

Comptroller Utility Regulation

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TENNESSEE COMPTROLLER OF THE TREASURY



Roadmap

1. What are the utility boards?
2. What types of Board cases are there?
3. WWFB Cases
4. UMRB Cases
5. Utility Annual Information Report
6. A Note on Training
7. Water Loss

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Water and Wastewater Financing Board

“(a)(1) A water and wastewater financing board is established in the office of the comptroller of the treasury to determine and *ensure the financial integrity* of certain water systems and wastewater facilities.

(2) The board is charged with the responsibility of furthering the legislative objective of *self-supporting water systems* and wastewater facilities in this state and shall be deemed to be acting for the public welfare...”

Tenn. Code Ann. § 68-221-1008(a)(1)-(2) (emphasis added)

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WWFB Jurisdiction

The following entities are under the jurisdiction of the Board:

1. any county, metropolitan government, or incorporated town or city empowered to provide water or wastewater services; and
2. Any treatment authority, created pursuant to part 6 or part 13 of this chapter, or by any public or private act of the general assembly, that operates a water or wastewater facility.

Tenn. Code Ann. § 68-221-1008(i)-(j)

Utility Management Review Board

There is hereby created in the office of comptroller of the treasury a utility management review board for the purpose of advising utility district boards of commissioners in the area of utility management. The utility management review board created by this section is vested with authority over all utility districts established pursuant to this chapter or by any public or private act.

Tenn. Code Ann. § 7-82-701(a)

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UMRBB Jurisdiction

- Jurisdiction over utility districts
 - Sewer
 - Water
 - Natural Gas
- No jurisdiction over municipal or county utility systems
- Authority to hear certain types of customer complaints

Do the Boards treat their entities differently?

The law prescribes different powers to the Boards.

In practice, the utilities are looked at under the same lens.

Except for Customer Complaints with the UMRB.

Financial Distress Partial Definition

- 2 Years of a Negative Statutory Change in Net Position
- Audited Statement of Change in Net Position (Income Statement)
- GAAP Change in Net Position minus:
 - Grants
 - Capital Contributions
 - Transfers In

Financial Distress Process

1. Referral
2. Questionnaire
3. Order
4. Implementation of the Order
5. Update Cycle

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WWFB Jurisdiction

Jurisdiction

284 Total Utilities

249 Municipal Systems

12 Metropolitan/County Systems

14 Authorities

9 Joint Ventures

Current Board Cases

91 Total Cases

89 Financial Distress

2 Investigations

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WWFB Financial Distress

89 Financial Distress Cases

31% of WWFB Utilities are Financially Distressed

6 Questionnaires Outstanding

6 Questionnaires Received

27 Orders Outstanding

50 Update Cycle Entities

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UMRB Jurisdiction

Jurisdiction

172 Utility Districts

Current Board Cases

22 Total Cases

20 Financial Distress

2 Investigation

UMRB Financial Distress

20 Financial Distress Cases

12% of UMRB Utilities are Financially Distressed

3 Questionnaires Outstanding

6 Questionnaires Received

18 Update Cycle Entities

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Combined Cases

109 Financial Distress Cases

WWFB: 62% of all Utilities, 82% of all Financial Distress Cases

UMRB: 38% of all Utilities, 18% of all Financial Distress Cases

Why the discrepancy?

My Utility Has Been Referred, Now What?

- Online Questionnaire
- Order Typically Contains:
 - Rate Study
 - Justification for Inside and Outside Rates
 - Evaluation and Modification of Policies
 - Debt Management
 - Capitalization
 - Purchasing
 - Leak Adjustment

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My Utility Has Been Referred, Now What?

- Implement the Recommendations
- Update Cycle
 - Biannual Updates through an Online Form
- Release
 - 2 Years of positive change in net position
 - Most recent audit has been filed
 - Compliance with all board directives

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Other Board Cases

- Investigations
- Annual Information Report
- Training
- Cyber Security
- Tap Quote Breakdown Complaints
- Water Loss

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Board Investigations

- Comptroller Investigation, Board Investigation
- The Boards have the ability to open investigations into the technical, managerial, and financial capacity of a utility.
- Can order corrective actions to rectify certain situations.

Annual Information Report

- Office Location: Physical Location
- Current Fiscal Year End Date: This cannot be changed.
- Has the utility filed its most recent budget within 15 days of adoption?
- Has the utility filed its most recent audit within 6 months of the Fiscal Year End?

Annual Information Report

- **Contact Information: One Point of Contact**
- **Utility Website**
- **Utility Service**
 - **Water?**
 - **Sewer?**
 - **Gas?**

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Annual Information Report

- When was your most recent rate study?
- Which county has the most customers?
- Which counties do you serve?

