



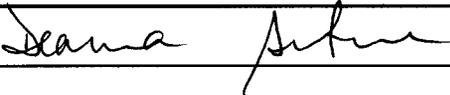
Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Scott P. Johnson

**SUBJECT: RESPONSE TO AUDIT
RECOMMENDATION FOR
CONSOLIDATED SEWER BILLING**

DATE: October 29, 2007

Approved  Date 10/31/07

COUNCIL DISTRICT: City-wide

RECOMMENDATION

Direct staff to continue the process of billing and collecting the City's Sanitary Sewer Service and Storm Sewer Service (Sewer) billings by placing these bills on the Santa Clara County Tax Roll annually.

OUTCOME

Approval of this recommendation will ensure that the City's Integrated Billing System (formally called C-UBS) will continue to be utilized to calculate the Sewer bills, while also maintaining 100% assured collection of the billings by placing the calculated amounts annually on the County's Tax Rolls.

EXECUTIVE SUMMARY

All of the City's utility bills (Recycle Plus, Muni Water, Sewer, and Storm Drain) are now calculated by the IBS. Over 220,000 Sewer bills are calculated and then transmitted to Santa Clara County to be placed on the yearly County Tax Rolls. This billing generates approximately \$100 million in annual revenues for the City (\$82.6 million for Sanitary Sewer and \$17.3 million for Storm Sewer).

After discussions with the City Auditor's Office and review of changes that have taken place since the initial audit recommendation, it was mutually agreed that the City should continue to utilize the Integrated Billing System (IBS) to calculate the Sanitary Sewer Service and Storm Sewer Service bills (Sewer), and continue collection by placing these bills on the Santa Clara County Tax Rolls annually. During the 1997-2001 audit of the Utility Billing System, the City

Auditor's Office recommended that the City Council consider combining Sewer and Storm Drain billings with Recycle Plus billings. This recommendation was completed in part with the recent implementation of the IBS and the consolidation of the calculation and billing of all the City's utility bills on one system. After further review, in coordination with the City Auditor's Office, changes such as a reduction in investment interest rates, renegotiation of agreements with the County (reducing fees paid to the County for placing bills on the Tax rolls) and improvements in the overall program, resulted in a recommendation that the City continue to collect Sewer payments on the Annual County Tax Rolls for the following reasons:

- New methodology of billing would not be cost effective to implement;
- Changes would not be customer friendly;
- New billing methodology would create a burden on existing staff resources;
- Eliminates a secured revenue source (guaranteed collection level) for a higher risk revenue source;
- Develops several technical and processing ramifications; and
- Establishes several legal and ordinance implications

BACKGROUND

Prior to fiscal year 2002, the Revenue Management Division of Finance (previously Treasury Division) processed annual sewer and storm drain assessments for the City's commercial and residential property owners. Revenue Management forwards these assessments to the County for inclusion on property tax bills. Prior to 2002, the County charged the City 1% of gross billings for the City's assessments that were placed on the annual County tax roll. At that time the cost was approximately \$715,000 per year, based on a \$71.5 million revenue stream to collect sewer and storm drain assessments. However, due to the City's ability to re-negotiate the annual fee paid to the County, the fee was reduced from 1% to the current rate of 0.3%. As a result, the City currently pays approximately \$300,000 annually to the County for this service instead of \$1 million that would have been paid prior to the renegotiated rate, based on the current year's revenue estimate of \$100 million in collections for the City's Sewer bills.

With the implementation of IBS, the calculation and billing of Recycle Plus! And Muni Water utility services are being performed by IBS. In addition, IBS calculates the City's Sewer bills; however the collection process for the City's Sewer bills continues to be performed by placement of the billed amounts on the County Tax Rolls. This collection process ensures that 100% of the billed amount is received due to the County's implementation of the Teeter Plan. The Teeter Plan calls for the County to pay the City 100% of the amount that is billed on the County's Tax Rolls regardless of the actual amount collected by the County. The County pursues any delinquencies and retains the penalties imposed on delinquent payments.

ANALYSIS

Changing the collection process for the City's Sewer bills from the County property tax roll to the City assuming collections through IBS would result in a greater cost to the City. It is anticipated that it would cost the City an estimated \$800,000 to \$1.3 million in one-time costs for system modifications to IBS and \$600,000 to \$1 million in annual on-going costs to perform the same function that the County now provides at a cost of approximately \$300,000 annually. Also, it is estimated that an additional 1.5 FTE would be necessary (based on staffing for a similar function utilizing the current billing methodology), incurring approximately \$150,000 in additional costs. This results in an annual outlay of approximately \$450,000 for the assured collection of \$100 million in annual revenues.

