



#614
December 18, 2017

Report to the Mississippi Legislature

A Financial Viability Review of the Pat Harrison Waterway District

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A joint committee, the PEER Committee is composed of seven members of the House of Representatives appointed by the Speaker and seven members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms, with one Senator and one Representative appointed from each of the U.S. Congressional Districts and three at-large members appointed from each house. Committee officers are elected by the membership, with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of four Representatives and four Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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December 18, 2017

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On December 18, 2017, the PEER Committee authorized release of the report titled
A Financial Viability Review of the Pat Harrison Waterway District.

A handwritten signature in cursive script that reads "Richard Bennett".

Representative Richard Bennett, Chair

This report does not recommend increased funding or additional staff.

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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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A Financial Viability Review of the Pat Harrison Waterway District

Introduction

Authority

House Bill 1522, 2017 Regular Session, requires the PEER Committee to conduct a comprehensive feasibility study of the Pat Harrison Waterway District and to submit a report to the Legislative Budget Office no later than December 31, 2017.

The Committee acted in accordance with MISS. CODE ANN. Section 5-3-51 (1972) et seq.

Problem Statement

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 (i.e., opted not to continue their membership) and subsequently no longer make ad valorem tax payments to the district. Although the district currently receives no state general fund appropriations, legislators expressed concerns about the district's long-term self-sufficiency based on its current financial environment, especially if other member counties were to exit. Furthermore, concerns exist about the potential for additional expenses to the district should it move forward with two large lake development projects.

Scope and Purpose

For this review PEER defined feasibility to mean "financial viability," specifically, the district's financial ability to continue to achieve its operating objectives and fulfill its mission over the long term while remaining solvent and self-sufficient. PEER sought to

- present an overview of the history of the Pat Harrison Waterway District and its current operations;
- examine the Pat Harrison Waterway District's current financial status;
- assess the long-term sustainability outlook for the Pat Harrison Waterway District; and

- identify the consequences should the Pat Harrison Waterway District be unable to maintain financial viability.

Methodology

In conducting fieldwork, PEER

- reviewed applicable state laws;
- interviewed Pat Harrison Waterway District staff concerning the planning for PHWD parks (e.g., maintenance, marketing, capital infrastructure), the district's current and long-term obligations, its services to member counties, and its staffing;
- obtained and analyzed Pat Harrison Waterway District financials from FY 2015 to FY 2017;
- reviewed audits of the Pat Harrison Waterway District conducted since FY 2008;
- interviewed staff from the Mississippi Department of Wildlife, Parks, and Fisheries; the Mississippi Department of Environmental Quality; the Mississippi Soil and Water Conservation Commission; and the Secretary of State's Office;
- surveyed the current and former member counties of the Pat Harrison Waterway District and the Pearl River Basin Development District; and
- interviewed parties involved in the planning and obtained information on the status of the George and Smith counties' lake projects.

Background

The state established waterway districts to provide regional flood control, water management, and recreational opportunities to member counties. The major regional waterway districts are the Pat Harrison Waterway District, the Pearl River Basin Development District, the Pearl River Valley Water Supply District, and the Tombigbee River Valley Water Management District. The waterway districts differ in their primary responsibilities and functions, number of member counties, membership requirements, and extent of recreational services.

Appendix A, page 33, summarizes major characteristics of each waterway.

History of the Pat Harrison Waterway District

MISS. CODE ANN. Section 51-15-103 (1972) created the Pat Harrison Waterway District in 1962, composed originally of 15 counties in the southeastern quadrant of the state, as a state agency with the purposes of recreation, flood control, economic development, timber development, irrigation, and pollution abatement (Section 51-15-101).

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—as follows:

...the waterways and surface waters of the state are among its basic resources, that the overflow and surface waters of the state have not heretofore been conserved to realize their full beneficial use, that the utilization, development, conservation, and regulation of such waters are necessary to insure an adequate flood control program, sanitary water supply at all times, to promote the balanced economic development of the state, and to aid in conservation and development of state forests, irrigation of lands needing irrigation, and pollution abatement. It is further determined and declared that the preservation, conservation, storage, and regulation of the waters of the Pat Harrison Waterway District overflow waters for domestic, municipal, commercial, industrial, agricultural, and manufacturing purposes, for recreational uses, for flood control, timber development, irrigation, and pollution abatement are, as a matter of public policy, for the general welfare of the entire people of the state.

MISS. CODE ANN. Section 51-15-119 (1972) lists the specific powers of the district, which include 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;
- 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;
- foresting and reforesting the area and helping to prevent erosion and flooding;
- entering into contracts with engineers or attorneys to finance, construct, operate, and maintain the district's projects and plants; and
- entering into contracts with municipalities, corporations, districts, public agencies, political subdivisions of any kind, and others for any services, facilities, or commodities that the project may provide.

Other powers of the district include the authority to fix and collect charges and rates for any district services; to operate and maintain, with the consent of the governing body of any city or town located within the district, any works, plants, or facilities deemed necessary or convenient to the accomplishment of district purposes; and to prevent or aid in the prevention of damage to person or property from the waters of the Pascagoula River or its tributaries.

Programs Operated by the Pat Harrison Waterway District

The Pat Harrison Waterway District operates to fulfill a three-pronged mission: providing recreation, flood control, and water management to member counties and state residents.

Recreation

MISS. CODE ANN. Section 51-15-123 (1972) authorizes the district to establish and provide for public parks and recreation facilities. The Pat Harrison Waterway District operates eight of its nine parks (it leases the operations of a ninth park), with cabins and/or campgrounds, and provides activities and opportunities to its member counties as well as to all other residents of the state. These facilities include a historic site, lakes, various campsites, a motel, waterslides, and additional support facilities. The district also operates seven boat ramps.

(See Appendix B, page 34, for a profile of the district's recreation facilities and the recreational opportunities provided.)

Flood Control

MISS. CODE ANN. Section 51-15-129 (1972) requires use of a specified portion of the funds contributed to the district by member counties for flood control and water management. The Pat Harrison Waterway District self-funds its flood control and prevention program through its Works Projects Grant program. This includes the planning, development, construction, and operation of projects along the rivers and streams of the Pascagoula River Basin. The PHWD also operates and maintains seven dams within the district's parks. (See page 6 for additional discussion on the district's dams and pages 11-12 for more on the Works Projects Grant program.)

Water Management

MISS. CODE ANN. Section 51-15-125 states that the district's board of directors has the power to adopt and promulgate regulations to secure, maintain, and preserve the sanitary condition of water in any reservoir within the district. Water management consists of planning, managing, and improving water quality and water supply sources through maintaining proper lake water levels; storing water for domestic, municipal, commercial, industrial, agricultural, and manufacturing purposes; inspecting dams; providing recreational areas; and protecting homes vulnerable to overflow waters or surface waters.

In addition, the district also identifies potential areas in which a water source is needed or could benefit regions within its jurisdiction. For example, the district is involved in two proposed lake projects, one in George County and one in Smith County (see Appendix G, page 41).

Properties and Facilities Owned by the Pat Harrison Waterway District

To fulfill its mission, the Pat Harrison Waterway District owns parks/campgrounds and boat ramps and maintains several dams.

To accomplish the objectives to provide recreation, flood control, and water management, 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.

Parks and Campgrounds

The Pat Harrison Waterway District owns park and campground areas located in the following cities/areas: Lumberton, Quitman, between Laurel and Collins, near Mount Olive, along the Chunky River in South Lauderdale County, Wiggins, near Waynesboro, and near Decatur.

The Pat Harrison Waterway District also has an extended lease on the recreational park and campground at Okatibbee Water Park with the U.S. Army Corps of Engineers.

(See Appendix C, page 36, for a map of park locations.)

Boat Ramps

The Pat Harrison Waterway District owns seven boat ramps, one each in Clarke and Wayne counties, two in Perry County, and three in George County. The district pays each county's respective board of supervisors \$1,500 per year to maintain the boat ramp(s) and grounds at each location.

Dams

Pat Harrison Waterway District dams are located on rivers, creating recreational and flood control lakes at the district's parks. According to the Mississippi Soil and Water Conservation Commission, these dams, in general, were initially built as flood control structures with funds from Public Law 566 funds (Natural Resources Conservation Service).

The Pat Harrison Waterway District also pays a portion of the maintenance costs for the Okatibbee Creek Dam as part of a 50-year lease agreement for water storage space at the Okatibbee Reservoir with the U.S. Army Corps of Engineers.

Under the current 50-year lease, which expires in September 2018, the district is responsible for (1) furnishing periodic water level reports and (2) installing suitable meters or metering devices.

Governance and Staffing of the Pat Harrison Waterway District

A 13-member board of directors governs the Pat Harrison Waterway District. Each member county's board of supervisors appoints one member and the Governor appoints three at-large members. The Pat Harrison Waterway District currently employs 92 staff members: 39 full-time employees, one part-time employee, and 52 contract workers.

Governing Board

The Pat Harrison Waterway District is governed by a board of directors consisting of a member from each county appointed by his or her respective board of supervisors and three members from the district at large, appointed by the Governor, as required by MISS. CODE ANN. Section 51-15-105 (1972). Board members serve for terms of four years. The board annually elects a president, vice president, and other officers as necessary. MISS. CODE ANN. Section 51-15-119 (1972) authorizes the board to employ a general manager or

executive director with the power to employ and discharge employees.

