

**Stormwater Utility Fees Audit
September 2014**

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City Auditor's Office

September 30, 2014

Honorable Mayor and Members of the City Council:

I am pleased to present the City Auditor's Office report on stormwater utility fees. The purpose of the audit was to evaluate the internal controls over the billing and collection of stormwater fees.

Management concurs with our audit findings and related recommendations. Management's response to our audit findings and recommendations, including target completion dates and implementation responsibilities, is included in the following report.

We would like to thank the Department of Public Works and Transportation staff for their full cooperation and assistance during the project.

Lori Brooks

Lori Brooks, CPA, CIA, CGAP, CRMA
City Auditor

c: Trey Yelverton, City Manager
Theron Bowman, Deputy City Manager
Don Jakeway, Deputy City Manager
Gilbert Perales, Deputy City Manager
Keith Melton, Director of Public Works

Stormwater Utility Fees Audit

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Executive Summary

The City Auditor's Office has completed an audit of stormwater utility fees. The audit was conducted 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. The audit objective was to ensure adequate internal controls over the billing and collection of stormwater fees.

The City Auditor's Office noted the following:

- City of Arlington stormwater fees are comparable to other metroplex cities.
- Since 2007, the Stormwater Management division established a preventative maintenance program and has worked to reduce a \$40 million capital project backlog.
- The City of Arlington has participated in the National Flood Insurance Program for over 40 years. This program requires that the City meet minimum federal standards for flood protection in exchange for citizen access to flood insurance.

The City Auditor's Office noted the following opportunities for improvement:

- Alignment of fees with established service level.
- Establishment of standard operating procedures for the collection of stormwater fees and delinquent account management.
- Establishment of a mechanism for ensuring accurate records of calculated impervious areas.
- Analysis of available options for collection of delinquent stormwater accounts.

Details of audit findings, conclusions and recommendations are included in the following report.

Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards. The City Auditor's Office reviewed Stormwater Operations during FY2013 and FY2014. The following methodology was used in completing the audit:

- Reviewed previously completed study
- Reviewed policies, procedures and departmental goals
- Performed tests regarding billing, delinquencies and impervious area calculations
- Reviewed exemptions

Background

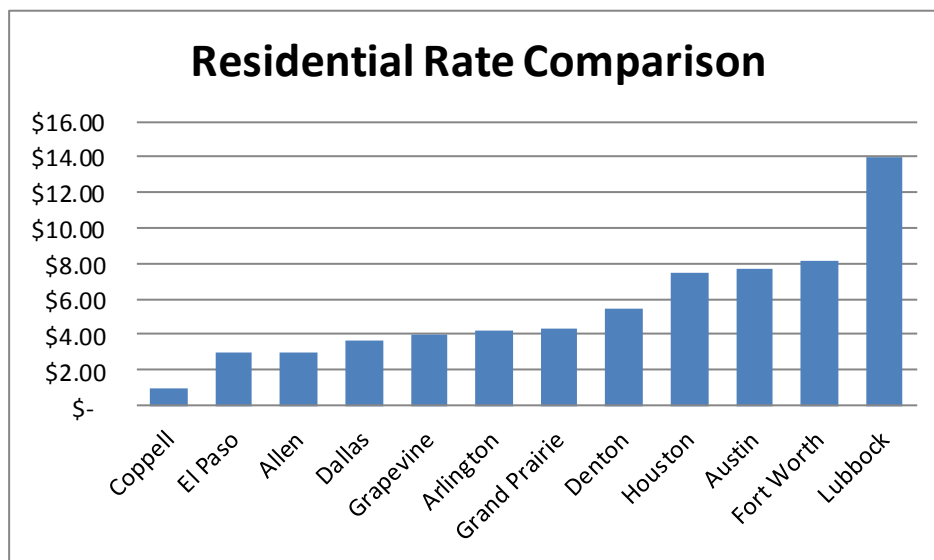
The City's Stormwater Utility was established in 1990, in accordance with State legislation, to manage drainage, provide maintenance operations and improve water quality from stormwater runoff. Legislation also provided authorization to levy a fee to fund the stormwater utility. The fee is used to fund maintenance and other capital projects in an effort to control flooding, protect the environment, and correct problems that can have a negative impact on the water quality in area streams and lakes.

