

Review of Stormwater Management Utility Revenues

February 2015



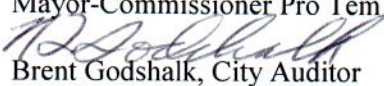
**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

February 17, 2015

TO: Audit and Finance Committee
Mayor Ed Braddy, Chair
Mayor-Commissioner Pro Tem Todd Chase, Member

FROM: 
Brent Godshalk, City Auditor

SUBJECT: Review of Stormwater Management Utility Revenues

Recommendation

The Audit and Finance Committee recommend the City Commission:

- 1) Accept the City Auditor's report and the response from the City Manager, and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit and Finance Committee.

Explanation

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of Stormwater Management Utility Revenues. The primary objective of our audit was to evaluate the system of management control currently in effect over billing and collecting for stormwater services. During our review we interviewed key personnel, tested customer billing data and evaluated management controls.

Based on the results of our review, we believe that opportunities exist for the Public Works Department to strengthen management controls over the Stormwater Management Utility program. The attached report provides three recommendations which we believe will help to strengthen controls related to residential billing, mixed-use property billing, and database maintenance and reliability.

We request that the Committee recommend the City Commission accept our report and management's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit and Finance Committee.

City of
Gainesville

Inter-Office Communication

January 8, 2015

TO: Russ Blackburn, City Manager
FROM: Brent Godshalk, City Auditor
SUBJECT: Review of Stormwater Management Utility Revenues

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of Stormwater Management Utility Revenues. The primary objective of our audit was to evaluate the system of management control over the Stormwater Management Utility Revenues program. During our review we interviewed key personnel, tested customer billing data and evaluated management controls.

Based on the results of our review, we believe that opportunities exist for the Public Works Department to strengthen management controls over the Stormwater Management Utility program. The attached report provides three recommendations which we believe will help to strengthen internal controls related to residential billing, mixed-use property billing, and database maintenance and reliability.

Our recommendations for improvements were reviewed with Deborah Leistner, Public Works Planning Manager, during our exit conference on January 6, 2015. I would like to acknowledge Teresa Scott, Public Works Director, and her staff for their professional courtesy and cooperation during our review.

Please review the attached written report, which documents our audit recommendations and provide a written response within 30 days. Our report, including the management responses, will then be submitted to the City Commission's Audit and Finance Committee for review and approval. The next meeting is currently scheduled for February 17, 2015. Until that time, this draft report and your draft response are exempt from Florida's public records law.

Thank you to you and your staff for making this a productive process. Feel free to call me if you have any questions.

cc: Paul Folkers, Assistant City Manager
Teresa Scott, Public Works Director
Brecka Anderson, Senior Auditor

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Stormwater Management Utility Revenues. The primary objective of this audit was to evaluate the system of management control over billing and collecting for stormwater services. Our procedures included interviewing key personnel, observing operations, reviewing management controls, and testing selected samples of transactions and supporting documentation. The scope of our review was generally for Stormwater revenues billed or collected during fiscal years 2011 through 2014.

As for all of our audits, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we believe that opportunities exist for the Public Works Department to strengthen management controls to ensure that stormwater services are billed accurately and completely. The attached report provides three recommendations related to billing, policies and procedures, and information system controls, which we believe will strengthen the overall process of billing and collecting stormwater utility revenues. Each of our recommendations has been discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

BACKGROUND INFORMATION

The Public Works Department within the City of Gainesville administers a Stormwater Management Utility Program (SMU). Established in 1989, the SMU Program was created to provide a utility program to address increasing stormwater management systems requirements, including the revenues to fund infrastructure replacement and repairs. The SMU Program provides a plan to identify areas within the city of Gainesville that have low water quality levels or experience flooding and to enhance the City's drainage system. Watershed Management Plans are utilized to better manage the flow of stormwater throughout the City. Fiscal Year 2014 budgeted stormwater revenues totaled approximately \$8.8 million.

