

RESOLUTION 23-57

A RESOLUTION OF THE CITY OF MARCO ISLAND, FLORIDA, APPROVING ACQUISITION OF THE WASTEWATER UTILITY SYSTEM OWNED AND OPERATED BY NORTH MARCO UTILITY CO., INC.; FINDING THAT SUCH ACQUISITION IS IN THE PUBLIC INTEREST AND SERVES A PUBLIC PURPOSE IN ACCORDANCE WITH SECTION 180.301, FLORIDA STATUTES; APPROVING THE FORM OF A PURCHASE AGREEMENT; PROVIDING DIRECTION AND AUTHORITY TO FINALIZE, EXECUTE AND DELIVER THE PURCHASE AGREEMENT AND OTHER TRANSACTION AND CLOSING DOCUMENTS IN CONNECTION THEREWITH; AUTHORIZING CITY OFFICIALS AND STAFF TO TAKE SUCH FURTHER ACTIONS AS MAY BE NECESSARY OR CONVENIENT FOR ACQUIRING THE SYSTEM; PROVIDING FOR APPLICABILITY AND AN EFFECTIVE DATE.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MARCO ISLAND, FLORIDA, AS FOLLOWS:

SECTION 1. AUTHORITY. This Resolution of the City of Marco Island, Florida (the "City") is adopted pursuant to Chapter 166, Florida Statutes, Chapter 180, Florida Statutes, and in particular Section 180.301 thereof, and other applicable provisions of law.

SECTION 2. INCORPORATION BY REFERENCE. The City Council (the "Council") has considered extensive information and documentation related to the City's acquisition of the wastewater utility system (the "North Marco System") owned and operated by North Marco Utility Co., Inc. (the "Seller" or "NMU"), including but not limited to the Memorandum prepared by CDM Smith entitled "Evaluation of North Marco Utilities, Inc." dated July 8, 2023, the report prepared by HoleMontes dated May 24, 2023, the most recent annual report filed by Seller with the Collier County Water and Wastewater Authority and related information presented by City staff and officials which collectively include a description of the wastewater utility facilities and assets comprising the North Marco System, valuation estimates, the most recent income and expense statement, the most recent available balance sheet, a description of the wastewater utility system's physical condition, a statement on the reasonableness of the price, a statement on customer impacts, a statement on additional investments required by the City, a description of alternatives to acquisition by the City, and a statement on the ability of the City to operate the acquired system facilities and assets (such information and documentation collectively referred to hereafter as the "Report"). The Report supports the Council's determination hereunder that the acquisition by the City of the North Marco System is in the public interest.

SECTION 3. FINDINGS. It is hereby ascertained, determined and declared that:

(A) Chapter 180, Florida Statutes, grants the City the power to acquire, own, operate, and maintain wastewater utility facilities in the City and certain unincorporated areas of Collier County, Florida.

(B) The Seller is an investor-owned utility company which owns and operates a wastewater utility system serving approximately 261 retail customers in the incorporated area of the City, in close proximity to the existing central utility facilities of the City. Representatives of the City and the Seller have been negotiating the terms by which the City will acquire such utility system pursuant to a purchase and sale agreement (the "Purchase Agreement"). The purchased assets include corporate shares of NMU and the infrastructure, facilities, equipment and assets which collectively comprise the North Marco System.

(C) The North Marco System is located within, and serves customers located within, the municipal boundaries of the City, and the City is authorized to provide wastewater service therein pursuant to Chapter 180, Florida Statutes. The City has all requisite authority to provide wastewater service to such area as a result of the acquisition contemplated hereby.

(D) The North Marco System has historically purchased wastewater disposal services from the City on a wholesale basis, whereby the sewage in the North Marco service area is collected by NMU and pumped to the City's reclaimed water production facility for treatment and disposal. The City's acquisition of the North Marco System will enable the City to directly serve the customers thereof and to charge the same rates for wastewater service as apply to all other City utility system customers. As such, the rate base of the City utility system will increase, both in terms of the rates charged for serving such area and the number of customers and ERCs served by the City system.

