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May 1, 2014

Carlotta S. Stauffer, Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 130153-WS; Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.

Dear Ms. Stauffer:

Attached is a discussion of four issues that the Office of Public Counsel has with the staff recommendation filed on March 27, 2014 and the pro forma plant information filed with staff and included in the docket file in Document No. 01877-14 (filed April 23, 2014.) We are raising our concerns now in order to allow staff and the utility sufficient time to review our concerns and provide any additional information that might be needed. If you should have any questions, please feel free to call or e-mail me.

Respectfully submitted,

s/ Denise N. Vandiver

Denise N. Vandiver
Legislative Analyst

c: Division of Accounting & Finance (Mouring, Barrett)
Division of Economics (Thompson)
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LP Waterworks, Inc.
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Pro Forma Plant

1. We note that the utility provided additional information on its pro forma plant by e-mail that was filed April 23, 2014 in Document No. 01877-14 (April Document.) This information is similar to the plant additions filed by letter dated July 16, 2013 in Document No. 04163-13 (July Document). The main difference in the April Document is that the utility provides more information regarding the need for the plant and the expected time line for completion.

   Our primary concern regarding these pro forma plant additions is the magnitude of the items and the potential impact on rates. The current owners recently purchased the system and the Commission issued Order No. PSC-14-0130-PAA-WS[1] which approved the transfer and set rate base as of December 27, 2012. In the application for transfer, the utility stated in Exhibit K (Document No. 01034-13) that:

   > After reasonable investigation, LPWWI has determined that the systems acquired from LP Utilities was and is in satisfactory condition and are in compliance with all applicable standards set by the Florida Department of Environmental Protection ("FDEP") and do not have any outstanding Notices of Violation or Consent Orders with the FDEP.

   Further, in the Sales Contract for the system, Paragraph 1.3 (in the second paragraph) includes the following language:

   > 1.3 Consideration
   > Buyer will perform a final due diligence of all facilities and assets. The due diligence is to ensure all assets are in the same working condition, that all permits are valid, current and that there are no compliance infractions in force at the time of the date of this final completion of this Agreement. If, after conducting the final due diligence, Buyer determines that the assets are not in the same working condition, that any permit is no longer valid or current, or that there are compliance infractions, Seller shall have 60 days to either correct the condition or reach an agreement with Buyer for a reduction to the purchase price. If Seller refuses to correct the condition or is unable to reach agreement with Buyer concerning a reduction to the Purchase Price, Buyer may elect to terminate this Agreement without penalty or to proceed to Closing.

   Despite these assurances to the Commission in the transfer application, the utility is now requesting $74,484.50 in pro forma plant for the water system and $53,917.01 for the wastewater system.[2] The explanations for many of these items indicate that

[1] Order issued in Docket No. 130055-WS on March 17, 2014
[2] The totals included in the April Document appear to include mathematical errors. The totals above include the individual items listed in the chart provided by the utility.

they are required by regulatory mandate and include problems such as: does not have adequate safety features, damaged roof, signs of equipment failure, poor condition, and unreliable. These requested amounts are significant. The water and wastewater requests are 94% and 55% of the rate bases[3] established by the Commission order approving the transfer of the utility certificate to LP Waterworks, which became final April 14, 2014[4]. We believe that these deficiencies should have been considered in the evaluation of utility plant at the time of the transfer. If the previous owner allowed the plant to deteriorate to the point it requires immediate correction, those costs should have been reflected in a lower purchase price so that the customers do not have to pay twice for utility plant needed to provide service. In addition, we believe that staff should review the reasonableness of the cost estimates provided by the related party.

2. Another issue we have is the amount of plant the utility has requested that is far outside the current period when rates will be implemented. The current schedule appears to allow rates to be effective in the summer of 2014. The current pro forma request includes additions for 2015 through 2018. Typically a SARC does not allow pro forma plant additions until it has been completed and is in service. We believe that if the plant additions are determined to be appropriate for the ratepayers to bear, that the additions should be considered in Phase 2 rates and these rates should only be implemented when the plant is completed and in service. The plant that is projected more than a year out should not be considered in this case.

3. We are also concerned with the utility's request for meter replacements. In the April Document, the utility states that the meters are 10 years old and need to be replaced or tested. The Commission's depreciation rule expects that meters will have a 17-20 year life. We do not believe that the meters need to be replaced based on a ten year life unless the utility can provide additional evidence that the meters are defective and why the customers should bear the cost of any early replacement.

   In addition, the July Document requests meter replacement costs for 98 meters per year at an annual cost of $8,560. The July Document further states that 10% of the meters should be replaced each year. However, page 1 of the original staff recommendation indicates that there are 370 metered customers in the RV Park and approximately 54 residential plus a few general service customers outside the park (for an estimated 430 metered customers.) The 2012 Utility Annual Report filed with the Commission indicates on Page W-3 that there were 434 customers at the start of 2012. If the Commission believes that the utility should begin a meter replacement program and replace 10% of the meters each year, we believe that the pro forma

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[3] The requested water additions are 15% of the gross, undepreciated UPIS balance and 14% of the wastewater balance.

[4] See Docket No. 130055-WS, In re: Application for approval of transfer of LP Utilities Corporation's water and wastewater systems and Certificate Nos. 620-W and 533-S, to LP Waterworks, Inc., in Highlands County; PAA Order No. PSC-14-0130-PAA-WS issued March 17, 2014 and Consummating Order No. PSC-14-0130-PAA-WS issued April 14, 2014.

plant amount should be adjusted to reflect 10% of the actual customers for LP Waterworks, or approximately 43 meters per year, a 56% reduction.

<u>Contractual Services-Other</u>

4. The staff report included $77,184 for Contractual Services – Other for water and $58,692 for wastewater. These amounts reflect the annual expense for the management services agreement with U.S. Water Services Corporation (USWSC). These amounts represent monthly charges of $6,432.25 for water operations and $4,891.37 for wastewater operations. Staff's First Data Request (dated January 16, 2014) requested information on the management services agreement with USWSC. The letter requested how the agreement benefits the customers, any benchmarks used by the utility in evaluating the contracted amount, and why the amount is reasonable.

   The utility responded that:

   > Four (4) of the six (6) shareholders of LP Waterworks are also Corporate Officers of USWSC – also an independent corporation with no existing corporate parent or sibling business structure relationships. USWSC has been established since 2003 as a utility service company dedicated specifically to the water and wastewater industry.

   Because the utility and USWSC have several common officers, we do not believe that any transaction between the two companies is arms-length. The Commission has an obligation to carefully review such transactions so that regulated operations do not subsidize non-regulated operations. The utility provided in response to a staff data request an excerpt from a report by Wetzel Consulting, LLC (WetCon Report) which was part of a presentation made to the Florida Governmental Utility Authority (FGUA) Board. This excerpt includes a reference to an Industry Benchmarking prepared by the American Water Works Association (AWWA) for 2011 and a schedule prepared to compare FGUA costs with the AWWA benchmark costs. The utility then compares these costs, on a per customer basis, to the costs in the LP Waterworks contract.

   It is not clear what is included in the customer costs in the chart provided by the utility. We have even reviewed the WetCon Report (see attached) and are unable to determine with certainty what is included. However, based on our review, we believe that the FGUA costs shown are the contract costs between USWSC and the FGUA. This would be considered an arms-length transaction. The chart shows per customer cost of $264 while the per customer cost proposed in this case is $327, as calculated by staff. The difference in these two costs indicates that the LP Waterworks customers are charged an additional $26,000.

   The utility also compares costs to the AWWA benchmarking. However, there is no information provided as to what is included in the AWWA numbers. (Neither does the WetCon Report identify the specifics of these costs.) Based on our review, we believe that these benchmarked costs are total O&M costs. If the total O&M costs included in the staff recommendation ($94,086 + $75,780) are compared to the Median benchmark costs included in the AWWA study, the LP Waterworks customers are charged an additional $27,800.

