

A Financial Viability Review of the Pat Harrison Waterway District Executive Summary

Introduction

A quasigovernmental special fund agency, the Pat Harrison Waterway District (PHWD) receives most of its annual funds from ad valorem tax payments from member counties along with park and other fees. Since 2011, five of the 15 Pat Harrison Waterway District original member counties have exited the district and subsequently no longer make ad valorem tax payments. Although the district currently receives no state general fund appropriations, legislators expressed concerns about its long-term self-sufficiency based on its current financial environment and the potential for additional expenses associated with new lake development projects.

Background

MISS. CODE ANN. Section 51-15-103 (1972) established the Pat Harrison Waterway District to be composed of Clarke, Covington, Forrest, George, Greene, Jackson, Jasper, Jones, Lamar, Lauderdale, Newton, Perry, Smith, Stone, and Wayne counties. Since 2011, five counties—Lamar, Forrest, Jasper, Jackson, and Perry—have withdrawn from the district (see pages 18-19 for additional discussion).

MISS. CODE ANN. Section 51-15-101 (1972) provides the district's purposes—recreation, flood control, economic development, timber development, irrigation, and pollution abatement—and MISS. CODE ANN. Section 51-15-119 (1972) lists the specific powers of the district, which include, but are not limited to, the following:

- developing plans for public works of improvement to make navigable or for the prevention of flood water damage, or the conservation, development, recreation, utilization, and disposal of water; and
- impounding overflow water and the surface water of any streams within the district by building dams or reservoirs and to build or acquire facilities for processing water and transporting it.

Other powers of the district include foresting and reforesting the area; helping to prevent erosion and flooding; and to prevent or aid in the prevention of damage to person or property from the waters of the Pascagoula River or any of its tributaries.

The Pat Harrison Waterway District owns eight parks/ campgrounds and seven boat ramps and maintains seven dams in southeastern Mississippi. The district also leases a park and water storage space from the U.S. Army Corps of Engineers.

A 13-member board of directors governs the Pat Harrison Waterway District — one member from each member county's board of supervisors and three at-large members appointed by the Governor. Board members serve for four years.

The district currently employs 92 staff members, including temporary summer workers for the district's parks. Staff are responsible for personnel, payroll, accounting, purchasing, marketing, reservations, and support for program operations.

What is the Pat Harrison Waterway District's current financial status?

Revenue Sources

The Pat Harrison Waterway District derives funding from a combination of ad valorem tax collections contributed by the district's member counties, fees generated by the district's recreational facilities, and miscellaneous revenue sources, such as interest income and timber sales. The district also receives one-time exit fees from member counties who opt to withdraw.

The Pat Harrison Waterway District collected approximately \$2.17 million in ad valorem tax revenue in FY 2017. The district's gross revenue from parks totaled approximately \$2.59 million in FY 2017. However, when factoring in operational expenses, including both district office costs and maintenance costs, the parks realized a net loss of approximately \$530,000 in FY 2017.

For FY 2014 through FY 2016, the Pat Harrison Waterway District generated approximately \$1.24 million in revenue from timber sales. However, timber sales represent periodic, not sustained, revenue.

The district earned \$51,609 from interest in FY 2016; however, interest earnings have been declining since FY 2008.

The district received \$337,188 in one-time exit payments when Lamar County ended its membership. In September of 2017, the district board approved a \$125,000 fee for Jasper County for its withdrawal in September of 2013. Forrest, Jackson, and Perry counties will eventually pay the district for exiting after the district determines their portions of its long-term liabilities.

Major Expenditures

The Pat Harrison Waterway District's major expenditures include the operations of its parks and recreational facilities, Works Projects Grant program allocations to member counties, and other long-term liabilities. In FY 2017 the district expended approximately \$2.2 million to operate, staff, and maintain its parks. When factoring in park revenues and district office and maintenance costs, the parks operated at a net loss of \$529,809 for that fiscal year. In addition, the district approved \$399,335 in Works Projects Grant program allocations for 21 projects in FY 2017.

The district had \$57,324 in long-term liabilities due in FY 2017. As of June 30, 2016, the district owed \$140,982 in principal and interest to the Corps of Engineers over the next three fiscal years.

