

Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER)

Report to
the Mississippi Legislature



A Review of the West Jackson County Utility District

The Jackson County Board of Supervisors created the West Jackson County Utility District to implement a wastewater management system to meet both federal and state pollution control mandates. In constructing the system, the district applied funds to specific areas and as a result chose to allow each area to bear the financial responsibility for the costs associated with the construction and operation of the wastewater systems. The district's practice of allocating costs to individual service areas constitutes an equitable system of cost distribution to customers. While components of the rates per customer vary, all customer rates are within an equitable range.

Although the district's current financial condition is solvent, PEER detected minor problems in district operations. The district does not adhere to its delinquent account policy, thereby allowing the potential for inequitable treatment of its customers. Also, the district lacks clear authority over the private utility providers operating within district boundaries, which creates difficulties in maintaining adequate internal control, accountability, and oversight over the private providers.

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

Mississippi's constitution gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

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November 9, 1999

Honorable Kirk Fordice, Governor
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On November 9, 1999, the PEER Committee authorized release of the report entitled **A Review of the West Jackson County Utility District.**

A handwritten signature in cursive script, reading "Tommy Horne", written over a horizontal line.

Representative Tommy Horne, Chairman

This report does not recommend increased funding or additional staff.

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A Review of the West Jackson County Utility District

Executive Summary

The district was created in 1974 and lay dormant until 1992 when the board of supervisors reactivated it through a resolution.

The district's service delivery plan focused first upon connecting private providers to the Mississippi Gulf Coast Regional Wastewater Authority, then to providing sewer service to communities within the district based on population.

The district projects that by the end of FY 2000, it will be serving up to 75% of the households within its boundaries.

The district's rates range from \$29.54 to \$35.62 per month, based on costs associated with that area. PEER has no reason to question the reasonableness of these rates.

The West Jackson County Utility District was organized within the bounds of Chapter 831, *Local and Private Laws of 1966*. The Jackson County Board of Supervisors created the district by resolution in 1974 and it lay dormant until 1992. In 1992 the district was reactivated in response to federal and state mandates pertaining to wastewater pollution south of Interstate 10. Prior to the reactivation of the district, privately owned utility companies offered water and sewer service to the district. These private providers continue, via contract, to provide services to a portion of the customers within the district.

In 1992, the district's service delivery plan focused on meeting requirements of federal and state mandates. The district sought first to connect all private providers with Mississippi Gulf Coast Regional Wastewater Authority, then to provide sewer service to individuals within the district boundaries. The district elected to provide sewer service based on population within district areas. Provision of sewer service initially addressed the larger areas located south of Interstate 10. The district has recently begun to offer water and sewer service to newly constructed subdivisions north of I-10 and is exploring options to provide additional service delivery in this area.

As of May 1999, the district had a customer base of approximately 2,977 customers and predicts a 24% customer increase in FY 2000. Following the FY 2000 expansion, the district will be serving approximately 69% to 75% of the households within the district's boundaries.

The district chose to bill each area an independent rate. The district has adopted an equitable method for allocating the costs associated with implementation and operation of the systems by considering debt, sewage treatment, maintenance, and other costs. In addition to taking the service area costs components into account, the board has adopted a policy by which the commissioners review and adjust each rate annually.

PEER found the district's financial condition to be solvent.

In determining the financial solvency of the district, PEER applied utility-specific measures that compare revenues and expenditures and analyzed the ratio of current assets to current liabilities and cash and cash equivalents to current liabilities. Based on these criteria, the district is currently generating sufficient revenues to meet expenditures and debt payments and the district's ratios exceed the industry average for utility companies.

The district does not adhere to the board-approved delinquent account policy and has no written policy regarding extensions and late payment arrangements.

While the district maintains procedures for monitoring administrative and contractual expenditures, weakness exists in the handling of delinquent accounts. The district does not adhere to its delinquent account policy. Customer service is not consistently being terminated according to the board-approved policy (at twenty days past due). While PEER understands the district's need for flexibility in this area, the lack of written policy regarding payment plans and extensions provides the potential for inequitable treatment among customers.

Other weaknesses in the district's operations exist because the district has limited authority over private utility providers. The district also shares authority with the Public Service Commission and the Department of Environmental Quality. The district's limited authority could potentially lead to private provider accountability problems in the areas of pollution control, verification of private provider customer base, and complaint resolution.

Recommendations

1. If the district chooses to allow service extensions and late payment arrangements, the district's board should approve a written policy concerning this and should distribute copies of the policy to all customers.
2. The district should seek to clarify its authority over private providers to establish accountability. Options include:
 - Establish the following criteria in contracts between districts and private providers:
 - clear, effective billing procedures
 - maintenance agreements
 - designated responsibilities
 - cause for termination of contract

- Conduct a cost-benefit analysis to examine the possibility of pursuing eminent domain proceedings against private providers within the district service area.
- 3. The district should report problems to those entities that exercise authority over service delivery.

In cases in which pollution by providers causes an eminent threat, the district should immediately contact the Department of Environmental Quality to make a formal complaint.

- 4. In order to improve the accuracy of customer base information, the district should:
 - require private providers (via contract) to report the number of active customers accurately and periodically
 - solicit Public Service Commission filing information to determine the number of customers in private service areas. While this information might not be current, it could be used to help verify information that the private provider reports to the district.

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A Review of the West Jackson County Utility District

Introduction

Authority

PEER reviewed the West Jackson County Utility District (WJCUD) pursuant to the authority granted by MISS. CODE ANN. § 5-3-57 et seq. (1972).

Scope and Purpose

The PEER Committee reviewed the West Jackson County Utility District, a public provider of utility service, in response to legislative concerns regarding the district's performance and economy and efficiency of its operations. PEER sought to determine:

- the district's compliance with state law in its organization and operation;
- whether the district's financial condition is solvent, including loans, revenue bonds, grants, and subsequent repayment;
- whether the district's resources have been used economically and efficiently; and,
- whether the district provides equitable service, rates, and access to the citizens within the service area.

The scope of the review did not include evaluation of the district's provision of water service, because through FY 1998, district services included only sewer service. Currently, a private provider handles water service within the district south of Interstate 10. WJCUD has only recently begun offering water service to hotels at the Washington Avenue and I-10 interchange and areas north of the interstate. Consequently,

water service has just begun to come within the regulatory scope of the district.

Method

In conducting this review, PEER:

- reviewed board minutes;
- analyzed the district's financial audits and other relevant financial and administrative records;
- researched relevant laws and regulations; and,
- interviewed staff of the district, the Public Service Commission (PSC), and the Department of Environmental Quality (DEQ).

Background

Creation of the West Jackson County Utility District

The district was organized under and operates within the bounds of Chapter 831, Local and Private Laws of 1966.

In 1966, the Legislature enacted Chapter 831, **Local and Private Laws**, to provide for incorporation of water, sewer, gas utility, and fire protection districts in Jackson County. In 1974 the Jackson County Board of Supervisors formed the West Jackson County Utility District and set forth its boundaries. The district is an approximately twenty-square-mile urban/rural area in west Jackson County with a population of approximately 16,000. The district extends to the Harrison County line on the west, Fort Bayou to the south, St. Martin High School area on the east, and southern part of the Latimer area on the north.

(See Exhibit 1, page 4, for a map showing the location of the district.)

