



RICHMOND OFFICE of the CITY AUDITOR

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Report Issue Date: June 9, 2015

Report Number: 2015-10

AUDIT OF Department of Public Utilities **STORMWATER DIVISION**

Committed to increasing government efficiency,
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Richmond City Council Office of the City Auditor | Richmond City Hall | 900 E. Broad Street, Suite 806 | Richmond, Virginia 23219 U.S.A. | 804.646.5616 (tel)

OFFICIAL GOVERNMENT REPORT

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Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the City Auditor

Executive Summary

June 9, 2015

The Honorable Members of the Richmond City Council
The Honorable Mayor Dwight C. Jones

Subject: Department of Public Utilities – Stormwater Division Audit Report

The City Auditor's Office has completed a performance audit of the Department of Public Utilities (DPU) Stormwater activities for Fiscal Year 2014. In the Commonwealth of Virginia, Federal and State stormwater regulations are administered by the Virginia Department of Environmental Quality (DEQ) with which the City is required to comply.

The auditor learned that in 2013 and 2014, DPU performed a stormwater rate review/analysis. According to DPU personnel, these analyses showed a need to increase stormwater rates to cover future stormwater capital and operating expenses. The City Charter allows the City Auditor access to these documents. These documents were requested, however, DPU did not provide the documents to the auditors. Therefore, the auditor was unable to formulate an opinion regarding the sustainability of meeting current and future capital and operating stormwater cost.

The Chesapeake Bay Act mandates significant reductions in the number of stormwater pollutants flowing into the bay over the next 15 years (3 phases of 5 years each). Over the 15 year period ending 2028, the City is required to eliminate 100% of targeted pollutants from stormwater.

The following are the salient findings of the audit:

- Several processes at DPU related to stormwater are working well, including:
 - DPU has adopted prudent practices to provide for uncollectible revenues.
 - The Department has made efforts to communicate with and educate Richmond residents about illicit discharge detection, elimination, and pollution prevention.
 - DPU has not had any compliance infraction since the one remedied in 2009.
 - DPU has well written and communicated stormwater policies and procedures.
 - The Stormwater Utility has established a generally effective internal control structure.

- Based on the auditor's research, a significant liability for mitigating pollutants as required by the DEQ is anticipated to be incurred. Unless there is dedicated funding for future stormwater costs, there may be a burden on future budgets/projects requiring significant borrowings. It may be prudent to plan for the future liability and set aside a reserve for the funds needed for compliance over the next 15 years. The auditors recognize that the Stormwater Utility has a net position of \$9.9 million (unaudited) as of June 30, 2014. However, the above net position and contributions made by the current stormwater fee structure may not be adequate to meet future stormwater regulatory obligations.
- Since the inception of stormwater fees in 2009, the City has and continues to face major resistance to stormwater fees and to date has chosen not to aggressively pursue collecting these fees. The City offered a one-time opportunity in 2013 to pay delinquent stormwater charges without imposing past due fees, interest and assignment of property liens, which contributed to the decrease of \$500,000 from allowance for bad debts. As of June 30, 2014, outstanding accounts receivable attributable to stormwater totaled approximately \$7.7 million, which included \$1.1 million due from Richmond Public Schools. The allowance for bad debts against these receivables for the same period was about \$5 million. Not pursuing collection from certain stormwater customers and eventually writing it off, results in unfair treatment to the stormwater customers who pay the fees in compliance with the City requirements.

The City Auditor's Office appreciates the cooperation from DPU staff. Written responses to the recommendations made in this report are included. Please contact me for questions and comments on this report.

Sincerely,

Umesh Dalal

Umesh Dalal, CPA, CIA, CIG
City Auditor

cc: Selena Cuffee-Glenn, Chief Administrative Officer
The Richmond City Audit Committee
Robert Steidel, Director of Public Utilities
Wayne Lassiter, Deputy Director II

COMPREHENSIVE LIST OF RECOMMENDATIONS

| # | | PAGE |
|---|--|------|
| 1 | The DPU Director with the approval of the Chief Administrative Officer (CAO) needs to conduct a comprehensive study of expected future costs of compliance with the MS4 permit regulations related to stormwater pollutant mitigation. | 13 |
| 2 | The CAO needs to budget for the anticipated funding needs over the next 15 years or identify another source of funding for the stormwater pollutant mitigation. | 13 |
| 3 | DPU Director needs to ensure that the department follows consistent collection procedures for accounts receivable for all utilities | 16 |
| 4 | DPU Director needs to ensure that all accounts receivable deemed uncollectible are written off in a timely manner. | 16 |
| 5 | DPU Director needs to require a thorough analysis of the “stormwater only” accounts to identify the possibility of merging them with other utility billings for owners occupying their property. | 16 |
| 6 | The CAO needs to pursue the outstanding stormwater receivable from the Richmond Public Schools. | 16 |

Overview

Introduction

The City Auditor’s Office has completed a performance audit of the Department of Public Utilities (DPU) Stormwater activities for Fiscal Year 2014. The overall objectives of the audit were to:

- Determine if adequate internal controls existed over stormwater utility fees for the billing processes, collection of delinquent accounts, and the allowance for bad debt.
- Determine whether the City of Richmond was in compliance with applicable laws and regulations pertaining to the Municipal Separate Stormwater Sewer System (MS4) Permit and City Code requirements.

