

GATLIN, WOODS, CARLSON & COWDERY

Attorneys at Law

a partnership including professional associations

The Mahan Station
1709-D Mahan Drive
Tallahassee, Florida 32308

TELEPHONE (904) 877-7191
TELECOPIER (904) 877-9031

B. KENNETH GATLIN, P.A.
THOMAS F. WOODS
JOHN D. CARLSON
KATHRYN G.W. COWDERY
WAYNE L. SCHIEFELBEIN
ALEX D. BARKER

December 18, 1990

Hand Deliver

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

900991-WS

RE: Poinciana Utilities, Inc.

Dear Mr. Tribble:

Enclosed for filing please find original and 15 copies of the Request of Poinciana Utilities, Inc. for approval of tariffs to permit grossing up of federal and state incomes taxes on Advances for Construction and Contributions in Aid of Construction ("CIAC").

Attached to the Request are Appendixes A-G as follows:

Appendix

First Revised Sheet Nos. 36.1 and 36.2	A
First Revised Sheet Nos. 34.1 and 34.2	B
Summary of Operation	C
Income Statement	D
Estimated Income Tax Liability	E
Cash Forecast	F
Times Interest Earned	G

Please acknowledge receipt of this document by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Very truly yours,

B. Kenneth Gatlin

B. Kenneth Gatlin

BKG/dc
Enclosure

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

11135 DEC 18 1990

FPSC-RECORDS/REPORTING

POINCIANA UTILITIES INC.

December 13, 1990

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32099-0873

Poinciana Utilities, Inc. ("Poinciana" or the "Company") is requesting, as required in Order No. 23541, approval of tariffs that permit the Company to continue grossing-up for federal and state income taxes on Advances for Construction and Contributions in Aid of Construction ("CIAC"). A copy of the proposed tariffs for both water and wastewater are attached as Appendices A and B.

Poinciana serves about 3,700 customers. Its service area, however, is platted for 60,000 residential lots of which 16,500 have water and wastewater available, and 43,500 have no service. The area will develop slowly. A good portion of the above installed facilities will not serve customers for 10-20-30 years in the future.

Because the Company has not had the financial resources to construct the utility systems, its basic program is to have the developer finance the cost through contributions or advances for construction. At October 31, 1990, the construction was financed generally as follows:

	<u>Amount</u>	<u>Percent</u>
Equity Capital	\$ 2,803,000	8%
Long Term Debt	1,365,000	4
Due Affiliates	<u>1,042,000</u>	<u>3</u>
	5,210,000	15
Contributions/Advances	<u>30,258,000</u>	<u>85</u>
	\$35,468,000	100%

Equity capital includes \$1,556,000 of interest free advances from Poinciana's parent that will be converted to paid-in-capital prior to the end of the year.

POINCIANA UTILITIES INC.
4837 Swift Road, Suite 100
Sarasota, Florida 34231
P.O. Box 21119 (34276-4119)
Telephone 813/925-3088

DOCUMENT NUMBER-DATE
11135 DEC 18 1990
FPSC-RECORDS/REPORTING

If the company had paid taxes on CIAC in the past, the tax payments would have been \$11,400,000, resulting in non-producing assets greater than the revenue producing assets . . . not the formula for a successful utility operation. The installation of on-site facilities will continue to exceed customer growth in the future.

With reference to the construction of the utility system, the on site facilities are installed by developers and turned over to the utility as advances in aid of construction, the advances to be repaid with contributions from future customers. Central plant is being initially funded by the Utility with the carrying cost of the nonused portion being funded by the developer. The financing of the central plants is repaid through customer capacity charges and utility investment.

Poinciana is currently in a net earnings position after years of operating losses. As shown on Appendix C, the Company still has over three quarters of a million dollars of negative retained earnings. Operations, therefore provide a limited source of capital to meet any tax payments related to CIAC.

There follows additional financial tables that show the company does not have the financial resources to raise capital to pay taxes on CIAC.

Appendix D is an income statement for the twelve months ended October 31, 1990, and the estimated calendar year of 1991. These earnings result in a 7% return on equity in 1991.

Appendix E is the supporting computations for income taxes. The tax liability in 1991 would be \$1,195,000, assuming the company paid taxes on CIAC.

