
33 Common Equity	8,735,686	28.5%	8,735,686	28.6%	8,735,686	28.6%
34						
35 Advances in Aid of Construction ("AIAC")	7,392,319	24.1%	7,392,319	24.2%	7,392,319	24.2%
36						
37 Contributions in Aid of Construction ("CIAC") ⁶	11,875,343	38.7%	11,875,343	38.8%	11,875,343	38.8%
38						
39 Total Capital (Inclusive of AIAC and CIAC) ⁷	\$ 30,700,391	100.0%	\$ 30,584,100	100.0%	\$ 30,584,100	100.0%
40						
41						
42 AIAC and CIAC Funding Ratio⁸		62.8%		63.0%		63.0%
43 (35+37)/(39)						
44						

45 ¹ Column [A] is based on financial information for the year ended December 31, 2013 Unaudited Unconsolidated Financial Statements. Company revised with Data Request.
46 See Schedule TBH-2, Column [C].
47 ² Column [B] is Column [A] modified to reflect issuance of the proposed \$2.12M debt financing amortized for 20 year term at 5.8 percent per annum based on Taxable Swap Rate.
48 See Schedule TBH-3.
49 ³ Column [C] is Column [A] modified to reflect issuance of the proposed \$2.12M debt financing amortized for 20 year term at 3.97 percent per annum based on Tax Exempt
50 Swap Rate. See Schedule TBH-4.
51 ⁴ Pro Forma Short-term Debt represents the first year principal repayment on the proposed loan.
52 ⁵ Long Term Debt based on balance of the \$2.12 million loan at the end of year one.
53 ⁶ Net CIAC balance (i.e. less: accumulated amortization of contributions).
54 ⁷ Total Capital does not include of the amount for Maintenance Reserves of \$145,177. Maintenance Reserves not included in Capital Structure for the purpose of this Financial An
55 ⁸ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC,
56 for private and investor owned utilities.

INCOME STATEMENTS

	[A] 2012 Annual Report Income Statement ¹	[B] Company 2012 Actual Income Statement ²	[C] Company 2013 Projected Income Statement ^{2,3}	[D] Company 2014 Projected Income Statement ²
Revenues				
Metered Water Revenues	\$ 3,786,566	\$ 3,776,075	\$ 3,745,092	\$ 3,749,600
Miscellaneous Service Revenue	14,905			
Other Water Revenue	65,264	90,659	88,069	91,400
Total Revenues	\$ 3,866,735	\$ 3,866,734	\$ 3,833,161	\$ 3,841,000
Operating Expenses⁴				
General and Administrative		769,241	878,494	799,400
Pumping		306,867	291,345	377,800
Transmission & Distribution		432,613	372,676	442,400
Customer Accounting		416,394	411,975	478,800
Water Treatment		124,409	152,155	179,400
Source of Supply		18,111	18,229	19,500
Other Taxes (Property & Payroll)		203,998	221,290	235,400
Subtotal Operating Expenses		2,271,633	2,346,164	2,532,700
Salaries and Wages	841,197			
Purchased Power	223,175			
Chemicals	28,170			
Repairs and Maintenance	81,103			
Office Supplies Expense	5,676			
Outside Services	284,788			
Contractual Services - Testing	9,221			
Rent - Building	1,941			
Rent - Equipment				
Transportation Expense	69,921			
Insurance - General Liability	51,337			
Insurance - Other	160,990			
Regulatory Expense - Other	24,000			
Miscellaneous Expense	267,328			
Depreciation and Amortization Expense	822,813	812,150	874,279	931,400
Taxes Other than Income	356,799	271,256 ⁵	249,571 ⁵	236,900 ⁵
Property Taxes	126,581			
Total Operating Expenses	\$ 3,355,040	\$ 3,355,039	\$ 3,470,014	\$ 3,701,000
Operating Income	\$ 511,695	\$ 511,695	\$ 363,147	\$ 140,000
Other Income (Expense)				
Interest and Dividend Income	\$ 23,960			
Non-Utility Income	146,357	170,079 ⁶	37,688 ⁶	34,800 ⁶
Miscellaneous Non-Utility Expenses	-			
Interest Expense	(114,758)	(114,758)	(108,410)	(139,000)
Total Other Income (Expense)	\$ 55,559	\$ 55,321	\$ (70,722)	\$ (104,200)
Net Income (Loss)	\$ 567,254	\$ 567,016	\$ 292,425	\$ 35,800

¹ 2012 Annual Report Income Statement docketed to the Commission.

