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BEFORE THE ARIZONA CORPORATION

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2016 FEB 29 P 4: 21

Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

FEB 29 2016

DOCKETED BY *JK*

IN THE MATTER OF THE JOINT NOTICE OF INTENT UNDER A.A.C. R14-2-803 FOR ISSUANCE OF ADDITIONAL PUBLIC EQUITY BY GWR GLOBAL WATER RESOURCES CORP. AND A RESTRUCTURING OF GLOBAL WATER RESOURCES, INC. BY GLOBAL WATER – SANTA CRUZ WATER COMPANY, GLOBAL WATER – PALO VERDE UTILITIES COMPANY, HASSAYAMPA UTILITY COMPANY, INC., PICACHO COVE WATER COMPANY, INC., PICACHO COVE UTILITIES COMPANY, CP WATER COMPANY, INC., WILLOW VALLEY WATER COMPANY, INC., WATER UTILITY OF NORTHERN SCOTTSDALE, INC., VALENCIA WATER COMPANY, INC., WATER UTILITY OF GREATER BUCKEYE, INC., WATER UTILITY OF GREATER TONOPAH, INC. AND BALTERRA SEWER CORP.

Docket Nos. W-20446A-11-0124
SW-20445A-11-0124
SW-20422A-11-0124
W-02442A-11-0124
W-01732A-11-0124
W-03720A-11-0124
W-01212A-11-0124
W-02451A-11-0124
W-02450A-11-0124
SW-20403A-11-0124
W-20495A-11-0124
SW-20494A-11-0124

NOTICE OF FILING

Decision No. 72730 (dated January 6, 2012) requires Global¹ to file on an annual basis, a status report on its Equity Improvement Plan filed in Docket No. W-20446A-08-0247, demonstrating Global's progress toward reaching the goal of attaining at least 30 percent equity in its capital structure. Global is also required to file an annual update to its Equity Improvement Plan. The report is due on or before February 28th of each year. Accordingly, Global files the attached status report and updated Equity Improvement Plan.

¹ Global Water – Santa Cruz Water Company (“Santa Cruz”), Global Water – Palo Verde Utilities Company (“Palo Verde”), Hassayampa Utility Company, Inc., Global Water – Picacho Cove Water Company, Global Water – Picacho Cove Utilities Company, CP Water Company, Willow Valley Water Co., Inc., Water Utility of Northern Scottsdale, Inc., Water Utility of Greater Buckeye, Inc., Water Utility of Greater Tonopah, Inc. and Balterra Sewer Corp. (collectively, the “Global Utilities”); Global Water Resources, Inc., Global Water, Inc., and West Maricopa Combine, Inc. (the “Holding Company Applicants”, and together with the Global Utilities, the “Applicants” or “Global”).

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RESPECTFULLY SUBMITTED this 29th day of February, 2016.

SNELL & WILMER, LLP

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Original + 13 copies of the foregoing
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By 

Global Water Resources, Inc.
Status Report and Updated Equity Improvement Plan
February 29, 2016

Commission Decision No. 72730 (January 6, 2012) requires that Global Water Resources, Inc. ("Global") file a "status report on its equity improvement plan." Global is also required to "update the plan on an annual basis, demonstrating Global's progress toward reaching the goal of attaining at least 30 percent equity in its capital structure by December 31, 2015 and explaining how it intends to accomplish the goal." Global filed its original equity improvement plan on August 3, 2009. Global's 2009 plan included the following elements:

1. Global remains open to an IPO or private placement, as authorized in Decision No. 70890.
2. In light of the current economic situation, Global has aggressively reduced expenses and capital expenditures.
3. Global filed rate cases for six of the Global Utilities in February 2009. As with other utilities, timely and appropriate rate relief is critical to the ability of the Global Utilities to attract capital.
4. Global has worked to convert Global Water Resources, LLC to a "C" corporation, which will eliminate the need to distribute earnings to owners solely to cover associated tax liabilities.
5. As appropriate, Global continues to reinvest retained earnings into the business.

An update to each component of the original plan is provided below.

Plan Element 1, IPO or Private Placement

In December 2010, Global completed a transaction by which GWR Global Water Resources Corp. (Canadian Global), a newly-formed corporation incorporated under the laws of British Columbia, completed an initial public offering (IPO) on the Toronto Stock Exchange. Canadian Global used the net proceeds of the IPO to acquire 48.1% of Global's equity. Global received USD \$55,655,275.76 from Canadian Global in exchange for the 48.1% equity stake in Global. Further details regarding this transaction were provided to the Commission in the compliance filing made on February 17, 2011 in Docket No. W-20446A-08-0247 et al.

Decision No. 72730 (January 6, 2012) authorized Global to issue additional equity and to complete any corporate reorganization necessary to obtain the additional equity. In 2014, building off the completion of the rate case in Docket Nos. W-01212A-12-0309 et al. which is discussed further below, Global continued its comprehensive effort to increase market awareness of Global, including numerous meetings with institutional investors and analysts. As a further part of its plan to increase market awareness of Global, Global has worked with various investment firms to increase market analyst coverage of Canadian Global.