Billing and Collecting Stormwater Fees

Owners or tenants of developed properties with stormwater runoff within the City of Gainesville are assessed monthly stormwater utility fees. Properties with drainage systems that direct stormwater outside of the city limits are exempt from stormwater fees. SMU fees are calculated based on the amount of impervious area on a property, which is determined by the size or type of development on the property. Impervious areas are surfaces that are impenetrable, causing stormwater runoff.

To calculate SMU fees, 2300 square feet of impervious area is considered 1 Equivalent Residential Unit (ERU). The current fee is \$8.56 per ERU. The SMU fee structure differs for residential and non-residential customers. Residential properties are categorized by dwelling type as displayed below.

Dwelling Type	Number of ERU Assigned	Total Fee
Single Family Detached	1.0	\$8.56
Duplex	1.0	\$8.56
Condominium	1.0	\$8.56
Multi-family Unit	0.6	\$5.14
Mobile Home	0.6	\$5.14

Non-residential properties are calculated based on actual square feet of impervious area, partial impervious area, and deducts retention credits earned by having a qualifying retention system to aid with stormwater drainage. Official documents such as site plans or engineer reports are obtained to calculate the amount of ERU to be billed for each non-residential property. Staff site visits some properties to verify or calculate the level of retention and impervious area.

Non-residential properties with billable ERU should be billed whether occupied or unoccupied. Non-residential SMU fees are calculated as follows:

$$\text{Number of ERU's} = \frac{[\text{Impervious Area} + 0.5 (\text{partial impervious area})/2,300 \text{ sq. ft.}]}{* (1 - \text{Retention Credit Factor})} * [\text{Rate/ERU}]$$

Information Systems

Public Works staff maintains non-residential customer account information by parcel number in the Stormwater Database system. Customer data such as name, address, impervious area, parcel number, and billable ERU is housed in the SMU Database. Since GRU bills customers for SMU fees on their monthly utility bills, Public Works and GRU New Services Department communicate to ensure that changes to non-residential customer accounts and parcel information are entered into the GRU Billing System.

Residential customer information is housed solely in the GRU Billing System. When customers transition as owners or tenants of properties, stormwater utility installations that are attached to the respective properties within the Billing System are activated or deactivated and subsequently billed on the customers' monthly GRU bills.

Utility services billed on the GRU bill are generally collected as one bill and non-payment of stormwater services eventually affect the status of other utility services attached to a customer's account. A separate stormwater account may be created for billing stormwater services if no other utility services are activated at the premises and for landlords as approved by the General Manager or designated staff. Stormwater data in the GRU Billing System may contain parcel information but is based on customer account numbers.

Upon customer remittance, revenues are transferred to the Public Works Department to fund stormwater maintenance activities.

ISSUE #1

Stormwater Billing

Discussion

Section 27-241 of City ordinance establishes stormwater management as a city utility and establishes a program of user charges to support stormwater management services. The ordinance “authorizes the city to establish charges for the use and discharge to the city’s stormwater management system. Stormwater utility fees are charged to all owners or occupants of real property in the city..., and a monthly fee is established by ordinance.”

Stormwater Management Utility Rates and Fees

Effective stormwater rates reflect that 2,300 square feet equal one (1) equivalent residential unit (ERU). Currently, owners or occupants are assessed \$8.56 per ERU. Stormwater utility fees are billed to owners or tenants within the City limits on their monthly GRU bills.

Stormwater fees for residential properties are determined by dwelling type as specified by the property appraiser’s office. Single family, duplex, and condominiums are assessed 1.0 ERU per unit or \$8.56. Multi-family units and mobile homes are assessed 0.6 ERU per unit or \$5.14 monthly.

Stormwater fees for non-residential/commercial properties are determined based on the amount of impervious area. The dimensions of the property and the square feet that contribute to stormwater run-off determine impervious area. Each property is assigned a minimal value of 1.0 ERU, unless retention credits decrease the value below 1.0 ERU.

Residential Properties Not Billed for Stormwater

We reviewed billing information in the GRU billing system to determine if stormwater was billed appropriately to all residential customers in the incorporated city limits of Gainesville. We compared billing data reports for June 2012 of all residential electric accounts and all residential stormwater accounts.

