

MISSISSIPPI

City of Jackson Analysis

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SHAD WHITE
State Auditor

Stephanie Palmertree
Deputy State Auditor



The Office of the State Auditor (OSA) does not have the legal authority to audit Mississippi municipalities. Larger municipalities are required to hire private CPA firms to conduct their audits. Those audits are then submitted to the Auditor’s office and posted on the State Auditor’s website. Jackson—Mississippi’s largest city and its capital—is subject to these rules. Jackson is audited annually by a firm, and its audits are available at www.osa.ms.gov. The chart below shows which private firms have audited Jackson since fiscal year (FY) 2003.

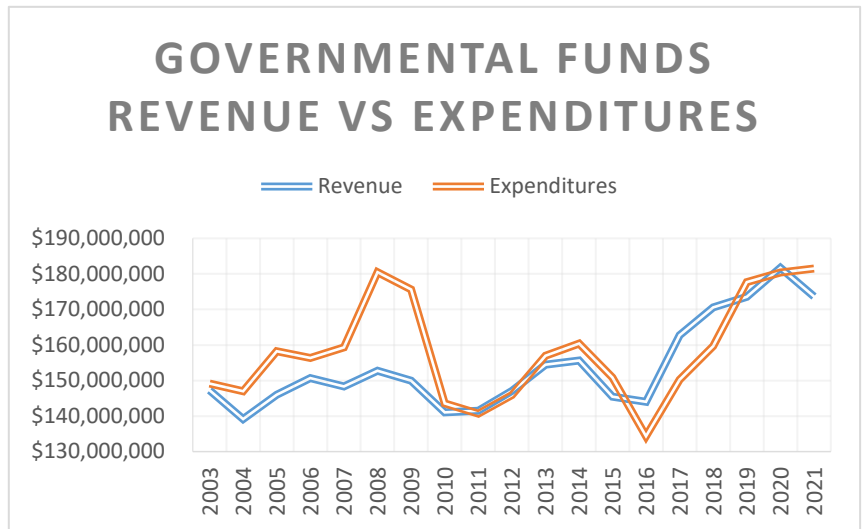
City of Jackson Municipal Audits by Firm and Year	
Auditor	Fiscal Years
Banks, Finley, White and Co	2003-4
Smith, Turner & Reeves; Bruno & Tervalon	2005-7
BKD LLP	2008
Banks, Finley, White and Co	2009-16
Tann, Brown & Russ	2017-21

Jackson has recently faced increased scrutiny due to the widely reported water crisis and accusations of financial mismanagement. To better inform the public about the state of Jackson’s finances, OSA analyzed Jackson’s audits from the last two decades. We also analyzed the Water Fund individually to assess its financial health. The numbers used in this analysis come directly from Jackson’s published audits.

TREND ANALYSIS

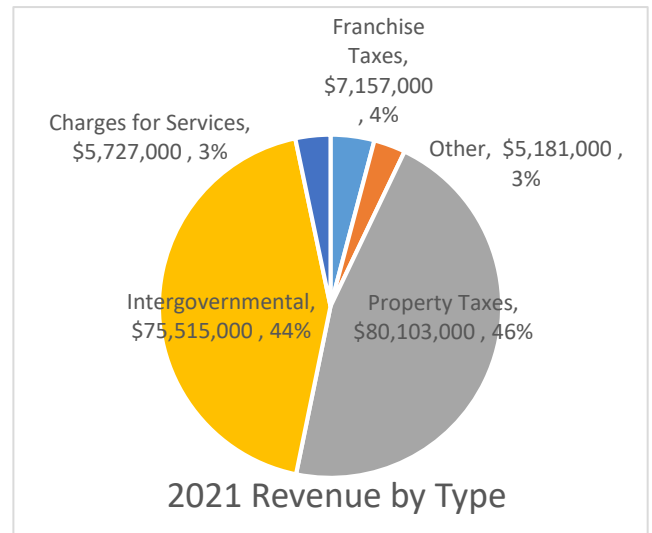
A trend analysis looks at key statistics for a government office over time. Here are some important conclusions of a trend analysis of Jackson’s audits since 2003:

- **Since 2003, Jackson’s revenue has increased by 18%. But in that time, the city’s expenditures have, in many years, exceeded revenue.** This increase in expenditures has occurred despite a population loss of 18% since 2003. In 2008, the large jump in expenditures is largely attributable to the building of the convention center. The city ended FY 2021—the most recently audited year—with a \$19,504,591 deficit. It was the second largest deficit in the past 19 years (the largest in was in 2008 at \$26,382,779).



