

**CITRUS COUNTY WATER AND WASTEWATER AUTHORITY**  
**June 16, 2008**

The Citrus County Water and Wastewater Authority (Authority) met in regular session on the above date. Chairwoman Phillips called the meeting to order at 1:03 P.M. and determined that there was a quorum. Chairwoman Phillips led in the Pledge of Allegiance to the Flag.

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**Authority:** Cheryl Phillips, Chairwoman; Robert Hnat, Vice-Chairman; Michael Smallridge

**Absent:**

**County Attorney:**

**Regulatory Director:** Charles J. Howard, Operations Director

**Recording Secretary:** Amy Palmieri, Administrative Secretary

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**Also Present:** Charles K. Lewis, Consultant

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**#2 APPROVAL OF MINUTES**

*Upon motion by Commissioner Hnat, seconded by Commissioner Smallridge, and carried unanimously, the Authority approved and authorized the Chairwoman to sign the May 5, 2008 minutes.*

**#3 OPEN TO THE PUBLIC**

None.

**#4 ITEMS REQUIRING ACTION BY THE AUTHORITY**

**#4-A Rolling Oaks Utilities – Overview of Discussions**

*[Verbatim]*

Mr. Howard: I did a staff memo going over the events since the last meeting we had. You had asked me to bring back something for action. In light that they are overearning, the, you know. Several discussions of trying to find some way to make a pass through or price index work didn't seem to work according to the ordinances. Therefore, I just, the only thing I could find and I've talked to Bart Fletcher at the Public Service Commission who is the director of economic regulation. He says if you haven't had a rate case in twenty years and they are in that kind of a posture he agreed 100% we probably need to do a full-blown rate case or some kind of rate investigation. I talked to Gail Brady who some of you may know from the NARUC eastern rate school. She seemed to—. Is on their faculty. Has been on the faculty for about ten/twenty years and she agreed 100% that it probably needs to go to either a full rate case or some kind of rate investigation so that we can get some good, firm, more current numbers and figure out what the actual required net operating income and what the actual required rate of return is and get some good numbers so that they can start, you know, getting some financial foundation here so

they can do what they need to do. Burton & Associates is on board with us as a side note. I did give them the 2007 annual report so that they could come back and give me a cost proposal to do a regulatory audit as we discussed in prior meetings and I'm just waiting on that cost proposal. Then I'll do a task order and they'll start doing that preparatory to whatever you want to do today.

Chairwoman Phillips: Okay. Discussion? Comments? Mike?

Commissioner Smallridge: Well, what is it that—? How much do you say that they are overearning now?

Mr. Howard: Everything is in those spreadsheets. Off of the annual report, I plugged it into a spreadsheet I adapted and on the revised 2007 on page 9 basically that's off of the 2007 annual report with the leverage formula rolled in. Above it there's the adjusted cost of capital above.

Commissioner Smallridge: This has a negative to it.

Chairwoman Phillips: That means overearning.

Mr. Howard: They're overearning.

Commissioner Smallridge: Okay. On \$91,000 and \$24,000.

Commissioner Hnat: You know, I think we heard at the last meeting that try to do some capital improvements for wastewater.

Mr. Howard: Yeah.

Commissioner Hnat: They need to have the money and they are looking for a pass through and how does—

Mr. Howard: Well, if you choose—. The ordinance says that they are overearning. They are not supposed to have a pass through or price index, but if you choose to do that then that's what you choose to do in violation of the ordinance.

Chairwoman Phillips: And we're the keeper of the ordinances.

Commissioner Smallridge: Well, I have two trains of thought here. The two trains of thoughts are this. If you are going to spend a bunch of money going out and doing all this – our own consultants doing all this – and then they come in for a full-blown rate case, we're going to have to do it all over again. If they are not, then—. It's true we can't let the utility overearn. No two ways about that. My thoughts are if they are going to come in and file a rate case then we could at that point in time issue any refunds that may be out there during a full rate case and save the money

that you're talking about spending on all these consultants and all this track work you're doing now. But the way this with them going to build a new sewer plant, I don't see any refunds coming now so I'm just—. John, do you guys have any idea when you're going to file for a rate case?

John Patton: No. The engineering drawings we have to do to send to SWFWMD [Secretary's Note: Southwest Florida Water Management District] are so expensive that we don't have the money to do them. So we're stuck in a Catch-22 and I'm working on some refinancing right now. If I get that done, I'll hopefully have the money to get those drawings done and submit preliminary engineering plans some time in the next—

Commissioner Smallridge: So you're probably—

Mr. Patton: After 90 days.

Commissioner Hnat: This sounds kind of strange. Here I'm hearing 'I don't have the money to do something.' Then I'm hearing, 'Well, you're overearning, you're getting too much money.' So how does—?

Mr. Patton: Can I say a couple things about this?

Commissioner Hnat: Yeah.

Chairwoman Phillips: Yes.

Mr. Patton: Number one, Chuck said 'We're trying to get some good numbers.' And we've provided the Authority with our internal statement and with our audited financial statement. I don't know what 'good' numbers are, but—. And we've worked together – Chuck Lewis, Chuck Howard, and myself – and we've all come up with similar numbers. Ah, there's probably a little bit of argument here and there, but similar numbers. The truth is when you look at what he has in this proposal, if we earn one dollar on water how much do we overearn? One dollar. So for water, looking at this chart which comes from the Office of Public Counsel, we can earn no money. Zero. Anything over zero we've overearned. It puts us in a difficult position.

Mr. Howard: The spread—. I'm sorry. Go ahead.

Chairwoman Phillips: My understanding is that includes your rate of return. Your earnings include your allowed rate of return so that the dollar would be over the rate of return that was allowed.

Mr. Patton: Right, because we have a negative rate base, but it's like a—. It feeds on itself because if you can't earn money the rate base just continually grows

further, grows larger in a negative side because you continue to depreciate. You have no earnings so there's no new capital coming in so the rate base never becomes positive and you can never earn money so that continues to grow larger on a negative side.

Mr. Howard: The—. I'm sorry.

Mr. Patton: Go on.

Mr. Howard: The spreadsheet that I used – true it was used from OPC – I went back to everything that I had gotten from the rate school. The same set up is to figure out, you know, a rate base at the rate school. The exact same, you know, way they put it together. They just put it into a concise formula, you know, how to figure out rate of return. How to figure out achieved rate of return and required rate of return is in that spreadsheet. There's nothing magical thrown in there. Nothing, you know, unacceptable thrown in there to track it. Like I said in the staff memo, I can't find anything to look at to try to give him some more return. That's why I'm saying let's just, you know, let's look at the annual report. Find out any discrepancies. Find out because I have noticed that they are still looking at total book value which is not allowable under NARUC standards; therefore, I was going to have Burton & Associates look at the annual report and find any discrepancies so we can clear it up and figure out just what their operating income is and what their rate of return actually is.

