

NEW APPLICATION

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5

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 IN THE MATTER OF THE APPLICATION OF
SAHUARITA WATER COMPANY, L.L.C.,
9 AN ARIZONA CORPORATION, FOR
10 AUTHORITY TO: (1) ISSUE EVIDENCE OF
INDEBTEDNESS IN AN AMOUNT NOT TO
11 EXCEED \$2,800,000; AND (2) ENCUMBER
ITS REAL PROPERTY AND PLANT AS
SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03718A-24-_____

APPLICATION (FINANCING)

12
13 Pursuant to A.R.S. §§ 40-301 and 40-302, Sahuarita Water Company, L.L.C.
14 (“SWC” or “Company”), an Arizona public service corporation, hereby applies for
15 authority from the Arizona Corporation Commission (“Commission”) to (1) issue
16 evidence of indebtedness in an amount not to exceed \$2,800,000 on the terms and
17 conditions set forth below, and (2) encumber its real property and utility plant as security
18 for such indebtedness.¹ The requested funding will be used to buy the building in which
19 SWC’s business office is currently located.

20 In support of this Application, SWC states as follows:

21 **A. General Background.**

22 1. SWC is a public service corporation certificated to provide water
23 utility service to approximately 6,800 metered connections and a population of roughly
24 20,000 customers in and around the Town of Sahuarita, Pima County, Arizona.

25 _____
26 ¹ SWC is concurrently filing a rate application and will motion to consolidate that proceeding with this rate proceeding.

1 2. SWC’s present rates and charges for utility service were approved by
2 the Commission in Decision No. 75685 (August 5, 2016), and amended in Decision No.
3 75800 (November 21, 2016), using a test year ending December 31, 2014.

4 3. SWC’s office is located at 14125 S. Rancho Sahuarita Blvd.,
5 Sahuarita, Arizona 85629 and its telephone number is (520) 399-1105. The primary
6 management contact is Miccal Carnahan, Vice President of Accounting.

7 4. Ms. Carnahan is the person responsible for overseeing and directing
8 the conduct of this Application. Her mailing address is 4549 E. Fort Lowell Road,
9 Tucson, Arizona 85712; her telephone number is (520) 299-8766; and her e-mail address
10 is Miccal.Carnahan@ranchosahuarita.com. **All discovery, data requests and other**
11 **requests for information concerning this Application should be directed to**
12 **Ms. Carnahan, with a copy by e-mail to undersigned counsel at**
13 **jay@shapslawaz.com and whitney@shapslawaz.com.**

14 5. Financial statements for the twelve-month period ending
15 December 31, 2023 are attached as **Exhibit 1**.

16 **B. Purposes of Financial Transaction.**

17 6. The debt financing contemplated herein will be used to buy real
18 property located at 14125 S. Rancho Sahuarita Blvd., Sahuarita, Arizona 85629,
19 APN 303-08-7180, more particularly described as Rancho Sahuarita Commercial
20 SQ20211720121; LOT 1 (“Rancho Sahuarita Building”). SWC’s affiliate, Rancho
21 Devco, LLC, an Arizona limited liability company, currently owns the Rancho Sahuarita
22 Building.

23 7. SWC and Rancho Devco, LLC have executed a Lease Agreement
24 with Option to Purchase (copy attached as **Exhibit 2**). Upon receiving Commission
25 approval of the financing request, SWC intends to execute a loan and use the funds to
26 purchase the Rancho Sahuarita Building.

1 8. The Company’s capital structure is presently 92 percent equity and
2 8 percent debt. This transaction, if approved and when complete, will leave SWC with a
3 capital structure consisting of approximately 76 percent equity and 24 percent debt.
4 The new capital structure is more balanced.

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

6 9. The lender will most likely be Rancho Devco, LLC. The lender’s
7 term sheet is attached hereto as **Exhibit 3**. Rancho Devco, LLC has represented that it
8 will provide the loan at a fixed rate based on the 20-year US Treasury rate plus 160-basis
9 points. The rate shall be determined using the Treasury rate applicable on the closing
10 date. As a result, SWC is undertaking to negotiate a loan agreement with Rancho Devco,
11 LLC subject to the Commission approval sought in this docket.

12 10. SWC’s repayment obligation to Rancho Devco, LLC will be secured
13 by the grant of a security interest in the Company’s real property and its plant and
14 systems.

15 **D. Effects of Financial Transactions.**

16 11. SWC’s pro forma balance sheet for the period ending December 31,
17 2025 is attached as **Exhibit 4**. The pro forma balance sheet reflects the impact of the
18 financing transactions that are the subject of this Application. As noted, the Company’s
19 pro forma capital structure is approximately 76 percent common equity and 24 percent
20 debt.

21 12. With the proposed new debt, SWC will have a Debt Service
22 Coverage Ratio (“DSCR”) of 0.45 and a Times Interest Earned Ratio (“TIER”) of 1.01
23 based upon a pro forma 2025 balance sheet and 2025 income statement. The DSCR and
24 TIER calculations, as shown on **Exhibit 5**, were calculated using an interest rate of
25 6.45 percent, which is a current estimate of the interest rate. The Company recognizes
26 these ratios are not favorable, however, the Company is concurrently filing a request for

1 an increase in its rates for water utility service. With an anticipated increase in rates, the
2 Company anticipates adequate revenues to produce more favorable TIER and DSCR
3 ratios.

4 13. Projected balance sheets and income statements for the years 2025-
5 2029 are shown in **Exhibit 5** along with the resulting DSCR and TIER for each projected
6 year.

7 14. The loan proceeds will be issued for lawful purposes, as discussed
8 herein, and the execution of the loan agreement with Rancho Devco, LLC, and the grant
9 of a security interest in SWC's real property, plant and system, and the undertaking of the
10 obligations set forth therein are within the Company's corporate powers. A Corporate
11 Resolution authorizing the contemplated transaction is attached at **Exhibit 6**.

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

14 16. The approvals sought herein are compatible with the public interest
15 and with the proper performance of SWC's duties as a public service corporation.

16 17. The financing contemplated herein will not impair SWC's ability to
17 perform its duties as a public service corporation providing water utility service.

18 18. SWC intends to request consolidation of this financing application
19 with another proceeding, as noted above. The Company will seek permission to notify its
20 customers of both proceedings at the same time if consolidation is granted. Proof of
21 publication and a true copy of the notice will be filed with the Commission as necessary.

