

LAW OFFICES  
**ROSE, SUNDSTROM & BENTLEY, LLP**  
2548 BLAIRSTONE PINES DRIVE  
TALLAHASSEE, FLORIDA 32301  
(850) 877-6555

ORIGINAL

RECEIVED-FPSC

00 OCT 23 PM 4:42

RECORDS AND REPORTING

MALING ADDRESS  
POST OFFICE BOX 1567  
TALLAHASSEE, FLORIDA 32302-1567  
TELECOPIER (850) 656-4029

October 23, 2000

**VIA HAND DELIVERY**

ROBERT M. C. ROSE  
OF COUNSEL

CHRIS H. BENTLEY, P.A.  
F. MARSHALL DETERDING  
MARTIN S. FRIEDMAN, P.A.  
JOHN R. JENKINS, P.A.  
STEVEN T. MINDLIN, P.A.  
JOSEPH P. PATTON  
DAREN L. SHIPPY  
WILLIAM E. SUNDSTROM, P.A.  
DIANE D. TREMOR, P.A.  
JOHN L. WHARTON

Blanca S. Bayo, Director  
Division of Records & Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0862

Re: Aloha Utilities, Inc.; PSC Docket No. 991643-SU  
Application for Increase in Wastewater Rates to its Seven Springs System Customers in Pasco County, Florida  
Our File No. 26038.30

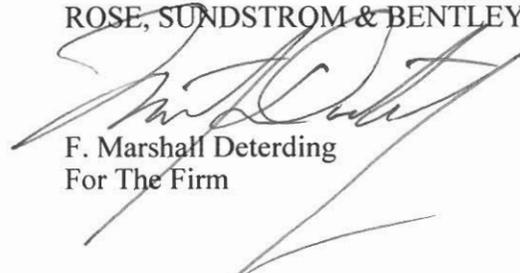
Dear Ms. Bayo:

Attached in accordance with the Commission's most recent Prehearing Order are the originals and fifteen copies of the Supplemental Rebuttal Testimonies of Robert C. Nixon, CPA and Mr. Stephen G. Watford filed on behalf of Aloha Utilities, Inc. in the above-referenced case.

Should you have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY



F. Marshall Deterding  
For The Firm

FMD/tmg

cc: Ralph Jaeger, Esquire  
Steve Burgess, Esquire  
Stephen G. Watford  
David W. Porter, P.E.  
Robert C. Nixon, CPA

APP  
CAF  
CMP  
COM 3700  
CTR  
ECP Merchant  
LEG 2  
OPC  
PAI  
RGO 2  
SEC 1  
SER  
OTH

aloha301023bayo.ltr

RECEIVED & FILED

DOCUMENT NUMBER - DATE

FPSC-BUREAU OF RECORDS  
13520 OCT 23 8

FPSC-RECORDS/REPORTING

Watford  
DOCUMENT NUMBER - DATE

13521 OCT 23 8

FPSC-RECORDS/REPORTING

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ALOHA UTILITIES, INC.

SEVEN SPRINGS WASTEWATER DIVISION

DOCKET NO. 991643-SU

RECEIVED-PPSC

00 OCT 23 PM 4:41

RECORDS AND  
REPORTING

SUPPLEMENTAL REBUTTAL TESTIMONY OF ROBERT C. NIXON, C.P.A.

Q. Please state your name and professional address.

A. Robert C. Nixon, C.P.A., a partner in the accounting firm of Cronin, Jackson, Nixon & Wilson, P.A., 2560 Gulf-To-Bay Boulevard, Suite 200, Clearwater, Florida 33765.

Q. Have you previously provided testimony in this proceeding?

A. Yes.

Q. What is the purpose of this supplemental rebuttal testimony?

A. To sponsor Exhibit \_\_\_\_ RCN-18 and \_\_\_\_ RCN-19 related to the cost and utility revenue requirement respectively for purchasing the new office building.