The chart below shows these calculations:

TOTAL O & M

	LP O&M	Customers	Monthly O&M Per Customer
Water	94,087	434	216.79
Wastewater	75,780	394	192.34
Total O&M	169,867		409.13
Average Customers		414	
AWWA Median Benchmark			342.00
LP Per Customer O&M higher than AWWA			67.13
Annual Excess Total Company			27,800.00

CONTRACT

	LP Contract	Customers	Monthly Contract Per Customer
Water	77,184	434	177.84
Wastewater	58,692	394	148.96
Total Contract	135,876		326.81
Average Customers		414	
FGUA			264.00
LP Per Customer Contract higher than FGUA			62.81
Annual Excess Total Company			26,000.00

One last issue, the Staff Recommendation (Table 6-2) compares the proposed contract with a “similar agreement”. That agreement is another company owned and operated by the same owners and officers with the same type of related party transactions. These are both companies in similar situations where each utility has common officers with USWSC. Neither of these can be considered to be arms-length transactions and because they are between the same parties, they can not be used to justify each other.

Salaries and Wages – Officers

5. The staff recommendation included $12,000 in Salaries and Wages – Officers. The recommendation states that the amount is for the officer to administer and oversee

the Utility's management services agreement. We are concerned with this arrangement because the officer that is included in the salary expense is also an owner of the management company. We believe that the Commission should carefully consider the duties of the officer to determine what he is doing in addition to the contract. It appears to be self-serving for the officer to be paid to administer a contract with himself. As discussed above, the USWSC contract costs are higher than the average benchmark costs for water utilities, and allow the owner of the utility to pass-through to its customers both overhead and profit for its unregulated entity. Because USWSC is unregulated, the Commission is unable to establish the reasonable overhead and profit. The only way for the Commission to establish reasonable costs is to review the costs charged to the utility and determine if in their entirety the costs are reasonable and represent costs that reflect costs that would be charged in a competitive market. We would note that in the WetCon Report presented to the FGUA in July 2013, on Page 4, Paragraph 3, the report indicates that the 10% overhead and 8% profit on all Renewal and Replacement (R&R) projects charged to FGUA by USWSC was on the high side of typical industry standards for such markups. According to the WetCon Report, the markup for overhead and profit more commonly fall within the 12% to 15% range for the combined number. While this markup is not discussed in the USWSC contract with LP Waterworks, it is an issue that should be carefully reviewed by the Commission.

Including the $12,000 annual salary and wages expense, over and above the cost of the utility's agreement with its affiliate USWSC is causing the cost of service to become increasingly unaffordable for this community of retired senior citizens living in mostly single-wide mobile homes. OPC is continuing its review of the USWSC contract and the proposed pro forma plant and may file another letter next week.

Bad Debt Expense

6. The staff report included Bad Debt expense at 2% of the proposed revenue requirement. Generally, the Commission limits the bad debt expense to a 3-year average based on the premise that a 3-year average fairly represents the expected bad debt expense. It appears that in this case there is no history so the company "suggested a 2% rate which results in a total expense of $4,262. However, in a January 16th filing, the utility provided a schedule showing its aged accounts receivable at December 31, 2013. This showed a total of $119.34 that was over 30 days old and inactive. Even if you consider the total accounts that are over 30 days old that are active or inactive the total is only $994.23. Therefore we believe that a 2% bad debt expense is unreasonable and the expense should be reduced to $1,000, which is just under .5%, which is similar to many other utilities.

Contract and Benchmarking Review

for the

Florida Governmental Utility Authority

July 2013

WetCon

Utility and Management Consultants

Contract and Benchmarking Review

Florida Governmental Utility Authority

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Section 1
Introduction and Purpose

Introduction

The Florida Governmental Utility Authority (FGUA) is a 15-county water and wastewater utility serving approximately 120,000 residential, commercial and industrial customers throughout the State of Florida. The FGUA was initially formed in 1999 through the acquisition of Avatar Utilities, and has grown over the past 14 years through additional acquisitions of primarily investor-owned utility systems. The current FGUA system, including the recently-acquired Florida operations of Aqua Utilities, is shown on Figure 1 below.

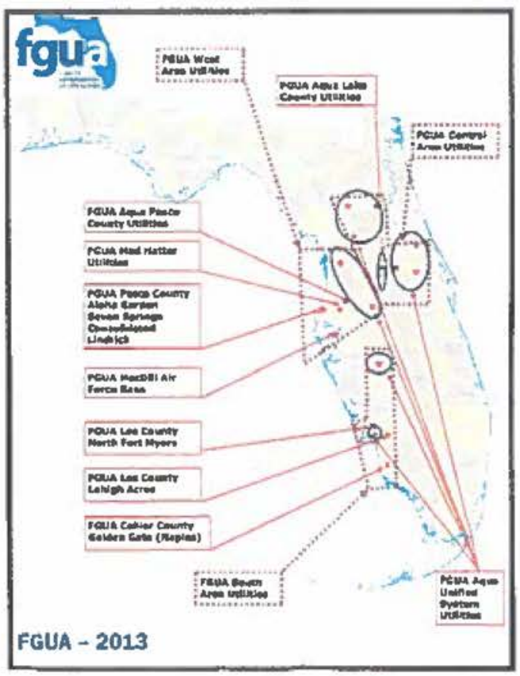

Figure 1
FGUA Operating Systems

The FGUA is managed by a six-member board comprised of key staff members from six counties across the state. The FGUA Board meets monthly either in person or via webcast. A unique feature of the FGUA is that it employs no permanent or temporary staff members, but rather contracts for all services, including management, operation and maintenance, legal support, accounting and rate review.

During the Board's annual strategic planning workshop held in February of 2013, the Board felt it necessary to assess the cost-effectiveness of the FGUA business model. Specifically, the Board asked for an independent, third-party review of the U.S. Water/Wade Trim (USWWT) Operations and Maintenance, Customer Service and Billing agreements and the Government Services Group (GSG)

Management Services Agreement, as well as benchmark operational metrics against similar water and wastewater systems across the United States. A review of the USWWT agreements are timely since the Aloha and Consolidated system contracts are scheduled for renewal in September of this year. In response to the Board request, Wetzel Consulting, LLC (WetCon) was contracted in March of 2013 to perform the independent review as requested.

Purpose of the Review

The two primary objectives of the review process conducted by WetCon were to:

1. Review the USWWT and GSG agreements and recommend changes that will improve workability, contract management efficiency and accountability; and
2. Benchmark the FGUA operations against similar water/wastewater utilities in order to assess cost-effectiveness and operational efficiency to insure that the customers are being well-served.

Scope of Services

The scope of services of the engagement involved six specific tasks as outlined below:

Task 1- Review of current USWWT and GSG agreements
Task 2- Meetings with GSG, USW and the FGUA Board
Task 3- Industry Benchmarking using AWWA QualServe methodology
Task 4- Develop and review recommendations with GSG staff, Utility and General Counsel and USW
Task 5- FGUA Board presentation
Task 6- Draft and Final Report

A presentation of preliminary results and recommendations was made to the FGUA Board at their monthly meeting on June 20, 2013 in Ft. Myers, FL. At that time, the Board authorized GSG and the attorneys to initiate negotiations with USW on the contract renewal based on the recommendations contained in the WetCon presentation, as attached in Appendix B.

This report does not analyze each agreement on a line-by-line basis, nor does it attempt to re-write the agreements, but rather leaves that to the negotiation process between the FGUA, USWWT and GSG. However, this report does identify significant issues with the agreements, and makes both short and long-term recommendations for contract improvement.

Section 2
U.S. Water/Wade Trim Contracts Review

Background

The joint venture of U.S. Water/Wade Trim LLC (USWWT) first became a service provider for the FGUA upon acquisition of the Aloha system in Pasco County. Subsequently, Lindrick, Consolidated, and North Ft. Myers joined the FGUA and then USWWT succeeded Severn Trent Services when their contracts for Lehigh and Golden Gate expired. The primary agreement that details the general terms and conditions of the USWWT service contract is entitled "*General Terms Agreement for Utility Operations, Maintenance, Billing and Customer Service*" (dated October 8, 2008 as amended on February 9, 2009), and includes a number of appendices that outline specific performance standards, reporting and insurance requirements, and pricing information. This agreement forms the basis for the individual Compensation Agreements unique to each system under contract to the FGUA. In addition, whenever USWWT undertakes construction activity related to system renewals and replacements or capital project implementation, a separate construction agreement is executed between the FGUA and USWWT for that specific project.

WetCon's review of these agreements included the General Terms Agreement, a representative sampling of the Compensation Agreements, and the Standard Construction Agreement dated October 27, 2005.