The auditors conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

Methodology

To complete this audit, the auditors performed the following procedures:

- Interviewed DPU’s Stormwater staff
- Reviewed established stormwater policies and procedures
- Reviewed DPU’s stormwater financial statements
- Evaluated segregation of duties and responsibilities of stormwater staff

- Surveyed Hampton Roads Planning District Commission and Chesterfield County compliance to meet regulatory requirements.

Scope Limitation

Auditor did not have access to DPU's calculation of future compliance liabilities

The auditor learned that in 2013 and 2014, DPU performed a stormwater rate review/analysis. According to DPU personnel, these analyses showed a need to increase stormwater rates to cover future stormwater capital and operating expenses. However, stormwater rates were not increased. DPU considered these reviews/analyses to be working papers and were not proposed for implementation at this time. The City Charter allows the City Auditor access to these documents; however, DPU did not provide them to the auditors. Therefore, the auditor was unable to formulate an opinion regarding the sustainability of meeting current and future capital and operating stormwater cost.

The auditor was able to research and assemble information from neighboring municipalities to provide readers of this report some idea about the magnitude of future stormwater costs.

Management Responsibility

The management of the City of Richmond is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; City programs are achieving their objectives; and services are being provided efficiently, effectively and economically.

Background

In the Commonwealth of Virginia, Federal and State stormwater regulations are administered by the Virginia Department of Environmental Quality (DEQ) and include:

- Virginia Stormwater Management Program Regulations (VSMP) Permit Program
- Rivers and Harbors Act of 1899, Section 9 & 10
- State Water Control Law (Code of Virginia, Title 62.1, Chapter 3.1)
- The Clean Water Act
- The Chesapeake Bay Preservation Act
- The Erosion and Sediment Control Law/Regulations
- The Municipal Separate Stormwater Sewer System (MS4) Permit

Stormwater Utility was established to comply with regulations related to improving water quality

City Council established the Stormwater Utility in July 2009 to mitigate flooding caused by stormwater, including but not limited to constructing, operating, and maintaining stormwater facilities and paying other project costs. Subsequently, with implementation of additional EPA regulations, the emphasis of the stormwater utility increased on pollutant abatement. The regulations are focused on improving water quality by reducing the number of pollutants in stormwater (rainwater and melted snow) which flows into streams, rivers, and oceans.

Effective July 1, 2009, stormwater operations were established as a separate utility and were allocated 55 full time positions. DPU engaged external consultants in 2004 and 2011 to provide a cost of service study and VSMP construction permit program cost of service report respectively. According to the DPU Director, DPU continues to implement these studies.

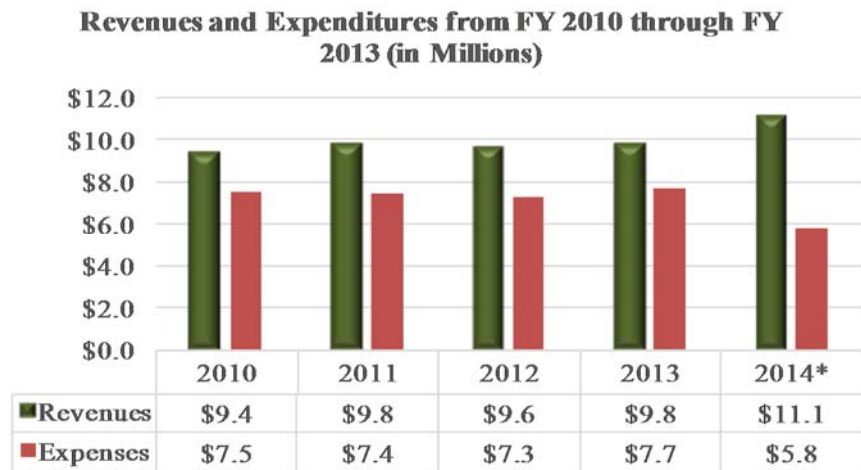
DPU bills property owners (residential and commercial) for stormwater fees. As an enterprise fund, stormwater fees should recover all

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stormwater capital and operating costs. Stormwater fees have remained unchanged since their inception in July 2009.

From July 2009 through July 2013, DPU billed property owners annually for their stormwater charges. These bills were separate from their monthly utility bills. In August 2013, DPU began Stormwater charges on utility bills where there was a match between the utility ratepayer and the stormwater records. All other stormwater charges are billed separately.

