



UTILITY BOARDS

2019 Annual Report

Justin P. Wilson
Comptroller of the Treasury



Jason E. Mumpower
Deputy Comptroller



John Greer
Utilities Specialist

Pursuant to Tenn. Code Ann. § 7-82-705, this report provides an overview of the Utility Management Review Board for the period ending November 30, 2019. In addition, the report also summarizes the activities of the Water & Wastewater Financing Board for the same period.

MESSAGE FROM THE UTILITIES SPECIALIST



John Greer
Utilities Specialist

Dear Members of the General Assembly,

Over the past year, the Comptroller's Office has worked with the Water & Wastewater Financing Board (WWFB) and the Utility Management Review Board (UMRB) to make utilities work better in almost every legislative district across Tennessee. While each utility is different, they all have the same goal of providing reliable and affordable service to customers. Our Office works to ensure that utilities have rates that are justifiable and reasonable.

As Technical Secretary for the WWFB, I work with my colleague Ross Colona to provide financial guidance, as well as technical and managerial assistance, to the 251 municipalities, 14 counties, and 10 treatment authorities that oversee a water and/or wastewater system in Tennessee. We also serve as staff to the UMRB, providing the same guidance and assistance to the 175 utility districts across the state.

I hope this annual report demonstrates some of the successes we have had in the past year and the challenges we face moving forward. The WWFB and UMRB recognize that protecting the financial health of governmental utilities also protects public health. I am confident that with your continued support, we will make utilities work better.

If I can be of service to you or your constituents, please do not hesitate to contact me.

Thank you,

A handwritten signature in black ink, appearing to read "John Greer", written over a white, diamond-shaped graphic element.

John Greer
Utilities Specialist

Utility Boards

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*For additional information about the
Water & Wastewater Financing Board and the
Utility Management Review Board, visit:
www.comptroller.tn.gov/boards/utilities*

SUCCESS STORIES

One of the goals of our Office is to ensure that utilities are financially stable for many years to come. We are not interested in quick, short-term solutions that don't solve underlying problems. We require a long-term financial strategy and capital asset plans for every utility that is referred to the Boards. We also require systems to hire an independent third party to perform a rate study and evaluate policies and procedures that we identify as problematic or deficient. The improvements and long-term stability that we've seen have been remarkable.

After the UMRB or WWFB work with a utility to establish a long-term plan, we require updates twice annually to ensure not only that the plan is being followed but that it is also working as intended. Rather than immediately releasing a utility from the Board's oversight after a one-year positive change in net position, we follow the utility's progress to ensure that the success is repeatable, and no regression occurs.

Our long-term vision works for all sizes of utilities. This year our Boards assisted utilities with as many as 200,000 customers and others with as few as three customers. While the details and action steps must inevitably vary between differing utility sizes, all customer bases will enjoy stable and reliable service. In all situations, the Boards exercise their statutory powers and duties discerningly and thoroughly to secure success for each individual community.

As a testament to this beneficial process, the Boards have successfully released a total of 15 previously financially distressed utilities from their oversight. Thanks to Board and staff efforts, these utilities now have a solid financial plan for long-term stability. While these entities no longer actively provide the Board with regular updates, we remain in contact with them to provide assistance if needed.

CHALLENGES

Utilities are one of the most important services that government entities provide. The Boards not only recognize the importance of efficient and stable utility systems, but we also understand the significant challenges many local governments face in maintaining their financial stability.

While most utilities welcome assistance in developing financial plans from our Office, some refuse to accept help or advice. In these situations, the Boards are forced to exercise their statutory authority in issuing orders requiring the utilities to take certain actions necessary for financial success. While these orders are enforceable through chancery court, we are currently involved in only one such instance, and we only use this remedy if all other attempts to help have failed.

In other situations, our Boards initiate, participate in, and, when necessary, mandate consolidation negotiations. We are currently involved in two consolidation negotiations and predict more in the coming years. The Boards only initiate consolidation negotiations when they are convinced it is the best option for long-term viability. These cases often involve utilities located in areas where growth is impossible or unlikely or where the population has declined so significantly that the decreasing customer base can no longer support a utility. Affected customers typically enjoy stability in rates and service after a consolidation occurs.

As we reported last year, the Governor's TN H2O report estimated that local governments will need at least \$15.6 billion for water and wastewater infrastructure projects by 2040. Even after factoring in historical contributions, local utilities will still need \$13.9 billion for repairs, maintenance, replacing aging infrastructure, and building new systems to meet population growth. Infrastructure deficiencies in local utilities are having a significant impact on ratepayers. Leaking water pipes cost Tennessee utilities \$83 million on average annually, while leaking sewer pipes cost \$200 million in unnecessary treatment annually. These costs will continue to rise as infrastructure deteriorates.

Through training and education, the Comptroller's Office proactively helps utilities navigate the high cost of preserving and replacing aging infrastructure while maintaining reasonable customer rates.

TRAINING

Over the past year, our Office led multiple free commissioner trainings across Tennessee. We have also successfully developed online training that is available at no cost to members of local utility boards.

Thanks to the diligent efforts of the members of the General Assembly, Tennessee is one of the leading states in the nation for utility training requirements as all board members that oversee governmental water and wastewater systems and natural gas utility districts are now required to have training. Other states are beginning to follow our model because of the success Tennessee utilities and their customers enjoy. We sincerely thank the General Assembly for its support of training and education.

While we expect some municipal systems may seek to be exempt from the training requirements, we urge the General Assembly to maintain Tennessee's status as a national leader and keep the training requirements applicable to all boards. To do otherwise would be a regression, as training positively impacts all those required to take it.

We believe that by providing free training to the decision makers, giving technical and managerial assistance to the individuals running utilities daily, and building long-term plans for those facing financial distress, we ensure future generations will enjoy the same utility service we receive today.



2019 BOARD STATISTICS

The **Water and Wastewater Financing Board** heard the following case types:

Financial: 76
Water Loss: 74
Training Compliance: 1

The **Utility Management Review Board** heard the following case types:

Financial: 26
Water Loss: 29
Investigation: 5

WATER & WASTEWATER FINANCING BOARD MEMBERS

Ann Butterworth

Chair, Comptroller's Designee

Tom Moss

Vice Chair, TDEC Designee

Michael Adams

Utility Districts

Mike Goodman

Manufacturing Interests

Rick Graham

Municipalities

Eugene S. Hampton II

Government Finance/Minority Citizens

Drexel Heidel

Active Employee of a Utility District

Nick Newman

Active Employee of a Municipal Water System

Jim Redwine

Environmental Interests

UTILITY MANAGEMENT REVIEW BOARD MEMBERS

Ann Butterworth

Chair, Comptroller's Designee

Tom Moss

Vice Chair, TDEC Designee

Kevin Botts

Consumer Representative

Dan Coley

Utility District Commissioner

Phillip Combs

Utility District Manager

Bruce Giles

Utility District Manager

Rebecca Hunter

Utility District Commissioner

Pat Riley

Utility District Manager

Jason West

Utility District Commissioner