General Observations

While there are no "standard" contract operations agreements for the water and wastewater utility industry, the terms and conditions contained within the USWWT General Terms agreement are reasonably consistent with similar agreements WetCon has observed in the past, although the comprehensive nature of the services provided by USWWT makes this agreement a bit longer than is typical. The proof of success for such agreements has more to do with how they stand the test of time rather than the words contained within the document. In this case, these agreements have served the FGUA well over the past five years, as evidenced by:

- No significant contract disputes since initial contract execution in 2008;
- USWWT has maintained regulatory permit compliance throughout the time period;
- Customer surveys have been generally positive, particularly with respect to customer service, despite the high user rates inherent with the FGUA systems;
- Demonstrated ability to add and subtract systems to FGUA without service interruption;
- Favorable results from the benchmarking exercise included in this study and discussed in Section 4 of this report; and
- Successful completion of numerous projects utilizing the Standard Construction Agreement.

Contract Issues

A number of contract issues were identified and categorized into five major topic areas, as outlined below.

1. **Timeframe and Scope.** Currently, each new agreement between USWWT and the FGUA is given a five-year term from the date of contract execution. This results in a series of agreements with staggered timeframes, requiring individual renewals at the end dates of each contract. The agreements include a very comprehensive set of services, including operation and maintenance, customer service, meter reading, billing, and a right of first refusal for system renewals and replacement projects. The staggered timeframes limits FGUA's flexibility with regard to combining systems into larger service areas to achieve economies of scale or potentially segregating services into individual contracts.
2. **Repairs, Renewals and Replacements.** Most of the USWWT agreements combine repairs with renewals and replacements (R&R), and defines two categories (Basic and Major) of Renewals, Replacements and Repairs. Major Renewals, Replacements and Repairs are those where the contractor's direct costs exceed $7,500, while the basic category falls below that threshold. The $7,500 is treated as a deductible (unless the item was previously identified in a capital needs budget or pre-existing deficiency), and according to both USWWT and GSG personnel, represents the most contentious and time-consuming aspect of the agreements. More typically, repairs are included as part of a "Maintenance and Repair" budget and are generally considered the responsibility of the contractor, whereas R&R is treated as "Maintenance Capital", and is usually the responsibility of the utility owner. In fact, the recently executed Compensation Agreements for the Aqua systems separately defines repairs and R&R, and uses a $1,000 threshold to distinguish between a basic and major R&R project, while retaining the $7,500 direct cost threshold for major vs. basic repairs.
3. **Compensation.** There are a number of aspects of the FGUA operational model and the various contractual elements that impact the compensation received by USWWT. The first is that each system and its customers must be treated separately from a rates and fees perspective, thereby requiring allocation of all operating expenses across the various systems. This feature of FGUA will grow in complexity over time as additional utilities are added in the future. A second aspect of FGUA that impacts compensation is the lack of any reserve accounts to use for due diligence of potential acquisitions, thereby requiring at-risk due diligence services from USSWT, the cost of which is reimbursed through subsequent bond financing if and when the deal closes. A third aspect involves the use of the Consumer Price Index (CPI) for pricing adjustments on a yearly basis, but the particular CPI index varies across the various Compensation Agreements. A fourth compensation element involves the markup USWWT receives on direct costs for R&R projects, emergency repairs and other miscellaneous aspects of the agreements, currently calculated using 10% overhead and 8% profit (18% total markup). These numbers are on the high side of typical industry standards for such markups, which more commonly fall within the 12 to 15% range for the combined number. Finally, the agreements contain a number of hourly rates that although adjusted annually per the CPI adjustment, have not been reviewed since the initial contract execution in 2008.
4. **Performance and Stipulated Penalties.** Appendices A and B of the General Terms Agreement outline a series of performance standards for both O&M and Customer Service, while Section

5.01 details a number of stipulated penalties for specific non-performance issues. While the USWWT performance is evaluated on an ongoing basis by GSG, there is no annual, formal Performance Review process with pre-established Key Performance Indicators (KPIs) that can be articulated to the FGUA Board and reported back on an annual or semi-annual basis. In addition, a number of the stipulated penalties (referred to in the agreement as "liquidated damages") have limited relevance to FGUA system operation, have not been utilized during the past five years, and contain no justification for the dollar amounts specified in the agreement.

5. **Consumables.** Consumables in an O&M contract refer to the power, chemicals, water and fuel required to operate and maintain the utility system. The USWWT contracts generally make the contractor responsible for all consumables except power, which is a pass-through expense to the FGUA. Many utility owners prefer to take advantage of their own purchasing power and tax status to bulk-purchase chemicals and perhaps fuel. In fact, FGUA is engaging in a pilot study right now for this purpose.

In addition to the major categories identified above, there were also a few miscellaneous observations from the contracts that could be addressed in a renegotiation:

- The dispute resolution clause in the O&M agreement calls for mediation followed by litigation, rather than either binding or non-binding arbitration.
- There is no termination for convenience clause in the agreements.
- Meter testing and replacement clauses are confusing, as it is not clear which meters are to be replaced and which are to be tested on an annual basis.
- Training and safety programs are identified, but without detail as to number of training hours required of new employees and safety performance metrics expected from the contractor.

Short-term Recommendations

Given the immediate need to begin renegotiating the Aloha and Consolidated agreements, the recommendations are divided into two categories. The short-term recommendations are intended to be addressed as part of the current negotiations, while the long-term recommendations can be addressed over the next five years of operations or as deemed appropriate by the FGUA Board.

The recommendations below generally follow the issues as outlined above.

1. *Timeframe and Scope-* Reset all new agreements to the end date of the renewed Aloha and Consolidated agreements, which would be September 30, 2018 if tied to the FGUA fiscal calendar. The agreements can either be renewed with the Aloha and Consolidated agreements, or as they expire over the next few years. Consistent contract expiration dates will provide the FGUA flexibility in regionalizing the systems or segregating the services as 2018 approaches. There are no short-term recommendations to alter the scope of the USWWT engagement, nor to eliminate the right of first refusal for contract R&R, although we do encourage the FGUA to procure on-call contractors as appropriate for specialty R&R work.
2. *Repairs, Renewals and Replacements-* Clarify definitions consistent with industry standards, making repairs a contractor responsibility and R&R (as Maintenance Capital) the responsibility of FGUA. In this instance, capital expenditures are defined as those investments that significantly

extend the useful life of the asset (beyond one or two years), while repairs do not necessarily extend the useful life. The new agreements could adopt the recently executed Aqua agreements language, although that language does not eliminate the $7,500 deductible problem. An alternative approach used in other contracts is the establishment of a Maintenance and Repair Fund (as a subset of the O&M service fee) that is separately tracked during the year, with a shared penalty or benefit depending on whether the budget is exceeded or under-spent in any given year.

3. *Compensation*- A number of specific recommendations are made with respect to the various compensation issues identified:
    a. Continue cost allocations as per bond indenture requirements until such time as systems can be combined for future operational synergy and cost savings.
    b. Standardize pricing adjustments to the Consumer Price Index- U.S. City Average- All Urban Customers as published annually by the Bureau of Labor Statistics, U.S. Department of Labor, but include an annual cap of 4.5% consistent with the GSG contract (as discussed later in this report).
    c. Continue using Equivalent Residential Connection (ERC) as the growth metric upon which any increased/decreased base compensation will be received for any given system.
    d. Review and renegotiate as appropriate the 18% markup on direct expenses.
    e. Review all hourly rate schedules for consistency with industry standards.
4. *Performance and Stipulated Penalties*- Establish 5 to 10 Key Performance Indicators (KPIs) at the initiation of each contract year, and conduct a formal mid-year and end-of-year review to track performance against the established KPIs. Example KPIs might include year over year operating cost reductions, safety performance metrics (e.g. no lost time accidents), reduced energy consumption, reduced water loss rate or sewer overflow rate, improved billing accuracy and reduced number of customer complaints. The annual reviews can be used to monitor progress and establish a scorecard that can be used by the Board when deciding whether to renew or procure operational support services in the future. Eliminate the stipulated penalties clauses where possible, and replace where appropriate with more typical "cost to correct" language.
5. *Consumables*- Continue evaluating the bulk purchase of chemicals and other consumables. Create incentives for the contractor to monitor and reduce energy consumption, likely as part of the KPI process.
6. *Miscellaneous*- A few other general recommendations to address these issues include:
    a. Consider replacing litigation with arbitration, or at least including arbitration as an intermediate step between mediation and litigation in the process.
    b. Consider adding a termination for convenience clause into the contract, although such clauses tend to include a "termination fee" to compensate a contractor for mobilization costs that are generally amortized over the life of the contract. In the case of renewals, such mobilization costs are not relevant, but would be for any new acquisitions during the five-year renewal period.
    c. Clarify meter testing and replacement language such that residential meters are replaced on a 10-year cycle, and wholesale/commercial/industrial meters are calibrated annually and replaced when necessary.