During our review, we noted that a significant number of residential customers were not assessed stormwater fees as prescribed by ordinance and policy. Further research revealed that a significant portion (89%) of the researched residential accounts not billed in June 2012 were properties that were annexed into the City in 2002, 2008 and 2009. The remaining 11% of properties not billed were generally not in annexed areas, but were also determined to be accounts where billing for stormwater services was not applied.

The approximate 1500 researched residential properties identified that require billing for stormwater services represent 1140.2 ERU or \$9,760 monthly, which totals approximately \$117,000 annually of unbilled revenues based on June 2012 billing. Processes developed to activate billing of stormwater services for annexed properties in GRU’s SAP Billing System were not effective.

The majority of GRU residential electric accounts not related to the annexations had existing stormwater utility installations and were being billed. Of the additional 289 residential accounts, we researched a small portion of these accounts and noted that several should be billed stormwater as well. Additional research is required to determine the exact number of customer accounts requiring the installation of stormwater billing.

Non-Residential Properties Data

Public Works staff maintains a Stormwater Database of all non-residential stormwater customers and their respective parcel numbers. Staff monitors activities within the city to identify developments and business transitions. Some monitoring activities include conducting site visits, viewing media outlets, and attending First Step meetings with other staff and developers. Stormwater staff receives copies of site plans submitted to the City Planning Department. As projects are completed, staff enters the data into the Stormwater Database and corresponds with GRU to provide the amount of ERU and stormwater fees to be billed to customer accounts.

We conducted a comparison of non-residential electric customers and non-residential stormwater customers within the City limits. During our review, we noted that researching billing exceptions was difficult due to complex billing options related to non-residential stormwater customers. Owners, tenants, or any combination may be billed for stormwater services. Identifying whether accounts should be billed or if another account is billed for stormwater services for a specified property is time consuming. While we reviewed a portion of non-residential properties, we identified minor issues related to stormwater services. However, a cursory review of all non-residential properties within the GRU Billing System should be conducted to ensure that properties contributing to stormwater run-off within the City limits are appropriately billed for stormwater services.

New Electric Utility Connections Accounts Not Billed for Stormwater

We reviewed the Billing System and selected a sample of newly connected electric utility services during 2011 and 2012 to determine if they were assessed stormwater fees after connection. Our initial review of 10 connections produced a list of 38 properties associated with the original sample. Ten out of 38 or (26%) were determined to be exceptions. Exceptions identified within this review included the following:

- Two residential apartments were assessed 0.06 ERU instead of 0.6 ERU resulting in billing \$0.49 rather than \$4.89 per month (\$58/year). Six apartments within the same property had no stormwater installations, resulting in 3.6 ERU or \$29.34 monthly (\$352/year) stormwater fees not billed to the tenants.
- One shopping center on Hawthorne Road was not billed for stormwater after the main tenant left the complex in January 2012. The prior tenant previously paid stormwater for the entire complex of 59.1 ERU or \$481.66 per month (\$5,780/year). There is no automated process for reverting stormwater fees back to the owner of a non-residential property after a tenant moves out.
- A shopping center on North Main Street was not being billed for stormwater fees. This property was previously occupied, and had no active billing services since September 2011. When the prior tenant left, stormwater services were not reverted to the owner of 10.9 ERU or \$88.83 per month (\$1,066/year). Also, renovations occurred during some period within the last 2 years.

Of the sampled accounts with new connections, we noted that stormwater fees of \$7,256 annually were not billed to the owners or tenants.

City vs. Non-City Designation

Stormwater utility customer data is housed in the GRU Billing System. Customers are assigned a jurisdiction code identifying whether the property is located in Gainesville or unincorporated Alachua County. Based on our review, the vast majority of stormwater accounts were coded as being inside of the City limits, however, we noted that 62 customer accounts were miscoded as being outside of the City of Gainesville. These instances did not affect stormwater because stormwater services were already added to the property's premise. However, miscoded jurisdiction codes could lead to incorrect billing of other

items such as wastewater surcharges. Staff noted that efforts are underway to spearhead any correction activities related to jurisdiction codes.

