

DOCKET NO. 980180-W15

REQUEST TO ESTABLISH DOCKET

Date 02/04/98

1. Division Name/Staff Name Water and Wastewater/Cheryl Johnson
2. OPR Cheryl Johnson
3. OCR \_\_\_\_\_
4. Suggested Docket Title Disposition of Contribution-in-Aid-Of-Construction Cross-in Funds Collected By Palm Coast Utilities in Pinalar County

5. Suggested Docket Mailing List (attach separate sheet if necessary)

A. Parties (Provide names of regulated companies or use abbreviation from list below if Parties should include all regulated companies in one or more industries; provide names and addresses of nonregulated companies; provide names, addresses, and affiliation (i.e., attorney, company liaison officer, or customer of individuals.)

<u>Palm Coast Utility Corporation</u>	<u>Wm Schiefelbin</u>
<u>2 Utility Drive</u>	<u>Batlin, Wood, Carlson &amp; Cowdry</u>
<u>Palm Coast, Florida 32137</u>	<u>The Mahan Station, # 1709-D Mahan Drive</u>
	<u>Tallahassee, Florida 32308</u>

B. Interested Persons/Companies (Provide names, complete mailing addresses, and affiliation. Use abbreviation from list below if Interested Persons should include all regulated companies in one or more industries.)

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

REGULATED INDUSTRIES

Investor-Owned Electric (EI)	Water Utilities (WU)
Electric Cooperatives (EC)	Local Exchange Telephone Cos. (TL)
Municipal Electric (EM)	Interexchange Telephone Cos. (TI)
Gas Utilities (GU)	Coin-Operated Telephone Cos. (TC)
Wastewater Utilities (WU)	Shared Tenant Telephone Cos. (TS)
	Alternate Access Vendors (TA)

6. Check One:

- Documentation attached.
- Documentation will be provided with recommendation.

DOCUMENT FILED DATE  
 01809 FEB-4 98  
 REG. CLERK REPORTING

January 28, 1998

Ms. Connie L. McCaskill  
Supervisor/Limited Filings  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-8073

FEB 3 1998

Florida Public Service Commission  
Division of Water and Wastewater

Re: 1996 CIAC Gross-up Report

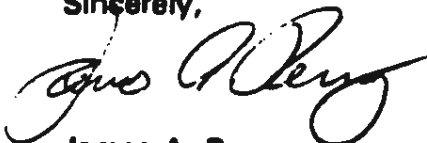
Dear Ms. McCaskill

Attached to this letter is Palm Coast Utility Corporations 1996 CIAC Gross-up Report, for the period January 1 through June 12, 1996, in compliance with Order No. 24129. Also attached is the following supporting information described in Order No. 16971:

- Schedules showing the treatment of CIAC in Palm Coast Utility's 1996 tax workpapers are enclosed.
- Tariff pages, regarding the gross-up are enclosed.
- It is not practical to furnish signed copies of the Consolidated Federal and State income tax returns of ITT Industries, Palm Coast Utility's parent company. Palm Coast Utility's tax workpapers are available for review at the above address.

Please call if I can provide any further information.