The graph below depicts FY2010 through FY2014 Stormwater revenues and expenses:



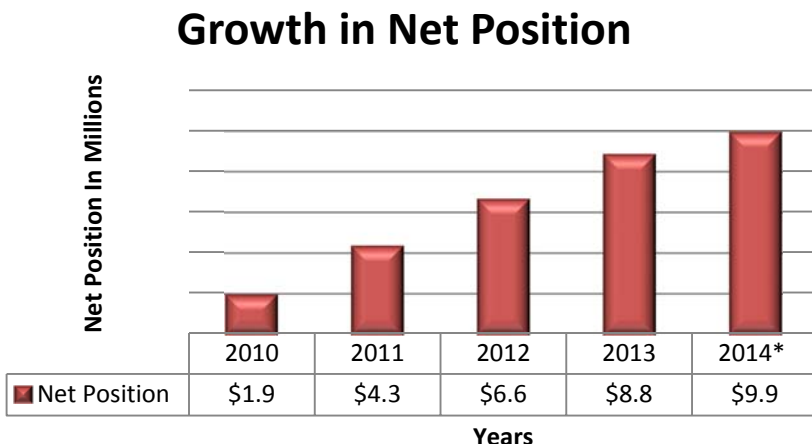
Source: Stormwater Financial Statements

* Unaudited financial statements

Note: 2014 expenditures do not include rate stabilization expenses yet to be booked

Over the years, the utility’s net position has increased:

Over the past five years, there was a growth in the Utility’s net position



Source: *Unaudited Stormwater financials

By FY 2028, the City is required to reduce 100% of pollutants flowing into the Chesapeake Bay

The Chesapeake Bay Act mandates significant reductions in the number of stormwater pollutants flowing into the bay over the next 15 years (3 phases of 5 years each). The City’s costs and manpower to achieve these reductions, which began in FY2013 and will conclude in FY2028 are expected to be significant.

The required reductions in each phase and cumulatively over 3 phases are:

| <i>Phase</i> | <i>% Reduction in Pollutants</i> | <i>Cumulative Reduction</i> | <i>Implementation Year</i> |
|------------------|----------------------------------|-----------------------------|----------------------------|
| <i>Phase I</i> | 5% | 5% | 2013-2018 |
| <i>Phase II</i> | 35% | 40% | 2019-2023 |
| <i>Phase III</i> | 60%* | 100% | 2024-2028 |

*projected/ anticipated by DEQ

Source: MS4 permits

The City of Richmond’s Capital Improvement Program Stormwater Facilities Improvements provides for:

- Citywide rehabilitation and upgrade of stormwater sewers and associated facilities,
- Inspection and replacement program,
- Installation of best management practices and water quality projects , and
- Emergency replacements.

This project has been funded to rehabilitate and/or replace drainage structures, ditches and culverts throughout the City. Development and use of “Green” technology has proven to be a positive step toward the reduction of untreated urban runoff into the City’s rivers and streams. The City has and will continue to have a proactive approach to meet Federal, State and local regulations. Through FY 2019, the City has established a stormwater capital budget of \$60.8 million. However, at this time it is not clear if this budget will be sufficient to pay for the anticipated liability for compliance with the permit requirements.

At this time, the sufficiency of \$60.8 million budget to comply with the permit requirements is not clear

Observations and Recommendations

What is Working?

During this audit, the auditors observed and found several DPU processes which were working effectively and achieving meaningful outcomes:

Billing:

Auditor found in 30 judgmentally selected billing statements that stormwater fees, late payment charges and impervious areas were correctly calculated.

Allowance for Bad Debt Reserve:

DPU has established and is effectively monitoring the stormwater bad debt reserve. The reserve is conservatively computed using a relevant delinquency rate. The \$1.7 million FY2010 reserve has grown to \$4.9 million for FY2014 and represents approximately 64% of the 2014 receivable balance. This is a step in the right direction.

Communication:

DPU is communicating and educating the residents of the City about illicit discharge detection, elimination, and pollution prevention. It has encouraged public involvement in the process through such programs as volunteer cleanup, clean city commission, distribution of clean water brochures, reduction (credits) to stormwater fees for customers who reduce the stormwater rate or volume flowing from their properties to the Richmond water system and surrounding water bodies.

DPU has an informative up-to-date user friendly StarNet Intranet website. This website is well organized, designed and easy to use. It

***Auditors observed
a number of
processes working
well to accomplish
the desired
outcomes***

contains all pertinent regulations pertaining to stormwater, as well as stormwater training manuals for the use of DPU employees. These manuals are well presented and easy to understand.

Compliance:

DPU has not had any compliance infraction since one remedied in 2009. This infraction was satisfactorily resolved. DPU has and continues to strive to ensure the City of Richmond maintains full compliance with statutory regulations.

Policies and Procedures:

DPU has well written and communicated stormwater policies and procedures which contain insightful exhibits and schedules. They are well organized and easy to understand.

Internal Controls

Stormwater has established a good internal control structure

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the agency’s plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations
- Accurate financial reporting
- Compliance with laws and regulations

Based upon audit test work, it was determined that the Stormwater Utility has established a generally effective internal control structure. However, the utility needs to improve controls in the procedures related to Stormwater billing as discussed subsequently in this report.