Commissioner Smallridge: I know, Chuck. I understand what you're saying, but here's what I know. What I know is that to solve the overearning issue you've got to figure out what it is and then refund it back to the customers and that's only going to last as long until they file a rate case. You can't put in a ten million dollar sewer plant and say that we're going to do a refund. The math doesn't add up. I am a utility consultant. I know what Burton and them are going to charge you to do this. What I'm saying is do we really want to spend all that money to order a refund from these guys that's going to last three to four months – maybe six months – and then let them come back with a full rate case and put in a ten million dollar sewer plant? Wouldn't we be better off—

Mr. Howard: This—

Commissioner Smallridge: Let me finish. Let me finish. Wouldn't we be better off to see and I don't know if it's going to work, but my thoughts are that there's a way that maybe we can escrow a potential amount of overearnings until they come in and file for a rate case and handle it all at one time and save that money that Burton's and a lot of staff time on your part. I don't know. I'm just throwing stuff out there.

Mr. Howard: We would have to do the audit anyway as part of the rate case.

Commissioner Smallridge: I know.

Mr. Howard: So one way or another we're going to have to do it. We might as well do it now.

Commissioner Smallridge: No. No. No.

Mr. Howard: We've already said we were going to do it and you all agreed to it in a meeting.

Commissioner Smallridge: To say we might as well do it now that's not accurate because you're going to have to do it again when they file a rate case. So why do it now and then three months from now do it again? That's the only thing I'm asking. How much are you going to spend with Burton & Associates doing this?

Mr. Howard: I'm waiting for the cost proposal now, but if we do it—. So you're saying that what they do now won't be valid in three months?

Commissioner Smallridge: No. What I'm saying is that if this Authority orders it the ratepayers are going to pay Burton & Associates. Pay for Burton & Associates to do that. So if the refund is whatever amount of dollars and the cost to do Burton & Associates the same amount, you know, less, whether it's substantial or not we've still got to do it again when they file for a rate case. To me it just seems like a waste of money.

Commissioner Hnat: When I'm looking at these numbers, Charles, what drives their problem? Is it all this depreciation? Is that where all—? That's the numbers driving the problem?

Mr. Howard: I feel that's it, but until we actually do the audit and find out I don't know because I'm not a—

Commissioner Hnat: No. Forget about the audit right now. I'm just saying that looking at the numbers that you provided on the revised it looks like all this depreciation is what's driving their problem.

Commissioner Smallridge: It is. The plant has depreciated out. There's a negative rate base.

Commissioner Hnat: Okay, now, and then at the same time then I have to ask these guys what have you been doing with the depreciated money? You would think that you are supposed to be saving it for some improvements so.

Commissioner Smallridge: And that's the problem with the Office of Public Counsel.

Commissioner Hnat: And that's where the problem is. If you haven't been saving it for improvements then what have you been doing with it?

Mr. Patton: Well, I think if you look at that amount of depreciation over the last thirty years it's not a lot of money.

Commissioner Hnat: Right.

Mr. Patton: I mean to, you know, it's a drop in the bucket over that period of time. Plus, I mean, we, no one has come in and said that this plant isn't running well. I mean considering the age of it, it's gotten pretty high marks from everybody that's observed it. So it's not like we have let the plant fall apart. It's not deteriorating, but there are some things in infrastructure, a lot of stuff underground, that we'd really like to investigate and probably in a lot of cases repair and we also have some repairs we'd like to do to the water tower.

Chairwoman Phillips: One question.

Mr. Patton: Oh. Go on.

Chairwoman Phillips: No. When we are looking at your \$91,094 or \$130,000 total, is that cash on hand or is it already—. I don't know what you have in your bank account, but then I'm just thinking couldn't you just put that towards your costs? Your CIAC?

Mr. Patton: Well, \$125,000 of that is CIAC income which is non-cash.

Chairwoman Phillips: But that comes under the utility—

Mr. Patton: That's money we pay taxes on, but it's money we didn't collect.

Chairwoman Phillips: Okay.

Mr. Patton: I would—. Oh. I'm sorry.

Chairwoman Phillips: No, no, no. Because I was just looking at the 'Utility Over/Underearnings' that you have that calculated. So I was, you know, mentally I'm thinking you have that cash on hand, but I guess it's been spent or you're using that for your infrastructure. I mean it wasn't—. Did we account for that? No. We can't.

Mr. Patton: Well, some of it we never, you know, some of it was collected twenty years ago and is part of that amortization which goes into income every year.

Commissioner Smallridge: Madam Chairman, if I may?

Chairwoman Phillips: Yes.

Commissioner Smallridge: Let's think about this and frame this out a little bit different. What Chuck's— I understand what Chuck's trying to do and I'm not in disagreement with him, but there's a timing and to me there's a practicality issue here. If he goes through and does this and pays these folks to do these reports – he gets all this done – what he's going to do he's going to come back and he's going to come back to the Authority and he's going to say we feel the utility is overcharging by 'X' amount of dollars.

Chairwoman Phillips: Okay.

Commissioner Smallridge: And then our legal obligation is to order a refund. Okay?

Chairwoman Phillips: Yes.

Commissioner Smallridge: So that 'X' amount of dollars is going to be refunded back to the customers.

Mr. Patton: I don't think the regulation calls for a refund in this case. The refund, when I read the regulation the refund occurs after an increase and we haven't had – within 15 to 18 months – and we haven't had an increase in forever.

Commissioner Smallridge: I know, but you didn't let me finish what I was saying. If you go back through that scenario and then come in when he comes in with his rate case and they file for a rate case, they are putting in a multi-million dollar sewer plant. There is going to be no refund. That's the point.

Chairwoman Phillips: It goes back into your infrastructure.

Commissioner Smallridge: So what the Authority can't let you do, we can't let you continue to overcharge the ratepayers and then you decide I'm not going to file a rate case for five years. At some point in time, we have to order a refund. Now if you say we're going to file a rate case by this date, then what we can do is look at it all in one package. Only thing I'm saying is that the Burton & Associates, all these little things we're going through – Office of Public Counsel – is eventually going to go back to the ratepayers to pay for and I'm just wondering if it's the best way to spend their money basically.

Mr. Patton: Well, going back to the chart and looking at water, we have 5,673 customers but we can earn zero dollars. That's the real problem. What I would recommend is that we find an alternate way to allow the utility to earn some money

without causing the – triggering the – controversy. Maybe use a percent of revenue. I know that that's been done in the past. It is done for smaller utilities on a State level.

Mr. Howard: But the Florida Administrative Code that allows that has a cap of \$150,000 in water and \$150,000 in wastewater – combined \$300,000. You're way over the cap and it actually says it right in the State law. So do we violate that?

Mr. Patton: I understand, but the Authority was established to manage Citrus County's water.

Mr. Howard: But they still have to meet the State laws.