Sincerely,



James A. Perry  
Vice President of Finance

JAP/bmg

cc: W. Schiefelbein  
B. Bilinski

McCaskill.LTR

Palm Coast Utility Corporation

# CIAC REPORT

FOR TAX PERIOD JANUARY 1, 1996 - JUNE 12, 1996

COMPANY: PalmCoast Utility Corporation

	<u>TOTAL COMPANY</u>	<u>NON JURISDICTIONAL</u>	<u>JURISDICTIONAL</u>
1. Total CIAC	1,042,532		1,042,532
2. Total Connection Fees			
3. Total Installation Fees	(39,252)		(39,252)
4. Total Prepaid Connection Fees (not in (2))			
5. Total Tap-in Fees	(57,198)		(57,198)
6. Total Jack & Bore Fees			
7. CIAC Taxable Because of Amendment to Section 118	946,082		946,082 <sup>ff</sup>
8. Depreciation on (7)	(30,519)		(30,519)
9. Taxable Income Effect of (7)	<u>915,563</u>		<u>915,563</u>
10. Form 1120, Line 11	6,072,782	(43,297)	6,029,485
11. LESS: Form 1120, Line 27	<u>(5,373,200)</u>	<u>22,581</u>	<u>(5,350,619)</u>
12. Form 1120, Line 28	699,582	(20,716)	678,866
13. LESS: Form 1120, Line 29a			
14. LESS: Form 1120, Line 29b			
15. Form 1120, Line 30	699,582	(20,716)	678,866
16. LESS: Net CIAC Taxable Because of TRA '86 (from Line (9))	(915,563)		(915,563)
17. PLUS(LESS): Other CIAC Effects of TRA '86 (attached) <sup>g</sup>	<u>(251,436)</u>		<u>(251,436)</u>
18. Adjusted Form 1120, Line 30	<u>(407,417)</u>	<u>(20,716)</u>	<u>(488,133)</u>
Current Combined Federal & State Tax Rate <u>38.587%</u>			
19. CIAC Gross-up Collections	244,747		244,747 <sup>h</sup>
20. CIAC Gross-up Refunds			
1a. Accrued interest on potential refunds			
21. Interest on gross-up collections, <del>interest</del>	6,689		6,689
22. Net CIAC Gross-up To Be Applied To Line (9)	<u>251,436</u>		<u>251,436</u>

CIAC Gross-up Rate Used 33.54%

How much CIAC is subject to  
Gross-up

WORKING PAPERS FOR THE U.S. FEDERAL INCOME TAX  
 FOR THE YEAR 1988  
 INCOME STATEMENT

10-05-008

CORPTAX 8  
 1988175

GROSS INCOME	REFERENCE SCHEDULE	CORPTAX		TAX ADJUSTMENT ADD (DEDUCT)	FOR THE TAX RETURN
		ACCOUNT NUMBER	PER BOOKS		
GROSS PROFITS FROM SALES	A-1		11,134,948	148,888	11,212,088
CONTRACT REVENUE	A-2	000000	45,326	0	45,326
ROYALTIES - DOMESTIC	A-2	000000	0	0	0
ROYALTIES - FOREIGN	A-2	000000	0	0	0
COMMISSIONS	A-2	000000	0	0	0
DIVIDENDS FROM OTHER DOMESTIC CORPS - 75%	A-2	000000	0	0	0
DIVIDENDS FROM STOCK OF DOMESTIC CORPS - AFFILIATED GROUPS	A-2	000000	0	0	0
DIVIDENDS FROM STOCK OF FOREIGN CORPS	A-3	000000	0	0	0
RENT REVENUE	A-3	000000	0	0	0
INTEREST EARNED	A-3	000000	387,381	561,341	928,722
L/T CAPITAL GAINS OR (LOSSES)	A-3	000000	0	0	0
L/T CAPITAL GAINS OR (LOSSES)	A-2	000000	0	0	0
SECT 1221 - GAIN (OR LOSS) FROM SALE OF PROPERTY OTHER THAN CAPITAL ASSETS	A-6	000000	0	(31,626)	(31,626)
ORDINARY INCOME (LOSS) SECT 1201, 1202, 1203, 1204, 1205	A-3	000000	0	0	0
REALIZED PROFIT (OR LOSS) ON FOREIGN EXCHANGE	A-6	000000	0	0	0
MISCELLANEOUS INCOME	A-6	000000	64,886	1,267,278	1,267,874
<b>TOTAL GROSS INCOME</b>			<b>11,622,907</b>	<b>1,975,003</b>	<b>13,997,910</b>

