

**Performance Audit  
Stormwater Fee Billing**

November 2007

**City Auditor's Office**

**City of Kansas City, Missouri**

November 28, 2007

Honorable Mayor and Members of the City Council:

The Water Services Department is forfeiting revenue through inconsistent stormwater billing and collection practices and errors in setting up and maintaining accounts. Moreover, some billing practices are inconsistent with city ordinances and other regulations. Stormwater fees are a major revenue source for the city's stormwater management program, and accurate and consistent billing and collection practices are vital.

It sometimes takes years after construction is completed before the city begins assessing stormwater fees on new commercial properties. Collection efforts vary depending on account types, and some city-owned properties have delinquent stormwater accounts. We identified errors in some of the stormwater accounts we tested including credits exceeding the maximum allowable amount, multiple accounts billed for a single parcel, and errors in updating account information.

While city code states that property owners are responsible for paying stormwater fees, the city's practice is to bill stormwater fees to whomever sets up a water account, whether the person is an owner or a renter. Water Services did not assess a penalty fee to all delinquent accounts and is not billing all properties with impervious areas. We also identified that the city charged sales tax on some domestic water accounts which may be subject to the domestic use exemption.

Two divisions are responsible for different aspects of the billing process making accountability for accuracy and timeliness unclear. There is not an up-to-date policy and procedures manual for stormwater billing. Water Services management has not established clear goals or performance targets for stormwater billing and collections, and staff does not regularly analyze and report on billing and collection issues.

We make recommendations intended to increase timeliness and accuracy of stormwater billing; promote billing and collection consistency between account types; improve management controls and accountability; and ensure that the Water Services Department complies with city ordinances and other regulations.

We shared a draft report with the director of Water Services on October 17, 2007. We also met with the directors of Parks and Recreation, City Planning and Development, and Information Technology to share

recommendations directed to them. The directors of City Planning and Development and Information Technology did not provide a formal response but agreed with the recommendations directed to them. The directors of Water Services' and Parks and Recreation's responses are appended. We appreciate the courtesy and cooperation of the Water Services staff during this audit. The audit team for this project was Julia Talauliker and Deborah Jenkins.

Gary White  
City Auditor

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# Stormwater Fee Billing

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## Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Legislative Authority	2
Stormwater Fees Support Stormwater Management System	2
Findings and Recommendations	5
Summary	5
Inconsistent and Error-Prone Stormwater Billing Practices Forfeit Revenue	6
Stormwater Billing Practices Are Inconsistent and Forfeit Revenue	6
Tests Found Errors in Handling Customer Accounts	10
Changing Property Ownership in Billing System Is Complicated and Error Prone, and Can Take Months	12
Systematically Updating Property Ownership Information Could Improve Billing Accuracy	14
Billing Practices Inconsistent With Ordinances and Regulations	15
Charging Tenants For Stormwater Is Inconsistent With City Code	15
Water Services Did Not Apply Penalties to All Delinquent Accounts	15
Water Services Does Not Bill All Properties with Impervious Area	16
State Law Exempts Water Service for Domestic Use from Sales Tax	16
Practices Related to Parks and Recreation Accounts Are Obscure	16
Consolidation, Management Oversight and Controls Could Improve Billing	17
Consolidating Billing Operations Would Improve Accountability	17
Stormwater Billing Needs Formal Policies and Procedures, Clear Program Goals, and Measurable Objectives	18
Billing Issues Should Be Analyzed and Reported Regularly	19
Recommendations	20
Appendices	
Appendix A: Director of Water Services' Response	23
Appendix B: Director of Parks and Recreation's Response	29

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## List of Exhibits

Exhibit 1. Factors that Complicate Changing Property Ownership in Billing System	13
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## Introduction

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### Objectives

We conducted this audit of stormwater fee billing pursuant to Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.<sup>1</sup>

This report is designed to answer the following question:

- Is Water Services billing property owners the correct stormwater fee?

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### Scope and Methodology

Our review focused on the accuracy and timeliness of stormwater billing and compliance with city code requirements and department procedures. Our methods included:

- Interviewing staff from the Water Services Department.
- Reviewing billing records, customer account files, and supporting documentation.
- Analyzing data from the Banner<sup>2</sup> billing system.
- Reviewing city code requirements, state statutes, and other literature pertaining to billing for stormwater fees.

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.

