



State of Mississippi

A Performance Review of the Cost Comparison of Deliverable Water for the Nissan Plant

Legislative Request

**From the Office of State Auditor
Phil Bryant**

February 11, 2003

Report Findings

- The Mississippi Development Authority (MDA), through the Mississippi Major Economic Impact Authority (MMEIA) is responsible for providing water to the Nissan plant.
- MMEIA has authority to spend funds necessary to complete construction of a pipeline or a related facility, which could include a water treatment plant.
- The City of Jackson (City) and the MMEIA entered into a contract on January 8, 2003 to purchase water for delivery to Nissan for \$1.161/1000 gallons. This price will probably increase to at least \$1.261/1000 gallons after operational charges of Canton Municipal Utilities (CMU). At this time, MMEIA has no cost estimate for pipeline operation and maintenance (O&M). It is their intention to establish a budget for this component and to bill Nissan on a quarterly basis for actual costs incurred.
- Engineering studies offered by the Pearl River Valley Water Supply District (PRV) estimate the pipeline O&M could be as much as \$0.68/1000, making the cost to Nissan for water through the MMEIA / City contract to be \$1.941/1000.
- The Pearl River Valley Water Supply District (PRV) estimates it can deliver water to Nissan and its suppliers at a cost of \$1.53/1000 gallons. CMU will add \$.10 making PRV's cost \$1.63/1000.
- PRV has no treatment plant or pipeline in place at this time. The estimated cost of a 5MGD facility is approximately \$18 million with a two year construction time frame.
- Other concerns regarding the construction of a PRV treatment plant, which includes legislative authority, construction time, additional funding and environmental review and approval have not been completely addressed.



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

February 11, 2003

**Honorable Charlie Ross
Mississippi Senate
New Capitol Building
Jackson, Mississippi 39205**

Dear Senator Ross:

The enclosed report regarding the comparison of costs for delivered water to the Nissan plant at Canton, Mississippi is in response to your request of January 10, 2003. Our findings are based upon a review of the contract between the City of Jackson and the Mississippi Major Economic Impact Authority, engineering cost estimates provided by Pearl River Valley Water Supply District, correspondence from Attorney Jim Tohill, representing the Pearl River Valley and numerous interviews of Mississippi Development Authority and Pearl River Valley representatives.

It is important to remember all legal opinions regarding contract provisions or interpretation of current law related to the authority of Jackson or MDA to enter into such an agreement would be more appropriately directed to the Attorney General. However, we see no legal compliance issues related to standard contractual services by governmental entities.

This performance review should fully comply with your request. Amendment of our findings would be subject to conflicting information that was unavailable or unknown during the completion of this report.

If we can be of further assistance to you, please do not hesitate to contact me.

With best regards, I remain,

Sincerely,

**Phil Bryant
State Auditor**

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COMPARISON OF COSTS FOR WATER SUPPLIED TO THE NISSAN PLANT

INTRODUCTION

A legislative request from Senator Charlie Ross was received on January 10, 2003. In part the request asked the Office of the State Auditor to review the purchase of water from the City of Jackson (City) by the Mississippi Major Economic Impact Authority (MMEIA) for supply to the Nissan plant at Canton. This request included review of procedures for legal compliance and economic effectiveness.

The Mississippi Major Economic Impact Act created the Mississippi Major Economic Impact Authority who is responsible for the expenditures necessary to provide water for the Nissan plant.

The following is an Executive Summary of the findings of our review. Information contained in the report is subject to amendment upon discovery of conflicting evidence or testimony.

CITY OF JACKSON

Mississippi Major Economic Impact Authority, a division of Mississippi Development Authority (MDA) entered into a contract with City of Jackson on January 8, 2003 to supply water to the Nissan plant at Canton, Mississippi.

PROVISIONS OF CONTACT

- For the next 30 years Jackson will provide up to 5 million gallons of water a day from the Ross Barnett Reservoir to the Nissan plant in Canton, Mississippi.
- An additional 1.5 million gallons available for other suppliers and future commercial use
- The City of Jackson will receive \$1.16/1000 gallons for water to Nissan. (Exhibit B of contract between MMEIA and the City).
- The City of Jackson will receive \$1.261/1000 to secondary users and \$1.361 to other users (Exhibit C and D of contract between MMEIA and the City).