Sustainability and Compliance

According to a consultant hired by the City, significant funding challenges for the permit compliance exists

In 2013 a study conducted by a vendor hired by DPU, reported, “*The stormwater utility is facing significant challenges in terms of meeting funding needs and new permit requirements and will need to support a number of new programs. Although funding needs for the stormwater utility are expected to increase significantly in FY2015, DPU does not anticipate making any adjustments to stormwater rates and charges for the upcoming fiscal year (FY 2014). DPU will continue to review*

various rate structures, capital financing and billing system options to determine the most appropriate funding structure and forecast of revenue requirements, which will ensure regulatory compliance, minimize customer impacts, and provide an equitable distribution of cost recovery.”

Work done in neighboring localities indicate significant future costs of compliance

The auditors recognize that the Stormwater Utility has a net position of \$9.9 million (unaudited) as of June 30, 2014. However, the above net position and contributions made by the current stormwater fee structure may not be adequate to meet future stormwater regulatory obligations.

The auditor was able to obtain the March 2014 capital cost study prepared by a consultant for Chesterfield County, Virginia. According to this study, Chesterfield County can expect the cost of compliance with DEQ regulations to range from \$90 million to \$110 million for the period FY 2015 through FY2030.

These estimates are based on regulated urban impervious area of 14,000 acres for Chesterfield County. Compared to this, the City has a regulated urban impervious area of 8,226 acres. Therefore, an evaluation of future cost for the City must be made to quantify future liabilities.

In another study issued in June 2011, a consultant for the Hampton Roads Planning District Commission (HRPDC) estimated costs for the Virginia Phase 1 Watershed Implementation Plan (WIP) ranging from \$1.8 billion (includes nutrient management) to \$2.2 billion (no nutrient management). The Hampton Road study includes the Cities of Norfolk,

Portsmouth, Virginia Beach, Chesapeake, Hampton, Newport News, Suffolk, Isle of Wight, Poquoson, Williamsburg, James City and York County. This consultant's cost estimates were based on the assumption that phosphorus is the pollutant driving retrofit requirements. However, the EPA's final Bay Total Maximum Daily Load (TMDL) indicates that total suspended solid (TSS) reduction may require more retrofitting. Several model updates and new policies will impact the assumptions in the cost estimates. Therefore, the cost estimates could be revised as new data, requirements and opportunities are identified.

It is recognized that the estimates for Chesterfield County and the eastern Hampton Roads area may be different from the estimates for Richmond, the comparison is presented to help users of this report comprehend the magnitude of anticipated costs.

Richmond's stormwater rates do not include a component for future capital costs

The above consultant's study provided a comparison of stormwater rates for Hampton Roads municipalities. The auditor found the City of Richmond stormwater rates to be considerably lower than Hampton Roads municipalities' rates. According to the DPU Director, stormwater utility is an Enterprise Fund, which must generate revenue from fees to match proposed spending. DPU expects to assign high priority to the capital projects related to maintenance for drainage and flooding and Chesapeake Bay TMDL and General Permit for discharges of stormwater from Small Municipal Separate Stormwater Sewer Systems (MS4) permit compliance and emergency repairs.

***Richmond's
stormwater rates
do not include
provision for the
future liabilities***

Richmond's rates do not include any funding for future costs. The City of Portsmouth confirmed that their stormwater rates included rate components to build sufficient stormwater reserves necessary to fund costs needed to reduce pollutants in compliance with regulatory requirements.

Unless there is dedicated funding for future stormwater costs, there may be a burden on future budgets/ projects requiring significant borrowings. It may be prudent to plan for the future liability and set aside a reserve for the funds needed for compliance over the next 15 years.

Need for Formalized Plans

DPU does not have an approved business plan that specifically covers and identifies future costs of compliance (both source and application of funds) with MS4 permit regulations related to stormwater pollutant mitigation. The costs associated with implementation of these regulations are anticipated to be material. These costs include a large number of projects which are considered high priority and include:

- Proportional allocation pretreatment costs,
- Cost recovery of floodwall division budget,
- Virginia Stormwater Management Program (VSMP) permitting,
- Capital improvement projects associated with Chesapeake Bay Total Maximum Daily Load (TMDL) compliance,
- Incremental operating costs related to funding the capital program, additional allocation of overhead costs associated with the City's General Fund programs such as curb/gutter, street sweeping and leaf collection.

Recommendations:

- 1. The DPU Director with the approval of the Chief Administrative Officer (CAO) needs to conduct a comprehensive study of expected future costs of compliance with the MS4 permit regulations related to stormwater pollutant mitigation.*
- 2. The CAO needs to budget for the anticipated funding needs over the next 15 years or identify another source of funding for the stormwater pollutant mitigation.*

Accounts Receivable

***DPU has not
aggressively
collected
stormwater
accounts
receivables***

Property owners have and continue to view stormwater fees as another form of taxation. Since the inception of stormwater fees in 2009, the City has and continues to face major resistance to stormwater fees and to date has chosen not to aggressively pursue collecting these fees. For instance, delinquent stormwater accounts receivable are not consistently being sent to the City's collection vendor. Only delinquent stormwater accounts, which also include other delinquent utility bills are sent to collections. In fact, in an attempt to remedy collection of long outstanding stormwater accounts receivable, the City offered a onetime opportunity in 2013 to pay delinquent stormwater charges without imposing past due fees, interest and assignment of property liens. This amnesty program contributed to the decrease of \$500,000 in the allowance. As of June 30, 2014, outstanding accounts receivable attributable to stormwater totaled approximately \$7.7 million.