22 **Requested Relief**

23 Based on the foregoing, SWC respectfully requests the following:

- 24 A. That the Commission consider this Application as soon as practicable;
25 B. That the Commission enter an order approving this Application and
26 authorizing SWC to incur indebtedness in an amount not to exceed \$2,800,000 at an

1 interest rate not to exceed the 20-year US Treasury rate plus 160-basis points, and to
2 encumber its real property and utility plant and system to secure such indebtedness for the
3 purposes described hereinabove; and

4 C. That the Commission authorize SWC to take such other and further action
5 as may be necessary to effectuate the purposes of this Application that are appropriate
6 under the circumstances herein.

7 RESPECTFULLY SUBMITTED this 1st day of August, 2024.

8 SHAPIRO LAW FIRM, P.C.

9
10 By: /s/ Jay L. Shapiro
11 Jay L. Shapiro
12 1819 E. Morten Avenue, Suite 280
13 Phoenix, AZ 85020
14 jay@shaplawaz.com

15 Attorney for Sahuarita Water Company, LLC

16 **ORIGINAL** was e-Filed
17 this 1st day of August, 2024, with:

18 Docket Control
19 Arizona Corporation Commission
20 1200 W. Washington Street
21 Phoenix, AZ 85007

22 By: /s/ Whitney Birk

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24
25
26

EXHIBIT 1

Sahuarita Water Company, LLC
Balance Sheet
For Period Ended December 31, 2023

ASSETS

Current and Accrued Assets

Cash	\$ 1,853,843
Customer Accounts Receivable	7,113
Plant Material and Supplies	25,206
Prepayments	238,937.05
Miscellaneous Current and Accrued Assets	245,534
Total Current and Accrued Assets	<u>2,370,633</u>

Fixed Assets

Utility Plant in Service	40,148,423
Property Held for Future Use	115,758
Construction Work in Progress	231,310
Accumulated Depreciation	(13,404,601)
Non-Utility Property	11,946
Accumulated Depreciation - Non Utility	(8,550)
Total Fixed Assets	<u>27,094,287</u>

TOTAL ASSETS

\$ 29,464,920

LIABILITIES

Current Liabilities

Accounts Payable	\$ -
Notes Payable (Current Portion)	169,687
Customer Deposits	557,794
Accrued Taxes	31,994
Accrued Interest	5,011
Miscellaneous Current and Accrued Liabilities	98,918
Total Current Liabilities	<u>863,405</u>

Long Term Debt

Long Term Debt (Notes and Bonds)	910,715
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Deferred Credits

Advances in Aid of Construction	6,609,105
Contributions in Aid of Construction	14,363,733
Less: Amortization of Contributions	(4,284,834)
Total Deferred Credits	<u>16,688,005</u>

TOTAL LIABILITIES

18,462,124

CAPITAL ACCOUNTS

Retained Earnings	510,884
Proprietary Capital	10,491,911
Total Capital	<u>11,002,795</u>

TOTAL LIABILITIES AND CAPITAL

\$ 29,464,920

Sahuarita Water Company, LLC
Income Statement
For the Period Ended December 31, 2023

1/1/23-12/31/23

Operating Revenue

Metered Water Revenue	4,696,705
Miscellaneous Service Revenues	63,733
Other Water Revenue	76,384
Total Revenues	4,836,822

Operating Expenses

Purchased Water	1,139,201
Purchased Power	233,975
Chemicals	41,560
Repairs and Maintenance	163,599
Office Supplies and Expense	14,553
Contractual Services	16,710
Contractual Services - Engineering	6,616
Contractual Services - Accounting	33,397
Contractual Services - Legal	2,242
Contractual Services - Management Fees	1,265,133
Contractual Services - Water Testing	19,566
Contractual Services - Other	183,050
Rental of Building/Real Property	1,538
Transportation Expenses	42,840
Insurance - General Liability	27,605
Bad Debt Expense	(48)
Miscellaneous Expense	13,688
Depreciation Expense	897,331
Property Taxes	197,783
Customer Security Deposit Interest	9,321
Total Operating Expenses	4,309,659

Operating Income / (Loss)

\$ 527,163

Other Income / (Expense)

Interest and Dividend Income	16,556
Non-Utility Income	16,680
Miscellaneous Non-Utility (Expense)	(412)
Interest (Expense)	(49,102)
Total Other Income / (Expense)	\$ (16,279)

Net Income / (Loss)

\$ 510,884

SAHUARITA WATER COMPANY, LLC

Increase (Decrease) in Cash

For the Period Ended December 31, 2023

	1/1/23-12/31/23
Cash Flows from operating activities	
Net Income	\$ 510,884
Adjustments provided by operating activities	
Depreciation	897,743
Plant Material & Supplies	24,532
Accounts payable/Property tax payable	97,330
Deposits Payable	(10,115)
Due from Rental Customers/Others	(1,804)
Accrued Taxes	(239)
Deposits Receivable	(7,554)
Prepaid Expenses	(15,794)
Accounts Receivable/Clearing	(4,354)
Accrued Interest	(2,710)
Debt Service Reserve	(6,848)
Deferred Rate Case Expense	(960)
Net cash provided by operations	<u>1,480,110</u>
Cash Flows from investing activities	
Construction In Process	(1,865,411)
Structures & Improvements	(13,435)
Pumping Equipment	(89,751)
Water Treatment Equipment/Media	(235,214)
Water Meters	(174,547)
Hydrants	(3,456)
Office Furniture & Equipment	(661)
Computer Software/Hardware	(6,403)
Transportation Equipment	(59,184)
Small Tools	(2,146)
Communication Equipment	(31,203)
Net cash used by investing activities	<u>(2,481,412)</u>
Cash Flows from financing activities	
AIAC-LEA	4,635
AIAC-SLMI	12,847
CIAC-OSF/Reimbursements	2,613
Distributions	(300,000)
Note Payable	(162,720)
Net cash provided (used) by financing activities	<u>(442,626)</u>
Net increase <decrease> in cash	<u>\$ (1,443,928)</u>
Summary	
Cash Balance at End of Period	\$ 1,853,843
Cash Balance at Beg of Period	(3,297,771)
Net increase <decrease> in Cash	<u>\$ (1,443,928)</u>

EXHIBIT 2

LEASE AGREEMENT WITH OPTION TO PURCHASE

THIS LEASE AGREEMENT WITH OPTION TO PURCHASE (this “**Agreement**”) is made this December 8, 2023 between Rancho Devco, LLC, an Arizona limited liability company (“**Landlord**”), and Sahuarita Water Company, LLC, and Arizona limited liability company (“**Tenant**”).