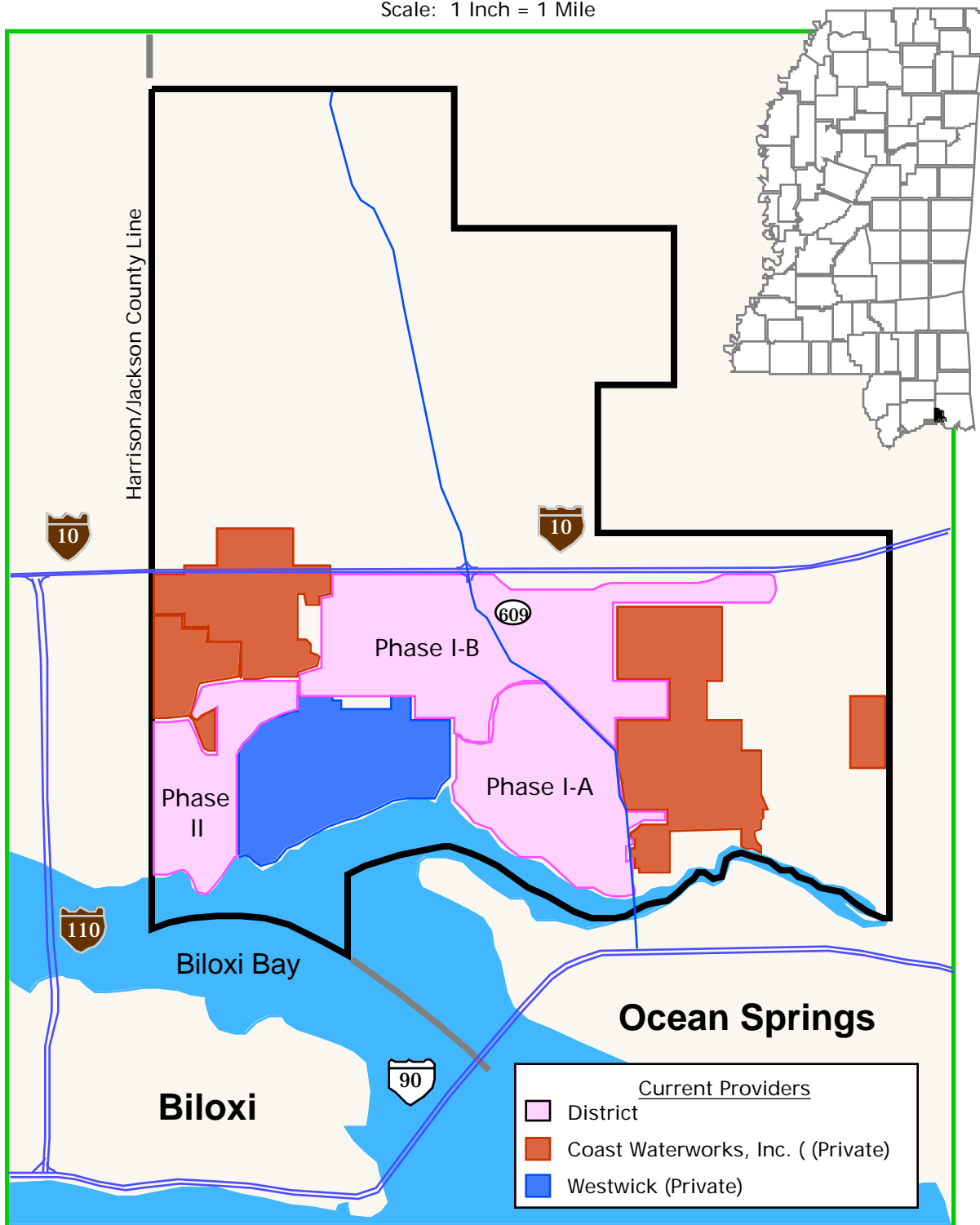
The district was created in 1974 and lay dormant until 1992 when the board of supervisors reactivated it through a resolution.

The Jackson County Board of Supervisors created the district in an effort to comply with the Federal Clean Water Act of 1972. The objective was to develop a means of achieving clean, potable water; systems for wastewater collection; and, a method of transporting wastewater to proper treatment facilities. From 1974 through 1992, the district was not functional and individual septic tanks and private treatment facilities were used. According to the Department of Environmental Quality, improperly treated sewage created potential public and environmental problems in the area.

In 1991 the Department of Environmental Quality (DEQ) issued an administrative order stating that all private treatment plants within the WJCUD must cease discharging wastewater and connect to the Mississippi Gulf Coast Regional Wastewater Authority's (MGCRA) system by July 1, 1995. In 1992, DEQ stopped granting waste disposal construction permits for the portion of WJCUD south of Interstate 10. These sanctions applied to business/commercial/industrial enterprises, new subdivisions, trailer parks, and expansions to existing sewage collection systems until the district could demonstrate substantial progress toward solving the pollution problem. In 1992, the Legislature passed S.B. 2562 mandating that: (1) water wells be located at a higher elevation than, and located at least fifty feet from, septic tanks; (2) water wells must be at a higher

Exhibit 1: West Jackson County Utility District (As of September 1999)

Scale: 1 Inch = 1 Mile



SOURCE: West Jackson County Utility District.

elevation than the disposal system; (3) discharge from any wastewater treatment system must be confined within the boundaries of the property owner; and, (4) violators would be subject to fines up to \$100 for the first offense and up to \$500 and imprisonment for the second offense.

The Jackson County Board of Supervisors activated the district in 1992 to construct wastewater collection facilities to meet federal and state mandates. In July 1993, the Jackson County Board of Supervisors stated “that all dwellings and buildings within the WJCUD that are within reasonable proximity to wastewater collection systems or to water systems must be connected to the systems of the district.” The board of supervisors further stated that any person, firm, or corporation within the district which declined or refused to connect to the water and sewer system would be guilty of a misdemeanor and subject to a daily fine not to exceed \$100. The regulation went on to state that no building or dwelling could be constructed within the district unless provision was made to connect to the sewer system. Construction of cesspools and septic tanks within the district was also made a misdemeanor.

DEQ now issues waste disposal construction permits in the southern part of the district on a case-by-case basis. Developers must first check with the district to determine whether its lines will be extended to the area of potential development.

Exhibit 2, page 6, presents a chronology of events related to creation of the West Jackson County Utility District.

Provision of Utility Service

Customers in the district receive service from both the district and privately owned utility providers.

Sewer service is provided by both WJCUD and private providers.

In 1992 when the district was activated, privately owned utility companies were already in place and offering sewer and water service to a portion of the customers within WJCUD’s boundaries. These private providers own the lines within their service areas and continue to offer service to their customers. Private providers own and operate all water service south of Interstate 10 and sewer lines in selected areas.

The district offers sewer service to areas that previously relied upon septic tanks, to newly developed areas where the developer has constructed the lines and turned service over to the district, and to commercial users. The district has also recently begun to offer water and sewer service to newly developed hotels at the Highway 609 interchange and subdivisions located north of Interstate 10.

Exhibit 2: Chronology of the West Jackson County Utility District

- 1966** The Legislature passes Chapter 831, Local and Private Laws of 1966, allowing creation of the district.
- 1974** The Jackson County Board of Supervisors creates St. Martin-Gulf Hills Utility District of Jackson County, MS, by resolution. (The name was later changed to the West Jackson County Utility District.) The district was formed to comply with the Federal Clean Water Act of 1972.
- 1980** Mississippi Gulf Coast Regional Wastewater Authority is created in response to the 1972 Clean Water Act. Its objective is to build and operate proper wastewater treatment facilities for all of Jackson County.
- 1991** DEQ issues an administrative order stating that private treatment plants, including schools, must cease discharging to the waters of the state and connect to the Mississippi Gulf Coast Regional Water Authority system by July 1, 1995.
- 1992** The DEQ/Surface Water Branch issues sanctions against the entire district south of 1-10, saying: "the staff (DEQ) recommended denial of future requests for permits relating to new development, including business, commercial, industrial enterprises, new subdivisions and trailer parks and for extensions to existing sewage collection systems until substantial progress is demonstrated toward solving this pollution of public waters with discharges of raw sewage."
- 1992** The Legislature passes SB 2562, which provides new water well and wastewater regulation and sets fines for violators.
- 1992** The district is reactivated and holds its initial meeting.
- 1993** By resolution, the Board of Supervisors changes the name of the district to the West Jackson County Utility District.
- 1994** Engineering needs analysis is completed.

