

Energy & Utilities Subcommittee

Wednesday, December 11, 2019
Mashburn Hall (306 HOB)
9:00 AM – 11:30 AM

Meeting Packet

Jose Oliva
Speaker

Charlie Stone
Chair

The Florida House of Representatives

Commerce Committee

Energy & Utilities Subcommittee

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Speaker

Charlie Stone
Chair

AGENDA

Wednesday, December 11, 2019
Mashburn Hall (306 HOB)
9:00 AM – 11:30 AM

I. Call to Order & Roll Call

II. Welcoming Remarks

III. Overview of Water and Wastewater Utility Acquisitions

IV. Adjournment

303 House Office Building, 402 South Monroe Street, Tallahassee, Florida 32399-1300
(850) 717-4873 Fax: (850) 413-0419

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

Energy & Utilities Subcommittee

Start Date and Time:	Wednesday, December 11, 2019 09:00 am
End Date and Time:	Wednesday, December 11, 2019 11:30 am
Location:	Mashburn Hall (306 HOB)
Duration:	2.50 hrs

Overview of Water and Wastewater Utility Acquisitions

NOTICE FINALIZED on 12/04/2019 4:00PM by Rigas.Amanda

Overview of
Water and Wastewater Utility Acquisitions

Presentation to the

Florida House
Energy and Utilities Subcommittee

Andrew L. Maurey, Director
Division of Accounting and Finance
December 11, 2019

Florida Public Service Commission Jurisdiction

- The Commission regulates 131 investor-owned water and wastewater utilities in 38 jurisdictional counties.
- The largest company is Utilities Inc. of Florida with annual revenue of $36 million.
- The majority of systems have only a few hundred customers and annual revenue of less than $140,000.
- The Commission has authority over the rates charged to a small percentage of water and wastewater customers in Florida. The vast majority of water and wastewater customers in Florida are served by government-owned utilities or utilities in non-jurisdictional counties.

Section 367.071, Florida Statutes

- "No utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without determination and approval of the Commission that the proposed sale, assignment, or transfer is in the public interest…"

- The Commission does not have merger approval authority.

Review of Transfer Applications (Rule 25-30.037, F.A.C.)

- The Commission reviews an application for transfer of a certificate of authorization to determine if the buyer has the technical and financial ability to provide service to the service territory.

- Consideration is given to any needed capital investments or repairs and the approximate cost to accomplish them.

- Establish net book value of the utility assets to determine whether an acquisition adjustment should be recognized for rate setting purposes.

- Determine if the transfer is in the public interest and should be approved.

History

- **1930s & 40s** – Questionable purchasing practices caused the regulatory framework to shift from setting rates based on purchase price to basing rates on the utilities' actual value (original cost).
- **1983** – The Commission's stated policy on acquisition adjustments for water and wastewater utilities is that, "absent extraordinary circumstances, the purchase of a utility system at a premium or discount shall not affect rate base." (Order No. PSC-02-0997-FOF-WS)
- **2002** – The Commission adopted Rule 25-30.0371, F.A.C., regarding acquisition adjustments in the water and wastewater industry. (Amended 11/22/10)

Technical Definition

- An acquisition adjustment is the difference between the purchase price of utility system assets to an acquiring entity and the original cost of the utility system assets when first placed in public service less accumulated depreciation and contributions in aid of construction net of amortization.

Simple Explanation

- An acquisition adjustment is the difference between the "net book value" of a utility system and what the purchaser actually pays for it.

- Net book value is an asset's original cost when first devoted to public service less accumulated depreciation and net amortization.

Types of Acquisition Adjustments

- A positive acquisition adjustment exists when the purchase price is greater than the net book value.

- A negative acquisition adjustment exists when the purchase price is less than the net book value.

General Purpose

The acquisition adjustment rule (25-30.0371, F.A.C.) is designed to:

- Encourage the purchase of smaller, often troubled systems by larger, more established utilities
- Keep rate increases to a minimum
- Diminish some of the controversy over acquisition adjustments and expedite transfer or rate case proceedings (Order No. PSC-02-0997-FOF-WS).

