



ORIGINAL
Public Service Commission

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

DATE: March 23, 1999
TO: Division of Records and Reporting
FROM: Division of Water and Wastewater (Lingo) *HL*
RE: Docket No. 981147-WS, Investigation into possible overearnings of Highlands Ridge Associates, Inc. in Highlands County

Please place the attached correspondence into the above-referenced docket file. Thank you.

\FJL

Attach: Letter from Reed/Highlands Ridge 3/03/99

cc w/Atch: Division of Water and Wastewater (Chase, TLDavis)
Division of Legal Services (Brubaker)

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC 1
- WAS _____
- OTH _____

DOCUMENT NUMBER-DATE

03754 MAR 23 88

FPSC-RECORDS/REPORTING



Highlands Ridge

RECEIVED

MAR 10 9 15 AM '99

ADMINISTRATION
MAIL ROOM

March 3, 1999

Ms. Jenni Lingo
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RECEIVED

MAR 10 1999

Florida Public Service Commission
Division of Water and Wastewater

Re: *Proposed Audit Adjustments - Year Ending 12-31-97*

Dear Ms. Lingo,

Attached is information supporting our request to include an additional \$41,193 in costs attributable to operation of the water and wastewater utility for 1997. Here is a brief explanation of each proposed adjustment:

1. Direct Compensation. Howard Bateman is a full-time employee of Highlands Ridge. Howard is a certified, and licensed Class B water and wastewater utility operator. His primary responsibility for Highlands Ridge is the operation and management of the utility. However, for the year ending 12-31-97 only \$10,832 of his \$28,481 compensation for the year was charged to the utility. We believe his entire compensation should be charged to the utility operation. Therefore, we are requesting an adjustment of \$18,099 in direct compensation expense.
2. Associated Payroll Expense. In addition to direct compensation expense, associated payroll would include payroll taxes, and workers compensation expense. None of these associated payroll expenses were charged to the utility for the year. Enclosed is a report detailing these expenses. The total proposed adjustment for these items totals \$4,365.
3. Landscape Management. We hire a local contractor to mow, weed, cut grass, landscape, and generally take care of all the common grounds in the community. We have never allocated the cost of such work to the Utility. We asked the contractor to state separately the cost of such work, and it turns out that it would have cost \$500 per month for the Utility. Therefore, we propose an adjustment of \$6,000 for these expenses.
4. Unallocated General Administrative Expense. Costs attributable to the operation of Highlands Ridge taken as a whole, and not directly attributable to a specific department totaled \$304 thousand for 1997. I have prepared a detail analysis of these costs, and propose an adjustment for \$17,094 (6%) of these costs absorbed by the Utility based upon a weighted average of income and cost of operation.
5. Other Items. Attached is a list of questions regarding the rate investigation that had been provided earlier. We would like to include these items in our discussions.

Please review this information and let us know if you require further information or data.

Very truly yours,


Rob Reed, Controller

enclosures

P.O. Box 768, Sebring, Florida 33871-0768
(941) 471-1117

Highlands Ridge Associates, Inc.

*Administrative Expenses to be Absorbed by Utility Division
Year Ending 12-31-97*

Howard Bateman unallocated expense	\$ 18,099
Associated Payroll	4,365
Landscape Management (mowing, etc)	6,000
Unallocated Administrative Expense	
Allocation to Utility per Weighted Average	<u>17,094</u>
	<u><u>\$ 45,558</u></u>

Highlands Ridge Associates, Inc.
 Costs Excluded from Operation of Utility Plant -
 Incurred in General Operation
 Year Ending 12-31-98

	Allocation %		Allocation Dollars		
	1997	Park	Admin	Park	Admin
Actual Spending:					
Bank/Merchant Charges	587	0%	100%	-	587
Charitable Contributions	6	0%	100%	-	6
Dues & Subscriptions	275	0%	100%	-	275
Education & Seminars	1,045	21%	79%	221	824
Electric	14,200	24%	76%	3,400	10,800
Employee Benefits	1,913	21%	79%	405	1,508
Fuel - Gasoline	1,345	0%	100%	-	1,345
Insurance, Business	23,974	0%	100%	-	23,974
Insurance, Health	21,713	21%	79%	4,594	17,119
Lease, Vehicle	5,280	0%	100%	-	5,280
Legal / Accounting	23,563	0%	100%	-	23,563
Licenses	1,940	0%	100%	-	1,940
Maint, Office Equipment	8,253	0%	100%	-	8,253
Maint, Vehicles	601	0%	100%	-	601
Meals / Entertainment	70	0%	100%	-	70
Misc Operating Expense	8,657	50%	50%	4,328	4,328
Office Supplies	4,975	0%	100%	-	4,975
Pest Control	1,929	50%	50%	964	964
Postage	1,441	0%	100%	-	1,441
Recruiting Exp	233	0%	100%	-	233
Salaries & Wages	216,051	21%	79%	45,709	170,342
Payroll Taxes	22,074	21%	79%	4,670	17,404
Worker Comp	2,864	21%	79%	606	2,258
Telephone	3,372	0%	100%	-	3,372
Trash Removal	2,677	50%	50%	1,338	1,338
Travel	1,686	0%	100%	-	1,686
Total Operating Expense	370,721			66,236	304,486