- **In fiscal year 2021, \$13,944,000 was transferred out of the General Fund of the city to other funds to subsidize operations, including \$1,211,000 to the Water and Sewer Fund and \$3,857,000 to the Sanitation Fund.** Water and sanitation funds are considered, in accounting terms, “Business-Type Activities.” Generally, these kinds of funds should operate like a business. They should turn a profit for reinvestment into the fund. But in Jackson, the Water and Sewer Fund and the Sanitation Fund cannot operate without infusions of cash from the General Fund.

- Jackson’s revenue decreased from \$181,724,556 in fiscal year 2020 to \$173,683,000 in fiscal year 2021. The chart on this page shows the sources of that revenue in FY 2021. “Intergovernmental Revenues” includes federal and state grants and monies transferred in from state and other local governments.
- Since 2003, the average debt per Jackson citizen has risen over \$1,500. The amount of debt Jackson carries in “Governmental” funds (the funds that take in and spend taxes/fees) has increased from \$134,289,000 in 2003 to \$181,562,000 in 2021, a 35% increase.¹ When Business-Type Activities (e.g., water and sewer) are also included, the debt has increased from \$244,272,000 to \$429,638,000, or an 80% increase.
- Fewer people are paying more in property taxes. Property tax revenue increased from \$60,449,298 in 2003 to \$80,103,000 in 2021, all while the population of the city has decreased. The 2021 property tax collections represented a nineteen-year high. Property taxes are the largest source of revenue for Jackson.

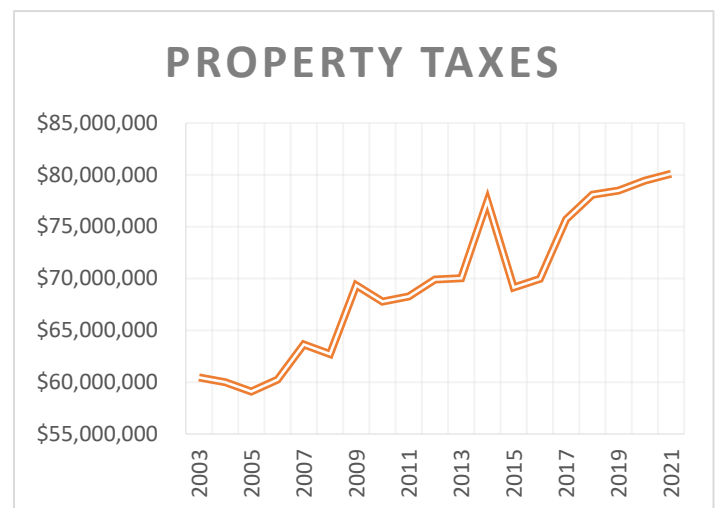


RATIO ANALYSIS

A ratio analysis compares two or more numbers from a financial statement to evaluate the health of a government. For example, the ratio of a city’s revenues to its expenditures can show whether a city is on solid financial footing.

We performed an analysis² of several ratios of Jackson using numbers from the city’s audits. We also compared these ratios to industry benchmarks and to other cities.³

Net Assets Ratio: This is the ratio of the city’s net income (or loss) over the total value of its assets. This measures the solvency of the government, meaning its ability to address long-term obligations. A high, positive value is an indicator of long-term solvency.



Jackson, MS – **(0.66)**

Savannah, GA – **0.51**

Pasadena, TX – **0.16**

Total Margin⁴: The ratio of total revenue to total expenses. This measures overall financial health. A value above **1.0** means a fund has more revenue than expenses.

Jackson, MS – **0.96**

Savannah, GA – **0.82**

Pasadena, TX – **1.12**

¹Items like pensions and other post-employment benefits paid for by the state were removed from this calculation.

² Governmental Activities Fund balances were used in this ratio analysis.

³ When we compared Jackson to other cities, we compared Jackson to cities of a similar size that are structured financially in the same way as Jackson. Many cities with comparable populations did not include their water and sewer funds in publicly available audit reports.