<sup>2</sup> Banner is the system used by Water Services to bill customers for water, sewer, and stormwater fees.

We conducted this audit in accordance with generally accepted government auditing standards. No information was omitted from this report because it was deemed privileged or confidential.

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## **Background**

Stormwater is rain or melted snow that does not soak into the ground. It flows from hard surfaces that cannot absorb water such as buildings, sidewalks, streets, driveways, patios, and parking lots. As it flows, it picks up and carries soil, pet waste, pesticides, fertilizer, motor oil and solvents, debris, and other pollutants that are on the ground and carries them directly, or through drainage systems, into nearby lakes and rivers. These pollutants harm the quality of water making it unsafe for recreational use and threatening the health of fish. In addition to pollution, stormwater runoff can contribute to flooding problems.

The Stormwater Division in the Water Services Department oversees stormwater management and stormwater billing. It addresses the requirements of the Federal Clean Water Act and the Missouri Clean Water Law. It works with other city departments and residents to minimize stormwater pollution, and develops plans to help deal with drainage and flooding problems throughout the city.

### **Legislative Authority**

The charter establishes the Water Services Department and section 414 authorizes the Water Services director to build, operate, maintain, and improve a system of stormwater collection and protection.

Chapter 61 of the Code of Ordinances establishes the Water Services Department's control of and responsibility for storm sewers in the city and authorizes the city to charge stormwater fees.<sup>3</sup>

### **Stormwater Fees Support Stormwater Management System**

Stormwater fees are a major source of revenue for the Stormwater Division, bringing in approximately \$8 million a year. The stormwater fee was instituted in 1992 and was based on customer class (i.e. residential, commercial, industrial). In November 1998, voters approved a revision to the structure of the stormwater fee, which based it upon the amount of runoff surface (impervious surfaces that cannot absorb water or snow melt) on the property. The amount of runoff surface is measured

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<sup>3</sup> Code of Ordinances, Kansas City, Missouri, Sec. 61-4.

by runoff units.<sup>4</sup> The stormwater fee is \$0.50 per 500 square feet (one runoff unit) per month, with a maximum monthly fee of \$1,000.<sup>5</sup> Stormwater billing currently relies on data from flyover photographs and mapping of parcels and structures in the city's geographic information system (GIS) to determine the size of impervious area on property.

A typical residential stormwater fee is around \$3.00 per month. In most cases, stormwater fees are included on the customer's bi-monthly water and sanitary sewer bill. In some cases, however, customers receive a stormwater-only bill.<sup>6</sup>

The city must hold revenue from stormwater fees in a separate account and can use it only to:

- fund the administration, management, operation and maintenance, planning, and engineering of the stormwater system;
- pay for construction, reconstruction, enlargement, maintenance, and replacement of the stormwater system;
- purchase land necessary for the stormwater system;
- pay off bonds issued by the city to finance any sewer system improvements.<sup>7</sup>

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<sup>4</sup> One runoff unit is 500 square feet of runoff surface. Portions of a runoff unit are rounded up to the next highest runoff unit when the portion is 0.5 runoff unit or greater.

<sup>5</sup> Code of Ordinances, Kansas City, Missouri, Sec. 61-4.

<sup>6</sup> A customer may receive a stormwater-only bill either because there is no water service on the parcel, or because he or she owns multiple structures on one or more parcels.

<sup>7</sup> Code of Ordinances, Kansas City, Missouri, Sec. 61-5.

*Stormwater Fee Billing*

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## Findings and Recommendations

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### Summary

The Water Services Department is forfeiting revenue through inconsistent stormwater billing and collection practices, and errors in setting up and maintaining accounts. It can be years after construction is completed before Water Services begins stormwater billing on new commercial properties resulting in lost revenue. Water Services could reduce revenue loss by seeking voter approval to allow estimating the runoff surface for new commercial properties as it does for new residential properties. This would allow initiating stormwater billing soon after construction is completed for commercial properties, making it more equitable. Using a consistent event, such as the issuance of a certificate of occupancy, to trigger the initiation of stormwater billing would also improve consistency and reduce loss of revenue.

Currently there is no way to systematically update property ownership data in the Water Services billing system. Identifying property ownership changes and correcting that data in the system is complicated, error prone, and can take months or even years as Water Services staff rely on returned mail and customers for notification of these changes. These situations are currently handled on a case-by-case basis. While property ownership data in the city's KIVA system is not perfect, using it to systematically update the Water Services billing system could help ensure that bills go to the current owners.