(E) The Council is required to hold a public hearing on the acquisition of the North Marco System to consider whether such acquisition is in the public interest. The public hearing was duly advertised and all interested persons had an opportunity to participate and to file written comments.

(F) The City's ownership and control of the North Marco System will provide an opportunity for the City to:

(1) address and provide wastewater service to the service area of the North Marco System; better provide and plan for wastewater treatment and distribution facilities necessary to accommodate existing development and future growth and/or redevelopment in a manner concurrent with the demand for such facilities in the area, and better meet future requirements of state and federal mandates, and the demands of existing and new development;

(2) further develop a citywide approach relative to the comprehensive collection, treatment and disposal of wastewater;

(3) seek economies of scale relative to operations, maintenance, customer service and management;

(4) provide current and future users, both within the area currently served by the City and the customers now served by the North Marco System, with cost efficient services and management;

(5) better address any future relocation of lines and facilities, and the operation and maintenance of the wastewater facilities serving the area now served by the North Marco System, all in a more consistent, proactive and responsible manner and incorporate such system users into the City's overall utility system;

(6) stabilize rates over the long term, ensure uniformity of rates on a citywide basis, and reduce inefficient service expansion or extension of service capabilities;

(7) permit the City to coordinate the installation, expansion and extension of facilities in a more comprehensive manner;

(8) accomplish a greater public use and increased public benefit which results from the City's ownership, operation and control of the utility facilities and service area comprising the North Marco System;

(9) enable the City to more effectively and efficiently plan and fulfill its comprehensive planning requirements as provided by law and increase the prospect over time that high quality, cost efficient wastewater utility services are available to affected residents and utility customers; and

(10) enhance the rate base of the City's utility system by increasing the number of retail customers and ERCs served by the City's utility system.

SECTION 4. DETERMINATION OF PUBLIC PURPOSE AND BENEFIT.

Based upon its legislative findings incorporated in Section 3, the City hereby determines that the acquisition of the North Marco System by the City is in the public interest. The City has the experience and the financial ability to acquire, integrate, and manage the North Marco System and provide high-quality and cost-effective customer service. The Council expressly determines that the acquisition of the North Marco System by the City and the provision of wastewater services through facilities owned and operated by the City constitutes a public purpose and is in the best interests of the health, safety, and welfare of the customers of the City and the customers currently served by the North Marco System.

SECTION 5. PUBLIC INTEREST DETERMINATION OF PURCHASE.

In making the public interest determination concerning the transactions contemplated by the City relating to the acquisition of the North Marco System, the City Council has considered

the Report including the summaries and excerpts thereof set forth in Exhibit A regarding the following matters articulated in Section 180.301, Florida Statutes:

(A) the most recently available income and expense statement(s) from the annual report of the Seller (the "Annual Report") filed with the Collier County Water and Wastewater Authority ("Authority") in its capacity as the regulatory authority with jurisdiction over the North Marco System as an investor-owned wastewater utility system;

(B) the most recently available balance sheet(s) from the Annual Report;

(C) a statement of the existing rate base from the Annual Report;

(D) the general physical condition of the North Marco System;

(E) the reasonableness of the purchase price;

(F) the impacts of the contemplated transition on utility customers served by the North Marco System and by those now served by the City generally and in the same vicinity as the North Marco System;

(G) any additional investment required and the ability and willingness of the City to make that investment;

(H) the alternatives to the City's purchase of the North Marco System and the potential impacts on utility customers of the North Marco System and by those now served by the City in the same vicinity if the North Marco System is not acquired by the City; and

(I) the ability of the City to provide and maintain high-quality and cost-effective utility service upon acquisition of the North Marco System and undertaking to serve the area involved.

SECTION 6. APPROVAL OF PURCHASE AGREEMENT; RELATED ACTIONS.

(A) The City's acquisition of the North Marco System is hereby approved. The form, terms and provisions of the Purchase Agreement by and between the Seller and the City, substantially in the form attached hereto as Exhibit B, are hereby approved.