Q. Why were these exhibits prepared?

A. These exhibits were prepared at the request of Mr. Watford for use in his testimony related to purchase of the new office building and the alternatives which were available.

Q. Before you explain these schedules, are they meant to be a full cost/benefit analysis as suggested by Ms. Merchant in her supplemental direct testimony?

1           A.    No.    In reviewing her testimony, I am not sure what a  
2                   "cost/benefit analysis" is.  As Mr. Watford will testify,  
3                   Aloha engaged the services of a realtor to look for  
4                   suitable office space in the Seven Springs service area.  
5                   It is my understanding that the market for the type and  
6                   size of space needed by Aloha is very tight and there  
7                   were not a lot of alternatives available.  The purpose of  
8                   my exhibit was to show the impact on regulatory revenue  
9                   and provide a simple cost comparison based on an analysis  
10                  of the market by Prudential-Tropical Realty.

11          Q.    You stated that you did not know exactly what was meant  
12                  by the term "cost/benefit analysis".  Why is that?

13          A.    I believe the prudent approach in assessing alternatives  
14                  for new office space is to compare either the cost to  
15                  lease a comparable property with the full cost of  
16                  acquiring an office building.  Aloha has done this and  
17                  provided the information to staff.  Since the cost would  
18                  be current annual costs, they are stated at their present  
19                  values and one can judge if the cost to purchase is  
20                  reasonable or not.

21                  My problem, I suppose, is with the term "benefit".  It  
22                  should be obvious that owning a building, which will meet  
23                  Aloha's needs for the next 20 years at a cost less than  
24                  the cost to rent currently, is an obvious demonstration  
25                  of the benefit of buying.  In addition, Aloha's costs

1 should not escalate for annual increases in rent due to  
2 changes in the Consumer Price Index (CPI). Over a 10 to  
3 15 year period, such automatic increases to the rent,  
4 which are standard in all of the leases of properties  
5 considered, could be significant.

6 Q. Are there other benefits to be considered beyond simply  
7 cost?

8 A. Yes. Mr. Watford will cover these benefits in his  
9 testimony. Because of extensive on-site improvements  
10 needed to make some of the alternative properties  
11 suitable for office space, the benefits of purchasing a  
12 building essentially ready to move into without extensive  
13 renovation, is an obvious benefit. Mr. Watford will  
14 testify on this matter in detail.

15 Q. Please explain your exhibit \_\_\_\_ RCN-18.

16 A. My exhibit \_\_\_\_ RCN-18 computes the additional cost to  
17 Aloha for purchasing the Costanza building and occupying  
18 6,062 square feet of the total space in the building of  
19 8,442 square feet. The information on the revenue  
20 requirement is developed on \_\_\_\_ RCN-19.

21 \_\_\_\_ RCN-19 shows the cost of the new office building and  
22 land and deducts the cost of the existing leased space  
23 (Allstate Insurance) based of square footage. I have  
24 then added the cost of improvements, relocation of the  
25 phone system, and office furniture and equipment to

1 arrive at a full cost of the new space to Aloha. I then  
2 removed one year's accumulated depreciation net of the  
3 depreciation on the Allstate leased space to arrive at a  
4 net cost to purchase of \$590,232. I have applied the  
5 rate of return originally requested in this proceeding to  
6 arrive at additional utility operating income of \$54,537.

7 \_\_\_\_ RCN-19 also shows the calculation of net utility  
8 depreciation, maintenance, taxes, and insurance net of a  
9 full allocation to Allstate Insurance.

10 All of these items are carried over to \_\_\_\_ RCN-18 and  
11 result in total additional utility costs of \$84,165  
12 before adjustment for existing rent expense and  
13 Regulatory Assessment Fees.