Mr. Patton: Well—

Commissioner Smallridge: What your problem, John, your problem is that now you've got the Office of Public Counsel and they are going to check everything they want to do. I mean they can fight with us. I don't care, but it's just—. I understand what Chuck's saying. To me, there's got to be a better solution.

Chairwoman Phillips: We're trying to work it out because you need to be—

Mr. Patton: Well, if we can earn zero dollars, I mean what business wants to be in a business that earns zero?

Commissioner Hnat: Yeah. Nobody.

Chairwoman Phillips: What happens to the rate of return? You're allowed 'X' number of dollars, you know, a percent rate of return. Isn't that your earnings?

Mr. Patton: But our rate base is zero.

Commissioner Smallridge: If you have no rate base, you can't have a rate of return and that's what happens with utility systems that get depreciated out and there's nothing that's been put back into this system that continues on a depreciation schedule.

Chairwoman Phillips: Okay.

Commissioner Smallridge: So that's the issue and this is not an uncommon problem around the state. It's a matter of how do you fix it? The way you fix it is you come in and do a full-blown rate case. That's the way to fix the problem and you put something back in like a new sewer plant and so you start the depreciation schedule all over again. That's the way you fix it, but until the utility files for a rate case or at least gives us a date and say we're going to file on 'X' date then the

immediate problem we have to deal with is that they are overearning. We can't let a utility—. You know, if they decide they don't want to file a rate case for twenty years, we can't let a utility overearn.

Chairwoman Phillips: No.

Commissioner Smallridge: If we know about it, we can't let them do it. So what I was saying is if we know in sixty or ninety days that they're going to file for the rate case, let's table this. Do it all in one shot and get it all over with because we're going to have to do it again anyway getting off the rate case. Now if it's going to be two years before filing their rate case, then we've got to handle an overearnings problem.

Mr. Patton: But the rate case is going to deal primarily with wastewater anyway which goes back to being able to earn zero dollars on water.

Mr. Howard: The rate case will take everything into account and the thing is with a rate case you can do a current prospective year or future year and roll all these things that need to be done into the rate base and that way there will be enough money to do it. You know, that's the best fix right there.

Chairwoman Phillips: Then can you combine both the water and wastewater then? Is that what you're saying? Or just—

Mr. Howard: It's a utility that's operating two of them. They do have two franchises, but you can do a combined rate case to cover both of them I'm pretty sure and that way you cover everything at one time. You know, just look at the separate utilities, but then look at it as a company total. Just like this is broken out – water/wastewater – but over to the right is the company total.

Chairwoman Phillips: Why is it that there are less people even though you're serving 5,673 people for water and only 4,635 for wastewater? What about the other 1,000 people that don't have wastewater? How do they dispose of their sewage?

Mr. Patton: In the old section of Beverly Hills there are 1,000 septic tanks.

Chairwoman Phillips: I thought there was an ordinance that if there was a wastewater – if they had the facility – they had to go onto central sewer within 'X' number of years or is that just pertaining to water?

Commissioner Smallridge: That's if the water line is there. They've got 365 days to hook up.

Mr. Howard: It may not be close enough to hook up yet.

Commissioner Smallridge: You don't have sewer lines in front of those houses do you?

Mr. Patton: No, I don't think we do. I know we don't.

Commissioner Hnat: It appears the only solution is to have them file for a rate case.

Chairwoman Phillips: I think so too.

Commissioner Smallridge: I think the other part of the solution is and I'd like Chuck Lewis's help on this because I've seen incidences where the Public Service Commission has escrowed a certain amount of money and kept that under regulatory control. Allowed the utility to go forward an amount that may or may not be equal to what the potential overearning may be until a rate case is filed. That money can be used to doing a refund. I don't know.

Chairwoman Phillips: And we would have to monitor that? Is that what you're saying?

Commissioner Smallridge: Yeah, I mean, it's not uncommon until rates are figured out. The problem here is that at least on the wastewater side there's not going to be any refunds on the wastewater side because you're putting in a multi-million dollar sewer plant so. On the water side, Chuck, do you have any experience with that? Chuck Lewis?

Chuck Lewis: With escrows?

Commissioner Smallridge: Yeah.

Mr. Lewis: I've never seen a refund escrowed under any kind of limitations and used to fund some additional plant. Especially if you're escrowing water utility when it's for sewer because regardless of the common [inaudible] which is water plus sewer equals total company, you look at the income statement. You look at the rate base and you design rates based upon water and sewer [inaudible]. In this situation, you would say he has a negative rate base on water so he's not allowed a return. It's like almost \$100,000 in the hole on water when you take all the performance of the rate base versus the sewer which is sitting out there with a good-sized rate base, but as everyone knows it costs more to run the sewer plant than it does a water plant and he needs to do millions of dollars' worth of upgrades. But to answer your question, I'm not a lawyer, but I think I'd have heartburn escrowing a water utility customer's money instead of refunding it and having it used – even though I may be the same customer although [inaudible] – on the sewer side, but that's a legal question, Mike, that, you know, I'm not going to answer.

Commissioner Hnat: Yeah, but the point he made is he's not making any money – okay? – and who wants to operate a business without making any money and I understand that. It appears though what Mike is saying this problem is growing through the industry here because the depreciation is taking place and if they're not making any money because of the depreciation schedule is coming to where they are being depreciated out, wouldn't their position eventually say, hey, let the County take it over? I'm not making any money anymore. Let's just deed it over to the County. I'm out of this business. What will we do then?

Commissioner Smallridge: And that's a great question and that's what's happening and what I've been trying to do is get people – to avoid that situation from happening – is get these other system owners to come in here. Do their indexes and pass through adjustments every year and we're alert enough to force them to do rate cases so we can keep up with this stuff so these problems don't happen. I handed Chuck Lewis a memo from the Florida Public Service Commission that went out to every utility owner regulated by the PSC and they're trying to do the same thing because they recognize the same problem and it's a statewide deal. So, yeah, that's a path I've been trying to go down and you're right. You had perfectly identified the problem. So how do you solve it? I mean there's a couple different ways to do it, but—

Chairwoman Phillips: And it's not a very simple business.

Commissioner Hnat: No.

Mr. Patton: Well, there's safety concerns. I mean we're responsible for protecting a lot of people so.

Chairwoman Phillips: It's a health and safety issue, yes.

Mr. Patton: But I had presented to Chuck also a pro forma of 2008 showing that even if we got this increase we will probably earn less than zero dollars on the water side this year. Now we got a big shot in the arm last month, but based on the weather the last couple days that's probably going to go away in a hurry.

Commissioner Smallridge: People have been pumping a lot?

Mr. Patton: They were pumping a lot and two things. Well, the rain slowed that down and also there was a lot of citations issued so. We've heard from people who did not get a warning so.

Chairwoman Phillips: I think we have someone from the audience trying to come and address the—

Bill Bass: I'd like to just comment. I'm sorry.

