

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-**

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**DATE:** May 23, 2018

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (Knoblauch, Graves) <sup>EK</sup> <sub>PH</sub> <sub>TR</sub>  
Division of Accounting and Finance (Fletcher, Frank, Norris) <sub>BS</sub> <sub>TR</sub>  
Division of Economics (Hudson, Sibley) <sub>MS</sub> <sub>AT</sub> <sub>IR</sub>  
Office of the General Counsel (DuVal) <sub>MA</sub> <sub>SC</sub> <sub>DF</sub> <sub>ALM</sub>

**RE:** Docket No. 20170173-SU – Application for authority to transfer Certificate No. 538-S in Okeechobee County from Zachary Taylor Camping & Lodge, Inc. to Coastal Income Properties - Zachary Taylor LLC.

**AGENDA:** 06/05/18 – Regular Agenda – Proposed Agency Action for Issue 2 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Polmann

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On August 8, 2017, Coastal Income Properties - Zachary Taylor LLC (Coastal Income, Applicant, or Buyer) filed an application for the transfer of Certificate No. 538-S. The transfer is from Zachary Taylor Camping & Lodge, Inc. (Zachary Taylor, Utility, or Seller) to Coastal Income in Okeechobee County. According to the 2016 Annual Report, Coastal Income serves 164 wastewater customers and reported a total gross revenue of \$48,940, which designates it as a Class C utility.

On May 13, 2004, the Okeechobee County Board of County Commissioners adopted Resolution No. 2004-16 declaring the water and wastewater utilities in that county subject to the provisions

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of Chapter 367, Florida Statutes (F.S.).<sup>1</sup> The resolution was acknowledged by the Florida Public Service Commission (Commission) effective May 13, 2004, and the Utility filed an application for a grandfather certificate on July 28, 2004. The Utility was granted Certificate No. 538-S, and the rates and charges for utility service were approved in 2006.<sup>2</sup>

On September 30, 2014, an application to transfer Certificate No. 538-S from Zachary Taylor to Taylor Arcade, Inc. d/b/a Zachary Taylor RV Resort (Taylor Arcade) was filed with the Commission. During staff's review of the transfer, in Docket No. 20140188-SU, staff discovered that Taylor Arcade entered into an agreement to transfer Certificate No. 538-S to Coastal Income in March of 2016. On February 10, 2017, Taylor Arcade requested to withdraw its application and that docket was closed.

This recommendation addresses the transfer of the wastewater system and the net book value of the wastewater system at the time of transfer. The Commission has jurisdiction pursuant to Section 367.071, F.S.

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<sup>1</sup>Order No. PSC-04-0593-FOF-WS, issued June 15, 2004, in Docket No. 20040469-WS, *In re: Resolution of the Board of County Commissioners of Okeechobee County declaring Okeechobee County subject to the provisions of Chapter 367, F.S.*

<sup>2</sup>Order No. PSC-06-0666-PAA-SU, issued August 7, 2006, in Docket No. 20040793-SU, *In re: Application for grandfather certificate to operate wastewater utility in Okeechobee County by Zachary Taylor Camping and Lodge, Inc.*

## Discussion of Issues

**Issue 1:** Should the transfer of the wastewater system and Certificate No. 538-S in Okeechobee County from Zachary Taylor Camping & Lodge, Inc. to Coastal Income Properties - Zachary Taylor LLC be approved?

**Recommendation:** Yes. The transfer of the wastewater system and Certificate No. 538-S is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for service rendered on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, Florida Administrative Code (F.A.C.). Coastal Income will be responsible for paying 2018 regulatory assessment fees (RAFs) and all future RAFs. The Buyer should be responsible for filing the 2017 Annual Report and all future annual reports. (Knoblauch, Frank, Sibley)

**Staff Analysis:** On August 8, 2017, Coastal Income filed an application for the transfer of Certificate No. 538-S pursuant to Rule 25-30.037, F.A.C. The application is in compliance with Section 367.071, F.S., and Commission rules concerning applications for transfer of certificates. The sale occurred on March 4, 2016, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

### Noticing, Territory, and Land Ownership

The application contains proof of compliance with the noticing provisions set forth in Section 367.071, F.S., and Rule 25-30.030, F.A.C. No objections to the transfer were filed, and the time for doing so has expired. The application contains a description of the Utility's wastewater service territory, which is appended to this recommendation as Attachment A.

### Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(i), and (j), F.A.C., the application contains a statement regarding financing and a copy of the purchase agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. There are no customer deposits, guaranteed revenue contracts, developer agreements, customer advances, leases, or debt of Zachary Taylor that must be disposed of with regard to the transfer. According to the purchase agreement, the total purchase price of the assets includes an RV park and does not separately identify the purchase price for the Utility. However, the Buyer has allocated \$43,928 as the Utility portion of the sale. According to the Buyer, the sale took place on March 4, 2016, subject to Commission approval, pursuant to Section 367.071(1), F.S.

### Facility Description and Compliance

The wastewater system consists of a 44,880 gallon per day extended air treatment system with disposal to three percolation ponds. The permitted capacity for the treatment plant is 40,500 gallons per day. The last Florida Department of Environmental Protection (DEP) compliance inspection report was conducted on February 28, 2018, and the system was determined to be in-compliance. The system is not currently subject to any outstanding violations or consent orders; therefore, the system appears to be in-compliance with DEP requirements.

### **Technical and Financial Ability**

Pursuant to Rule 25-30.037(2)(l) and (m), F.A.C., the application contains statements describing the technical and financial ability of the applicant to provide service to the proposed service area. As referenced in the transfer application the President of Coastal Income is experienced in the operation of RV and mobile home parks. Additionally, Coastal Income has represented that it will retain the currently licensed wastewater facility operator.

Staff also reviewed the personal financial statements of the Buyer. Based on the above, the Buyer has demonstrated the technical and financial ability to provide service to the existing service territory.

### **Rates and Charges**

The Utility's rates were last approved during the Utility's application for a grandfather certificate in 2004.<sup>3</sup> Since 2004, the Utility has only requested two price indexes. Currently the Utility does not have any miscellaneous service charges. The Utility is built out and has no approved service availability charges. The Utility's existing rates are shown on Schedule No. 1. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by the Commission. Therefore, staff recommends that the Utility's existing rates remain in effect until a change is authorized by the Commission in a subsequent proceeding.

### **Regulatory Assessment Fees and Annual Reports**

Staff has verified that the Seller is current with respect to annual reports through December 31, 2016. The Buyer has an extension to file the 2017 Annual Report by May 31, 2018. Staff has also verified that RAFs have been paid through December 31, 2017. The Buyer will be responsible for filing annual reports and paying RAFs for 2018 and all future years.

### **Conclusion**

Based on the foregoing, staff recommends that the transfer of the wastewater system and Certificate No. 538-S is in the public interest and should be approved effective the date of the Commission vote. The resultant order should serve as the Buyer's certificate and should be retained by the Buyer. The existing rates should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for service rendered on or after the stamped approval date on the tariffs pursuant to Rule 25-30.475, F.A.C. Coastal Income will be responsible for paying 2018 regulatory assessment fees (RAFs) and all future RAFs. The Buyer should be responsible for filing the 2017 Annual Report and all future annual reports.

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<sup>3</sup>Order No. PSC-06-0666-PAA-SU, issued August 7, 2006, in Docket No. 20040793-SU, *In Re: Application for grandfather certificate to operate wastewater utility in Okeechobee County by Zachary Taylor Camping and Lodge, Inc.*

**Issue 2:** What is the appropriate net book value of the wastewater system for transfer purposes and should an acquisition adjustment be approved?

**Recommendation:** The net book value of the wastewater system for transfer purposes is \$13,282 as of March 4, 2016. An acquisition adjustment should not be included in rate base. Within 90 days of the date of the final order, Coastal Income should notify the Commission in writing that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in Coastal Income's 2017 Annual Report when filed. (Frank)

**Staff Analysis:** Rate base has not previously been established for the Utility. The purpose of establishing net book value (NBV) for transfers is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments for used and useful plant or working capital. The Utility's NBV has been updated to reflect balances as of March 4, 2016. Staff's recommended NBV, as described below, is shown on Schedule No. 1.

