

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 9, 2020

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Christopher R. Richards, Public Utility Analyst III, Division of Accounting & Finance *CRR*

RE: Docket No. 20200168-WU - Application for staff-assisted rate case in Polk County, and request for interim rate increase, by McLeod Gardens Utilities, LLC. - Additional Analysis for Capital Structure

Please file the attached documents provided by McLeod Gardens Utilities, LLC. (MGU) through email in the above-referenced docket containing additional analysis of the Capital Structure.

1. December 8, 2020, email providing response to staff's email dated December 4, 2020.
2. MGU response to Staff Email
3. MGU Closing Statement

Thank you for your assistance.

Attachments

From: [Jeff Small](#)
To: [Christopher Richards](#)
Cc: [Mike Smallridge](#); [Marianne McDonald](#); [Jeff Small](#)
Subject: Re: Docket No. 20200168-WU -- Request to schedule a phone call to discuss capital structure and AFUDC
Date: Tuesday, December 08, 2020 3:09:39 PM
Attachments: [MGU Response to Staff Email \(12.04.20\).pdf](#)
[MGU AP Analysis.xlsx](#)
[MGU Closing Statement.pdf](#)

Good afternoon Chris

Attached is MGU written responses to your questions in the email and our follow-up telephone conversation. Also attached are two supporting files for our written response. Please do not hesitate to call me if you have any questions.

Thanks
Jeff Small

Side note -- My analysis of LYU account payable balance indicates that it may require the same treatment as we propose for MGU equity balance. Upon request, I can readily provide that analysis for your consideration.

On Mon, Dec 7, 2020 at 1:56 PM Christopher Richards <crichard@psc.state.fl.us> wrote:

Thank you sir, I will call you in just a couple of minutes. Please see the two tables below which I will reference in our phone call:

Table 1: McLeod Gardens Capital Structure per the Audit

Cost of Capital

McLeod Gardens Utilities, LLC
 Staff Assisted Rate Case
 As of December 31, 2019
 Dkt: 20200168-WU ; ACN 2020-198-1-1
 Capital Structure

*HU
9/2/20*

Cost of Capital	Average 12/31/2019 per Utility	Audit Adjustment	Average 12/31/2019 Per Audit	Ratio	Cost Rate	Weighted Cost
Long Term Debt						
Paid in Capital	\$ 21,568	\$ -	12 21,568	88.73%	7.85%	6.96%
Retained Earnings	\$ (34,503)	\$ 34,503	12 2,730			
Customer Deposits	2 2,730		12 2,730	11.23%	2.00%	0.22%
Accrued Taxes	1 11	\$ (0)	12 11	0.04%		0.00%
Total			\$ 24,309	100.00%		7.19%

Table 2: McLeod Gardens Capital Structure per Staff Report

MCLEOD GARDENS UTILITIES, LLC
 TEST YEAR ENDED 12/31/2020
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 20200168-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE AFTER ADJ	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0	0.00%		
2. RETAINED EARNINGS	(34,503)	34,503	0	0	0	0.00%		
3. PAID IN CAPITAL	21,568	(21,568)	0	0	0	0.00%		
4. OTHER EQUITY	0	0	0	0	0	0.00%		
TOTAL EQUITY	<u>(\$12,935)</u>	<u>\$12,935</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	10.55%	0.00%
5. LONG-TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%		
6. SHORT-TERM DEBT	0	0	0	0	0	0.00%		
7. PREFERRED STOCK	0	0	0	0	0	0.00%		
TOTAL DEBT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	0.00%	0.00%
8. CUSTOMER DEPOSITS	\$2,730	\$0	\$2,730	\$0	\$2,730	99.60%	2.00%	1.99%
9. DEFERRED INCOME TAXES	\$11	\$0	\$11	\$0	\$11	0.40%	0.00%	0.00%
10. TOTAL	<u>(\$10,194)</u>	<u>\$12,935</u>	<u>\$2,741</u>	<u>\$0</u>	<u>\$2,741</u>	<u>100.00%</u>		<u>1.99%</u>
RANGE OF REASONABLENESS							LOW	HIGH
RETURN ON EQUITY							9.55%	11.55%
OVERALL RATE OF RETURN							1.99%	1.99%