The board of directors meets monthly and has established the following committees to conduct the business of the district: finance, policy, works projects, nominating, audit, budget, equipment, George County Lake Project, Smith County Lake Project, marketing, timber management, and parks review.

Staffing

The Pat Harrison Waterway District has 40 total employees, 39 of them full-time. It also employs 52 contract workers, including temporary summer workers at the district's parks.

The PHWD district office staff performs the following functions: personnel, payroll, accounting, purchasing, marketing, and reservations and provides support for the district's program operations. All district parks but Little Black Creek have an assigned staff; Little Black Creek contracts out its operations. The district's central maintenance crew provides maintenance services for the parks and other programmatic needs.

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

This chapter examines the following aspects of the Pat Harrison Waterway District to determine its current financial status:

- funding,
- major expenditures,
- major long-term liabilities, and
- cash reserves.

Pat Harrison Waterway District Funding

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.

Ad valorem taxes required by state law to be contributed to the district from each member county and fees generated by the district's recreational facilities provide the main sources of funding for the Pat Harrison Waterway District. The district can earn additional operating revenue through investment of its cash reserves. The periodic sale of timber on district property provides occasional revenue.

Member Counties' Ad Valorem Tax Contributions

The Pat Harrison Waterway District collected approximately \$2.17 million in ad valorem tax revenue in FY 2017. The district's ad valorem collections averaged \$2,208,325 annually for the period FY 2012 to FY 2017. This represents a decrease of \$440,643 annually in comparison to ad valorem collections for the period from FY 2008 to FY 2011, which averaged \$2,648,968.

MISS. CODE ANN. Section 51-15-129 (1972) requires that each of the district's member counties contribute a portion of ad valorem taxes to support the district. In FY 2017 the district received \$2,172,620 in ad valorem tax collections from its member counties.

All member counties, with the exception of Jackson County, are required to contribute to the district up to seven-eighths of a mill of their total assessed valuation, respectively. Jackson County (prior to its withdrawal from the district in 2017) was required to contribute to the district up to two-tenths of a mill of its total assessed valuation.

Comparison of ad valorem tax collections over time show that collections for the district have decreased as the result of member counties leaving the district, therefore ceasing provision of their prior ad valorem contributions. For fiscal

years 2008 through 2011, the district received an annual average of \$2,648,968 in ad valorem payments. In FY 2012, Lamar County exited the district followed by Jasper and Forrest counties in FY 2014. As a result, for fiscal years 2012 through 2017, the district received an annual average of \$2,208,325 in ad valorem payments, an annual decrease of \$440,643 subsequent to the exit of the three counties. Two additional counties exited the district during FY 2017: Jackson and Perry. These additional reductions in ad valorem tax collections will reduce the district's revenue in FY 2018 and beyond.

(See Appendix D, page 37, for Pat Harrison Waterway District ad valorem tax collections for FY 2008 through FY 2017 by member county.)

Fees Generated by the District's Recreational Facilities

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.

PHWD parks generate funds from leases; cabin, boat, campsite, and recreational equipment rentals; day-use admission fees; special event admission fees (e.g., fireworks displays); net income from the sale of concessions and firewood; and fees from the use of laundry facilities. The gross income from its parks and recreational facilities totaled \$2,589,934 in FY 2017.

Exclusive of maintenance and district support operations, four of the district's parks generated positive net income in FY 2017. In contrast, five parks operated at a loss.

PEER reviewed the profits and losses for the parks from FY 2015 through FY 2017. When examining the gross income and expenditures, including both the district office costs and maintenance costs, the parks have operated at a loss for each of the three fiscal years reviewed. In FY 2017 this loss totaled \$529,809.

(See Appendix E, page 38, for the profits and losses for each of the parks within the Pat Harrison Waterway District, as well as district office park expenses and maintenance office costs from FY 2015 through FY 2017.)

Miscellaneous Revenue Sources

The district earns periodic revenue from timber sales and interest on investments. The district also receives one-time exit fees from member counties who opt to withdraw.

Timber Sales Revenue

For FY 2014 through FY 2016, the Pat Harrison Waterway District generated approximately \$1.24 million in revenue from timber sales. However, this revenue source is only available to the district periodically.

The district may grow and harvest timber on properties owned within its boundaries. It typically applies timber revenue to the general operating budget.

For FY 2014 to FY 2016, the district generated \$1,241,806 in timber sales:

- FY 2014: \$492,748,
- FY 2015: \$544,953,
- FY 2016: \$204,105.

Although the district reported timber sales in recent fiscal years, this revenue is not always available due to the time for timber to grow into harvestable forest. District staff also noted that after Hurricane Katrina damage in southern Mississippi in 2005, the district began to be more proactive in selling its timber to minimize potential future losses.

Interest Revenue

The district earned \$51,609 from interest in FY 2016. For fiscal years 2008 through 2016, the district earned \$681,658 in interest from its investments. However, such earnings have been declining since FY 2008.

The district typically invests its idle cash in certificates of deposit or interest-bearing checking accounts. The district earned \$51,609 from interest from three funds: governmental, recreational, and timber.

When analyzing interest earnings over time, the district earned \$681,658 in interest from its investments from FY 2008 through FY 2016. However, such overall earnings have declined, beginning in FY 2009, in comparison to FY 2008 earnings.

One-Time Exit Payments

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.

If a county opts to withdraw from the Pat Harrison Waterway District, MISS. CODE ANN. Section 51-15-118 (1972) requires the county to pay “its portion of 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.” For example, Lamar County paid the district \$337,187.74 in FY 2016, including \$337,088 in exit fees, after its board of supervisors notified the district of its intent to exit on September 6, 2011.

The district board approved a \$125,000 fee for Jasper County at its meeting September 28, 2017, for the county’s withdrawal, along with Forrest County, in FY 2014. The district is in the process of determining the exit payment due from and settling with Forrest County. Additionally, it awaits the results of its FY 2017 audit to determine the pro rata share for Perry and Jackson counties’ exit fees.

Major Expenditures of the Pat Harrison Waterway District

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.

Park and Recreational Facility Operations

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.

As noted in the discussion of revenues on page 9, the district spends much of its revenues on the operations and maintenance of its parks and recreational facilities. In FY 2017 the district reported \$2,204,203 in expenditures to operate its parks. Furthermore, when factoring in the costs of district office support (\$852,930 in FY 2017) and maintenance (\$76,717 in FY 2017) of the parks in comparison to park revenues, the parks operated at a net loss of \$529,809 in FY 2017.

Works Projects Grant Allocations

The Pat Harrison Waterway District approved \$399,335 in Works Projects Grant program allocations for 21 projects in FY 2017.

Using a portion of the district funding received from ad valorem tax collections, the Pat Harrison Waterway District allocates funds to counties to match county funds—50% match up to \$25,000—for works projects, such as drainage and flood control projects within the counties).

The Pat Harrison Waterway District permits each county to request two projects per month. The district allocates 50% of

total district funds set aside for county works projects for the first half of the fiscal year (July–December) and the remaining 50% of district funds for county works projects requested in the second half of the fiscal year (January–June).

The district approved \$399,335 in Works Projects Grant program allocations for 21 projects in FY 2017. Examination of total amounts allocated from FY 2015 through FY 2017 finds that the district approved funding assistance (matches) in the amount of \$1,609,296 for 78 works projects with an estimated project cost of \$4,049,585 (see Exhibit 1).

Exhibit 1: Pat Harrison Waterway District County Works Projects, FY 2015–FY 2017

County	FY 2015	FY 2016	FY 2017	Total Project	Estimated Cost Project	Amount Approved by PHWD
Clarke	2	3	1	6	\$163,907	\$77,903
Covington	0	0	1	1	57,257	25,000
George	5	3	4	12	687,483	292,291
Greene	1	2	2	5	226,188	111,065
Jackson	10	5	2	17	1,322,165	506,885
Jones	1	3	2	6	266,422	69,127
Lauderdale	2	1	3	6	499,479	165,294
Newton	2	1	4	7	299,198	138,193
Perry	1	3	0	4	123,245	59,620
Smith	1	0	1	2	170,759	47,175
Stone	3	2	1	6	166,223	83,111
Wayne	5	1	0	6	67,255	33,627
Total	33	24	21	78	\$4,049,585	\$1,609,296

SOURCE: Works Projects – Pat Harrison Waterway District.

Long-Term Liabilities

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

The district’s long-term liabilities due in FY 2017, as per the June 30, 2016 audit, totaled \$57,324:

- \$45,550 – capital lease payments (Corps of Engineers for Okatibbee Reservoir);
- \$11,774 – accrued employee leave.

In addition, as of June 30, 2016, the Pat Harrison Waterway District owed \$140,982 in principal and interest on the

remaining three years of the lease for Okatibbee Reservoir with the Corps of Engineers.

Accrued employee leave, also known as compensated absences, refers to employee time off with pay, which can arise in such situations as sick leave, holidays, vacations, and jury duty. When earned and used in the same period there is no need to separately recognize this for accounting purposes. However, it must be charged to expense and recorded as a liability when use is deferred to a later period.

Current Cash Reserves

As of June 30, 2016, the Pat Harrison Waterway District had cash reserves of more than \$8.48 million, including approximately \$6.58 million in unrestricted cash. From FY 2012 to FY 2016, its net financial position increased by \$23,587.