14 Q. I notice on \_\_\_\_ RCN-19 that you estimated the cost of  
15 land to be \$80,511. Please explain that estimate?

16 A. At the time this exhibit was prepared, I did not have an  
17 appraised value for the land. Therefore, I used the  
18 assessed value of the land which I understand is  
19 generally 80% of market value, and adjusted it  
20 accordingly. According to the Pasco County Tax Assessor,  
21 property values for commercial property are generally  
22 assessed at approximately 80% of market value. I believe  
23 this was a reasonable approach.

24 Q. Please explain the cost comparisons?

25 A. I have shown two comparisons. The first is based on

1 additional cost, which equates to \$11 per square foot.  
2 I have also shown the total cost of \$84,165, which  
3 equates to a cost of \$13.88 per square foot. This  
4 compares to the cost to rent comparable space of between  
5 \$12.50 and \$14.50 based on an analysis prepared by  
6 Prudential-Tropical Realty. Also from that same  
7 analysis, the average cost to lease comparable space was  
8 \$13.63.

9 Q. Are these comparisons valid?

10 A. The answer is yes and no. The comparisons provide an  
11 indication of the cost to Aloha of purchasing the  
12 building compared with the market for comparable leased  
13 space in the Seven Springs service area. However, it  
14 should be noted that the costs shown for Aloha include  
15 leasehold improvements, relocating the existing phone  
16 system, and \$42,856 of additional office furniture and  
17 equipment. The comparables provided by Prudential do not  
18 consider the cost of leasehold improvements or additional  
19 furniture and equipment necessary to operate a utility  
20 office. With this in mind, I believe the comparison  
21 indicates that purchasing the building is a prudent and  
22 cost effective decision. A more detailed analysis which  
23 included all necessary factors for the lease options  
24 would show even more clearly that Aloha's choice to  
25 purchase was a good one. Mr. Watford has prepared a more

1 complete "cost comparison." My primary purpose was to  
2 develop the revenue requirement that results from Aloha's  
3 move to new offices.

4 Q. Do you have anything further to add?

5 A. Not at this time, other than to supply our response to  
6 the Staff's Request for Production of Documents No. 13  
7 for the Commission's information. This is attached as  
8 RCN-20.

9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

ALOHA UTILITIES, INC.  
CALCULATION OF COST AND EXPENSE FOR NEW OFFICES  
DOCKET NO. 991643-SU  
EXHIBIT \_\_\_\_ RCN-18

I. Capital Costs and Operating Income

Cost of new office building and land	\$ 765,000
Less: Non-utility leased space (28.19%) (Note 1)	<u>(215,654)</u>
Net utility portion of building and land	549,346
Cost of improvements per contract (walls, doors, etc.)	11,595
Relocate existing phone system and miscellaneous installation costs	2,000
Office furniture and equipment	<u>42,856</u>
Net utility cost of office space	605,797
Less: Accumulated depreciation per below (\$17,112 + \$290 + \$2,987)	(20,389)
Non-utility accumulated depreciation per below	<u>4,824</u>
Net increase in capital cost	590,232
Rate of return as requested (Note 2)	<u>9.24%</u>
Total additional utility operating income	<u>\$ 54,537</u>

II. Depreciation

A) Cost of building and land	\$ 765,000
Less: estimated cost of land (Note 3)	<u>(80,511)</u>
	684,489
PSC depreciation rate (masonry structure – 40 yrs.)	<u>2.5%</u>
Total depreciation	17,112
Less: Non-utility leased space (28.19%)	<u>(4,824)</u>
	<u>12,288</u>
Cost of utility space improvements per contract	11,595
PSC depreciation rate	<u>2.5%</u>
Depreciation on utility improvements	<u>290</u>
Total utility depreciation – building and improvements	<u>12,578</u>
B) Cost of office furniture, equipment, and phone relocate	44,856
PSC depreciation rate (15 years.)	<u>6.66%</u>
Utility depreciation	<u>2,987</u>
Total utility depreciation	<u>\$ 15,565</u>

