



STATE OF TENNESSEE
Utility Management Review Board

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January 3, 2013

The Honorable Bill Haslam
Governor of Tennessee
First Floor, State Capitol
Nashville, TN 37243

Dear Governor Haslam:

The Utility Management Review Board is submitting to you its annual report for 2012.

On behalf of each member of the Board, I would like to extend our appreciation to the ladies and gentlemen of the Office of the Comptroller of the Treasury for their valuable contributions to the Board this year. Without their assistance, the Board would not have been successful.

The goal of the Board is to follow our legislative mandates and to extend our services to the citizens of the State of Tennessee. We appreciate your continued confidence in and support of the Board. If I, or any member of the Board, can be of further assistance to you and your staff, please feel free to contact me.

Sincerely,

A handwritten signature in black ink that reads "Ann V. Butterworth".

Ann V. Butterworth
Chair

Attachment

Cc: Honorable Justin P. Wilson, Comptroller of the Treasury

**ANNUAL REPORT
OF THE
UTILITY MANAGEMENT REVIEW BOARD**

January 2012 through December 2012

ANNUAL REPORT FOR CALENDAR YEAR 2012

The 95th General Assembly created the Utility Management Review Board (Board) in 1987. The Board promulgated its rules and regulations and began hearing cases in January 1989. In 2007, the administrative support for the Board was transferred to the Office of the Comptroller of the Treasury. The current rules of the Board became effective on September 27, 2010.

Approximately 177 utility districts operate in the State of Tennessee. Utility districts operate approximately 155 water, 22 wastewater, and 24 natural gas systems

The Division of Local Government Audit, Comptroller of the Treasury, refers utility districts to the Board in accordance with state statutes, either for financial distress or for water loss. Financially distressed utility districts are currently defined as those having deficit total net assets in any one year, having negative change in net assets for a period of two consecutive years, or currently being in default on any debt instrument. Utility districts with water loss in excess of 35% are referred to the Board.

Staff to the Board reviews the referred utility district and prepares presentations to the Board. Staff works with the utility districts to develop strategies to comply with state law. After the Board has approved a utility district's plan to achieve compliance, the Board monitors the case to determine if the approved recommended compliance plan is successful. If not, the District must meet with the Board and explain the steps required to resolve the condition.

During the five meetings held in 2012, 29 case studies (15 financial distress and 14 water loss), 5 status reports, and 17 compliance reports were presented to the Board.

Since its creation, 166 financially distressed utility districts have appeared before the Board. Currently there are 21 districts under the jurisdiction of the Board for financial distress. There are also 24 additional districts currently being monitored only for excessive water loss.

The Board is also responsible for serving as an appeals board between customers and the local board of commissioners of the utility district. Staff received 139 customer complaints in 2012. Four complaints were heard by the Board, which found in favor of the Districts. One complaint, received in 2012 will be heard by the Board in 2013. The remainder of the complaints were resolved by Board staff or the complainants chose not to pursue the issue with the Board.

During the 2009 legislative session, the General Assembly revised the statutes to mandate Board approval of the creation of any new utility districts. One petition for creation was reviewed and approved during 2012.

During the 2010 legislative session, the General Assembly created a utility district training requirement with the approved curriculum being filed with the Board. Two training curricula were filed with the Board during 2012.

The Board has the authority to conduct a contested case hearing to determine if a utility district commissioner or commissioners should be removed from office

based on petitions filed by 20% of the customers of a utility district. No petitions for removal of commissioners were filed in 2012.

The Board also has the authority to commence commissioner removal procedures based on the information presented in an investigative audit prepared by the Department of Audit. Removal proceedings began against commissioners of one utility district during 2011. Currently in appeals court, the proceedings will continue into 2013.

In 1989, the General Assembly created the Utility Relocation Loan Program (URLP). This legislation was enacted to assist cities and utility districts that require financial assistance to relocate utility lines due to highway construction by the Tennessee Department of Transportation (TDOT). The Board was designated as the agency to recommend loans to the State Funding Board. There was one loan request submitted to the Board during 2012. That request is pending the submittal of recently audited financial statements. Currently there is one outstanding URLP loan with a balance of \$1,700,983. The approximate amount available in the URLP on December 31, 2012 approximately \$6,597,393. Those funds are held in the Highway Fund under TDOT for accounting purposes.

In 2007 the General Assembly authorized a utility district or water, wastewater or gas authority to adopt its own ethics policy instead of being subject to the relevant county's policy. If a district or authority chooses to adopt the Tennessee Association of Utility Districts (TAUD) model of ethical standards, no additional review is needed. The Board was required to review and approve the TAUD model before the model could be adopted by any utility district or water, wastewater or gas authority. If a district or authority chooses not to adopt the TAUD model, it must adopt a policy which must be determined to be more stringent by the Board. There were no requests to review ethics policies in 2012.

The Board has the authority to review the rates charged by a utility district if a petition is filed by 10% of the customers within the authorized area of the district. During 2012, three petitions were filed requesting a rate review. In one case, the Board determined that it did not have the authority to review a management decision of the district related to services provided, however, a rate review is in process with a hearing scheduled for April 2013. The remaining two requests were rejected by staff for failure to submit the required number of customer signatures. There are two additional rate review cases that were remanded back from the Chancery Court for further review by the Board.