Positive Acquisition Adjustments

- The Rule formalized the Commission's policy on positive acquisition adjustments: A positive acquisition adjustment shall not be included in rate base absent extraordinary circumstances.
- The company or entity that believes it should receive the adjustment has the burden to prove the existence of extraordinary circumstances.
- Examples of extraordinary circumstances include commitment to improve quality of service and compliance with regulatory mandates, anticipated cost savings, and potential rate reductions.

Negative Acquisition Adjustments

- If the purchase price is greater than 80 percent of net book value, a negative acquisition adjustment will not be included in rate base.

- When the purchase price is equal to or less than 80 percent of net book value, a negative acquisition adjustment shall be included in rate base.

- A negative acquisition adjustment is imposed to prevent an entity from earning a return on the full net book value of utility assets when it did not invest at least 80 percent of the net book value of the utility assets.

Reasons to Encourage Small System Acquisitions

- Large utilities can achieve economies of scale.
- Large utilities have greater technical and managerial expertise.
- Large utilities have easier access to capital at more favorable terms.
- Large utilities may be able to utilize excess capacities in existing facilities in the case of interconnections.
- Incorporating smaller utilities into larger ones may be a lower cost option to expanding or rebuilding the smaller system.
- Large utilities can manage and protect water resources more effectively/efficiently.

Questions?

Florida Governmental Utility Authority

Florida Governmental Utility Authority Overview

Stephen Spratt
System Manager
State of Florida

House Energy and Utilities Subcommittee
December 11, 2019

The Governmental Utility Authority (GUA) Concept

- Separate utility authorities are authorized under Section 163.01(7)(g)1, Florida Statutes
- GUA's are governed by a locally-appointed Board; not FPSC regulated
- Participating local governments have control over the GUA but do not incur any liability for debt or operations
- The GUA is a multi-jurisdictional entity for utility ownership, operation and management

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FLORIDA GOVERNMENTAL UTILITY AUTHORITY

Motivations for Joining or Creating a GUA

- Improve infrastructure, customer service and finances
- Alternative mechanism of public ownership
- Provide critical utility resources to and with local governments
- Current or future equity in utility systems retained with public/customers
- Allows dedicated focus on utility issues

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Advantages of a GUA

- Enables local government to better influence service quality and rates of current system(s) and maintain local control Places no burden on general purpose local government financial resources
- Having independent bonding capacity; assets and debt remain solely the responsibility of the GUA and do not adversely affect the local government's credit
- Increased transparency (public records, Sunshine Law, etc.)

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Advantages of a GUA (Cont.)

- Bargaining power and potential enhanced credit
- Improvements financed with state, federal or WMD funds or on a tax-exempt bond basis
- Economies of scale
- Participating governments can structure inter-local agreement based on local policy preferences
  - Regulate Rates
  - Approve CIP
  - Set service standards
  - Local governments can acquire assets at any time

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Florida GUA Principal Powers

- Acquire, construct, own, operate, manage, improve and expand public facilities
- Provide for mandatory connections
- Levy rates, fees and charges
- Acquire land and rights and interests for utility
- Apply for, receive, and accept State, Federal Grants
- Issue bonds and other indebtedness
- Impose, collect and enforce special assessments

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FLORIDA GOVERNMENTAL UTILITY AUTHORITY

FGUA – Summary Facts

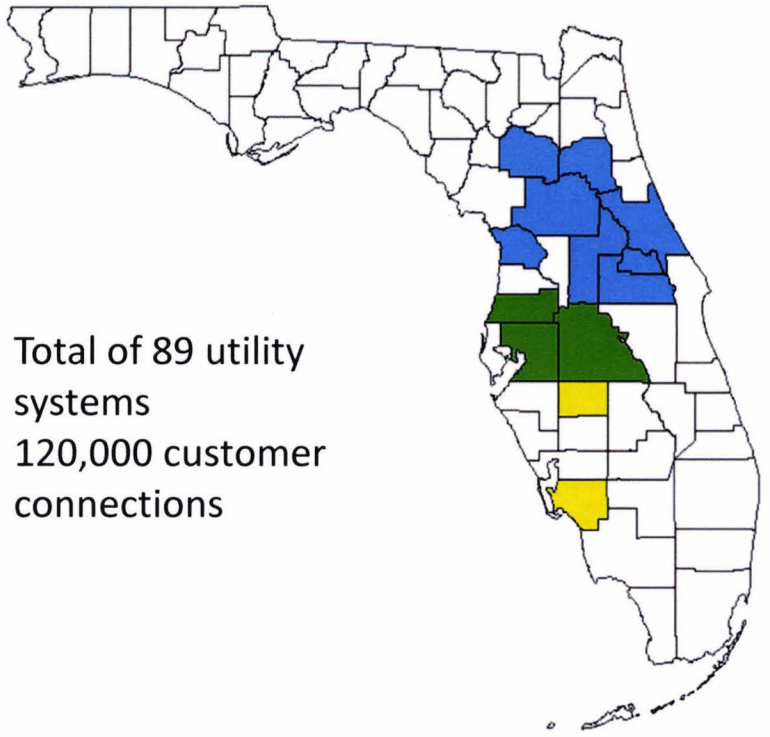
- The Florida Governmental Utility Authority (FGUA) was formed in 1999 through an interlocal agreement between Brevard, Lee, Polk and Sarasota Counties
- Growth to almost $450 million in assets; 213 % customer growth and $300 million in improvements to facilities owned since the FGUA's inception
- Successfully acquired, improved and transitioned systems to Sarasota, Brevard, Citrus, Hillsborough and Collier Counties, and TOHO Water Authority