ALOHA UTILITIES, INC.  
 CALCULATION OF COST AND EXPENSE FOR NEW OFFICES  
 DOCKET NO. 991643-SU  
 EXHIBIT \_\_\_\_ RCN-18

III. Expenses

Estimated annual maintenance per current owner	\$ 3,900
Estimated property taxes per current owner (November amount)	11,884
Estimated annual insurance per current owner	<u>3,800</u>
	19,584
Less: Non-utility leased space allocation (28.19%) (Note 1)	<u>(5,521)</u>
Net additional utility expense	<u>\$ 14,063</u>

Notes:

- (1) Aloha will lease 2,380 square feet of space in the building to Allstate Insurance Company under an existing lease. The total space in the building is 8,442 square feet. Thus, the portion not occupied by Aloha is treated as non-utility property.

Total non-utility space leased (sq. ft.)	<u>2,380</u>
Divided by total building space (sq. ft.)	<u>8,442</u>
Non-utility space percentage	<u>28.19%</u>

- (2) Per MFR's. Final Rate of Return is subject to resolution of other issues as a fall-out number.

(3) Assessed value per tax notice	<u>\$ 64,409</u>
Divide by 80% - estimated ratio of assessed value to market value	<u>80%</u>
Estimated cost of land	<u>\$ 80,511</u>

ALOHA UTILITIES, INC.  
REVENUE REQUIREMENT FOR NEW OFFICE BUILDING AND  
COST COMPARISON TO LEASE  
DOCKET NO. 991643-SU  
EXHIBIT \_\_\_\_ RCN-19

I. Revenue Requirement

Total additional utility operating income, net of non-utility operating income related to leased space (Schedule No. 2)	\$ 54,537
Utility depreciation, net of non-utility depreciation on leased space (Schedule No. 2)	15,565
Utility operating expenses, net of non-utility portion related to leased space (Schedule No. 2)	<u>14,063</u>
Total additional utility costs	84,165
Less: existing rent expense	<u>(17,478)</u>
Net additional increase in cost	66,687
Regulatory Assessment Fees @ 4.5%	<u>3,142</u>
Total additional revenue required	<u>\$ 69,829</u>
Seven Springs wastewater portion based on ERC's (36%)	<u>\$ 25,138</u>

Note: All non-utility costs related to lease of space to Allstate have been removed as shown on Schedule No. 2. Therefore, rental income and related expenses will be recorded below the line as non-utility income/expense.

II. Cost Comparison

	Additional Cost	Total Cost
Total utility capital cost and expense to purchase building, excluding Regulatory Assessment Fees	<u>\$ 66,687</u>	<u>\$ 84,165</u>
Number of square feet occupied by Aloha	<u>6,062</u>	<u>\$ 6,062</u>
Cost per square foot to purchase	<u>\$ 11.00</u>	<u>\$ 13.88</u>
Cost to lease comparable space (1)	<u>\$12.50 - \$14.50</u>	
Average cost to lease comparable space (1)	<u>\$ 13.63</u>	

(1) Per Prudential – Tropical Realty analysis

ALOHA UTILITIES, INC.  
Docket No. 991643-SU

Discovery Response to Staff's Request for Production No. 13

**Exhibit RCN-20**

ALOHA UTILITIES, INC.  
REVENUE REQUIREMENT FOR NEW OFFICE BUILDING AND  
COST COMPARISON TO LEASE  
DOCKET NO. 991643-SU

I. Revenue Requirement

Total additional utility operating income, net of non-utility operating income related to leased space (Schedule No. 2)	\$ 54,537
Utility depreciation, net of non-utility depreciation on leased space (Schedule No. 2)	15,565
Utility operating expenses, net of non-utility portion related to leased space (Schedule No. 2)	<u>14,063</u>
Total additional utility costs	84,165
Less: existing rent expense	<u>(17,478)</u>
Net additional increase in cost	66,687
Regulatory Assessment Fees @ 4.5%	<u>3,142</u>
Total additional revenue required	<u>\$ 69,829</u>
Seven Springs wastewater portion based on ERC's (36%)	<u>\$ 25,138</u>

Note: All non-utility costs related to lease of space to Allstate have been removed as shown on Schedule No. 2. Therefore, rental income and related expenses will be recorded below the line as non-utility income/expense.