Current Cash Reserves

As of June 30, 2016, The Pat Harrison Waterway District had cash reserves totaling \$8,483,505, which included \$1,905,349, in cash set aside to pay counties upon the completion of county works projects. Also at the close of FY 2016, the Pat Harrison Waterway District held \$6,578,156 in unrestricted cash reserves to support future operations

The net position of the district has been positive in the most recent three fiscal years. However, the district has yielded a positive net change in position only because of various one-time revenues, such as timber sales and the exit fee payment from Lamar County.

What is the long-term sustainability outlook for the Pat Harrison Waterway District?

The Pat Harrison Waterway District closed FY 2016 having realized a net position increase of more than \$23,000 and with approximately \$6.58 million in unrestricted cash.

PEER estimated how long the district could operate and remain self-sufficient if it were to experience a comparable loss on an annual basis based on its current cash reserve. To calculate this, PEER assumed no other member counties exit the district and discounted any one-time revenues (e.g., timber sales) or expenditures (e.g., damage from a natural disaster). Using the FY 2018 estimated annual loss of \$355,000 (see Exhibit A, page viii) and the FY 2016 unrestricted cash reserve of \$6,578,156, the Pat Harrison Waterway District could operate for approximately 18.5 years before it would exhaust its cash reserve.

Exhibit A: Pat Harrison Waterway District Projected Change in Net Position, FY 2018

Revenues:	Amount (\$)
Ad valorem revenue ^a	\$1,780,000
Park revenue	\$2,600,000
Timber Fund revenue	\$0
Interest revenue ^b	\$52,000
Total Revenues	\$4,432,000
Expenditures:	
Personal services	\$(808,000)
Emergency Works Projects grants to counties	\$(400,000)
Okatibbee lease payment	\$(49,000)
Other district office expenditures ^c	\$(480,000)
Park expenditures	\$(3,050,000)
Total Expenditures	\$(4,787,000)
Overall Change in Net Position	\$(355,000)

^aIncludes projected ad valorem tax collections for FY 2018 (based on ad valorem tax collections paid to the district in FY 2017 minus those from exiting counties). Estimate does not include \$125,000 from Jasper County (determined on September 28, 2017) and does not include any one-time revenue the district may receive from Forrest, Perry, or Jackson counties, which are in the process of settling their exit fee amounts.

^bPEER approximated the district's interest revenues from its FY 2016 audit statement.

^cOther district office expenditures include expenditures for contractual services, commodities, and capital outlay, as well as the cost of maintenance for Okatibbee Dam. These amounts are based on actual FY 2016 expenditures.

SOURCE: PEER analysis of PHWD audits and other documentation obtained from the district.

Environmental Threats to Long-Term and Operational Sustainability

Using PEER's figure for the projected net loss to operate the district in FY 2018, any additional decreases in revenues or increases in expenditures could speed up the rate at which the district would expend its current cash reserves.

The district's 10 remaining member counties' ad valorem tax collection revenues range from \$59,000 to \$435,000; thus, the financial impact could be quite significant depending upon the county that exits. With five counties having already departed, FY 2018 ad valorem tax collections will be down 18% compared to FY 2017 and 36% (\$1,000,000) compared to FY 2011. Declining ad valorem revenues place increased pressure on parks to become self-sufficient.

Additionally, the unknown cost to manage and operate the two proposed lake developments represent a potential increase in expenditures. The district's current role is to serve as a flow-through for bonds for the Pascagoula River Drought Resiliency Project (Lake George project), while the district (at the request of Smith County) has allocated matching funds to study the Smith County Recreational Project.

Opportunities for Generating Additional Revenue

Adding new member counties and enhancing park marketing and advertising strategies to promote increased park utilization could potentially provide additional revenue for the district. As part of its FY 2018 appropriation bill, the Legislature permitted any county that is not a member of the Pat Harrison Waterway District to elect to become a member. Any counties that joined the district would subsequently increase the amount of district revenue through ad valorem tax collections. Considering the dissolution of the Pearl River Basin Development District, potential exists for the Pat Harrison Waterway District to pursue the remaining member counties of that district.