Commissioner Smallridge: Chuck Lewis, I've got a question for you.

Commissioner Hnat: He needs to come up so she can record it. She can't hear it from the audience on the recordings, Chuck.

Commissioner Smallridge: Didn't we do conservation rates for Rolling Oaks? How long ago? Five years ago? Do you remember?

Mr. Lewis: I wasn't involved in that. That was Mr. Knight.

Commissioner Smallridge: Amy, do you remember?

Ms. Palmieri: I'm sorry. Could you repeat the question?

Commissioner Smallridge: Do you remember approximately how long ago we did conservation rates?

Ms. Palmieri: 2005

Commissioner Smallridge: 2005. Is it possible that we're getting a negative elasticity on the conservation rates? Because we figured we did block—

Mr. Howard: I had the same question. I asked PSC on it and they said if, you know, if in the 2006/2007 years they were overearning and the conservation rates were in place at that time, they didn't see, you know, they can't see all of a sudden just taking a dip down and losing the revenue that fast. You know, because I asked them. I said, you know, could that be a trend that we're seeing here? And Bart Fletcher said that, no, he wouldn't see that if you've already had two years' worth of history and it didn't dip and you were still getting the revenues enough to overearn.

Commissioner Smallridge: Okay.

Mr. Lewis: Mike, to answer you—

Commissioner Smallridge: So you really haven't fallen a lot since 2006? How much have the revenues fallen on the water side since 2006? Do you know?

Mr. Patton: In 2007, they were up. In 2008, they were down – I should know this – about 8%.

Commissioner Smallridge: Okay.

Mr. Patton: But that was in the first couple months and then like I said we had a big jump in the month of May. We have a water permit for the company and then we

have permits for each well and we were running from well to well to well to switch them on and off to make sure that we didn't overpump any given well and our normal pressure is around 70. We were losing a lot of pressure because people were pumping so much water, but we never went below 40. So I mean there was plenty of pressure under normal circumstances, but it affects us because we can't overpump any single well or overpump the company's [audiotape turned over].

Mr. Howard: We had a complaint about water pressure over in a couple of the neighborhoods. So I talked to Bob Knight and relayed the information over to Code Enforcement so they could try to get the people that were overconsuming because he was experiencing some pressure problems. So, you know, that's why they've been going out to enforce.

Mr. Lewis: Mike, can I address that from Hernando County Utilities' perspective? In February 2007, the Southwest Florida Water Management District declared that there was a water caution problem and it took all sixteen counties back to once a week watering. That was February 2007. In April 2007, the Southwest Florida Water Management District declared a drought which caused me because of what was in my ordinance allowed me to increase the last three blocks of my five inclining block rates by 50%. The outcome since April 2007 of the February once-a-week watering and the April implementation of the surcharge on the last three blocks was that Hernando County's consumption over a period of twelve months went down 2 billion gallons. That's 2.5 million dollars lost in revenue. I made a million dollars of it back using the surcharges, but still that's 1.5 million dollars' worth of annual revenue that I lost on the water side due to: 1) once a week watering; and 2) because we were trying to cover our backside financially being able to implement the surcharges. Even though you can flip a coin on the surcharge, it cost us an extra million dollars, but it also probably caused us to go from 1.5 million gallons to over 2 million gallons because people saw their tail block at 50,000 gallons go from \$3.36 a thousand to \$5.04. It was culture shock. Therefore, I'm sure that I've heard rumors that this summer for political reasons the Southwest Florida Water Management District is going to go back to twice a week watering. I haven't seen it in writing from the board, but if that happened my surcharges would come back out and they'd go back to twice a week watering, but I'm not sure that we would recover. You know, people get in a pattern. They may not pump like they used to. There it would be in the same situation as this gentleman. You've got a cash flow problem.

Commissioner Smallridge: Right.

Mr. Patton: Our rates are so low that people actually think the fine is a bargain to have a nice yard.

Commissioner Smallridge: Yeah. I mean just on the side, but I've been saying that for years. I mean to me you don't get conservation until gasoline gets to \$4 a gallon and you don't get water conservation until it gets really expensive because you're

right people will—. They'll pay that \$50 fine and hopefully don't get caught again in a couple months and they'll pay that \$100 fine so they can have a nice yard. No two ways about that. I was just wondering if the block rates that we put in caused some negative elasticity on your part where it would hurt, but apparently it hasn't so. It was just a thought I had.

Mr. Patton: It looked like it was going to at the beginning of the year. Like I said, we had lost \$41,000 through April, but through May we've lost only \$27,000. So if it continues to rain, in June we'll go back down and so. If people didn't have grass, we would lose money every month. You can quote me.

Chairwoman Phillips: Yes, please come up. You've been trying to and identify yourself again.

Commissioner Smallridge: Chuck, I've got a question for you. What you talked about, he—. John just said that you guys had a meeting and that everybody thought all their numbers were similar and I was wondering if everybody's numbers are similar what is in here that you still need to—? Are you trying to come up with a percentage or a dollar figure of overearning? Tell me what exactly you're wanting these guys to do?

Mr. Howard: All I was trying to do was to show that they were in an overearning posture and some kind of approximation where that was.

Commissioner Smallridge: Other than what you've got in here?

Mr. Howard: You know, that's what that there is. You know, just to try to find out if they were in an overearning posture. We knew that the 2006 was that way so I ran the 2007 – that's on the 2007 report for the revised – with the leverage just to see where they were at.

Commissioner Smallridge: Okay. So I guess I'm asking what is—. If we go through – if the Authority goes through – this requested action that you have today, then you go hire these Burton & Associates, what is it that you're wanting them to do? What is their task going to be?

Mr. Howard: To look at the 2007 annual report. Find out if there's anything that could have been charged differently that can affect the financial position. You know, to improve it in any way if possible and what I was asking for in the motion on the rate investigation was to go in there and see if, you know, basically to see if they've got any recommendations how they can improve the position from where they're at or do we just roll over into a full-blown rate case and do that and that can probably come out of the audit. You know, that was my thought right there. Do the audit. Find out where they're at actually because, you know, there's some questionable items in there. We've already mentioned in past meetings a questionable loan and

some other things. Just look at it and find out just where they actually are at financially because I can't tell by the annual report really. This is showing me something when I put the numbers in for the annual report. I figured just have Burton & Associates look at it and say, okay, exactly where are they financially and then we can figure where they need to be by, you know, find out what their actual required NOI and rate of return is and then find out, you know, what we need to do. We're looking at some things. They've admitted that they are trying to straighten out some issues. You know, let's look at them financially and find out where they actually need to be to do the job.

Commissioner Smallridge: And we don't have a cost with them yet?

Chairwoman Phillips: No.

Mr. Howard: No. They said some time this week they hope to get me a cost proposal and then from that if I issue them a task order then they'll proceed.

Commissioner Hnat: Who pays for this audit?