II. Cost Comparison

Total utility capital cost and expense to purchase building, excluding Regulatory Assessment Fees	<u>\$ 66,687</u>
Number of square feet occupied by Aloha	<u>6,062</u>
Cost per square foot to purchase	<u>\$ 11.00</u>
Cost to lease comparable space (1)	<u>\$12.50 - \$14.50</u>
Average cost to lease comparable space (1)	<u>\$ 13.63</u>

(1) Per Prudential – Tropical Realty analysis

ALOHA UTILITIES, INC.  
 CALCULATION OF COST AND EXPENSE FOR NEW OFFICES  
 DOCKET NO. 991643-SU

I. Capital Costs and Operating Income

Cost of new office building and land	\$ 765,000
Less: Non-utility leased space (28.19%) (Note 1)	<u>(215,654)</u>
Net utility portion of building and land	549,346
Cost of improvements per contract (walls, doors, etc.)	11,595
Relocate existing phone system and miscellaneous installation costs	2,000
Office furniture and equipment	<u>42,856</u>
Net utility cost of office space	605,797
Less: Accumulated depreciation per below (\$17,112 + \$290 + \$2,987)	(20,389)
Non-utility accumulated depreciation per below	<u>4,824</u>
Net increase in capital cost	590,232
Rate of return as requested (Note 2)	<u>9.24%</u>
Total additional utility operating income	<u>\$ 54,537</u>

II. Depreciation

A) Cost of building and land	\$ 765,000
Less: estimated cost of land (Note 3)	<u>(80,511)</u>
	684,489
PSC depreciation rate (masonry structure – 40 yrs.)	<u>2.5%</u>
Total depreciation	17,112
Less: Non-utility leased space (28.19%)	<u>(4,824)</u>
	<u>12,288</u>
Cost of utility space improvements per contract	11,595
PSC depreciation rate	<u>2.5%</u>
Depreciation on utility improvements	<u>290</u>
Total utility depreciation – building and improvements	<u>12,578</u>
B) Cost of office furniture, equipment, and phone relocate	44,856
PSC depreciation rate (15 years.)	<u>6.66%</u>
Utility depreciation	<u>2,987</u>
Total utility depreciation	<u>\$ 15,565</u>

ALOHA UTILITIES, INC.  
 CALCULATION OF COST AND EXPENSE FOR NEW OFFICES  
 DOCKET NO. 991643-SU  
 (Continued)

III. Expenses

Estimated annual maintenance per current owner	\$ 3,900
Estimated property taxes per current owner (November amount)	11,884
Estimated annual insurance per current owner	<u>3,800</u>
	19,584
Less: Non-utility leased space allocation (28.19%) (Note 1)	<u>(5,521)</u>
Net additional utility expense	<u>\$ 14,063</u>

Notes:

- (1) Aloha will lease 2,380 square feet of space in the building to Allstate Insurance Company under an existing lease. The total space in the building is 8,442 square feet. Thus, the portion not occupied by Aloha is treated as non-utility property.

Total non-utility space leased (sq. ft.)	<u>2,380</u>
Divided by total building space (sq. ft.)	<u>8,442</u>
Non-utility space percentage	<u>28.19%</u>

- (2) Per MFR's. Final Rate of Return is subject to resolution of other issues as a fall-out number.