Vacant Premises

While our review captured city electric accounts with no stormwater services as of the date of our testing, premises that were not active at that point in time may have been activated since our review, or may be activated in the future. Processes to identify and continually monitor these premises should be implemented.

Policies and Procedures

We noted that SMU Policies and Procedures Manuals were not kept updated to provide guidance for successfully managing the program.

Conclusion

Monitoring and quality control efforts were not effective to ensure that all properties within the city limits were being assessed stormwater fees. We also noted that departmental roles related to identifying and applying stormwater billing were not clearly defined between Public Works and GRU. Also, automated processes and system functions were not completely understood by Customer Service staff related to the process by which stormwater services are installed and transitioned. Due to oversight during account set-up, customers with newly activated accounts did not always include the activation of stormwater accounts by staff. As a result, annual stormwater revenues in excess of \$117,000 went unbilled for several years.

We recently conducted a follow up on a sample of the original findings. Our sample of the original 1,548 contract accounts without SMU installed previously communicated to management indicated that 87% of the premises had been corrected, leaving 13% needing additional attention.

Recommendation

We recommend management work with appropriate GRU staff to:

- Identify departmental functions related to administering the billing portion of the stormwater program.
- Draft written procedures to ensure that stormwater services are installed appropriately to all customers during annexation processes.
- Add stormwater service installations to those customer accounts that were identified during this review.
- Correct any erroneous stormwater fees identified within the billing system.
- Enhance monitoring procedures over stormwater services to ensure that all customers within the city limits are assessed stormwater fees when electric or water services are installed.
- Develop systematic tools such as exception reports to ensure that stormwater service charges are being assessed to all customer accounts within the city limits.
- Enhance SMU policies and procedures to ensure that program criteria and actions are followed and effectively communicated to Public Works and GRU staff.

Management's Response

Public Works and GRU staff are working together to address the issues noted and have identified means to clarify responsibilities, facilitate data exchange, and improve communications. Efforts underway include the following:

- All accounts on the GRU billing system were verified and GRU expects that within 3 months all accounts will be brought to compliance. GRU New Services staff is correcting accounts that omitted a SMU charge (2,000 accounts).
- The SMU *Procedures Manual* and *Coordination Guide* provide direction on primary processes related to the utility; these procedures were last updated in 2012 and are currently under review to determine aspects that need clarification or additional documentation in order to facilitate the coordination between the agencies and expedite the identification of any potential problems. As defined in the *Procedures Manual*, *residential customers* are billed automatically by GRU based on classification (single- or multi-family); *non-residential/commercial customers* are billed based on the amount of impervious area calculated by Public Works.
- Monitoring procedures are being enhanced by the issuance of periodic reports by GRU for PWD review and action, expediting correction of billing errors, including early identification and/or avoidance of bill drops when properties are vacated by tenants ensuring the accounts will revert to the owners as SMU-only bills. Staff meetings are being held on a regular basis to facilitate coordination on billing issues.
- The billing process associated with annexations is being improved to ensure timely assessment of bills. For small annexations, GRU New Services is not always notified when properties are annexed into the City resulting in properties not being billed. For large annexations in addition to the determination of fees for each account, PWD will closely monitor the area on a monthly basis using the reports provided by GRU. The periodic monitoring reports and regular staff meetings will ensure bills are properly and timely charged.
- Since 2013 PWD staff periodically attended GRU Customer Service team meetings to provide information to customer representatives about the SMU process. PWD will seek to increase participation on the training sessions and to work with GRU staff to ensure that SMU related materials are included in any customer service training manual.

ISSUE #2

Billing for Mixed Use Properties

Discussion

Properties within the city limits should be assessed stormwater fees depending on the category, impervious area, number of units, total ERU, or other criteria as specified.

Mixed-Use Properties

Property developments are more frequently being zoned as mixed-use in the City of Gainesville, which displays a mixture of residential and non-residential units. The City of Gainesville Code of Ordinances does not specifically define a method to assess stormwater fees to mixed-use properties. Various methods of metering may be utilized to meet the electric and water utility needs of these properties.