SOURCE: PEER analysis.

Governance and Operation of the West Jackson County Utility District

The board of supervisors appoints a board of commissioners which is solely responsible for district management and operation. The West Jackson County Utility District is not under the purview of the Public Service Commission.

The district board of commissioners is solely responsible for district maintenance and operation.

Chapter 831, *Local and Private Laws of 1966*, provides that powers of the district be vested in, and exercised by, a board of commissioners consisting of three members appointed by the county board of supervisors. Commissioners serve staggered six-year terms. The board of commissioners has legal responsibility for the district's operation and management. The board of commissioners currently employs a district manager and three employees to operate the district.

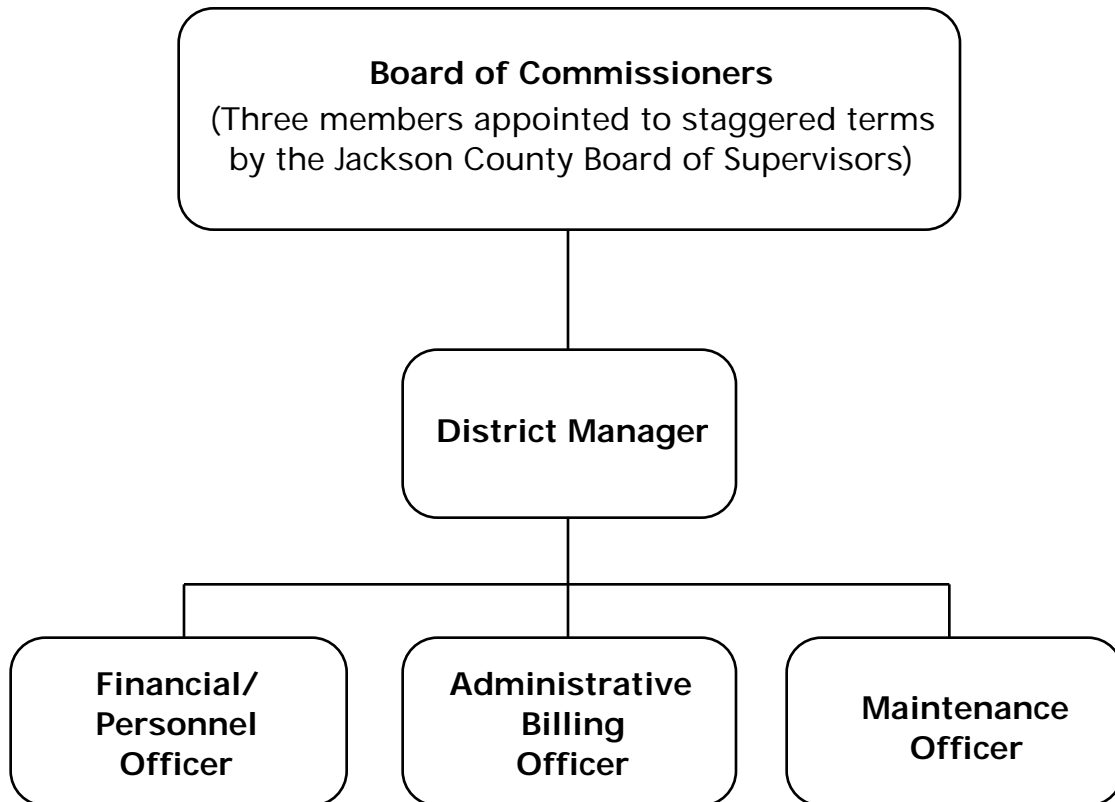
(See Exhibit 3, page 8, for an organizational chart of the district.)

The Legislature has charged the district, through the board of commissioners, with the following powers;

- to acquire property through eminent domain;
- to incur debts, to borrow money, to issue bonds;
- to fix, maintain, collect, and revise rates and charges for services rendered;
- to pledge revenue to the payment of obligations;
- to issue bonds to improve or extend the water or sewer system; and,
- to issue bonds to purchase or acquire part or all of any privately owned system.

Although DEQ may apply sanctions to the West Jackson County Utility District (such as occurred in 1992), the board of commissioners operates outside the jurisdiction of the Public Service Commission and is solely responsible for district management and operations. Unlike investor-owned utilities, which must receive the Public Service Commission's approval for various decisions, such as changes in rates, WJCUD's board of commissioners is responsible for governing all practice, policy, and procedures relating to the district.

**Exhibit 3: West Jackson County Utility District
Organizational Chart (As of August 31, 1999)**



SOURCE: West Jackson County Utility District.

Construction and Financing of the Wastewater System

The district's service delivery plans focused upon meeting the requirements of federal and state mandates. To meet these mandates, the district sought financing for construction of a wastewater system. The district allocated funds to individual service areas within the district and consequently these individual areas became responsible for all costs associated with service delivery in their service area.

Service Delivery Plan

The district's service delivery plan focused first upon connecting private providers to MGCRWA, then to providing sewer service to communities within the district. The district elected to provide sewer service based on population of the areas within district boundaries.

The district focused first upon addressing the DEQ administrative order and sanctions, then upon provision of service to less densely populated areas within the district.

In 1992 when WJCUD was activated, a portion of the district had central water and sewer service. Other areas had central water service, but relied on septic tanks for sewage. The remaining areas had neither central water nor sewer and relied upon individual water wells and septic tanks. The district's immediate concern was to meet the DEQ mandate stating that all private treatment plants connect to the Mississippi Gulf Coast Regional Water Authority (MGCRWA) by July 1, 1995. To accomplish this, the district worked with MGCRWA and private providers to install wastewater transport lines and connect them to the processing plant. The areas affected included Sweet Briar/Windsor Park, Cedar Grove, and Porteaux Bay subdivisions.

The district moved next to address DEQ's ban on issuance of permits south of Interstate 10. To have the sanctions lifted, the district had to show DEQ that it was making progress toward resolving pollution problems within the district. The district initially focused upon areas with the largest per capita population (Phase I and Phase II). The district has replaced septic tanks with individual pumps to move the wastewater to MGCRWA.

The district is also offering service to new subdivisions within district boundaries. In the newly developed areas, developers are constructing subdivisions with water and sewer lines already in place and turning the service over to the district. This includes two new areas north of Interstate 10 and the Quail Creek subdivision south of Interstate 10. In the Quail Creek subdivision, the district has taken responsibility only for sewer service.

The district plans to expand service to some less densely populated areas north of Interstate 10. WJCUD has approximately \$1 million remaining of a \$5 million loan from Rural Economic and Community Development (RECD). If RECD

approves the district's decision regarding service expansion, it will release the remaining \$1 million and the district will proceed.

As of May 1999, the district had a residential customer base of approximately 2977 and predicts a 24% customer increase in FY00 (an estimated 719 additional customers). Following the planned FY00 expansion, the district will be serving approximately 69% to 75% of the households within district boundaries.

Financing

The district elected to apply approximately \$8.2 million received in grants, loans, and revenue bonds to specific areas within the district.

