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November 23, 2021

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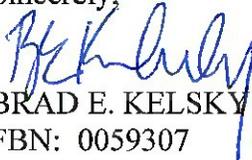
**Re: Docket No. 20200226-SU, Environmental Utilities, LLC
Pre-Filed Direct Examination of Sheri Fiske Schultz, CPA/ABV/CFF**

Dear Clerk:

Enclosed please find Palm Island Estates Association, Inc.'s Pre-Filed Direct Examination of Sheri Fiske Schultz, CPA/ABV/CFF. A copy of the testimony has been served, this date, upon all parties of record.

Thank you.

Sincerely,


BRAD E. KELSKY
FBN: 0059307

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Application for certificate to provide
wastewater service in Charlotte County by
Environmental Utilities, LLC

Docket No.: 20200226-SU

DIRECT TESTIMONY

OF

SHERI FISKE SCHULTZ, CPA, ABV, CFF

on behalf of

Palm Island Estates Association, Inc.

1 **Q. Please state your name, position and professional address.**

2 A. My name is Sheri Fiske Schultz. I am the managing partner of Fiske &
3 Company. I am a certified public account, accredited business valuator and am
4 certified in financial forensics. My professional address is 1250 S. Pine Island
5 Road, Suite 300, Plantation, FL 33324.

6 **Q. State briefly your educational background and experience.**

7 A. I have a Bachelor of Science degree in accounting from the University of
8 Florida. I have a Master's Degree in Accounting from the University of Florida.
9 I have extensive experience in business valuation, including experience in
10 financial statement reporting. I have been qualified as an expert at the state
11 court and federal court levels.

12 **Q. Are you providing testimony on behalf of Palm Island Estates Association,
13 Inc.?**

14 A. Yes.

15 **Q. What is the purpose of your direct testimony?**

16 A. The purpose of my direct testimony was to review the Environmental Utilities,
17 LLC financial statements, the personal financial statements of the Boyers, the
18 pre-filed testimony of Jonathan Cole (cost estimates for work proposed under
19 the original application) and the pre-filed testimony of Deborah D. Swain as it
20 relates to the cost of construction for the proposed utility. I assimilated this data
21 and concluded that neither Environmental Utilities, LLC nor the Boyers have
22 the financial ability to undertake the construction of a wastewater system in the
23 proposed service area as, based upon the data provided, neither the company
24 nor its principals could service the debt associated with the cost of construction.

1 **Q. Have you previously appeared and presented testimony before any**
2 **regulatory bodies?**

3 A. No.

4 **Q. Are you sponsoring any exhibits?**

5 A. Yes, I am sponsoring SFS-1, the November 19, 2021 Memorandum.

6 **Q. Does the report identified as SFS-1 accurately reflect your opinions?**

7 A. It does.

8 **Q. Was this exhibit prepared by you?**

9 A. Yes, it was.

10 **Q. Does that conclude your direct testimony?**

11 A. Yes, it does.

MEMORANDUM

To: Brad Kelsky, Esq.
Email: bradkelsky@kelskylaw.com
From: Sheri Fiske Schultz, CPA/ABV/CFF
Robert Hogan, CFE
Date: November 19, 2021

Re: Palm Island Estate Association, Inc. v. Environmental Utilities LLC

Environmental Utilities, LLC (“EU”) is a Florida limited liability company owned by John R. Boyer and Diane Kay Boyer (the “Boyers”). On October 13, 2020, EU filed an application with the Florida Public Service Commission (“FPSC”) for an original wastewater certificate. The wastewater certificate was for a proposed service area in Charlotte County, Florida that included Knight Island and Don Pedro Island. EU further provided notice of application pursuant to Sections 367.045(1)(e) and (2)(f) of Florida Statutes.

As of January 5, 2021, the FPSC received more than 144 items of correspondence from citizens regarding the application filed by EU. A statement of opposition to the application was subsequently submitted on behalf of the Palm Island Estates Association, Inc. (PIEA). PIEA is a Florida not for profit homeowners’ association representing homeowners on Knight Island, Don Pedro Island, Palm Island Resort and Thornton Key, including property owners in the proposed service area.