In November 2015, Global and Canadian Global announced the Board of Directors had directed management to take steps to advance a series of transaction aimed at, among other things, simplifying the capital structure and improving liquidity. The transactions, subject to all required approvals and final Board approval, would result in a merger of Canadian Global into Global, a listing on a US stock exchange, refinancing of outstanding debt and a potential issuance of equity. On January 19, 2016, Global announced the filing of a registration statement with the U.S. Securities and Exchange Commission for a proposed offering of its common stock. A copy of the press release is attached.

Plan Element 2, Reduce Expenses and Capital Expenditures

Global's original equity improvement plan was filed during the bottom of the market downturn in 2009. During that time period, growth essentially stopped, and Global saw a surge in vacant properties with inactive accounts. Accordingly, Global undertook an aggressive plan to cut expenses and capital expenditures.

Global remains focused on cost containment. However, to some extent expenses have returned to more normal levels. Capital Expenditures have remained relatively modest, but are beginning to escalate with some notable plant additions planned over the next several years.

In June of 2012, Global refinanced existing debt with lower interest rate Industrial Development Authority (IDA) revenue bonds issued by the Pima County IDA and corporate debt. The lower interest rates have resulted in lower interest costs and improved cash flow.

In November of 2014, Global refinanced approximately \$21.8 million of existing debt with favorable interest rates and terms, including reduced amortization payments. This refinancing resulted in further improved cash flow.

In March of 2015, Global signed a stipulated condemnation agreement with the City of Buckeye regarding the assets of Valencia Water Company, Inc. including Valencia Water Company – Town Division and Valencia Water Company – Greater Buckeye Division. In July of 2015, the condemnation was completed and the assets of Valencia Water Company, Inc. were transferred to the City of Buckeye.

In March of 2015, Global also announced that it had reached an agreement with EPCOR Water of Arizona Inc. for the sale of the assets of Willow Valley Water Company, Inc. This transaction is still pending final approval from the ACC.

Following the consummation of the offering discussed in the SEC Registration Statement, Global intends to refinance all of its tax-exempt bonds issued through The Industrial Development Authority of the County of Pima. The ability to complete the refinancing and to reduce the effective interest rate will be subject to market conditions at the time.

Plan Element 3, Rate Cases

In February 2009, six of the Global Utilities filed general rate cases (Docket Nos. SW-20445A-09-0077 et al.). In those dockets, the Global Utilities requested increased revenue (aggregated

across the utilities in the application) of approximately \$14.5 million. As noted in Global's 2009 equity improvement plan, "rate increases are a vital component in achieving the Commission's goal of 30% equity by 31 December 2015." The Commission's rate decision, Decision No. 71878 (Sept. 15, 2010), contained both positive and negative elements. On a positive note, the Commission approved a rate increase of approximately \$9.6 million in annual revenue (phased in over three years). However, the rate decision treated fees Global received from Infrastructure Coordination and Finance Agreements (ICFA) as Contributions in Aid of Construction (CIAC) and imposed an authorized return on equity of only 9%, far below the Commission's historical norm. The rate order resulted in Global taking write-offs of almost \$80 million and caused an \$85 million net loss for 2010. The \$85 million loss recorded in 2010 is comprised primarily of the following:

- a. \$43.1 million for reversal of ICFA's shown as revenue in prior years;
- b. \$12.1 million for write off of intangible assets (in connection with utility acquisitions where amounts recorded had been attributed to the value of the fees expected to be received under ICFA agreements); and
- c. \$24 million for impairment of value of the Water Utility of Greater Tonopah due to Commission decisions that led to negative rate base and reduction of rates.

These aspects of the rate order worked against the Commission's goal of Global achieving at least 30% equity.

In July of 2012, Global filed new rate cases for seven of its regulated utilities (Docket Nos. W-01212A-12-0309 et al.). On August 12, 2013, Global entered into a settlement agreement with Staff, the Residential Utility Consumer Office, and a number of additional parties in the pending rate case. On February 6, 2014, the Commission voted to approve the settlement agreement and the Commission's Decision No. 74364 was then issued on February 23, 2014. Subsequently, Global worked with its auditors, Deloitte & Touche LLP, to determine the impact of this decision on equity. The results of the rate order immediately improved Global's equity position by approximately \$67 million. Additionally, the new rates that will be phased in over time, will provide additional opportunity to increase equity in the future, to the extent the rates result in earnings that can be retained. Key financial impacts of the rate order include:

- An increase to annual revenue requirements of \$4.3 million. However, the rate increase is phased in over eight years for Global's largest utilities in Maricopa Arizona, while the rate increases for the smaller utilities is phased in over three years. The first rate increases under the phase in plan occurred in January 2015, and a second phase was implemented in January 2016. Global's ability to increase equity through retained earnings would be better if its regulated utilities were allowed to base rates on their full revenue requirements upon issuance of the rate order, as typically done. However, the phase in was necessary to reach a settlement;
- One time gain of approximately \$51 million, which ultimately increased book value of equity by this amount. This gain was a result of the full reversal of the imputation of CIAC associated with funds previously received under Infrastructure Coordination and

Financing Agreements (ICFA). This included a reduction of CIAC liabilities of approximately \$67 million and an increase to deferred revenue liability of approximately \$19 million;

- Reversal of approximately \$16 million deferred income tax valuation allowance, providing an additional increase to the book value equity;
- The rate settlement also includes a “stay out” provision that prevents Global’s regulated utilities from filing a rate case until May 31, 2017 (for the larger utilities in Maricopa, Arizona) or May 31, 2016 (for the smaller utilities). The rate stay out may hamper the ability of the utilities to earn their authorized returns, and thus may reduce the opportunity to increase equity through retained earnings. However, the stay out provisions were necessary to reach a settlement.

Plan Element 4, Conversion to “C” Corp

The previous parent entity of the Global Utilities was an LLC. As the parent entity generated tax liabilities, this required the parent to make “tax distributions” to owners to cover the tax liability associated with Global’s earnings. A part of Global’s 2009 equity improvement plan was to convert the parent entity into a “C” corporation, which would be separately taxed, thus eliminating the need to make “tax distributions.” The conversion to a C corporation was completed as part of the 2010 IPO process described in Plan Element 1, above.

Plan Element 5, Retained Earnings

The final element of the equity improvement plan involves reinvesting retained earnings into Global. This component of the plan remains in place. It is anticipated that the outcome of the rate case completed in 2014 will, over time, result in the generation of retained earnings, as discussed above.

Additionally, attracting equity capital requires a company to provide a fair total return to investors. An important element of total return is often in the form of dividends to shareholders. This is demonstrated by the fact that all other publically traded US water utility companies pay a dividend. Global Water initiated a dividend policy in 2014 with the belief that it is a critical part of the overall strategy to be able to attract additional equity at reasonable terms, which will benefit both the company and the ratepayers, and ultimately allow Global to achieve the 30% equity goal. This belief has been validated, in part, as Canadian Global’s stock price increased from approximately \$4.50 CAD at the close of trading on March 26, 2014 (initiation of dividend policy) to \$7.58 CAD at the close of trading on December 31, 2015. This represents a 68.4% increase since the initiation of a recurring dividend, which will allow Global to raise more equity in the future at better terms.

Summary

Global has made progress in improving its capital structure. The improvement is due to the rate case settlement, payoff of debt, selling non-core assets, and maintaining discipline over operating expenses and capital expenditures. Global has also prepared to attract equity capital

by implementing a dividend and moving towards a US listing, which can allow for the refinancing of remaining debt with more favorable terms. As of December 31, 2015, Global's estimated capital structure consisted of .9% short-term debt, 49.5% long-term debt, 18.1% equity, 29.1% Advances in Aid of Construction (AIAC), and 2.3% Contributions in Aid of Construction (CIAC%).*

Global's equity percentage has improved, as shown below:

2012: -9.4%

2013: -12.1%

2014: 10.5

2015: 18.1%*

As of December 31, 2015, Global's estimated equity as a percentage of equity plus debt (excluding AIAC and CIAC) was 26.4%.*

* Not inclusive of the deferred tax liability resultant from the gain on the Valencia Water Company stipulated condemnation. Global is required to reserve the potential liability, however, 26 USC § 1033 allows for up to 5 years to replace the assets with "like-kind" or "similar or related or use" assets to eliminate the tax liability.

PRESS RELEASE

For Immediate Release



**GLOBAL WATER RESOURCES, INC. ANNOUNCES
FILING OF REGISTRATION STATEMENT WITH THE SEC**

PHOENIX, AZ – January 19, 2016 – Global Water Resources, Inc. (“Global Water”) announced today that it has filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission for a proposed offering of its common stock (the “U.S. IPO”). In connection with the proposed U.S. IPO, Global Water plans to apply to list its common stock on the NASDAQ Global Market under the symbol “GWRS.”

Roth Capital Partners is acting as sole manager for the U.S. IPO.

About Global Water Resources, Inc.

Global Water is a water resources company located in Phoenix, Arizona, that owns and operates regulated water, wastewater and recycled water utilities in the metropolitan Phoenix area.

Notes Regarding Proposed Offering

The proposed offering will be made only by means of a prospectus. When available, a copy of the preliminary prospectus related to the offering may be obtained from: Roth Capital Partners, 888 San Clemente Drive, Suite 400, Newport Beach, CA 92660, (800) 678-9147 or by accessing the SEC’s website, www.sec.gov.

A registration statement relating to these securities has been filed with the U.S. Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This press release shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state or jurisdiction.

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