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Most of the accounts receivable are past due more than a year as depicted below:

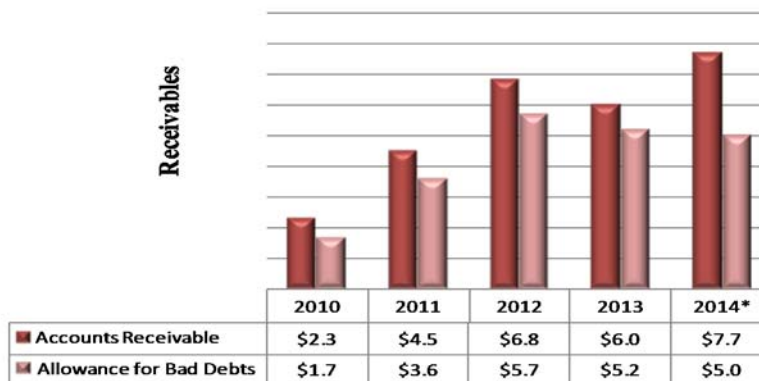
The stormwater utility has significant older accounts receivables

| | Amount (in Millions) |
|-------------------------------------|----------------------|
| Current, less than 90 days past due | \$2.3 M |
| 91 through 360 days past due | \$1.4M |
| Over 1 year past due | \$4.0M |

DPU considers the collection of a significant portion of these accounts receivable as doubtful for recovery as depicted in the following table:

Stormwater Accounts Receivable and Allowance for Bad Debts (in Millions)

DPU has appropriately accounted for large allowance for bad debts



Source: Stormwater financial statements
 *unaudited

Frequently, stormwater billings are not linked with the billing for the other utilities for the same owners. This may be because the stormwater account was set up as a stormwater only account because the property owners are in joint names (e.g. Mary and John Smith) whereas the utility (gas, water, sewer) accounts at this property address have been set up in one of the spouse’s name. These discrepancies resulted in “stormwater

only” billings which are issued quarterly rather than monthly. Also, these circumstances impact collectability of stormwater only receivables.

The current receivable balance includes approximately \$1 million in unidentified delinquent stormwater charges attributable to changes in property owners, owner’s names, billing addresses, etc. These accounts have not been actively researched, resolved and written off during the period FY2010 through FY2014. They represent approximately 13% of the total outstanding stormwater receivables.

Liens

The current receivable balance includes \$1.1 million in delinquent stormwater fees greater than 90 days old from Richmond Public Schools (RPS), which represents approximately 14% of total outstanding stormwater receivables. Twelve percent of total outstanding stormwater receivables greater than 90 days old are attributable to Limited Liability Companies, Churches and Fortune 500 companies where the outstanding receivable balance exceeded \$10,000.

The City Code provides for placing liens on delinquent utility receivables. As of June 30, 2014, there was no documentation to substantiate if liens were placed against qualified delinquent (older than 90 days) stormwater accounts. DPU only placed property liens involving delinquent stormwater charges if the utility customer also had delinquent water, wastewater and gas charges. DPU did not separately track and monitor stormwater liens. DPU has not filed any liens against owners of record properties solely attributable to delinquent stormwater accounts receivable. DPU explained that strong citizen opinions against stormwater charges have prevented aggressive collection efforts

including placing liens. Not pursuing collection from certain stormwater customers and eventually writing it off results in unfair treatment to the stormwater customer who pays the fees in compliance with the City requirements.

Recommendations

- 3. DPU Director needs to ensure that the department follows consistent collection procedures for accounts receivable for all utilities.*
- 4. DPU Director needs to ensure that all accounts receivable deemed uncollectible are written off in a timely manner.*
- 5. DPU Director needs to require a thorough analysis of the “stormwater only” accounts to identify the possibility of merging them with other utility billings for owners occupying their property.*
- 6. The CAO needs to pursue the stormwater receivable from the Richmond Public Schools.*