- Visit FGUA.com

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FLORIDA GOVERNMENTAL UTILITY AUTHORITY

FGUA Utility Enterprise Systems

- Lehigh Acres Utility System (Lee County)
- North Fort Myers Utility System (Lee County)
- Pasco Utility System (Pasco County)
- Consolidated Utility System (Pasco County)
- Lindrick Utility System (Pasco County)
- MacDill Air Force Base Utility System (Hillsborough County)
- Pasco Aqua Utility System (Pasco County)
- Lake Aqua Utility System (Lake County)
- Unified Aqua Utility System
- Dunnellon Utility System



Total of 89 utility systems
120,000 customer connections

FGUA Characteristics

- **$90.3 million annual operating budget and $109.2 million CIP**
- **No employees:**
  - Fully contracted management services/owner's representative (Government Services Group, Inc.) providing financial administration, operations contract oversight, capital program management, construction inspection, communications and customer advocacy
  - Fully contracted operations, maintenance, customer service and billing (U.S. Water Services Corporation)
  - Contracted outside counsel

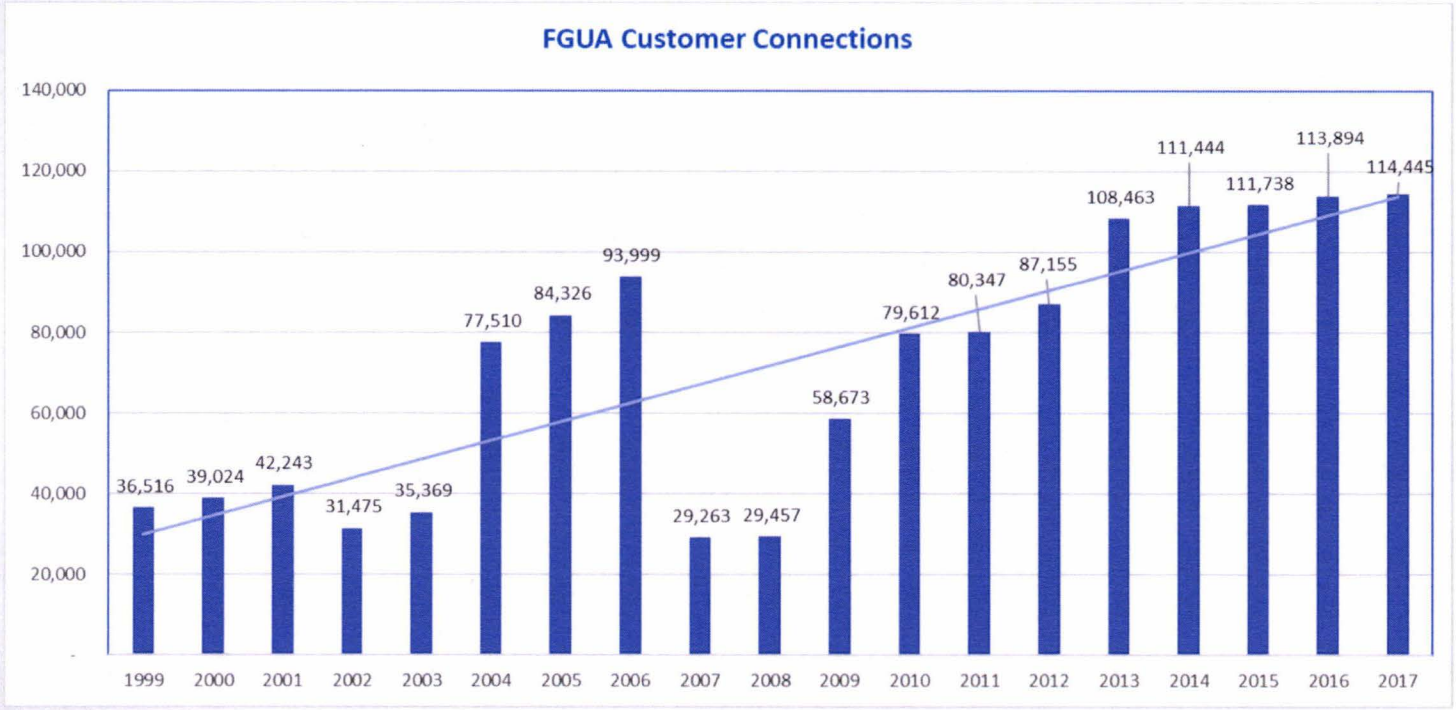
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FGUA Evolution Timeline