<i>Allocate to:</i>		
Lots and Homes	34%	104,283
Golf	32%	97,455
Park	28%	85,652
Utility	6%	17,094
	100%	<u>304,486</u>

Highlands Ridge Associates, Inc.
 Allocation Basis Schedule
 Year Ending 12-31-97

Revenue Allocation Method:

<u>Division</u>	<u>Revenue</u>	<u>Cost of Sales</u>	<u>Net</u>	<u>%</u>
Land/Homes	4,406,638	3,396,453	1,010,185	41%
Golf	781,506	45,209	736,297	30%
Park	618,155	79,531	538,624	22%
Utility	159,478	-	159,478	7%
Total	5,965,777	3,521,193	2,444,584	100%

Expense Allocation Method:

<u>Division</u>	<u>Expense</u>	<u>%</u>
Land/Homes	520,358	27%
Golf	649,017	34%
Park	655,401	34%
Utility	90,088	5%
Total	1,914,864	100%

Weighted Average Method

<u>Division</u>	<u>Income %</u>	<u>Expense %</u>	<u>Averaged</u>
Land/Homes	41%	27%	34%
Golf	30%	34%	32%
Park	22%	34%	28%
Utility	7%	5%	6%
Total	100%	100%	100%

Highlands Ridge Associates, Inc.
 Employee Earnings - Administrative Etc
 Year Ending 12-31-97

<u>Name</u>	<u>1997 Comp</u>	<u>Already to Utility</u>	<u>Allocate to Park</u>	<u>S/Be all Utility</u>	<u>Unalloc to Admin</u>
Howard	28,481	(10,382)	-	18,099	-
Nancy	39,381	-	-	-	39,381
Yvonne	30,881	-	-	-	30,881
Diane Granholm	18,782	-	5,000	-	13,782
Karen B.	2,711	-	2,711	-	-
Christine	12,997	-	12,997	-	-
Linda	5,911	-	5,911	-	-
Diane Good	7,286	-	7,286	-	-
Andrea	9,295	-	9,295	-	-
Laverna	44	-	44	-	-
Frieda	2,465	-	2,465	-	-
John	86,037	-	-	-	86,037
	<u>244,271</u>	<u>(10,382)</u>	<u>45,709</u>	<u>18,099</u>	<u>170,081</u>

Highlands Ridge Associates, Inc.
Associated Payroll Expense
Year Ending 12-31-97

<u>Employee Name</u>	<u>Compensation to Utility</u>	<u>Unempl Tax</u>	<u>Federal FICA / Med</u>	<u>Workers Comp</u>	<u>Total P/R Tax</u>
Howard	28,481.00	344.62	2,178.80	1,398.42	3,921.83
David	2,622.51	31.73	200.62	128.77	361.12
Felix	277.00	3.35	21.19	13.60	38.14
Andrea	204.00	2.47	15.61	10.02	28.09
Linda	112.51	1.36	8.61	5.52	15.49
	<u>31,697.02</u>	<u>383.53</u>	<u>2,424.82</u>	<u>1,556.32</u>	<u>4,364.68</u>

Unemployment Tax

State U/C Rate 0.0041 on first 7,000 of wages
Federal U/C Rate 0.008 on first 7,000 of wages
 0.0121

FICA / Medicare Tax:

FICA Rate 0.062
Medicare Rate 0.0145
 0.0765

W/Comp Rate 0.0491

Highlands Ridge Associates, Inc.
Questions for PSC Staff - Rate Investigation
for the year ended 12-31-97

Why increase CIAC when revenues were not collected?

The utility SHALL CHARGE the approved rates and structures.

Why only a 10.49% return?

Why eliminate AFDUC when the "cost" of assets placed in service, in accordance with GAAP and NARUC, calls for the calculation and inclusion of capitalized interest during construction periods?

Why is the GS tariff higher than the RS tariff?

Set rates based upon the notion that 80% of the water is returned to wastewater system. A GS tariff is not.

How did you determine the AFUDC included amounts?