Christopher R. Richards
 Public Utilities Analyst III
 Division of Accounting and Finance
 Florida Public Service Commission
crichard@psc.state.fl.us
 Office: 850-413-6742

From: Jeff Small <jeffsmall@ocboa.net>
Sent: Monday, December 07, 2020 1:30 PM
To: Christopher Richards <crichard@psc.state.fl.us>
Subject: Re: Docket No. 20200168-WU -- Request to schedule a phone call to discuss capital structure and AFUDC

Afternoon Chris,

Please call me at your convenience to discuss your request.

I am available until 2:30pm today or all day tomorrow.

Thanks

Jeff Small

On Fri, Dec 4, 2020 at 1:57 PM Christopher Richards <crichard@psc.state.fl.us> wrote:

Good afternoon,

I would like to schedule a time to speak with you on a conference call about the capital structure for McLeod Gardens. Currently staff is showing that there is no equity, and no long term debt associated with the Utility. During the call, I would like to try and figure out how McLeod Gardens was purchased so I am able to determine how to set up the capital structure for the current SARC, Docket No. 20200168-WU. During this phone call, I would also like to discuss your request for an AFUDC rate in the following SARCs: McLeod Gardens, Lake Yale and Sunny Shores.

If possible, I would like to have on the line as well, Mr. Jeff Small, and Dale Buys from the Commission. Mr. Buys is the supervisor for the Finance and Tax section in the Commission.

Please let me know a date and time as soon as possible that would be acceptable for both you and Mr. Small to discuss the capital structure for McLeod Gardens and requested AFUDC rates. I do not anticipate the phone call to last more than 30 minutes.

Thank you,

Christopher R. Richards
Public Utilities Analyst III
Division of Accounting and Finance
Florida Public Service Commission
crichard@psc.state.fl.us
Office: 850-413-6742

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Jeffery Small

OCBOA Consulting, LLC

407-377-5400

Associate Member of the Florida Rural Water Association

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Jeffery Small

OCBOA Consulting, LLC

407-377-5400

Associate Member of the Florida Rural Water Association

**FLORIDA UTILITY SERVICES 1, LLC
5911 TROUBLE CREEK ROAD
NEW PORT RICHEY, FLORIDA 34652
863-904-5574**

December 8, 2020

Chris Richards
Public Utilities Analyst III
FPSC

RE: Response to staff email dated 12/4/20 and subsequent telephone conversation on 12/7/20.

Chris,

Per your request, McLeod Gardens Utilities, LLC (MGU) is providing a written response to the questions arising from your email and our telephone conversation.

MGU Purchase

MGU was purchased for \$20,300 cash by Mike Smallridge on June 25, 2016. The closing was held on September 1, 2016. A copy of the purchase contract was provided in MGU Certificate of Transfer Proceeding in Docket No. 20160193-WU, Document No. 085239-2016.

Equity Components

The Paid in Capital balance of \$21,568, reflected in the MGU general ledger, at December 31, 2019, represents the total cash out of pocket at closing paid by Mike Smallridge (Cash purchase price of \$20,300 plus \$1,268 in settlement cost). Attached is a copy of the closing statement.

The negative Retained Earnings balance of \$34,503 reflected in the general ledger at December 31, 2019, represents the cumulative results (losses) of annual operations since the purchase date referenced above.

The \$11 Deferred Tax balance is an error reflected in the audit report. MGU is a Limited Liability Company entity. There are no federal or state income tax components in its capital structure. The \$11 balance represents an outstanding tax liability to Polk County at the end of 2019.

Capital Structure Presentation

Staff's Capital Structure presentation accurately displays MGU equity balances from the 2019 general ledger. I have researched the issue that staff raised concerning the discrepancy concerning an overall negative equity balance of \$12,935 in relation to the positive net asset balance reflected in the general ledger.