These fees do not include operational charges by the Canton Municipal Utilities (CMU). Based on our best estimate, this could be an additional \$0.10/1000. It also does not include the operation and maintenance charges of the pipeline. Engineering studies offered by the Pearl River Valley Water Supply District (PRV) indicate this could be as much as \$0.68/1000, assuming a 238 day work year and average usage of 2.5MGD. At this time MMEIA does not have cost estimates for O&M of the pipeline. Its intention is to establish a budget for this component and to bill Nissan on a quarterly basis for the actual costs incurred. Based on the contract and the additional charge by CMU, the cost of water to Nissan from the contract with the City would be \$1.261/1000. Cost to Secondary and Other Users would be \$1.361 and \$1.461, respectively. The additional cost of O&M of the pipeline to Nissan and other suppliers at this time is not known. Should the engineering estimate provided by PRV be utilized, the cost of water to Nissan, Secondary Users and Other Users would be \$1.941/1000, \$2.041/1000 and \$2.141/1000, respectively.

- Another important provision of the contract states, "MMEIA shall have no responsibility under the agreement to purchase any potable water from the City and MMEIA shall not be required to pay any charges for services not delivered." However, Section 3.6(a)(i) of the Delta II Memorandum of Understanding (MOU) between Nissan and the MMEIA states, "The State will use its best efforts (a) to design and construct a water transmission line from the O. B. Curtis Treatment Plant to the intersection of Church Road and Old Jackson Road, and(b) complete the design and construction of said water transmission line not later than August 1, 2004."

REVIEW PROVISION OF CONTRACT

According to the contract, the rate set forth under the column "\$/1000 gallons" shall be reviewed by the City and MMEIA on or about January 1, 2006 and every two years thereafter, and shall be subject to revision (See Exhibit B, C, D of contract between MMEIA and the City).

DELIVERY DATE

The city will begin delivering potable water to the Nissan plant in the amount previously mentioned on or about June 1, 2004.

MMEIA will purchase water from the City for Nissan, Secondary Users and Other Users at rates established in Exhibits B, C and D of the contract between MMEIA and the City, respectively.

PRV estimates it can have a water treatment plant operational within two years.

PEARL RIVER VALLEY WATER SUPPLY DISTRICT

- Manage the 33,000 acre Ross Barnett Reservoir
- PRV estimates it can design and build a 5MGD surface water facility, including intake structure, water treatment plant, storage tank and transmission pipeline that meets Nissan's needs for \$18 million.
- Assuming a 238 day work year and average usage of 2.5MGD, PRV estimates it can deliver water to the Nissan plant and its suppliers at a cost of \$1.53 /1000, which includes debt service cost of \$0.55/1000 and transmission costs to CMU. An additional charge by CMU of \$0.10/1000 brings the estimated total cost of delivered water by PRV to \$1.63/1000.
- Should the state give authority to utilize the \$12.5 million for construction of a treatment plant at PRV, an additional \$6 million would be necessary to be borrowed to fund construction of the facility. This indicates a variance of \$500,000 in the PRV estimate.

FINDINGS

- The Mississippi Development Authority (MDA) , through the Mississippi Major Economic Impact Authority (MMEIA) is responsible for providing water to the Nissan plant.
- MMEIA has authority to spend funds necessary to complete construction of a pipeline or a related facility, which could include a water treatment plant.
- The City of Jackson (City) and the MMEIA entered into a contract on January 8, 2003 to purchase water for delivery to Nissan for \$1.161/1000 gallons. This price will probably increase to at least \$1.261/1000 gallons after operational charges of Canton Municipal Utilities (CMU). At this time, MMEIA has no cost estimate for pipeline operation and maintenance (O&M). It is their intention to establish a budget for this component and to bill Nissan on a quarterly basis for actual costs incurred.
- Engineering studies offered by the Pearl River Valley Water Supply District (PRV) estimate the pipeline O&M could be as much as \$0.68/1000, making the cost to Nissan for water through the MMEIA / City contract to be \$1.941/1000.
- The Pearl River Valley Water Supply District (PRV) estimates it can deliver water to Nissan and its suppliers at a cost of \$1.53/1000 gallons. CMU will add \$.10 making PRV's cost \$1.63/1000.