The City's Stormwater Utility is a function of the Public Works and Transportation Department. Stormwater staff work together with the Water and Community Development and Planning Departments to ensure proper billing and collection of the stormwater fee. The stormwater fee is billed to each property owner, based on the amount of impervious area on each property. Impervious area is any surface resistant to infiltration by rain water. Examples of impervious area include parking lots, sidewalks and buildings. In 2007, at the direction of City Council, the City reorganized the Stormwater Division and hired a consultant to determine an appropriate fee and help properly calculate the impervious area of City properties. The study determined that residential properties in Arlington include an average of 2,800 square feet of impervious area. This average of 2,800 square feet is referred to as an Equivalent Residential Unit (ERU).

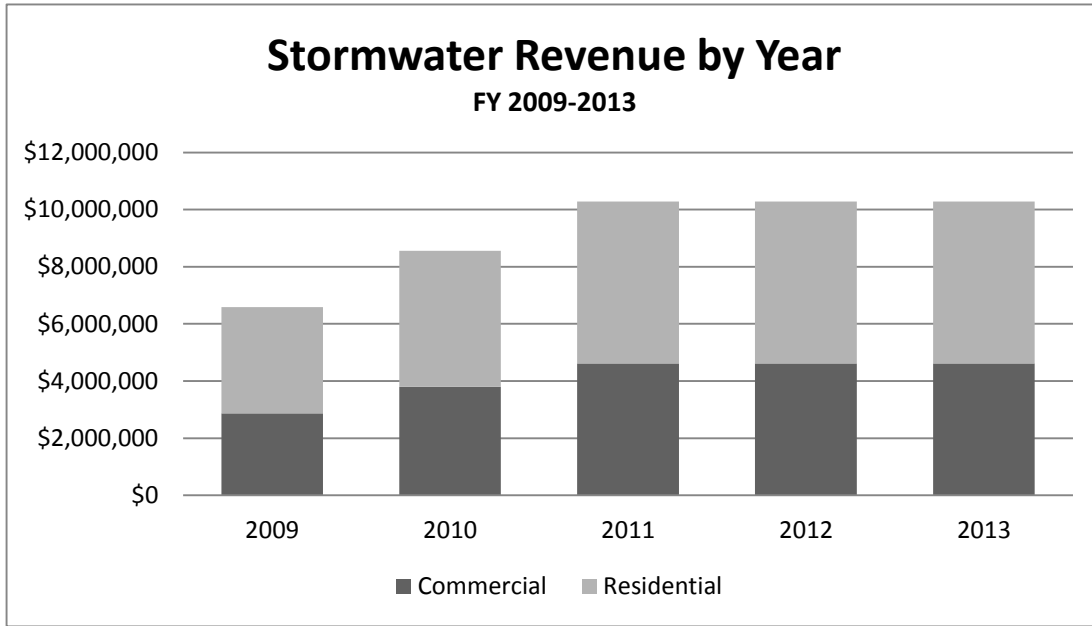
As of October 1, 2010, the City's monthly stormwater fee is equal to \$4.25 per ERU. Residential property owners are billed for one ERU. Commercial properties are billed according to the actual square feet of impervious area (\$4.25 per ERU {2,800s.f.}) Apartments are considered non-residential for the purpose of calculating the stormwater fee. While the stormwater fee is included as part of the monthly water bill and processed in Enquesta (City's water billing system), the stormwater fee will continue to bill monthly even when water service is not active. Nonpayment of stormwater fees by a property owner will result in the discontinuance of any other City utility service. As of June 2014, there was a total of 114,782 stormwater accounts, of

which 22% (24,979) are delinquent. Delinquent accounts, 30 days or more past due, total \$487,747. The only property owners exempt from the stormwater fee are the State of Texas, per State legislation, and the Arlington, Kennedale, and Mansfield Independent School Districts, per City Council resolution.