Long-term Recommendations

A few long-term recommendations are provided for FGUA consideration over the next five years. These topic areas can be discussed as part of the utility's annual strategic planning process, or as needs dictate during the course of the year.

1. *Create flexibility for future procurements.* By establishing 2018 as the consistent end date for the renewed USWWT contracts, the FGUA Board can consider procuring services on a regional basis rather than through individual compensation agreements, or issuing separate contracts for various services. It is not unusual for utilities to contract for meter reading and billing or even all of customer service as a separate service, rather than have it included as part of the O&M service agreement. By implementing a formal performance review process, the FGUA Board can monitor performance against established KPIs, and thereby make a more informed decision about USWWT contract renewal as 2018 approaches.
2. *Establish regional systems to the extent possible.* Since it is likely that FGUA will continue to grow and add systems over the next five years, it would be prudent to consider consolidation of systems to benefit from operational synergies and reduce the number of rate tariffs and cost allocation requirements. We understand that such consolidation may be limited by bond requirements and the potential loss of systems to host counties, but continue to believe that this would be in the best long-term interests of the customers.
3. *Implement performance-based compensation.* The natural extension of a formal performance review process is the implementation of performance-based compensation. This might involve having a range of profit percentages earned by the contractor depending on their annual KPI scorecard results, or the establishment of a bonus pool funded out of a shared savings fund created through cost saving measures, such as energy reduction or staff reductions attained through technology enhancements.
4. *Consider Advanced Metering Infrastructure (AMI).* Since only a portion of the Aqua system currently uses Automatic Meter Reading (AMR) technology, the FGUA systems are prime candidates for AMI, a satellite-based metering approach that can reduce meter reading labor costs and improve billing accuracy. An initial step might be a business case analysis looking at AMI for all or a portion of the FGUA systems, and perhaps a pilot implementation step for one or more of the systems under consideration.
5. *Reduce at-risk due diligence.* While we understand the need for at-risk due diligence given the unique bond and financial constraints of the FGUA, reducing the utility's reliance on this process is encouraged. Creation of regional entities might allow for the creation of a reserve fund for each entity for future acquisition considerations. In the interim, it seems prudent to continue down the at-risk due diligence path with USWWT for potential acquisitions that are either large or within current FGUA service area boundaries. For smaller systems, especially those in more remote locations, there are other operations firms that would bid on operations contracts at their expense as part of an RFP process, thereby transferring the due diligence cost and operational risk to those contractors.

Section 3
Government Services Group Contract Review

Background

The Government Services Group, Inc. (GSG) has provided administration, management and other support services to the FGUA since the creation of the utility in 1999. With the exception of MacDill AFB, the current contract is dated February 19, 2009, and as amended on January 17, 2013, now extends to September 30, 2019. Unlike the multiple compensation agreements that exist with the USWWT contracts, GSG's contract is one document that must be amended each time new systems are added, deleted or additional services are incorporated.

The WetCon review of the GSG contract included three specific areas:

- Timeframe
- Compensation and Pricing Adjustments
- Contract Oversight

Timeframe

With the extension of the GSG contract to September 30, 2019, this contract is now set at one year past the recommended end date for the renegotiated USWWT agreements. In our judgment, establishing the GSG contract end date one year past the O&M contract is a prudent strategy and is recommended for the future.

Compensation and Pricing Adjustments

There are a number of separate pricing elements contained within the GSG contract, including the management fee, CIP administration fee, inspection services, developer review and additional services. Each of these service fees are considered below.

1. **Management Fee.** The Management Fee is calculated from a staffing plan developed each year, with raw salary marked up by fringe benefits, overhead and profit, yielding a lump sum fee spread across all FGUA systems, which is then allocated to each system proportional to the number of customers. Although the profit percentage used in the calculation is a bit high at 20%, the overall multiplier of 2.42 is below industry standards for these types of services. *We are therefore recommending no change in this component of the GSG compensation package.*
2. **CIP Administration Fee.** The same basic approach to determination of a lump sum fee is used for CIP Administration as is used for the Management Fee, except that the staffing plan is adjusted based on the anticipated capital needs of the systems in any given year. These costs are

then allocated to each system proportional to the size of their individual CIP. *No change is recommended to the current approach to CIP administration fees.*

3. **Inspection Services.** Inspection services are charged on an hourly rate basis based on timesheet entries by the individual inspectors assigned to each individual project. Charging to each project based on the actual time spent in the field looking at the construction is the appropriate approach and should be continued. However, the formula used to determine the hourly rates results in a labor multiplier of 3.91, which is above market rate for field inspection services. *We therefore recommend that these rates be reviewed and renegotiated as appropriate.*
4. **Development Review Services.** GSG staff provide developer review services in much the same way as any utility would review the plans and specifications for developer-built utility systems (pipelines, service laterals, lift stations, etc). The fees charged to the developers are market-based fees consistent with other utilities across central Florida, but the costs incurred by GSG typically exceed the recovered fees. GSG may request supplemental funding for these services, but has chosen not to do so in the past. *No change is recommended to the current approach to Development Review Services.*
5. **Additional Services.** Any additional services charged to the FGUA by GSG utilize a standard hourly rate schedule, which like the schedule contained within the USWWT agreements, has been adjusted but not reviewed since 2009. *This schedule should be reviewed for its appropriateness and consistency with local engineering rate schedules.*

The GSG contract allows for pricing adjustments for two primary purposes:

- Annual increases in unit rates based on the same CPI adjustment included in the USWWT contract, with the 4.5% cap included.
- Increase (or decrease) in the Management Fee to accommodate system growth calculated at 75% of the average change in the number of water and wastewater accounts.

Each of these approaches is reasonable and should be continued into the future.

Contract Oversight

A basic philosophy of the FGUA is to operate the utility systems with no full-time staff members, but rather to contract for all services, including utility administration and management. As System Manager, GSG provides all of the typical management, procurement, administration, financial planning and accounting, engineering review, capital planning and oversight, and inspection services normally provided by utility staff members. In that capacity, they provide ongoing oversight to the USWWT contracts, as well as other contract service providers such as the engineering designers, construction contractors, rate consultants and others. An important question is therefore who and how does the FGUA provide oversight of the GSG contract?

The most important answer to the question of GSG contract oversight is that all GSG task orders, irrespective of size, must be approved by the FGUA Board. In addition, pricing discussions are held in advance with the FGUA General Counsel. WetCon interviewed Mr. Pelham during the course of this study, and determined that he is generally satisfied with the process and his ability to review each task order for scope and fee appropriateness. One area of concern as articulated by Mr. Pelham is distinguishing between what should be included in the basic services vs. the need for additional services task authorizations. The most common example of this is the public outreach component of system management, the scope of which consistently exceeds the scope as anticipated and described in the basic services agreement. The higher levels of service are a function of ongoing acquisition activity and high levels of customer interaction required within the FGUA customer base. If costs are consistently above those anticipated by the basic services agreement for any particular service type, the FGUA should consider amending the basic service fee rather than requiring additional task orders each year for those services.