⁴ Ratio uses Governmental Funds for calculation; other ratios use Governmental Activities

Quick Ratio: The ratio of the city's liquid assets to its current liabilities. This measures the city's ability to cover immediate needs with short term assets, like cash. This ratio should be **3.0** or higher.

Jackson, MS – **1.95**

Savannah, GA – **5.69**

Pasadena, TX – **5.45**

Debt to Assets: The ratio of the city's total debt to its total assets. This measures how many of the city's assets were paid using debt. This ratio should be significantly less than **1.0**.

Jackson, MS – **0.68**

Savannah, GA – **0.17**

Pasadena, TX – **0.24**

WATER FUND RATIO ANALYSIS

The following is an analysis of ratios for just the Water and Sewer Fund. The ratios are designed to show the financial health of a "Business-Type Activities" fund (i.e., funds that should pay for themselves or turn a profit).

Operating Ratio (excluding depreciation): The ratio of operating revenues to operating expenditures. This measures the ability to cover day-to-day expenses. A ratio of 1.0 would be the minimum ratio to demonstrate that the operating revenues can cover the operating expenditures. This ratio should be **1.5** or higher in a financially healthy department.

Jackson, MS – **0.77**

Savannah, GA – **1.50**

Pasadena, TX – **2.18**

Operating Ratio (including depreciation): Similar to the operating ratio, this ratio measures whether the operating revenues could cover the operating expenses and the cost of depreciation. A ratio of 1.0 indicates that the department is "breaking even" with its cost. This ratio should be **1.0** or higher in a financially healthy department.

Jackson, MS – **0.54**

Savannah, GA – **1.12**

Pasadena, TX – **1.68**

Quick Ratio: The ratio of the department's liquid assets to its current liabilities. This measures the city's ability to cover immediate needs with short term assets, like cash. This ratio should be **3.0** or higher.

Jackson, MS – **2.14**

Savannah, GA – **11.77**

Pasadena, TX – **3.77**

Days Cash on Hand: This measures the number of days that the department can continue to pay normal operating expenses with the available cash. This ratio should be between a minimum of **30 – 60 days**.

Jackson, MS – **23.12**

Savannah, GA – **799.41**

Pasadena, TX – **585.28**

Receivables turnover: This measures how well the department manages receivables and collecting outstanding revenue from customers by seeing how many days it takes for the total receivables to be paid. Since water is considered a utility and the water department has the ability to cease service if a customer account remains unpaid, the ideal ratio would be 1.0. This would mean that all receivables (bills due) are paid in the thirty-day period after the bill is sent. This ratio should be no greater than **1.5**.

Jackson, MS – **13.82**

Savannah, GA – **3.01**

Pasadena, TX – **1.77**

Debt Service Coverage Ratio: This is the ratio of current debt obligations to operating revenues. The ability to pay current debt with current revenue is a sign of solvency. This ratio can help uncover if an organization is using one-time infusions of cash to operate. A ratio of **1.0** indicates that the organization is meeting debt obligations, but just barely.

Jackson, MS – (0.42)

Savannah, GA – 6.33

Pasadena, TX – 3.74

Debt to Equity Ratio: This is the ratio of the existing long-term debt that the department has in comparison to assets. A ratio greater than 1.0 indicates that the department has more debt than assets, and that obtaining additional debt could be a challenge.

Jackson, MS – 1.35

Savannah, GA – 0.09

Pasadena, TX – 0.27

Asset Depreciation Ratio: This is the ratio of the total accumulated depreciation and the total amount of assets. This measures how close assets are to reaching the end of their useful life. A ratio near 100% would indicate that assets are fully depreciated and should be replaced soon and that the city’s infrastructure is in danger of becoming broken or unusable. This ratio should be as low as possible.