As of June 30, 2016, The Pat Harrison Waterway District had cash reserves totaling \$8,483,505,³ which includes \$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 (see Exhibit 2).

When the district does not expend its annual revenues, it may retain the funds for use in future fiscal years. Although not required legally to maintain a reserve fund, the PHWD Executive Director, Director of Accounting and Finance, and Board of Directors have taken the position that the reserve fund should be “restricted” for future obligations of the district, primarily for years of a shortfall due to declining revenues.

Exhibit 2: Pat Harrison Waterway District Cash on Hand, FY 2013–FY 2017

Fiscal Year	Cash Balance	Allocated to Works Projects Payable	Unrestricted Cash Reserves
2013	\$6,768,086	\$1,200,000*	\$5,600,000*
2014	\$7,157,069	\$1,620,417	\$5,536,652
2015	\$7,653,365	\$2,226,805	\$5,426,560
2016	\$8,483,505	\$1,905,349	\$6,578,156

*Approximate.

SOURCE: Pat Harrison Waterway District.

Based on an analysis of the districts’ audited financial statements for fiscal years 2012 through 2016, PEER determined that the district’s net financial position increased by \$23,587, as shown in Exhibit 3, page 14. This figure includes approximately \$1.2 million in timber revenue from FY 2014 to

³PEER notes that the district has a history of carrying significant year-end cash balances. In its 2013 report *A Review of the Pat Harrison Waterway District’s Expenditures, FY 2011–FY 2013*, PEER found that the PHWD’s year-end cash balance had increased to \$6,768,086 as of June 30, 2013.

FY 2016 and \$337,188 in one-time money from Lamar County as part of payment for exiting the district.

The change in the district's net financial position results from net changes in its Governmental and Enterprise funds. Governmental Funds include the district's receipt of ad valorem payments. Enterprise Funds include revenue from the district's operation of its parks, which are supported by charging for goods and services, and revenue from the district's timber sales.

Exhibit 3: Pat Harrison Waterway District Year-End Fund Balances and Changes in Net Financial Position, FY 2012–FY 2016

Fund Type	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Total
Government Funds	\$494,5	\$382,0	\$142,5	\$26,5	\$769,1	\$1,814,8
Enterprise Funds	\$(735,3)	\$(871,2)	\$(21,8)	\$98,8	\$(261,6)	\$(1,791,2)
Total Fund Change	\$(240,8)	\$(489,1)	\$120,7	\$125,4	\$507,5	\$23,5

SOURCE: PEER analysis of Pat Harrison Waterway District audits and another district documentation.

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. As discussed in more detail on page 10, without these one-time revenue sources the district would have operated at a net loss.

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. However, recognizing a changing environment (e.g., the exit of member counties) that could threaten its long-term sustainability, the district began to take steps to guarantee continued operations.

This chapter explores the prospects for the Pat Harrison Waterway District's long-term sustainability and examines the following:

- financial viability given its current expenditures and revenues;
- steps the district has taken to ensure continued operations and mitigate decreases in revenue;
- environmental threats to long-term operational and financial sustainability; and
- opportunities for generating additional revenue.

PHWD Financial Viability Given Its Current Expenditures and Revenues

PEER projects that the Pat Harrison Waterway District will sustain a loss of approximately \$355,000 in FY 2018. Based on this estimated loss and its cash reserves as of June 30, 2016, if similar losses were to occur in future years, the district could operate for approximately 18.5 years before exhausting its cash reserves.

PEER sought to estimate the Pat Harrison Waterway District's net change in financial position for FY 2018. To project this estimate, PEER made the following assumptions regarding the district:

- Ad valorem tax collections remain comparable to FY 2017 amounts (however, amounts for member counties who exited were removed).
- Park revenues and expenditures remain comparable to FY 2017 amounts.
- Revenues and expenditures reflect annual operational estimates only and do not include any one-time sources, such as timber sales, exit fees, contributions, or transfers.

Using these assumptions, PEER estimated that the Pat Harrison Waterway District will sustain a net loss of approximately \$355,000 in FY 2018. Exhibit 4, page 16, shows the sources of revenue and expenditures utilized in calculating this estimated net change in financial position.

Exhibit 4: 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 Pat Harrison Waterway District audits and other documentation obtained from the district.

As shown in Exhibit 4, the Pat Harrison Waterway District experienced a positive net change from FY 2012 to FY 2016, primarily the result of one-time revenues from timber sales and the exit fee from Lamar County. However, eliminating these one-time revenues from consideration for FY 2018 results in an estimated change in net financial position of an approximate loss of \$355,000.

PEER also sought to estimate 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 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.

Steps Taken To Ensure Continued Operations and Mitigate Decreases in Revenue

Anticipating the possible exit of additional member counties and the uncertainty of obligations arising from new ventures, the Pat Harrison Waterway District reduced staff expenditures, outsourced some park operations, began park enhancements expected to produce additional revenue, and decreased Works Projects Grant program funding in efforts to continue operations and offset revenue loss.

Reductions in Staffing Expenditures

Since FY 2009, the Pat Harrison Waterway District has reduced expenditures for staffing by approximately \$1.5 million (47%).

Since FY 2009, the Pat Harrison Waterway District has reduced its expenditures for staffing allocated to recreation (i.e., the parks) and Governmental Funds (i.e., works projects, flood control, district support, and administration).

According to its financial audits, the district has reduced expenditures for salaries and fringe benefits allocated to Governmental Funds by \$726,713 since FY 2009 (\$1,534,404 in FY 2009 versus \$807,691 in FY 2016). Over the same period it reduced expenditures for salaries and fringe benefits allocated to Recreational Funds by \$774,812 (\$1,681,055 in FY 2009 versus \$906,243 in FY 2016).

Since July 2012, the Pat Harrison Waterway District has reduced its total employees from 108 to 92. In July 2012, the district employed 72 full-time employees, 16 part-time employees, and 20 contract workers. To reduce the district's payroll costs, the district reduced its number of full-time and part-time employees while contracting for seasonal workers, which does not require the payment of benefits.

Enhancing Park Operations

The Pat Harrison Waterway District is enhancing park operations with the goal of increasing annual revenues from park user fees.

The district is in the process of making improvements to some of its recreational parks to promote increased use from updated and added amenities.

According to PHWD staff, the district is currently adding or has recently completed the following enhancement projects:

- all-terrain vehicle trails at Maynor Creek;
- horse trails at Turkey Creek Water Park; and
- pull-through RV sites, a new bathhouse, and a new pavilion at Dry Creek Water Park.

Adjustments in County Works Project Funding

The Pat Harrison Waterway District adjusted the amount of funding set aside for county works projects based on available funding and changes in membership. With counties exiting the district, it decreased its funding for works projects from \$714,583 in FY 2011 to \$400,000 in FY 2017.

In FY 2015 the Pat Harrison Waterway District increased the amount that counties had to provide as a match for county works projects from \$25,000 to \$40,000. However, after the amount expended on county works projects increased significantly—to a high of \$757,495 in FY 2015—the district returned the match requirement to \$25,000. For FY 2018 the district budgeted a total of \$400,000 for all county works projects, a reduction primarily due to the departure of Jackson County and Perry County from the district. Although the district reduced the total amount of funds allocated to county works projects, the district maintained the same proportion of funds allocated to works projects as before counties exited.

Environmental Threats to Long-Term Operational and Financial 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. Some examples of potential losses in revenues include additional member counties exiting the district and decreased revenue from park operations. The unknown cost to manage and operate the two proposed lake developments represent a potential increase in expenditures.

Additional Member Counties Exiting the District

Since 2011, five of the initial 15 member counties have exited the Pat Harrison Waterway District and therefore no longer pay a share of their ad valorem taxes to the district. The district will receive approximately \$1.78 million from the remaining counties' ad valorem tax collections in FY 2018. This reflects a decrease of \$389,000, or 18%, compared to FY 2017 collections and a decrease of \$1 million, or 36%, compared to FY 2011 collections.

Different membership requirements in the state's four major waterway districts cause variance in both the stability and amount of available revenue. Both the Pat Harrison Waterway District and the Pearl River Basin Development District were created with the option for member counties to exit, whereas counties in the Pearl River Water Supply District and the Tombigbee River Valley Water Management District do not have that option. In addition, according to the Executive Director of the Pearl River Basin Development District, that district is expected to cease operations June 30, 2018, as the result of member county exits (from 18 members at creation to eight currently) and insufficient revenues.

The loss of member counties means the district also loses their respective ad valorem tax collections. PEER estimates

that after the departure of these counties, the district will receive \$1.78 million from the remaining member counties' ad valorem taxes in FY 2018. This reflects a decrease of \$389,000 (18%) compared to FY 2017 collections and a decrease of \$1 million (36%) compared to FY 2011 collections.

Assuming the district will sustain a net loss of approximately \$355,000 in FY 2018, as noted on page 16, the loss of any additional member counties would then result in further reductions of ad valorem tax collections and therefore a greater net loss to the district. 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.

Decreased Park Revenues

If park revenues decrease and the district takes no action to counterbalance these losses, it will deplete cash reserves at a faster rate. Declining revenues from ad valorem tax collections places increased pressure for the district to produce net positive financial gains in park operations.