The district should develop and implement a strategic marketing plan to promote its parks and recreational facilities and potentially attract more guests, thus increasing park revenues. The district also should continue to explore methods to promote its parks, including enhancing its online presence, and track any changes in park attendance attributable to those efforts.

What would be the consequences if the district were unable to maintain financial viability?

Although the district has approximately \$6.5 million in unrestricted reserves, uncertainty in the current funding environment can create concerns about its continuing viability. Some might consider addressing the possible reduction in local funding by selling assets or transferring the responsibility of managing these assets to other governmental entities.

Some previous district member counties have chosen to withdraw, thereby reducing property tax revenue available to operate the district. MISS. CODE ANN. Section 51-15-118 sets the terms by which a county may withdraw, and the recent court case *Pat Harrison Waterway District v. Lamar County*¹ makes clear the financial impact the district may bear when a county chooses to withdraw. Indeed, this decision made clear that when counties withdraw from the district in accordance with Section 51-15-118, the continuing federal obligation to operate a park is not considered to be a contractual obligation for which the withdrawing county is liable.

Three specific constraints could influence a decision to adopt a strategy of downsizing or devolution of the district:

- conditions applied to federal funding made to the district decades ago;

¹See infra at footnote 2.

- provisions in Chapter 222, *Laws of 1962*, that created and empowered the district to, among other things, acquire and dispose of real property; and
- covenants set out in the 1965 Forrest County conveyance to the district.

Regarding these legal constraints, PEER observes the following:

- Action by the federal government could bar the district from terminating the operation of facilities purchased in whole or in part with federal funds. It appears the principal federal interest is keeping recreational lands available for the use and enjoyment of citizens and visitors of the state of Mississippi. In some cases, strict application of the grant language would preclude repayment of grant funds, thereby causing the state to have to continue to operate some, if not all, of the parks. Current federal departmental policy manuals governing some of the grants, and the terms found in a few of the Department of Agriculture grants raise the possibility that federal constraints may not apply if the project has passed its useful life. With duty to operate the parks imposed upon the state, transfer of responsibility to another state or local entity seems a possibility.
- The language of Chapter 222, *Laws of 1962*, and individual deeds may be problematic. It appears prior owners' or their heirs' right to reacquire these properties could affect future sales of lands surplus to the district's needs. Problems could arise if the district had arranged a sale of all tracts of land associated with a project, but one heir to a tract owner wanted to reacquire his testator/intestate's property. This might impair transfers to other public entities inclined to operate the park for recreational purposes. This language could affect transfer of properties if the Legislature chose to dissolve the district and sell park lands and other properties.

Recommendations

1. The Legislature should amend MISS. CODE ANN. Section 51-15-118 (1972) to require member counties who choose to exit the Pat Harrison Waterway District to do so with an effective date of the fiscal year-end, June 30. According to the Pat Harrison Waterway District's Director of Accounting and Finance, if exiting member counties were required to exit at fiscal year-end, the district could use its annual audit to calculate the exiting county's portion of liabilities and obligations² on the date of the withdrawal and thus eliminate the expense to the county to contract with a certified public accountant to calculate such liabilities.
2. The Pat Harrison Waterway District Board of Directors should reevaluate its policies and impose a deadline by which member counties must complete approved Works Projects Grant program projects and request reimbursement from the district and stipulate that if they fail to do so, the funds will be returned to the Pat Harrison Waterway District's Works Projects Grant program to be disbursed in the following fiscal year.
3. The Pat Harrison Waterway District should continue its existing partnership with the University of Southern Mississippi in order to develop a marketing plan, update the district's website, obtain feedback from park patrons, and increase the district's social media presence.
4. Should the Legislature consider it prudent to allow the Pat Harrison Waterway District to expand its membership, the Legislature should consider authorizing such through the enactment of general law. Specifically, this would entail amending MISS. CODE ANN. Section 51-15-107 (1972) to allow former member counties of the Pearl River Basin Development District as of July 1, 2017, to become members of the Pat Harrison Waterway District, conditioned upon compliance with all pertinent statutory procedures set out in Chapter 15, Title 51, MISSISSIPPI CODE of 1972.

²Liabilities and obligations are "any district bonds, contractual obligations, and any other indebtedness and liabilities of the district that are outstanding on the date of such county's withdrawal from the district."

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