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Annual Information Report

- Does this utility offer Water Service?
- How much water did the utility purchase or produce in millions of gallons during the most recent fiscal year in which data is available?
- How much water did the utility sell in millions of gallons during the most recent fiscal year in which data is available?

Annual Information Report

- What were the net water sales?
- What were total operating expenses including depreciation?
 - Billed amount for 1,000 gallons?
 - Billed amount for 3,000 gallons?
 - Billed amount for 5,000 gallons?

Annual Information Report

- Active Water Customer Count?
- Does this utility purchase more than 50% of the water it sells?
- Is there a contract for the purchase of this water?
- If yes, upload a copy of the contract.
- Describe the infrastructure connections to other utilities.

Annual Information Report

- Does this utility offer Wastewater Service?
 - How many customers?
- Does this utility offer Gas Service?
 - How many customers?
- How is this utility governed?
 - Is the governing body in compliance with the training laws?

What types of referrals from the AIR?

- Referral for not filling out the AIR.
- Referral for Training Compliance.
- Water Loss Referral

Training

- Applies to members of the governing body that “supervises, operates, or controls” the utility
- The Comptroller’s Office offers up to 18 hours of online training for members of the governing body of a utility.
- Must receive 12 hours within first year of election or appointment, then 12 hours for each 3-year period after the initial training period
- 3-year period starts on January 1 of the year after initial training is received
- We can approve internal trainings.

Water Loss

- Non-Revenue Water of more than 40%
- $\text{Water Produced} - \text{Water Sold} = \text{Non-Revenue Water}$
- $\div \text{Water Produced} = \text{Water Loss \%}$
- What about validity score?

Water Loss Referral, What Happens?

- Notice from our Office
 - Engage a 3rd party to complete the most recent AWWA water loss tool.
- The results from the AWWA tool are brought in front of the Board:
 - If it is determined there is a water loss issue, and there is no plan to correct the water loss problem, then further action will be taken.
 - If it is determined there is not a true water loss issue, no action will be taken.
 - If it is determined there is a water loss issue, but there is a plan in place, then the entity will be placed on the update cycle.

Mitigating Managerial Risks

Follow Policies and Ordinances

- **Ordinance: 5% Late Fee**
 - 10% Late Fee charged
- **Ordinance: Accept Payments until 4:30 PM**
 - Scraped Paint Off Doors
 - Sharpie “4:00 PM”
- “We don’t really follow our policies.”

3 Keys for Budgets

Templates Available on Comptroller Website

1. Mimic your Audit Income Statement
2. Budget for Depreciation
3. Do not budget for a loss with no plan to rectify the situation.

Depreciation

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BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS

	WATER AND SEWER	NATURAL GAS	TOTALS
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,246,277	\$ 2,369,278	\$ 4,615,555
Investments	141,858	613,132	754,990
Accounts receivable, net of allowance	74,718	-	74,718
Other receivables	134	4,586	4,720
Grant receivables	36,974	148,501	185,475
Inventory	80,616	65,722	146,338
Current portion of advance to other fund	-	96,557	96,557
Gas storage inventory	-	55,156	55,156
Total Current Assets	2,580,577	3,352,932	5,933,509
Restricted Assets			
Cash and cash equivalents	769,718	-	769,718
Property, Plant and Equipment			
Buildings and improvements	325,829	59,049	384,878
Equipment	982,038	747,304	1,729,342
Plant	23,956,291	3,886,595	27,842,886
Land	89,764	750	90,514
Total Property, Plant and Equipment	25,353,922	4,693,698	30,047,620
Construction in progress	83,038	-	83,038
Less accumulated depreciation	(10,749,557)	(2,957,410)	(13,706,967)
Net Property, Plant and Equipment	14,687,403	1,736,288	16,423,691

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition/disposals of fixed assets	(319,174)
Gain on sale of capital assets	-
Grant proceeds	82,345
Receipts(Payments) on Advance from(to) other funds	(55,666)
Interest paid on long-term debt	(66,064)

NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES

(430,375)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase/maturity of investments	(1,751)
Interest earned	5,489

NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES

3,738

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

364,883

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

2,651,112

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 3,015,995

RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Income (loss) from operating activities	\$ 145,667
Adjustments to reconcile income from operations to net cash	
Depreciation and amortization	643,830
Changes in Assets and Liabilities:	

Why is Depreciation Important?