A INCOME STATEMENT - GROSS INCOME

PALM COAST UTILITY  
 WORKING PAPERS FOR THE U.S. FEDERAL INCOME TAX RETURN  
 FOR THE YEAR 1988  
 INCOME STATEMENT

10 48 288

CORP TAX #  
1888175

DEDUCTIONS	CORP TAX			TAX ADJUSTMENT ADD (Deduct)	FOR THE TAX RETURN
	REFERENCE SCHEDULE	ACCOUNT NUMBER	PER BOOKS		
GENERAL & ADMINISTRATIVE EXPENSE	A-4		5,848,882	483,212	6,332,094
TAX EXPENSE	A-6	0170000	1,773,748	(488,838)	1,284,910
INTEREST ON FUNDED & LONG-TERM DEBT	A-7	0103000	775,882	0	775,882
OTHER INTEREST EXPENSE	A-7	0100000	242,242	0	242,242
DEPRECIATION	A-7	0200000	1,483,846	1,647,130	3,130,976
DEPLETION	A-7	0220000	0	0	0
AMORTIZATION OF INTANGIBLE CAPITAL	A-8	030010	0	0	0
AMORTIZATION OF DEBT DISCOUNT AND EXPENSE	A-8	0300020	18,391	0	18,391
PENSION, SICK & DEATH BENEFITS - (UNFUNDED PLAN)	A-8	0410000	0	0	0
PAYMENT TO EMPLOYEE BENEFITS TRUST FUNDS & SAVINGS PLAN - (FUNDED PLAN)	A-8	0412000	275,882	0	275,882
BAD DEBTS	A-9	0100000	18,810	187	18,997
ROYALTIES	A-9	0110000	0	0	0
INTANGIBLE DRILLING COSTS	A-9	0110040	0	0	0
<b>TOTAL DEDUCTIONS</b>			<b>10,439,942</b>	<b>1,091,684</b>	<b>11,531,626</b>
<b>NET INCOME BEFORE NET OPERATING LOSS DEDUCTION</b>			<b>1,182,004</b>	<b>183,399</b>	<b>1,365,403</b>

A - INCOME STATEMENT DEDUCTIONS

PALM COAST UTILITY  
WORKING PAPER FOR THE U.S. FEDERAL INCOME TAX RETURN  
FOR THE YEAR 1986  
SUPPORTING SCHEDULE

COMPACT 8  
1005175

Schedule A-5	REFERENCE NUMBER	PER BOOKS	TAX ADJUSTMENT ADD (DEDUCT)	FOR THE TAX RETURN
SECT 1231 GAIN(LOSS) FROM SALE OF PROPERTY OTHER THAN CAPITAL ASSETS (PER SCH.A-5-1)		0		0
ADJ TO REFLECT TAX COST OF ASSETS SOLD	M-803700 A-5-2		(31,626)	(31,626)
TOTAL		0	(31,626)	(31,626)
ORDINARY INCOME (LOSS) (SECT 1241 1250, 1252, 1254, 1256)				0
TOTAL		0	0	0
PROFITS OR (LOSSES) ON FOREIGN EXCHANGE				0
TOTAL		0	0	0
MISCELLANEOUS INCOME CONTRIBUTIONS FULLY TAXABLE		54,505	1,267,279	54,505 1,381,874
TOTAL		54,505	1,267,279	1,341,874

PALM COAST UTILITY CORPORATION  
Water Division

TAX IMPACT OF CIAC

16.0 Prior to the Congressional Tax Reform Act of 1986, Section 118(b) of the Internal Revenue Code provided for the exclusion of certain types of Contributions In Aid Of Construction (CIAC) from the taxable income of a corporate utility. Such amounts were therefore, tax exempt.

However, pursuant to the Congressional Tax Reform Act of 1986, Section 118(b) was amended to reclassify CIAC (both cash and property) as a taxable source of revenue, effective January 1, 1987. The net result of this action is that a utility which is a corporation must now pay income tax on the CIAC it collects.

Since the amount of this additional tax liability is directly attributable to the contributors (developers, builders, etc.) of the CIAC, the utility is authorized to collect this amount from those contributors.