From FY 2015 and FY 2016, park revenue comprised 47%-48% of total Pat Harrison Waterway District revenue. As discussed on pages 15-16, when considering overall park revenues and expenditures, the parks within the district have operated at a net loss for each year from FY 2015 through FY 2017.

According to district staff, ad valorem tax collections and other one-time revenue sources have subsidized net losses in park operations. However, with fewer member counties within the district, and subsequently less ad valorem tax revenue, the district's ability to offset park losses will diminish. Should the district have an increased net loss in park operations in any given fiscal year, it will utilize its cash reserves at a faster rate. Therefore, diminished revenue from ad valorem tax collections results in increased pressure on the district to produce net positive gains in park operations to minimize offsetting potential reductions in cash reserves.

Potential Management of Two New Lake Developments

With a projected net loss for FY 2018 primarily the result of declining revenues, PEER cautions that the district should carefully evaluate its ability to manage two proposed lake developments, the Pascagoula River Drought Resiliency Project (Lake George) and the Smith County Recreational Project (Smith Lake). The district could suffer negative financial consequences if the lakes are not as economically sustainable as projected.

The district is currently providing technical and administrative support for both the Pascagoula River Drought Resiliency Project (commonly referred to as Lake George Project) and the Smith County Recreational Project (commonly referred to as Smith Lake Project). It has worked closely with both George and Smith counties and is expected to essentially manage and operate both lakes upon their completion. In addition to

concern about the district's long-term self-sufficiency based on its current financial position, similar concern exists about the potential additional costs should the district move forward with the lake projects. Although the lakes' amenities are expected to ensure self-sustainability, the district could experience negative financial consequences if the lakes are not as economically successful as projected.

(See Appendix G, pages 41-44, for additional discussion of the two currently proposed lake development projects.)

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.

Addition of Member Counties

As part of its FY 2017 appropriation bill, the Legislature permitted any county that is not a member of the Pat Harrison Waterway District to elect to become a member of the district. Any counties that elect to join the district would subsequently increase the amount of district revenue through ad valorem tax collections.

Prior to July 1, 2017, state law prohibited the Pat Harrison Waterway District from adding additional counties beyond its statutory geographic boundary. MISS. CODE ANN. Section 51-15-1 (1972) limits that geographical boundary to Clarke, Covington, Forrest, George, Greene, Jackson, Jasper, Jones, Lamar, Lauderdale, Newton, Perry, Smith, Stone, and Wayne Counties. However, the Legislature, through the Pat Harrison Waterway District's 2017 appropriation bill (House Bill 1522, Section 7), created a one-year exemption (for FY 2018) permitting that "any county that is not a member of the Pat Harrison Waterway District may elect to become a member of the district by order of the board of supervisors of such county spread upon its minutes and certified to the Pat Harrison Waterway Commission."

The Pat Harrison Waterway District's staff reported outreach to various counties to gauge their interest in joining the district.

Considering the dissolution of the Pearl River Basin Development District, potential exists for the Pat Harrison Waterway District to pursue the eight remaining member counties of that district: Leake, Scott, Simpson, Lincoln, Pike, Walthall, Marion, and Pearl River.

Any counties that elect to join the Pat Harrison Waterway District would subsequently increase the amount of district revenue through ad valorem tax collections.

Enhancement of Promotional Strategies for Park Operations

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. Although staff at the district noted prior marketing attempts, the district 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.

Because PHWD parks and other recreational facilities are one of the district's larger revenue sources, a strategic marketing plan that includes enhanced and targeted promotion could drive increased patronage and thus park revenues.

District staff reported having no written marketing strategy in place, but noted past efforts to promote park operations, for example, placing brochures at the state's welcome centers, renting billboard advertising space, and attending various trade shows. However, annual park attendance numbers did not reflect as much success as the district had hoped.

PEER found the district website to contain out-of-date and incorrect information. Having an accurate and up-to-date website depicting the recreational facilities respective to each park within the district could potentially generate interest and attract park users. According to staff at the Pat Harrison Waterway District office, an update of the website is ongoing. For example, one aspect of the website update will be the addition of aerial (drone) video for each of its parks, with a launch goal of March 1, 2018.

Additionally, the district partnered with the University of Southern Mississippi to conduct a "silent shopper" study to determine park visitors' impressions and suggestions on how to improve. It expects the results of the silent shopper study by the end of 2017.

Long-Term Financial Obligations

The Pat Harrison Waterway District has approximately \$1.9 million obligated to previously approved county works projects; \$17,541 obligated to equipment operating leases and service contracts; and \$9,000 per year obligated to annual inspection of its high-hazard dams. In addition, the district's 2017 Capital Infrastructure Plan identified \$3,650,000 in maintenance needs for its eight⁴ dam structures.

Debt Obligations—County Works Projects Payable and Leases

The Pat Harrison Waterway District has the following future or ongoing contractual obligations: (a) Works Projects Grant program commitments and (b) operating lease and service contracts.

⁴The Pat Harrison Waterway District operates and maintains seven dams within the district's parks; the eighth dam is in the Okatibbee Creek Water Park, which the district leases from the United States Army Corps of Engineers.

As has been noted, the Pat Harrison Waterway District awards grants each year for various works projects in its member counties. Grant awards generally cover 50% of the eligible project costs up to a maximum grant amount of \$25,000. These grant commitments are payable after each project's completion based upon documentation of the costs incurred by the grant recipient. PHWD grant commitments currently amount to \$1,886,318 as of September 30, 2017.

Additionally, the Pat Harrison Waterway District has entered into certain equipment operating leases and service contracts with non-cancellable terms. These leases and service contracts totaled \$17,541 as of June 30, 2017.

Maintenance of Dams

The Pat Harrison Waterway District would expend an average of \$9,000 per year⁵ to have a professional engineer inspect its five high-hazard dams once every five years. In addition, the district's 2017 Capital Infrastructure Plan identified \$3,650,000 in maintenance needs for dam structures.

Mississippi Department of Environmental Quality (MDEQ) Division of Dam Safety regulations require inspection of the Pat Harrison Waterway District's five high-hazard dams annually by district staff and by a professional engineer once every five years. The Mississippi Soil and Water Conservation Commission assists the district with its annual owner inspections of the dams by providing necessary staff and equipment.

The district's two low-hazard dams do not require annual inspection;⁶ however, the Parks Director visually inspects both annually.

The cost incurred by the district to have a professional engineer inspect the five high-hazard dams varies. The district paid Walker Engineering \$8,260 to inspect the dam at Little Black Creek in January 2017 and \$8,550 to inspect the dam at Big Creek in June 2017. If PEER were to assume a similar cost for each high-hazard dam inspection, excluding travel, an average of \$9,000 per year to inspect PHWD's high-hazard dams would be a reasonable estimation.

In addition, the Pat Harrison Waterway District's 2017 Capital Infrastructure Plan (Appendix F, page 39) identified \$3,650,000 in maintenance needs for the district's dam structures:

⁵\$9,000 = 9,000*5/5, given it costs approximately \$9,000 per dam inspection to inspect each of the five high-hazard dams once every five years.

⁶According to the MDEQ Division of Dam Safety, low-hazard dams do not require regular inspection because if the dam were to breach, it is not expected to cause an impact on structures, loss of life, or significant property damage.

- \$400,000 - analysis and formal inspections of eight dams as required by the Mississippi Department of Environmental Quality;
- \$500,000 - Flint Creek - upgrade principal spillway and hydraulic gates;
- \$750,000 - Big Creek - upgrade to high-hazard and upgrade concrete spillway;
- \$1,000,000 - Little Black Creek - upgrade to high-hazard;
- \$100,000 - Turkey Creek - rehabilitate principal spillway;
- \$100,000 - Maynor Creek - rehabilitate principal spillway;
- \$400,000 - Archusa Creek - upgrade five gates;
- \$400,000 - Dry Creek - enlarge the permanent pool.

On July 6, 2017, the Mississippi Department of Environmental Quality notified the Pat Harrison Waterway District that the inspection report for the Big Creek dam indicated a spillway capacity deficiency and that it needed to provide a corrective action plan by August 31, 2017. In response, the district notified the MDEQ that it is seeking funding assistance from the Natural Resources Conservation Service to upgrade the spillway capacity at Big Creek to meet regulations for high-hazard dams. The district is expected to obtain funding in 2019 and implement the upgrades in spillway capacity in 2022.

Additionally, the Pat Harrison Waterway District has entered a 50-year lease agreement with the Corps of Engineers (set to expire September 2018) to share the cost of construction of the Okatibbee Dam/Reservoir and maintenance of the Okatibbee Dam/Reservoir.

Lake Development Projects

The Pat Harrison Waterway District is currently involved in two lake development projects—the Pascagoula River Drought Resiliency Project in George County and the Smith County Recreational Project in Smith County—providing technical and administrative assistance.

As counties move to incorporate methods within their boundaries to increase economic development and improve water management, lake development projects have emerged as an option. Pat Harrison Waterway District brings its experience in managing and operating lakes and is providing technical and administrative assistance for both the Pascagoula River Drought Resiliency Project and the Smith County Recreational Project throughout the course of development.

Lake Management

For each of the lake developments, the current plan is for the Pat Harrison Waterway District to manage the lakes and operate and maintain the recreational facilities associated with each project.