As a result of area-specific funding, the district chose to let each area bear the financial responsibility for costs associated with implementation and operation of the wastewater system.

To finance the construction of the wastewater systems and water wells, the district received loans and grants and issued revenue bonds to serve the individual needs of each area. As of August 15, 1999, the district had received a total of approximately \$8.2 million from grants, loans, and issued revenue bonds. Exhibit 4, page 11, contains a chronology showing the type and amount of funding by year since the board became active. Two of the grants received were specifically designated for Phase II, an area deemed by survey to be low- to moderate-income (LMI).

Since each area received its own funding, the district decided to bill each area separately based on costs associated with implementation of the system in that area. Appendix A, page 27, contains a description of each area and funding allocations within the district. Appendix B, page 29, shows the rates, amounts, and payment time frame of the funding.

Method of Deriving Area Service Rates

The district's practice of allocating costs to individual service areas constitutes an equitable system of cost distribution, resulting in service area charges ranging from \$29.54 to \$35.62 per month. While the components of the rates per area vary, PEER has no reason to question the reasonableness of these rates.

Exhibit 4: Chronology of Loan/Grant Funding for Sewer System and Water Well Construction (As of September 18, 1999)

	District Provided					Private Owner		
	Phase I	Phase II	Quail Creek *	Jordan Farm Martin Pine **	Hotels at Interchange	Sweet Briar CWI ***	Cedar Grove CWI ***	Porteaux Bay Westwick***
FY1999					\$400,000 loan			
FY1998								
FY1997							\$115,066 MGRWA loan	
FY1996	\$5,000,000 RECD loan	\$1,041,900 RECD loan \$1,028,100 RECD grant						
FY1995		\$450,000 CDBG				\$138,774 Gulf of Mexico Grant		
FY1994								
FY1993								
TOTAL	\$5,000,000	\$2,520,000			\$400,000	\$138,774	\$115,066	
						TOTAL		\$8,173,840

- * The sewer lines are constructed and turned over to the district. Coast Waterworks, Inc. (CWI) owns the water lines and is presently doing the district sewer billing.
- ** The developer of the subdivision north of the interstate has installed the lines and turned both water and sewer service over to the district.
- *** The private owner constructed the lines within these areas.

Note: WJCUD fiscal year ends September 30.

RECD Rural Economic and Community Development
 CDBG Community Development Block Grant
 MGRWA Mississippi Gulf Coast Regional Water Authority

SOURCE: PEER analysis of WJCUD financial audits.

The service rate charged to each area is based upon the costs associated with that area.

The district bases rates for each area on the amount of loan/bond repayment and the associated costs related to that area. The major components of customer charges consist of loan repayment, MGCRWA processing charges for sewage treatment, and maintenance. Exhibit 5, page 13, compares the composition of the rates charged within each service area. When charging for MGCRWA processing, district and private provider customers are not billed on a specific number of gallons processed per household, but rather by an estimate of average number of gallons processed for each area. The district bases monthly MGCRWA processing charges on the estimated gallons used. Private providers charge an additional amount to customers in their service areas to cover maintenance and operation costs.

(See Appendix C, page 30, for a list and description of rate components.)

PEER has no reason to question the reasonableness of WJCUD's rates.

While some components may vary, overall customer rates range from \$29.54 to \$35.62 per month.

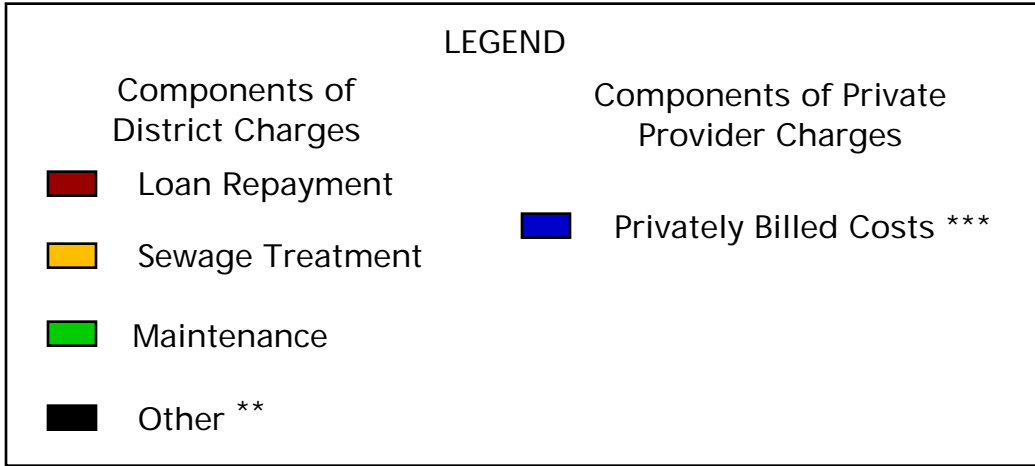
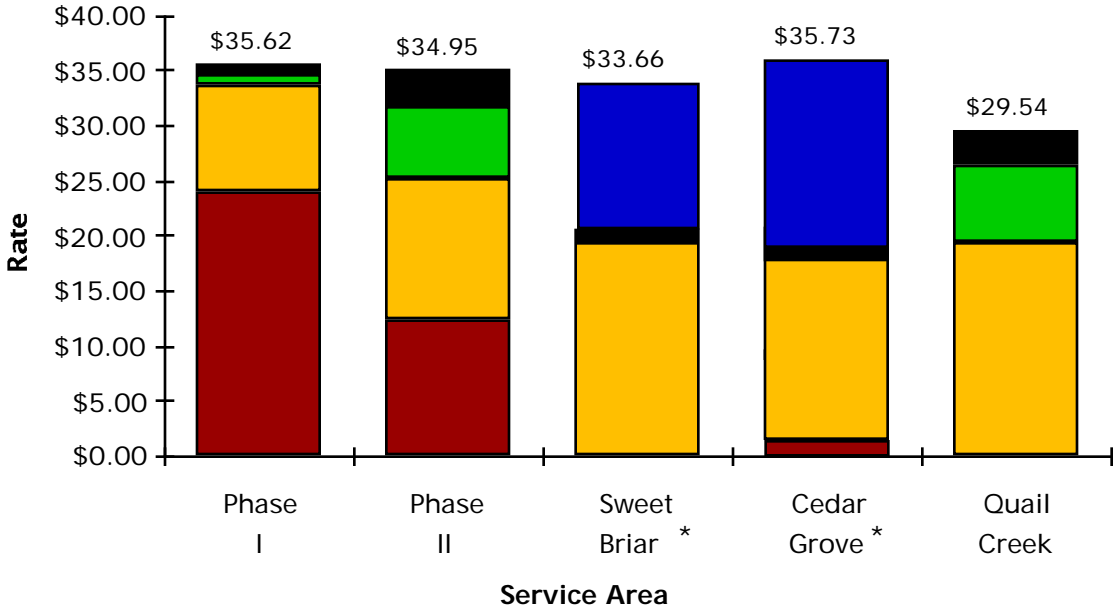
Commercial customers are billed \$2.56 per thousand gallons processed based on water meter readings. This meter measures the gallons of wastewater produced during the period by the customer.

Rate Review and Adjustment

While the Public Service Commission has no regulatory control over the West Jackson County Utility District's rates, the policy of the WJCUD's board of commissioners is to review and adjust the rate for each service area annually.

