



June 14, 2016

VIA E-FILING

Carlotta S. Stauffer, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 110200-WU; In re: Application for increase in water rates in Franklin County by
Water Management Services, Inc.
Our File No. 46023.01

Dear Ms. Stauffer:

Water Management Services, Inc. ("WMSI" or "Utility") submits the attached in response to
Staff's Limited Scope Audit, Audit Control No. 16-130-1-1.

Should you or Staff have any questions concerning this filing, please do not hesitate to give me
a call.

Very truly yours,

MARTIN S. FRIEDMAN
For the Firm

MSF/

cc: Gene Brown (via e-mail)
Sandy Chase (via e-mail)
Margo Leathers, Esquire (via e-mail)
J. R. Kelly, Esquire (via e-mail)
Amber Norris (via e-mail)

MEMORANDUM

TO: Office of Commission Clerk

DATE: June 14, 2016

RE: Docket No. 110200-WU
Company Name: Water Management Services, Inc.
Company Code: WS236
Audit Purpose: Limited Scope
Audit Control No: 16-130-1-1

This is in response to the above-referenced audit report.

Finding 1: Land

The utility recently responded to Staff's Ninth Data Request, which included four questions regarding the land. Attached as Exhibit "A" is the utility's response to Question 10 and its subparts, which is incorporated by reference herein.

As shown by Exhibit "C" attached as part of Exhibit "A" to this response, only 3 of the 16 lots were buildable. The 16 lots were bought strictly as an accommodation to WMSI to make sure the utility would be able to acquire the 8 lots needed for the project, and to provide additional security for WMSI's financing of the project. The 16 lots have little or no present value to either WMSI or Brown Management Group, because they are subject to a \$6,000,000 25-year mortgage with no release clause, and because over \$130,000 in taxes will have to be paid on the 16 lots to keep WMSI's mortgage on the utility project out of default.

If the numbers set forth in the audit are accepted, it will mean that the non-utility investment in the 16 currently unusable lots will be greater (\$97,880 > \$92,120) than the utility's investment in the prime property on which the project was built. It will also mean that the non-utility investment in this utility project will have to continue its accommodation of the utility by paying an additional \$131,000 in taxes just to keep the utility's mortgage on the plant out of default, all for no return on investment. The utility will have acquired a prime site for the project to be included in rate base for 22% ($\$92,120 \div \$420,000$) of the price originally included in the pro-forma. Quite a deal for the rate payers. For the utility, not so much. The price of \$160,000 allocated by the utility for the building site (same as county tax assessment) is more fair and reasonable under the circumstances.

Finding 2: Quarterly Reports

The utility has no disagreement with Finding 2. It shows that WMSI reported the balances in the accounts on a quarterly basis, and that WMSI correctly reported the balances in those accounts on an annual basis, after year-end adjustments were made. That is proper accounting and proper reporting.

10. In the application filed with the Commission on September 21, 2012, Document NO. 06374 stated "WMSI located 24 bank-owned lots which were obtained through foreclosure and which can be purchased and which can be purchased for \$190,000." The following items relate to these lots.

- a. **Please provide the original survey performed for the purchase of these lots.**

Attached as Exhibit "C" is a copy of a survey/sketch dated July 23, 2012, which was done for TBTB, LLC, another prospective buyer of the lots. This survey/sketch shows the wetlands line and the wetlands setback line. Construction is not allowed on the wetland side of that setback line. That left only lots 7, 22 and 23 that were buildable in addition to the 8 lots. WMSI did not have a survey done when it purchased the lots. The wet area was obvious, and WMSI had to have the 8 lots with or without a survey. WMSI knew that only 3 of the other 16 lots were buildable. They were bought as an accommodation to make sure WMSI got the 8 lots it had to have.

- b. **Please provide the elevational survey associated with these lots.**

Attached as Exhibit "D" is a boundary and topographical survey for the 8 lots used for the new plant and ground storage tank. WMSI does not have a topographical survey for all 24 lots, other than the survey/sketch attached as Exhibit "C" showing the wetlands area and wetlands setback line. The lots were bought "as is", with no survey or guarantees from the bank.

- c. **Please provide all documentation from DEP and any other governmental authority that assigns a "wetlands" designation to lots 1-4 and 26-30 as referenced in the appraisal provided in response to staff's eighth data request.**

WMSI has no documentation from DEP or anyone else regarding a "wetlands" designation, except for the reference on Exhibit "C" which shows that Garlick Environmental in Apalachicola made the designation. The principal in Garlick Environmental is Dan Garlick, who is the leading expert in Franklin County regarding wetland classification.