Regarding the Lake George project, because the district is also the bond holder, it will coordinate with the George County Board of Supervisors on the expenditure of those bond funds. Regarding the Smith Lake, the district will potentially manage and negotiate private leases around the public facilities after completion of the project. Upon completion of the two lakes, the district plans to operate and maintain the recreational facilities associated with each of the lakes.

As the bond holder for Lake George, the district is working with the George County Board of Supervisors to select contractors, negotiate task orders, and review deliverables and progress reports prior to approving invoices. The district also coordinates between the George County Board of Supervisors and the Department of Finance and Administration on the timing and amount of authorized bond funds for the project.

In addition, the Smith County Board of Supervisors stated that the district will get the lake development project established and, potentially, negotiate and manage private leases around public facilities.

Financial Risk

The success of the lake projects depends largely on the types of amenities they will offer that will lead to self-sustainability. If the lakes are not economically self-sustaining, the Pat Harrison Waterway District then must share in the financial burden of managing and operating the lakes and their respective recreational facilities.

According to the Director of Special Projects at the Pickering Firm, the firm tasked to manage the lake projects, the success of a lake depends on how economically sustainable it can be, which is largely dependent upon its amenities. Trails, campgrounds, pavilions, boat ramps, etc., alone will make it difficult to achieve economic sustainability. The more quality amenities—e.g., hotel, cabins, water parks, restaurants, stores, and homes—the more significant the economic impact and the potential for sustainability. Both lakes would need to be economically sustainable or the Pat Harrison Waterway District's financial responsibilities will increase.

According to the Pat Harrison Waterway District, the amenities included in the Lake George project are expected to make it economically self-sustaining. The exact financial obligations to operate and maintain the proposed project will be clarified

during the ongoing environmental impact study (EIS),⁷ which is evaluating the environmental impacts of potential public and private development and the economic feasibility of proposed developments. This study should have a significant effect on the number, size, and amenities of the public water park(s) to ensure that the project is economically viable and self-sustaining.

In addition to amenities and the revenues generated from them, the surrounding landowners remain free to develop their land using private funding if they so choose. The county and the Pat Harrison Waterway District can enter into a private-public partnership or use tax-incremental financing to expand the number and diversity of amenities beyond what has been planned for the public parks.

The same conditions remain for Smith Lake: It must be economically self-sustaining by its amenities so as not to place a potential financial burden on the district. According to the district, it is currently impossible to estimate the cost to maintain the proposed Smith Lake project until or unless the land transfer without consideration or long-term special use permit is in place.

It would be premature at this time to estimate the costs to manage and maintain the lakes and their recreational facilities. With the district's current park operations having recently operated at a loss and decreasing revenues from ad valorem tax collections, the district should consider its future role in the lake projects very carefully in relation to its current financial viability.

⁷The environmental impact statement (EIS) is a document required by the "National Environmental Policy Act" for major federal actions that could "significantly affect the quality of the human environment."

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

With approximately \$6.5 million in unrestricted reserves, the Pat Harrison Waterway District can continue operations under current financial conditions (profits and losses) for approximately 18.5 years. However, the continued exit of member counties and the potential expenses the district may incur with lake development projects in George and Smith counties pose threats to its long-term sustainability. This chapter examines the outcomes should the Pat Harrison Waterway District seek legislative authorization to dissolve.

Sunk Costs Assumed by State or Other Local Governmental Entities

The district's sunk costs (i.e., costs previously incurred and thus unrecoverable) would include any prior costs to acquire and develop the district's parks and construct and maintain its dams.

A *sunk cost* is a *cost* already incurred and therefore unrecoverable. Future business decisions exclude sunk costs because the cost will be the same regardless of the outcome of the decision. For example, future determinations regarding maintaining PHWD dams should be based on the value of the dam as a recreational source and flood control device versus the long-term cost to maintain and inspect the dam and its lake. Past investment costs and revenues would be excluded.

For example, the projected cost of a professional engineer to inspect the district's five high-hazard dams once every five years is \$9,000 per year on average. Additionally, the Pat Harrison Waterway District has not projected long-term maintenance costs to maintain the district's dams although it did identify potential capital infrastructure projects totaling \$3,650,000.

Additionally, any prior investments into the Pat Harrison Waterway District's parks, either in their establishment or renovations, represent sunk costs. The extent that the state must maintain and operate the district's parks or turn them over to the local counties to operate remains a matter of some uncertainty, as discussed on page 27.

The state could allow the lease with the U.S. Army Corps of Engineers for the Okatibbee Reservoir to expire at the end of the lease September 2018 or provide 30 days' notice notifying the Corps of its intention to terminate the lease. The decision to renew the lease would not be based on past costs invested in the Okatibbee Reservoir through lease payments or Land and Water Conservation Fund matches, but rather on a cost-benefit analysis of the benefits the reservoir provides versus the cost for the state/district to partner with the U.S. Army Corps of Engineers for the Okatibbee Reservoir.

Legal Constraints on the Decision to Downsize Assets or Dissolve the District

Uncertainty in the current funding environment can create concerns about the continuing viability of the Pat Harrison Waterway District. 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.

As has been noted, some previous district member counties chose 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 a recent court case, *Pat Harrison Waterway District v. Lamar County*,⁸ 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;
- 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.

The duty to operate the parks purchased in whole or in part with federal funds could potentially be transferred to another state or local entity. Specific covenants could affect transfer of certain district properties if the Legislature chose to dissolve the district and sell park lands and other properties.

This chapter examines these constraints.

Federal Grant Funding Issues

When the state entered into funding agreements with the federal government, it was common practice for federal agencies to require continued operation of recreational properties purchased in whole or in part with federal funds. PEER notes that specific covenants in agreements used by the Department of the Interior and the Department of Agriculture in the 1960s often made clear the federal government's rights

⁸See *infra* at footnote 2.

against the state should an abandonment of a recreational facility occur.

Land and Water Conservation Fund Projects

The district established four parks utilizing U.S. Department of Interior Land and Water Conservation funds. It was common practice for these agreements to contain the following, or similar, language:

The state agrees that the benefit to be derived by the United States from the full compliance by the state with the terms of this agreement is the preservation, protection, and the net increase in the quality of public outdoor recreation facilities and resources which are available to the people of the State and of the United States, and such benefit exceeds to an immeasurable and unascertainable extent the amount of money furnished by the United States by way of assistance under the terms of this agreement. The State Agrees that payment by the State to the United States of an amount equal to the amount of assistance extended under this agreement by the United States would be inadequate compensation to the United States for any breach by the State of this agreement. The State further agrees, therefore, that the appropriate remedy in the event of a breach by the state of this agreement is specific performance of this agreement.

Furthermore, the following language was placed in these agreements:

- 1. The State shall not at any time convert any property acquired or developed pursuant to this agreement to other than the public outdoor recreation uses specified in the project proposal attached hereto without the prior approval of the Director.*
- 2. The State shall operate and maintain, or cause to be operated and maintained, the property or facilities acquired or developed pursuant to this agreement in the manner and according to the standards set forth in the Manual (meaning the manual governing the operation of such projects).⁹*

⁹See *Pat Harrison Waterway Dist. v. Cnty. of Lamar*, 185 So.3d 935 (2015) for a detailed discussion of these terms.

United States Department of Agriculture Soil Conservation Service Agreements

The Soil Conservation Service and the “National Watershed Protection and Flood Prevention Act” program provided some funding to three district park projects. Although the language contained in these agreements was not as proscriptive as that in Soil and Water Conservation Fund projects, it made clear that the district or the state was to maintain the parks for their useful life.¹⁰

Corps of Engineers Lease

Another project, Okatibbee Creek Water Park, in Lauderdale County, is leased to the United States’ Army Corps of Engineers. The lease, first executed for 50 years, expires in 2018.¹¹

Specific Limitations in Chapter 222, *Laws of 1962*

Chapter 222, *Laws of 1962*, established and empowered the Pat Harrison Waterway District. The statute gives broad powers to the board to acquire real property by negotiation or eminent domain if necessary. Two provisions of the statute place duties upon the district should it choose to dispose of the property. Currently codified as Section 51-15-119(v) is the following language taken from the 1962 statute:

(v) When, in the opinion of the board of directors as shown by resolution duly passed, it shall not be necessary to the carrying on of the business of the district that the district own any lands acquired, the board shall advertise the lands for sale to the highest and best bidder for cash, and shall receive and publicly open the bids thereon. The board shall, by resolution, determine the highest and best bid submitted for the land and shall thereupon notify the former owner, his/her heirs or devisees, by registered mail of the land to be sold and the highest and best bid received therefor, and the former owner, or his/her heirs or devisees, shall have the exclusive right at his/her or their option for a period of thirty (30) days in which to meet such highest and best bid and to purchase such property.

Additionally, similar language exists in Section 51-15-119(e)(iii), which provides:

(iii) Moreover, when any site or plot of land is to be rented, leased or sold to any person, firm or corporation for the purpose of operating

¹⁰Supra.