Rate Breakdown - No Depreciation

✓ Recurring	\$1,500,000
✓ Interest Expense	\$66,000
✓ Capital Purchases	\$6,000,000

Total Cost: \$7,566,000

Customers: 3,753

Revenue Requirement **\$167/month**

Rate Breakdown - With Depreciation

✓ Recurring	\$1,500,000
✓ Interest Expense	\$66,000
✓ Depreciation	\$650,000

Total Cost: \$2,216,000

Customers: 3,753

Revenue Requirement **\$50/month**

	WATER AND SEWER	OPERATING EXPENSES	
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,246,277	Gas purchases	-
Investments	141,858	Personnel services	644,026
Accounts receivable, net of allowance	74,718	Contracted services	224,195
Other receivables	134	Other administrative	116,171
Grant receivables	36,974	Utilities	219,173
Inventory	80,616	Materials and supplies	69,066
Current portion of advance to other fund	-	Repairs and maintenance	146,829
Gas storage inventory	-	Depreciation and amortization	643,830
Total Current Assets	<u>2,580,577</u>	Total Operating Expenses	<u>2,063,290</u>
		Operating Income	<u>145,667</u>
Restricted Assets		NONOPERATING REVENUES (EXPENSES)	
Cash and cash equivalents	<u>769,718</u>	Interest income	5,489
		Interest expense	(66,063)
Property, Plant and Equipment		Total Nonoperating Revenues (Expenses)	<u>(60,574)</u>
Buildings and improvements	325,829		
Equipment	982,038	NET INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>85,093</u>
Plant	23,956,291		
Land	<u>89,764</u>	TRANSFERS AND CAPITAL CONTRIBUTIONS	
Total Property, Plant and Equipment	<u>25,353,922</u>	Transfer out	(21,133)
Construction in progress	83,038	Capital contributions	391,008
Less accumulated depreciation	<u>(10,749,557)</u>	Total Transfers and Capital Contributions	<u>369,875</u>
Net Property, Plant and Equipment	<u>14,687,403</u>		
Other Assets		CHANGE IN NET POSITION	<u>454,968</u>
Advance to other funds	-		
Total Assets	<u>18,037,698</u>		

The Boards In Practice

- Rate Structures
- Enforcement Proceedings
- Subpoenas
- Board Investigations
- Annual Information Report
- New System Approval
- Training
- Customer Complaints- UMRB Only

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Summary

- WWFB and UMRB
- Utility Districts often perform better financially, but receive the same general, practical oversight.
- Board Cases and Referrals
- Annual Information Report
- Training
- Water Loss, sell at least 60% of the water that you purchase or produce.

UMRB & WWFB

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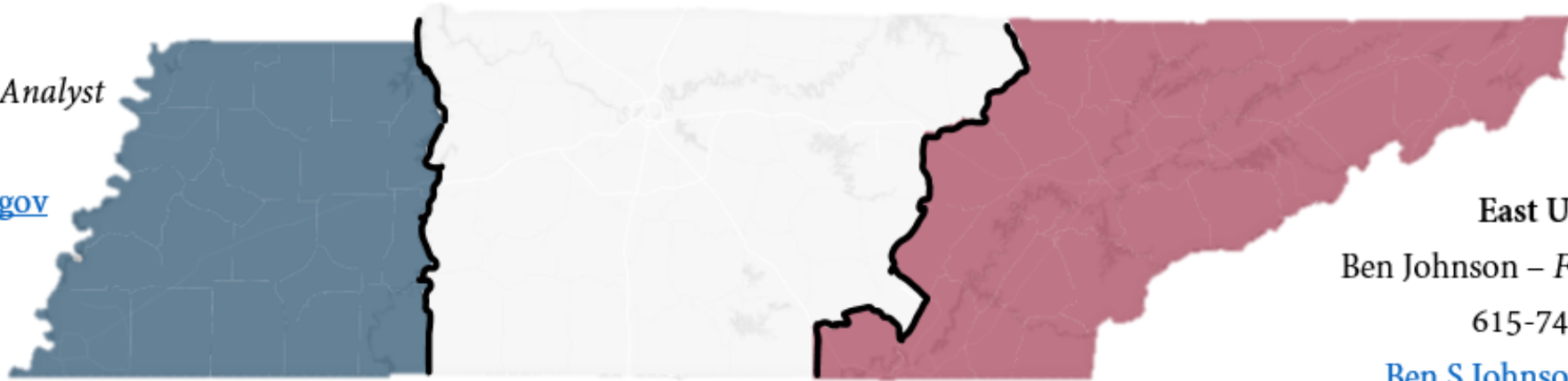
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