Mr. Howard: If you vote by your motion to do the rate investigation and they are not applying for it, probably, you know, it would come out of my office funds.

Mr. Patton: Do you have funds to do that?

Mr. Howard: I've got some funds for professional consultation, yes, sir.

Chairwoman Phillips: Yes.

Mr. Howard: And if we go over into an actual rate case, then, yes, we would roll the rate expense over to the rate [unintelligible].

Mr. Bass: That was my—

Mr. Howard: I just wanted to go to this step first and find out just where they're at so we can see a true picture.

Chairwoman Phillips: I know he's been chomping at the bit to say something so let's hear.

Mr. Bass: I gave you a sheet. Bill Bass, 4729 North Jademoor Drive, Beverly Hills. You've brought up so many subjects here that we've discussed before that I want to talk. One thing, there is money. He has some money for this. It was given to him for this to do this. The second thing, the thing that I've been trying to say to you from the very beginning when I came here was you all don't have any ability to judge because you don't have figures that you know are real. That's a fact and you

need to have an audit and you've been saying to me the audit is going to cost too much money. That audit's going to cost you about \$15,000 I would bet.

Chairwoman Phillips: Probably more.

Mr. Bass: Well, I don't think so.

Mr. Patton: We do an audited financial statement.

Mr. Bass: Well, you did it this time. I know.

Mr. Patton: We—. No. We've done one for the last ten years. Our accountant produces an audited financial statement and we pay—

Mr. Bass: Was it private? Was it public? The financial statement?

Commissioner Smallridge: Gentlemen, I'm not going to sit here and listen to you guys get in an argument. Bill, say what you have to say and let's go forward.

Mr. Bass: Okay. Anyway, I've said all along, you know, when I first came to you, you need to really get figures that you know are real and that we know. You need to give us that assurance that the figures are real. The other thing is that when you're talking about—. You hit the nail right on the head with the depreciation thing. They would not be in the soup if the company had been managed properly. You weren't there then [Secretary's Note: referring to Mr. Patton], but this company, by the way they handled depreciation, had they been making improvements to that property over the past whatever years, every time they made an improvement to properties the depreciation rates would have gone up and you wouldn't have found yourself in this no-term thing and that the Office of Public Counsel told me. They said the problem is the way the place has been operated. The way it's operated over years, it appears – and of course we all have to go on 'appears' because nobody's gotten there and really looked – it appears that they have been not keeping up the plant and equipment the way it should. They should have been improving it as they went along. We, the customers, should have been paying more. I have said that all along. We should have been paying more. If they had been keeping the plant and equipment up and had been getting rate increases properly – if this had been run properly – you wouldn't be in this soup today. So that's—. You hit the nail on the head with the depreciation thing and he's right and he's in a Catch-22, but it was self-inflicted damage and damage because as a regulatory board you all weren't able to get at the real figures until recently. Until the Office of Public Counsel came down and started saying, hey, this is questionable, this is questionable, and this is questionable. So I understand. I know how you got there. At least I think I do, but I understand the problem too. I understand his problem. Okay? And I understand the problem you're dealing with and I don't have a big answer because I don't know the laws. You all know what the law is and you have to follow the law, but also,

now, I'm concerned. You're saying that you're going down. I have to tell you one thing that there's been. My next door neighbor has not paid a water rate increase and not paid – had a water bill in three months. My last two months' water bills have been \$8. I guarantee you I use more than \$8 worth of water and I've been hearing this from lots of people in my community. So I don't know what's happening with your meters. Again, it's probably meters are not operating. I don't think they are doing that purposely, you know, to get the rates down. If the meters aren't operating, again that's a problem with plant and equipment. It's not where it ought to be.

Mr. Howard: But that's something they've already identified that—. What was it? Like 300 meters I think you identified.

Mr. Patton: We just did a massive replacement.

Mr. Bass: Oh, did you? Well, I'll tell you what. You've got some more to look at. You ought to look at mine.

Mr. Patton: Well, we'll be at your house.

Mr. Bass: That's all right with me. I'll tell you what I have to tell you. I've already told one member here. I went away on a cruise last month and I came back and I got a water thing that's pumping water out of the grass. I know you're going to get me this month. So you can come. I want to pay the proper amount. Just saying there are problems here that you all are bringing up. That there are endemic problems that came about the way this utility – prior to this gentleman here – operated.

Mr. Patton: Excuse me, but we have good water service.

Mr. Bass: Yes, you do.

Mr. Patton: I mean you wouldn't dig up copper pipes and replace them just because you wanted to increase depreciation.

Commissioner Hnat: Right.

Chairwoman Phillips: Right.

Mr. Patton: The only thing on the water side that we really need to repair is we need to make some minor repairs to the tanks and we probably need to paint them. So, I mean, they are on a schedule but it wouldn't hurt to repaint them sooner.

Mr. Bass: If that's the case, then I was misinformed. I thought you were going to when you originally came in you wanted to rebuild not only the sewer plant – that was the priority – but you also wanted a new water plant.

Mr. Patton: There's ten wells that produce water and they are all—

Mr. Bass: If that's the case, I still thought you were going to ask for—. We discussed this and I can go back in the minutes of the meetings when it was discussed about you all not only building a sewer facility but also a water facility.

Chairwoman Phillips: No.

Mr. Howard: No. When I inspected the systems, the only thing I really found and they were already working on it was one generator and your guys were already working on that and everything else is in pretty good shape in all the water systems.

Mr. Bass: I stand corrected, but historically that's where your problem came from. That's all I wanted to tell you. It came from the fact that if they had done the other – at least this is what the Office of Public Counsel told me – is that it's almost self-inflicted. Had they been doing what most water companies do to—

Chairwoman Phillips: So what we need to do is to work together to see how we can make Rolling Oaks' utility more financially healthy so that they can do these things. So that will be part of our job too. To put in measures so that they can become financially healthy and then they'll be able to do all the different things with the least impact on your customer base, but we've got to help you out is what we've got to do.

Mr. Bass: Yes, and all I want you to do really is to have figures that you know are correct. That you're dealing with correct figures and some of them in the past have been questionable. Questioned not by me, but by people that seem to know.

Chairwoman Phillips: And so what both Chuck and Mike are saying is perhaps the best way to solve this is to do a full-blown rate case to see exactly what perhaps your accountant did something because there's two different ways of auditing because you've got the NARUC standards and your accountant's standards and so.

Mr. Patton: Our accountant has to use the same standards.

Chairwoman Phillips: Okay, but we've got—

Mr. Patton: And we also pay a consultant to tell us any chance what we can do to increase rates. So it's not—

Chairwoman Phillips: So what are we missing then? Why are you not making—? So what did we lose? So what happened then? Why aren't you making money?

