

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: December 6, 2016

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Bart Fletcher, Chief of Surveillance & Rate Filings, Division of Accounting & Finance

RE: Docket No. 150010-WS - Application for staff-assisted rate case in Brevard County by Aquarina Utilities, Inc.

Please place the following emails and attachments in the above-referenced docket file.

Bart Fletcher

From: Sayler, Erik <SAYLER.ERIK@leg.state.fl.us>
Sent: Monday, December 05, 2016 4:53 PM
To: Bart Fletcher
Cc: Merchant, Tricia
Subject: FW: PSC Aquarina rate case
Attachments: Aquarina Compensation Study.xlsx; Aquarina Utilities Ltr to Commission.docx; ATT00001.txt

Bart,
Per your request. Here's the letter and spreadsheet a customer provided to me today.
Erik

-----Original Message-----

From: Don Schwinn [<mailto:donschwinn@comcast.net>]
Sent: Monday, December 05, 2016 3:36 PM
To: Sayler, Erik <SAYLER.ERIK@leg.state.fl.us>
Subject: PSC Aquarina rate case

Erik,

Here are the documents detailing the excessive management fees that Jim Royer is planning to use in his presentation tomorrow when we ask the Commission to reconsider their previous revenue approval.

Bart Fletcher

From: Merchant, Tricia <MERCHANT.TRICIA@leg.state.fl.us>
Sent: Monday, December 05, 2016 5:04 PM
To: Bart Fletcher; Lee Smith
Cc: Saylor, Erik
Subject: FW: Commission OKs utility contract in Polk City for Aquarina Waterworks.pdf - Adobe Acrobat Professional
Attachments: Commission OKs utility contract in Polk City for Aquarina Waterworks.pdf

Here is a copy of a news release that shows that Aquarina Waterworks is the contract operator for Polk City

Aquarina Utilities, Inc
 List of Compensation for 2014

	Compensation	Percent of Total
	Expenses for 2014	
These taken from Staf Audit Report dated April 3, 2015 for year 2014 page 32		
Salaries of Kevin and Holly Burge (do not know how much for each)	137,160	
Payroll taxes on salaries	35,710	
Management fees	5,790	
Health Insurance	4,264	
Allowable meals	2,704	
TOTAL COMPENSATION	185,628	39.4223%
Expenses paid by Aquarina for Burges but not allowed in rate case (pages 24/26 Audit Report)		
Dissallowed fuel for vehicles	3,727	
Personal airline ticket	750	
Dissallowed repairs to vehicles	1,487	
Dissallowed vehicle insurance	1,163	
Dissallowed vehicle insurance	2,327	
Dissallowed personal meals	1,940	
Dissallowed personal meals	970	
EXPENSES PAID BY AQUARINA FOR PERSONAL USE DISSALLOWED	12,364	2.6258%
Total Compensation and personal expenses for 2014 without knowing how much of the \$184,269 may be a form of compensation	197,992	42.0480%
Payments to Aquarina Water Works	184,269	Unknown
(Note: because the auditors did not audit this expense and disclose the details under Related Party Information we do not know how much of this expense, if any, is management fee or some other form of compensation)		
Total operating expenses for 2014 for Aquarina Utilities, Inc, was \$470,871 Per Their Annual Report Recorded 3/23/15		

Dear Commissioners and Other Addressees:

I believe the rate increase for Aquarina Utilities, Inc. under current consideration is flawed in as much as a significant related party transaction(s) of \$184,269 was not addressed by your audit staff in its audit report issued April 3, 2015 (Document No. 01846-15). Also, compensation may be paid for an absentee officer, Kevin Burge who is devoting substantially all his time at Polk City Water and Sewer.

The auditor's report on page 32 fourth paragraph states that "Order NO. PSC-05-0621-PAA-WU requires "heightened scrutiny" for Related Party transactions. So in their report they make note of the importance of related party transactions and provide a schedule of some related party transitions. Yet, this very significant amount of \$184,269 was not noted. Page E5 of the 2014 annual report has a flow chart showing all the related parties so it should not be a secret to the staff as to whom the related parties are.

The importance of this regards total compensation to Kevin and Holly Burge, the officers who run this utility on behalf of its owner, Reginald Burge, who is Kevin Burge's father.

My attached spreadsheet shows that known compensation to the Burges is \$197,992 or 42.048%. This is very high in relation to total operating expenses of \$470,871 per their annual report for 2014. If you assume 50% of the \$184,269 paid to Aquarina Waterworks, Inc. (owned 100% by Holly Burge) is some form of compensation or management fees, then total compensation is \$290,111 or 61.16%.