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FGUA Customer History



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FGUA Acquisition Process

Phase I

Preliminary Due Diligence

- Clear with host government for entry
- Data requests and site visits; financial, engineering & operations analysis
- Discuss and agree upon a preliminary and conditioned "order of magnitude" value range and general terms of asset acquisition

Phase II

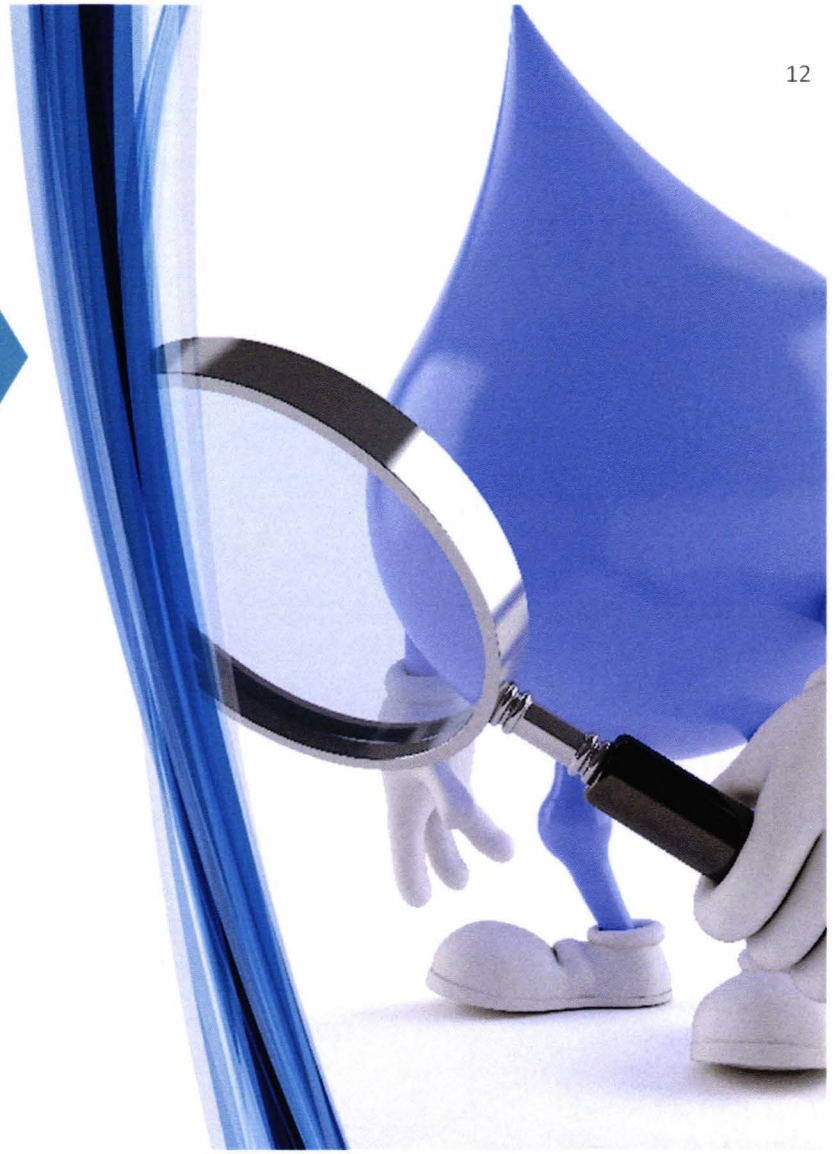
Perform Detailed Due Diligence

- Validating/Adjusting Preliminary Analysis, Finalize Acquisition Terms and Various Agreements, Conduct Required Public Interest Hearings

Phase III

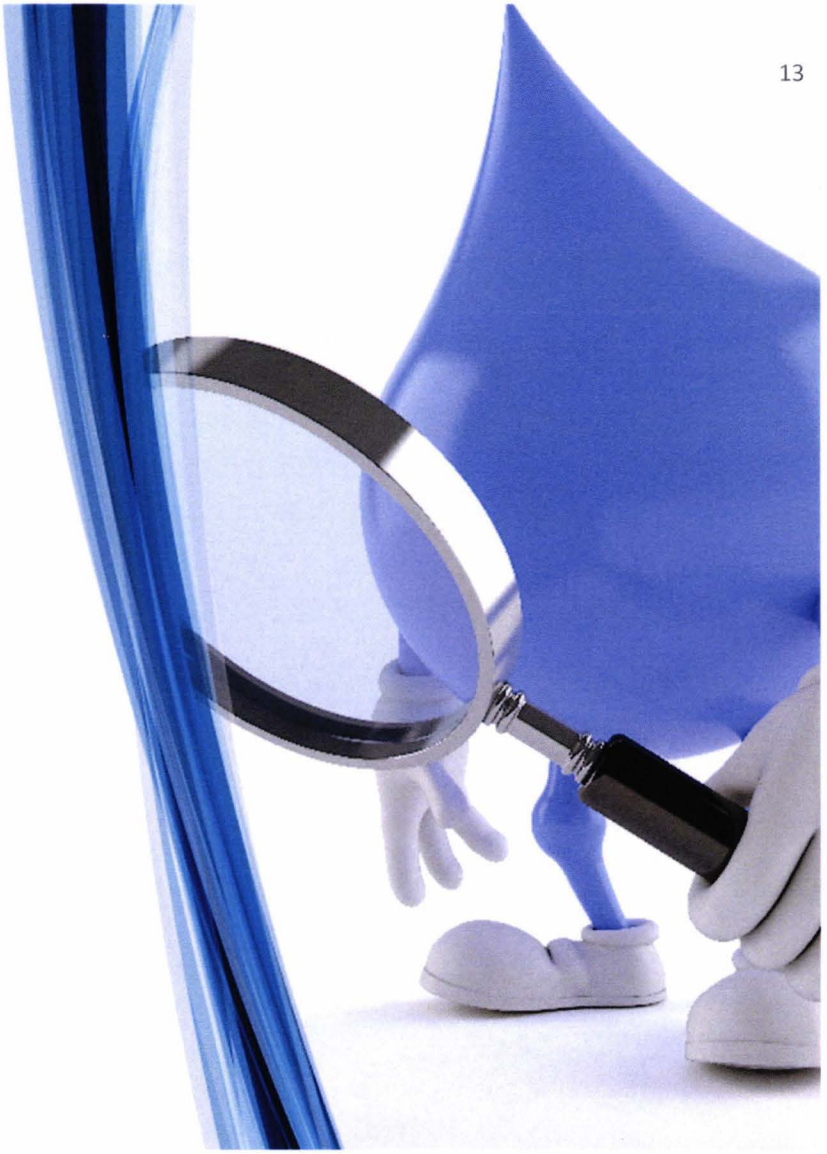
Financing, Closing, and Transition

- FGUA finalizes bond financing; closing of the acquisition pursuant to terms of the asset acquisition agreement
- FGUA and Seller cooperate in transition of ownership and operations



FGUA Valuation Methodology Income/Debt Capacity Approach

- **Common Method to Value Utility Systems**
  - Equivalent to Net Income Method of Value (how much capital can be generated from cash flows)
  - Links to Budget and Projected Cash Flow
  - Supports Rating Agency Criteria (cash flow, rate covenant compliance)
- **All outstanding city utility debts are extinguished and FGUA assumes all obligations and risks**



FGUA Valuation Methodology Income/Debt Capacity Approach – (Cont.)

