

**Seattle Public Utilities
Wastewater
Revenue Cycle Audit
April 12, 2010**

City of Seattle
Office of City Auditor

SPU Wastewater Statistics

- About \$187 million in annual revenues
- 159,000 residential customers
- 27,000 commercial customers
- From 2005 to 2009, revenues increased 30% (from \$143 to \$187 million)

Wastewater Process Overview

- Wastewater charges are based on water consumption
- SPU Meter Readers record water consumption monthly/bi-monthly
- Consumption data input to CCSS utility billing system
- SPU rate per CCF for 2011 = \$10.28

- SPU collects wastewater/sends to King County system
- King County conveys to treatment plants and processes
- King County charges SPU a Monthly Sewer Rate (MSR)
- King County bills “new customers” (2003 and later) an extra “capacity charge” quarterly

Our Audit Scope

- Wastewater rates and sewer contracts
- Utility usage tracking
- Billing and payments
- Fund accounting - revenues and receivables
- Outsourced operations - contracts, rates, invoicing

What We Did Not Cover

Billing process not unique to Wastewater – for example:

- Customer Service Processes
- Combined Billing Processes
- Credit and Collections Processes
- CCSS Systems Controls

Audit Results: Color-Coded by Risk Level

Scope Area and Issues	Risk Level
Rates and Contracts	Red
Utility Usage Tracking	Yellow
Billing and Payments (Unique to Wastewater Only)	Green
Fund Accounting – Revenues and Receivables	Yellow
Outsourced Operations – Contracts, Rates, and Invoicing	Red

Key Findings: SPU's Wastewater Rates Are High

- Black & Veatch 2009/2010 Study of 50 largest cities, ranks SPU 2nd or 3rd (depending on customer class)
- QualServe Survey 2007 – 180 cities included
 - SPU bill 51% higher than median utility bills, 91% higher than those with lowest bills
 - Issues highlighted: SPU sick leave usage, O&M costs, debt ratios, number of accounts per number of staff

- SPU cannot control some costs
- King County sewer processing fees are $\frac{2}{3}$ to $\frac{3}{4}$ of SPU's operations costs

Key Findings:

There are Issues with King County Sewer Processing Rates and Calculations

- Growth not fully paying for growth, per Robinswood Agreement and King County Code's Wastewater Financial Policies
- Existing customers pay somewhat higher rate and new customers pay a lower capacity charge
- Impact to Seattle's existing customers could be \$150 million or more for 2003-2030 financial period

Costs Allocated to Existing Customers:

- Unused excess capacity
 - Pre-2003 costs for projects to serve growth
 - Project categories allocated 100% to existing customers
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- King County's wastewater costs increased significantly by unexpected Brightwater project costs

Year(s)	Monthly Capacity Charge
1990 through 1997	\$ 7.00
1998 through 2001	\$ 10.50
2002	\$ 17.20
2003	\$ 17.60
2004	\$ 18.00
2005 and 2006	\$ 34.05
2007	\$ 42.00
2008	\$ 46.25
2009 and 2010	\$ 49.07

King County Wastewater Capacity Charge 1990 - 2010

Key Findings:

City's Contract with King County for Sewer Processing Services

- No contract renegotiation periods for 45-year contract –in effect until 2036
- Contract terms do not address rate calculation methodology
- Contract terms do not address performance standards/expectations
- No annual “true-up” of actual costs, like SPU has for wholesale water
- Lack of audit clause

Other Significant Findings: Construction Site Dewatering Accounts

- SPU currently collects about \$650,000 annually from dewatering fees
- No controls to ensure all construction sites are set up for billing by SPU
- Contractors self-report dewatering discharge volumes to SPU with little or no verification

Other Significant Findings: Sewer Submeters

- Lack of program to consistently monitor accuracy of submeter usage
 - Deduct meters – e.g., soda pop factory
 - Chargeable meters – e.g., bilge pumping
 - Water only meters – e.g., landscape sprinklers
- Revenues = about \$6 million for deduct meters and \$830,000 for chargeable meters.
- No program to verify accuracy of customer-owned submeters

Other Significant Findings: \$1 Million in Inactive Tenant Accounts

- Inactive tenant account = former renter of home moved with delinquent balance
- Some debts date back to 2007
- Options to reduce problem include:
 - collect better customer ID
 - use collection agency
 - collect deposits
 - transfer responsibility to owner sooner

Additional Issues

- Sewer contract remittances
- Self-Read submeters
- Submeters and customer billing system
- High Strength Industrial Waste (HSIW) Volumes
- Contaminated stormwater volumes
- Construction site dewatering late payments
- Sewer processing invoice review