- d. **Please explain why the utility sold 16 of the 24 lots to Brown Management Group, Inc. rather than keep the land and designate it as Plant Held for Future Use?**

WMSI's management did not see any advantage for WMSI to own the 16 lots directly rather than indirectly as the 100% owner of Brown

Management Group, Inc. In either event, they would not be part of plant in service for rate purposes. There would just be extra expense for taxes, etc., and extra bookkeeping for non-utility property. There was no reason to believe the 16 lots should be "Property Held for Future Uses", because it would be difficult to argue that WMSI had a "definite plan" for their "future use" as required by NARUC to put them in Account 103. The lots were mostly underwater and WMSI knew of no "definitive" potential use in the future. Only 3 of the 16 lots were buildable as being outside the wetlands setback line. Those 3 lots were not all contiguous and were only 25' wide. Since the project was finished, WMSI has decided to build a pipe rack on one of the lots, and that lot (7) has been sold back to WMSI for \$10,000, together with 3 other lots which are not buildable because of the wetlands setback. (Exhibit "E"). WMSI has also sold the other two buildable lots (22 and 23) back to WMSI for \$20,000, together with 10 other lots that are not buildable cause of the wetlands setback line. (Exhibit "F"). This was done to mitigate the issue this transaction has caused. That valuation of \$10,000 for each of the 3 buildable lots is the same valuation that WMSI placed on the 24 lots when the 160/30 allocation was made at the time the 8 lots were booked by WMSI for \$160,000, at \$20,000 per lot.

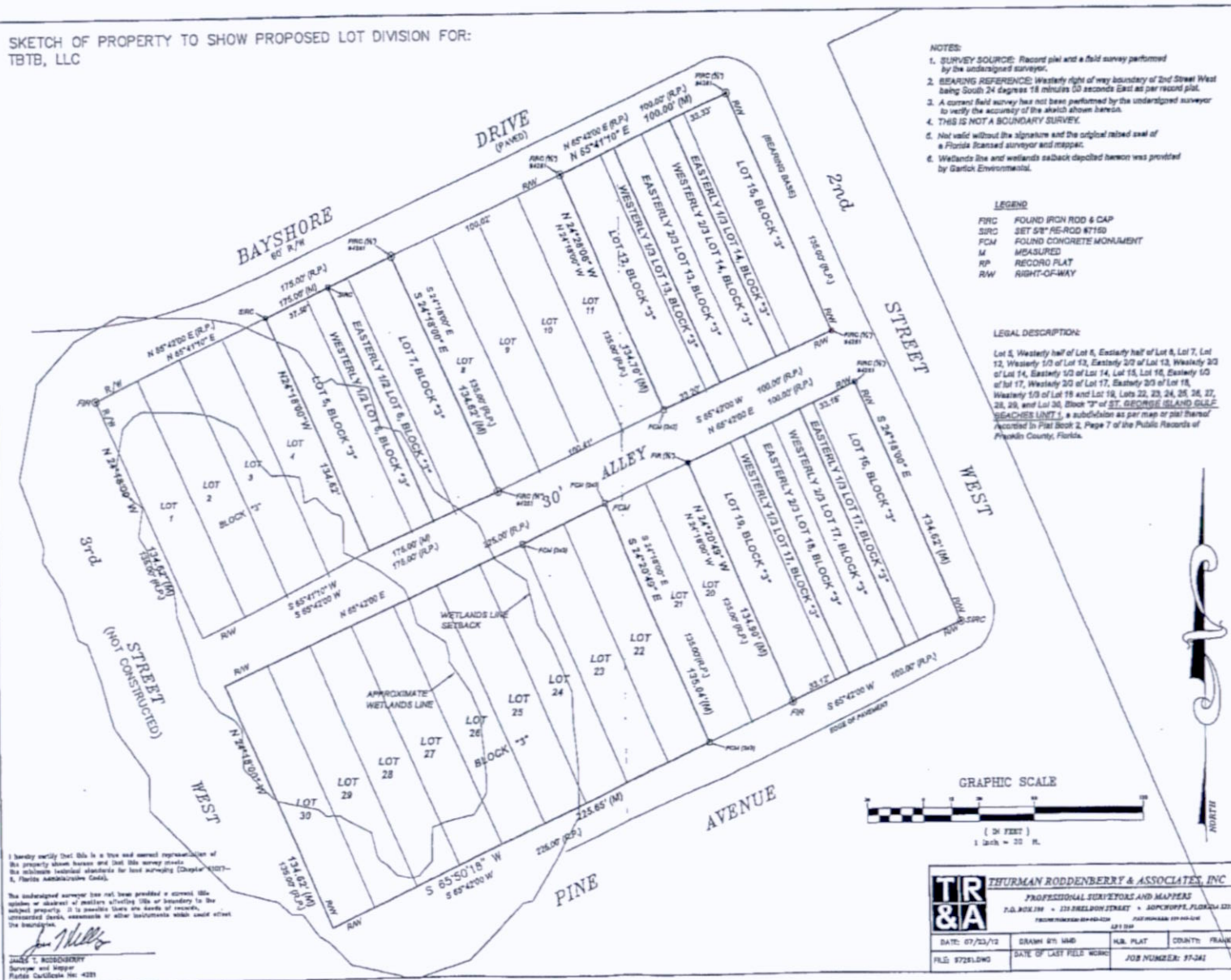
WMSI continues to believe that \$160,000 was a fair allocation of actual value for the 8 lots. In the Order that authorized this project, the Commission approved the purchase of seven 25' x 135' lots for \$420,000, which is \$17.78 p.s.f. for a total of 23,625 s.f. of property. However, those seven lots did not extend all the way through an entire block fronting on 3 streets with a 30' alley in the middle to be used 100% by WMSI. Not counting the 3,000 s.f. of usable space in that alley, the price paid for the site on which the project has now been built came to \$5.93 p.s.f. for 27,000 s.f. When the 3,000 s.f. in the alley is added for a total of 30,000 s.f. of usable space, the actual price paid by WMSI for the site was \$5.33 p.s.f., as compared with the approved site at \$17.78 p.s.f. Except for the 7 approved lots, there were no other suitable lots for sale at the time the 8 lots were acquired as part of the 24 lot acquisition.