Many of the neighborhoods within the district were connected to district lines in the fiscal year ending September 30, 1999. As the district gathers data to replace estimated costs with actual costs, the board of commissioners reviews the rates. The district's accountant then evaluates rate adjustments and calculations. If deemed appropriate by the district and feasible by the CPA, the district then adjusts the rate. For example, in August 1999 the district adjusted the rate in the Phase I area, lowering it from \$55.34 to \$35.62. One factor in this rate adjustment was that the board realized that the cost of the project in that area was going to be closer to \$4 million than \$5 million and the number of gallons processed was much less than the originally estimated 12,000 gallons per household per month. The district predicts that upcoming evaluations of other service areas will lead to more rate decreases. An expansion in the district's customer base could also contribute to future rate decreases.

Exhibit 5: Components of WJCUD Rates (As of August 20, 1999)



* These areas are billed approximately \$13.00 by Coast Waterworks, Inc. in addition to district charges.

** Includes bad debt fee, collection fee, contingent fund, depreciation fund, bond cushion fund, forced main fee and electricity usage fee.

*** These are charges imposed by the private providers and outside of the district's regulatory scope. The charges include operation and maintenance costs for the private provider.

SOURCE: PEER analysis.

Analysis of the District's Financial Condition

Upon comparing revenues with expenditures/debt payment, evaluating the district's current ratio, and evaluating the district's quick ratio, PEER found the district's financial condition to be solvent.

PEER applied financial measures to determine the financial solvency of the district. These measures consist of a comparison of revenues to expenditures/debt payments and computation of the current ratio and the quick ratio, two measures that compare assets and liabilities.

While positive results do not guarantee success of an organization, they serve as a good indicator of financial stability and viability. PEER chose these measures because they are best suited for analyzing such utility service providers.

Revenues vs. Expenditures/Debt Payment

The district generates sufficient revenues to meet its expenditures and debt payments.

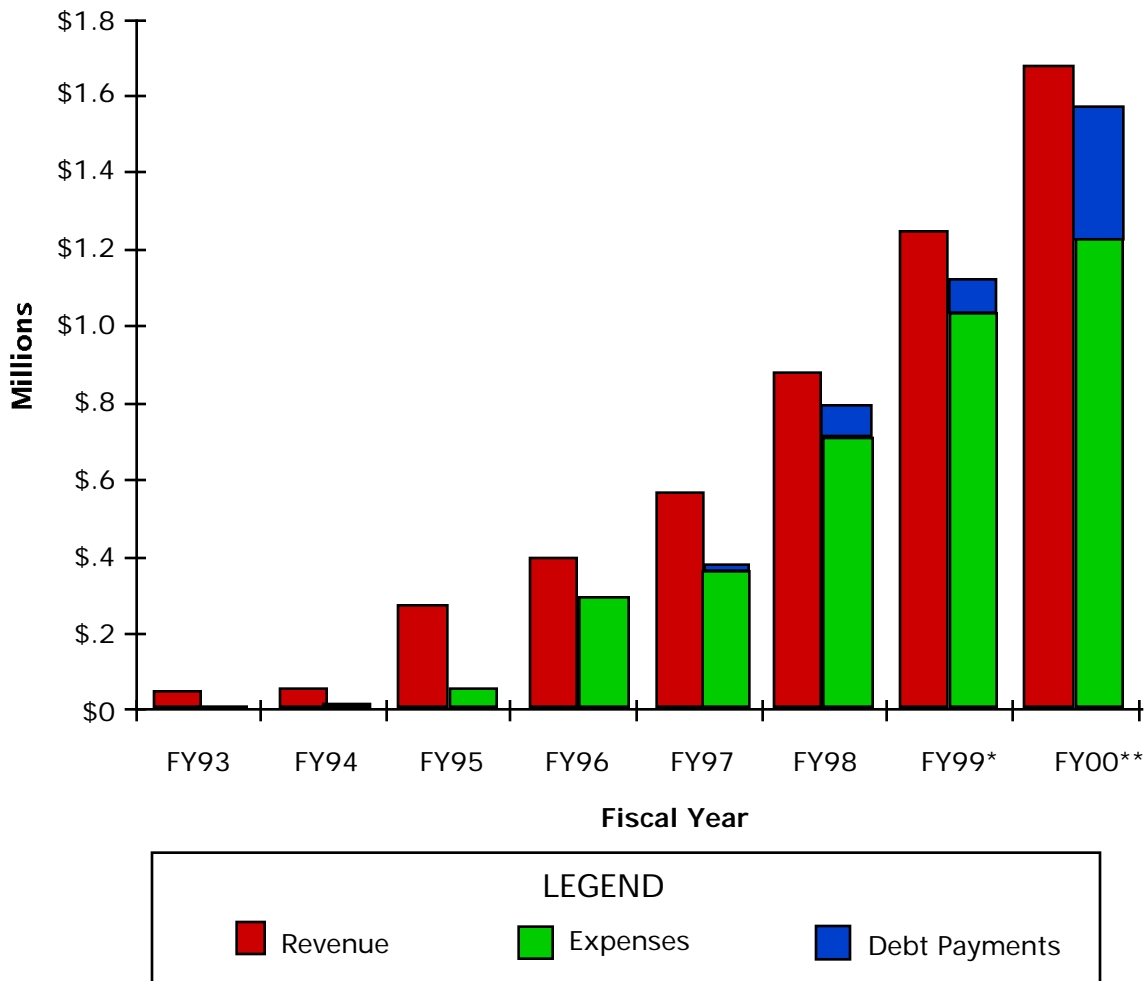
The difference between district revenues and the expenditures for each fiscal year is **net income**. If revenues exceed expenditures, this is a positive indicator that an organization has sufficient funds to meet its debt obligations.

Based on WJCUD's financial statements for FY 1993 through FY 1998, the district has consistently generated net income each fiscal year for contingencies, debt service, and/or transfer to reserved retained earnings for future debt service. (Exhibit 6, page 15, presents WJCUD's revenues vs. expenditures and related debt payments for FY 1993 through F Y 1998 and projected revenues and expenditures and debt payments for FY 1999 and FY 2000.)

From FY 1993 through FY 1998, WJCUD generated revenues of \$2.2 million; estimated revenues are approximately \$3 million for FY 1999 and FY 2000 combined. WJCUD's revenue sources include such sources as Jackson County ad valorem taxes, sewage fees, tap-in fees (fees charged for hooking up to district lines), late fees, and non-operating revenue (interest and miscellaneous income).

WJCUD's expenditures for FY 1993 through FY 1998 were \$1.5 million, with estimated expenditures of approximately \$2.3 million for FY 1999 and FY 2000 combined. Expenditures include such items as salaries and fringe benefits, materials and supplies, contractual services, and other services and charges.

**Exhibit 6: WJCUD Revenues vs. Expenses and Debt Payments
(FY93 through FY98 and projected for FY99 and FY00)**



* Revenue and expense information is projected for FY99. Debt payments are actual.

** Projected for FY2000 based on WJCUD and financial audit documents

Note: Excess revenues over expenses for FY93 through FY99 have been used to satisfy RECD fund balance requirements and transferred to reserved retained earnings for debt payments.

SOURCE: PEER analysis and WJCUD financial audit information.

WJCUD's financial audits show net income for the subsequent fiscal years as follows:

<u>Year</u>	<u>Amount</u>
FY 1993	\$41,110
FY 1994	40,292
FY 1995	216,352
FY 1996	99,551
FY 1997	203,035
FY 1998	165,171

Current Ratio

The district's current ratio indicates that WJCUD has the funds needed to meet its financial obligations for the next fiscal year.

Another suitable measure of solvency is the **current ratio**. This ratio is calculated by dividing the current assets by the current liabilities for each fiscal year. This ratio compares the next year's liabilities to cash on hand, plus other inflows the district is likely to realize over that same twelve-month period. These inflows include such items as accounts receivable. The industry average for utility companies is a current ratio of .87 to 1. A current ratio significantly below the industry average could indicate that a company or district has reduced ability to meet its financial obligations. Companies or districts with ratios higher than the industry average are in a stronger position to meet financial obligations.