Net System Equity Determined

- Total Utility Revenues (Recurring),

Less:

- Operating Expenses
- Renewal and Replacement Fund (R&R) Deposits (15% of Revenue)
- Debt Service Coverage Allowance above R&R Deposit at 40% (if bond financed)
- Any Other Funding Requirements from Revenues

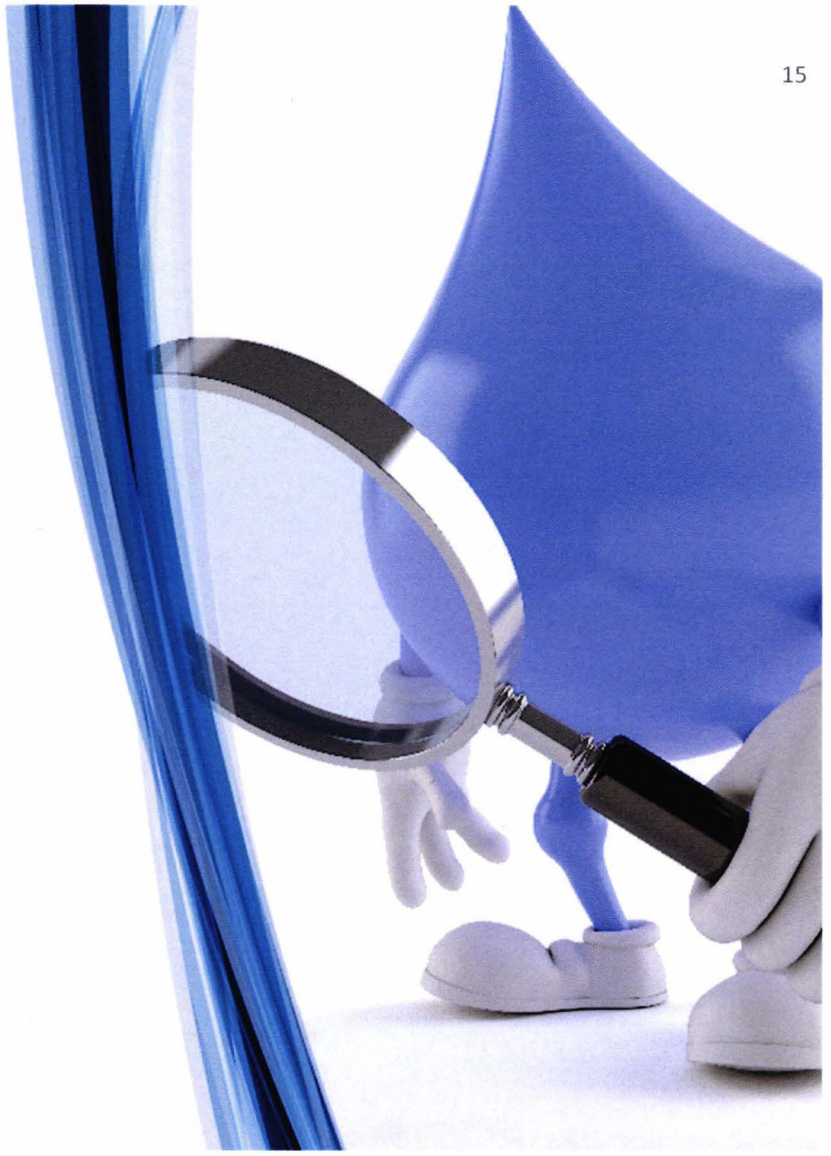
= Available Net Revenues for Financing (Debt Service Payment equivalent)



FGUA Valuation Methodology Income/Debt Capacity Approach – (Cont.)