### **Utility Plant in Service (UPIS)**

In the previous transfer docket related to this Utility, staff auditors requested general ledgers, invoices for capital additions, depreciation schedules, tax returns, a schedule of assets transferred, and a revenue schedule for Utility operations since the transfer to the Buyer. However, the Buyer explained he was unable to locate the requested records. As a result, audit staff referred to the Utility's 2012 Annual Report to establish the Utility's NBV. As of the filing of this current docket, the Buyer is still unable to locate the necessary records. Staff notes that there have been no additions to plant since 2012. Therefore, staff has referred to the Utility's 2016 Annual Report for the purpose of establishing the Utility's NBV. The Utility's 2016 Annual Report reflected a UPIS balance of \$49,538. Therefore, staff recommends that the Utility's UPIS balance as of March 4, 2016, should be \$49,538.

### **Land**

The Utility's 2016 Annual Report reflected a land balance of \$34,375. In the previous transfer for this Utility, audit staff toured the wastewater plant facility and reviewed Okeechobee County Property Appraiser documents to determine how much of the 10.562 acres is used by the wastewater utility system. Based on audit staff's review, approximately 14,520 square feet, or 1/3 of an acre, of land is estimated to be occupied by the wastewater plant site. This equates to a land value of \$4,450 ( $\$13,350 \times 1/3$  of an acre). Therefore, staff recommends a balance for land of \$4,450, as of March 4, 2016.

### **Accumulated Depreciation**

The Utility's 2016 Annual Report reflected an accumulated depreciation balance of \$41,394 as of December 31, 2015. Staff recalculated accumulated depreciation of plant since 2012 to reflect accumulated depreciation as of March 4, 2016. Staff calculated the appropriate accumulated depreciation balance to be \$40,706. As a result, accumulated depreciation should be decreased by \$688 to reflect an accumulated depreciation balance of \$40,706, as of March 4, 2016.

### **Net Book Value**

The Utility's 2016 Annual Report reflected a NBV of \$42,519. Based on the adjustments described above, staff recommends a NBV of \$13,282, as of March 4, 2016. Staff's recommended NBV and the National Association of Regulatory Utility Commissioners, Uniform System of Accounts (NARUC USOA) balances for UPIS and accumulated depreciation as of March 4, 2016, are shown on Schedule No. 2.

### **Acquisition Adjustment**

An acquisition adjustment results when the purchase price differs from the NBV of the assets at the time of the acquisition. The Utility and its assets were purchased for \$43,928. As stated above, staff has determined the appropriate NBV total to be \$13,282. Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment may be appropriate when the purchase price is greater than the NBV, and a negative acquisition adjustment may be appropriate when the purchase price is less than NBV. However, pursuant to Rule 25-30.0371(2), F.A.C., a positive acquisition adjustment shall not be included in rate base unless there is proof of extraordinary circumstances. The Buyer did not request a positive acquisition adjustment. As such, staff recommends that no positive acquisition adjustment be approved.

### **Conclusion**

Based on the above, staff recommends that the NBV of the Utility for transfer purposes is \$13,282 as of March 4, 2016. No acquisition adjustment should be included in rate base. Within 90 days of the date of the final order, the Buyer should notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. The adjustments should be reflected in Coastal Income's 2017 Annual Report when filed.

**Issue 3:** Should this docket be closed?

**Recommendation:** If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision. (DuVal)

**Staff Analysis:** If no protest to the proposed agency action is filed by a substantially affected person within 21 days of the date of the issuance of the order, a consummating order should be issued and the docket should be closed administratively upon Commission staff's verification that the revised tariff sheets have been filed and the Buyer has notified the Commission in writing that it has adjusted its books in accordance with the Commission's decision.