Mr. Patton: Well, yeah, we do make money, but, you know, like I said last year we had \$35,000 in electricity increase in 2006 and then I didn't even do the numbers yet for 2007, but I'm sure that number went way up. This year we're losing money. Now, granted, I wasn't here. My salary wasn't included. Now it is. So, but, you know, I'm here to make sure that this utility gets improved some way.

Commissioner Hnat: I agree.

Chairwoman Phillips: So what's the best solution?

Mr. Bass: One other thing please. When we went into the inverted rate, there was supposed to have been an audit. This board – when we went to the inverted rate system – said that they would do an audit at the end of the year to see if the inverted rate got what it was intended to get, you know, how much money. It was supposed to be rate neutral. I don't think that audit was ever done because the system changed here. Chuck wasn't here. Knight moved and everything else during that time. Frankly, I don't think the inverted rate—. I think they wound up getting less money on the inverted rate. That's just a guess on my part.

Chairwoman Phillips: I think that was Mike's question, right? To see if there was a study? To see if there was an evaluation if we lost money through them because of the block and the inverted rate structure? Can that be done?

Mr. Bass: Did you ever check that?

Mr. Howard: I imagine that could be done, yeah.

Chairwoman Phillips: To see if there was an impact. A negative or a positive, but I guess—

Mr. Patton: I think it was not significant enough to speak about.

Commissioner Hnat: That's what you mentioned earlier. Okay.

Mr. Lewis: Can I jump in there on that one?

Chairwoman Phillips: Yes.

Mr. Lewis: All they'd have to do is—. I think Amy told me in 2005 they created inclining block rates. So you take the 2005 water billing analysis. Bill them out at what was the current rates then. Take 06/07's billing analysis – water billing

analysis – bill them out times the new rate, make any adjustments for additional customers, and you can look/compare revenue. To me, it's a no-brainer.

Commissioner Hnat: Yeah.

Mr. Lewis: That's if they have a billing analysis program. If they don't, you have to build one from scratch and I've shown Chuck that that's no fun. It's a lot of work.

Chairwoman Phillips: Do you have one of those?

Mr. Lewis: Bob Nixon would be able to tell you. If he don't, he's building one up for you if he's working with you still.

Mr. Patton: I think we have something in our software that gives us that information.

Chairwoman Phillips: So solutions. Solutions. Comments and solutions.

Mr. Lewis: Can I make one more comment? Could everyone go to page 9? And this is not a direct slap at Mr. Patton, but it's a direct slap at his predecessors. If you look down at the bottom of the page where it says 'Revised 2007 (w/Leverage) Rate Base & Earnings,' go over to 'Total Company.' The total original cost of water and sewer plant is 8.3 million dollars. They've collected – through depreciation and contribution in aid of construction – 10 million dollars. Therefore, they not only paid back for the plant, but they collected 2 million dollars more than was ever paid for it. And I just wanted to make that—. I mean that's no—

Mr. Patton: Well, I think you have to add back in the—

Mr. Lewis: CIAC amortization? No, you don't because that's non-cash. That's no money.

Mr. Patton: But, well—

Mr. Lewis: We went through this argument the other day. That is non-cash. It's funny money.

Mr. Patton: I understand, but that number also affects the total.

Mr. Lewis: What that number does is it reduces your rate base because the citizens should not have to pay depreciation of plant on contributed asset. You'll find the same thing in your income statement. CIAC amortization is an add back to rate base, but it's a deduct to the income statement due the expense and what that does it lowers the expense in the income statement to the customer because it reflects the fact that customers should not pay depreciation on contributed property and it

lowers the rate base because all it does is—. It adds back to the rate base, but the contributed number lowers it. It's just the opposite of accumulated depreciation.

Mr. Patton: The contributed number was the 4 million though.

Mr. Lewis: Right. No. Yes.

Mr. Patton: So it's 12 million of which we've depreciated 6.

Mr. Lewis: No. You've got 8 million dollars' worth of plant up at the top of which you depreciated 6 million of it.

Mr. Patton: Okay.

Mr. Lewis: You've got 4 million dollars of free money in plant of which you amortized 2 million of. I'm just telling you that how it works is the CIAC is an offset to rate base and the CIAC amortization is an offset to the expense in the income statement because the customers should not pay for contributed plant as a rate base item or an expense item. That's all I'm showing you.

Mr. Patton: I hear you, but you're making it sound like we've depreciated more than we got and that's not the case.

Mr. Lewis: No. All I'm saying is of 8 million dollars' worth of plant you've depreciated 6. Of 4 million dollars' worth of contributed assets, you've amortized 2 million of it, but what I was trying to show you was that the 6 million in depreciation you got back through your rates and the 4 million of the cash in contributed property you got at the time that was contributed. That's funny—

Mr. Patton: And the 4 million is included in the 8.

Commissioner Smallridge: No.

Mr. Lewis: I'm sorry. Your question is what?

Mr. Patton: The 4 million dollars is included in the 8 million.

Mr. Lewis: Right. Because contributed plant is contributed plant. That's why you have to back it out. When for accounting purposes you do your plant, you have your plant. You have contributed plant but in account 271 – contributions in aid of construction – that segregates it from it. I'm just trying to show over the years what's happened, but Mr. Patton's right that in the 8 million the contributed part is in there too. But that's how you back it out for ratemaking purposes.

Mr. Patton: Well, that still goes back to the point that we can earn zero dollars.

Chairwoman Phillips: I know. So solutions. So what are we looking for as solutions?

Mr. Lewis: One more question?

Chairwoman Phillips: Yes.

Mr. Lewis: The last three years, how many new water and sewer customers per year? Or water. Let's go with water.

Mr. Patton: Less than 100 per year.

Mr. Lewis: How close to capacity are your wells?

Mr. Patton: Probably 80%.

Mr. Lewis: How good is your distribution and transmission system?

Mr. Patton: It's good.

Mr. Lewis: How many dollars a year do you spend on your meter replacement or radio reads?

Mr. Patton: We replace about 900 meters a year and the cost has been anywhere from \$30 to \$50 apiece.

Mr. Lewis: Radio reads. Got into that yet? Radio read meters?

Commissioner Smallridge: Radio reads. Radio read meters.

Mr. Patton: Oh. Oh. No. Well, we have the stick.

Mr. Howard: Touch one.

Mr. Lewis: Commissioners, the reason I asked that is based upon the new water customers, based upon the capacity of his wells, the infrastructure is really good. Even if you do – I don't know, Chuck – 5,000 meters a year at \$30, you know, he doesn't really need to put new plant on the water side. So he is stuck between a rock and a hard place. He is. All the problems are on the sewer side which happens to have a pretty healthy rate base already.

Mr. Howard: That's why I'm saying, you know, and that's why I made the recommendation that we just go to either do a full-blown or analyze the rates in some way to find out where he needs to be and, you know, get a—

Chairwoman Phillips: A better picture.

Mr. Howard: A working rate base for them. Because nothing is going to Band-Aid. He is not in a Band-Aid situation. He needs a new rate base situation.