² Unconsolidated 2014 Income Statements docketed on February 19, 2014 for W-02304A-14-0041

³ Consolidated 2013 Financial Statements docketed on April 14, 2014 for W-02304A-14-0041.

⁴ Operating Expenses were provided within these specific expense categories not those required by reporting on Annual Report.

⁵ Sales Taxes Adjusted from Revenues in Projected Income Statements

⁶ Net Other Expenses for Non-Operating Expenses

LOAN DATA:

Loan Amount Requested	\$2,120,000		
Down Payment:	\$0		
Amount Financed:	2,120,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	5.80%	APR:	5.96%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$14,944.75	\$2,120,000.00	\$10,246.67	\$4,698.08	\$2,115,301.92			
2	14,944.75	2,115,301.92	10,223.96	4,720.79	2,110,581.13			
3	14,944.75	2,110,581.13	10,201.14	4,743.61	2,105,837.52			
4	14,944.75	2,105,837.52	10,178.21	4,766.53	2,101,070.99			
5	14,944.75	2,101,070.99	10,155.18	4,789.57	2,096,281.42			
6	14,944.75	2,096,281.42	10,132.03	4,812.72	2,091,468.70			
7	14,944.75	2,091,468.70	10,108.77	4,835.98	2,086,632.71			
8	14,944.75	2,086,632.71	10,085.39	4,859.36	2,081,773.35			
9	14,944.75	2,081,773.35	10,061.90	4,882.84	2,076,890.51			
10	14,944.75	2,076,890.51	10,038.30	4,906.44	2,071,984.07			
11	14,944.75	2,071,984.07	10,014.59	4,930.16	2,067,053.91			
12	14,944.75	2,067,053.91	9,990.76	4,953.99	2,062,099.92	\$121,436.90	\$57,900.08	\$179,336.98

Principal Due after 180 payments		
180 Payment / 12 monthly payments =	15 years	\$776,756.47

Community Water Company of Green Valley
 Docket No. W-02304A-14-0041
 Application For Financing of Long-Term Debt

Schedule TBH-4

LOAN DATA:

Loan Amount Requested	\$2,120,000		
Down Payment:	\$0		
Amount Financed:	2,120,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	3.97%	APR:	4.04%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$12,813.29	\$2,120,000.00	\$7,013.67	\$5,799.63	\$2,114,200.37			
2	12,813.29	2,114,200.37	6,994.48	5,818.82	2,108,381.56			
3	12,813.29	2,108,381.56	6,975.23	5,838.07	2,102,543.49			
4	12,813.29	2,102,543.49	6,955.91	5,857.38	2,096,686.11			
5	12,813.29	2,096,686.11	6,936.54	5,876.76	2,090,809.35			
6	12,813.29	2,090,809.35	6,917.09	5,896.20	2,084,913.15			
7	12,813.29	2,084,913.15	6,897.59	5,915.71	2,078,997.44			
8	12,813.29	2,078,997.44	6,878.02	5,935.28	2,073,062.17			
9	12,813.29	2,073,062.17	6,858.38	5,954.91	2,067,107.25			
10	12,813.29	2,067,107.25	6,838.68	5,974.62	2,061,132.64			
11	12,813.29	2,061,132.64	6,818.91	5,994.38	2,055,138.26			
12	12,813.29	2,055,138.26	6,799.08	6,014.21	2,049,124.04	\$82,883.58	\$70,875.96	\$153,759.54

Principal Due after 180 payments	
180 Payment / 12 monthly payments =	15 years \$696,261.69

MEMORANDUM

DATE: June 16, 2014

TO: Teresa Hunsaker
Public Utilities Analyst II
Utilities Division

FROM: Jian W. Liu 
Utilities Engineer
Utilities Division

RE: Community Water Company of Green Valley
Docket No. W-02304A-14-0041 (Financing)

Introduction and Background

On February 12, 2014, Community Water Company of Green Valley ("CWCGV" or the "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to borrow up to \$3.4 million from Compass Bank and Compass Mortgage Corporation ("Compass") for two purposes: (1) to refinance up to \$2.2 million in existing long term debt; and (2) to issue up to \$1.2 million in additional debt to remove the Company's existing 1,000,000 Reservoir No. 2, and install an aboveground 2,000,000 gallon steel storage tank.