MGU asserts that the discrepancy is the result of a presentation issue for the Liabilities and Capital Equity account balances in the MGU general ledger. An analysis of the Account Payable balance of \$44,468 indicates that \$41,930 of this balance is an outstanding payable (debt) to MGU parent, Florida Utility Services 1, LLC (FUS1). The \$41,930 balance represents the cumulative net charges for the allocation of services (payroll, insurance & transportation expenses, etcetera) and supplies (direct purchases on behalf of MGU) by FUS1 (Total charges of \$65,760 less payments

of \$23,830). These costs represent the goods and services that FUS1 incurred and paid for, on behalf of MGU customers. MGU, to date, has not generated the cash flow necessary to reimburse FUS1 for all of the services and supplies provided since it was purchased and included with FUS1 other utility systems. The accounts payable analysis file is attached to this response for staff's review.

MGU asserts that the net \$41,930 portion of the Account Payable balance attributed to FUS1 is, in essence, an inter-company or related party debt due to FUS1. It is a creditable, and long-term debt, because it represents the allocated cumulative net charges from FUS1 to MGU for the three- and one-half-year period of July 2016 to December 2019.

It is Commission policy to treat related party debt such as this as equity when developing a Capital Structure for a rate proceeding. In MGU case, such a treatment would reverse the negative equity balance \$12,935 to a positive balance of \$28,995, which is comparable to the \$25,586 net book value balance for rate base determined in staff's audit.

<u>CAPITAL COMPONENT</u>	<u>BALANCE</u>
COMMON STOCK	\$0
RETAINED EARNINGS	(\$34,503)
PAID IN CAPITAL	\$21,568
OTHER EQUITY	<u>\$41,930</u>
TOTAL EQUITY	\$28,995
LONG-TERM DEBT	\$0
SHORT-TERM DEBT	\$0
PREFERRED STOCK	<u>\$0</u>
TOTAL DEBT	\$0
CUSTOMER DEPOSITS	\$2,730
DEFERRED INCOME TAXES	\$0
<u>TOTAL</u>	<u>\$31,725</u>

Please contact me should you have any further questions.

(407) 690-2647

Jeff Small

OCBOA Consulting, LLC

On behalf of//

McLeod Gardens Utilities, LLC

Attachments (2)

Closing Statement (pdf file)

MGU AP Analysis (excel file)

Cc// Mike Smallridge, McLeod Gardens Utilities, LLC

A. Settlement Statement

B. Type of Loan

<input type="radio"/> 1. FHA	<input type="radio"/> 2. FmHA	<input type="radio"/> 3. Conv. Unins.	6. File Number TEVA1H-4	7. Loan Number ID:	8. Mortg. Ins. Case Num.
<input type="radio"/> 4. V.A.	<input type="radio"/> 5. Conv. Ins.				

C. NOTE: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. NAME OF BORROWER: Florida Utility Services 1, LLC, a Florida limited liability company
Address of Borrower: 3336 Grand Blvd., Suite #102, Holiday, Florida 34690

E. NAME OF SELLER: Tevalo, Inc., a Florida corporation
Address of Seller: P.O. Box 2898, Winter Haven, Florida 33883 TIN: 59-1365254

F. NAME OF LENDER:
Address of Lender:

G. PROPERTY LOCATION: Grassy Marsh Road, Winter Haven, Florida 33880

H. SETTLEMENT AGENT: Peterson & Myers, P.A. (Lakeland) TIN: 59-1832339
Place of Settlement: 225 E. Lemon St., Suite 300, Lakeland, Florida 33801 Phone: 863-683-6511