Appendix F is a cash forecast that shows in another way the problems facing the Company if it had to pay the tax on CIAC. With reference to 1991, the cash receipts are \$4,205,000 primarily from advances in aid of construction from Avatar Properties. With construction and refunds of advances of \$6,153,000, there is cash deficit of \$1,948,000. If the Company had to pay taxes on CIAC, its tax liability would be an additional \$1,463,000, with a cash deficit of \$3,411,000.

As shown, on page 1 of this letter, the outside capital invested in the Company today is \$5,210,000. If the Company had to pay taxes of \$1,463,000, the capital base would be increased about 28%. To invest such a large portion of the Company's capital in non-productive assets, when it has insufficient money to properly service existing capital, is not a sound business practice.

Appendix G shows the times interest is earned under present operation. Lenders of long term debt require a margin of safety normally two times interest coverage including the interest on any new debt, as a condition for lending additional capital. As the table shows, the Company cannot meet that standard, and raising long term debt on reasonable terms would be difficult.

Florida Public Service Commission
December 11, 1990
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In summary, in Poinciana there is substantial lead time on the installation of distribution mains and collection systems prior to customer utilization. Without a customer or revenue base, there is no way to finance either the initial construction cost or tax liability associated with CIAC, let alone the annual capital cost associated with either. Having the developer fund both the construction cost and the taxes related to CIAC is the only feasible way to develop this utility.

The Company therefore requests approval of first revised sheets 36.1 and 36.2 for its water operations and first revised sheets 34.1 and 34.2 for its wastewater operations, that retain the full gross-up of taxes on CIAC.

Sincerely,



A.A. Reeves III
Executive Vice President
& Chief Operating Officer

AAR/cad

Attachments

POINCIANA UTILITIES INC.

**GROSS UP OF
INCOME TAXES**

OR

**ADVANCES FOR CONSTRUCTION
AND CONTRIBUTIONS IN AID OF CONSTRUCTION**

INDEX

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WATER

Appendix A

**TAX IMPACT OF ADVANCES FOR CONSTRUCTION
AND CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")**

In accordance with Order No. 23541 issued on October 1, 1990 in Docket No. 860184-PU the Florida Public Service Commission adopted and approved specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities. This tariff provision is filed pursuant to the above mentioned order.

- 1) On and after January 1, 1991, the Company will collect from developers and others who convey cash and/or property to the company as CIAC an amount equal to the tax impact of the CIAC.
- 2) The gross-up amount to be collected shall be determining using the following formula:

$$\text{Depreciable Plant } (CP - (CP * (1/TL) * AR * .5)) \\ * (1/(1-CTR))$$

$$\text{Land } (CL * (1/(1-CTR)))$$

Where:

CP = Contributed plant and/or contributed cash
TL = Tax Life for contributed plant
AR = Accelerated Tax Rate
CTR = Combined federal and state income tax rate
CL = Contributed Land

EFFECTIVE DATE: JANUARY 1, 1991

A. A. REEVES III
VICE PRESIDENT

- 3) The CIAC tax impact amounts, as determined in Paragraph (2), will be deposited as received into a fully funded interest bearing escrow account, hereinafter referred to as the "CIAC Tax Impact Account". Monies in the CIAC Tax Impact Account will be withdrawn periodically for the purpose of paying that portion of the estimated Federal and State income tax expense which is directly attributable to the CIAC conveyed to the Company.

Annually, following the preparation and filing of the Company's annual Federal and State income tax returns, a determination shall be made by the Commission as to the actual Federal and State income tax expense that is directly attributable to the receipt of CIAC. CIAC tax impact monies received during the tax year that are in excess of the actual amount of CIAC tax expense, including interest earned on such excess monies, will be refunded on a pro rata basis to the contributors of the CIAC. The Company will maintain adequate records to account for the receipt, deposit, and withdrawal of monies in the CIAC Tax Impact escrow account. A detailed statement of the CIAC Tax Impact Account, including the annual determination of actual tax expense attributable to the CIAC, will be submitted to the Florida Public Service Commission within 30 days after federal and state tax returns have been filed.

- 4) The amount of CIAC tax impact monies collected by the Company will not be treated as CIAC for rate making purposes.

All developer agreements in which CIAC tax monies are required shall indicate the amount of such monies separately from other CIAC amounts required, as well as the Tax Impact formula utilizing the appropriate values. The agreement will contain an explanation of the charge for the benefit of the contributor.