On August 9, 2021 Fiske and Company was engaged by you and your client, PIEA, to analyze EU’s financial capacity to execute and complete the proposed work encompassed by the original certificate.

Our review of documentation in this matter includes:

- Application for Original Certificate of Authorization for a Proposed or Existing System Requesting Initial Rates and Charges as filed with the Florida Public Service Commission on October 13, 2020 by Martin S. Friedman, Esq. on behalf of Environmental Utilities LLC.
- Transcript of the Florida Public Service Commission in the Matter of Application for certificate to provide wastewater service in Charlotte County, by Environmental Utilities, LLC, dated January 5, 2021.
- Letter dated January 12, 2021 from Meryl Schaffer, President of Palm Island Estates Association, Inc. to the Florida Public Service Commission.
- Transcript of Direct Testimony of Jonathan H. Cole on behalf of Environmental Utilities, LLC before the Florida Public Service Commission, including Exhibits JHC-1, JHC-2, and JHC-3.
- Transcript of Direct Testimony of Deborah D. Swain on behalf of Environmental Utilities, LLC before the Florida Public Service Commission, including Exhibit DDS-1.
- Balance Sheet and Income Statement for Environmental Utilities, LLC dated October 19, 2021.
- Personal Financial Statement completed by the Boyers for Centennial Bank dated August 6, 2020.

Cost to Construct and Pro Forma Financials

On or about April 2, 2021, Jonathan H. Cole of Giffels-Webster Engineers, Inc. issued a technical memorandum in support of EU’s application for the original certificate. Mr. Cole’s memorandum includes two cost estimates for

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the work proposed under the original certificate. Assuming a low pressure system, Mr. Cole estimated the base cost of construction as \$17,363,148. Assuming a vacuum system, Mr. Cole estimated the base cost of construction as \$21,029,866.

In June 2021 Deborah D. Swain of Milian, Swain & Associates, Inc. prepared accounting information in support of EU's application for original certificate. As attested to by Ms. Swain, the purpose of the accounting information "is to present information supporting the financial basis for EU's requested initial rates and charges." The accounting information includes pro forma financial statements. Pro forma financial statements utilize informed assumptions about future values to forecast financial performance over a period in the future.

Ms. Swain prepared a pro forma depreciation schedule which assumes a total cost of construction of \$21,958,148, including the base cost of construction for the low pressure system as identified by Mr. Cole (\$17,363,148), plus overhead, administrative, and other costs. Schedule 1 details and compares the cost to construct as calculated by Ms. Swain and Mr. Cole.

Ms. Swain prepared a pro forma statement of Contributions in aid of construction (CIAC) and amortization. Contributions in aid of construction are defined by Florida Statue 367.021(3) as:

"any amount or item of money, services, or property received by a utility, from any person or governmental authority, any portion of which is provided at no cost to the utility, which represents a donation or contribution to the capital of the utility, and which is used to offset the acquisition, improvement, or construction costs of the utility property, facilities, or equipment used to provide utility services."

Ms. Swain calculated CIAC as a combination of Service Availability Charges and Lateral Installation Fees. The Service Availability Charge is the total paid by EU to Charlotte County for the transmission of wastewater from EU's proposed service area to the County's system. Ms. Swain assumes the Service Availability Charge will be allocated in equal portions to each Equivalent Residential Connection ("ERC"), in other words, each new customer connection, via a one-time charge of \$11,927.85 per ERC. A Lateral Installation Fee is a one-time fee paid by each ERC to connect the homeowner's plumbing system to EU's system, and Ms. Swain assumed that this fee would be \$984.14 per ERC. Ms. Swain assumed that by 2024 – the first year included in the CIAC calculation – there would be 860 ERCs. Therefore, Ms. Swain assumed that by 2024 EU would have \$11,104,311.40 in CIAC, as shown in the calculation in Table 1 below.