¹¹Supra.

recreational facilities thereon for profit, the board shall, by resolution, specify the terms and conditions of the sale, rental or lease, and shall advertise for public bids thereon. When these bids are received, they shall be publicly opened by the board, and the board shall thereupon determine the highest and best bid submitted and shall immediately notify the former owner of the site or plot of the amount, terms and conditions of the highest and best bid. The former owner of the site or plot shall have the exclusive right at his option, for a period of thirty (30) days after written notice is received by the land owner of the determination of the highest and best bid by the board, to rent, lease or purchase the site or plot of land by meeting the highest and best bid and by complying with all terms and conditions of renting, leasing or sale as specified by the board. However, the board shall not in any event rent, lease or sell to any former owner more land than was taken from the former owner for the construction of the project, or one-quarter (1/4) mile of shore line, whichever is lesser. If this option is not exercised by the former owner within a period of thirty (30) days, the board shall accept the highest and best bid submitted.

These provisions give prior owners or their heirs the right to reacquire property previously purchased or otherwise acquired from them. This right could effectively impair the district's ability to bundle several tracts together for sale because the heirs of a small portion of such land would have the right to purchase the property back from the district.

PEER notes that warranty deeds executed to the district for land used in the construction of district projects often contain this language.

The 1965 Conveyance from Forrest County to the District

One deed of particular interest is the 1965 conveyance to the district from Forrest County. In this instance Forrest County conveyed certain property to the district for use as an office building. During the first 10 years following the conveyance, the district had to covenant that it would use the property for offices and for no other purposes. The county could sue to enforce the terms of the deed if necessary. Following the 10-year period, the district agreed to abide by resale provisions of Chapter 222, *Laws of 1962*, effectively placing responsibility on the district to allow the county to buy back the property, subject to the 1965 conveyance if it so chose. Considering that Forrest County originally set aside the property for Forrest General Hospital, the hospital may be interested in regaining use of it.

PEER Observations Regarding Legal Constraints

From a review of the foregoing, 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 obligations¹² 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.

¹²Liabilities 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."

Appendix A: Characteristics of Mississippi's Major Regional Waterway Districts

Category	Pat Harrison Waterway District	Pearl River Basin Development District ¹	Pearl River Water Valley Supply District	Tombigbee River Water Valley Management District
Year Created	1962	1964	1958	1962
Statutory Authority	MISS. CODE ANN. § 51-15, et al. (1972)	MISS. CODE ANN. § 51-11, et al. (1972)	MISS. CODE ANN. § 51-9, et al. (1972)	MISS. CODE ANN. § 51-13, et al. (1972)
Primary Functions/Purpose	Created to provide flood control, economic development, improved water management, and enhance recreation.	Created to provide flood control, economic development, and enhance recreation.	Created to construct and manage the Ross Barnett Reservoir, provide water for Jackson, and enhance recreation. The district also provides water and wastewater utilities to its residences and businesses.	Created for flood control, erosion control, and beaver control as well as assisting with the U.S. Corps of Engineers'-authorized Tennessee-Tombigbee Waterway Project.
Members Can Withdraw from District	Yes (Since 1999)	Yes (Since 2002)	Resident leaseholders must pay lease on land in perpetuity	No
Counties at Creation (#)	15	18	5	12
Current Counties (#)	10	8	N/A	12
District-Operated Parks (#)	8	1*	5**	0

¹According to the executive director of the Pearl River Basin Development District, the Pearl River Basin Development District is expected to cease operations June 30, 2018.

*Localities within the Pearl River Basin Development District operate the other seven parks.

**The Pearl River Water Valley Supply District has five campgrounds. In addition, the Pearl River Water Valley Supply District also maintains four day-use parks, eight neighborhood parks, 25 public or neighborhood boat ramps, public marinas, hunting areas, multipurpose trails, etc.

SOURCE: Information obtained from state law, the districts respective websites, and interviews with each district.

Appendix B: Pat Harrison Waterway District's Recreational Facilities, as of October 2017

The following table provides an overview of the recreational facilities operated by the Pat Harrison Waterway District by county as of October 2017.

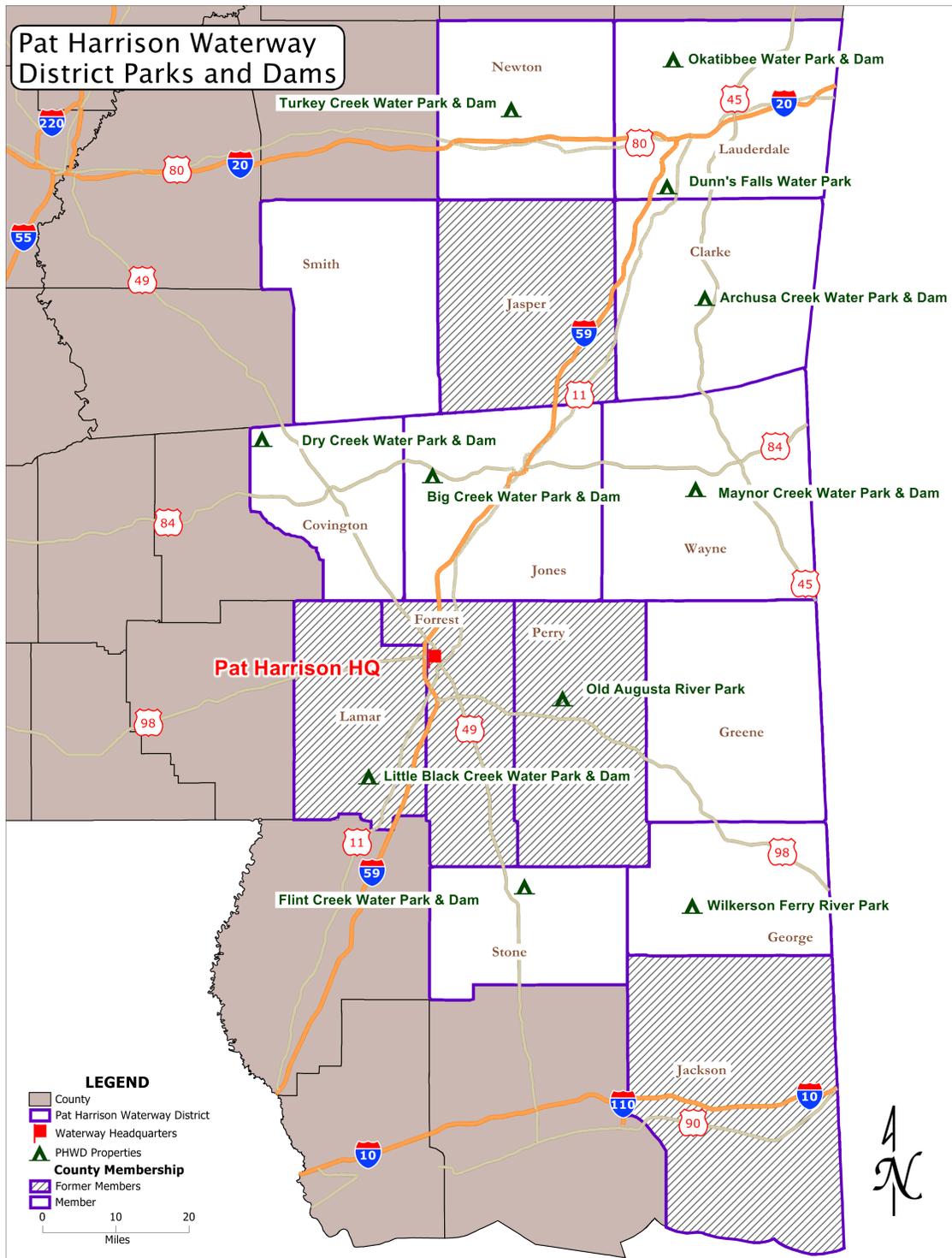
County	Park(s)	Park Structures	Boat Ramp(s)
Clarke	Archusa Creek Water Park - Quitman	4 cabins 1 enclosed pavilion 3 open-air shelters 2 boat ramps 69 campsites	Quitman Boat Ramp
Covington	Dry Creek Water Park - Mt. Olive	1 open-air shelter 36 campsites mountain bike trail 2 boat ramps	N/A
George	N/A	n/a	Wilkerson Ferry River Park Eastabuchie Boat Ramp Tom's Camp Boat Ramp
Greene	N/A	n/a	N/A
Jones	Big Creek Water Park - Soso	4 cabins 1 enclosed pavilion 1 boat ramp 49 campsites horse trail	N/A
Lauderdale	Dunn's Falls Water Park - south Lauderdale County Okatibbee Water Park - Meridian	1 cabin 2 campsites 1 old mill (historic site) 25-room motel 4 cabins 83 campsites	N/A
Newton	Turkey Creek Water Park - Decatur	3 cabins 1 lodge hall 1 open-air shelter 22 campsites ATV trail (developing)	N/A
Smith	N/A	N/A	N/A
Stone	Flint Creek Water Park - Wiggins	46 cabins 1 lakeview lodge 2 open-air pavilions kiddie and adult waterslides 156 campsites	N/A

Wayne	Maynor Creek Water Park - Waynesboro	9 cabins 3 open-air pavilions 2 lodge halls 69 campsites horse trail (developing)	Waynesboro Boat Ramp
Lamar*	Little Black Creek Campground and Park - Lumberton	20 cabins 1 enclosed pavilion 1 open-air shelter 106 campsites ziplines	N/A
Forrest*	District headquarters - Hattiesburg	N/A	N/A
Jasper*	N/A	N/A	N/A
Jackson*	N/A	N/A	N/A
Perry*	N/A	N/A	Beaumont Boat Ramp Old August River Park

*Denotes county has withdrawn from the district.

SOURCE: Pat Harrison Waterway District staff.