When WMSI bought the lots, there were several pending offers to buy the 8 lots, some for all 8 lots and some for just a corner block of 4 lots. Either way, if someone else bought any of the 8 lots, WMSI would have lost the site, which was much better than the 7 lot site. Because of the competing offers, WMSI did not believe it could buy the 8 lots alone for any less than \$20,000 per lot, which was the Franklin County assessed value. However, WMSI knew the bank really wanted to sell all 24 lots at once in a quick cash deal, so the \$190,000 offer was made and accepted by the bank. The purchase of the 24 lots as a bulk, cash sale was done as an accommodation to WMSI to assure that someone else would not acquire 4

or all 8 of the "good" lots that WMSI had to have. If that had happened, WMSI would have been left with the 7 lots for \$420,000.

Nobody wanted the 16 lots in or near the marsh, and there was no particular advantage to Brown Management in acquiring them. They still had to be pledged to Ameris Bank as part of a \$6,000,000, 25 year mortgage with no release clause. That meant that Brown Management would just have to pay the taxes, etc. for 25 years with no return on its investment. Taxes on the 16 lots deeded to Brown Management, Inc. were \$5,257.68 for 2015. Assuming that the taxes never increase during the term of the mortgage, which is unlikely, that means BMG will have to pay out \$131,440 (25 x \$5,257.68) during the 25 year term of the WMSI mortgage, with no possible return. That means BMG would have at least \$161,442 invested in only 3 usable but isolated lots with limited usefulness. Under these circumstances, the allocation of \$20,000 per lot on the 8 lots and the allocation of \$10,000 per lot on the other 3 isolated lots was a fair and reasonable allocation. It is difficult to build anything on a 25' lot by itself, especially on an island with no sewer system where an aerobic system must be built on the same lot as the structure. That is another reason the 3 isolated lots were worth less per lot than the 8 lots with a 30' alley containing 30,000 s.f. in one place with frontage on 3 streets. In any event, all 24 lots are now owned by WMSI, which submits that the allocation of \$160,000 for the building site and \$10,000 for the pipe storage site is a fair and reasonable price to be included as part of plant in service.

