

INFORMATION REPORT

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: October 4, 2012	
SUBJECT/REPORT NO: Wastewater User Fee Billing Verification Initiative (FCS12075) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance and Corporate Services	PREPARED BY: John Savoia (905) 546-2424 ext. 7298
SIGNATURE:	

Council Direction:

Not applicable.

Information:

In early 2008, City staff informed Council that an extensive audit would be undertaken to verify that properties serviced with City sanitary sewer services were being billed the associated user fee, namely the sewer surcharge that was and currently is set at 100% of a property's water billings. The audit initiated in early 2008, focused on assessing if sewer services were being provided to over 2,500 properties situated across the city which were not being charged the sewer user fee albeit a City sewer main was located nearby.

Summary of Audit Results

- ◆ From April 2008 to June 2012, over 1,100 properties were identified as connected to the City's sewer system with nearly half identified within the first year of the Audit
- ◆ Approximately 80% of identified properties are single residential in nature; remainder consisting of multi-residential, industrial, commercial and institutional properties
- ◆ One-time back-bill adjustments for related retroactive sewer user fees amounted to revenue recovery of approximately \$1 million (\$70,000 to date in 2012)

- ◆ Estimated annual rate revenues of \$500,000 – to put this amount into perspective, a 0.4% rate increase in 2012 would have been required to secure an equivalent revenue stream
- ◆ Approximately 575 field sewer investigations/dye detection tests conducted by City staff

Historical Background

The Audit has taken longer than originally foreseen due to the number of various efforts that were required to review the subject properties, as well as, that no additional staffing was utilized by the City areas involved (Public Works and Corporate Services) or by the City's water/wastewater billing agent, Horizon Utilities (HUC) who performed over 1,000 billing adjustments and issued notifications related to the Audit.

The Audit initially involved City staff reviewing manual sewer line inspection records to determine which of the properties were likely connected to the City system. Staff surmised that as the manual inspection records predated the City amalgamation the likely cause of these properties not having been billed the sewer user fee upon connection was a breakdown in communication between the areas of responsibility within the Region of Hamilton-Wentworth (Region) that would have performed the inspections of sewer line connections and the area that was responsible for water/wastewater billings (note that HUC did not assume water/wastewater billing responsibility until 2001). In May 2008, this initial review resulted in several hundred properties being advised that sewer user fees were applicable and that per the City's Water/Wastewater Back-bill Adjustments Policy (Back-bill Policy), there would be a retroactive sewer use billing of up to 2 years with available interest-free payment arrangements.

In June 2008, Council directed staff to review the Back-bill Policy (refer to Report FCS08056 for details). Council subsequently reaffirmed that the City's practices maintain the principle that consumers are to pay for the water/wastewater services they utilize, while ensuring that back-bill adjustments are conducted in a fair and reasonable manner.

Thereafter, staff reviewed electronic sewer line inspection records from Building Services who post amalgamation were responsible for these inspections to identify further properties connected to the City's sewer system but were not billed the related user fee. A process has been developed so that City Water/Wastewater now has the ability to extract inspection records electronically so that as sewer connection inspections occur, the City's asset records can be updated and direction be given to HUC to bill related user fees as required.

Once historical permit records were fully analyzed by 2010, over 1,000 properties still remained as unresolved. Over the past few years, City staff have attempted contact by phone and mail with the respective property owners to verify sewer connections. In

many cases, dye testing was undertaken to verify if the property's wastewater flowed into the City's sewer system. Approximately 575 dye tests were conducted over the last 4 years related to the Audit.

As of June 2012, there remained only 175 properties whose sewer connection status still required verification. Letters were issued to these properties advising that should no response be provided that the City would consider that the subject property as connected to the municipal wastewater system and all applicable wastewater charges would apply. This final notification prompted over the summer a number of dye tests to be conducted to verify those that were not connected to the City's sewer system and as this activity has largely concluded the Audit has essentially come to an end.

Currently there are approximately 3,300 accounts that are billed appropriately as "water-only" with no sewer surcharge being applied; down from the roughly 4,450 accounts that were "water-only" in April 2008.

As previously noted, staff are confident that processes are in place to ensure that future sewer connections completed with required permits will result in related user fees being applied. However, the reality is that sewer connections may occur without permits being obtained and thus, the related user fee billing may not be commenced upon connection. Consequently, similar future audits may need to occur from time in time as a matter of due diligence and ensure fairness and equity is maintained so that all City water/wastewater users contribute to a sustainable system.

The significant efforts of City staff from Public Works and Corporate Services, as well as, staff at Horizon should be duly noted.