We reviewed stormwater fees for a large, recently completed, mixed-use property to determine the method of assessing stormwater fees for mixed-use properties. The stormwater fees were calculated for the non-residential portion of the property only, which totaled 6.6 ERU or \$56.50 per month, after retention credits were applied. Since the property has a master water meter for all of the residential units, they are being billed in total 1 ERU or \$8.56 per month for the entire 433 residential unit portion of the property.

If each apartment is billed stormwater fees, annual stormwater fees would increase by approximately \$20,000 annually, assuming an 75% occupancy rate.

Conclusion

As mixed-use properties are becoming more common in the city, clear procedures would aid in ensuring that stormwater billing is more reflective of the properties' contribution to stormwater run off.

Recommendation

We recommend management determine an appropriate and consistent method for assessing stormwater fees to mixed-use properties. Management should enhance procedures to reflect the appropriate billing method.

Management's Response

The foundation of the SMU rate structure is impervious area. The equivalent residential rate (ERU) was based on an analysis of the average impervious area related to single-family residential units within the City of Gainesville. This rate is applied across residential land uses. The non-residential rate is determined by dividing the total impervious area by the ERU and providing credits for any on-site stormwater treatment volume that is provided.

Because mixed-use developments are a hybrid, staff has been evaluating them as non-residential. We will conduct a survey of other stormwater utilities in the state of Florida to determine how other jurisdictions evaluate fees for mixed-use developments.

ISSUE #3

Stormwater Database Maintenance and Reliability

Discussion

Customer information and billing data in the GRU Billing System should mirror the data in the SMU Database. The SMU Database is utilized as Public Works' source for capturing and retrieving non-residential stormwater customer data. Each record is recorded by parcel number and details the customer's name, address, impervious area, ERU assignment, retention volume, retention area, and retention credits. The Billing System captures customer data including parcel numbers. Staff from the Public Works and GRU New Services Departments, work to update the two systems when changes to a parcel occur, such as a change in ownership, impervious area, or retention area. These changes could impact the number of ERU assessed to a parcel, subsequently increasing or decreasing the monthly stormwater fees.

Public Works maintains only non-residential stormwater customer data in the SMU Database. During our review, we noted that the SMU Database contained outdated residential customer information, which cluttered the system. Functions within the SMU Database were not appropriate for querying outdated data, which produced a difficult sampling environment. We also noted that non-residential customer and billing data located in the SMU Database did not always match data located in the GRU Billing System.

Our research revealed that there is no periodic comparison of the SMU Database to the GRU Billing System to ensure that all accounts are being billed appropriately and no system interface has been developed between the two systems. Public Works staff utilize the GRU billing system on a read-only basis.

Conclusion

The process for identifying changes to the status of a parcel was not always adequate to apply SMU fees to customer accounts. Other utilities offered by GRU were actively billed, but no stormwater fee was being billed. Customers with stormwater run-off may not be adequately billed SMU fees resulting in unbilled revenues.

Recommendation

We recommend management:

- Enhance procedures to aid in the timely and accurate identification of parcels that should be assessed SMU fees.
- Enhance procedures to provide a smoother communication of the status of developments on properties to ensure that SMU fees are being assessed.
- Develop a plan to reconcile the two systems in an effort to ensure that customers are billed appropriately for SMU fees.

Management's Response

The SMU database is updated regularly based upon identification of changes through reporting from the Building Department, information provided from PWD inspectors, and through field visits. The SMU database was created based on CBIS (previous GRU billing system), and is not fully compatible with SAP. PWD and GRU staff have identified means to increase compatibility of the systems by using

additional reporting as mentioned in the answer to Issue #1. SAP does not include parcel numbers for all properties but this can be incrementally updated through the monthly reviews; GRU staff is also investigating options for increased coordination with the GIS database that may facilitate the data sharing. Addition of parcel numbers will facilitate the coordination between the SAP and the SMU database. This is an intermediate step to improve operability of the system; there is currently no funding for a complete overhaul of the SMU database.