**MANAGEMENT RESPONSE FORM
2015-10 DPU – Stormwater Division Audit**

| # | Recommendation | Concur Y/N | Action Steps |
|---|--|---------------|--|
| 1 | The DPU Director with the approval of the Chief Administrative Officer (CAO) needs to conduct a comprehensive study of expected future costs of compliance with the MS4 permit regulations related to stormwater pollutant mitigation. | Y | <p>Action steps: Stormwater capital improvements specifically relating to compliance with General Permit for Discharges of Stormwater from Small Municipal Separate Storm Sewer Systems General Permit Number VAR040005 issued to the City of Richmond on July 1, 2013 to expire on June 30, 2018 are detailed in the Stormwater System Master Plan, a plan to identify and prioritize recommended capital improvement projects (CIP) to mitigate flooding, prevent stream bank erosion, improve in-stream water quality, and to strengthen the City's stormwater infrastructure assets. The City is conducting the stormwater Master Plan project on a watershed-by-watershed basis, and has developed a priority list of watersheds based on economic development priorities, and past drainage complaints and water quality concerns. The top 8 watersheds and their report status on the priority list are:</p> <ol style="list-style-type: none"> 1. Manchester, draft plan February 2012, final November 2012 2. Goodes Creek, draft plan February 2012, final November 2012 3. Broad Rock Creek, draft plan February 2012, final November 2012 4. Grindall Creek, draft plan February 2012, final November 2012 5. Gillies Creek, USACOE preliminary plan post Gaston, final plan November 2012 6. Cherokee Lake, final plan November 2012 7. Jordan's Branch, USACOE preliminary plan post Gaston, final plan November 2012 8. Reedy Creek, final plan November 2012 <p>Other watersheds under development:</p> <ul style="list-style-type: none"> • Falling Creek, draft plan October 2013 |

**MANAGEMENT RESPONSE FORM
2015-10 DPU – Stormwater Division Audit**

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| | | <ul style="list-style-type: none"> • Pocosham Creek, draft plan June 2013 • Willow Oaks, draft plan 2013 • Riverfront, draft plan 2013 <p>There are 19 additional watersheds for which the plan development process has not begun.</p> <p>The intent of the Stormwater System Master Plan is to update and expand the work from the previous draft Stormwater Master Plan, dated April 2005, in which a list of CIP projects was identified to primarily address historic drainage complaints. The focus of the Stormwater System Master Plan has broadened and includes development of watershed plans and a subsequent list of Capital Improvement Projects that not only addresses historic problem areas, but includes holistic aspects related to existing and pending regulations, hydraulic function of the existing system, and root-cause problem areas. Included in this Stormwater System Master Plan is a review of existing asset inventory data, mapping, and Capital Improvement Projects, as well as a characterization of the existing system infrastructure and conditions. Engineering evaluation, including hydraulic modeling and pollutant load calculations, were performed on existing systems and proposed systems to develop a comprehensive CIP list which was then prioritized and ranked using a priority ranking system developed as par to the master planning process. Priority was assigned to projects with public health and safety benefits, regulatory compliance potential, water quality treatment and / or increase in capacity of drainage improvement / flood control, improvement of asset reliability, ease in project implementation, and relationships with other projects, i.e. shared initiatives / cost-sharing (such as current or planned</p> |
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**MANAGEMENT RESPONSE FORM
2015-10 DPU – Stormwater Division Audit**

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| | | | development and redevelopment projects). Finally green / sustainability infrastructure bonus points were assigned for projects that incorporated DCR BMP design criteria. |
| | Title of Responsible Person | | Target Date |
| | Director, Department of Public Utilities | | Ongoing capital improvement planning, next plan submission March 15, 2015 |
| | If In Progress, Explain Any Delays | | If Implemented, Details of Implementation |
| | Currently the capital estimate in total including but not limited to regulatory compliance, for the stormwater utility for FY 2016 through FY 2027 is 162.7 million dollars. Rates that are affordable and sustainable to the ratepayer to collect this amount of revenue will be the cause of delay in project implementation. | | Stormwater capital improvement planning through FY 2015 complete or in progress. Project status reported to Richmond City Council Quarterly. FY 2016 and FY 2017 capital improvement planning to be presented March 15, 2015. |

**MANAGEMENT RESPONSE FORM
2015-10 DPU – Stormwater Division Audit**

| # | Recommendation | Concur Y/N | Action Steps | | | | | | |
|-------------------|---|---------------|---|-------------------|---------------------|-------------------|--------------------|-------------------|--------------------|
| 2 | The CAO needs to budget for the anticipated funding needs over the next 15 years or identify another source of funding for the stormwater pollutant mitigation. | Y | <p>Compliance cost estimate for VAR040005, Section I, C. Special condition for the Chesapeake Bay TMDL (by permit term and phase I, II and III, respectively):</p> <table border="0"> <tr> <td>FY 2016 & FY 2017</td> <td>\$6.8 million total</td> </tr> <tr> <td>FY 2018 - FY 2022</td> <td>\$35 million total</td> </tr> <tr> <td>FY 2023 - FY 2027</td> <td>\$80 million total</td> </tr> </table> <p>"Charter states: Sec. 13.07. - Utility renewal funds. A renewal fund for each utility shall be established to be known as the ""water utility renewal fund"", the ""wastewater utility renewal fund"", the ""stormwater utility renewal fund"", the ""gas utility renewal fund"" and the ""electric utility renewal fund"", respectively.</p> <p>Simultaneously with the introduction of budgets for each city owned and operated utility there shall be introduced renewal fund budgets for each of the utilities utilizing operating cash of the respective utilities for appropriations to finance such budgets. Funds received from the federal and state governments, representing grants in aid of construction, shall be deposited into the respective utility renewal funds. Appropriations may be made by the council from the renewal fund of any utility, on the recommendation of the mayor, only for renewing, rebuilding or extending the plant and distribution system of such utility.</p> <p>"City charter states Sec. 13.11. - Implementation of stormwater utility. The stormwater utility shall be implemented by ordinance, and shall be effective as of the effective date of that ordinance.</p> <p>Notwithstanding other provisions of this charter, the stormwater utility program may be administered by either the Department of Public Works or the Department of Public Utilities. Stormwater</p> | FY 2016 & FY 2017 | \$6.8 million total | FY 2018 - FY 2022 | \$35 million total | FY 2023 - FY 2027 | \$80 million total |
| FY 2016 & FY 2017 | \$6.8 million total | | | | | | | | |
| FY 2018 - FY 2022 | \$35 million total | | | | | | | | |
| FY 2023 - FY 2027 | \$80 million total | | | | | | | | |