(B) The Chairman is hereby authorized and directed to finalize, execute and deliver the Purchase Agreement on behalf of the City, with such changes (except as to price, which may not be increased) as the City Manager, with approval of the City Attorney as to form, may approve, such approval to be conclusively evidenced by the execution thereof by the Chairman. The Chairman and such other officials of the City are further authorized and directed to negotiate, execute, deliver and accept all other transaction documents in connection therewith and all closing documents necessary for the City's acquisition of the North Marco System, and to take such further actions as may be necessary or convenient for such acquisition.

(C) The City intends to pay for acquisition of the North Marco System through a cash purchase pursuant to which the City will (i) acquire all of the shares and/or stock of North Marco Utility Co., Inc., (ii) transfer the assets and facilities comprising the North Marco System to City ownership, and (iii) thereafter, at the time and in the manner determined by the City in its sole discretion, dissolve North Marco Utility Co., Inc. as a corporate entity.

(D) Simultaneously with closing on the purchase, Seller and Buyer will work together to ensure that any and all mortgages, liens or other encumbrances upon the utility infrastructure, facilities and assets comprising the North Marco System shall be satisfied, released and paid in full so that the City assumes ownership free and clear of any such encumbrances.

(E) City staff and officials are hereby authorized and directed to take such actions related to the purchase as may be necessary or convenient to close thereupon. Such actions may include, but are not limited to, undertaking the activities and other actions contemplated by the Purchase Agreement or which are necessary or advantageous in furtherance of the objectives thereof. Any actions taken by the City or City officials to date in furtherance of such objectives are hereby ratified and confirmed.

(F) This Resolution expressly contemplates that the City will acquire, operate and maintain the North Marco System in a manner consistent with the Chapter 180, Florida Statutes, Chapter 52 of the City Code of Ordinances and other applicable law, and any polices, standards and specifications adopted by the City for utility operations and maintenance.

SECTION 7. APPLICABILITY AND EFFECTIVE DATE. This Resolution shall be liberally construed to affect the purposes hereof and shall take effect immediately upon its adoption.

Passed in open and regular session through roll call vote by the City Council of the City of Marco Island, Florida this 6th day of November 2023.

ATTEST:



Joan Taylor, City Clerk

CITY OF MARCO ISLAND, FLORIDA
By: 

Gregory Folley, Chairman

Approved as to form and legal sufficiency:



Alan L. Gabriel, City Attorney

EXHIBIT A

CONSIDERATIONS ASSOCIATED WITH PURCHASE OF NORTH MARCO SYSTEM

The City of Marco Island (the "City") owns and operates a water and wastewater utility system and is considering acquisition of the wastewater utility system owned by North Marco Utility Co., Inc. (the "North Marco System"). As a privately owned utility, the North Marco System has been regulated by the Collier County Water and Wastewater Authority (the "Authority") in accordance with Chapter 367, Florida Statutes, and has filed annual reports with the Authority detailing its income and expense statements, balance sheet, rate base and related information.

Section 180.301, Florida Statutes, provides that before the City can purchase the North Marco System, the City Council must hold a public hearing on the purchase and make a determination that the purchase is in the public interest. In determining if the purchase is in the public interest, the City Council is required to consider the information and factors described in section 180.301 including but not limited to the most recent financial information reported by the North Marco Utility Co., Inc. to the Authority and the City's ability to provide high quality and cost-effective utility service to current customers of the North Marco Utilities System.

The information presented below addresses the considerations required by section 180.301 and summarizes relevant provisions of the most recent annual report of North Marco Utility Co., Inc. (Certificate No. O2S) submitted by the Seller to the Collier County Waste Water Authority for the year ended December 31, 2022 (the "Annual Report"), the Memorandum prepared by CDM Smith entitled "Evaluation of North Marco Utilities, Inc." dated July 8, 2023 (the "CDM Report"), and the report prepared by HoleMontes dated May 24, 2023 regarding redevelopment potential in the system's service area and associated increase in the number of equivalent residential connections served by the North Marco System (the "HolesMontes Report"). All such documents are on file in the offices of the City of Marco Island and Sewer Department and incorporated herein.

(1) The most recent available income and expense statement for the utility.

The most recent income and expense statement certified by North Marco Utility Co., Inc. to the Authority is shown in the table below which is excerpted from the Annual Report.