Chairwoman Phillips: ASAP too.

Commissioner Hnat: Chuck, I want to talk about the number of customers. I have some data in front of me which may not be correct, but I had an old spreadsheet that was talking about the number of customers in 2005 and I have the numbers in front of me on number of customers based upon the last audit that you did when you went through and reviewed all the and I put a spreadsheet together to show that. The problem I'm running into right now, the numbers you just provided to me or during your last audit showed a decreased number of customers on the water and wastewater rather than an increase which doesn't make sense. But that's just on the numbers that I have that I've been looking at.

Mr. Howard: Which audit are you talking about?

Commissioner Hnat: I'm talking when you did the walk-throughs. You know, you did that report and you said here's how many customers we have.

Mr. Howard: That was based off the last annual report I believe is where we got the figures.

Commissioner Hnat: Well, whatever, I mean you had those numbers in your report or your study and so I'm just comparing your study numbers to some of the information I had in 2005 and it's showing a decrease in customers in water and wastewater and I'm saying I don't know which numbers I should be looking at.

Chairwoman Phillips: Right.

Commissioner Hnat: Which ones are right or wrong. These are the numbers I have and so there's an implication that there's been no number of new customers.

Mr. Patton: You might be looking at one number that is actual customers. Actual names compared to a number which is equivalent connections.

Commissioner Hnat: Equivalent connections? It could be.

Mr. Patton: And the equivalent connections would be higher than the actual names.

Commissioner Hnat: It could be. I was just looking at the data I have.

Mr. Patton: Because we have some bigger lines.

Commissioner Hnat: Yeah.

Chairwoman Phillips: Right. All right. Solutions. Because I know that Rolling Oaks have been coming to us for a couple years now regarding this issue so we need to come up with some kind of solution to help them as quickly as possible in my opinion. Mike, do you think the audit would help? Do you think going for a—? What would be the most cost effective and that wouldn't just be a Band-Aid approach and also would address all their needs and set into motion something that could carry forth and would give us numbers so we can make better – help you make – better decisions and see what happened to—

Mr. Patton: Well, and I don't think we even need to talk about wastewater. I mean we have a little bit of a rate base there and we know we're going to build this facility, but on the water side I don't think we'll ever—. Well, I don't think we'll put enough money in the water side in the next few years to make that number positive – the rate base number.

Commissioner Hnat: Yeah.

Commissioner Smallridge: Unless you do a meter change-out. You know, something like that. How many more meters you've got to change out?

Mr. Patton: We just changed 300 that we felt were non-functioning. Actually, I think we're a little over 200 so far and we're trying to identify some more.

Chairwoman Phillips: Comments. Solutions. What do you think, Chuck?

Mr. Patton: But, see, even if we changed all those meters, we'll still be overearning because if we changed every meter in the facility tomorrow I don't think it would make that number positive.

Mr. Howard: But the thing is if you go in and actually do a rate case, look at what it's costing you and look at today's dollars of what it's costing you. What is the salaries? Look at all the contract work you have. Look at the upgrades of the things you want to do. Look at, you know, the rise in chemical costs which have come about because of the fuel crisis. Look at, you know, what diesel is costing you in the generators for the water. All those things thrown into a water rate base and looking at the current market and looking at brand new numbers because the last numbers we've actually got are from 1987 and, you know, that's 21 years ago. I mean, you know, just look and find out what your actual net operating income is that you have to have and put that against a leverage of an actual required rate of return and we can find out just where you need to be and roll it into a rate base and give you what you need. And you don't have to do it on a past year where you were

underearning. You can do it on a prospective current or a future year where you're going to be making these repairs and work the rate base that way. That's allowable.

Mr. Patton: But I still don't see how that's going to change water. I mean, you know, we're not going to find any assets and we can't claim that they are worth more than they are.

Commissioner Smallridge: Maybe the only way with changes, you might get a bump in your O&M expense account which may help some of your, you know, stuff you didn't get in the pass through. Your purchased power and that kind of stuff.

Mr. Patton: I'm working diligently to make no money on water right now.

Chairwoman Phillips: We're trying to figure out how we can help you.

Commissioner Smallridge: Well, maybe what we need to do is approve Chuck's requested action and let the consultants do their thing and see how the timing comes out and maybe it will coincide with a rate case and we can pick it up from there. My only question is I hate spending all that money for something we're going to do in four or five months anyway. You're going to send it to SWFWMD when?

Mr. Patton: Well, I need to do the engineering study. I just got our wastewater permit approved and the number one question that they have is when we're going to get going on this new facility. So the engineering expense is probably somewhere between \$100,000 and \$150,000. It sort of makes me choke.

Chairwoman Phillips: He used to be an engineer [Secretary's Note: referring to Robert Hnat].

Commissioner Hnat: Hey, well worth it.

Mr. Lewis: Can I give an observation on that? If the utility files a rate case, the historical rate base – excuse me, strike that – the historical test year will be fiscal year 2007 and then added to it they have the option of doing pro forma adjustments or doing one or I think the ordinance even allows two projected test years as far as—. I'm sorry?

Mr. Howard: I agree. On 24 months.

Mr. Lewis: So they can expand based upon their construction drawings and all their plans, their additions to water and sewer, plus the incremental expense additions that associate that new or increased plant. Therefore, if the consulting firm, if Burton comes in now and does 2007, that's still the historical test year. Then Burton after they've done that piece can sit down and, you know, I'm not sure. It may be Chuck. You may hire an engineer. Will sit down with Burton & Associates and sit

down with Mr. Patton and his people and look at all the engineering plans, all the projections for the engineering costs, the projections for the incremental cost to operation and maintenance because of this new plant or all these other things. Put that all together. Therefore, Mike, I disagree with you on the fact that you'd be reinventing the wheel. You're just going from one to another. The only time you'd be reinventing it if for whatever instances they couldn't file until calendar year sometime 2009 and you had to do an audit of calendar year 2008 on top of 2007, but it doesn't look like that's going to happen. You know, they need to file a rate case as soon as they can and they're explaining that to you, you know? You have to jump through all kinds of regulatory hoops.

Commissioner Smallridge: Well, that's what I was just sitting here thinking. If he hasn't—. You haven't even gotten to SWFWMD yet. You may not get it going this year. It may take them six months to do it. Today is already June. You may not be able to file for in 2008.

Mr. Lewis: I need to ask Chuck one more question. Is there anything in Citrus County's utility ordinance that declares a historical rate base as being stale? In other words, let's say you wanted to use 2007 but you're filing in July of 2009. So that makes your rate base – your historical rate base – 18 months old. Some jurisdictions declare after a certain amount of time that that time period is stale and you have to go to a new calendar time and I don't know what that is, Chuck.