- A. Landlord is the owner of that certain real property (the “**Property**”) situated in Pima County, State of Arizona, commonly known as 14125 S. Rancho Sahuarita Blvd., Sahuarita, Arizona 85629, APN 303-08-7180, and more particularly described as follows:

RANCHO SAHUARITA COMMERCIAL SQ20211720121; LOT 1

- B. Tenant desires to lease an approximately 5,243.5 square foot portion of the Property (“**Premises**”) from Landlord and to acquire an option to purchase the Property from Landlord upon the terms and conditions set forth below.

Landlord and Tenant agree as follows:

1. **LEASE**

1.1. **The Premises.** Landlord hereby leases to Tenant, and Tenant hereby takes and hires from Landlord the Premises upon the terms and conditions set forth below (sometimes the “**Lease**”). The Premises is set forth in Exhibit A.

1.2. **Term.** The initial term of this Agreement shall commence on January 1, 2024, and terminate at midnight on December 31, 2033 (the “**Initial Term**”), unless extended as herein provided, or sooner terminated pursuant to any provision hereof. Tenant shall have the option to extend the term of this Agreement for two (2) successive periods of five (5) years each (each, a “**Renewal Term**”) by notice given to Landlord at least one hundred eighty (180) days prior to the expiration of the then-expiring term. The right to enter a Renewal Term is not applicable if this Agreement is assigned or subleased by Tenant to any other party. The right to enter into a Renewal Term is specifically conditioned upon the existence of no event of default by Tenant has occurred, or has occurred for which notice of default has been given and which remains uncured.

1.3. **Rent.** Tenant shall pay to Landlord as rent for the Premises the sum set out below commencing on the first day of the Initial Term, and continuing on the same day of each successive calendar month thereafter until the expiration or termination of the Initial Term or Renewal Term, as applicable. The rent shall be payable to Landlord’s address hereinbelow described or at such other place as Landlord may from time to time specify by written notice to Tenant. Monthly rent for any partial month shall be prorated at the rate of 1/30th of the monthly rent per day.

Initial Term and Renewal Term Rent Schedule

Lease Year	Rate PSF	Annual Rent	Monthly Rent
1	\$ 15.00	\$ 78,652.50	\$ 6,554.38
2	\$ 15.45	\$ 81,012.08	\$ 6,751.01
3	\$ 15.91	\$ 83,442.44	\$ 6,953.54
4	\$ 16.39	\$ 85,945.71	\$ 7,162.14
5	\$ 16.88	\$ 88,524.08	\$ 7,377.01
6	\$ 17.39	\$ 91,179.80	\$ 7,598.32
7	\$ 17.91	\$ 93,915.20	\$ 7,826.27
8	\$ 18.45	\$ 96,732.65	\$ 8,061.05
9	\$ 19.00	\$ 99,634.63	\$ 8,302.89
10	\$ 19.57	\$ 102,623.67	\$ 8,551.97
11	\$ 20.16	\$ 105,702.38	\$ 8,808.53
12	\$ 20.76	\$ 108,873.45	\$ 9,072.79
13	\$ 21.39	\$ 112,139.66	\$ 9,344.97
14	\$ 22.03	\$ 115,503.85	\$ 9,625.32
15	\$ 22.69	\$ 118,968.96	\$ 9,914.08
16	\$ 23.37	\$ 122,538.03	\$ 10,211.50
17	\$ 24.07	\$ 126,214.17	\$ 10,517.85
18	\$ 24.79	\$ 130,000.60	\$ 10,833.38
19	\$ 25.54	\$ 133,900.62	\$ 11,158.38
20	\$ 26.30	\$ 137,917.63	\$ 11,493.14

1.4. Security Deposit. Tenant shall deposit with Landlord, upon the execution of this Agreement, a security deposit in the amount of Six Thousand Five Hundred Fifty Four Dollars and Thirty Eight Cents (\$6,554.38).

1.5. The Security Deposit shall be held by Landlord as security for the faithful performance by Tenant of all terms, covenants, and conditions of this Lease. If Tenant defaults with respect to any provision of this Lease, Landlord may (but shall not be required to) use, apply or retain all or any part of the security deposit for the payment of any sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss, cost, or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant shall within ten (10) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount. Tenant's failure to do so shall be a material breach of this Lease. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the security deposit or any remaining balance shall be promptly returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interest hereunder) at the expiration of the Lease Term and after Tenant has vacated the Premises.

1.6. Use. The Premises shall be used exclusively and solely for the purpose of operating a water utility business. Tenant shall not permit the Property or any part thereof to be used for (a) the conduct of any offensive, noisy, or dangerous activity that would increase the premiums for fire insurance on the Property, (b) the creation or maintenance of a public nuisance, or (c) anything which is against public regulations or rules of any public authority at any time applicable to the Property.

1.7. Repairs and Maintenance. Tenant shall take good care of and maintain the Premises in good condition, reasonable wear and tear excepted, including, without limitation, exterior entrances and vestibules; exterior and interior glass and moldings, including show window glass and moldings; partitions; doors, door jambs, door closers and door hardware, both exterior and interior; storefronts; ceilings; walls; floor coverings; concrete slab; fixtures, including restroom fixtures, if any; equipment; electrical, lighting, plumbing and plumbing fixtures, heating, ventilating, and air conditioning systems, including the replacement of any mechanical units as necessary at the end of the useful life. Tenant shall irrigate and maintain the grounds of the Property, including lawns and shrubbery in a good condition free and clear of any weeds and rubbish. Tenant shall also pay its proportionate share for exterior maintenance, repairs, or replacements performed by Landlord, including parking lots and roofs.

1.8. Inspection of the Premises. Tenant hereby acknowledges that Tenant has inspected the Premises and accepts the Premises in its present "as is" condition.

1.9. Alterations. Tenant may only make alterations or additions to or upon the Property if Tenant obtains Landlord's written consent.

1.10. Mechanics Liens. Tenant shall keep the Property free and clear of liens of mechanics or materialmen arising out of any repair, alteration or addition made to the Property.