The FGUA Board may deem it prudent to enhance the oversight element of the GSG contract in the future, particularly as the utility continues to grow and add customers over time. There are a number of ways to accomplish this, with varying levels of cost and commitment. Alternatives range from the hiring of full-time staff (an Executive Director, for example), to engaging a "trust consultant" on an ongoing basis, to performing an annual review of system management similar to the financial audit conducted by the audit firm each year. Hiring an Executive Director would represent a significant commitment of funds with limited benefit, as there is no guarantee that such a person would be any more qualified than the GSG System Manager, and in the event of systems being taken back by their county governments, the salary and fringe benefit costs for such a person would need to be spread across a smaller customer base. Trust consultants or bond engineers are often employed when bond indentures require an annual, independent review of the system operations and CIP execution, in order to represent the best interests of the bondholders. FGUA has recently retained Brown and Caldwell as Engineer for Indenture Compliance for their 2010 bond issue, but they are not specifically tasked with reviewing the GSG contract or system management. *The simplest and most cost-effective approach to providing additional oversight would be to retain an individual or firm to provide an annual Management Review of the FGUA, to insure that the services provided by GSG are in accordance with their contract and are consistent with the best interests of the FGUA customer base.*

Finally, as in the case of the USWWT agreements, the GSG contract has no provision for a formal, annual performance review based on a pre-established set of KPIs. We believe this would be a valuable exercise, and *recommend such an annual performance review process be incorporated into the GSG service contract going forward.*

Section 4
Utility Industry Benchmarking

Objectives and Approach

The primary objective of any benchmarking initiative is to build a performance measurement system specific to water and wastewater utilities, and utilize that measurement system and database to help other utilities improve operational efficiency and performance. There are a number of benchmarking algorithms and products in the utility marketplace, but many are specific to either water or wastewater, or to a component of the utility operations like treatment plants or pump stations. In 2005, the American Water Works Association (AWWA) teamed with the Water Environment Federation (WEF) and the AWWA Research Foundation to develop a benchmarking methodology and database applicable to both water and wastewater utilities across North America. The approach incorporated the QualServe business system previously developed for utility audits as an organizing framework, with an initial database of 350 water and wastewater utilities.

The original report entitled *2005 Benchmarking Performance Indicators for Water and Wastewater Utilities: Survey Data and Analyses Report* was published by AWWA and WEF, with annual updates prepared in 2006 and 2007. No updates to the 2007 document were available until late 2012, when the 2011 version of the document with the same name as above was published by the AWWA. It is this 2011 version that was used for the benchmarking exercise outlined in this section of the report.

The AWWA benchmarking process includes 38 performance indicators (22 indicators in 2005) and 102 total utility participants, with 59 of those being both water and wastewater utility systems. Of the 38 performance indicators, we selected 11 for evaluation of FGUA compared with the 59 water/wastewater systems nationwide. The FGUA data were also compared with a subset of the total pool of participants representing the Southern Region of the US, including Florida. The database presents the results for the participants as the top quartile (top 25% of the surveyed utilities), median and bottom quartile. FGUA data were compiled for the Western systems (including Pasco, Mad Hatter, Lindrick, Consolidated and Aloha), the Southern systems (Golden Gate, Lehigh Acres and North Ft. Myers) and the combined systems. The Aqua systems were not included given the limited data available at this time from these new acquisitions, but it will be interesting to perform this exercise again in a year or two to contrast the Aqua systems with the other existing systems in FGUA.

Benchmarking Results

The results of the FGUA benchmarking exercise are summarized on Table 1 on the following page.

Table 1

FGUA Benchmarking Summary

Metric	Basis	All Utilities			South Utilities			FGUA		
		Top	Median	Bottom	Top	Median	Bottom	South	West	Total
Customer Service Cost	$/account	39.43	48.34	64.16	36.43	41.16	52.38	50.58	38.51	44.23
O&M Cost	$/account-water	210	340	470	233	257	331	213	225	220
	$/account-sewer	271	344	468	259	345	426			
	$/MG processed-water	1540	2002	2596	1627	1843	1939	2366	2914	2634
	$/MG processed-sewer	1535	2784	3673	954	1198	1280			
Debt ratio	%	17.9	31.6	47.8	22.2	41	53.1	65.4	99.4	78.8
Water rates	$/month	20.17	25.86	33.59	20.2	22.47	25.14	58.89	54.80	56.54
Sewer rates	$/month	21.59	28.54	38.81	21.26	27.73	29.51	71.38	68.18	69.91
No. of employees	Accounts/employee-water	730	479	389	789	718	493	562	1004	783
	Accounts/employee-sewer	849	504	388	648	535	460			
	MGD/employee-water	0.36	0.25	0.19	0.32	0.26	0.18	0.15	0.19	0.17
	MGD/employee-sewer	0.32	0.2	0.15	0.48	0.37	0.25			
Water loss rate	%	1.14	4.99	7.85	0.76	5.4	13.9	12.9	11.9	12.4
Sewer overflow rate	Overflows/100 miles pipe	0.9	1.7	4.2	1.53	3.05	11.5	2.53	3.74	3.14
Customer complaints	#/1000 customers	2.63	11.4	30.4	1.35	3.09	12.6	4.27	22.1	14

Analysis and Recommendations

It is virtually impossible to find any two water utilities that are comparable, given their unique treatment systems, customer bases, permit requirements, operational procedures, capital needs and rate structures. This is particularly true when comparing other systems to FGUA, with its' geographic spread, diverse customer base and broad range of treatment technologies. Nevertheless, comparing performance metrics of the FGUA with other utilities has value, at least in determining whether the operational metrics fall within reasonable ranges of values.

An analysis of the various performance metrics for FGUA as compared with other systems nationwide provides the following conclusions:

1. **Customer Service Costs-** FGUA's costs are comparable to those of the participating utilities both nationally and across the south. The FGUA numbers are actually skewed a bit on the high side by the South systems, where three Customer Service Centers are operated compared with only one center in the west.
2. **O&M Costs-** The FGUA O&M cost on a per account basis falls within the top quartile of other utilities, but toward the bottom quartile on a cost per million gallons processed basis. The best explanation for this phenomenon is that FGUA customers use about 4500 gallons per month on average, while the average usage for the benchmarked utilities in closer to 6500 gallons per month.
3. **Debt ratio-** The average debt ratio (total liabilities/total assets) across all FGUA systems exceeds 78%, substantially above the bottom quartile across the US and the South. This was an expected result, given the high price of the FGUA acquisitions, deteriorated asset condition, and recent timing of many of those acquisitions, especially for the Western systems in Pasco County. Over time, this ratio will reduce as bonds are paid down for any particular system, but may not help FGUA overall as it continues to acquire new systems each year.
4. **Water/Sewer rates-** It is also not surprising that the average water and sewer rates for the FGUA systems exceed the bottom quartile for rates from the surveyed utilities. However, since we've discovered that the average operating cost per account is low to average, the high rates are being driven by the high debt service from acquisition and capital improvement needs.
5. **Number of Employees-** This metric attempts to evaluate whether a utility is being operated with the correct number of employees. The results in this instance are very similar to the operating cost comparison (not surprising since labor costs are the biggest driver of operational expense), where the number of accounts served per employee is within the top quartile of performance, but the number of MGDs produced per employee is in the bottom quartile. Once again this difference is driven by the average water usage per customer being 40% lower for the FGUA systems.
6. **Water Loss Rate-** The numbers on Table 1 would appear to indicate that water loss in FGUA is in the bottom quartile of performance. However, previous experience in Florida (where bacterial regrowth requires excessive hydrant flushing) indicates that an apparent loss rate (non-revenue water percentage) of between 10 and 15% is excellent.
7. **Sewer Overflow Rate-** Overflow rates of around 3 overflows per 100 miles of pipe per month is right around the median number for the benchmarked utilities. It should be noted that wet weather

conditions resulting in flooding and system infiltration/inflow are excluded from these calculations.

8. **Customer complaints-** The benchmarking data actually separate complaints into two separate categories—customer service complaints resulting from billing errors or customer service problems and technical quality complaints resulting from water quality, odors or other technically-based issues. The FGUA customer service call centers do not distinguish between these types of complaints, hence we have combined the two types from the data base and compared the sum of the two with the FGUA complaint results. In this case, while the overall number is toward the bottom quartile of performance, there is a dramatic difference between the South and West systems, with the West showing five times the number of complaints than the South. This difference is believed to be the result of higher rates and newer acquisitions in the West, and the fact that the call centers do not differentiate between an "inquiry" and a "complaint". This metric require improved data collection for accurate assessment in the future.

In addition to the metrics discussed above, there were other metrics of interest to the FGUA for which the operational data does not exist at this time. Specifically, it would be interesting to track the billing accuracy (number of adjustments per 10,000 bills sent), and the system renewal and replacement (R&R) rate as a percentage of total system assets. Current contractor billing adjustment data do not distinguish errors from other routine adjustments, such as deposit referrals.

It is recommended that FGUA revisit the benchmarking effort in another year or two when the Aqua systems are fully integrated and the operational processes stabilized. It is further recommended that any of the benchmarking data of interest to the FGUA be collected consistent with the numerical values reported for inclusion in future analyses.

Section 5
Conclusions and Recommendations

Conclusions

The following summarizes the fundamental conclusions from the Contract and Benchmarking Review conducted by WetCon.