UTILITY NAME: North Marco Utility, Inc.

YEAR OF REPORT
December 31, 2022

COMPARATIVE OPERATING STATEMENT

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR * (e)
UTILITY OPERATING INCOME				
400	Operating Revenues	F-3(b)	\$ 410,881	\$ 383,784
449, 530	Less: Guaranteed Revenue and AFP1	F-3(b)		
Net Operating Revenues			\$ 410,881	\$ 383,784
401	Operating Expenses	F-3(b)	\$ 268,255	\$ 301,908
403	Depreciation Expense:	F-3(b)	\$ 52,962	\$ 52,962
	Less: Amortization of CIAC	F-22	(17,792)	(17,776)
Net Depreciation Expense			\$ 35,170	\$ 35,086
406	Amortization of Utility Plant Acquisition Adjustment	F-3(b)		
407	Amortization Expense (Other than CIAC)	F-3(b)		
408	Taxes Other Than Income	W/S-3	21,159	18,739
409	Current Income Taxes	W/S-3	12,354	11,321
410.10	Deferred Federal Income Taxes	W/S-3		
410.11	Deferred State Income Taxes	W/S-3		
411.10	Provision for Deferred Income Taxes - Credit	W/S-3		
412.10	Investment Tax Credits Deferred to Future Periods	W/S-3		
412.11	Investment Tax Credits Restored to Operating Income	W/S-3		
Utility Operating Expenses			\$ 336,938	\$ 366,854
Net Utility Operating Income			\$ 73,947	\$ 16,930
469, 530	Add Back: Guaranteed Revenue and AFP1	F-3(b)		
413	Income From Utility Plant Leased to Others			
414	Gains (losses) From Disposition of Utility Property			
420	Allowance for Funds Used During Construction			
Total Utility Operating Income [Enter here and on Page F-3(c)]			\$ 73,947	\$ 16,930

* For each account, Column e should agree with Columns f, g and h on F-3(b)

UTILITY NAME: North Marco Utility Inc.

YEAR OF REPORT
December 31, 2022

COMPARATIVE OPERATING STATEMENT (Cont'd)

WATER SCHEDULE W-3* (f)	WASTEWATER SCHEDULE S-3* (g)	OTHER THAN REPORTING SYSTEMS (h)
\$ _____	\$ <u>383,784</u>	\$ _____
\$ _____	\$ <u>383,784</u>	\$ _____
\$ _____	\$ <u>301,708</u>	\$ _____
_____	<u>52,962</u> <u>(17,376)</u>	_____
\$ _____	\$ <u>35,086</u>	\$ _____
_____	<u>18,339</u> <u>11,321</u>	_____
\$ _____	\$ <u>366,854</u>	\$ _____
\$ _____	\$ <u>16,930</u>	\$ _____
_____	_____	_____
\$ _____	\$ <u>16,930</u>	\$ _____

* Total of Schedules W-3 / S-3 for all rate groups.

UTILITY NAME: North Marco Utility, Inc.

YEAR OF REPORT
December 31, 2022

COMPARATIVE OPERATING STATEMENT (Cont'd)

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
Total Utility Operating Income (from page F-3(a))			\$ <u>73,947</u>	\$ <u>16,930</u>
OTHER INCOME AND DEDUCTIONS				
415	Revenues-Merchandising, Jobbing, and Contract Deductions		\$	\$
416	Costs & Expenses of Merchandising, Jobbing, and Contract Work			
419	Interest and Dividend Income		<u>3.05</u>	<u>2.54</u>
421	Nonutility Income			
426	Miscellaneous Nonutility Expenses			
Total Other Income and Deductions			\$ <u>3.05</u>	\$ <u>2.54</u>
TAXES APPLICABLE TO OTHER INCOME				
408.20	Taxes Other Than Income		\$	\$
409.20	Income Taxes			
410.20	Provision for Deferred Income Taxes			
411.20	Provision for Deferred Income Taxes - Credit			
412.20	Investment Tax Credits - Net			
412.30	Investment Tax Credits Restored to Operating Income			
Total Taxes Applicable To Other Income			\$ <u>Ø</u>	\$ <u>Ø</u>
INTEREST EXPENSE				
427	Interest Expense	F-19	\$ <u>13,713</u>	\$ <u>12,084</u>
428	Amortization of Debt Discount & Expense	F-13		
429	Amortization of Premium on Debt	F-13		
Total Interest Expense			\$ <u>13,713</u>	\$ <u>12,084</u>
EXTRAORDINARY ITEMS				
433	Extraordinary Income		\$	\$
434	Extraordinary Deductions			
409.30	Income Taxes, Extraordinary Items			
Total Extraordinary Items			\$	\$
NET INCOME			\$ <u>60,237</u>	\$ <u>4849</u>