1.11. Landlord's Personal Injury and Property Damage. Tenant agrees to, and hereby does, indemnify and hold Landlord harmless from any liability arising out of injury to any person or persons, or damage to property, occurring in and about the Property. Tenant further agrees that Landlord shall not be liable to Tenant, to any member of Tenant's family, or to any agent, employee, guest, invitee or licensee of Tenant for any injury to any of them, or damage to the property of any of them, arising out of any present, future, latent or other defect in the form, character or condition of the Property or any part thereof, or on account of any cause whatsoever occurring in or about the Property.

1.12. Insurance.

1.12.1. Casualty Insurance on Tenant's Property. Tenant shall, at Tenant's expense, maintain on all Tenant's personal property and Tenant's improvements and alterations in, on or about the Property, a policy of standard fire and extended coverage insurance in an amount equal to the full replacement cost of the Premises. Landlord shall be named as an additional loss payee under such insurance policy.

1.12.2. Proof of Insurance. Tenant shall provide Landlord with evidence of the insurance described in Paragraph 1.10.1 hereinabove, and if Tenant fails to procure and maintain

such insurance, Landlord may, but shall not be required to, procure and maintain the same, but at the expense of Tenant.

1.12.3. Insurance on Landlord's Property: Tenant shall pay its share of Landlord's Property and Liability Insurance for the Property.

1.13. Utilities. Tenant shall arrange and pay for its share of all water, gas, oil, heat, light, power, telephone, refuse service, and other utilities and services supplied to the Property.

1.14. Real Property Taxes and Assessments. Tenant shall pay its share of Landlord's real property taxes and assessments on the Property.

1.15. Inventory. It is agreed by the parties that the following personal property situated on the Property shall constitute a part of the Lease and the Option:

- (a) All floor coverings and window coverings are to remain.
- (b) All lighting fixtures are to remain.
- (c) All built-in fixtures and appliances are to remain.

1.16. Inspection by Landlord. Landlord may enter the Property upon reasonable notice to Tenant to inspect the same.

1.17. Assignment and Subletting. Tenant shall not assign this Agreement or any interest therein, voluntarily or by operation of law, nor will Tenant sublet the Property or any portion thereof, without first obtaining the written consent of Landlord. Any assignment or sublease in violation of this Paragraph 1.15 shall be void and unenforceable.

1.18. Default. The occurrence of any one or more of the following events shall constitute a default and breach by Tenant of this Agreement granted hereby.

1.18.1. The abandonment of the Property by Tenant for a period of more than thirty (30) days.

1.18.2. The failure by Tenant to make any payment of rent or any other payment required to be made by Tenant hereunder, as and when due, after fifteen (15) days' written notice thereof.

1.18.3. The failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Agreement to be observed or performed by Tenant other than described in Paragraph 1.16.2 above, or Paragraph 1.16.5 below, where such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences such cure within the thirty day period and thereafter diligently prosecutes such cure to completion, which completion shall be accomplished within sixty (60) days after the notice.

1.18.4. (a) The making by Tenant of any general assignment, or general arrangement for the benefit of creditors; (b) the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days) to the extent that such law allows a default hereunder resulting from the filing of such a petition; (c) the appointment of a trustee or receiver to take possession of the Property or substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease, where possession is not restored to Tenant within sixty (60) days; or (d) the attachment, execution, or other judicial seizure of substantially all of Tenant's assets located at the Property or of Tenant's interest in this Agreement, where such seizure is not discharged within sixty (60) days.

1.19. Destruction Of, Or Damage To, The Property; Duty to Repair.

1.19.1. Damage or Destruction Fully Covered by Insurance. If, during the term of this Lease, the Property is destroyed or damaged, and the insurance proceeds payable to Landlord and any and all persons named as loss payees therein under any and all policies or insurance, as a result of such damage or destruction (which proceeds are herein sometimes collectively called the "**Insurance Proceeds**") are in an amount equal to, or greater than, the cost of putting the Property in a condition substantially similar to its condition at the time of the damage or destruction (which cost is hereby sometimes called "**Replacement Cost**"); then Landlord shall, at Landlord's expense, cause the Property to be so reconstructed and repaired within a reasonable time after the occurrence of the event causing such damage or destruction.

1.19.2. Damage or Destruction Not Fully Covered By Insurance. In the event the Property is damaged or destroyed and the amount of Insurance Proceeds is less than the Replacement Cost, then Tenant may, at its option, elect to pay the difference between the Replacement Cost and the Insurance Proceeds (herein "**Uninsured Cost of Reconstruction**"), and cause the Property to be reconstructed within a reasonable time after the event causing such damage or destruction. In such event, Landlord shall cause all Insurance Proceeds to be applied to such cost of reconstruction.

In the event Tenant does not elect to pay the Uninsured Cost of Reconstruction and Landlord does not cause the Property to be reconstructed within a reasonable time after the occurrence of such damage or destruction, to a condition substantially similar to its condition at the time of the damage or destruction, then this Agreement shall terminate and be of no further force and effect and Landlord shall return the option consideration paid by Tenant under Paragraph 2.2 to Tenant.

1.19.3. Tenant's Obligation to Pay Rent. In the event the Property is destroyed or damaged to the extent the Property is no longer suitable to be used as a personal residence, then Tenant shall not be liable for the payment of any rent which accrues during the period of reconstruction of the Property.

In the event the Property is damaged, but remains of value to Tenant, then the rent due hereunder during the period of reconstruction of the Property shall be abated by an amount proportionate to the diminished value of the Property after the occurrence causing such damage.

2. OPTION

2.1. Grant of Option. Landlord hereby grants to Tenant the exclusive right and option (the “**Option**”) to purchase the Property together with the personal property described in Paragraph 1.14 above upon the terms and conditions set forth in Paragraph 3 below.

2.2. Option Consideration. This Option is granted in consideration of Tenant’s payment to Landlord of the sum of One Thousand Dollars (\$1,000.00) (the “**Option Payment**”) to be paid to Landlord within ten (10) days after the date hereof and applied to the Purchase Price (as hereinafter defined) in the event Tenant exercises the Option.

2.3. Termination of Tenant’s Right to Purchase. Unless the Option has been exercised by Tenant, this Option shall terminate on January 1, 2026.

2.4. Option Consideration Nonrefundable. In the event the Option is not exercised as provided herein, the Option Payment shall be retained by Landlord with no right of offset by Tenant for rental obligations hereunder.