Since legislation was passed, more than 38 cities in North Texas have established their own Stormwater Utility. According to a survey of 78 cities in September 2013, stormwater fees in Texas range from \$1.00 to \$14.00 with an average fee of \$4.90. As seen below, the City of Arlington's stormwater fee is comparable to several metroplex cities like Grand Prairie and Grapevine, but lower than larger cities like Houston, Austin and Fort Worth.



At the time of the 2007 study, there was limited funding available for preventative maintenance and the project backlog that exceeded \$40 million. Additionally, funds were not available to purchase property or to maintain public ponds and creeks. City Council resolution set the stormwater fee at \$2.00 per ERU as of October 1, 2007 with annual increases until October 1, 2010, when the stormwater fee reached the current rate of \$4.25 per ERU. The stormwater fee is set at the discretion of City Council and has not been increased since FY 2010. As seen in the chart on the following page, stormwater fee revenue has increased significantly since 2009. In addition, \$25.4 million in bonds were sold in 2011. The increased revenue and bond funds have allowed the City to fund CIP and maintenance projects and complete \$45.4 million in projects between 2009 and 2013, with another \$7.5 million planned for 2014. However, that amount is expected to decrease in the coming years as reserve funds are depleted.



Source: Lawson Financial System

Detailed Audit Findings

1. There is no formally established association between the stormwater fee and an expected service level.

The Stormwater Utility Fund is responsible for the City's stormwater drainage systems and has the goal of reducing the existing potential for stormwater damage affecting public health, safety, life, property, and the environment.

The Stormwater Management Division drafted a comprehensive Stormwater Management Plan. The plan was presented to Council committee, but has not been approved by City Council. The intent of the plan was to establish programmatic goals and objectives. Individual watershed studies and plans identified risks, CIP projects and prioritization, as well as related operating costs. To appropriately fund the Stormwater Management Program, the stormwater fee should be based on an approved service level and the goals needed to achieve that level.

In the absence of a formally approved service level to be maintained, the City has not recalculated the rate when events or changes have occurred that impact the Stormwater Division's ability to provide direct stormwater services, such as channel clearing and maintenance, response to hazardous materials incidents, or completion of capital projects. For instance, subsequent to the fee approval by City Council in 2007, an exemption was granted to the Arlington, Kennedale, and Mansfield Independent School Districts. The loss of revenue due to these exemptions is approximately \$500,000 annually.

Further, in Fiscal Year 2013, the Stormwater Division began, at the direction of the Budget Office, repaying the General Fund for two stormwater capital projects completed in 2003. The Stormwater Management program will repay a total of \$2,778,333 over six years to the General Fund, with \$463,055 paid annually. The exemptions for Arlington, Kennedale, and Mansfield ISD, along with this reimbursement to the General Fund, reduce annual funding by nearly \$1 million, which was not accounted for when the fee was set. The stormwater fee has most likely not been recalculated to account for these changes, because there is no formally approved level of service, on which fees should be based.

The City is considering an increase to the stormwater fee¹ as part of the fiscal year 2015 budget, in an effort to maintain the recent Capital Program that addresses flood and stormwater risks. Establishment of current fees and proposed increases should be based on operational goals and an approved service level to be provided.

¹ After completion of audit fieldwork, an increase in stormwater fees was approved in the fiscal year 2015 budget.

Recommendation:

1. The City Auditor's Office recommends that the Director of Public Works seek Council approval of a formal Comprehensive Stormwater Management Plan and individual Watershed Plans, which clearly identify service level to be maintained, along with related risks and costs, to ensure stormwater fees are appropriately aligned with an established service level, goals and objectives.