(2) The most recent available balance sheet for the utility, listing assets and liabilities and clearly showing the amount of contributions-in-aid-of-construction and the accumulated depreciation thereon.

The most recent Balance Sheet certified by North Marco Utility Co., Inc. to the Authority is shown in the tables below which are excerpted from the Annual Report.

UTILITY NAME: North Marco Utility, Inc

YEAR OF REPORT
December 31, 2022

**COMPARATIVE BALANCE SHEET
ASSETS AND OTHER DEBITS**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
UTILITY PLANT				
109-106	Utility Plant	F-7	\$ 1,700,672	\$ 1,700,672
108-110	Less: Accumulated Depreciation and Amortization	F-8	832,468	885,420
Net Plant			\$ 868,204	\$ 815,252
114-115	Utility Plant Acquisition adjustment (Net)	F-7		
116 *	Other Utility Plant Adjustments			
Total Net Utility Plant			\$ 868,204	\$ 815,252
OTHER PROPERTY AND INVESTMENTS				
121	Nonutility Property	F-9	\$	\$
122	Less: Accumulated Depreciation and Amortization			
Net Nonutility Property			\$ 0	\$ 0
123	Investment in Associated Companies	F-10		
124	Utility Investments	F-10		
125	Other Investments	F-10		
126-127	Special Funds	F-10		
Total Other Property & Investments			\$ 0	\$ 0
CURRENT AND ACCRUED ASSETS				
131	Cash		\$ 83,290	\$ 114,676
132	Special Deposits	F-9		
133	Other Special Deposits	F-9		
134	Working Funds			
135	Temporary Cash Investments			
141-144	Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts	F-11	29,278	25,993
145	Accounts Receivable from Associated Companies	F-12		
146	Notes Receivable from Associated Companies	F-12		
151-153	Material and Supplies			
161	Stores Expense			
162	Prepayments			
171	Accrued Interest and Dividends Receivable			
172 *	Rents Receivable			
173 *	Accrued Utility Revenues			
174	Miscellaneous Current and Accrued Assets	F-12		
Total Current and Accrued Assets			\$ 112,568	\$ 140,669

* Not Applicable for Class B Utilities

UTILITY NAME: North Marco Utility, Inc

YEAR OF REPORT
December 31, 2022

COMPARATIVE BALANCE SHEET
ASSETS AND OTHER DEBITS

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
DEFERRED DEBITS				
181	Unamortized Debt Discount & Expense	F-13	\$ _____	\$ _____
182	Extraordinary Property Losses	F-13	_____	_____
183	Preliminary Survey & Investigation Charges		_____	_____
184	Clearing Accounts		_____	_____
185 *	Temporary Facilities		_____	_____
186	Miscellaneous Deferred Debits	F-14	_____	_____
187 *	Research & Development Expenditures		_____	_____
190	Accumulated Deferred Income Taxes		_____	_____
Total Deferred Debits			\$ _____	\$ _____
TOTAL ASSETS AND OTHER DEBITS			\$ <u>980,772</u>	\$ <u>955,911</u>