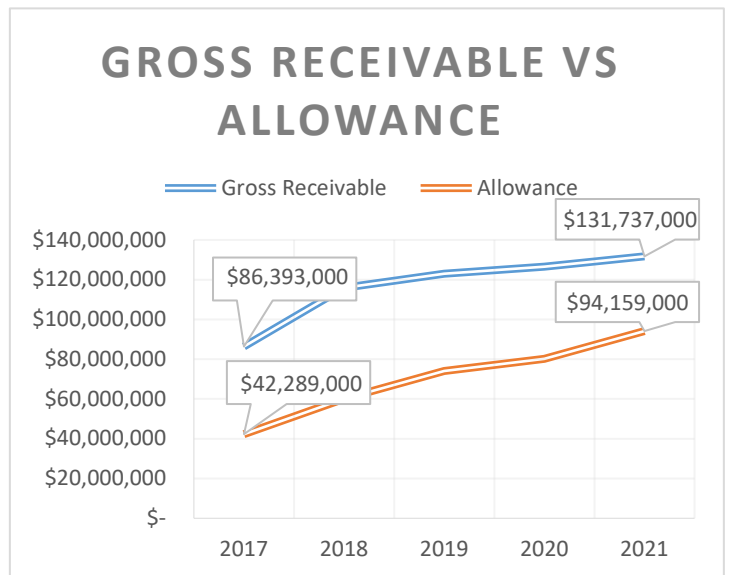
Jackson, MS – 49%

Savannah, GA – 52%

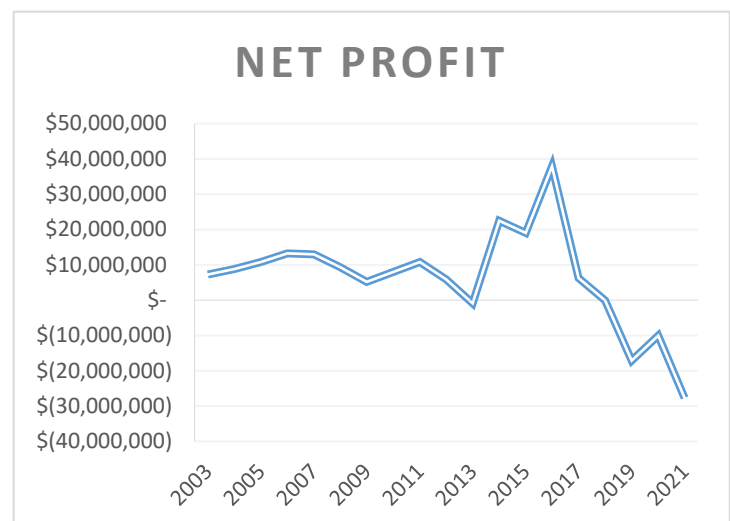
Pasadena, TX – 35%

Here are some key conclusions from the analysis of the city’s Water and Sewer Fund:

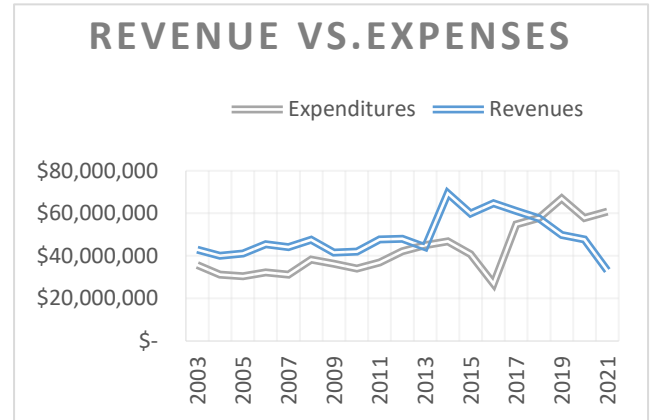
- Jackson is failing to collect bills to keep up with water and sewer costs.** The operating expenses of the city’s Water and Sewer Fund have increased from \$35,690,527 in 2003 to \$60,782,000 in 2021 (including depreciation and amortization). Since the inflation rate from 2003 to 2021 was 63%, the real cost of running the department has not increased significantly. However, revenues from water and sewer have decreased approximately 23% from \$42,976,956 in 2003 to the nineteen-year low of \$33,101,000 in 2021. This means revenue collections have not kept pace with the city’s cost of providing water and sewer services. Since FY 2018, the fund has operated with an annual net loss.