Just think that the total compensation paid to the Burges is \$197,992 plus this payment to Aquarina Waterworks, Inc. of \$184,269 together totals \$382,261 or 81.18% of total operating expenses. I have not included other payments made to the Burges from Aquarina Utilities, Inc. of some leases and other reimbursements to them, otherwise this percentage would be even higher.

Additionally, compensation to Kevin Burge must certainly be scrutinized by the audit staff as to time he spends at Aquarina Utilities, Inc. The reason, he works substantially all his time at Polk City Water and Sewer where Aquarina Waterworks, Inc. has a \$450,000 management contract. So how can he justify a large compensation for Aquarina Utilities, Inc. if he is not putting in the time?

I call your attention to Docket No. 021228-WS: PSC Staff Report issued 11/24/03, page 29 where the hourly rates for a utilities manager was questioned and your staff recommended a rate of \$28.63 per

hour for services of a general manager instead of the \$80.00 per hour which the staff found unreasonable. What rate and how many hours does your staff find for Aquarina Utilities, Inc.?

When folks start creating several entities commonly owned, then this opens opportunities for hiding transactions. That is why the Order PSC-05-0621-WU was created, to heighten auditors of the possibility of things being hidden from them or disguised.

In summary, I request the auditors take a hard look at the payment(s) to Aquarina Waterworks of \$184,269 very thoroughly and ask for back up documents to support this charge or charges. I think they will find part of it is hidden management fees. In addition, the staff should look at the time Kevin Burge puts in at Aquarina as of current and not the past as the contract at Polk City that he is running started October 2015 and was renewed October 2016. He should be paid a reasonable salary for the hours he is at Aquarina Utilities, Inc.

When your staff has done this work, please reevaluate the compensation of all types paid to Holly and Kevin Burge and then set the rates accordingly.

We customers of Aquarina Utilities, Inc. want this company to be successful. We need them but we do not want to pay excess salaries or other forms of remuneration to the officers. They should be paid what is reasonable for the time put in and allowed a reasonable profit.

Thank you for allowing me the opportunity to address this serious issue with you.

Sincerely,

Phillip Mills
857 Aquarina Blvd.
Melbourne Beach, FL 32951



Commission OKs utility contract in Polk City

Tuesday

Posted Sep 22, 2015 at 11:36 AM

The City Commission selected a bid proposal for water and sewer utility facility management at Monday's meeting.

By Mark CavittNews Chief

POLK CITY — The City Commission selected a bid proposal for water and sewer utility facility management at Monday's meeting.

Aquarina Water Works Inc. was chosen to manage the city's water and sewer utilities after submitting a one-year contract proposal for \$425,000 that will begin Oct. 1.

Final approval of the contract will be made by the commission Sept. 28 after its final 2015-16 budget hearing, which will begin at 7 p.m.

Four bid proposals were presented to the commission on Sept. 15 to manage the city's water and sewer utilities. Representatives of Aquarina Water Works, Severn and Trent Water, U.S. Water, and Veolia each gave a presentation. Each proposal was for a one-year contract.

The four bids ranged from \$425,000 to \$521,921, with Aquarina Water Works the lowest bidder.

There is \$510,000 budgeted for fiscal year 2015-16 for water and sewer utility services but that figure would have provided no reserves under the contract with Woodard and Curran, which now operates the systems. The contract with Aquarina Water Works Inc. will allow for reserves.

"There will be a mutual release of our contract between the city, and Woodard and Curran, which will end their contract effective Oct. 1," said City Manager Patricia Jackson.

The commission approved a five-year contract with Woodard and Curran in November 2010 to outsource the management of water and sewer utilities. That contract is for \$491,000 per year.

"Their (Aquarina Water Works Inc.) contract has pretty much spoken for itself," said Commissioner Keith Prestage. "After talking with them I feel confident they can do the job for the amount and stay within that \$425,000."

Commissioner Don Kimsey said he felt that this contract would be in the best interest of the city moving forward.

"This was simply a financial decision made by a small city," said Mayor Joe LaCascia. "This had nothing to do with Woodard and Curran's performance over the past five years. Woodard and Curran have done an incredible job."

In other business

The commission:

- Heard a presentation from Florida Gas Transmission Company regarding a federally mandated test of the Saint Petersburg Lateral Pipeline. This pipeline provides the majority of the natural gas for power generation in Polk County. The purpose of the standard test is to confirm the safety and reliability of the pipeline.

The test will be conducted Oct. 5 from midnight to 4 a.m. Road closures in Polk City will include Commonwealth Avenue North from Voyles Loop South to Voyles Loop North.

- Renewed a work squad contract with Florida Department of Corrections for three years. This will cost the city \$57,497 per year, the same as the previous contract.
- Approved an ordinance on first reading regarding the continuation of a moratorium on the collection of impact fees, other than the impact fees for water and sewer services for three months from Oct. 1 through Dec. 31.