Table 1. CIAC Calculation as of 2024

ERCs as of 2024		860
Service Availability Fee	\$	11,927.85
Lateral Installation Fee		984.14
Total Fee per ERC		<u>12,911.99</u>
Total CIAC as of 2024		<u>\$ 11,104,311.40</u>

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Ms. Swain’s accounting information also includes pro forma financial statements for EU as a company, including a balance sheet as of December 2047, statement of expenses as of December 2033, and a statement of capital structure as of 2033.

Business and Personal Financial Statements

EU provided its balance sheet and income statement as of October 19, 2021. These financial statements show that EU does not have any current revenue stream. In addition, the Company’s liabilities exceed its assets by 14 times, as of October 19, 2021. Working capital is the funds available to a business to make short term investments that will generate future revenues, and is calculated by subtracting current liabilities from current assets (i.e., liabilities due within the next twelve months subtracted from cash assets or assets that can be readily converted to cash). As of October 19, 2021 EU’s working capital was \$5,454 as shown in Table 2 below.

Table 2. Environmental Utilities Working Capital

	<u>Oct 19, 2021</u>
Assets	
Cash	\$ 7,637
Total Assets	<u>\$ 7,637</u>
Liabilities	
Accounts Payable	\$ 1,786
Credit Cards Payable	396
Long Term Liabilities	<u>105,185</u>
Total Liabilities	107,368
Equity	
Owner's Equity	(11,722)
Retained Earnings	(12,197)
Net Income	<u>(75,812)</u>
Total Equity	(99,731)
Total Liabilities and Equity	<u>\$ 7,637</u>
Working Capital	<u>\$ 5,454</u>

In support of the application for the original certificate, the Boyers provided a Personal Financial Statement (filed with Centennial Bank as of August 6, 2020), as well as a letter from Centennial Bank dated June 29, 2020 stating that Centennial Bank would provide EU financing for the construction in the proposed service area under certain conditions, including “the establishment of revenues sufficient to support the repayment of a Loan.”

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Analysis of Working Capital

Ms. Swain established EU’s reliance on accumulating CIAC of \$11,104,311 by 2024, which requires 860 of the proposed 1248 ERCs (68.91%) to pay the Service Availability Charge and Lateral Installation Fee. Although we cannot substantiate this estimate, assuming 69% of ERCs pay the charges by 2024, the work in progress (WIP) on construction should be 68.91%. Therefore, EU would have to fund 68.91% of the total construction costs (\$15,131,360 in construction expenses) by 2024. Based on the assumed CIAC and EU’s working capital, there would be a capital deficit of \$4,021,595 to fulfill the proposed construction WIP, as shown in Table 3 below.

Table 3. Summary of Working Capital Requirements as of 2024

			as of 2024	
Total Factored ERCs	1,248	(1)	Funding Source	
Est. by 2024	860	(1)	CIAC Fees	\$ 10,257,951 (1)
Percentage of Completion	68.91%		Lateral Install Fees	846,360 (1)
			Working Capital Contribution	<u>5,454 (2)</u>
SAC Fee per ERC	\$ 11,928	(1)	Total Funding	11,109,765
Lateral Install Fee per ERC	\$ 984	(1)		
			Construction WIP	15,131,360 (3)
Total Cost to Construct	\$ 21,958,148	(3)		
			Working Capital Surplus (Deficit)	<u>\$ (4,021,595)</u>

(1) Source: Pro Forma Financials from Environmental Utilities, LLC Application for Original Certificate Accounting Information dated June 2021 by Deborah D. Swain, Milian, Swain & Associates. Inc.

(2) Refer to Schedule 4 Little Gasparilla Water Utility Historic Balance Sheets.

(3) Refer to Schedule 2 Cost to Construct. Work In Process estimated based on Total Cost to Construct multiplied by Percentage of Completion.

Therefore, to fulfill the proposed project, EU would have to rely on financing from Centennial Bank collateralized by the Boyer’s personal assets.