Mr. Howard: I'm not aware of it. You know, I've seen it done through the rate school and looking over some of the grandfathered files that, you know, they had some that go back as much as a year, 15 months, and they didn't consider it stale then so. I'm not aware of it, but until I actually research it a little bit more in depth I could tell you.

Commissioner Smallridge: I think we can go back 24 months. I'm pretty sure the ordinance allows to go back 24 months.

Mr. Howard: I know it lets you go out 24 months' worth of data so I imagine you can go back 24 months. You know, to me, going out 24 months would be to their advantage rather than going back, but either way at least they are going to get some kind of rate case out of it.

Chairwoman Phillips: ASAP too.

Commissioner Hnat: Well, let's get a motion.

Chairwoman Phillips: Yes, the pleasure of the board, a motion please.

Commissioner Smallridge: So I'll move Item #5-A [sic], requested action, that the Authority direct the Office of Utility Regulation to perform a rate investigation for Rolling Oaks Utilities, Inc.

Commissioner Hnat: And I'll second that.

Chairwoman Phillips: Any other discussion?

***Upon motion by Commissioner Smallridge, seconded by Commissioner Hnat, and carried unanimously, the Authority directed the Office of Utility Regulation to perform a rate investigation for Rolling Oaks Utilities, Inc.***

Chairwoman Phillips: Okay. Thank you.

Mr. Patton: You're welcome.

**#4-B Cancellation/Postponement of July Meeting**

***Upon motion by Commissioner Smallridge, seconded by Commissioner Hnat, and carried unanimously, the Authority cancelled the July [regular] meeting.***

**#5 AUTHORITY MEMBERS DISCUSSION**

**#5-A Dunnellon Hills Water System – Acknowledgement of Receipt of Application for Staff Assisted Rate Case**

Mr. Howard reported receipt of Dunnellon Hills Water System's application for a staff assisted rate case. Mr. Howard reported that the owners, Marshall and Liza Hash, had contacted him regarding venues to hold the customer meeting.

Marshall Hash stated that Mr. Howard asked him to find a venue closer than the Lecanto Government Building. Mr. Hash stated the closest venue for the customer meeting is the Moose Lodge located right next door to the customers. Mr. Hash gave several days the venue was available.

The Authority, staff, and utility owners agreed on the following (pending Mr. Hash's confirmation from the Moose Lodge).

Date: Tuesday, July 15, 2008

Time: 7:00 p.m.

Location: Moose Lodge, Dunnellon, FL [located on N. Florida Avenue]

Mr. Lewis stated that except for two minor items the staff assisted rate case for Dunnellon Hills Water System is done, including inclining block rates. Mr. Lewis stated that when August arrives the Authority will have had plenty of time for review.

**#5-B 10% Rate Increase Increment Policy**

Mr. Howard reported that in limited proceedings, including pass through and price index, you are allowed a 110% increase [if annual gross receipts exceed \$750,000 and a limit of a \$75,000 increase if gross receipts are less than \$750,00] which would be a 10% cap. Mr. Howard reported there are no other proceedings referencing a cap. Mr. Howard recommended keeping the limited proceedings at 10% cap and for all other proceedings work on a case-by-case basis since each one will have different issues to look at.

Commissioner Hnat asked what the 10% was on.

Mr. Howard replied that it was the annual increment when, for example, a utility needed a 60% increase in rates. Instead of getting 60%, the Authority was sticking to 10% every year as an unwritten policy.

Commissioner Hnat asked about the other handout regarding 20% if the utility was making under \$150,000 or \$300,000.

Mr. Howard replied you can use that to set a rate base under \$150,000 allowable under State statute. Mr. Howard stated that Citrus County's ordinance specifically limits you to 110% for a limited proceeding.

Commissioner Smallridge stated the Authority had been talking about the cap because of what may potentially happen in paying for Rolling Oaks Utilities' new multi-million dollar sewer plant. Commissioner Smallridge stated that at 10% per year the utility would not be able to pay for it. Commissioner Smallridge stated that this research tells the Authority that the 10% cap does not apply because a full rate case is not a limited proceeding.

Mr. Howard agreed.

Commissioner Hnat stated that the 20% from the other handout makes logical sense for small utilities.

Mr. Howard agreed it made sense unless you have a small utility that kept itself afloat but had never done an increase and then all of a sudden comes in and you have to do something with it.

Commissioner Hnat stated percentages can be deceiving depending upon the magnitude of the dollars you are talking about.

Mr. Howard replied that was why he recommended looking at them on a case by case basis on every one.

Mr. Lewis added that in the Dunnellon Hills Water System rate case the Authority would be 'getting its feet wet' on increases requested more than 10%.

**#5-C Regulatory Assessment Fee – Additional Line Item on Customers' Bills**

Mr. Howard reported that in the agenda packet was a sample letter sent to the utilities regarding adding the regulatory assessment fee line item to customers' bills.

**#5-D WellAqua Company Update**

Mr. Howard reported that in the agenda packet was the latest update from WellAqua Company. Mr. Howard stated that he told the utility owner that if the response time was not tightened up then a show cause hearing would be recommended.

**#5-E Status of Authority Positions**

Mr. Howard reported that Michael Whetstone and Matthew Warner were nominated at the recent Board of County Commissioners' meeting for the vacant lay and alternate member positions.

Chairwoman Phillips asked if the resumes of Mr. Whetstone and Mr. Warner could be included in the next agenda packet. Ms. Palmieri replied the applications were public record and Mr. Howard agreed to add them to the August agenda packet.

Commissioner Smallridge asked when the Board of County Commissioners would appoint Mr. Whetstone and Mr. Warner. Ms. Palmieri replied June 24<sup>th</sup>.

Commissioner Smallridge asked about former Authority member, Don Cox. Mr. Howard replied his application had been sent up as well.

Commissioner Smallridge asked how many positions were open. Mr. Howard replied the lay and alternate member positions opened and then a technical member position opened.

Mr. Howard stated other technical member applicants might include George Rusaw and Ren Renfro.

**Wrap-up**

Mr. Howard asked if there were any questions regarding any of the discussion items or memos.

Chairwoman Phillips stated Mr. Howard had done a good job and Commissioner Smallridge added the memos looked good. Chairwoman Phillips stated it was a lot of work and thanked Mr. Howard and Ms. Palmieri.

**#6 OTHER BUSINESS**

None.

**#7 NEXT MEETINGS**

Customer Meeting for Dunnellon Hills Water System: July 15, 2008 at 7:00 p.m. at Loyal Order of Moose Lodge No. 2308, 11890 N. Florida Avenue, Dunnellon, FL 34434.

Regular Meeting: August 4, 2008 at 1:00 P.M. in the Lecanto Government Building, Room #166, 3600 W. Sovereign Path, Lecanto, Florida 34461.

**#8 ADJOURN**

The Chairwoman adjourned the meeting at 2:22 p.m.

**ATTEST:** \_\_\_\_\_  
**Cheryl Phillips, Chairwoman**