I. SETTLEMENT DATE: 9/1/16 **DISBURSEMENT DATE:** 9/1/16

J. Summary of borrower's transaction		K. Summary of seller's transaction	
100. Gross amount due from borrower:		400. Gross amount due to seller:	
101. Contract sales price	20,300.00	401. Contract sales price	20,300.00
102. Personal property		402. Personal property	
103. Settlement charges to borrower (Line 1400)	1,267.61	403.	
104.		404.	
105.		405.	
Adjustments for items paid by seller in advance:		Adjustments for items paid by seller in advance:	
106. City/town taxes		406. City/town taxes	
107. County taxes		407. County taxes	
108. Assessments		408. Assessments	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross amount due from borrower:	21,567.61	420. Gross amount due to seller:	20,300.00
200. Amounts paid or in behalf of borrower:		500. Reductions in amount due to seller:	
201. Deposit or earnest money	1,000.00	501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to seller (line 1400)	
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204. Principal amount of second mortgage		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206.		506. Deposits held by seller	
207. Principal amt of mortgage held by seller		507. Principal amt of mortgage held by seller	
208.		508.	
209.		509.	
Adjustments for items unpaid by seller:		Adjustments for items unpaid by seller:	
210. City/town taxes		510. City/town taxes	
211. County taxes from 01/01/16 to 09/01/16	198.74	511. County taxes from 01/01/16 to 09/01/16	198.74
212. Assessments		512. Assessments	
213. Tangible Personal Property taxes from 01/01/16 to 09/01/16	25.13	513. Tangible Personal Property taxes from 01/01/16 to 09/01/16	25.13
214.		514.	
215.		515.	
216. Reg. Assess. fees from 01/01/16 to 09/01/16	800.00	516. Reg. Assess. fees from 01/01/16 to 09/01/16	800.00
217.		517.	
218.		518.	
219.		519.	
220. Total paid by/for borrower:	2,023.87	520. Total reductions in amount due seller:	1,023.87
300. Cash at settlement from/to borrower:		600. Cash at settlement to/from seller:	
301. Gross amount due from borrower (line 120)	21,567.61	601. Gross amount due to seller (line 420)	20,300.00
302. Less amount paid by/for the borrower (line 220)	(2,023.87)	602. Less total reductions in amount due seller (line 520)	(1,023.87)
303. Cash (<input checked="" type="checkbox"/> From <input type="checkbox"/> To) Borrower:	19,543.74	603. Cash (<input checked="" type="checkbox"/> To <input type="checkbox"/> From) Seller:	19,276.13

Substitute Form 1099 Seller Statement: The information contained in blocks E, G, H, and I and on line 401 is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.

Seller Instructions: If this real estate was your principal residence, file Form 2119, Sale or Exchange of Principal Residence, for any gain, with your tax return; for other transactions, complete the applicable parts of Form 4797, Form 6262 and/or Schedule D (Form 1040).