2.5. Exercise of Option. Tenant may exercise this Option by giving notice to Landlord, at any time prior to October 31, 2025, in the manner provided in Paragraph 4.1 below, provided Tenant is not in default hereunder at the time of such exercise.

3. TERMS OF PURCHASE

3.1. Purchase Price. The parties will determine the Purchase Price based on the Fair Market Value when the Tenant exercises its option to purchase. The purchase price for the Property based on a Fair Market Appraisal conducted after Tenant exercises its option. The Option Payment shall be applied to the Purchase Price and Tenant shall deposit into escrow cash or cashier’s check in the sum of One Thousand Dollars. (\$1,000.00).

3.2. Conveyance of Title; Title Insurance. Landlord shall convey the Property to Tenant at the close of escrow by a Special Warranty Deed, subject only to the Permitted Exceptions, as hereinafter defined. Landlord shall provide Tenant at close of escrow with a standard ALTA Owner’s policy of title insurance, insuring title to the Property in Tenant subject only to installments of taxes and assessments which are not yet due and payable.

3.3. Escrow. At the time Tenant exercises the Option, Landlord and Tenant will open an escrow (“**Escrow**”) with Title Security Agency of Arizona (“**Title Company**”). Escrow shall close on or before Sixty (60) days have elapsed after Tenant’s exercise of the Option. Landlord and Tenant shall execute such additional escrow instructions which Title Company may require prior to close of Escrow, provided that to the extent such escrow instructions are inconsistent with the terms of this Agreement, the terms of this Agreement shall control.

3.4. Closing Costs and Prorations. The expenses of the Escrow shall be paid in the following manner:

3.4.1. Landlord shall pay (i) one-half of the escrow fees, (ii) any premium for the title insurance described in Paragraph 3.2, and (iii) the cost of preparing and recording the deed.

3.4.2. Tenant shall pay one-half of the escrow fees.

3.4.3. Any other expenses or closing costs in connection with this transaction shall be apportioned in the manner customary in Pima County, Arizona.

3.5. Refund of Option Consideration. In the event that Tenant has elected to exercise this Option and Landlord is unable to deliver title to the Property as described in Paragraph 3.2 above before the close of escrow except for reasons caused by Tenant, then and in that event, notwithstanding any other provision in this Agreement to the contrary, Landlord shall refund to Tenant all option consideration paid by Tenant to Landlord under Paragraph 2.2 above.

3.6. Brokerage. The parties represent and warrant to and with each other that neither party has incurred any real estate broker's commission, finder's fee, or any similar fee in connection with the transaction contemplated by this Agreement. Each party shall and does hereby indemnify and hold harmless the other party and its respective successors in interest in any capacity, and each of them, from and against any and all claims, demands, liabilities, actions, causes of actions, costs, expenses, attorneys' fees, and obligations arising out of or in any way connected with any obligation whatsoever by the other party or by any person to pay any real estate broker's fee, finder's fee, or other similar fee, other than to the hereinabove named broker in connection with the transaction contemplated by this Agreement.

4. MISCELLANEOUS

4.1. Notices. All notices under this Agreement shall be effective upon personal delivery to the party to whom such notice is given or three business days after deposit of such notice in the United States mail, registered or certified, postage fully prepaid, and addressed to the respective parties as follows:

To Landlord: Rancho Devco, LLC
4549 E. Fort Lowell Road
Tucson, Arizona 85712
Attn: Jeremy Sharpe and Alexis Sharpe
Phone: (520) 299-8766
Email: jeremy@ranchosahuarita.com;
alexis.sharpe@ranchosahuarita.com

With a copy to: Fennemore Craig, PC
1 S. Church Avenue, Suite 1010
Tucson, Arizona 85701
Attn: Marian C. LaLonde
Phone: (520) 879-6811
Email: mlalonde@fennemorelaw.com

To Tenant: Sahuarita Water Company, LLC
4549 E. Fort Lowell Road
Tucson, Arizona 85712
Attn: Jeremy Sharpe and Alexis Sharpe
Phone: (520) 299-8766

Email: jeremy@ranchosahuarita.com;
alexis.sharpe@ranchosahuarita.com

or at such other address as the parties may from time to time designate to the other in writing.

4.2. Attorney's Fees. In the event of any action between Landlord and Tenant seeking enforcement of any of the terms and conditions of this Agreement, or in connection with the Property, the prevailing party in such action shall be awarded, in addition to damage, injunctive or other relief, its reasonable costs and expenses, including, but not limited to, taxable costs and reasonable attorney's fees.

4.3. Choice of Laws. This Agreement shall be governed by the laws of the State of Arizona, and any question arising hereunder shall be construed or determined according to such law.

4.4. Successors. The terms, covenants and conditions of this Agreement shall be binding upon and shall inure to the benefit of the heirs, executors, administrators and assigns of the respective parties, where assignment has been permitted hereto.

4.5. Survival. This Agreement shall survive the close of this transaction and shall remain a binding contract between the parties hereto.

4.6. Headings. Headings at the beginning of each numbered paragraph of this Agreement are solely for the convenience of the parties and are not a part of this Agreement.

4.7. Time. Time is of the essence of this Agreement, it being understood that each date set forth herein, particularly the closing date, and the obligations of the parties to be satisfied by such date have been the subject of specific negotiation by the parties.

4.8. Entire Agreement. This Agreement and the items incorporated herein contain all of the agreements of the parties hereto with respect to the matters contained herein, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provisions of this Agreement may be amended or modified in any manner whatsoever except by an agreement in writing by duly authorized officers of each of the parties hereto.

[Signature Page Follows]

Landlord and Tenant have executed this Agreement as of the date first above written.