We have not completed an analysis of the Boyer’s ability to secure a loan or the terms of such a loan. However, for the purposes of our analysis we made a conservative assumption that the Boyers can secure financing from Centennial Bank at favorable terms of ten years at a three percent (3%) fixed annual interest rate. The pro forma balance sheets provided by Ms. Swain for 2033 do not show any other long-term debt or other sources of capital other than CIAC. Therefore, we can assume the Centennial Bank loan would be for the total working capital deficit, rounded to \$4,025,000. Given the loan amount and terms, the fixed monthly payment of principal and interest is \$33,541.67 or \$402,500 annually.

Pursuant to the pro forma income statement from 2033, EU would have an annual net income of \$241,077. From our review of the Boyer’s Personal Financial Statement, along with the EU pro forma income financial statements, EU and the Boyers will be unable to fulfill their debt obligations. Without financing to meet construction WIP as of 2024, EU does not have the financial ability to undertake the construction of a wastewater system in the proposed service area.

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Conclusion

Our preliminary analysis of the financial and project information provided illustrates that the parties do not have the requisite economic resources to undertake and complete the proposed infrastructure project.

We reserve the right to update our opinion based upon documents or other information which may be produced subsequent to this memorandum. The contents of such subsequent discovery may warrant modification of the conclusions reached herein. Fiske reserves the right to revise the information and opinions included in this memorandum, and/or to supplement this memorandum, upon receipt of any further report or information or relevance.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Sheri Fiske Schultz".

Sheri Fiske Schultz CPA / ABV / CFF
SFS/rh

SCHEDULES

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Schedule 1
Cost to Construct

	<u>Pro Forma Financials</u>	<u>Base Cost Estimate</u>
Land		
DP / KI Land	\$ 300,000	
LGI Property	250,000	
Easements - Legal / Surveying	250,000	
Organization		
Engineering GWE	130,000	
Milan, Swain & Associates	100,000	
Dean Mead	125,000	
Filing Fees, mail outs, other	10,000	
Legal for zoning / Other	157,000	
Structure & Improvements		
DP / KI Building	400,000	
LGI Building	400,000	
Pumping Structures		
LPS Tank Package	10,008,000	\$ 10,008,000
Grinder Pump Crush and Fill Existing Septics	1,425,000	1,215,000
Overhead / Miscellaneous Griffels Webster Engineers	3,348,130	
360 Force Main		
3" LP Sewer Main PVC - 34,096 LF	681,920	681,920
4" LP Sewer Main PVC - 9,464 LF	265,832	265,832
6" LP Sewer Main PVC - 9,020 LF	270,600	270,600
8" LP Sewer Main PVC - 15,325 LF	490,400	490,400
10" LP Sewer Main PVC - 3,677 LF	183,850	183,850
12" LP Sewer Main PVC - 4,250 LF	255,000	255,000
10" Directional Drill for Water Crossings HDPE 1,171 LF	93,680	93,680
16" Directional Drill for Water Crossings HDPE 700 LF	87,500	87,500
Asphalt Roads	278,400	278,400
Concrete Driveways	64,900	64,900
Main Lind Road Crossings PVC 45 LF	9,450	9,450
Overhead / Miscellaneous Griffels Webster Engineers	785,281	
Gravity Main		
On Site Lateral Connection	950,000	810,000
Overhead / Miscellaneous Griffels Webster Engineers	278,205	
Office Furniture and Equipment		
Computers (2)	2,000	
Other office furniture	3,000	
Transportation Equipment		
Service trucks (2)	100,000	
Service boat	40,000	
Dump trailer	10,000	
Side by side (2)	30,000	
Tools, Shop & Equipment		
Tools	50,000	
Inventory	25,000	
Power Operated Equipment		
Trackhoes (2)	100,000	
Miscellaneous		2,648,616
Total Estimated	<u>\$ 21,958,148</u>	<u>\$ 17,363,148</u>

Sources

Pro Forma Financials from Environmental Utilities, LLC Application for Original Certificate Accounting Information dated June 2021 by Deborah D. Swain, Milian, Swain & Associates. Inc.

Base Cost Estimate from Evaluation of Wastewater Collection Technologies Technical Memorandum dated April 2, 2021 by Jonathan H. Cole, P.E., Giffels-Webster Engineers.