- The USWWT team and the various agreements outlining the services provided have served the FGUA and its' customers well over the past five years.
- A number of issues have been identified through our review of the USWWT agreements and discussions with GSG, USW, General Counsel and Utility Counsel, including:
    - Staggered timeframes for each system agreement
    - Limited flexibility in pricing
    - Utilizing one contractor for comprehensive set of services (O&M, customer service, meter reading, billing, R&R)
    - Individual systems require complicated cost allocation
    - At-risk due diligence
    - Responsibility/payment for consumables (power, chemicals, fuel)
    - Stipulated penalties generally not practical
    - No formal annual performance review process (KPIs)
    - No "termination for convenience" clause
    - Inconsistent application of CPI adjustments
    - Contractor mark-ups (10% + 8%) on the high side
    - Hourly rates not reviewed in five years
- A series of short-term and long-term recommendations have been made to address the above contract issues.
- GSG has been a valuable partner to the FGUA since 1999, and its current agreement extends through September 30, 2019. It has been recognized for providing quality management services by both independent bond rating agencies and annual FGUA Board reviews.
- The GSG agreement was reviewed and a series of recommendations presented related to timeframe, compensation, pricing adjustments and oversight.
- A benchmarking exercise was completed, comparing a number of FGUA operational metrics with water and wastewater utilities both across the U.S. and the southern states.
- FGUA compares favorably with the benchmarked utilities in the areas of customer service cost, O&M cost, number of employees, water loss rate and sewer overflow rate.
- FGUA compares less favorably with the other utilities in the areas of debt ratio, water and sewer rates and customer complaints, although the customer complaint data may be skewed by inquiry calls being labeled as complaints.

Summary of Recommendations

A number of recommendations are included throughout the previous sections of this report. Those recommendations are summarized below for ease of review and tracking of the implementation process moving forward.

USWWT Agreements (Short-term)

1. Reset all subsequent contract end dates to the renegotiated Aloha and Consolidated agreements, likely sometime in the fall of 2018.
2. Redefine "repairs" as distinct from "renewals and replacements", and simplify the $7,500 deductible issue, either by adopting the language in the Aqua agreements or establishing new contract language.
3. Do not modify "right of first refusal" language for R&R implementation, but proceed with procurement of on-call specialty contractors as appropriate.
4. Consistently apply the CPI- U.S. City Average-All Urban Customers to index pricing adjustments across all compensation agreements, and add a 4.5% cap consistent with the GSG agreement.
5. Review and renegotiate the 18% markup on direct costs.
6. Review hourly rates for consistency with local marketplace and adjust as necessary.
7. Develop a formal annual performance review process to include 5 to 10 mutually acceptable Key Performance Indicators (KPIs) as part of an ongoing monitoring and continuous improvement business process.
8. Eliminate stipulated penalties (liquidated damages) where appropriate, and clarify for workability.
9. Continue investigation of bulk chemical purchasing and incentivize operational energy savings.
10. Add a "termination for convenience" clause.
11. Clarify meter testing and replacement language.

USWWT Agreements (Long-term)

1. Create flexibility for future procurements by looking at regional operations and/or segregation of services.
2. Consider regional consolidation of systems to enhance efficiencies and improve customer service to the extent practical and permitted by bond covenants.
3. Implement performance-based compensation as a natural outgrowth of the KPIs and annual performance review process.
4. Consider implementation of Advanced Metering Infrastructure (AMI) to reduce field services costs and improve reliability and billing accuracy.
5. Reduce FGUA dependence on at-risk due diligence for future acquisitions.

GSG Agreement

1. Maintain GSG contract timeframe end date at one year past end date for O&M agreement.
2. Retain current pricing model for Management Fee, CIP Administration Fee and Developer Review services.

3. Review and renegotiate pricing for inspection services.
4. Review hourly rate schedule for consistency with local marketplace.
5. Maintain current approach to pricing adjustments for both inflation and system growth.
6. Conduct an annual Management Review of GSG services to ensure consistency with the contract requirements.
7. Develop an annual performance review process to include 5 to 10 KPIs, similar to the USWWT recommendations.

Benchmarking

1. Conduct a similar benchmarking analysis in one to two years to include the recently acquired Aqua systems.
2. Collect customer complaint data (both customer service and technical quality) consistent with the AWWA approach for future benchmarking activities.
3. Collect billing accuracy data consistent with AWWA approach and add metric to future benchmarking analyses

Appendix A

Benchmarking Calculations

Customer Service Cost Per Account ($/Account)

Utility System:		Golden Gate	Lehigh Acres	NFM	South Group	% of Cost	Pasco	Consolidated System Consolidated Water	Consolidated System Mad Hatter (Annualized)	Lindrick	West Group	% of Cost	FGUA Totals
DATA													
2012 Customer Service Cost (USW)		$ 228,047.00	$ 700,320.00	$ 596,432.00	$ 1,524,799.00	71.6%	$ 826,495.00	$ 71,879.00	$ 289,051.00	$ 232,264.00	$ 1,419,689.00	78.6%	$ 2,944,488.00
MANAGEMENT CONTRACT @ 22%		29,700.00	146,549.04	81,259.20	257,508.24	12.1%	156,429.68	16,589.60	38,677.98	20,900.88	232,598.14	12.9%	490,106.38
Banking Services @ 1/3		7,005.67	13,867.33	12,507.33	33,380.33	1.6%	18,320.67	4,388.67	3,500.00	3,813.33	30,022.67	1.7%	63,403.00
Direct Legal Services @ 1/2		3,471.50	22,415.50	27,197.00	53,084.00	2.5%	21,059.50	2,665.00	4,000.00	4,760.00	32,484.50	1.8%	85,568.50
MERCHANT SERVICES (CC PROC)		12,780.00	34,112.00	34,352.00	81,244.00	3.8%	23,710.00	8,862.00	8,500.00	9,722.00	50,794.00	2.8%	132,038.00
COLLECTION AGENCY FEES		939.00	3,058.00	385.00	4,382.00	0.2%	1,163.00	597.00	600.00	573.00	2,933.00	0.2%	7,315.00
CUSTOMER INFORMATION PROGRAM				-	-	0.0%	5,363.00	-			5,363.00	0.3%	5,363.00
BUILDING & LAND RENTAL		39,013.00	54,383.00	53,078.00	146,474.00	6.9%	-	-	-	-	-	0.0%	146,474.00
BUILDING MAINTENANCE		468.00	228.00	-	696.00	0.0%	-	-	-	-	-	0.0%	696.00
Lockbox Service		2,422.00	13,409.00	13,395.00	29,226.00	1.4%	21,862.00	3,395.00	1,518.00	4,587.00	31,362.00	1.7%	60,588.00
Total Customer Service Cost	(A)	$ 323,846.17	$ 988,341.87	$ 818,605.53	$ 2,130,793.57	100%	$ 1,074,402.85	$ 108,376.26	$ 345,846.98	$ 276,620.21	$ 1,805,246.30	100%	$ 3,936,039.88
Meter Count: (June 30, 2012)													
Reuse		-	3	12	15		2,033	-	-	-	2,033		2,048
Water		3,618	12,375	1,855	17,848		15,562	2,382	3,592	2,857	24,393		42,241
Wastewater		2,286	10,186	11,789	24,261		14,873	-	3,027	2,546	20,446		44,707
Total Accounts	(B)	5,904	22,564	13,656	42,124		32,468	2,382	6,619	5,403	46,872		88,996
Customer Service Cost / Estimated Accounts	(A) / (B)	$ 54.85	$ 43.80	$ 59.94	$ 50.58		$ 33.09	$ 45.50	$ 52.25	$ 51.20	$ 38.51		$ 44.23