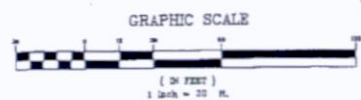
SKETCH OF PROPERTY TO SHOW PROPOSED LOT DIVISION FOR:
TBTB, LLC



- NOTES:
1. SURVEY SOURCE: Record plat and a field survey performed by the undersigned surveyor.
 2. BEARING REFERENCE: Westerly right of way boundary of 2nd Street West being South 24 degrees 18 minutes 00 seconds East as per record plat.
 3. A current field survey has not been performed by the undersigned surveyor to verify the accuracy of the sketch shown herein.
 4. THIS IS NOT A BOUNDARY SURVEY.
 5. Not valid without the signature and the original raised seal of a Florida Licensed Surveyor and Mapper.
 6. Wetlands line and wetlands setback depicted herein was provided by Gortek Environmental.

- LEGEND
- FRC FOUND IRON ROD & CAP
 - SIRC SET 5/8" RE-ROD #7160
 - PCM FOUND CONCRETE MONUMENT
 - M MEASURED
 - RP RECORD PLAT
 - RW RIGHT-OF-WAY

LEGAL DESCRIPTION:
Lot 5, Westerly half of Lot 6, Eastern half of Lot 7, Lot 12, Westerly 1/3 of Lot 13, Eastern 2/3 of Lot 13, Westerly 2/3 of Lot 14, Eastern 1/3 of Lot 14, Lot 15, Lot 16, Eastern 1/3 of Lot 17, Westerly 2/3 of Lot 17, Eastern 1/3 of Lot 17, Westerly 1/3 of Lot 18 and Lot 18, Lots 22, 23, 24, 25, 26, 27, 28, 29, and Lot 30, Block "3" of ST. GEORGE ISLAND GOLF BEACHES UNIT 1, a subdivision as per map or plat thereof, recorded in Plat Book 2, Page 7 of the Public Records of Franklin County, Florida.



I hereby certify that this is a true and correct representation of the property shown herein and that this survey complies with the minimum technical standards for land surveying (Chapter 1009.01, Florida Administrative Code).

The undersigned surveyor has not been provided a current title opinion or abstract of matters affecting title or boundaries to the subject property. It is possible there are records of records, unrecorded claims, encumbrances or other instruments which could affect the boundaries.

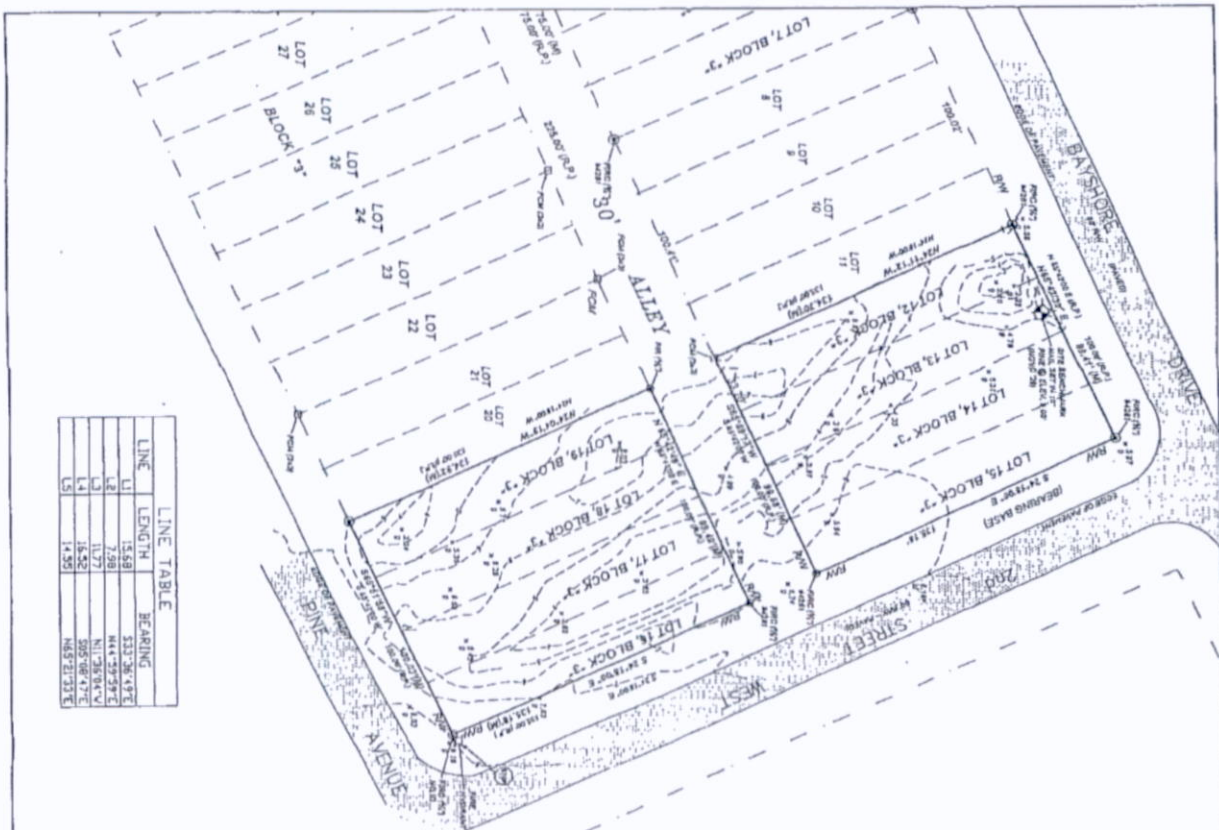
James T. Roddenberry
JAMES T. RODDENBERRY
Surveyor and Mapper
Florida Certificate No. 4281