(3) Assessed value per tax notice	<u>\$ 64,409</u>
Divide by 80% - estimated ratio of assessed value to market value	<u>80%</u>
Estimated cost of land	<u>\$ 80,511</u>



**Prudential**

**Tropical Realty**

Corporate Office  
8406 Massachusetts Ave., Suite A-1  
New Port Richey, FL 34653  
(727) 847-6556 / Fax (727) 847-9676  
(888) 801-8446  
www.prutropical.com



**SEP - 6 2000**

Wednesday, September 06, 2000

Stephen G. Watford  
Aloha Utilities, Inc.  
2514 Aloha Place  
Holiday, FL 34691

Dear Mr. Watford:

Per your conversation with Allen Crumbley and Heidi Tuttle, enclosed are some recent market comparables for professional office. Heidi and I are still waiting on the numbers of one other comparable, and we will deliver that information as soon we receive it. As you will see from the comparables, purchasing the property at \$100.00 psf is not only a good deal but below the market rate. Along with the recent sold comparables, we have also enclosed some comparable market lease rates. By taking the average market lease rate of \$13.63 psf and fixing a Cap Rate of 11%, you would be saving close to \$200,000.00 if you were to purchase the building for \$800,000.00.

If you have any questions or comments, please don't hesitate to contact either Allen Crumbley, Heidi Tuttle, or myself at (727) 847-6556.

Sincerely,

Matthew B. Shaw  
Commercial Specialist

## COMPARABLE MARKET LEASE RATE ANALYSIS

**Project Name:** Costanza Building

**Date :** 5-September-00

### SUMMARY OF COMPARABLE MARKET LEASE RATES

#### Net Rents

**Extreme Range** of lease rates for leased and offered for lease properties:

Rate:                                \$12.50 psf        to                                \$16.00 psf

**Most Probable Range** of lease rates for leased and offered for lease properties:

Rate:                                \$12.50 psf        to                                \$14.50 psf

**Average Range** of lease rates for leased and offered for lease properties:

Rate:                                \$13.63 psf

### CALCULATION OF PROJECT RENTAL RANGE

Calculation of annual project rent for **Extreme Range of Lease Rental:**

Highest Rate:                    \$16.00 psf    x    8,000 sf                    =                    \$128,000

Lowest Rate:                     \$12.50 psf    x    8,000 sf                    =                    \$100,000

Calculation of annual project rent for **Most Probable Range of Lease Rental:**

High Rate:                        \$14.50 psf    x    8,000 sf                    =                    \$116,000

Low Rate:                         \$12.50 psf    x    8,000 sf                    =                    \$100,000

Calculation of annual project rent for **Average Lease Rental:**

Average Rate:                    \$13.63 psf    x    8,000 sf                    =                    \$109,000

We believe the above information is reliable, but do not guarantee its accuracy. Any assumptions or projections are used for example and do not represent actual or future performance.

COMPARABLE MARKET LEASE RATE ANALYSIS - Page 2

COMPARABLE PROPERTIES

Property Name or Number	Leased	Offered	Rent PSF
River Crossing/Little Rd.	X		\$16.00
Cousel Square/Little Rd	X		\$13.00
Rancho Del Rio		X	\$12.50
9108 US Hwy 19		X	\$13.00

We believe the above information is reliable, but do not guarantee its accuracy. Any assumptions or projections are used for example and do not represent actual or future performance.