We identified discrepancies in some stormwater accounts including credits that exceeded the maximum allowable amount, multiple accounts being billed for a single parcel, and errors in updating billing information in accounts. We also found that the city was not assessing a penalty fee to all delinquent accounts. In addition, some accounts for city-owned properties were delinquent.

Water Services practices are out of compliance with some city ordinances. Although city code specifies property owners are responsible for paying stormwater fees, the city's practice is to bill stormwater fees to whomever sets up a water account, whether the person is the owner or a renter. Water Services should either charge stormwater fees to the owners of residential rental property or change the ordinance to reflect the current practice of charging tenants.

Also, city code does not give exemptions from stormwater fees to certain properties, like roadways and streets, and does not exempt city departments from paying stormwater fees on city-owned property. Currently Water Services is not billing all properties with impervious areas and does not charge Parks and Recreation for stormwater. Water Services should either charge stormwater fees without exemptions or amend the code to reflect the current practice. Water Services also was charging sales tax on some domestic water accounts which may have been subject to the domestic use exemption.

Water Services should establish formal policies and procedures and set goals and performance targets for stormwater billing. Water Services should exercise stronger management oversight and employ controls designed to improve the accuracy and timeliness of billing and resolution of collection problems. Two divisions within Water Services are responsible for different elements of the billing process making it unclear which one is ultimately accountable for ensuring stormwater billing is accurate and timely. Water Services should consolidate responsibility for stormwater billing under the Consumer Services Division since it oversees the billing system and is accountable for all other account types.

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## **Inconsistent and Error-Prone Stormwater Billing Practices Forfeit Revenue**

Not all stormwater accounts are treated the same and some billing practices unnecessarily forfeit stormwater revenues to the city. The Water Services Department does not bill new commercial properties sometimes for years, while new residential properties are billed much sooner. Collection efforts are inconsistent among account types, not all impervious areas in the city are billed for stormwater, and some city-owned properties are delinquent on stormwater bills. We identified various errors in handling customer accounts. There is no process to systematically update property ownership information in the billing system. Property ownership information is updated on a case-by-case basis when Stormwater staff learns about an ownership change. In addition, changes in property ownership can take several years to discover, posing a challenge to revenue collections.

### **Stormwater Billing Practices Are Inconsistent and Forfeit Revenue**

The current billing practices for stormwater fees are inconsistent, as various types of accounts are treated differently. The city is forgoing revenues by not billing sooner, waiting sometimes years to bill new commercial property, and not collecting stormwater fees when rental

properties become vacant. The city also has not consistently collected revenues from city-owned properties.

**Stormwater fees are not charged until newly constructed property is occupied.** Therefore, it can be months, even years, before Water Services begins collecting stormwater fees on new impervious areas. We sampled newly constructed properties that had been issued a new water permit in 2005 and 2006. We found that it took eight to 26 months from the time the city issued a water permit to bill the first stormwater fee for properties for which stormwater service was set up. While builders are charged for water usage during construction, the city does not charge them for stormwater fees even after structures and other impervious areas are created.

**The city waits to bill for stormwater until parcels can be mapped and the actual run-off surface is determined, which can take several years.** Based on the current practice, Water Services cannot bill the customer a stormwater fee until Information Technology maps the parcels in the GIS system. Currently, mapping parcels in the GIS system is lagging behind actual events. Sometimes structures are built before a parcel appears in the GIS map. Delaying billing until parcels can be mapped is inefficient and forgoes revenue.

For new commercial property, the department waits for flyover photographic data<sup>8</sup> to determine actual runoff surface. This can take several years, during which the city forfeits stormwater revenue<sup>9</sup> In addition, no back charges are sought once the flyover data is received. Water Services staff told us that the ordinance does not give them the authority to estimate runoff for commercial properties and that estimating runoff surface for new commercial property is difficult. Commercial buildings vary in size and the Stormwater Division does not always receive information, such as building plans, which could help them estimate the runoff surface.

Estimating runoff surface for all properties would allow billing for stormwater sooner because it would avoid the delays caused by waiting until parcels can be mapped in the city's GIS system and actual runoff surface can be determined. The city reviews and approves plans for proposed construction before issuing a building permit. The plans

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<sup>8</sup> Flyover data that the city receives every two years allows staff in Water Services to map structures for each property within the city limits in the GIS system. The system provides square footage for each geometric shape that represents houses, driveways, patios, and other impervious areas.