LANDLORD:

Rancho Devco, LLC, an Arizona limited liability company

By: Interchange Opportunity Fund Limited Liability Limited Partnership,
an Arizona limited liability limited partnership

Its: Member

By: Sharpe & Associates, Inc.,
an Arizona corporation

Its: General Partner

By: 
Name: Jeremy N. Sharpe
Its: President

TENANT:

Sahuarita Water Company, LLC, an Arizona limited liability company

By: Sharpe & Associates, Inc.,
an Arizona corporation

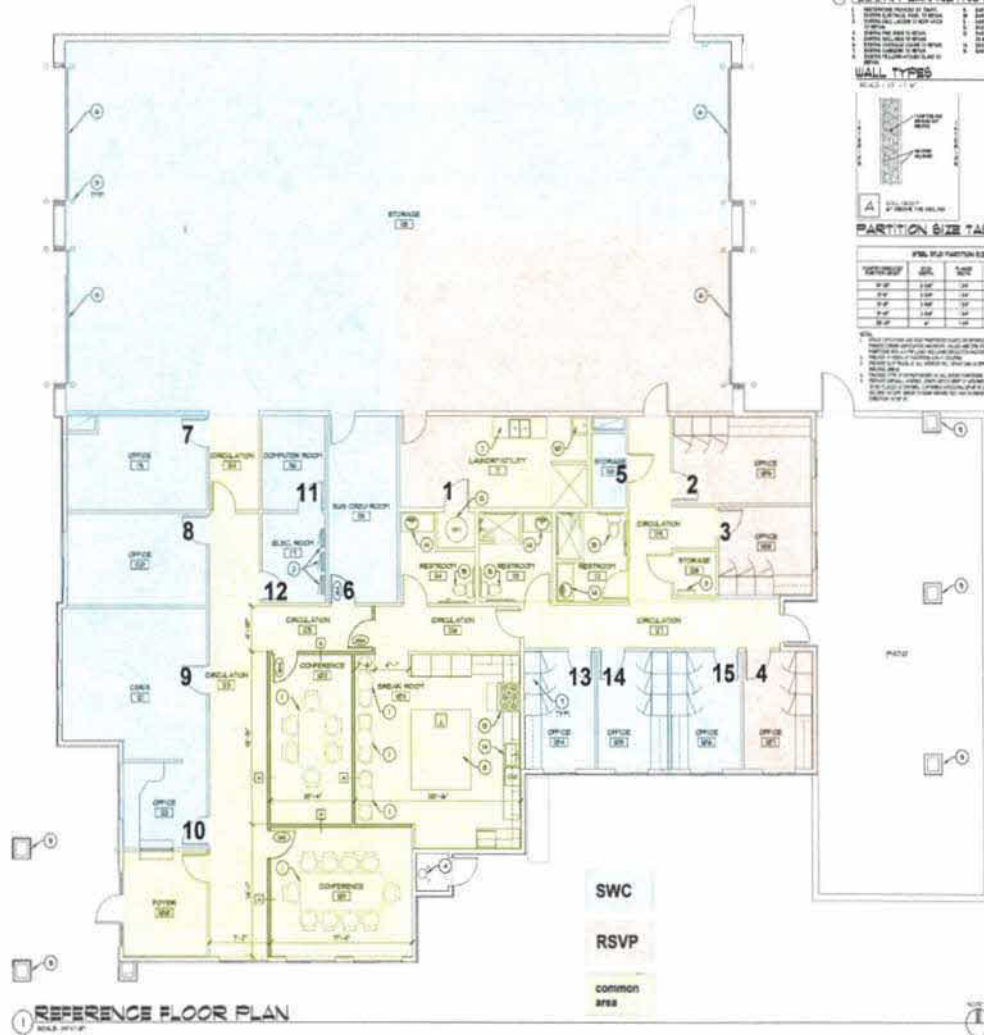
Its: Manager

By: 
Name: Jeremy N. Sharpe
Its: President

Exhibit A

[Map depicting Premises, and shared spaces]

SAHJARITA WATER COMPANY
 14125 S. RANCHO SAHJARITA BL
 SAHJARITA, AZ 85629
 SCALE: AS SHOWN
 SHEET: A2.0



GENERAL NOTES

1. ALL WORK SHALL BE IN ACCORDANCE WITH THE LATEST EDITIONS OF ALL APPLICABLE CODES AND REGULATIONS.

FLOOR PLAN KEYNOTES

1. ALL WORK SHALL BE IN ACCORDANCE WITH THE LATEST EDITIONS OF ALL APPLICABLE CODES AND REGULATIONS.

WALL TYPES

1. ALL WALLS SHALL BE CONCRETE BLOCK WITH 1/2" GYPSUM BOARD.



PARTITION SIZE TABLE

PARTITION TYPE	PARTITION HEIGHT			
	8'-0"	9'-0"	10'-0"	11'-0"
1. GLASS PARTITION	120"	120"	120"	120"
2. GYPSUM BOARD PARTITION	120"	120"	120"	120"
3. GYPSUM BOARD PARTITION	120"	120"	120"	120"
4. GYPSUM BOARD PARTITION	120"	120"	120"	120"

1. ALL PARTITIONS SHALL BE 1/2" GYPSUM BOARD ON 2x4 STUDS.



**TENANT IMPROVEMENT
REFERENCE FLOOR PLAN**



**SAHJARITA WATER COMPANY
14125 S. RANCHO SAHJARITA BL
SAHJARITA, AZ 85629**

DATE: 10/15/2020
 REV: 01 2/24
 SCALE: AS SHOWN

SHEET
A2.0

		Sahuarita Water Company Premises	RSVP Premises
Garage (39 x 84)	3276	2457	819
Office	1963	1499	464
Shared	2575	1287.5	1287.5
Total SQ FT	7814	5243.5	2570.5
Pro-Rata Share		67%	33%

Sahuarita Water Offices	Sq Ft
5	46
6	179
7	175
8	175
9	264
10	103
11 & 12	179
13	126
14	126
15	126
	1499

EXHIBIT 3

Rancho Devco, LLC to Sahuarita Water Company, LLC

Term Sheet

Lender	Rancho Devco, LLC
Borrower	Sahuarita Water Company, LLC
Guarantor(s)	None
Type of Credit	Seller financing
Purpose	Purchase real property located at 14125 S. Rancho Sahuarita Blvd., Sahuarita, Arizona 85629, APN 303-08-7180
Loan Amount	\$2,800,000
Amortization	Two hundred forty (240) equal monthly installments, on a mortgage style basis, fully amortizing.
Maturity Date	20 years after Closing Date
Collateral	All Real Property and Plant Assets of the Borrower
Interest Rate	A fixed rate based on the 20-year US Treasury rate plus a 160-basis point (1.6%) credit spread. The rate shall be determined using the Treasury rate applicable on the closing date. Based on the 20-year US Treasury rate as of April 18, 2024 of 4.85%, the indicative all-in rate, including the credit spread, would be 6.45%.
Closing Costs	One-half of the escrow fees
Repayment Terms	Principal and interest payments will be made monthly. Based on the indicative rate noted above, the total monthly payment would be \$20,793.71. The actual payments will be based on the current 20-year US Treasury rate plus the applicable spread.
Prepayment Penalty	None