- PRV has no treatment plant or pipeline in place at this time. The estimated cost of a 5MGD facility is approximately \$18 million with a two year construction time frame.
- Other concerns regarding the construction of a PRV treatment plant, which includes legislative authority, construction time, additional funding and environmental review and approval have not been completely addressed.

CONCLUSIONS

The Mississippi Major Economic Impact Authority has legal authority to enter into a contract with the City of Jackson to purchase the necessary water for use at the Nissan plant at Canton. Attorney General Mike Moore's office has carefully reviewed and approved all provisions existing therein. The contract between the parties, dated January 8, 2003, appears to burden MMEIA with fulfilling their agreement by purchasing the water from the City of Jackson. While Sections 1b and 4a of the contract's "Terms and Conditions" states, "MMEIA shall have no responsibility under this agreement to purchase any potable water from the City and MMEIA shall not be required to pay any charges for services not delivered," Section 3.6(a)(i) of the MOU between Nissan and the MMEIA states, "The State will use its best efforts (a) to design and construct a water transmission line from the O. B. Curtis Treatment Plant to the intersection of Church Road and Old Jackson Road, and(b) complete the design and construction of said water transmission line not later than August 1, 2004."

The PRV has verbally agreed to provide the necessary right-of-way for construction of the proposed pipeline on Reservoir property. As of the date of this report, the right-of-way has not been granted. In a letter dated December 6, 2002, attorney for PRV, Jim Tohill states, "PRV does not intend to be an impediment to providing surface water to Nissan. On the contrary, PRV has worked very hard to provide workable solutions to both ground and surface water issues."

MMEIA has a contract to purchase water for Nissan from the City for \$1.16/1000 for up to 5 MGD. This capacity will be increased to 8 MGD within two years of the pipeline completion date. Secondary users would pay \$1.261/1000 and other users \$1.361/1000. CMU service cost is \$0.10/1000, which brings the cost of delivered water, before additional costs of pipeline O&M, to Nissan to \$1.261/1000, secondary users \$1.361/1000 and other users \$1.461/1000. The additional costs of operating and maintaining the pipeline have not yet been determined. Should the engineering estimate provided by PRV be utilized, the cost of water to Nissan, Secondary Users and Other Users would be \$1.941/1000, \$2.041/1000 and \$2.141/1000, respectively.

Based on a review of materials provided by the PRV it does seem possible that water could be provided from a proposed treatment plant to Nissan at approximately \$1.63/1000. However, the absence of a treatment plant or any legislative authority and necessary funding for the \$18 million plant is a substantial hindrance to this possibility.

At this time it is difficult to accurately determine the more cost effective course without additional engineer studies by an independent source. The only verifiable number we have is the \$1.161, 1.261 and 1.361/1000 for water for Nissan, Secondary Users and Other Users through the contract with MMEIA and the City. Other than that, our results are based solely on estimates furnished by MMEIA or PRV. The time of construction and construction costs of the treatment plant for the PRV, including additional bonded indebtedness, construction of pipelines and purchase of right-of-ways, all would need closer review.

**Nissan Project
Comparison of Costs to Supply Water**

<u>Component (Per 1,000 gallons)</u>	<u>PRV</u>	<u>City of Jackson</u>
Operation and Maintenance of Plant	\$0.800	\$0.485
Operation and Maintenance of Pipeline	\$0.180	\$0.680 *
Debt Service	\$0.550	\$0.676
Canton Municipal Utilities	<u>\$0.100</u> **	<u>\$0.100</u> **
	<u>\$1.630</u>	<u>\$1.941</u>
 Estimated cost of providing water based on 2.5MGD and a 238 day work year.	 <u>\$969,850</u>	 <u>\$1,154,895</u> ***
 Difference		 <u>\$185,045</u>

* - Not included in MMEIA and City of Jackson Contract
Based on engineering estimates from PRV
MMEIA does not have an estimate. The agreement will be based on
actual costs incurred and reimbursed to the State by Nissan

** - In addition to cost incurred by providers

*** - Includes \$.68/1000 estimate by PRV for pipeline O&M