Results from the previous six complete fiscal year financial audits show that WJCUD possessed substantial current assets in comparison to current liabilities. As the district's debt payments and costs associated with the construction of the wastewater system began to come due, the proportion of current assets in comparison with current liabilities decreased. The following table shows the current ratio for WJCUD for FY 1993 through FY 1998:

<u>Year</u>	<u>Current Ratio</u>
FY 1993	19.98 to 1
FY 1994	13.79 to 1
FY 1995	41.55 to 1
FY 1996	19.13 to 1
FY 1997	49.61 to 1
FY 1998	1.44 to 1

Unusually high current ratios from FY 1993 to FY 1997 resulted from the district's lack of current liabilities due to debt. As

construction of wastewater systems began and debt payments began to come due, the district's current liabilities rose from \$6,845 in FY1997 to \$436,278 in FY 1998, with a corresponding drop in the current ratio.

The district's current ratio of 1.44 to 1 indicates that the district is in a strong position to meet financial obligations for the next fiscal year. As the district begins to pay principal related to the debt and other debt payments begin to come due, the district's current ratio is likely to move closer to the industry average.

Quick Ratio

The district's quick ratio indicates that the district maintains sufficient cash and short-term investments to meet its expected liabilities for the next fiscal year.

The **quick ratio** compares a company's cash and short-term investments and receivables to the financial liabilities the company is expected to incur within a year's time. For example, a ratio of .90 would mean that the cash and cash equivalents now available would cover ninety percent of the next year's expected liabilities. The quick ratio is calculated by adding cash, marketable securities, accounts receivable, and dividing by current liabilities. It is similar to the current ratio, but includes only those assets that are cash or near-cash equivalents. Hence, the quick ratio gives an even stricter indication of short-term debt-paying ability than does the current ratio. The industry average for utility companies is a ratio of .5 to 1. The shortfall below 1.0 can be attributed to the fact that the quick ratio compares a year's worth of obligations with cash that, for all practical purposes, is already in the bank. A quick ratio below .5 to 1 indicates a district's or company's potential difficulty in meeting current liabilities.

The following table shows the quick ratio for WJCUD for FY 1993 through FY 1998:

<u>Year</u>	<u>Quick Ratio</u>
FY 1993	19.45 to 1
FY 1994	34.24 to 1
FY 1995	24.49 to 1
FY 1996	19.01 to 1
FY 1997	48.86 to 1
FY 1998	1.43 to 1

Based on an assessment of this ratio, the district has sufficient funds to meet its obligations and debt payments. As stated earlier, it was not until FY 1998 that costs associated with, and substantial debt payments related to, the construction of the

wastewater system began to come due. Prior to FY 1998 the district was generating revenue, but had debt payments due totaling approximately \$1,000 (in FY 1997). In FY 1998 debt payments came due and became current liabilities; the quick ratio decreased and began to approach the industry standard. Again, as debt payments continue to increase and become current liabilities, the quick ratio will move closer to the industry standard.

Impact of Future Expansion

The trend of system expansion should allow the district to continue to generate sufficient revenue to meet its debt obligations.

Since activation in 1992, the district has seen steady growth in its customer base. As of May 1999, the district had a residential customer base of 2,977, with 719 additional customers projected for FY2000.

The district plans to use RECD funds (see page 9) and to explore other funding alternatives to expand water and sewer service to less densely populated areas north of Interstate 10. This expansion in customer base should contribute to the district's currently solvent financial condition.

Economic and Efficient Use of District Resources

While the district is consistent in monitoring expenditures, weaknesses exist in the areas of collection of delinquent accounts and billing and collection from private provider customers. The district's lack of authority over private providers leads to accountability problems in the areas of pollution control, accurate verification of private provider customer base, and complaint resolution.

Oversight of Administrative and Contractual Expenditures

The district has policies and procedures in place to control administrative and contractual expenditures.

The district maintains procedures for reviewing administrative and contractual expenditures and documenting board actions.

Administrative Expenditures

The district presents all administrative expenditures to its board of commissioners for approval.

Control for administrative expenditures lies with the board of commissioners of the district. All administrative expenditures are presented to the board of commissioners for approval at board meetings. The expenditures are then documented in the board minutes.

Contractual Expenditures

Contractual expenditures must be approved in a multi-level approval process before payment is made on deliverables.

The district makes contractual payments from both loan and grant revenues.

District expenditures made from loans and grants secured by the Rural and Economic and Community Development must go through an approval process before funds are released. Before payment is made, contract work must be approved by the engineer, the district, and finally, RECD. If all sign off on the deliverable, then payment is issued.

CDBG expenditures require additional approval by the Department of Economic and Community Development, the grantor of the CDBG.

Loans not secured by RECD require the approval of the contractor, the engineer and board of commissioners.

Inconsistent Delinquent Account Collection Practices

Because the district does not adhere to its own policy regarding the handling of delinquent accounts, the potential exists for inequitable treatment of customers.

The district does not adhere to the board-approved delinquent account policy and has no written policy regarding extensions and late payment arrangements.

While the district has a stringent written delinquent account collection policy, it does not adhere to specific sanctions within the policy. The district's current policy on delinquent accounts is as follows:

<u>Delinquency</u>	<u>Action Specified</u>
15 days late	Door hanger notifying of cut-off date (30th of the month)
20 days late	Cut off service with door hanger advising of reconnect policy and fees
60 days late	Bring before the board for reconnection approval

As of August 18, 1999, the district had forty-nine accounts over thirty days past due, totaling approximately \$17,491 in unpaid accounts (\$14,761 of this amount was due to one private provider). As of September 14, the district had disconnected service for four of these forty-nine accounts. Thus the district has not consistently enforced its policy of terminating service if payment is not made by a specified date.

According to the district manager, the district practices some flexibility in handling delinquent accounts. If the customer communicates with the district and makes payment arrangements regarding the past due account, the district will not disconnect service. However, this practice of allowing extensions and late payment arrangements has not been formalized in written board policy. The lack of a clear written policy could lead to arbitrary and inequitable actions regarding account delinquency.

It is the district's responsibility to practice good stewardship with regard to collection of customer charges. If the district were to enforce its delinquent policy and collect the corresponding fees, it could generate additional revenue, potentially resulting in a more sound financial condition and decreased rates.

Lack of Oversight in Billing and Collections from Private Provider Customers

While the district controls direct billing to customers and private provider billings based on meter readings, the potential for accountability and internal control problems arises when private providers are allowed to report the number of private provider customers receiving district service to the district.

The district uses four types of billing when collecting fees from customers :

- billing commercial customers directly based on a master meter reading.
- contracting with an outside collection agency to bill each of its residential customers at a set monthly rate. Residential customers remit their payments to the district.

The third and fourth methods deal with the billing of customers in private provider areas.

- The district bills Porteaux Bay, owned by a private provider, one amount based on a master meter reading. The private owner then collects fees from his customers and remits the bill to the district.
- In other areas with a private provider, the district establishes a set monthly fee for the private provider customers. The private owner then sends a separate bill for this amount to his customers. Individuals remit payments to the private owner, who then pays the district with one check accompanied by a printout of all current customers.

When the district's bill passes through the private owner, the potential exists for problems with accountability and internal control.

This fourth method of pass-through billing provides the potential for accountability and internal control problems because the district has no method of assuring that the private provider is reporting and subsequently remitting fees for all customers. The following discussion relates to this type of billing and fee collection.