Therefore, in accordance with Order No. 23541 issued on October 1, 1990 in Docket No. 860184-PU, this Commission adopted and approved specific guidelines for a utility to administer in the calculation, collection, and reporting of CIAC tax liabilities as follows:

1) Palm Coast Utility Corporation will collect from developers and others who convey cash and/or property to a utility as CIAC, an amount equal to the tax impact of the CIAC.

2) The tax impact amount to be collected shall be determined using the following formula:

$$\text{Tax Impact} = \frac{\text{CTR}}{1 - \text{CTR}} * ((\text{C} + \text{CP} + \text{CL}) - (((\text{C} + \text{CP}) / \text{TL}) * (1 - (1 + \text{ROR}) - \text{t}_1)) / \text{ROR}) * (\text{CTR}_i / \text{CTR})$$

EFFECTIVE DATE: October 22, 1991

TYPE OF FILING: CIAC GROSS-UP AUTHORITY

PALM COAST UTILITY CORPORATION  
Water Division

- CTR - Applicable marginal rate of federal and state corporate income tax  
CTR =  $ST+FT(1-ST)$   
ST - applicable marginal rate of state corporate income tax  
FT - applicable marginal rate of federal income tax
- C - dollar amount of charges paid to a utility as Contributions In Aid of Construction which must be included in taxable income of the utility, and which had been excluded from taxable income pursuant of section 118(b) of the Internal Revenue Code
- CP - dollar amount of depreciable property conveyed to utility which must be included in taxable income of the utility and which had been excluded from taxable income pursuant to section 118(b) of the Internal Revenue Code
- CL - dollar amount of land conveyed to utility which must be included in taxable income of the utility and which had been excluded from taxable income pursuant to Section 118(b) of the Internal Revenue Code
- TL - tax life for contributed property
- CTR<sub>i</sub> - tax rate expected to be in effect when the depreciation is taken on the tax return
- t<sub>1</sub> - negative exponent of the tax life of the contributed asset
- ROR - rate of return of 9.21%

3. Consistent with the terms of an Agreement dated February 11, 1987 between ITT Community Development Corporation (ICDC) and the Utility, both being wholly owned subsidiaries of ITT Corporation, tax impact amounts received by the Utility from ICDC that are specifically related to ICDC projects shall not be required to be deposited as received into an escrow account. However, CIAC tax impact funds received from anyone other than ITT Community Development Corporation shall be deposited into an escrow account.

EFFECTIVE DATE: 10/22/91

TYPE OF FILING: CIA: GROSS-UP AUTHORITY

Roy W. Likins, President



PALM COAST UTILITY CORPORATION  
Sewer Division

TAX IMPACT OF CIAC

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EFFECTIVE DATE: October 22, 1991

TYPE OF FILING: CIAC GROSS-UP AUTHORITY

PALM COAST UTILITY CORPORATION  
Sewer Division

CTR - Applicable marginal rate of federal and state corporate income tax  
CTR =  $ST+FT(1-ST)$   
ST - applicable marginal rate of state corporate income tax  
FT - applicable marginal rate of federal income tax

C - dollar amount of charges paid to a utility as Contributions In Aid of Construction which must be included in taxable income of the utility, and which had been excluded from taxable income pursuant of section 118(b) of the Internal Revenue Code

CP - dollar amount of depreciable property conveyed to utility which must be included in taxable income of the utility and which had been excluded from taxable income pursuant to section 118(b) of the Internal Revenue Code

CL - dollar amount of land conveyed to utility which must be included in taxable income of the utility and which had been excluded from taxable income pursuant to Section 118(b) of the Internal Revenue Code

TL - tax life for contributed property

CTR1 - tax rate expected to be in effect when the depreciation is taken on the tax return

-t1 - negative exponent of the tax life of the contributed asset

ROR - rate of return of 9.21%

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EFFECTIVE DATE: 10/22/91

TYPE OF FILING: CIAC GROSS-UP AUTHORITY

Roy W. Likins, President