Operations & Maintenance Cost Per Account

								Consolidated System					
Utility System:		Golden Gate	Lehigh Acres	NFM	South Group	% of Cost	Pasco	Consolidated Water	Mad Hatter (Annualized)	Lindrick	West Group	% of Cost	FGUA Totals
DATA													
2012 Operation Cost (USW)		$ 1,671,613.00	$ 3,004,265.00	$ 2,243,476.00	$ 6,919,354.00	77.0%	$ 4,768,395.00	$ 197,209.55	$ 593,421.00	$ 617,342.00	$ 6,176,367.55	58.5%	$ 13,095,721.55
MANAGEMENT CONTRACT @ 1/3		45,000.00	222,044.00	123,120.00	390,164.00	4.3%	237,014.67	25,135.75	58,603.00	31,668.00	352,421.42	3.3%	742,585.42
Direct Legal Services @ 1/2		3,471.50	22,415.50	12,507.33	38,394.33	0.4%	21,059.50	-			21,059.50	0.2%	59,453.83
CONTINGENCIES		731.00	14,136.00	-	14,867.00	0.2%	10,260.00	14,313.00	10,000.00	9,481.00	44,054.00	0.4%	58,921.00
ELECTRICITY SERVICES		275,964.00	569,177.00	370,411.00	1,215,552.00	13.5%	525,097.00	12,607.00	69,300.00	51,728.00	658,732.00	6.2%	1,874,284.00
REGULATORY & PERMIT FEES		200,124.00	11,524.00	53,117.00	264,765.00	2.9%	6,199.00	2,233.00	3,000.00	3,765.00	15,197.00	0.1%	279,962.00
SECURITY MONITORING FEE		5,021.00	8,591.00	568.00	14,180.00	0.2%	9,787.00	2,258.00	2,500.00	3,220.00	17,765.00	0.2%	31,945.00
2012 Purchased Water		-	278.00	131,191.00	131,469.00	1.5%	1,289,911.00	206,454.00	-	-	1,496,365.00	14.2%	1,627,834.00
2012 Purchased Wastewater		-	-	-	-	0.0%	640,709.00	-	297,332.00	842,729.00	1,780,770.00	16.9%	1,780,770.00
Total Operational Cost	(A)	$ 2,201,924.50	$ 3,852,430.50	$ 2,934,390.33	$ 8,988,745.33	100%	$ 7,508,432.17	$ 460,210.30	$ 1,034,156.00	$ 1,559,933.00	$ 10,562,731.47	100%	$ 19,551,476.80
Meter Count: (June 30, 2012)													
Reuse		-	3	12	15		2,033	-	-	-	2,033		2,048
Water		3,618	12,375	1,855	17,848		15,562	2,382	3,592	2,857	24,393		42,241
Wastewater		2,286	10,186	11,789	24,261		14,873	-	3,027	2,546	20,446		44,707
Total Accounts	(B)	5,904	22,564	13,656	42,124		32,468	2,382	6,619	5,403	46,872		88,996
Customer Service Cost / Estimated Accounts	(A) / (B)	$ 372.95	$ 170.73	$ 214.88	$ 213.39		$ 231.26	$ 193.20	$ 156.24	$ 288.72	$ 225.35		$ 219.69

Debt Ratio

Utility System: DATA	Golden Gate	Lehigh Acres	NFM	South Group	Pasco	Consolidated	Lindrick	West Group	FGUA
Total Liabilities	$ 43,632,050	$ 74,986,295	$ 68,487,119	$ 187,105,464	$ 130,002,630	$ 27,127,350	$ 26,401,863	$ 183,531,843	$ 370,637,307
Total Assets	$ 43,361,866	$ 99,160,265	$ 84,498,920	$ 227,021,051	$ 123,660,493	$ 26,174,652	$ 25,434,241	$ 175,269,386	$ 402,290,437
Add back GASB 65	1,333,408	2,506,674	2,108,092	5,948,174	3,432,126	415,017	457,181	4,304,324	10,252,498
Add back Accum. Depr.	15,802,779	34,047,023	3,089,844	$ 52,939,646	4,716,836	216,788	165,103	$ 5,098,727	58,038,373
Adjusted Asset Base	$ 60,498,053	$ 135,713,962	$ 89,696,856	$ 285,908,871	$ 131,809,455	$ 26,806,457	$ 26,056,525	$ 184,672,437	$ 470,581,308
Debt Ratio	72.12%	55.25%	76.35%	65.44%	98.63%	101.20%	101.33%	99.38%	78.76%
Benchmark data point (Region 3) South									
Top Quartile	22.2%	22.2%	22.2%		22.2%	22.2%	22.2%		
Median	41.0%	41.0%	41.0%		41.0%	41.0%	41.0%		
Bottom Quartile	53.1%	53.1%	53.1%		53.1%	53.1%	53.1%		

Central Group

		Seven Springs	Aloha	MH - Foxwood	MH - Turtle Lakes	MH - Linda Lakes	MH - Paradise Lakes	C. Manor	D. Grove	V. City	Holiday	Pasco	Lindrick (Excl. Shamrock)	Lindrick (Shamrock)	Total	WA
FGUA Residential Water Rates	(A)	$ 59.96	$ 42.49	$ 44.76	$ 44.76	$ 44.76	$ 44.76	$ 77.98	$ 50.11	$ 51.71	$ 97.55	$ 30.11	$ 54.04	$ 33.80	$ 676.78	$ 54.80
Estimated Water Accts (5/8 x 3/4)	(B)	12,299	3,021	1,137	2,134	56	119	695	340	312	330	702	2,350	6	23,501	
	(A) * (B)	737,448	128,362	50,892	95,518	2,507	5,326	54,193	17,037	16,132	32,192	21,137	126,994	203	1,287,940.80	
FGUA Residential Sewer Rates	(A)	$ 58.21	$ 71.89	$ 57.97	$ 57.97	$ 57.97	$ 57.97	$ -	$ -	$ -	$ -	$ -	$ 123.58	$ -	$ 485.56	$ 68.18
Estimated Sewer Accts	(B)	11,977	2,756	1,126	1,621	55	117	-	-	-	-	-	2,510	-	20,162	
	(A) * (B)	697,181.17	198,115.06	65,274.22	93,969.37	3,188.35	6,782.49						310,185.80		1,374,696.46	

South Group

		Golden Gate	Lehigh Acres	NFM (Pine Lake)	NFM (Excl Pine Lake)	Total	WA	FGUA
FGUA Residential Water Rates	(A)	$ 70.87	$ 55.22	$ 60.71	$ -	$ 186.80	$ 58.89	$ 56.54
Estimated Water Accts (5/8 x 3/4)	(B)	3,435	12,107	1,845	-	17,387		40,888
	(A) * (B)	243,421.28	668,548.54	112,009.95		1,023,979.77		2,311,920.56
FGUA Residential Sewer Rates	(A)	$ 74.44	$ 74.27	$ 60.11	$ 69.83	$ 278.65	$ 71.38	$ 69.91
Estimated Sewer Accts	(B)	2,151	9,995	1,806	9,790	23,742		43,904
	(A) * (B)	160,120.44	742,328.65	108,558.66	683,586.75	1,694,594.50		3,069,290.96

System	No. of Employees (Accounts / Employees-W&WW)	No. of Employees (MGD / Employee - W&WW)	Water Loss Rate	Sewer Overflow Rate	
Golden Gate (1)	368	0.17	18.43%	5.41	23 miles gravity + 14 miles FM = 37 miles, 2 applicable sewer overflows
Lehigh Acres(2)	691	0.14	12.85%	0.66	103 miles gravity + 49 miles FM = 152 miles, 1 applicable sewer overflows
North Fort Myers(4)	627	0.14	7.44%	1.53	73 miles gravity + 58 miles FM = 131 miles, 2 applicable sewer overflows
South Average	562	0.15	12.91%	2.53	
Consolidated (5)	1223	0.18	10.06%	N/A Water Only	
Lindrick	943	0.18	11.89%	5.00	26 miles gravity + 14 miles FM (estimated) = 40 miles, 2 applicable sewer overflows
Mad Hatter (6)	963	0.18	14.87%	3.13	20 miles gravity + 12 miles FM (estimated) = 32 miles, 1 applicable sewer overflows
Pasco(3)	885	0.20	10.64%	3.10	96 miles gravity + 33 miles FM = 129 miles, 4 applicable sewer overflows
West Average	1004	0.19	11.87%	3.74	
Average of South and West	783	0.17	12.39%	3.14	

(1) GG has 11 base and 8 shared employees with Lehigh (3 assigned estimated to GG)
(2) LE has 23.50 base and 8 shared employees with Golden Gate (5 assigned estimated to LE)
(3) PS has 31 base and 1 employee that was added after Mitchell WTP was online. Water Loss is average of Aloha Gardens and Seven Springs
(4) NFM water loss is the average of Pine Lakes and Lake Fairways
(5) CS water loss is the average of the combined consolidated systems
(6) MH water loss is the average of Mad Hatter and Paradise Lakes