Shouldn't some portion of the land improvement costs should be allocated to "land" in addition to the raw land costs?

Why is only 12.5% used in cost rate for shareholder notes?

Why do you eliminate shareholder contributed capital in schedule of capital structure?

In your Docket and/or audit findings, your "per Utility" numbers do not match with the Annual Report filed by the Utility. Why not?

You have not allowed any general or administrative overhead allocation -- why not?

	\$ 14,487.86	Dec 97 GL						
	\$ 14,535.50	DistrTotal						
	\$ (47.64)	Difference						
Empl Totals	\$ 10,381.98	\$ 2,622.61	\$ 277.00	\$ 204.00	\$ 112.51	\$ 937.50		
Employee	Howard	David	Felix	Andrea	Linda	Mach Time		
	\$ 528.72						\$ 528.72	\$ 528.72
		\$ 97.65		\$ 31.50			\$ 129.15	\$ 129.15
		\$ 37.20					\$ 37.20	\$ 37.20
	\$ 644.28						\$ 644.28	\$ 644.28
		\$ 65.10	\$ 16.00				\$ 81.10	\$ 81.10
		\$ 55.80	\$ 96.00	\$ 31.50			\$ 183.30	\$ 183.30
	\$ 262.07						\$ 262.07	\$ 262.07
		\$ 23.25					\$ 23.25	\$ 23.25
	\$ 2.45						\$ 2.45	\$ 2.45
				\$ 28.00			\$ 28.00	\$ 28.00
		\$ 32.55					\$ 32.55	\$ 32.55
		\$ 130.20					\$ 130.20	\$ 130.20
	\$ 348.61						\$ 348.61	\$ 348.60
		\$ 9.30					\$ 9.30	\$ 9.30
		\$ 38.37					\$ 38.37	\$ 38.37
	\$ 308.94						\$ 308.94	\$ 308.94
		\$ 30.23					\$ 30.23	\$ 30.23
		\$ 65.10					\$ 65.10	\$ 65.10
	\$ 500.04						\$ 500.04	\$ 500.04
		\$ 46.50					\$ 46.50	\$ 46.50
		\$ 83.70					\$ 83.70	\$ 83.70
	\$ 500.04						\$ 500.04	\$ 500.05
		\$ 83.70	\$ 52.00				\$ 135.70	\$ 135.70
		\$ 18.60					\$ 18.60	\$ 18.60
				\$ 35.00			\$ 35.00	\$ 35.00
	\$ 197.17						\$ 197.17	\$ 197.17
	\$ 182.74						\$ 182.74	\$ 182.74
		\$ 54.00					\$ 54.00	\$ 54.00
		\$ 36.00		\$ 26.00			\$ 62.00	\$ 62.00
	\$ 132.26						\$ 132.26	\$ 132.26
	\$ 525.29						\$ 525.29	\$ 525.29
		\$ 63.00		\$ 26.00			\$ 89.00	\$ 89.00
	\$ 6.06						\$ 6.06	\$ 6.06
		\$ 13.50					\$ 13.50	\$ 4.50
		\$ 117.00					\$ 117.00	\$ 117.00
	\$ 795.72						\$ 795.72	\$ 795.72
		\$ 9.00					\$ 9.00	\$ 9.00
		\$ 63.00					\$ 63.00	\$ 63.00
		\$ 36.00		\$ 26.00			\$ 62.00	\$ 62.00
	\$ 802.93						\$ 802.93	\$ 802.93
		\$ 63.00					\$ 63.00	\$ 63.00
		\$ 31.50					\$ 31.50	\$ 31.50
	\$ 406.30						\$ 406.30	\$ 406.30
		\$ 78.50					\$ 78.50	\$ 78.50
		\$ 72.00	\$ 14.00		\$ 37.50		\$ 123.50	\$ 123.50
	\$ 132.26						\$ 132.26	\$ 132.26
		\$ 6.75					\$ 6.75	\$ 6.75
	\$ 500.04						\$ 500.04	\$ 500.04
		\$ 27.00					\$ 27.00	\$ 27.00
	\$ 658.70						\$ 658.70	\$ 658.70
		\$ 72.00			\$ 24.38		\$ 96.38	\$ 96.38
		\$ 49.50					\$ 49.50	\$ 49.50
		\$ 127.13	\$ 15.00				\$ 142.13	\$ 142.13
	\$ 601.01						\$ 601.01	\$ 601.01
		\$ 218.25	\$ 32.00				\$ 250.25	\$ 250.25
	\$ 629.86						\$ 629.86	\$ 629.86
		\$ 60.38			\$ 24.38		\$ 84.76	\$ 84.76