Copyright 1996 PARADYME/Licensed to The Prudential Tropical Realty

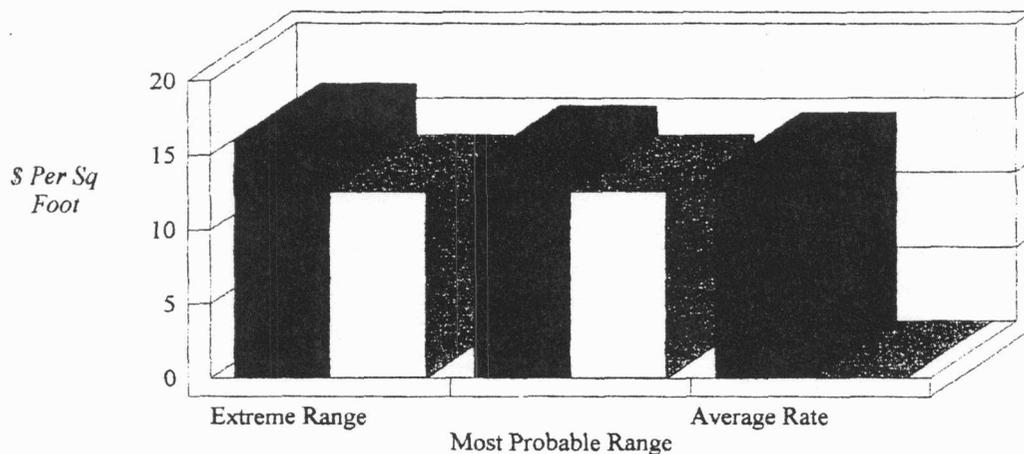
File: MKT\_RATE

6

COMPARABLE MARKET LEASE RATE ANALYSIS

Project Name: Costanza Building

### Projected Rental Range



We believe the above information is reliable, but do not guarantee its accuracy. Any assumptions or projections are used for example and do not represent actual or future performance.