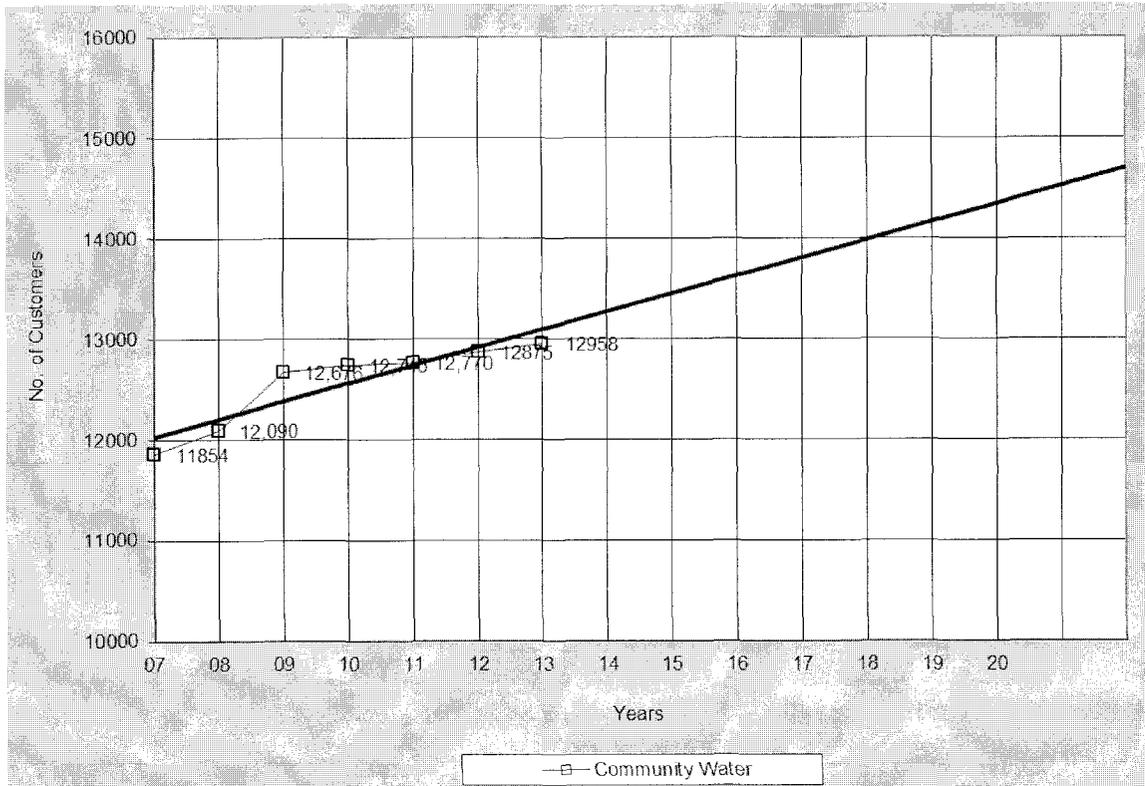
CWCGV is located approximately 25 miles south of Tucson on Interstate Highway 19 and serves area in Pima County. The Company's existing Certificate of Convenience and Necessity includes an area totaling approximately 6,000 acres or 9.4 square miles. The Company's water system served approximately 13,000 connections as of December 2013.

Engineering Analysis

The existing water system consists of four wells capable of producing approximately 6,150 gallons per minute ("GPM") of total capacity, and a total storage tank capacity of 5,600,000 gallons.