Calculate Bondable Capacity from Available Net Revenues (Principal)

- Less Payments from Financing Proceeds, Including
  - Issue and Acquisition / Transition Costs
  - Refund of Outstanding City Utility Bonds
  - Working Capital Deposit
  - 5-Year Capital Needs Required to Be Funded
- = Net Available to County



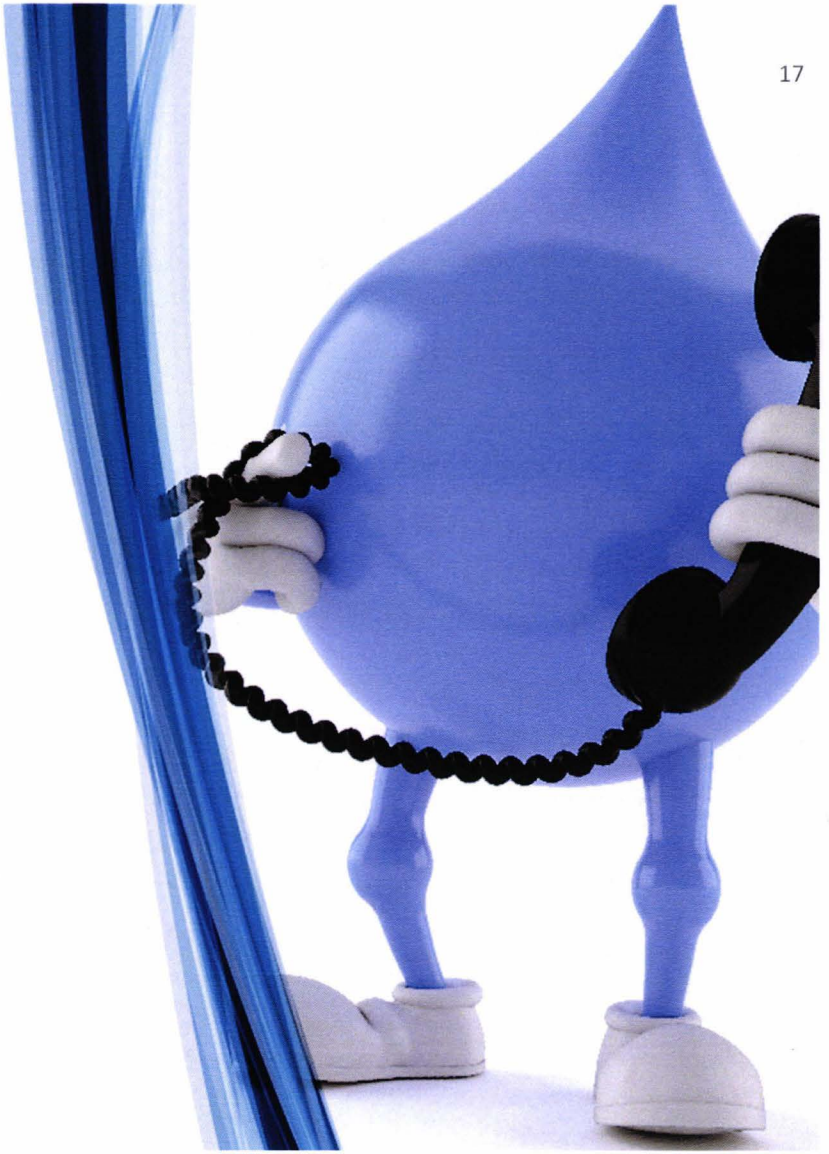
Dunnellon Transaction and Results

- With FGUA and City concessions no rate increase required for acquisition; potential for CPI index adjustment at 2020 but will seek to avoid
- City budget for FY18 required 7.5% ↑ WW and 3.5% ↑ water; Rate consultant report estimated potential 17.45% rate increase required over forecast period under continued city ownership
- The negotiated Purchase and Sale Agreement provided for a $12.2m purchase price- below appraised value
- Financing of the acquisition is from an approved USDA Rural Development Loan @ 2.75% interest 40-years amortized over 30-years; this defeases high cost existing city debt saving customers over $250,000
- After payoff of $10.8m existing City debt, transaction costs and required cash deposits, net cash to City is $2M



Dunnellon Transactions and Results

- $2.2m existing State Springs grant to be reassigned to FGUA by DEP/WMD for priority environmental project; additional $2.8M granted since sale
- All governing body action items were approved unanimously on multiple occasions by the FGUA Board, City Council and County Commission
- At all public meetings and hearings, there were no customer objections and only support from the Utility Advisory Committee



Questions/Discussion