Copyright 1996 PARADYME/Licensed to The Prudential Tropical Realty

File: MKT\_RATE

INDIVIDUAL PROPERTY REPORT  
OFFICE



PROPERTY PHOTO

**Building Name:** Weekids Daycare

**Address:** 8824 East Haven Ct.

**City:** New Port Richey

**Building Size/Space:** 4650

**Land Size:** \_\_\_\_\_ sq. ft.

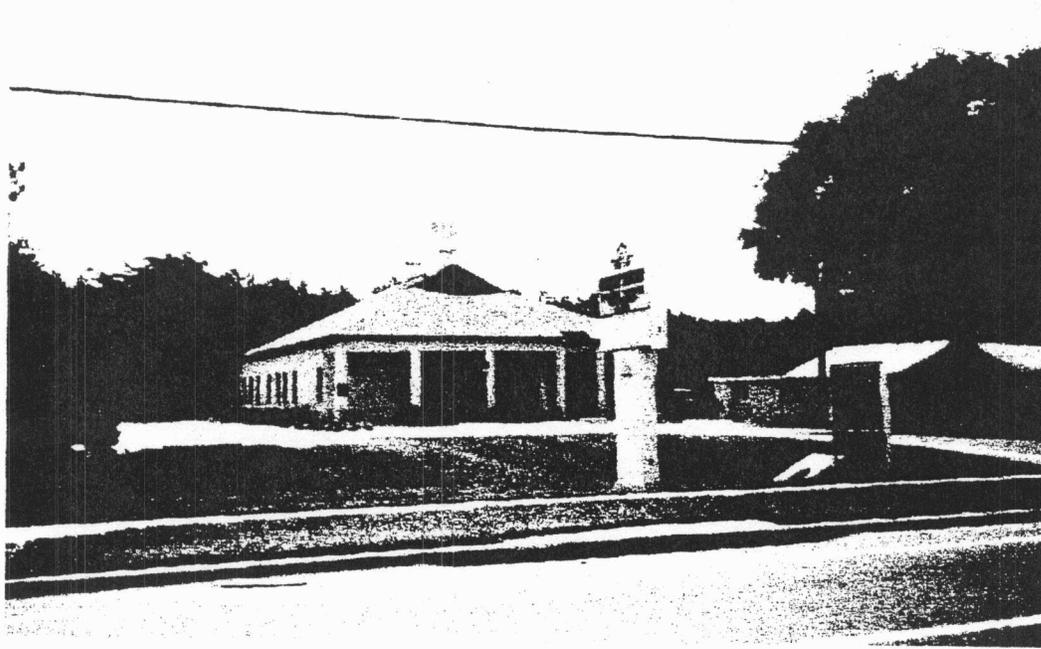
**Sale Price:** \$420,000.00

**Price per Sq. Ft.:** \$90.00

**Comments:** Transaction occurred in September of 1999.

\_\_\_\_\_  
\_\_\_\_\_

INDIVIDUAL PROPERTY REPORT  
OFFICE



PROPERTY PHOTO

**Building Name:** Jowers

**Address:** 7132 Little Rd.

**City:** New Port Richey

**Building Size/Space:** 3200

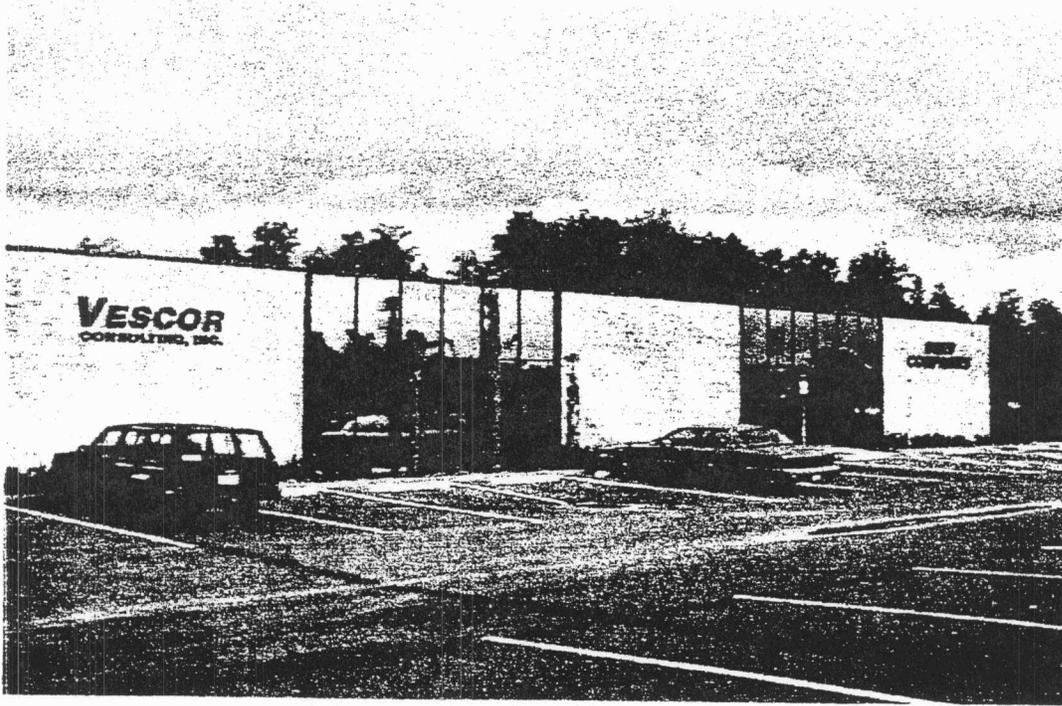
**Land Size:** \_\_\_\_\_ sq. ft.

**Sale Price:** \_\_\_\_\_

**Price per Sq. Ft.:** \$125.00

**Comments:** This comparable is under contract, and it is located south of the Pasco County Government Buildings on Little Rd.

# INDIVIDUAL PROPERTY REPORT OFFICE



PROPERTY PHOTO

**Building Name:** \_\_\_\_\_

**Address:** 9020 Rancho Del Rio Dr. **City:** New Port Richey

**Building Size/Space:** 3,150 **Land Size:** \_\_\_\_\_ sq. ft.

**Sale Price:** \_\_\_\_\_ **Price per Sq. Ft.:** \$125.00

**Comments:** Tenant has the opportunity to purchase property after 3 yr. of leasing at \$125.00 a sq. ft. As of summer of 2000, the sales price has increased to \$135.00 sq.ft. in the same professional office complex.

\_\_\_\_\_  
\_\_\_\_\_