TR & A THURMAN RODDENBERRY & ASSOCIATES, INC.
PROFESSIONAL SURVEYORS AND MAPPERS
710 BOX 101 • 211 BELLFLOWER STREET • SUICROPP, FLORIDA 32119
PHONE: (386) 884-2224 FAX: (386) 884-2224

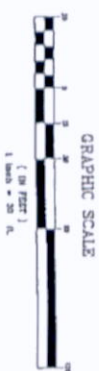
DATE: 07/22/12	DRAWN BY: WMD	N.B. PLAT	COUNTY: FRANKLIN
FILE: 07281.DWG	DATE OF LAST FILE WORK:	JOB NUMBER: 07-041	

EXHIBIT "C"

PLAT OF BOUNDARY AND TOPOGRAPHICAL SURVEY CERTIFIED TO:
WATER MANAGEMENT SERVICES



LINE	LENGTH	BEARING
L1	13.58	S13°36'49"E
L2	7.98	N44°59'59"E
L3	11.77	N11°35'54"W
L4	15.52	S05°08'47"E
L5	14.95	N85°21'31"E



- NOTES:
1. SURVEY SOURCE: Record plat and a field survey conducted by the undersigned surveyor.
 2. EXISTING EVIDENCE: Visually observable boundaries of land shown thereon are shown as they exist and are not to be construed as a warranty of accuracy by the undersigned surveyor.
 3. A corner that survey has not been indicated by the undersigned surveyor is to verify the accuracy of the station shown thereon.
 4. THIS IS NOT A BOUNDARY SURVEY.
 5. Not valid without the signature and the original rubber seal of a Florida licensed surveyor and register.
 6. Evidences shown thereon were established by plat No. 0070 218.

- LEGEND
- FOUR POINT IRON ROD & CAP
 - IRON ROD
 - WOODEN POST
 - WOODEN CONCRETE MONUMENT
 - MEASURED
 - RECORD PLAT
 - RESURVEYED

LEGAL DESCRIPTION:
Lots 12, 13, 14, 15, 16, 17, 18 and 19 Block 3 of 2nd
SECOND ISLAND BLK. BAYSHORE 3RD 11/21/02
Page 7 of 100 Pages Record of Florida County, Florida.

I hereby certify that this is a true and correct representation of the property shown hereon and that the survey was conducted by a duly licensed and registered professional surveyor.

The undersigned surveyor has not been provided a general description of the property shown hereon and is not responsible for the accuracy of the same. It is the responsibility of the client to provide a complete and accurate description of the property shown hereon.

DATE OF SURVEY: 07/20/13

NAME OF SURVEYOR: [Signature]

TR & A
THURMAN RODDENBERRY & ASSOCIATES, INC.
PROFESSIONAL SURVEYORS AND MAPPERS
P.O. BOX 100, 120 S. PALM STREET - SUITE 100, PALM BEACH, FL 33480
PHONE: 561-832-1100 FAX: 561-832-1101
WWW.TR&A.COM

DATE OF SURVEY: 07/20/13
NAME OF CLIENT: WMS
JOB NUMBER: 07-281

THIS INSTRUMENT PREPARED BY:
Gene D. Brown
250 John Knox Road
Suite 4
Tallahassee, FL 32303

WARRANTY DEED

THIS INDENTURE, made this 10th day of May, 2016, between BROWN MANAGEMENT GROUP, INC., a Florida corporation, whose address is 250 John Knox Road, Suite 4, Tallahassee, FL 32303, Grantor, and WATER MANAGEMENT SERVICES, INC., a Florida corporation, whose address is 250 John Knox Road, Suite 4, Tallahassee, FL 32303.