EXHIBIT 4

Sahuarita Water Company, LLC
Balance Sheet
2025 Pro Forma

ASSETS

Current and Accrued Assets

Cash	\$ 1,469,055
Customer Accounts Receivable	7,709
Plant Material and Supplies	26,724
Prepayments	384,004
Miscellaneous Current and Accrued Assets	260,487
Total Current and Accrued Assets	<u>2,147,979</u>

Fixed Assets

Utility Plant in Service	44,865,535
Property Held for Future Use	115,758
Construction Work in Progress	138,235
Accumulated Depreciation	(15,313,525)
Non-Utility Property	11,946
Accumulated Depreciation - Non Utility	(11,946)
Total Fixed Assets	<u>29,806,003</u>

TOTAL ASSETS

\$ 31,953,982

LIABILITIES

Current Liabilities

Accounts Payable	\$ -
Notes Payable (Current Portion)	260,246
Customer Deposits	592,564
Accrued Taxes	33,920
Accrued Interest	5,139
Miscellaneous Current and Accrued Liabilities	104,914
Total Current Liabilities	<u>996,782</u>

Long Term Debt

Long Term Debt (Notes and Bonds)	3,226,683
----------------------------------	------------------

Deferred Credits

Advances in Aid of Construction	7,037,306
Contributions in Aid of Construction	15,192,946
Less: Amortization of Contributions	(4,584,648)
Total Deferred Credits	<u>17,645,604</u>

TOTAL LIABILITIES

21,869,069

CAPITAL ACCOUNTS

Retained Earnings	1,584
Proprietary Capital	10,083,330
Total Capital	<u>10,084,914</u>

TOTAL LIABILITIES AND CAPITAL

\$ 31,953,982

Sahuarita Water Company, LLC

Income Statement

2025 Pro Forma

Operating Revenue

Metered Water Revenue	\$ 4,990,670
Miscellaneous Service Revenues	67,615
Other Water Revenue	81,036
Total Revenues	5,139,320

Operating Expenses

Purchased Water	1,208,579
Purchased Power	248,224
Chemicals	44,091
Repairs and Maintenance	173,562
Office Supplies and Expense	15,439
Contractual Services	17,727
Contractual Services - Engineering	7,019
Contractual Services - Accounting	35,431
Contractual Services - Legal	2,379
Contractual Services - Management Fees	1,647,223
Contractual Services - Water Testing	20,758
Contractual Services - Other	194,198
Rental of Building/Real Property	34,206
Transportation Expenses	45,448
Insurance - General Liability	31,660
Bad Debt Expense	(51)
Miscellaneous Expense	14,521
Depreciation Expense	1,004,988
Property Taxes	209,828
Customer Security Deposit Interest	9,888
Total Operating Expenses	4,965,118

Operating Income / (Loss)

\$ 174,202

Other Income / (Expense)

Interest and Dividend Income	\$ 14,300
Non-Utility Income	26,476
Miscellaneous Non-Utility (Expense)	-
Interest (Expense)	(213,395)
Total Other Income / (Expense)	(172,618)

Net Income / (Loss)

\$ 1,584

EXHIBIT 5

Sahuarita Water Company, LLC
Pro Forma Balance Sheet
2025 - 2029

	2025 Projected	2026 Projected	2027 Projected	2028 Projected	2029 Projected
ASSETS					
Current and Accrued Assets					
Cash	\$ 1,469,055	\$ 1,606,894	\$ 1,811,321	\$ 2,087,769	\$ 2,291,829
Customer Accounts Receivable	7,709	7,943	8,178	8,412	8,647
Plant Material and Supplies	26,724	27,537	28,349	29,163	29,977
Prepayments	384,004.11	385,645.98	345,771.17	317,429.35	469,566.37
Miscellaneous Current and Accrued Assets	260,487	268,301	276,351	284,641	293,180
Total Current and Accrued Assets	2,147,979	2,296,321	2,469,970	2,727,414	3,093,200
Fixed Assets					
Utility Plant in Service	44,865,535	44,899,465	44,999,465	45,099,465	45,199,465
Property Held for Future Use	115,758	115,758	115,758	115,758	115,758
Construction Work in Progress	138,235	138,235	138,235	138,235	138,235
Accumulated Depreciation	(15,313,525)	(16,319,273)	(17,327,262)	(18,337,490)	(19,349,958)
Non-Utility Property	11,946	11,946	11,946	11,946	11,946
Accumulated Depreciation - Non Utility	(11,946)	(11,946)	(11,946)	(11,946)	(11,946)
Total Fixed Assets	29,806,003	28,834,185	27,926,197	27,015,969	26,103,501
TOTAL ASSETS	\$ 31,953,982	\$ 31,130,506	\$ 30,396,167	\$ 29,743,384	\$ 29,196,702
LIABILITIES					
Current Liabilities					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Notes Payable (Current Portion)	260,246	273,178	286,782	247,954	97,935
Customer Deposits	592,564	610,570	628,591	646,628	664,682
Accrued Taxes	33,920	34,950	35,982	37,014	38,048
Accrued Interest	5,139	5,295	5,452	5,608	5,765
Miscellaneous Current and Accrued Liabilities	104,914	116,018	119,499	123,084	126,776
Total Current Liabilities	996,782	1,040,011	1,076,306	1,060,289	933,205
Long Term Debt					
Long Term Debt (Notes and Bonds)	3,226,683	2,953,505	2,666,722	2,418,768	2,320,833
Deferred Credits					
Advances in Aid of Construction	7,037,306	6,906,009	6,750,698	6,590,123	6,420,378
Contributions in Aid of Construction	15,192,946	15,226,877	15,226,877	15,226,877	15,226,877
Less: Amortization of Contributions	(4,584,648)	(4,739,343)	(4,890,559)	(5,038,177)	(5,181,994)
Total Deferred Credits	17,645,604	17,393,543	17,087,017	16,778,822	16,465,261
TOTAL LIABILITIES	\$ 21,869,069	\$ 21,387,059	\$ 20,830,044	\$ 20,257,878	\$ 19,719,299
CAPITAL ACCOUNTS					
Retained Earnings	\$ 1,584	\$ 129,267	\$ 211,337	\$ 259,691	\$ 295,949
Proprietary Capital	10,083,330	9,614,181	9,354,785	9,225,814	9,181,454
Total Capital	10,084,914	9,743,448	9,566,123	9,485,505	9,477,403
TOTAL LIABILITIES AND CAPITAL	\$ 31,953,982	\$ 31,130,506	\$ 30,396,167	\$ 29,743,384	\$ 29,196,702

