

Municipal Utility Enterprise Funds



As in all states, Mississippians rely on their local municipalities to provide and maintain their drinking water and wastewater services. Mississippi has 298 incorporated municipalities, and 288 of those own their public water supply and serve 50 percent of the population. The remaining 50 percent of Mississippians are served by rural water associations, utility districts, and privately owned water systems¹. Mississippi municipalities are tasked with operating and managing the water and wastewater utilities in a manner that corresponds with Mississippi Code of 1972, Annotated (MCA) and the Governmental Accounting Standards Board's Governmental Accounting Practices.

This publication addresses the water and wastewater utilities in Mississippi that are considered public utilities. It will define *enterprise fund* and review the statutes that give municipalities the authority to establish and maintain enterprise funds. It will also address the amount of revenue and cash reserves recommended for utility enterprise funds. Our goal is to help municipal officials adequately prepare for regulatory compliance, future regulatory mandates, and current and future infrastructure maintenance, upgrades, and expansion.

Utilities Considered to be Public

MCA Section 21-27-23 provides the general authority of a municipality to create, maintain, and operate public utility systems. Public utility systems provide waterworks, water supply, sewerage, sewage disposal, garbage disposal, rubbish disposal, gas production, gas generation, gas transmission, gas distribution, electric generation, electric transmission, electric distribution, and railroad transportation. This code gives the municipality the authority to establish a public utility that is needed and/or wanted as a service to the residents of the municipality.

Enterprise Funds

The Governmental Accounting Standards Board (GASB) describes enterprise funds in its Codification of Governmental Accounting and Financial Reporting Standards. It states that enterprise funds may be used to "report any activity for which a fee is charged to external users for goods or services."

The Standards also describe the circumstances that control whether enterprise fund accounting is required. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- The activity is financed with debt that is secured solely by a pledge of the net revenue from fees and charges of the activity. The debt incurred by the activity is secured by a pledge of net revenues from fees and charges of the fund and the full faith and credit of a related primary government or component unit, even if that government is not expected to make any payments. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable solely from the revenues of the activity.)
- Laws or regulations require that the enterprise fund's costs of providing services, including capital costs such as depreciation or debt service, be recovered with fees and charges, rather than with taxes or similar revenues.
- The pricing policies of the enterprise fund establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service)².

Authority to Establish and Maintain an Enterprise Fund

MCA Section 21-27-23 (e) also provides for a municipal governing authority to establish, maintain, and collect rates for the facilities and services offered by any public utility system. This code gives the municipality the authority to set rates and rate structures at a level sufficient to fund the daily operations of the utility, the routine maintenance, and future needs (depreciation).

MCA Section 21-27-23 (e) allows the municipality the authority to terminate or "cut off" any or all of the services to customers upon any failure to promptly pay the charges fixed for the services. No municipality is expected to provide a free utility to any customer.

MCA Section 21-27-27 requires all users of any public utility system to pay the established user fee for the service they receive.

¹The public water system information was gathered from fiscal year 2018 data from the Mississippi State Department of Health-Bureau of Public Water Supply.

²GASB *Governmental Accounting and Financial Reporting Standards*, § 1300.109 (June 30, 2013).

MCA Section 21-27-61 requires the municipality to devote all money of the enterprise fund derived from any source other than the issuance of bonds for the—

- payment of all operating expenses;
- payment of all bonds and interest on outstanding revenue bonds;
- acquisition and improvement of the system contingencies;
- payment of all other obligations incurred in the operation and maintenance of the system and the furnishing of service;
- creation and maintenance of a cash working fund; and
- creation and maintenance of a surplus fund to be used for replacement, extension of systems, and emergencies.

The balance of any monies, including but not limited to, any that have previously been classified as revenues or surplus of such system may be used for any lawful, municipal purpose. They may be paid to the governing authorities of the municipality for distribution to the various municipal funds or may be disbursed for such purpose by the governing authorities at their discretion. The purpose of any allocation or expenditure of money made pursuant to this section must be recorded in the minutes of the municipal governing authorities.

Appropriate Enterprise Fund Amount

Many factors should be considered when determining the appropriate amount of working capital for an enterprise fund. The Government Finance Officers Association (GFOA) has issued the Governmental Budgeting and Fiscal Policy that sets guidelines for governmental and enterprise fund working capital.

Working capital is the measure of the efficiency and short-term financial health of the enterprise fund. Working capital, which includes cash, is defined as current assets less current liabilities. Working capital measures the liquid portion of the total enterprise fund capital. It is essential that the municipality maintain an adequate level of working capital to reduce current and future risks and to ensure stable services and fees.

The GFOA policy recommends municipal general funds have a working capital balance of 45 to 90 days. The following factors should be taken into consideration when com-

puting this amount. The GFOA website (<http://204.12.67.77/determining-appropriate-levels-working-capital-enterprise-funds>) describes each of these factors:

- strength of collection practices
- historical consumption of inventories and prepaids
- support from general government
- transfers out
- cash cycles
- customer concentration
- demand for services
- control over rates and revenues
- asset age and condition
- volatility of expenses
- control over expenses
- management plans for working capital
- separate targets for operating and capital needs
- debt position

The appropriate amount of working capital to have on hand depends on the specific characteristics of each municipality, including the age and condition of the physical infrastructure, its debt service payments, and its ordinary operating costs. Municipal enterprise funds should also maintain a cash reserve for long-term capital improvements, which should be based on the municipality's capital improvement plan.

Conclusion

The MCA provides the authority to create a public utility and defines what services may be classified as public utilities. The MCA also provides the authority for a municipality to set rates and rate structures at a level sufficient to fund the daily operations of the utility, routine maintenance, and future needs (depreciation). The MCA requires all users of any public utility system to pay the established user fee for the service and gives the municipality the authority to terminate service if fees are not paid. The GFOA recommends that a municipal enterprise fund have at least 1½ to 3 months of working capital. No two municipal water and/or wastewater systems are the same; each has its own intricacies and infrastructure. Municipal officials should evaluate their public utility, make use of the MCA, and follow GASB and GFOA guidelines.

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