CWCGV sold a total of 721,654,000 gallons of water in 2013 with 12,958 customers, and sold 831,899,400 gallons in 2007 with 11,854 customers. Therefore, CWCGV's customers used 110,245,400 gallons less water in 2013 with 1,104 more customers. The Company believes that the decrease in water consumption is the result of many factors including higher water bills and sewer bills that have motivated customers to reduce water consumption, CWCGV's and customers' conservation efforts, appliance efficiencies, reduction in pools, and the impact of the economic downturn that continues to some degree. Based on 2013 water use data, CWCGV's existing water system can adequately support approximately 47,000 additional connections (approximately 60,000 total connections) based on storage.

Figure 1 depicts the customer growth using linear regression analysis. In 2007 CWCGV had 11,854 customers. In 2013 CWCGV had 12,958 customers. It is projected that CWCGV could have approximately 14,500 customers by 2020.



CWCGV has two (2) on-site generators. A 250kW generator is located within Well-10's boundaries. Well-10 can produce 2,100 GPM which is approximately 3,024,000 gallons per day ("GPD"). A 350kW generator is located within Well-11's boundaries. Well-11 can produce 2,400 GPM which is approximately 3,456,000 GPD. The peak day demand was 2,910,746 gallons in 2013 for the Company. Therefore, either one of these two wells has the production capacity to meet the peak day demand for the entire water system.

According to the Company the existing generators are inadequate for running the well pumps. The well pumps require a minimum of a 500kW generator.

Construction Projects and Cost Estimates to be Financed

Based on its review of the Financing Application and information provided by the Company, Staff concludes that the Company has adequate storage capacity at this time. Staff does not believe that the water use data reported by the Company supports the installation of a new aboveground 2,000,000 gallon steel storage tank. If the current water use and growth trends continue, this storage capacity could be determined to be not used and useful during a future rate proceeding.

The Company believes the new storage facility is needed for a major event such as a prolonged interruption in commercial power service. Staff recommends that the Company investigate the possibility of upgrading one of its two on-site generators so the upgraded on-site generator can run the well pumps in case of an emergency. Staff believes this would be a much more cost effective option for the Company and its customers.

The following table, which is provided for informational purposes only, compares the Company's estimated cost for adding storage with Staff's adjusted cost.

Proposed Costs for Adding Storage Capacity

Project Description	Company Proposed Costs for 2.0-million gallon storage tank	Staff's Adjusted Costs for 2.0-million gallon storage tank	Company Proposed Costs for 1.0-million gallon storage tank	Staff's Adjusted Costs for 1.0-million gallon storage tank
Total Tank Bid	\$875,660	\$875,660	\$710,000	\$710,000
Taxes at 6.1%	\$53,415	\$53,415	\$43,310	\$43,310
Controls Reconfiguration	\$15,000	\$15,000	\$15,000	\$15,000
Flowmeters	\$15,500	\$15,500	\$15,500	\$15,500
Fencing	\$33,434	\$33,434	\$33,434	\$33,434
Attorney Fees	\$20,000	0	\$20,000	0
Overhead (5%)	\$51,000	0	\$42,100	0
Contingency	\$131,491	\$87,566	\$118,324	\$71,000
Surveying	\$4,500	\$4,500	\$4,500	\$4,500
Total	\$1,200,000	\$1,085,075	\$1,002,186	\$892,744

Staff recommends the Commission deny CWCGV's application for installation of an aboveground 2,000,000 gallon steel storage tank, based on the fact that the additional storage capacity is not needed in the foreseeable future.

Water Quality Compliance

The Arizona Department of Environmental Quality ("ADEQ") regulates the CWCGV water system under ADEQ Public Water System ("PWS") ID No. 10-004. ADEQ reported that the CWCGV drinking water system is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ compliance status report dated April 1, 2014).

ACC Compliance Status

A check with ACC Utilities Division Compliance Section showed no delinquent compliance items for CWCGV. (ACC Compliance Section Email dated April 16, 2014).

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

CWCGV is located within the ADWR Tucson Active Management Area. ADWR reported that CWCGV drinking water system is in compliance with departmental requirements governing water providers and/or community water systems.

Recommendations

1. Staff recommends the Commission deny CWCGV’s application for installation of an aboveground 2,000,000 gallon steel storage tank, based on the fact that the additional storage is not needed in the foreseeable future.
2. Staff recommends that the Company investigate the possibility of upgrading one of its two on-site generators so the upgraded on-site generator can power the well pumps in case of an emergency.