Appendix C: Pat Harrison Waterway District's Parks and Dams



SOURCE: Standing Joint Legislative Committee on Reapportionment and PEER illustration based on locations provided by Pat Harrison Waterway District staff.

Appendix D: Pat Harrison Waterway District Ad Valorem Tax Collections, FY 2008- FY 2017

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016 ¹	FY 2017
Clarke	\$86,255	\$80,697	\$86,392	\$78,727	\$81,297	\$82,187	\$87,211	\$79,148	\$120,801	\$147,828
Covington	\$112,576	\$51,061	\$126,424	\$168,210	\$124,097	\$114,812	\$196,333	\$210,115	\$170,743	\$170,212
Forrest ²	\$410,254	\$415,930	\$466,012	\$466,435	\$449,066	\$458,954	\$51,972	\$272	\$0	\$0
George	\$80,093	\$92,113	\$99,670	\$105,113	\$101,609	\$102,388	\$103,588	\$107,396	\$119,715	\$122,305
Greene	\$52,407	\$49,206	\$58,077	\$12,057	\$89,156	\$57,387	\$45,919	\$52,058	\$55,086	\$59,186
Jackson ³	\$217,276	\$275,838	\$274,320	\$279,805	\$285,917	\$290,817	\$305,694	\$319,842	\$310,026	\$304,370
Jasper ⁴	\$85,942	\$109,781	\$119,682	\$131,604	\$134,061	\$149,220	\$12,513	\$273	\$161	\$338
Jones	\$349,435	\$342,602	\$367,118	\$366,654	\$374,181	\$380,416	\$387,495	\$396,609	\$415,165	\$421,012
Lamar ⁵	\$334,866	\$362,094	\$368,166	\$371,336	\$50,108	\$214	\$57	\$183	\$337,188	\$15
Lauderdale	\$381,506	\$400,142	\$386,034	\$380,011	\$383,343	\$382,191	\$402,066	\$403,984	\$427,751	\$434,686
Newton	\$65,775	\$73,196	\$73,668	\$67,024	\$62,776	\$61,472	\$62,730	\$65,652	\$83,241	\$87,730
Perry ⁶	\$71,003	\$72,907	\$71,816	\$76,345	\$73,550	\$71,881	\$72,595	\$73,539	\$81,188	\$84,343
Smith	\$71,421	\$75,618	\$87,419	\$94,686	\$95,908	\$95,911	\$99,479	\$106,042	\$113,761	\$116,662
Stone	\$110,495	\$59,605	\$78,691	\$82,596	\$81,647	\$84,432	\$85,385	\$86,727	\$90,406	\$93,078
Wayne	\$53,622	\$101,965	\$102,403	\$103,694	\$105,380	\$105,641	\$109,409	\$111,021	\$123,958	\$130,855
Total	\$2,482,926	\$2,562,755	\$2,765,892	\$2,784,297	\$2,492,096	\$2,437,923	\$2,022,446	\$2,012,861	\$2,449,190	\$2,172,620

¹FY 2016 county income includes \$337,188 in one-time money from Lamar County as part of exiting the district.

²Forrest County exited the district September 17, 2013.

³Jackson County exited the district March 6, 2017.

⁴Jasper County exited the district September 11, 2013.

⁵Lamar County exited the district September 6, 2011.

⁶Perry County exited the district June 30, 2017.

SOURCE: County Income - Pat Harrison Waterway District.

Appendix E: Pat Harrison Waterway District Parks' Profit and Loss, FY 2015–FY 2017

Profit and Loss	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income	Gross Income	Expenses	Net Income
	FY 15	FY 15	FY 15	FY 16	FY 16	FY 16	FY 17	FY 17	FY 17
Archusa	\$277,742.76	\$216,477.13	\$61,265.63	\$208,184.57	\$173,962.47	\$34,222.10	\$212,995.98	\$179,893.69	\$33,102.29
Big Creek	\$169,647.91	\$204,437.39	-\$34,789.48	\$215,406.78	\$215,597.35	-\$190.57	\$247,330.58	\$193,062.05	\$54,268.53
Dry Creek	\$7,419.25	\$99,906.04	-\$92,486.79	\$6,099.58	\$61,523.49	-\$55,423.91	\$52,494.37	\$127,358.82	-\$74,864.45
Flint Creek	\$1,182,276.04	\$806,651.12	\$375,624.92	\$1,222,869.40	\$750,854.39	\$472,015.01	\$1,240,477.40	\$816,808.45	\$423,668.95
Little Black Creek	\$63,240.95	\$1,709.40	\$61,531.55	\$88,808.10	\$1,520.18	\$87,287.92	\$79,051.92	\$10,595.28	\$68,456.64
Maynor Creek	\$305,129.72	\$300,615.87	\$4,513.85	\$291,732.48	\$302,003.00	-\$10,270.52	\$287,869.30	\$305,970.44	-\$18,101.14
Okatibbee Creek	\$311,860.82	\$410,590.70	-\$98,729.88	\$376,272.65	\$395,877.70	-\$19,605.05	\$302,485.64	\$381,800.91	-\$79,315.27
Turkey Creek	\$109,636.65	\$142,807.69	-\$33,171.04	\$127,381.02	\$143,586.45	-\$16,205.43	\$142,743.22	\$157,888.74	-\$15,145.52
Dunn's Falls	\$11,419.15	\$19,339.43	-\$7,920.28	\$14,252.25	\$23,892.99	-\$9,640.74	\$29,485.62	\$30,946.54	-\$1,460.92
District Office - Parks	\$3,670.12	\$806,203.18	-\$802,533.06	-\$1,312.23	\$851,663.47	-\$852,975.70	\$9,228.53	\$852,930.32	-\$843,701.79
Maintenance Office - Parks	\$0.00	\$89,649.30	-\$89,649.30	\$0.00	\$91,547.94	-\$91,547.94	\$0.00	\$76,716.58	-\$76,716.58
Totals	\$2,442,043.37	\$3,098,387.25	-\$656,343.88	\$2,549,694.60	\$3,012,029.43	-\$462,334.83	\$2,604,162.56	\$3,133,971.82	-\$529,809.26

SOURCE: Pat Harrison Waterway District.

Appendix F: Pat Harrison Waterway District Capital Infrastructure Plan

Infrastructure Needs — by Category	Cost (\$)	Category Total (\$)
Electrical		
Maynor Creek Water Park – 69 sites	144,900	
Archusa Creek Water Park – 69 sites	144,900	
Big Creek Water Park – 28 sites	58,800	
Flint Creek Water Park – 127 sites	266,700	
Okatibbee Water Park – 66 sites	138,600	
Turkey Creek Water Park – 22 sites	46,200	
Dry Creek Water Park – 28 sites	58,800	
Little Black Creek – 100 sites	210,000	
	Subtotal	1,068,900
Water and Sewer		
Maynor Creek Water Park – 17,900	62,650	
Archusa Creek Water Park – 15,868 feet	55,538	
Big Creek Water Park – 18,480 feet	64,680	
Flint Creek Water Park – 50,160 feet	175,560	
Okatibbee Water Park – 20,000 feet	70,000	
Turkey Creek Water Park – 10,560 feet	36,960	
Dry Creek Water Park – 15,840 feet	55,440	
Dunn’s Falls – 5,280 feet (task completed; tied water and sewer into city water line)	18,480	
	Subtotal	539,308
Roadway Resurfacing – Includes Campsite Pads		
Flint Creek Water Park – 9.63 miles	1,926,000	
Maynor Creek Water Park – 3.39 miles	678,000	
Archusa Creek Water Park – 3 miles	600,000	
Big Creek Water Park – 3.5 miles	700,000	
Turkey Creek Water Park – 5 miles	1,000,000	
Dry Creek Water Park – 2.5 miles	500,000	
Dunn’s Falls – 1 mile	200,000	
Little Black Creek Water Park	598,000	
Okatibbee Water Park – resurfacing completed in 2015	Completed	
	Subtotal	6,202,000
Bathroom Renovations		
Renovate 27 Bathhouses	Subtotal	486,000
Cabin Renovations		
Flint Creek – 21 Cabins	88,600	
Maynor Creek – 5 Cabins/Bungalows	24,100	
Archusa Creek – 4 Cabins	18,100	
Big Creek – 4 Cabins/Bungalows	16,000	
Turkey Creek – 3 Cabins	12,600	
Okatibbee – 4 Cabins	16,500	
Okatibbee Motel	41,000	
	Subtotal	216,900

Dunn's Falls Mill House Waterwheel Repair original millhouse waterwheel		80,000
Little Black Creek and Maynor Creek Remove sewage treatment facility and construct alternative containment lagoon		200,000
Little Black Creek Renovation of outfall structure		42,000
Boat Ramps/Piers Renovation/replacement of 9 piers at all PHWD parks		27,000
Campsites Renovate/update campsites at 7 parks with gravel, fire rings, picnic tables, retainer walls, handrails, backstops, and landscaping		189,000
County Ramps and Grounds Renovations at 9 county facilities located on rivers within the district		42,000
Sewage Lift Stations Renovation/replacement includes pumps, motors, and electrical panel boxes; 3 new lift stations needed		376,000
Dam Structures		
Analyzing and formal inspections of 8 dams as required by MDEQ	400,000	
Flint Creek - Upgrade principal spillway and hydraulic gates	500,000	
Big Creek - Upgrade to high-hazard dam and upgrade concrete spillway	750,000	
Little Black Creek - Upgrade to high-hazard dam	1,000,000	
Turkey Creek - Rehabilitate principal spillway	100,000	
Maynor Creek - Rehabilitate principal spillway	100,000	
Archusa Creek - Upgrade five gates	400,000	
Dry Creek - Enlarge permanent pool as designed	400,000	
	Subtotal	3,650,000
	Grand Total	\$13,119,108

SOURCE: Pat Harrison Waterway District's Capital Infrastructure Plan.