	Water & Wastewater Flows MGD	FY 2012 AADF MGD	No. of USW FTE's	No. of GSG FTE's**	MGD / Employee
CS	0.36 W combined system flows	0.36	1.70	0.25	0.18
GG	1.113 WW + 1.414 W + 0.200 brine concentrate that previously was processed through WWTP	2.73	14.00	2.04	0.17
LE	1.446 WW + 2.203 W + 1.02 Reuse	4.67	28.50	4.16	0.14
LI	.630 W + .400 WW Est	1.03	5.00	0.73	0.18
MH	.746 W + .020 WW + 0.5 WW Est	1.27	6.00	0.88	0.18
NFM	1.722 WW + .145 WW + .0825 W + 0.825 W Est + 0.978 Reuse	3.01	19.00	2.77	0.14
PS	.404 W + 2.879 W + 1.89 WW + .427 WW AG Est + 1.665 Reuse	7.27	32.00	4.67	0.20

No. of USW FTE's	No. of GSG FTE's**	No. of Accounts Water & Sewer Combined	Accounts / employees
1.70	0.25	2382	1223
14.00	2.04	5904	368
28.50	4.16	22564	691
5.00	0.73	5403	943
6.00	0.88	6619	963
19.00	2.77	13656	627
32.00	4.67	32468	885

106.20 15.50

**GSG FTE's are prorated % based on allocation of USW FTE's

	MGD AADF	365 days per year	total flow per year MG	O&M Cost $	$/MG processed W& WW
South	10.41	365	3799.65	8988745.33	2365.677189
West	9.93	365	3624.45	10562731.47	2914.299127
Sout / West Average	20.34	365	7424.1	19551476.8	2633.514743

Appendix B

FGUA Board Presentation

June 20, 2013

Contract and Benchmarking Review Workshop

Florida Governmental Utility Authority Board

June 20, 2013

WelCon

Scope of Services

- Review of current agreements
  - USWWT w/FGUA
  - Other USW agreements
  - GSG w/FGUA
- Meetings with GSG, USW and FGUA Board
- Industry benchmarking (2011 AWWA Benchmarking Survey data)
- Evaluate contract enhancements for workability, efficiency and accountability (best practices)
- Develop recommendations
- FGUA Board Workshop (June 20)
- Draft/Final Report

USWWT Contracts Review- The Good

- It works- customers well served since USWWT on board
- No significant contract disputes since initial agreement
- Maintained permit compliance
- High marks for customer service
- Demonstrated ability to add/delete systems
- Benchmarking generally favorable

USWWT Contracts Review- Issues

- Staggered timeframes for each system agreement
- Limited flexibility in pricing
- Riding one horse for comprehensive set of services (O&M, customer service, meter reading, billing, R&R)
- Individual systems require complicated cost allocation
- At-risk due diligence
- Responsibility/payment for consumables (power, chemicals, fuel)
- Stipulated penalties generally not practical
- No annual performance review process (KPIs)
- No "termination for convenience" clause
- Inconsistent application of CPI adjustments
- Contractor mark-ups (10% + 8%) on the high side
- Hourly rates not reviewed in five years

USWWT Contracts Review- Major Concern

- Definition of Renewals, Replacements and Repairs vs. Capital Improvements
- $7500 deductible

Recommendations

- Near-term (September 2013 renewal)
- Long-term (5-year window)

Near-term Recommendations

Issue	Recommended Approach
Definition of capital vs. renewals & replacements (R&R)	Redefine R&R as maintenance capital
$7500 deductible	Treat repairs as O&M and consider M&R Fund
Staggered contract timeframe	Reset all contracts to Sept. 2018
Right of first refusal on R&R work	No USWWT contract change, but procure on-call contractors
Performance review process	Establish KPIs and conduct annual review

Near-term Recommendations (cont)

Issue	Recommended Approach
Stipulated penalties	Remove where appropriate and include cost to correct clause
Termination for convenience	Add contract clause with termination fee
CPI adjustment	Consistency across agreements
Contractor mark-ups	Renegotiate OH and profit mark-ups
Hourly rates	Review/revise as appropriate
Consumables	Consider bulk purchase of chemicals, incentives for power consumption

Long-term Recommendations

- Create flexibility for future procurements (2018)
  - Geographic regions
  - Separate service contracts
- Regional systems, budgets and tariffs
- Performance-based compensation
- AMI/AMR implementation
  - Enhanced customer service
  - Improved billing accuracy
  - Leak detection
- At-risk due diligence
  - Large or in-service area → use USW but maintain 9/18 end date
  - Small or remote → bid the work

GSG Contract Review

Issues include:

- Timeframe
- Compensation
  - Management fee
  - CIP Administration
  - Inspection services
  - Development review
  - Additional services
- Pricing Adjustments
- Oversight
  - Basic vs. additional services
  - Performance evaluation (KPIs)
  - Oversight alternatives

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Florida Governmental Utility Authority

GSG Contract- Timeframe

- February 14, 2013 Amendment resets ending date to September 30, 2019
- One year past renewal end date for USWWT O&M Agreement

Recommendation: Maintain at one year beyond ending date of O&M Agreement

GSG Contract- Compensation

Component	Fee Basis	Opinion	Recommendation
Basic Services Fee	Fixed fee derived from 2.42 multiplier on raw salary	Profit a bit high @ 20%, but overall multiplier is below market	OK
CIP Administration	Same as Mgmt. Fee	Same comments as above	OK
Inspection Services	Hourly rates based on 3.91 multiplier	Multiplier above market for inspection services	Review and renegotiate
Development Review	Fees received from developers	Good approach	OK
Additional Services	Hourly rate schedule	Rates not reviewed since 2009	Review

GSG Contract- Pricing Adjustments

- Annual CPI adjustment for Basic Services Fee and hourly rates, capped at 4.5%
- Basic services fee adjusted for system growth @ 75% of the percentage change in the average number of water and wastewater accounts
- Similar provisions in USWWT Compensation Agreement, except:
  - No cap on CPI adjustment
  - Fee increase proportional to ERC growth

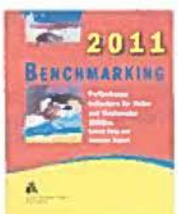
Recommendation- Consistency in agreements where appropriate

GSG Contract- Oversight

Issue	Recommendation
All GSG task orders to Board	Continue practice
Role of General Counsel	Define/revise as needed
Basic vs. Additional Services	Review/revise as appropriate
No annual performance review process	Establish KPIs and perform annual review
Oversight alternatives	Consider Annual Management Audit

Industry Benchmarking

- Utilized AWWA "Performance Indicators for Water and Wastewater Utilities: Survey Data and Analysis Report" (2011)
- Based on QualServe benchmarking approach (Joint AWWA/WEF methodology)
- Evaluated 11 performance criteria
- Benchmarked against all US combined utilities in survey and those in southern US
- Survey data presents Top Quartile, Median and Bottom Quartile
- Evaluated FGUA South, West and Overall (no Aqua data)



FGUA Benchmarking Results

Metric	Basis	South			FGUA		
		Top	Median	Bottom	South	West	Combined
Customer Service Cost	$/account	36.43	41.26	51.38	50.58	38.31	44.55
O&M Cost	$/account	246	306	379	213	225	219
	$/MGals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Debt Ratio	%	22.2	41.0	53.1	65.4	90.4	78.8
Water Rates	$/month	20.20	22.47	25.14	58.89	54.80	56.54
Sewer Rates	$/month	21.26	27.73	29.51	71.38	68.18	69.91
No. Employees	Accts/employee	719	627	477	562	[illegible]	781
	MGD/employee	0.40	0.32	0.22	0.25	[illegible]	0.17
Water loss rate	%	0.76	5.4	13.9	12.9	11.9	12.4
Sewer overflows	#/100 miles pipe	1.53	3.45	11.5	2.53	3.74	3.14
Customer complaints	#/1000 customers	1.35	3.09	11.6	4.27	22.1	14.0

Benchmarking Summary

- Customer service costs are high in the South, low in the West
- O&M costs are low on a per account basis, but high on a per Mgal basis (FGUA has low per capita consumption)
- High debt ratio drives very high rates
- Efficient use of employee resources
- Water loss consistent with Florida (high temp/high humidity) operations
- Sewer overflow performance is excellent
- Customer complaints are high in the West, where data may be impacted by reporting of "inquiries". Complaints also skewed by high rates and needed improvements for acquired systems.

Next Steps

- Draft report from WetCon due by July 15
- Review/approve recommendations
- Initiate negotiations with USWWT for September contract renewal