**Coastal Income Properties - Zachary Taylor LLC  
Okeechobee County  
Description of Wastewater Territory**

**Parcel 1 - Zachary Taylor Camping and Lodge**

Township 37 South, Range 35 East  
Section 35

Begin at the Northeast corner of Section 35, Township 37 South, Range 35 East. Thence West along the North line of said Section a distance of 520 feet to the Point of Beginning (POB). Thence continue West along the North line a distance of 420 feet to the East edge of Taylor Creek. Thence along the waters edge of Taylor Creek the following 5 courses to a Bridge used to cross State Road 15 (Connors Highway).

1. South 28° West a distance of 80 feet.
2. South 8° 30' West a distance of 270 feet.
3. South 2° West a distance of 280 feet
4. South 5° East a distance of 240 feet.
5. South 18° East a distance of 730 feet.

Thence North 75° East a distance of 200 feet along the North Right of Way line of State Road 15 (Connors Highway). Thence North 9° West a distance of 300 feet. Thence North 78° East a distance of 101 feet. Thence North 8° West a distance of 60 feet. Thence North 90° West a distance of 1,120 feet to the POB.

**Parcel 2 - The Taylor Creek Condominium Association**

Township 37 South, Range 35 East  
Section 35

Begin at the Northeast corner of Section 35, Township 37 South, Range 35 East. Thence South along the East line of said section a distance of 1,770 feet to the Point of Beginning (POB). Thence South 89° West a distance of 150 feet. Thence North 0° West a distance of 100 feet. Thence South 82° West a distance of 280 feet along the South Right of Way line of State Road 15. Thence South 0° West a distance of 20 feet. Thence South 81° West a distance of 165 feet. Thence South 15° East a distance of 700 feet. Thence North 75° East a distance of 420 feet. Thence North along the East line of said section a distance of 550 feet to the POB



**FLORIDA PUBLIC SERVICE COMMISSION**

**Authorizes  
Coastal Income Properties - Zachary Taylor LLC  
Pursuant to  
Certificate Number 538-S**

To provide water service in Okeechobee County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rule, regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
PSC-06-0666-PAA-SU	08/07/2006	040793-SU	Original Certificate
*	*	20170173-SU	Transfer of Certificate

**\* Order Numbers and dates to be provided at time of issuance**

**Zachary Taylor Camping and Lodge, Inc.  
Monthly Wastewater Rates**

**Residential Service**

Flat rate \$ 24.28

**General Service**

Flat Rate – Zachary Taylor RV Park \$ 2,135.90  
(88 ERCS)

**Zachary Taylor Camping & Lodge, Inc. Wastewater System Schedule**  
**Wastewater System**  
**Schedule of Net Book Value as of March 4, 2016**

<b>Description</b>	<b>Balance Per Utility</b>	<b>Adjustments</b>	<b>Staff Recommended</b>
Utility Plant in Service	\$49,538	\$0	\$49,538
Land & Land Rights	34,375	(29,925) A	4,450
Accumulated Depreciation	(41,394)	688 B	(40,706)
CIAC	0	(0)	0
Amortization of CIAC	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$42,519</u>	<u>(\$29,237)</u>	<u>\$13,282</u>

**Explanation of Staff's Recommended  
Adjustments to Net Book Value as of March 4, 2016  
Wastewater System**

<b>Explanation</b>	<b>Amount</b>
A. Land and Land Rights To reflect appropriate amount of land.	<u>(\$29,925)</u>
B. Accumulated Depreciation To reflect appropriate amount of accumulated depreciation.	<u>\$688</u>
Total Adjustments to Net Book Value as of March 4, 2016.	<u>(\$29,237)</u>

**Zachary Taylor Camping & Lodge, Inc.**  
**Wastewater System**  
**Schedule of Staff Recommended Account Balances as of March 4, 2016**

<b>Account</b>			<b>Accumulated</b>
<b>No.</b>	<b>Description</b>	<b>UPIS</b>	<b>Depreciation</b>
361	Collection Sewers - Gravity	\$41,822	(\$37,701)
370	Receiving Wells	5,635	(1,985)
371	Pumping Equipment	906	(418)
389	Miscellaneous Equipment	<u>1,175</u>	<u>(602)</u>
	Total	<u>\$49,538</u>	<u>(\$40,706)</u>