EFFECTIVE DATE: January 1, 1991

A. A. REEVES III
VICE PRESIDENT

WASTEWATER

Appendix B

**TAX IMPACT OF ADVANCES FOR CONSTRUCTION
AND CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

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EFFECTIVE DATE: January 1, 1991

A. A. REEVES III
VICE PRESIDENT

Appendix C

FC-4

Poinciana Utilities, Inc.
Summary of Operations

Year	Net Income	Retained Earnings
(1)	(2)	(3)
1980	\$ (125,522)	(894,680)
1981	(128,518)	(1,023,198)
1982	163,536	(859,662)
1983	(111,469)	(971,131)
1984	(18,273)	(989,404)
1985	(33,367)	(1,022,771)
1986	(33,523)	(1,056,294)
1987	(54,555)	(1,110,849)
1988	6,592	(1,104,257)
1989	57,246	(1,047,011)
10/90	170,753	(853,683)

Appendix D

FC-2

Poinciana Utilities, Inc.
Income Statement
\$000

line	Description	10/90 Actual	12/91 Estimate
	(1)	(2)	(3)
1	Operating Revenues	\$1,623	\$1,931
2	Operating Expenses		
3	Operation and Maintenance	1,176	1,371
4	Depreciation	90	98
5	Taxes, Other	178	241
6	Income Taxes		
7	Total Operating Expenses	1,444	1,710
8	Operating Income	179	221
9	Other Income	233	474
10	Total Income	412	695
11	Interest and Other Charges		
12	Long Term Debt	149	111
13	Advances From Parent Company	87	363
14	Amortz of Debt Expense	5	5
15	Total Interest and Other Charges	241	479
16	Net Income	\$171	\$216

Appendix E

fc-1

Poinciana Utilities, Inc.
 Estimated Income Tax Liability
 Assuming Company Paid Taxes on CIAC
 \$000

Line	Description	10/90 Actual	12/91 Estimate
	(1)	(3)	(4)
1	Operating Revenues	\$1,623	\$1,931
2	CIAC	1,662	3,891
3	Total	3,285	5,822
4	Deduction		
5	Operating Expenses	1,176	1,371
6	Depreciation-Taxes	815	1,029
7	Taxes-Others	178	241
8	Interest	241	479
9	Reimbursement of Interest	(233)	(474)
10	Total	2,177	2,646
11	Taxable Income	1108	3176
12	State Income Taxes		
13	Exemptions		
14	Taxable Income	1108	3176
15	Income Taxes@ 5.5%	61	175
16	Federal Income Taxes		
17	Taxable Income	1,047	3,001
18	Income Taxes@ 34%	356	1,020
19	Summary		
20	State	61	175
21	Federal	356	1,020
22	Total- Current Taxes	\$417	\$1,195

Appendix F

FC-2

Poinciana Utilities, Inc.
 Cash Forecast
 Assuming Company Paid Taxes on CIAC
 \$000

line	Description	10/90 Actual	12/91 Estimate
	(1)	(3)	(4)
1	Source of Funds		
2	Net Income	\$ 171	\$ 216
3	Depreciation	90	98
4	Contributions	1,662	3,891
5	Total	1,923	4,205
6	Application of Funds		
7	Construction	2,158	5,546
8	Refund Advances	554	607
9	Total	2,712	6,153
10	Cash Excess (Deficit)	(789)	(1,948)
11	Taxes on CIAC	417	1,463
12	Cash Excess (Deficit)	\$ (1,206)	\$ (3,411)

Appendix G

FC-2

Poinciana Utilities, Inc.
Times Interest Earned
\$000

line	Description	10/90 actual	12/91 Estimate
	(1)	(3)	(4)
1	Operating Revenues	\$1,623	\$1,931
2	Operating Expenses		
3	Operation and Maintenance	1,176	1,371
4	Depreciation	90	98
5	Taxes, Other	178	241
6	Income Taxes		
7	Total Operating Expenses	1,444	1,710
8	Operating Income	179	221
9	Other Income	233	474
10	Total Income	\$412	\$695
11	Interest and Other Charges		
12	Long Term Debt	\$149	\$111
13	Advances From Parent Company	87	363
14	Others	0	0
15	Total Interest and Other Charges	\$236	\$474
16	Interest Earned	1.75	1.47