<sup>9</sup> As flyover data gets updated infrequently, data available for some parts of the city (e.g. farmland areas north of the Kansas City International Airport) is from 2000. All areas of the city should be converted to a two-year cycle in 2008.

contain dimensions of structures and other impervious surfaces, such as parking areas, and could help Water Services estimate the amount of runoff surface for new properties. The checklist the city requires to be submitted with the plans could be amended to require property owner information on all permit applications.<sup>10</sup> By estimating runoff surface from the plans and having property owner information on the checklist, Water Services could begin billing for stormwater sooner.

The director of Water Services should seek voter approval to amend the ordinance to allow Water Services to estimate impervious surface for new commercial property so that stormwater billing could begin sooner.

**City Will Not Bill New Wal-Mart Store Until 2009**

According to Stormwater staff, the new Wal-Mart store built on the site of the former Blue Ridge Mall will not be billed for stormwater until August 2009 when a new set of flyover data becomes available. Although the new store was completed in 2006 and opened in 2007, the city waits to begin billing for stormwater on new commercial property until the actual runoff surface is available.

When the flyover data becomes available in 2009, the Wal-Mart store will be charged for stormwater only from the point when the flyover data is available and the actual runoff surface is known. No back charges will be billed. Assuming that the runoff surface of the new store is similar to other Wal-Mart stores in this area, the city is forgoing at least \$8,000 a year for approximately three years for this property.

**In contrast to new commercial property, the city can begin billing stormwater fees on new residential property as soon as a customer sets up a water account.** If actual runoff surface is not available for a residential address when a water account is set up, Stormwater staff will bill based on an estimated runoff surface. The staff applies charges based on an estimated 2,000 square feet of runoff surface, a fee of about \$2 a month. The fee amount can change once information based on flyover photographs determines actual runoff surface on the residential property.

**A consistent event should trigger the creation of a stormwater account for all new construction regardless of whether it is residential or commercial property.** A certificate of occupancy is

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<sup>10</sup> Building Permit Plans Submittal Information Bulletin No. 110 – Part A. Currently, the checklist requires property owner information only if the property is located in a floodplain.

issued by City Planning and Development as permission to enter and occupy a newly built or renovated structure after inspection has established compliance with the city's building code. At this point the structure is fully constructed and has an impervious area.

When the ordinance is amended to allow Water Services to estimate impervious surface for new commercial property, the director of Water Services should direct staff to work with the City Planning and Development department to identify a consistent event, and use it to start stormwater billing for all new structures.

**The Water Services Department treats residential rental properties differently than owner-occupied properties.** Water Services does not bill stormwater fees on vacant residential rental properties. When a tenant moves out and the water account is closed, no stormwater fees are billed until another tenant moves in and sets up a new water account. This practice creates gaps in stormwater billing for rental properties, and the city loses revenue.

In contrast, Water Services avoids billing gaps on owner-occupied residential property that changes ownership. While it can take several months to get property owner records updated in the billing system when property is sold, once the new property owner is identified, he or she is billed all stormwater fees back to the time the property changed ownership.

**Collection efforts are inconsistent between account types.** Water Services does not pursue payment for delinquent stormwater-only accounts as vigorously as it pursues payment for delinquent combined accounts. In the fall of 2006, there were almost 400 past-due stormwater-only accounts with a balance of \$500 or more, totaling about \$1.1 million.

Water Services has the authority to take action against customers whose accounts become delinquent. The department has consistently turned off water service and initiated collection cases on customers receiving a combined bill. Since a stormwater-only account is not linked to a water service that can be turned off, filing a lien against the property is the last collection option. Water Services, however, has not initiated collection cases against delinquent stormwater-only accounts. In May of 2007 stormwater staff told us they had sent letters requesting payment to delinquent accounts with balances over \$500.

**Some city-owned properties are delinquent on stormwater bills.**

Most city-owned properties are also charged a stormwater fee. Until 2006, Water Services did not keep track of which city departments were responsible for which properties. They sent all stormwater bills to City Hall, and many accounts remained unpaid. Staff told us they have identified properties by department and now can charge the individual departments responsible for the parcel. They said they hoped to have all city accounts corrected and without delinquency by the end of January 2007. In April of 2007, however, we still identified city accounts that had past due balances.