Appendix G: Lake Development Projects

The Pat Harrison Waterway District works alongside interested member counties as they move to incorporate methods within their areas for economic development in addition to water management. Two ongoing projects in which the PHWD is involved include the Pascagoula River Drought Resiliency Project in George County and the Smith County Recreational Project in Smith County.

Pascagoula River Drought Resiliency Project (Lake George)

The Pascagoula Drought Resiliency Project is a lake development project that seeks to minimize the frequency, severity, and duration of low-flow events and to store sufficient surface water to augment river flows in the Pascagoula River. The project would include two lakes of about 2,868 acres in George County. The most recent estimation projected the cost to be approximately \$80 million.

Background

The Pascagoula River Drought Resiliency Project, informally referred to as the Lake George Project, started as a bond held by the Mississippi Department of Wildlife, Fisheries, and Parks for lake construction in George County. House Bill 1625, during the 2010 Regular Session, transferred that bond to the Pat Harrison Waterway District.

According to the Pat Harrison Waterway District, projections indicate that there will be more frequent, more severe, and longer droughts in the basin; thus, this project will provide sufficient surface water and restore water table levels to maintain the Pascagoula River above established minimum stream flows through 2060. The project provides a two-pronged drought resiliency approach:

1. Restore the watershed's natural sub-surface water table to minimize the frequency, severity, and duration of low-flow events.¹³
2. Store sufficient surface water supplied, to augment river flows in the Pascagoula River quickly and efficiently when necessary (during extreme drought events).

In addition to its primary purpose, the plan is to also include public recreational facilities that will consist of one or two public recreational water parks, cabins RV hookups, camping sites, water slides, boat launches, shelters, lodge halls, nature trails, and other amenities.

¹³A watershed is an area or ridge of land that separates waters flowing to different rivers, basins, or seas.

The Lake George Project would include two lakes of about 2,868 total acres on Little Cedar Creek and Big Cedar Creek.

Bond money has covered, or will cover, the permitting process prior to actual groundbreaking of the lakes. According to the George County Community Development Director, the total cost of the project will be produced by the Corps of Engineers, but the current estimate is \$80 million. That amount includes land acquisition, engineering design, and construction of the lakes, including two public parks with direct water access and several public boat ramps. According to George County's Community Development Director, taxes will not be raised to cover the cost of construction. The project will be paid for with private and individual funds.

Current Status of the Lake George Project

AECOM Technical Services, Inc.,¹⁴ is currently conducting an environmental impact statement (EIS)¹⁵ on the Lake George Project. This process must be completed before the U.S. Army Corps of Engineers can issue a permit to begin groundwork.

As of September 2017, the project is about halfway through the projected two-year environmental impact statement conducted by AECOM, managed by the Pickering Firm, and overseen by the U.S. Army Corps of Engineers. The required EIS process must be completed in order for the Corps of Engineers to issue a permit to begin groundwork. The statement will address the direct, indirect, and cumulative impacts of the proposed project and include a reasonable range of alternatives. Although the Corps of Engineers is the lead federal agency with the final authority to determine whether, where, when, and under what terms and conditions a permit would be issued to the district (in cooperation with the George County Board of Supervisors), it will also coordinate with the following agencies during the EIS process:

- U.S. Fish and Wildlife,
- U.S. Environmental Protection Agency,
- Mississippi Department of Environmental Quality, and
- Mississippi Department of Natural Resources.

Stream flow, hydrology, and environmental studies have been completed. When the EIS has been completed, the Corps of Engineers will alert the board and the district on the next steps. Although dependent upon the Corps of Engineers, according to George County's Community Development Director, the district is hopeful for groundbreaking on the project in 2020 or 2021.

¹⁴AECOM, an infrastructure firm, provides a broad range of technical services to the U.S. Department of Defense and federal civilian agencies.

Smith County Recreational Project (Smith Lake)

The Smith County Recreational Project seeks to allow for economic development, job creation, and increased tax revenue by creating a 3,753-acre recreational lake in the Bienville National Forest in Smith County. The cost of this lake development project has yet to be projected.

Background

According to Senate Report No. 106-312, during the 106th Congress, 2nd Session, Congress funded the Smith County Lake Project through the U.S. Forest Service in 2000. Congress originally required the Forest Service to determine the economic feasibility of a recreational lake project on the Bienville National Forest in Smith County. Mississippi State University conducted an economic feasibility study and found the project to be economically feasible if including a variety of amenities, such as cabins, RV hookups, camping sites, water slides, boat launches, shelters, lodge halls, and nature trails.

The project's ultimate purpose is to replace declining federal timber sale revenue¹⁶ that Smith County and neighboring counties received from the Bienville National Forest by creating a multipurpose/multiuse recreational reservoir to spur economic development, job creation, and increased tax revenue. The plan is to have an approximate mix of 75% national forest land and 25% nonfederal land to ensure opportunities for an economically viable mix of lakefront amenities on nonfederal land, patterned after the Ross Barnett Reservoir. The final project proposal includes a 3,753-acre lake on Oakohay and Little Oakohay Creeks in Smith County.

The cost of the final proposed project has yet to be projected. According to the Smith County Board of Supervisors, the project could receive funding from such sources as public/private partnerships, tax incremental financing, rural development funds, or timber sales.

Current Status of the Smith Lake Project

According to the Pat Harrison Waterway District, two issues requiring federal legislation need to be resolved prior to moving forward on the project:

1. the roles and responsibilities of the Forest Service, Smith County Board of Supervisors, and the Pat Harrison Waterway District in the proposed project; and
2. who will determine the number and type of amenities/development around the proposed lake.

¹⁶In 1908, Congress established the 25% fund to ensure that counties containing national forest lands receive 25% of the revenues generated mainly from federal timber sales on those lands.

Efforts have been under way since late 2012 to resolve these issues. According to the district, these issues directly and significantly affect the proposed project's economic impact and feasibility. The U.S. Forest Service wants the proposed lake to be a Forest Service lake; however, Smith County is not confident that the lake would have economic impact if it were a Forest Service lake, its reasoning in part based on the status of Lake Okhissa in Franklin County that is operated by the Forest Service. According to the Pickering Firm, one of the reasons that Lake Okhissa has not been economically sustainable is because the Forest Service has been unable to attract private developers. The Forest Service, and its economic studies, assumed that private companies would respond to its solicitation to build and operate the various amenities necessary to make the lake economically viable, but that was not the case. The PHWD has experience negotiating and managing private leases around public facilities. According to the Pickering Firm, for this reason it is critical to resolve who and how Smith Lake will be operated to project the range of shoreline amenities and ability to engage in a public-private partnership to develop and operate and maintain those amenities. As a result, Smith County and the Pat Harrison Waterway District began to look into land transfers and long-term special use permits.

According to the PHWD and the Pickering Firm, federal legislation will be necessary to resolve these two main issues. Efforts are under way to get appropriate legislation introduced in the 115th Congress to resolve these land ownership and responsibility issues. The timeline of the project is heavily dependent on the outcome of the 115th Congress as well as the desires of the Smith County Board of Supervisors.

SOURCE: PEER.

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PAT HARRISON WATERWAY DISTRICT

Board of Directors November 30, 2017

James Buchanan
Clarke County

Bob Shoemaker
Covington County

Greg Pitts
George County

Ben Johnson
Greene County

Larry Griffin
Jones County

Bill Pennington
Lauderdale County

John Walker
Newton County

Don Pittman
Smith County

Ron Purvis
Stone County

Kenny Mills
Wayne County

Rex Hiatt
District-at-Large

Gerald Moore
District-at-Large

George Smith
District-at-Large

Hiram Boone
Executive Director

Mr. James A. Barber
Executive Director
Joint Committee on PEER
P. O. Box 1204
Jackson, MS 39215-1204

RE: PEER Report titled: A Financial Viability Review of the Pat Harrison
Waterway District

Dear Mr. Barber:

We have reviewed the PEER Committee's report. We concur with the Committee's
recommendations.

The Board of Directors will address these recommendations in the future.

Thank you for a thorough report.

Sincerely,

Hiram Boone
Executive Director

cc: Don Pittman, President
Pat Harrison Waterway District

Matthew Holmes, Senior Analyst
PEER

PEER Committee Staff

James A. Barber, Executive Director

Legal and Reapportionment

Ted Booth, General Counsel
Ben Collins
Barton Norfleet

Administration

Alicia Russell-Gilbert
Deborah Hardy
Gale Taylor

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Performance Evaluation

Lonnie Edgar, Principal Analyst
David Pray, Principal Analyst
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Jenell Chavis
Kim Cummins
Matthew Dry
Matthew Holmes
Sarah Williamson
Julie Winkeljohn
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Kirby Arinder
Meri Clare Steelman