WITNESSETH:

That the said Grantor, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration to it in hand paid, the receipt whereof is hereby acknowledged, has granted, bargained and sold to the said Grantee, and Grantee's heirs and assigns forever, the following described land, situate, lying and being in Franklin County, Florida, to-wit:

Lots 4, 5, 6, 7, Block 3 West, of St. George Island Gulf Beaches Unit 1, according to the Plat thereof as recorded in Plat Book 2, page 7, Public Records of Franklin County, Florida.

SUBJECT TO: The Mortgages to Ameris Bank recorded on March 23, 2015 in Official Records Book 1140, page 411, and Official Records Book 1140, page 430, Public Records of Franklin County, Florida.

AND the Grantor does hereby fully warrant the title to said land, and will defend the same against the lawful claims of all persons whomsoever.

IN WITNESS WHEREOF, the Grantor has caused these presents to be signed and sealed the day and year first above written.

Signed, sealed and delivered in our presence:

Sandra M. Chase

Witness Signature

Sandra M. Chase

Printed Witness Name

Jessica C. Blankenship

Witness Signature

Jessica C. Blankenship

Printed Witness Name

BROWN MANAGEMENT GROUP, INC.,
a Florida corporation

By: Gene D. Brown

Gene D. Brown, as its President

EXHIBIT "E"

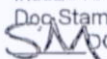
STATE OF FLORIDA
COUNTY OF LEON

The foregoing instrument was acknowledged before me this 10th day of May, 2016, by Gene D. Brown, as President of Brown Management Group, Inc., a Florida corporation, who is personally known to me and who did not take an oath.

Sandra M. Chase
NOTARY PUBLIC



THIS INSTRUMENT PREPARED BY:
Gene D. Brown
250 John Knox Road
Suite 4
Tallahassee, FL 32303

Inst:201619002596 Date:6/3/2016 Time:2:34 PM
Doc Stamp-Deed:140.00
 SMC, Marcia Johnson, Franklin County B:1169 P:466

WARRANTY DEED

THIS INDENTURE, made this 31ST day of May, 2016, between BROWN MANAGEMENT GROUP, INC., a Florida corporation, whose address is 250 John Knox Road, Suite 4, Tallahassee, FL 32303, Grantor, and WATER MANAGEMENT SERVICES, INC., a Florida corporation, whose address is 250 John Knox Road, Suite 4, Tallahassee, FL 32303.

WITNESSETH:

That the said Grantor, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration to it in hand paid, the receipt whereof is hereby acknowledged, has granted, bargained and sold to the said Grantee, and Grantee's heirs and assigns forever, the following described land, situate, lying and being in Franklin County, Florida, to-wit:

Lots 1, 2, 3, 22, 23, 24, 25, 26, 27, 28, 29, 30, Block 3 West, of St. George Island Gulf Beaches Unit 1, according to the Plat thereof as recorded in Plat Book 2, page 7, Public Records of Franklin County, Florida.

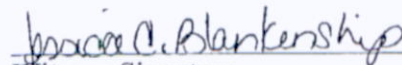
SUBJECT TO: The Mortgages to Ameris Bank recorded on March 23, 2015 in Official Records Book 1140, page 411, and Official Records Book 1140, page 430, Public Records of Franklin County, Florida.

AND the Grantor does hereby fully warrant the title to said land, and will defend the same against the lawful claims of all persons whomsoever.

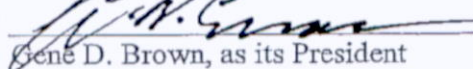
IN WITNESS WHEREOF, the Grantor has caused these presents to be signed and sealed the day and year first above written.

Signed, sealed and delivered in our presence:

BROWN MANAGEMENT GROUP, INC.,
a Florida corporation



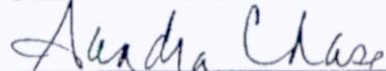
Witness Signature

By: 

Gene D. Brown, as its President

Jessica C. Blankenship

Printed Witness Name



Witness Signature

Sandra Chase

Printed Witness Name

EXHIBIT "F"

STATE OF FLORIDA
COUNTY OF LEON

The foregoing instrument was acknowledged before me this 31st day of May, 2016, by Gene D. Brown, as President of Brown Management Group, Inc., a Florida corporation, who is personally known to me and who did not take an oath.

Sandra Chase
NOTARY PUBLIC