* Not Applicable for Class B Utilities

UTILITY NAME: North Marco Utility, Inc

YEAR OF REPORT
December 31, 2022

**COMPARATIVE BALANCE SHEET
EQUITY CAPITAL AND LIABILITIES**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
EQUITY CAPITAL				
201	Common Stock Issued	F-15	\$ 90,850	\$ 90,850
204	Preferred Stock Issued	F-15		
202,205 *	Capital Stock Subscribed			
203,206 *	Capital Stock Liability for Conversion			
207 *	Premium on Capital Stock			
209 *	Reduction in Par or Stated Value of Capital Stock			
210 *	Gain on Resale or Cancellation of Resequired Capital Stock			
211	Other Paid - In Capital			
212	Discount On Capital Stock			
213	Capital Stock Expense			
214-215	Retained Earnings	F-16	389,417	394,267
216	Reacquired Capital Stock			
218	Proprietary Capital (Proprietorship and Partnership Only)		(3,600)	(3,600)
Total Equity Capital			\$ 476,665	\$ 481,515
LONG TERM DEBT				
221	Bonds	F-15		
222 *	Reacquired Bonds			
223	Advances from Associated Companies	F-17		
224	Other Long Term Debt	F-17	316,617	275,570
Total Long Term Debt			\$ 316,617	\$ 275,570
CURRENT AND ACCRUED LIABILITIES				
231	Accounts Payable			31,694
232	Notes Payable	F-18		
233	Accounts Payable to Associated Companies	F-18		
234	Notes Payable to Associated Companies	F-18		
235	Customer Deposits			
236	Accrued Taxes	W/S-3	14,621	10,833
237	Accrued Interest	F-19		
238	Accrued Dividends			
239	Matured Long Term Debt			
240	Matured Interest			
241	Miscellaneous Current & Accrued Liabilities	F-20		
	ROUNDING		(5)	(4)
Total Current & Accrued Liabilities			\$ 14,616	\$ 42,523

* Not Applicable for Class B Utilities

UTILITY NAME: North Maroa Utility, Inc.

YEAR OF REPORT
December 31, 2022

**COMPARATIVE BALANCE SHEET
EQUITY CAPITAL AND LIABILITIES**

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	PREVIOUS YEAR (d)	CURRENT YEAR (e)
DEFERRED CREDITS				
251	Unamortized Premium On Debt	F-13	\$ _____	\$ _____
252	Advances For Construction	F-20	_____	_____
253	Other Deferred Credits	F-21	_____	_____
255	Accumulated Deferred Investment Tax Credits		_____	_____
Total Deferred Credits			\$ _____	\$ _____
OPERATING RESERVES				
261	Property Insurance Reserve		\$ _____	\$ _____
262	Injuries & Damages Reserve		_____	_____
263	Pensions and Benefits Reserve		_____	_____
265	Miscellaneous Operating Reserves		_____	_____
Total Operating Reserves			\$ _____	\$ _____
CONTRIBUTIONS IN AID OF CONSTRUCTION				
271	Contributions in Aid of Construction	F-22	\$ <u>464,124</u>	\$ <u>465,429</u>
272	Accumulated Amortization of Contributions in Aid of Construction	F-22	<u>(291,250)</u>	<u>(309,126)</u>
Total Net C.T.A.C.			\$ <u>172,874</u>	\$ <u>156,303</u>
ACCUMULATED DEFERRED INCOME TAXES				
281	Accumulated Deferred Income Taxes - Accelerated Depreciation		\$ _____	\$ _____
282	Accumulated Deferred Income Taxes - Liberalized Depreciation		_____	_____
283	Accumulated Deferred Income Taxes - Other		_____	_____
Total Accumulated Deferred Income Tax			\$ <u>Ø</u>	\$ <u>Ø</u>
TOTAL EQUITY CAPITAL AND LIABILITIES			\$ <u>980,772</u>	\$ <u>955,911</u>

(3) A statement of the existing rate base of the utility for regulatory purposes.

The most recent Year End Rate Base certified by North Marco Utility Co., Inc. to the Authority is shown in the table below which is excerpted from the Annual Report.

UTILITY NAME: North Marco Utility, Inc.