The director of Water Services should direct staff to take additional steps to collect outstanding balances on delinquent stormwater accounts, including delinquent bills for city-owned property.

**Tests Found Errors in Handling Customer Accounts**

We reviewed samples of accounts from the Banner billing system. We found that some services had been assigned to the wrong parcels, duplicate accounts were being billed for stormwater on a single parcel, and errors were made when correcting billing issues. We also found some accounts with credits that exceeded the maximum allowable amount. Credits were also given to accounts that did not qualify.

**Some services were assigned to wrong parcels or to parcels without runoff surface.** We found parcels with active water and sewer services that were not being billed for stormwater. We assumed if a parcel had active water and sewer services, it must have a structure and should be billed for stormwater. We picked a sample of these parcels and asked staff to explain why stormwater fees were not being billed. Out of the seven parcels we asked about, staff found errors in five. Either the accounts should not have active water and sewer service because no structures exist on the parcels, or the services had been assigned to the wrong parcel.

**Errors resulted in multiple stormwater accounts being billed for a single parcel.** We found examples where stormwater fees for a single parcel were incorrectly being billed to multiple customer accounts. Although a parcel can have multiple structures and therefore multiple customers associated with it (e.g. an apartment complex), only one customer, the property owner, should be billed the stormwater fee on that parcel. Staff explained that when Water Services began setting up accounts in the new billing system, they mistakenly assigned stormwater service to every new customer account added to a parcel, creating

duplicate stormwater accounts. Stormwater staff has been identifying duplicate accounts and fixing the issues.

**Errors were made in attempts to correct duplicate accounts and some valid accounts were deactivated.** We looked at a sample of accounts with a second stormwater service, some of which staff had attempted to correct and found there were still some problems. We found cases where staff deactivated stormwater fees from one account to correct a mistake but did not verify that the account responsible for the fees was set up accurately, resulting in no one being charged stormwater fees on that parcel. Although staff has attempted to correct duplicate accounts, we still found cases where two customers were being billed for stormwater on the same parcel. We also found that, in attempts to correct duplicate accounts, staff mistakenly removed stormwater fees from some parcels that should not have been removed.

**Some credits exceeded the maximum allowable amount and credits were given to accounts that did not qualify.** We reviewed a sample of 16 accounts with credits and found that three of the accounts were given an 80 percent credit rate, exceeding the maximum allowable limit of 75 percent.<sup>11</sup> After we told Stormwater staff what we found, they reviewed stormwater accounts with ratio credits of 75 percent or greater and made corrections. Staff told us that they also identified and corrected 96 active accounts that did not qualify for a credit but were receiving one. We did not investigate why nonqualified accounts were given credits.

According to city code, properties with large pervious surfaces that help absorb runoff will receive a ratio credit<sup>12</sup> and properties with a stormwater detention structure<sup>13</sup> will receive a detention credit.<sup>14</sup> While there is an application process for customers seeking a detention credit, a ratio credit is given only if a customer calls or if staff discovers that an account qualifies.

The director of Water Services should take measures to educate consumers about possible credits; establish a consistent credit application process; and minimize the risk that unqualified customers receive a credit or credit amounts exceed allowable limits.

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<sup>11</sup> Code of Ordinances, Kansas City, Missouri, Sec. 61-4.

<sup>12</sup> If the ratio of the total property area to the runoff surface is at least 30:1, such property can qualify for a ratio credit.

<sup>13</sup> Stormwater detention structures reduce the peak flow of and runoff volume of stormwater from a drainage area, thereby reducing flooding and erosion downstream.

<sup>14</sup> Code of Ordinances, Kansas City, Missouri, Sec. 61-4.

### **Changing Property Ownership in Billing System Is Complicated and Error Prone, and Can Take Months**

Changing property ownership information in the billing system requires staff in two different divisions within Water Services accurately complete several steps. When staff learn property ownership has changed and the billing information needs to be updated, the account is removed from the regular billing system until staff identifies the new owner. It can take months before the next customer is billed and errors in completing the transfer to the next customer are common. We found errors were made in updating ownership information, some of which allowed billing of the former customer to resume. Staff frequently told us that some discrepancies were due to staff error.