**MANAGEMENT RESPONSE FORM
2015-10 DPU – Stormwater Division Audit**

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| | | <p>utility charges shall be assessed to all property owners and shall be based upon their contributions to stormwater runoff. Procedures and guidelines may be established to provide for full or partial waivers of charges to any person who develops, redevelops, or retrofits outfalls, discharges or property so that there is a permanent reduction in post-development stormwater flow and pollutant loading. Federal and state government agencies shall receive a full waiver of stormwater utility charges when the agency owns and provides for maintenance of storm drainage and stormwater control facilities. If stormwater utility charges are not paid when due, interest thereon shall at that time accrue at the rate determined by council, not to exceed any maximum allowed by law. The city may collect charges and interest by action at law or suit in equity, and such unpaid charges and interest shall constitute a lien against the property, of equal stature with liens for unpaid real estate taxes.</p> <p>While DPU management agrees that anticipated costs for the stormwater utility must be planned through the master planning and cost of service analysis, the language highlighted above directs that the rate be assessed to a property owner based upon their contributions to stormwater runoff, which would mean current and not future liability?</p> <p>"City code states: Sec. 106-37. - Rate stabilization funds. (a) The director shall include a rate stabilization fund within the accounting system of each utility operated by the department of public utilities. If revenues of a utility exceed those needed to meet bond covenant requirements and a reasonable rate of return for the utility, the director shall credit any such excess amounts to the utility's rate stabilization</p> |
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**MANAGEMENT RESPONSE FORM
2015-10 DPU – Stormwater Division Audit**

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| | | <p>fund and shall debit such amounts to an operating expense account. (b) The director may use any amounts in a utility's rate stabilization fund for any fiscal year until the city's financial records are closed and the annual audit is completed for such year, by: (1) Directing that all or any portion of the fund be included as a reduction of current year expenses for such year; or (2) Proposing that all or any portion of such fund be included as part of the budget submissions of the department of public utilities before the beginning of the fiscal year. (c) The purpose of the rate stabilization funds shall be to eliminate or mitigate and smooth, in accordance with prudent financial planning, any rate increases that otherwise might be needed, from year to year, by increasing the rate stabilization fund amounts in years when revenues exceed those needed to meet bond covenant requirements and reasonable rates of return; and, to the extent prudent and possible, by using any such rate stabilization fund amounts instead of rate increases in years when revenues are or are projected to be insufficient to meet bond covenant requirements, reasonable rates of return, or budgeted net income.</p> <p>While DPU management agree that anticipated costs for the stormwater utility must be planned through the master planning and cost of service analysis, the language above seems to direct rate stabilization funds be applied year to year.</p> |
| | Title of Responsible Person | Target Date |
| | Director, Department of Public Utilities | Ongoing capital improvement planning, next plan submission March 15, 2015 |
| | If In Progress, Explain Any Delays | If Implemented, Details of Implementation |
| | Currently the capital estimate for regulatory compliance for the stormwater utility for FY 2016 through FY 2027 is 121.8 million dollars. Rates that are affordable and sustainable to the | Stormwater capital improvement planning through FY 2015 complete or in progress. Project status reported to Richmond City Council Quarterly. FY 2016 and FY 2017 |

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| | ratepayer to collect this amount of revenue will be the cause of delay in project implementation. | | capital improvement planning to be presented March 15, 2015. |
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| # | Recommendation | Concur Y/N | Action Steps |
|---|---|---------------|---|
| 3 | DPU Director needs to ensure that the department follows consistent collection procedures for accounts receivable for all utilities | Y | <ol style="list-style-type: none"> 1. Review and update DPU Revenue Recovery procedures where necessary to include collection of active and inactive stormwater accounts receivable. This action includes development of any new procedures required to address collection of delinquent stormwater service only accounts receivable. 2. Modify the existing Aging 60 Days Receivables By Service report to include the Service Type, Service Type Description, Rate Code, and Rate Code Description data fields which will enhance identification of stormwater service only delinquent accounts receivable. 3. Identify, develop and implement a business process which enhances follow-up and collection of delinquent stormwater service only accounts to include, but not be limited to, the certification of liens pursuant with City Ordinance 106-86. Once developed determine the feasibility of automating the process within DPU's Customer Information System (CIS). 4. DPU will immediately begin review of stormwater only service inactive accounts receivable and write-off those accounts pursuant with its Procedure For Processing Bad Debt. |
| | Title of Responsible Person | | Target Date |
| | Customer Service Administrator and Revenue Recovery Customer Service Manager | | <ol style="list-style-type: none"> 1. July 1, 2015 2. April 17, 2015 3. January 2016 4. 4/1/2015 – Completed and ongoing |
| | If In Progress, Explain Any Delays | | If Implemented, Details of Implementation |
| | <ol style="list-style-type: none"> 1. On target 2. On target 3. On target | | <ol style="list-style-type: none"> 4. DPU updated its Procedure For Processing Bad Debt and effective April 1, 2015, it now includes review of inactive stormwater service only accounts in its processing of inactive accounts receivable for bad debt. |