YEAR OF REPORT
December 31, 2002

SCHEDULE OF YEAR END RATE BASE

ACCT. NO. (a)	ACCOUNT NAME (b)	REF. PAGE (c)	WATER UTILITY (d)	WASTEWATER UTILITY (e)
101	Utility Plant in Service	F-7	\$	\$ 1,700,618
	Less:			
	Nonused and Useful Plant (1)			
108	Accumulated Depreciation	F-8		885,430
110	Accumulated Amortization	F-8		
271	Contributions in Aid of Construction	F-22		465,428
252	Advances for Construction	F-20		
	Subtotal		\$	\$ 349,760
272	Add: Accumulated Amortization of Contributions in Aid of Construction	F-22		309,126
	Subtotal		\$	\$
114	Plus or Minus: Acquisition Adjustments (2)	F-7		
115	Accumulated Amortization of Acquisition Adjustments (2)	F-7		
	Working Capital Allowance (3)			
	Other (Specify):			
	RATE BASE		\$	\$ 658,886
	NET UTILITY OPERATING INCOME		\$	\$ 4849
	ACHIEVED RATE OF RETURN (Operating Income / Rate Base)			.007

NOTES:

- (1) Estimate based on the methodology used in the last rate proceeding.
- (2) Include only those Acquisition Adjustments that have been approved by the Commission.
- (3) Calculation consistent with last rate proceeding.
In absence of a rate proceeding, Class A utilities will use the Balance Sheet Method and Class B Utilities will use the One-eighth Operating and Maintenance Expense Method.

(4) The physical condition of the utility facilities being purchased.

The CDM Report details the overall condition and status of the North Marco System and its capital components.

According to the CDM Report, the system is generally in good condition with much of the collection system infrastructure being replaced in 2005. Items that were not replaced in 2005 and remain in service to date include the 10 HP Pump Station on Bald Eagle Drive, two manholes along Bald Eagle Drive at Tampa Place, and an 8" gravity sewer along Bald Eagle Drive at Tampa Place. The two manholes along Bald Eagle Drive and Tampa Place that were not replaced show significant wear consistent with their age being at the end of their useful life.

(5) Reasonableness of the purchase price terms and conditions.

The CDM Report includes an estimate of the net present value of the North Marco System of \$1,059,311 based on the *replacement cost minus depreciation* approach to asset appraisal. Such valuation does not consider other appraisal techniques such as the market value or income methods, or factors which may affect the value of the system to a willing purchaser in an arms-length transaction. Such other factors may include historical revenues and net income of the system, future growth of system revenues resulting from transitioning the customer base to the City's rate schedule, and future revenue growth resulting from potential redevelopment in the system's service area and associated increase in the number of equivalent residential connections served by the system. The City has considered such other factors in determining the reasonableness of the purchase price.

The HoleMontes Report analyzes potential increases in the revenue derived from the area served by the North Marco System based on application of City utility rates to the customers thereof and growth and/or redevelopment potential and associated increase in the number of equivalent residential connections ("ERCs") served therein. The report estimates average annual net revenues from the area served of up to \$272,066 including future growth potential, and notes historical average annual net revenues of \$246,927 without projecting future growth. Considering past revenues and future revenue projections, the HoleMontes Reports estimates the value of the North Marco System at between \$1,728,489 and \$1,904,462.

City officials have negotiated the terms and conditions for the purchase, including purchase price, all of which are set forth in the Purchase Agreement. The negotiated purchase price for the North Marco System is \$1,800,000 which is below the original asking price of the Seller and is reasonable in light of the survey of current assets and recommended maintenance and upgrades described in the CDM Report, historical revenue of the system as described in the HoleMontes Report and Annual Report to the Authority, the estimations of value included in the CDM Report and HoleMontes Report, and additional factors considered by the City related to expansion of the City's existing system and rate base upon acquisition of the North Marco System. In light of such

considerations, the purchase price and the terms and conditions for the purchase set forth in the Purchase Agreement are reasonable.

(6) Impacts of the purchase on utility customers, both positive and negative.