District Billing Passed Through to Private Owner

Coast Waterworks, Inc. (CWI) owns the transport lines within Sweetbriar/Windsor Park and Cedar Grove subdivisions and the lines leaving the Quail Creek subdivision, and supplies the district with a list of current customers in the area. As a result of the 1991 DEQ mandate stating that all private treatment facilities had to connect with MGCRA, the district installed

transport lines outside these areas to transport the wastewater to MGCROWA.

In an agreement approved by the Public Service Commission, CWI performs the billing for district sewer service at a charge of \$1.00 per household. Customers in these areas receive two bills each month, one from the private provider for his services and one for district charges. Payments for district charges are returned to CWI, which then remits one payment to the district for all the customers billed.

This method of billing limits the district's accountability and internal control. The district has no way to verify the number of customers reported by CWI. In sworn testimony before the Public Service Commission in 1997, CWI stated that it had 2,342 residential sewer customers. The district manager stated that WJCUD has assumed responsibility for the transport and processing of wastewater for all of CWI's customers. In WJCUD's FY 2000 proposed operating budget, the district reports that CWI bills 2,225 residential customers. Thus, at least 117 residential customers are currently unaccounted for by the district. If each customer were to be charged at least the minimum service rate (\$20.54), these 117 residential customers would represent a minimum of \$28,000 in annual district revenues.

In an effort to increase control in an area billed by CWI, the district has set an established rate per gallon and bills the private provider based on a meter reading. This is the billing method the district uses for another private provider serving Porteaux Bay. Although this procedure provides the district some assurance of billing accuracy, CWI disputes this method of billing, stating that it violates the billing guidelines set forth in the Public Service Commission-approved contract between the district and CWI. PEER takes no position on this dispute.

The district is exploring two options to alleviate the issue of billing control:

- proceed to court to settle the dispute with CWI regarding billing based on meter readings; and,
- begin eminent domain proceedings against CWI to acquire the provider's water and sewer lines.

Unclear Jurisdiction Over Private Providers Contributes to Ineffective Oversight

Weaknesses in district operations exist because the district has limited authority over private providers. The potential for problems exists in the areas of pollution control, accurate count of customer base, and maintenance responsibility.

Weakness in district operations exists because the district has limited authority over private providers.

Three governmental entities exert some form of authority over private providers of sewer service in WJCUD's service area: the district, the Public Service Commission, and the Department of Environmental Quality. (The Department of Health exercises regulatory authority over individual on-site wastewater disposal systems with flows equivalent to a single-family residential generator except in cases where the property owner chooses to employ a professional engineer.)

(See Exhibit 7, page 24, for an illustration of the relationship among the entities.)

The lack of clear authority creates jurisdictional conflicts within the district and may contribute to at least three potential types of accountability problems:

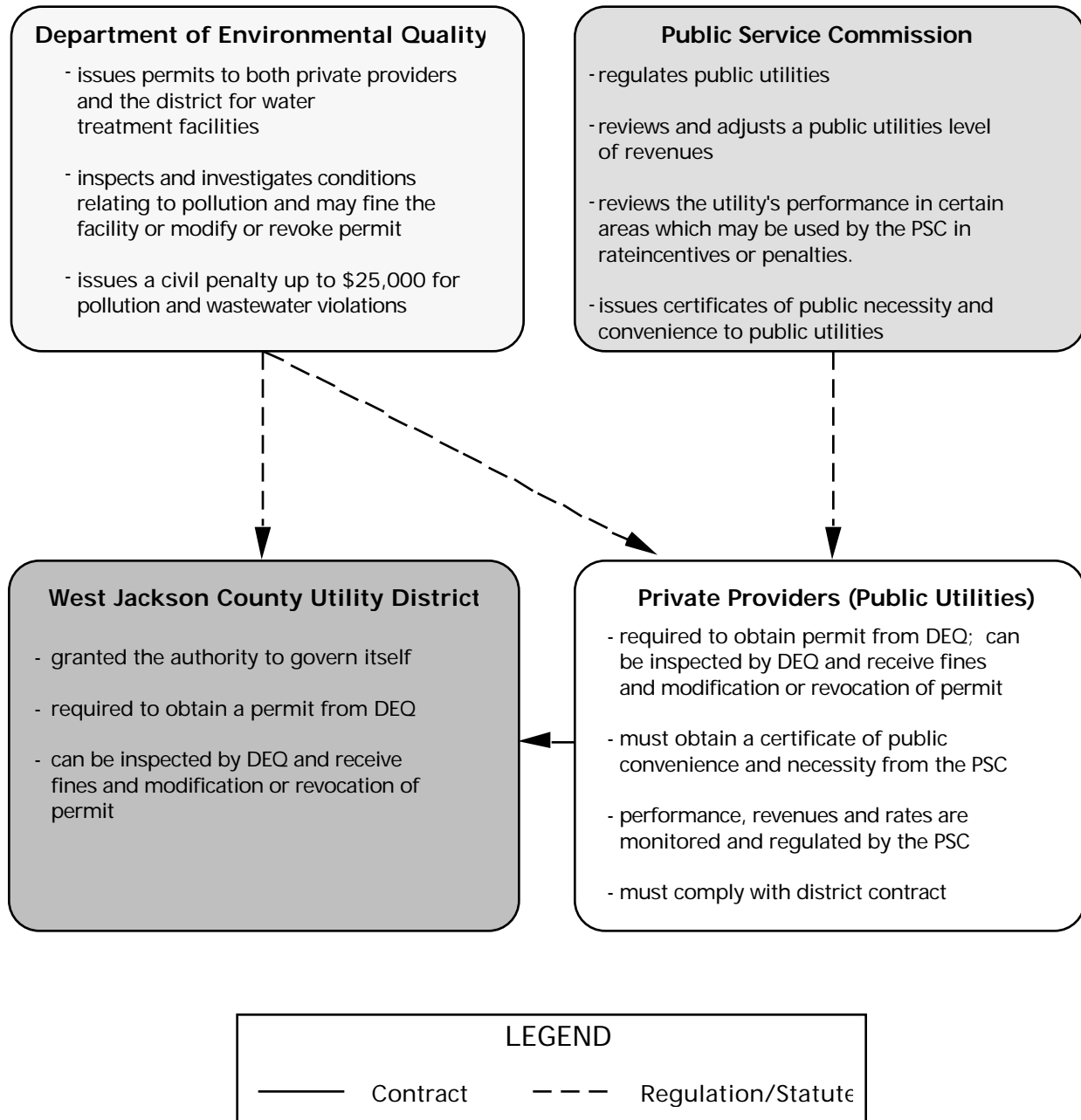
Requesting System Improvements to Prevent Pollution

The district has the responsibility for ensuring that the sewage systems contribute to the elimination of pollution, yet they have no direct authority to request improvements in the systems of the private owners. The only recourse available to the district upon observing environmental/pollution problems resulting from private operations is to contact DEQ and make a formal complaint. DEQ can then take corrective actions against the private provider.

Determining Customer Base

The district has no authority to obtain information regarding the customer base of the private providers. The private providers are required to report information to the Public Service Commission when rates are approved. Updated information is presented when the private owner requests a rate adjustment. Rate adjustment requests are random, and as a result the customer base information available is not always current and valid.

Exhibit 7: Relationship Between WJCUD, Private Owners, the Public Service Commission and the Department of Environmental Quality



SOURCE: PEER Analysis.

Resolving Complaints

Confusion over which provider has responsibility may impede complaint resolution and result in problems with private provider accountability.