2. The City does not routinely update impervious area based on available information.

Per the City's Stormwater Ordinance, the stormwater fee is to be based on a property's calculated impervious area. It is important that impervious area calculations are current to ensure the City continues to receive appropriate revenue needed to meet department goals and the community's needs.

Monthly charges for residential stormwater fees are based on an established average impervious area for all residences, while commercial stormwater fee charges are based on the property's actual calculated impervious area. There is no established systematic process to update this calculation. The City is provided with aerial photographs every two years by the North Central Texas Council of Governments, which are loaded into a GIS tool that could be used to calculate impervious area. However, the process to update that calculation is manual, and it would be time consuming to review and update each property in the City. Currently, properties' impervious areas are only updated when the Stormwater Administrator receives a request for an account update or during a visual review to identify impervious boundary lines in the GIS that do not match the current aerials.

Audit testing indicated that impervious area calculations are not current. While it is unrealistic to expect accurate impervious area calculations for all City properties at all times, as these are dynamic, opportunities for process improvements exist. A sample of 52 properties was selected from a universe of recent construction related permits, which could result in changes to impervious areas. These selected permits included new construction, demolition, addition, and concrete permits. Nineteen of the 52 permits were for projects with no resulting changes to impervious areas. Of the remaining 33 permits resulting in changes, sixteen were for residential new construction, and stormwater accounts were created along with the water account for these properties. The remaining 17 (of 33) permits included twelve with incorrect impervious area calculations. While reports of construction related permits are available, Stormwater Management staff has not routinely received or utilized them as a tool to update or review impervious areas. As a result, revenue may not be maximized.

The City Auditor's Office surveyed five local cities, including Colleyville, Fort Worth, Frisco, North Richland Hills and Grand Prairie, to compare processes for updating impervious areas. It was noted that three of the five cities used construction permits or plans as a means of identifying changes and updating properties' impervious areas. Establishing and reviewing a periodic report of construction permits or plans would provide Stormwater Management with needed information, in order to timely review and update properties' impervious areas.

Recommendation:

2. The City Auditor's Office recommends that the Director of Public Works, in collaboration with both the Information Technology and Community Development and Planning departments, establish a mechanism for use in identifying and updating changes to impervious area calculations.
- 3. Stormwater management has not established standard operating procedures governing the stormwater fee collection process.**

The COSO internal controls framework indicates that control activities, including established standard operating procedures (SOP's), are essential to ensure that management's directives are carried out. Additionally, standard operating procedures serve to standardize processes and aid in the production of reliable data. Since citizens expect a high level of service and proper collection of stormwater fees, SOP's are needed to provide that assurance, as well as help to ensure that reliable information is communicated in a timely manner. Currently, there are no SOP's for the stormwater collection process.

All delinquent stormwater accounts are not sent to the City Attorney's Office for collections. This may be the result of a lack of standard procedures concerning delinquent stormwater accounts. The City's Water Utilities Department sends delinquent accounts, which are inactive and final, to the City Attorney's Office on a monthly basis. Those accounts are also updated monthly to reflect additional charges or payments made. However, many delinquent accounts are *stormwater only* accounts. *Stormwater only* refers to accounts with no active water service, which are only billed a stormwater fee. Because the accounts are still active and billing monthly, although not being paid, these delinquent *stormwater only* accounts are not included in the delinquent accounts sent to the Attorney's Office for collection. During the audit, it was noted that one *stormwater only* account was delinquent in the amount of \$53,000 and had not been sent to the City Attorney for collections. A second delinquent *stormwater only* account totaling \$23,000 was not sent for collection and continued to be open and unpaid until the property recently sold. The new owner will not be responsible for the outstanding balance. It is important that delinquent *stormwater only* accounts are turned

over to the City Attorney's Office. While there is no guarantee the debts will be collected, this may be the only recourse for collection of unpaid fees.