Positive Impacts of City Purchase:

- The City's purchase of the North Marco System will provide centralized, governmentally owned wastewater service to the service area of the North Marco System; better provide and plan for wastewater collection, treatment and disposal facilities necessary to accommodate existing development and future growth and/or redevelopment in a manner concurrent with the demand for such facilities in the area, and better meet future requirements of state and federal mandates, and the demands of existing and new development;
- Further develop a approach within the area served and the areas nearby also now served by the City, relative to the comprehensive collection, treatment and disposal of wastewater benefitting current customers of the North Marco System and existing City utility customers;
- Seek economies of scale relative to operations, maintenance, customer service and management;
- Provide current and future users, both within the area currently served by the City and the customers now served by the North Marco System, with cost efficient services and management;
- Better address any future relocation of lines and facilities, and the operation and maintenance of the wastewater facilities serving the area now served by the North Marco System, all in a more consistent, proactive and responsible manner and incorporate such system users into the City's overall systems;
- Provide for uniformity of rates over the long term; governmentally administering rates-setting process responsive to direct and readily available customer and public input in the process, reduce inefficient service expansion or extension of service capabilities;
- Permit the City to coordinate the installation, expansion and extension of facilities in a more comprehensive manner, resulting in higher quality of service and cost-effectiveness;
- Accomplish a greater public use and increased public benefit which results from the City's ownership, operation and control of the utility facilities and service area comprising the North Marco System.

Negative Impacts of City Purchase:

- No negative impacts for current City utility customers in the vicinity of the North Marco System are expected as a result of the City's acquisition of the North Marco System.
- After acquisition of the North Marco System, the City intends to transition customers of the North Marco System to the City's utility rate schedule to ensure a uniform schedule of rates for all City utility services and customer classes. Such transition will result in an increase in monthly rates for such customers and therefore the overall rate revenue of the City's utility system. The rates charged for

utility service shall be just and equitable, as required by section 180.13, Florida Statutes, consistent with the rates charged by the City for similarly situated customers.

(7) Additional investment required.

The CDM Report provides that in general, the NMU collection system appears to be in good working condition, and recommends various inspection and cleaning activities, rehabilitation and upgrade investments over the next 5 years. The estimated budget for such investments is \$710,000 over the next 5 years. Such estimate appears reasonable and has been taken into consideration in determining the reasonableness of the purchase price.

(8) Alternatives to the purchase.

City Does Not Purchase North Marco System: The North Marco System would continue to be owned and operated by a private investor. Customers of the system will not receive the benefits of centralized utility service outlined in section (6) above. The quality and reliability of wastewater service will remain generally the same and the City will not have the opportunity to better provide and plan for wastewater treatment, collection and disposal facilities necessary to accommodate existing development and future growth and/or redevelopment in a manner concurrent with the demand for such facilities in the area, and better meet future requirements of state and federal mandates, and the demands of existing and new development. As noted in the CDM Report, while Seller has historically maintained the North Marco System, it has been the City's experience that Seller does not have sufficient resources to respond to emergency events without aid from the City. Such aid by the City can be expected to continue in the event the City does not purchase the North Marco System.

Sale to Another Investor-Owned Utility (IOU): North Marco Utility Co., Inc. could sell the wastewater system to a private party which would continue to operate the system as an investor-owned utility. That alternative would eliminate the advantage of central service otherwise made available to current customers of the North Marco System by the City's acquisition of the system, and additional revenue income to the City.

(9) Ability of the City to provide and maintain high quality and cost-effective utility service.

The City currently owns and operates a public utility system and has the staff and resources necessary to ensure high-quality and cost-effective service to customers of the North Marco System. The City provides high quality service by, among other things, employing full time professionals to operate its utility system including:

- Engineering Professionals
- Utility Operation and Management Professionals
- Utility Billing and Customer Service

- Accounting Professionals

The primary objectives and advantages for the acquisition are to provide high quality wastewater collection, treatment and disposal services through a central utility provider, achieve advantages for the North Marco System customer base and all City utility customers associated with regionalized utility service, access to favorable financing terms available to local governments and Federal and State sources of funding which may include grants or principal forgiveness on loans incurred to purchase or improve the system, operation as a governmentally owned centralized utility, and increased rate revenues for the City. As such, the cost of services is as cost-effective as possible. The City is committed to providing high quality services to all its utility customers, which will include current customers of the North Marco System.

(10) Moneys paid to others.

There are no finders fees, realtor fees, or other such fees paid or due regarding this transaction.