**Accounts can be suspended for months before the new property owner is identified and billed.** When Stormwater staff learns that property ownership has changed and billing information needs to be updated, the existing customer account is removed from a regular billing cycle. Billing is suspended until staff identifies the new owner by researching county records. About half of the accounts in one of the samples we reviewed were suspended from billing for over six months, and we found some accounts that had a billing gap of more than a year due to changes in property ownership. Suspending regular billing accumulates balances, and customers receiving a large bill are likely to be dissatisfied and might not be willing to pay the accumulated charges.

**Errors were made in attempts to update ownership information.** To understand how ownership information is changed in the billing system, we reviewed samples of stormwater-only accounts that staff had suspended from billing. When change in ownership occurs, staff removes the customer account from the billing cycle until the new owner is identified. In 25 of the 38 such accounts we looked at, we found that the ownership changes were not fully and accurately updated resulting in no stormwater fees being billed. When we asked staff what caused these accounts to be suspended for extended periods or why no customer was being billed the stormwater fee, they told us some of the problems were due to staff error but could not explain the others.

In the fall of 2006 more than 6,000 (3.7%) active accounts were suspended from billing for issues like ownership changes or verification of runoff surface.

We also found errors in updating ownership information that allowed billing of former customers to resume. When we observed staff making adjustments to accounts due to ownership changes, we identified

accounts that received bills after final charges were calculated. If an old account is not inactivated after the final charges are calculated, the former customer can be billed again.

**The current process for updating billing information is complicated.**

Changing property ownership involves several steps and two different divisions within Water Services. (See Exhibit 1.) All steps must be completed accurately to ensure that stormwater service is transferred to the new customer and that the new customer gets a bill. When reviewing accounts, we found evidence that delays and errors can occur at each step of the process. The director of Water Services should direct staff to review the process for changing ownership information in the billing system and introduce controls to ensure changes are more prompt and accurate.

Exhibit 1. Factors that Complicate Changing Property Ownership in Billing System

Steps Required	Factors That Complicate Process
Customer calls or Water Services learns through returned mail that current customer no longer owns the parcel.	Finding when property was sold could be challenging, delaying the process: <ul style="list-style-type: none"> <li>• Customer might not call</li> <li>• No mail returned</li> <li>• No updated ownership data available</li> </ul>
Stormwater staff suspends customer account from billing while researching sale of property.	Account might be out of billing cycle for extended period of time while sale is confirmed. Former customer no longer gets billed while new customer might not be known yet.
Stormwater staff requests that Water Consumer Services make an adjustment to charges and sends the final bill/refund to the customer.	Adjustment request might not go through, delaying the process. Chances of collecting an outstanding balance from the former customer are reduced.
Water Consumer Services notifies Stormwater staff that adjustment has been made.	Inadequate communication can cause the old account to be billed again. If notice is not received by Stormwater staff, the former customer's account would remain active and regular billing will resume, requiring a new adjustment. Inadequate communication can also result in no new account being set up.
Stormwater staff removes former customer from the parcel and sets up a new customer for billing.	A duplicate customer account can be created. New customer might have other accounts in the system.
Stormwater staff activates new customer account so billing can resume.	New customer account might not be activated correctly to begin billing or runoff surface might not be available for the new customer. If this occurs, no customer is billed a stormwater fee.

### **Systematically Updating Property Ownership Information Could Improve Billing Accuracy**

Parcel ownership data in the billing system becomes outdated without periodically updating all accounts. Depending only on customers and returned mail to learn that property ownership has changed is unreliable and cannot identify all instances of ownership change. Many years can go by before a property ownership change will be discovered and corrected. By systematically updating ownership information in the billing system through KIVA, the Water Services Department can improve the chances that the bill will go to the current owner.

**No process exists to systematically update ownership information in Water Services' billing system.** The ownership information in the Banner billing system is updated only on a case-by-case basis, when Stormwater staff learns about an ownership change either through the customer or through returned mail. When staff learns about the change, they research county records and KIVA,<sup>15</sup> the city's repository of property ownership data, to update ownership information. It can take Stormwater staff up to several years to discover who the current owner of the parcel is. We reviewed a sample of accounts for which Stormwater staff updated ownership information in the billing system in 2006. We found that, for some, ownership had actually changed several years ago. Staff told us it is not uncommon to have to make adjustments to accounts due to property ownership changes that happened many years back – as far back as 1999.