Additionally, only one employee (Stormwater Administrator) is trained in the collection process and use of the Enquesta billing system. The job responsibilities of the Stormwater Administrator include establishing new stormwater accounts, ensuring proper billing, updating impervious area calculations, responding to citizen requests for information, as well as a number of other necessary duties. As a result, without written standard operating procedures, the collection process would not continue seamlessly in the absence of the Stormwater Administrator. This would not only have an impact on Stormwater revenue, but also negatively affect customer service to the citizens of Arlington. Established, written operating procedures are necessary to ensure proper continuation of operations during staff turnover.

Recommendations:

3. The City Auditor's Office recommends that the Director of Public Works ensure that standard operating procedures for the collection of the City's stormwater fee are established, including procedures for delinquent accounts.
4. The City Auditor's Office recommends that the Director of Public Works, in collaboration with Water Utilities Department and City Attorney's Office, establish a mechanism to identify delinquent *stormwater only* accounts to be reported with monthly Utilities Department delinquent accounts.

**CITY OF ARLINGTON
STORM WATER UTILITY FEES
AUDIT RECOMMENDATIONS AND RESPONSES**

AUDIT RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT'S RESPONSE	RESPONSIBLE PARTY	DUE DATE
<p>1. The City Auditor's Office recommends that the Director of Public Works seek Council approval of a formal Comprehensive Stormwater Management Plan and individual Watershed Plans, which clearly identify the service level to be maintained, along with related risks and costs, to ensure stormwater fees are appropriately aligned with an established service level, goals and objectives.</p>	CONCUR	<p>The Department of Public Works and Transportation supports the recommendation for a formal approval of the Comprehensive Stormwater Management Plan and the individual Watershed Plans.</p>	<p>Department of Public Work and Transportation</p>	<p>June 30, 2015</p>
<p>2. The City Auditor's Office recommends that the Director of Public Works, in collaboration with both the Information Technology and Community Development and Planning departments, establish a mechanism for use in identifying and updating changes to impervious area calculations.</p>	CONCUR	<p>The Department of Public Works and Transportation welcomes the recommendation for collaboration with the Information Technology and Community Development and Planning departments in identifying impervious area changes due to development activities and providing this important information to the Department of Public Works and Transportation, allowing for a more efficient process for updating changes to impervious area calculations.</p>	<p>The Department of Public Works and Transportation will facilitate a discussion between the IT and CD&P departments to identify a process for identifying the impervious area calculations based upon permit information and report the information when a permit is finalized.</p>	<p>March 31, 2015</p>

AUDIT RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT'S RESPONSE	RESPONSIBLE PARTY	DUE DATE
3. The City Auditor's Office recommends that the Director of Public Works ensure that standard operating procedures for the collection of the City's stormwater fee are established, including procedures for delinquent accounts.	CONCUR	The Department of Public Works and Transportation will work to establish standard operating procedures for the collection of the City's stormwater fees and for pursuing collection of delinquent accounts. The Department of Public Works and Transportation will work to cross-train additional staff of these standard operating procedures.	Department of Public Works and Transportation	January 31, 2015
4. The City Auditor's Office recommends that the Director of Public Works, in collaboration with Water Utilities Department and City Attorney's Office, establish a mechanism to identify delinquent stormwater only accounts to be reported with monthly Utilities Department delinquent accounts.	CONCUR	The Department of Public Works and Transportation welcomes the recommendation for collaboration with Water Utilities Department and City Attorney's Office to establish a mechanism to identify delinquent stormwater only accounts monthly with delinquent water and sewer accounts and report to the City Attorney's Office for collection action. While this may result in a minor reduction in delinquent account collection, the absence of other actions of law for stormwater only account, such as the ability to place a lien on a property, severely limit the City's ability to collect these delinquent accounts.	The Department of Public Works and Transportation will facilitate a discussion between the Water Utilities to modify the ENQUESTA system to run monthly reports to identify delinquent stormwater accounts and report those accounts to the City Attorney's Office so they can initiate a collection process.	April 30, 2015