Sahuarita Water Company, LLC
Pro Forma Income Statement
2025 - 2029

	2025 Projected	2026 Projected	2027 Projected	2028 Projected	2029 Projected
Operating Revenue					
Metered Water Revenue	\$ 4,990,670	\$ 5,142,376	\$ 5,294,082	\$ 5,445,789	\$ 5,597,495
Miscellaneous Service Revenues	67,615	69,643	71,732	73,884	76,101
Other Water Revenue	81,036	83,467	85,971	88,550	91,206
Total Revenues	5,139,320	5,295,486	5,451,785	5,608,223	5,764,802
Operating Expenses					
Purchased Water	1,208,579	1,244,836	1,282,181	1,320,646	1,360,266
Purchased Power	248,224	255,671	263,341	271,241	279,379
Chemicals	44,091	45,414	46,776	48,179	49,625
Repairs and Maintenance	173,562	178,769	184,132	189,656	195,346
Office Supplies and Expense	15,439	15,902	16,379	16,870	17,376
Contractual Services	17,727	18,259	18,807	19,371	19,952
Contractual Services - Engineering	7,019	7,230	7,447	7,670	7,900
Contractual Services - Accounting	35,431	36,494	37,589	38,717	39,878
Contractual Services - Legal	2,379	2,450	2,523	2,599	2,677
Contractual Services - Management Fees	1,647,223	1,650,306	1,667,290	1,717,309	1,768,828
Contractual Services - Water Testing	20,758	21,381	22,022	22,683	23,363
Contractual Services - Other	194,198	200,024	206,024	212,205	218,571
Rental of Building/Real Property	34,206	-	-	-	-
Transportation Expenses	45,448	46,812	48,216	49,663	51,153
Insurance - General Liability	31,660	35,104	36,157	37,242	38,359
Bad Debt Expense	(51)	(52)	(54)	(55)	(57)
Miscellaneous Expense	14,521	14,957	15,406	15,868	16,344
Depreciation Expense	1,004,988	1,005,748	1,007,988	1,010,228	1,012,468
Property Taxes	209,828	232,036	238,997	246,167	253,552
Customer Security Deposit Interest	9,888	10,185	10,491	10,805	11,129
Total Operating Expenses	4,965,118	5,021,524	5,111,712	5,237,064	5,366,109
Operating Income / (Loss)	\$ 174,202	\$ 273,962	\$ 340,073	\$ 371,159	\$ 398,693
Other Income / (Expense)					
Interest and Dividend Income	\$ 14,300	\$ 15,500	\$ 17,300	\$ 19,700	\$ 21,400
Non-Utility Income	26,476	40,906	42,133	43,397	44,699
Miscellaneous Non-Utility (Expense)	-	-	-	-	-
Interest (Expense)	(213,395)	(201,100)	(188,169)	(174,564)	(168,843)
Total Other Income / (Expense)	(172,618)	(144,695)	(128,736)	(111,467)	(102,744)
Net Income / (Loss)	\$ 1,584	\$ 129,267	\$ 211,337	\$ 259,691	\$ 295,949
Debt Service Coverage Ratio (DSCR)	0.45	0.58	0.64	0.68	0.70
Times Interest Earned Ratio (TIER)	1.01	1.64	2.12	2.49	2.75

EXHIBIT 6

**RESOLUTIONS OF THE MEMBERS
OF SAHUARITA WATER COMPANY, L.L.C.**

We, the undersigned, the members of Sahuarita Water Company, L.L.C. (“SWC”), a limited liability company duly organized under the laws of the State of Arizona, consent and agree that the following resolutions were made and 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 SWC is authorized to apply to the Arizona Corporation Commission (“Commission”) to obtain approval of the financing contemplated in SWC’s Application (Financing) (“Application”), in an amount necessary to buy 14125 S. Rancho Sahuarita Blvd., Sahuarita, Arizona 85629, APN 303-08-7180, more particularly described as Rancho Sahuarita Commercial SQ20211720121; LOT 1.

FURTHER RESOLVED, that SWC may obtain financing in an amount not to exceed \$2,800,000, at an interest rate not to exceed 8% (“Debt”).

FURTHER RESOLVED, that SWC’s members, agents, and attorneys are authorized 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.

Incurring of the Debt

RESOLVED, that SWC, upon receipt of approval from the Commission, incur the Debt.

FURTHER RESOLVED, that the Debt shall be upon such terms and conditions as comply with the order of the Commission and that are approved by Jeremy Sharpe, as President of Sharpe & Associates, Inc., SWC’s Managing Member, and as Manager of Interchange Opportunity Fund, LLLP, Member, and Phil Ralson, President of American Nevada Company, LLC, manager of Mission Peaks 4000, LLC, Member, and that upon such approval by any of them, SWC is authorized and directed to execute such promissory notes, security instruments and/or other evidence of the Debt, and related documents, as any of such members deem reasonable and appropriate.


General


RESOLVED, that Jeremy Sharpe, President of Sharpe & Associates, Inc., and Shapiro Law Firm, P.C. by and through Jay Shapiro, each be and hereby is authorized to represent SWC in all matters before the Commission.

FURTHER RESOLVED, that all acts of SWC's members on behalf of SWC since the last meeting of the members be, and thereby are, ratified and affirmed.

FURTHER RESOLVED, that the members of SWC be, and thereby are, authorized and directed to take such further actions as may be necessary or advisable to carry out the intent of these resolutions.

Sharpe & Associates, Inc., an Arizona corporation, Manager

By: 
Jeremy Sharpe, President
Interchange Opportunity Fund, LLLP, Member

By: 
Jeremy Sharpe, President of Sharpe & Associates, Inc.,
Manager of Interchange Opportunity Fund, LLLP

Mission Peaks 4000, LLC
By: American Nevada Company, LLC, Member
Its: Manager

By: 
Phil Ralston (May 22, 2024 19:10 GMT+1)
Phil Ralston, President


Phil Ralston (May 22, 2024 19:10 GMT+1)