Borrower's Initial(s): AA

Seller's Initial(s): RM

L. Settlement charges				Borrower POC	Seller POC	Paid from Borrower's Funds at Settlement	Paid from Seller's Funds at Settlement
700. Total Sales/Brokers Com. based on price	\$20,300.00 @	% =					
701.	% to						
702.	% to						
703. Commission paid at settlement							
704.	to						
800. Items payable in connection with loan:				Borrower POC	Seller POC		
801. Loan origination fee	% to						
802. Loan discount	% to						
803. Appraisal fee	to						
804. Credit report	to						
805. Lender's inspection fee	to						
806. Mortgage insurance application fee	to						
807. Assumption Fee	to						
808.	to						
809.	to						
810.	to						
811.	to						
900. Items required by lender to be paid in advance:				Borrower POC	Seller POC		
901. Interest from	to @	/day					
902. Mortgage insurance premium for	months to						
903. Hazard insurance premium for	years to						
904. Flood insurance premium for	years to						
905.	years to						
1000. Reserves deposited with lender:				Borrower POC	Seller POC		
1001. Hazard insurance	months @	per month					
1002. Mortgage insurance	months @	per month					
1003. City property taxes	months @	per month					
1004. County property taxes	months @	per month					
1005. Annual assessments	months @	per month					
1006. Flood insurance	months @	per month					
1007.	months @	per month					
1008.	months @	per month					
1009. Aggregate accounting adjustment							
1100. Title charges:				Borrower POC	Seller POC		
1101. Settlement or closing fee	to						
1102. Abstract or title search	to Peterson & Myers, P.A. (Lakeland)					275.00	
1103. Title examination	to						
1104. Title insurance binder	to						
1105. Document preparation	to						
1106. Notary fees	to						
1107. Attorney's Fees	to						
(includes above item numbers:)							
1108. Title Insurance	to Old Republic Nat. Title/Peterson & Myers					116.73	
(includes above item numbers:)							
1109. Lender's coverage (Premium):							
1110. Owner's coverage (Premium):	\$20,300.00 (\$116.73)						
1111. Endorse:							
1112. Surcharge on title insurance policy	to Peterson & Myers, P.A. (Lakeland)					3.28	
1113.	to						
1200. Government recording and transfer charges:							
1201. Recording fees	Deed \$27.00 Mortgage(s)	Releases				27.00	
1202. City/county tax/stamps	Deed Mortgage(s)						
1203. State tax/stamps	Deed \$142.10 Mortgage(s)					142.10	
1204. Record Termination of Lease	to Clerk Circuit Court					18.50	
1205.	to						
1300. Additional settlement charges:				Borrower POC	Seller POC		
1301. Survey	to Lunsford Surveying & Mapping					635.00	
1302. Pest Inspection	to						
1303. Misc. for e-recording, wire fees, fed exp	to Peterson & Myers, P.A. (Lakeland)					50.00	
1304.	to						
1305.	to						
1306.	to						
1307.	to						
1308.	to						
1309.							
1400. Total settlement charges:						1,267.61	0.00

I have carefully reviewed the HUD-1 Settlement Statement and to the best of my knowledge and belief, it is a true and accurate statement of all receipts and disbursements made on my account or by me in this transaction. I further certify that I have received a copy of the HUD-1 Settlement Statement.

By: Michael A Smallridge, as manager Borrower
 Florida Utility Services 1, LLC
 Michael A Smallridge, as manager

By: Laura V. Griffith, President Seller
 Tevala, Inc.

The HUD-1 Settlement Statement which I have prepared is a true and accurate account of this transaction. I have caused, or will cause, the funds to be disbursed in accordance with this statement.

By: Stephanie D. Clinio Date: 9/11/14
 Peterson & Myers, P.A. (Lakeland)
 As Its Authorized Representative

Proration Worksheet

FILE NUMBER:	TEVA1H-4		
NAME OF BUYER:	Florida Utility Services 1, LLC, a Florida limited liability company		
Address of Buyer:	3336 Grand Blvd., Suite #102, Holiday, Florida 34690		
NAME OF SELLER:	Tevalo, Inc., a Florida corporation		
Address of Seller:	P.O. Box 2898, Winter Haven, Florida 33883		
NAME OF LENDER:			
Address of Lender:			
PROPERTY LOCATION:	Grassy Marsh Road, Winter Haven, Florida 33880		
SETTLEMENT AGENT:	Peterson & Myers, P.A. (Lakeland)		
Place of Settlement:	225 E. Lemon St., Suite 300, Lakeland, Florida 33801		
SETTLEMENT DATE:	9/1/16	DISBURSEMENT DATE:	9/1/16

Buyer's Credits

City/town taxes	from	to	@	\$0.00 \ Annually	= 244 days @	.0000 per day	\$0.00
County taxes	from 1/1/16	to 9/1/16	@	\$298.12 \ Annually	= 244 days @	.8145 per day	\$198.74
Tangible Personal Property taxes	from 1/1/16	to 9/1/16	@	\$37.68 \ Annually	= 244 days @	.1030 per day	\$25.13
Reg. Assess. fees	from 1/1/16	to 9/1/16	@	\$1,200.00 \ Annually	= 244 days @	3.2787 per day	\$800.00
Buyer's Credits Total:							\$1,023.87