When customers within the private providers' areas have maintenance requests or complaints, the question can arise as to from whom they should seek remedy--the private owner or the district.

While customers within private owner areas are paying the private owner for the use of the lines, they are also paying the district for service. In the case of CWI, the contract states that CWI is responsible for maintenance of lines to customer residences.

Recommendations

1. If the district chooses to allow service extensions and late payment arrangements, the district's board should approve a written policy concerning this and should distribute copies of the policy to all customers.
2. The district should seek to clarify its authority over private providers to establish accountability. Options include:
 - Establish the following criteria in contracts between districts and private providers;
 - clear, effective billing procedure
 - maintenance agreements
 - designated responsibilities
 - cause for termination of contract
 - Conduct a cost-benefit analysis to examine the possibility of pursuing eminent domain proceedings against private providers within the district service area.
3. The district should report problems to those entities that exercise authority over service delivery.

In cases in which pollution by providers causes an eminent threat, the district should immediately contact DEQ to make a formal complaint.
4. In order to improve accuracy of customer base information the district should:
 - require private providers (via contract) to report the number of active customers accurately and periodically
 - solicit Public Service Commission filing information to determine the number of customers in private service areas. While this information might not be current, it could be used to help verify information that the private provider reports to the district.

Appendix: A Service Areas Within the District and Related Funding

Phase I

In 1992 this area maintained individual septic tanks. As a result of the low water table and lack of gravity, this area required individual low-pressure grinder pumps.

This area received a \$5,000,000 loan from Rural Utilities Service, a division of the U.S. Department of Agriculture.

Phase II

This area maintained individual septic tanks. As a result of the low water table and lack of gravity, this area required individual low-pressure grinder pumps.

Phase II area was deemed by survey to be Low/Moderate Income area. This area received a Community Development Block Grant in the amount of \$450,000, a \$1,028,000 grant from Rural Utilities Service and a \$1,041,900 loan from Rural Utilities Service.

Sweet Briar/Windsor Park

In 1992, privately owned Coast Waterworks, Inc., had lines in this area and pumped waste to a lagoon. As a result of the DEQ administrative order, Coast Waterworks, Inc., was forced to cease discharging in the lagoon and hook up to the district and have the sewage transported to MGCRWA.

A \$100,000 grant from the Federal Gulf of Mexico program was used to build the lines to transport from Sweetbriar/Windsor Park to MGCRWA.

Cedar Grove

Similar to Sweetbriar/ Windsor Park, Coast Waterworks, Inc., owns the lines in this area, and was required to hook up with the district lines to transport the wastewater to MGCRWA.

The district took a loan from the Regional Wastewater Authority in the amount of \$115,066 to pay for the construction of the main line for Cedar Grove.

Quail Creek

The subdivision is currently being developed. The developer is turning the water lines over to CWI and the sewer lines over to the district.

In this area, Coast Waterworks, Inc., owns a portion of the line leaving the area.

Porteaux Bay

Westwick, Inc., has lines in this area. The district transports the wastewater from the area to MGRWA.

Jordan Road Farms

The contractor who built the subdivision installed the pipes and drains. The cost of these was included in the cost of the homes. WJCUD has taken over the water and sewer services for the area.

Hotels at Interchange

The contractors for the newly constructed hotels have expressed the need for water as well as sewer service.

The district has taken out a \$400,000 loan for construction of water wells at the interchange.

SOURCE: PEER analysis of WJCUD files.

Appendix B: Funding Detail for WJCUD

Funding Detail for WJCUD As of September 15, 1999

Loans

S.B. 2251 gives the district the right to "incur debts, to borrow money, to issue negotiable bonds, and to provide for the rights of the holders thereof."

Grantor	Amount	Area	Rate	Term
MGCRWA	\$115,006	Cedar Grove	6.40%	180 months
Hancock Bank	\$400,000	Hotels/water	4.79%	120 months

Revenue Bonds

S.B. 2251 provides the district the power to "Provide funds for the purpose of constructing, acquiring, reconstructing, improving, bettering or extending the utility facilities by the issuance of revenue bonds. Such bonds shall be payable primarily from the revenue of such facilities and may be issued without an election being held upon the question of issuance and without the publication of any notice of the intention to issue such bonds."

The bonds shall not exceed a net interest cost of 6% per annum or mature at such time or times exceeding 35 years from their date.

Grantor	Amount	Area	Rate	Term
RECD *	\$5,000,000	Phase I	5.75%	33 years
RECD*	\$1,041,000	Phase II	4.75%	33 years

Grants

Grantor	Amount	Area
Gulf of Mexico	\$138,774	Sweetbriar
RECD*	\$1,028,000	Phase I
CDBG**	\$450,000	Phase I

* (issued by the district and secured by Rural Economic and Community Development)

**Community Development Block Grant

SOURCE: PEER analysis of WJCUD files.

Appendix C: Components of Rates for Customers within the WJCUD Service Area

The rates are calculated based upon the following;

1. Loan Repayment- Amount based on annual amortization of loan expenses.
2. Sewage Treatment- \$1.62 per thousand gallons charged by the district. MGCRWA receives \$1.28 per thousand gallons and the district receives \$.34 per thousand gallons. Based on average usage, different areas are charged for different amounts of gallons per month.
3. Maintenance- Due to construction-related costs, maintenance will vary within the areas.
4. Other Fees and Payments-
 - Collection Fee-Fee charged for billing
 - Bad Debt Fee-Reserved in fund to cover individuals who do not pay. Areas no longer charge a bad debt fee if they have sufficient funds in this account.
 - Bond Cushion Fund-Set amount required by the U.S. Department of Agriculture. Once that amount is reached, the area is no longer charged.
 - Depreciation Fund-Set amount required by the U.S. Department of Agriculture. Once that amount is reached, the area is no longer charged.
 - Contingent Fund-Set amount required by the U.S. Department of Agriculture. Once that amount is reached, the area is no longer charged.
 - Pump Station Maintenance-Upkeep of stations that move wastewater to MGCRWA.
5. Private Owner Billing-This amount is not included in district rates. This is the amount charged by the private owner for customer use of his transport lines.

SOURCE: PEER analysis of WJCUD files.

Agency Response

**WEST JACKSON COUNTY UTILITY DISTRICT
7312 ROSE FARM ROAD
OCEAN SPRINGS, MS 39564
PHONE: 228 872-3898
FAX: 228 872-3861**

Dr. Max Arinder
Executive Director, PEER Committee
Post Office Box 1204
Jackson, MS 31215-1204

Re: Response to Report

Dear Dr. Arinder:

The Board of Commissioners and Staff of the West Jackson County Utility District appreciates the opportunity to address some of the issues which are set out in the PEER Committee Report. Initially, the Board and Staff would like to thank the Committee and its staff for the professionalism and thoroughness of its review. As a relatively new entity, the District is still learning how to best deal with each new situation it faces. Consequently, while the decisions we make are not always exactly as they should be, they are made with the best interests of our residents and customers in mind.

With regard to our delinquent account policy, the District does have a policy as set out in the Report. The District needs to revisit this issue and revise the Policy based on the experiences which we have had during the past year. The current policy while fair to all, does not address the many different situations which we face in the field each day. The Board and Staff will be working on this issue in the coming weeks.

With regard to our relationship with the private utility companies in our District, it is a constant source of frustration and customer relation problems because of the overlapping jurisdictional problems. The District is exploring a number of options to alleviate this problem. While we are looking at these options we are doing everything possible to make the current situation work.

Again, the District appreciates and welcomes review by the PEER Committee. If you have any questions or comments please do not hesitate to contact me.

Sincerely,

WEST JACKSON COUNTY UTILITY DISTRICT

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