At a joint meeting of the on June 6, 2012, the Board and the Water and Wastewater Financing Board decided to reaffirm the October 7, 2010, decision to adopt the American Water Works Association (AWWA) water loss methodology for inclusion in any audited financial statements received by the Comptroller of the Treasury on or after January 1, 2013. The water loss methodology can be obtained from **www.AWWA.org**

At the June 6, 2012, meeting the following was adopted by the Boards:

- I. *Require that the AWWA Excel Spreadsheet (in the specific format created by utilizing the AWWA Free Water Audit Software) be submitted electronically in an Excel format. It is the intention of*

the Boards that the AWWA Excel spreadsheet be filed by the contracted auditor in Excel format at the same time the annual audited financial statements are filed. The Excel spreadsheet is not considered audited information, but only submitted simultaneously. This requirement should not be confused with and does not replace the supplemental schedule (i.e., the single "Reporting Worksheet") included as part of the annual audited financial statements as required by Tennessee Code Annotated.

- II. In accordance with TCA 68-221-1010(d)(1) and TCA 7-82-401(h)(1), failure to include the required schedule constitutes excessive water loss and...referral to the appropriate board. **THEREFORE, failure to include the AWWA schedule in audited financial statements received by the Comptroller of the Treasury on or after January 1, 2013, will result in the System being referred to the appropriate Board.**
- III. Further, utilities will be referred to the Boards based on:
- A. Incomplete AWWA water audit submitted anytime on or after January 1, 2013;
 - B. For audits received by the Comptroller of the Treasury from 1/1/2013 to 12/31/2014 -Validity score of 65 or less or non-revenue water as a percent by cost of operation system of 30% or greater;
 - C. For audits received by the Comptroller of the Treasury from 1/1/2015 to 12/31/2016 -Validity score of 70 or less or non-revenue water as a percent by cost of operation system of 25% or greater;
 - D. For audits received by the Comptroller of the Treasury from 1/1/2017 to 12/31/2018 - Validity score of 75 or less or non-revenue water as a percent by cost of operation system of 20% or greater;
 - E. For audits received by the Comptroller of the Treasury from 1/1/2019 to 12/31/2020 Validity score of 80 or less or non-revenue water as a percent by cost of operation system of 20% or greater.

Failure to achieve the designated levels will result in a referral to the Board(s).

The requirements will be reviewed by the Boards annually to ensure the desired results are being achieved. The levels are subject to change by approval of the Board(s).

**CASES PRESENTED
TO THE
UTILITY MANAGEMENT REVIEW BOARD
DURING 2012**

Utility District

County

Case Studies – Financial distress

Citizen's Gas Utility District	Scott
Claiborne County Utilities District	Claiborne
Clarksburg Utility District	Carroll
Clearfork Utility District	Claiborne
First Utility District of Hardin County	Hardin
Hornbeak Utility District	Obion
Leoma Utility District	Lawrence
Mowbray Utility District	Hamilton
North Utility District	Decatur/Benton
Savannah Valley Utility District	Hamilton
Siam Utility District	Carter County
South Side Utility District	Smith
Striggersville Utility District	Hawkins
Unicoi Water Utility District	Unicoi
West Cumberland Utility District	Cumberland

Case Studies – Water loss

Cherokee Hills Utility District	Polk
Cookeville Boat Dock Road Utility District	Putnam
Double Springs Utility District	Putnam
Blountville Utility District	Sullivan
First Utility District of Carter County	Carter
Hampton Utility District	Carter
Iron City Utility District	Lawrence
Jackson County Utility District	Jackson
Knox Chapman Utility District	Knox
Quebeck-Walling Utility District	White
Siam Utility District	Carter
South Giles Utility District	Giles
Sunbright Utility District	Morgan
Woodlawn Utility District	Montgomery

Status Reports

Bloomingtondale Utility District	Sullivan
DeWhite Utility District	White
Fall River Utility District	Lawrence
Gibson County Municipal Water District	Gibson
Tuckaleechee Utility District	Blount

Compliance Reports

Arthur Shawanne Utility District	Claiborne
Blountville Utility District	Sullivan

**UTILITY DISTRICTS
CURRENTLY UNDER THE JURISDICTION OF THE
UTILITY MANAGEMENT REVIEW BOARD**

Bedford County Utility District	Bedford
Bloomington Utility District	Sullivan
Bon de Croft Utility District	White
Bristol-Bluff City Utility District	Sullivan
Carderview Utility District	Sullivan
Cedar Grove Utility District	Carroll
Cherokee Hills Utility District	Polk
Chuckey Utility District	Greene
Clarksburg Utility District	Carroll
Clay Gas Utility District	Clay
Cookeville Boat Dock Road Utility District	Putnam
Cross Anchor Utility District	Greene
DeWhite Utility District	White
Double Springs Utility District	Putnam
East Sevier Utility District	Sevier
Fall River Road Utility District	Lawrence
First Utility District of Hardin County	Hardin
Gibson County Municipal Water District	Gibson
Hampton Utility District	Carter
Intermont Utility District	Sullivan
Iron City Utility District	Lawrence
Jackson County Utility District	Jackson
Leoma Utility District	Lawrence
Lone Oak Utility District	Sequatchie
Minor Hill Utility District	Giles
Mooreburg Utility District	Hawkins
Mowbray Utility District	Hamilton
Natural Gas of Hawkins County	Hawkins
Northeast Henry County Utility District	Henry
Quebeck-Walling Utility District	White
Sale Creek Utility District	Hamilton
Samburg Utility District	Obion
Shady Grove Utility District	Jefferson
Siam Utility District	Carter
Sneedville Utility District	Hancock
Soddy Daisy-Falling Water Utility District	Hamilton
South Elizabethton Utility District	Carter
South Side Utility District	Smith
South Giles Utility District	Giles
Tuckaleechee Utility District	Blount
Unicoi Water Utility District	Unicoi
Webb Creek Utility District	Sevier
West Cumberland Utility District	Cumberland
West Point Utility District	Lawrence
Woodlawn Utility District	Montgomery

