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Hot Topic: Legislation Shortens Time to Correct Negative Changes in Net Assets for Water and Wastewater Facilities

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Public Chapter 72 pertaining to the operation of water and wastewater facilities in Tennessee was recently signed into law. The act amends T.C.A. § 68-221-1010(a) by requiring the comptroller of the treasury to file a copy of an audit report with the water and wastewater financing board for any water system or wastewater system that has a negative change in net assets for two consecutive years. It became effective April 15, 2009. Prior to this change the law required the audit report to be filed for any system that had a negative change in net assets for three consecutive years.

The wording of the amendment retains two additional factors that identify a financially distressed water or wastewater system. Listed below are the factors that now identify a financially distressed system for the purpose of reporting the system to the water and wastewater financial board. Any one of these factors will result in a water or wastewater system being considered financially distressed:

- A deficit total net assets in any one year;
- A negative change in net assets for two consecutive years; or
- Currently in default on any debt instruments.

This amendment deleted:

1. The provision that allowed water and wastewater systems seven years old or less to ignore depreciation expense in determining whether the system has a deficit total net assets or a negative change in net assets; and
2. The provision that allowed a water or wastewater facility that has total net assets at least four times greater than total debt to disregard depreciation expense in determining the criteria for filing a report to the water and wastewater financial board. After the effective date of the act depreciation expense for all systems will be considered regardless of age or financial condition.

Compliance with the new requirements will be effective for all municipal and utility district audits received by the comptroller's office after April 15, 2009.

MTAS recommends that municipal management and finance officials should carefully review the operations of their water and wastewater systems to ensure compliance with the new requirements of the act. For systems that exhibit any of the three symptoms listed above, management should consider taking steps to correct the issue before being referred to the water and wastewater financing board.
May 26, 2009

LEGISLATION SHORTENS TIME TO CORRECT NEGATIVE CHANGES IN NET ASSETS FOR WATER AND WASTEWATER FACILITIES

The Municipal Technical Advisory Service (MTAS) is a statewide agency of the University of Tennessee Institute for Public Service. MTAS operates in cooperation with the Tennessee Municipal League to provide technical assistance services to officials of Tennessee’s incorporated municipalities. Assistance is offered in areas such as accounting, administration, finance, public works, ordinance codification, and water and wastewater management.

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