MANAGEMENT RESPONSE FORM
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| # | Recommendation | Concur Y/N | Action Steps |
|---|--|---------------|---|
| 4 | DPU Director needs to ensure that all accounts receivable deemed uncollectible are written off in a timely manner. | Y | <p>DPU assumes this recommendation relates to the stormwater accounts receivable that was not converted to utility service billing in August 2013 (i.e., the old Stormwater Module).</p> <ol style="list-style-type: none"> 1. DPU will take the following actions related to these accounts: <ol style="list-style-type: none"> a) DPU is manually reviewing accounts not converted to utility service billing and attempt to match property owner and parcel address with an existing property owner and utility premises address in CIS. b) If a match occurs in action 1 above, then DPU will transfer the unpaid stormwater balance from the stormwater database to the property owner's utility service account. DPU will develop and print a message on the utility customer's bill notifying him/her about the nature of the charge adjustment appearing on the utility service bill. c) If DPU is unable to match an account receivable in the stormwater database to a corresponding account receivable in the utility service database, then DPU will follow its Procedure for Processing Bad Debt. |
| | Title of Responsible Person | | Target Date |
| | Customer Service Administrator and Revenue Recovery Customer Service Manager, Comptroller | | 1. June 30, 2015 |
| | If In Progress, Explain Any Delays | | If Implemented, Details of Implementation |
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**MANAGEMENT RESPONSE FORM
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| # | Recommendation | Concur Y/N | Action Steps |
|---|--|---------------|---|
| 5 | DPU Director needs to require a thorough analysis of the “stormwater only” accounts to identify the possibility of merging them with other utility billings for owners occupying their property. | Y | <p>It is important to clarify that owner occupation of a property is not a criterion for whether a stormwater only account can be merged with a utility service account. The only criterion is a name match between the property owner of the stormwater account and the ratepayer name of record for the utility service account.</p> <ol style="list-style-type: none"> 1. DPU completed review of 29,741 stormwater only records and found approximately 11,300 records can be combined with an existing utility service premises. 2. Beginning May 1, 2015, DPU will issue a courtesy letter to customers identified in Step 1 advising them that their stormwater service only account will be combined with their utility service account effective with utility service bills rendered after June 30, 2015. (Copy of letter attached). |
| | Title of Responsible Person | | Target Date |
| | Customer Service Administrator and Billing Operations Customer Service Manager | | <ol style="list-style-type: none"> 1. Completed 12/22/2014 2. May 1, 2015 |
| | If In Progress, Explain Any Delays | | If Implemented, Details of Implementation |
| | 2. Work-in- progress. Courtesy letter developed. Task on target. | | <ol style="list-style-type: none"> 1. Performed manual review of ratepayer of record names between 29,741 stormwater only and utility service premises to identify possible matches between ratepayer of record names. The result of this review found approximately 11,300 potential name matches. These stormwater only premises will be combined with the utility service premise beginning with utility bills rendered on and after July 1, 2015. |

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| # | Recommendation | Concur Y/N | Action Steps |
|---|---|---------------|---|
| 6 | The CAO needs to pursue the stormwater receivable from the Richmond Public Schools. | Y | No Richmond Public Schools funds are budgeted for this payment in FY 2016 or prior. |
| | Title of Responsible Person | | Target Date |
| | Director, Department of Public Utilities and Chief Administrative Officer | | |
| | If In Progress, Explain Any Delays | | If Implemented, Details of Implementation |
| | | | |

**IMPORTANT INFORMATION ABOUT YOUR
UTILITY SERVICE BILL AND STORMWATER SERVICE BILL**

Customer Account Number:

Dear Valued Customer:

Effective July 1, 2015, quarterly charges for Stormwater services will now appear on your Department of Public Utilities (DPU) monthly utility bill. You will no longer receive a separate stormwater service bill after this date.

This annual charge amount will be divided by 12, and one-twelfth (1/12) of that annual fee will be listed as a Stormwater utility fee line item on your monthly utility bill along with your other charges for utility services.

You can now make one easy payment for all utility services to include stormwater. If you pay your bills electronically, be sure to update your profiles with your account number to ensure your payments are processed without delay. It is important that any payments you make after July 1, 2015 reference your utility customer account number which appears at the top of this letter and on your utility service bill.

If you have any questions, please contact the Department of Public Utilities at dpucustserv@richmondgov.com or (804) 646-7000.

Sincerely,

Department of Public Utilities Customer Service