One can see the failure to collect water bills by looking at the city’s gross accounts receivable (the bills Jackson is owed and hopes to collect) and the city’s allowance for uncollectible debts (the bills Jackson believes it cannot collect). The city’s Water and Sewer Fund allowance balance has increased exponentially from \$3,368,000 in 2003 to \$94,159,000 in 2021—a 2,696% increase. The gross receivables balance has also exponentially increased from \$9,507,000 in 2003 to \$131,737,000 in 2021—a 1,286% increase. In four years, from FY 2018 to FY 2021, the amount of “uncollectible” water and sewer bills has more than doubled from approximately \$42 million to over \$94 million. The charts below illustrate the declining revenue of the Water and Sewer Fund.



- Jackson’s water usage is spiking while its population has fallen.** Jackson’s average daily water consumption has increased 245% since 2003 while the population has fallen 18%. While water consumption has increased, revenues for the water department are declining. Either Jackson is not reporting water consumption correctly, the city is losing water through leakage, the city is not properly billing residents for water usage, or a combination of all three.



- Jackson collects less water bill revenue and consumes more water than cities of a similar size.** See the chart below for more details.

	Operating Revenue	Operating Expenses	Average Daily Water Consumption (in gallons)	Population	Average Consumption per person (in gallons)	Average Revenue per person
Jackson, MS	\$33,101,000	\$60,782,000	81,915,000	149,761	546.97	\$221.03
Savannah, GA	\$79,376,144	\$70,917,929	61,060,000	147,780	413.18	\$537.12
Pasadena, TX	\$49,450,010	\$39,317,793	20,370,000	151,950	134.05	\$325.47

- Other cities’ water departments are in a better financial position than Jackson.** Both Savannah and Pasadena operated with almost \$10,000,000 in profit, while Jackson operated with a \$27,681,000 loss in FY 2021. To make up for these losses, Jackson has borrowed money, spent existing cash reserves, and transferred money from other funds. The city transferred \$6,915,000 to the water department from various sources to subsidize the operations and to assist in purchasing capital assets in FY 2021. Additionally, the department issued debt in the amount of \$25,085,152.
- Jackson used the proceeds from a recent settlement to pay for basic water system operations and debts.** As Jackson stopped collecting water bills, the city needed money to maintain water department operations, along with sanitation operations. When the city received a settlement from a former water meter vendor (Siemen’s), the water and sanitation departments then used more than \$17 million of that money to fund basic operations or cover deficits in FY 2020. The settlement proceeds and spending can be broken down as follows:

Gross Litigation Settlement	\$ 89,800,000
Less Attorney Fees paid	<u>(29,791,000)</u>
Net Cash Settlement	60,009,000
Less Transfer to Sanitation to subsidize operations	<u>(7,589,000)</u>
Cash remaining	\$ 52,240,000
Less amount needed to operate W&S Dept.	<u>(9,598,903)</u>
Total cash in fund at fiscal year-end 2020	<u>\$ 42,641,097</u>

In FY 2021, the department spent \$25,510,852 to purchase or repair equipment, and paid \$23,098.574 in principal and interest for debt. Since receiving the \$60,009,000 in cash in fiscal year 2020, the department has spent 71% of the settlement cash to fund the basic operations of the Water and Sanitation departments. If this trend continued in FY 2022, the entire settlement is now depleted.

- **Jackson appears to be providing free water service to some customers.** Auditors also noted the city's annual audits show many new water connections each year. The FY 2003 report shows 517 new connections, while there were 4,211 new connections in 2021—a 715% annual increase. This happened despite a population decline of 18% during the same period. The average daily water consumption has also increased over 200% in the same time.⁴ If the information reported is accurate, the increase in water connections and consumption paired with declining operating revenue indicates free water and sewer service is provided to some customers.

The analysis of the financial statements coupled with the ratio analysis illustrates serious issues for Jackson and, more specifically, the city's Water and Sewer department. The department's one-time infusion of cash from the Siemen's settlement has allowed the department to operate without other sufficient cash flow in FY 2020 and 2021. That infusion of cash masks a larger problem: insufficient bill collections. The ratio analysis above shows that the city is in a dire cash situation with short-term assets not being able to cover short- or long-term obligations of the water department. The Days Cash on Hand when the Siemen's settlement is removed is 0.0, meaning that the water department has no available cash to pay for day-to-day expenditures. The inability of the department to collect cash from billings is the underlying problem. Until this situation is rectified, the financial condition of the water department—and therefore the city—cannot improve.

⁵ While these values are not audited, they are compiled and reported by the city to be included in the city's annual audit reports.