As noted in the Executive Summary above, the following issues were also identified:

New methodology of billing would not be cost effective to implement – The cost to the City would increase substantially if the Sewer billings were consolidated with the Recycle Plus and Municipal Water bills. The required business process changes and system re-configuration would cost between \$500,000 and \$1 million to implement in addition to resolving data configuration issues, which are estimated to cost an additional \$300,000 or more in one-time costs. The estimated annual on-going costs are based on the estimate of the existing 1.5 FTE and the addition of 3 to 4 FTE to handle the increased call volume, billing errors research, liens processing, billing exceptions, etc., as well as the need for an increase in investigators/collectors staffing to handle collections that are no longer 100% secured through the County tax rolls. In addition, the City would incur additional costs for bill printing, processing, and mailing.

Changes would not be customer friendly – With the change in haulers, and a related increase in fees, this change in collection methodology would add confusion and additional burdens on our customers and would be perceived as not being customer friendly.

New billing methodology would create a burden on existing staff resources – Customers could perceive additional cost on their utility bills as an increase rather than just a change in billing methodology. There will also be an increase in call volume from customers requiring assistance in understanding their bills, thus impacting Call Center resources. The resulting increase in call volume from customers may result in longer customer wait times.

Eliminates a secured revenue source (guaranteed collection level) for a higher risk revenue source – Under the current methodology, with the Teeter Plan in effect, the City is assured of the \$100 million annual revenue stream making it easier to estimate cash flows. Revenues would become dependent on the actual amounts collected in any one year, rather than the annual amount billed. The change in billing method would place a major revenue source at risk, which

could negatively impact the City's bond ratings for Sewer/ Treatment Plant debt. Revenues would become dependent on the actual amounts collected in any one year, rather than the annual amount billed. When revenue streams become less predictable, especially when there are related increases in operational costs, bond ratings, borrowing costs and debt capacity could be adversely impacted.

Develops several technical and processing ramifications – Sanitary and Storm Sewer is billed to homeowners only. Consolidation with the Recycled Plus billings would require significant data re-configuration related to tenant paid garbage accounts, because many Recycle Plus bills are currently billed to tenant accounts rather than owner accounts. In addition, either the yearly Sewer billing amounts would need to be pro-rated over the current billing periods, or re-configuration of the system would be needed to add annual Sewer billings to a specific invoice. Re-configuration of the billing process would add to system design and on-going maintenance costs.

Establishes several legal and ordinance implications – Several legal and ordinance issues would need to be addressed. For example, the billing pro-ration and billing period issues would most likely require ordinance changes. The issue of continuing bi-monthly billings versus monthly billings, versus annual billings would need to be addressed. Other issues to consider are whether or not the City would lien the property of the delinquent accounts and, if so, when would the City record the lien.

EVALUATION AND FOLLOW-UP

As this memo recommends continuing the current methodology used to calculate and collect the Sewer bills, no additional follow-up actions with the Council are expected at this time.

POLICY ALTERNATIVES

Alternative #1: Implement the audit recommendation.

Pros: Potentially more control over the timing of the Sewer billing process.

Cons: Taking this action will result in several adverse impacts to the City. Furthermore, full implementation would result in increased technical and staff costs to the program. In addition, it would place a major revenue source at risk, with potential negative impacts to the City's bond rating. Finally, there would be legal and ordinance hurdles to overcome.

Reason for Not Recommending: This alternative does not provide enough benefit to the City to offset the increase in cost. This alternative could leave the City at significant risk with regard to bonding capacity, management of billing systems, and providing customer service. In addition, as a result of administrative changes with the re-negotiation of the County contract and technical changes in consolidating the billing process, we have substantially addressed the City Auditor's recommendations. Furthermore, since the City Auditor's report noted a potential increase in interest earnings, it should be noted that interest rates have dropped dramatically to the current net rate of 3.85%, thus reducing the City's potential investment earnings.

PUBLIC OUTREACH/INTEREST

This item does not meet any of the below criteria.

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memorandum has been prepared by the Department of Finance in coordination with the Departments of Environmental Services, Information Technology, the City Attorney's Office, the City Auditor's Office, and the City Manager's Budget Office.

COST IMPLICATIONS

It is anticipated that it would cost the City an estimated \$800,000 to \$1.3 million in one-time costs and \$600,000 to \$1 million in annual on-going costs to perform the same function that the County now provides at a cost of approximately \$300,000 annually.

HONORABLE MAYOR AND CITY COUNCIL

10-29-07

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CEQA

Not a project.



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Director, Finance Department

For questions please contact David McPherson, Deputy Director at (408) 535-7091.