**While current ownership information available to the city is not perfect, it could be used to periodically update the Water Services billing system.** The Banner billing system should be updated regularly to ensure that ownership information for all records are kept current, not just ones discovered by Stormwater staff. KIVA is the city's repository of property ownership data received periodically from the counties. The lag between when the property is sold and when it gets reflected in KIVA is only a few months to a year. By systematically updating ownership information in the billing system through KIVA, the Water Services Department can improve the chances that the bill will go to the current owner.

The directors of Water Services and Information Technology should direct staff to work together to develop a systematic process for updating ownership data in the billing system.

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<sup>15</sup> KIVA is the citywide land and permitting information system.

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## **Billing Practices Inconsistent With Ordinances and Regulations**

Current billing practices for stormwater fees do not comply with existing city ordinances. The current ordinances give no authority to collect the stormwater fee from tenants, a practice currently followed by Water Services. City ordinance does not exempt any agencies from paying stormwater fees nor does it exempt government agencies from penalties; however, Water Services does not charge the Parks and Recreation Department for stormwater and has not assessed late fees to government agencies with delinquent accounts. Water Services also collected sales tax on domestic water service, which may be inconsistent with state law.

### **Charging Tenants For Stormwater Is Inconsistent With City Code**

Water Services charges tenants, not property owners, a stormwater fee without authority to do so. City code states that property owners are responsible for paying stormwater fees.<sup>16</sup> However, the city's practice is to bill stormwater fees to whomever sets up a water account, whether the person is an owner or a renter. Water Services staff told us that combining the stormwater fee with the water bill for rental properties is done with the assumption that an owner is likely to pass the fee to the tenant anyway. Staff also told us that billing tenants for stormwater gives Water Services more leverage to collect past due balances on a combined account as the water can be turned off if the customer does not pay the stormwater fee on the combined bill. Water Services has not recorded property ownership information for rental property in the Banner system, and staff cannot currently distinguish between renters and owners.

The director of Water Services should direct staff to collect and record property ownership information in the Banner billing system and issue a separate stormwater bill to the owner of rental property, or seek voter approval to amend the ordinance to conform to the existing practice.

### **Water Services Did Not Apply Penalties to All Delinquent Accounts**

We reviewed a sample of 30 past-due accounts to identify how consistently Water Services applied penalties for late payment or nonpayment. We found that all non-government accounts in the sample were assessed a penalty fee of five percent on delinquent charges as required by city ordinance.<sup>17</sup> However, we found that government

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<sup>16</sup> Code of Ordinances, Kansas City, Missouri, Sec. 61-3.

<sup>17</sup> Code of Ordinances, Kansas City, Missouri, Sec 78-14.

agencies were not consistently penalized. Water Services staff told us that government agencies are exempt from the penalties applied to delinquent stormwater accounts. Staff could not identify an ordinance, written policy, or regulation that supports this practice. Staff also could not explain why some government accounts in our sample had been assessed late fees since their practice is to exempt them.

In June, 2007, Water Services staff told us that they have corrected this situation so that governmental accounts will now be charged penalties and interest on delinquent accounts.

### **Water Services Does Not Bill All Properties with Impervious Area**

The city only bills parcels, portions of land defined by a boundary inside of which certain assigned rights apply regarding occupancy and its use, for stormwater. Impervious areas in right-of-ways, such as roads or railways, not defined by individual tracts of land, do not get charged a stormwater fee. Stormwater staff told us that the counties do not maintain ownership information on properties like rail roads. The city ordinance,<sup>18</sup> however, does not contain exclusions for any properties; every property owner should be assessed a stormwater fee based on amount of runoff surface.

The director of Water Services should seek voter approval to amend the ordinance to clarify which, if any, properties with impervious surfaces are exempt from stormwater fees or direct staff to take necessary steps to identify and bill every property with an impervious area.

### **State Law Exempts Water Service for Domestic Use from Sales Tax**

Although some water accounts are subject to state sales taxes, a state law exempts water service for domestic use from such taxation. When reviewing a sample of accounts in the billing system, we identified that the city charged a sales tax on some apartment and condominium accounts which may have been subject to the domestic use exemption. The director of Water Services should ensure that when staff learns a customer's water service is for domestic use, the sales tax is not charged on the account.

### **Practices Related to Parks and Recreation Accounts Are Obscure**

An interdepartmental agreement exempts the Parks and Recreation Department from water and sewer charges for their non-revenue supported facilities. City code, however, states that water furnished to

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<sup>18</sup> Code of Ordinances, Kansas City, Missouri, Sec 61-3.

departments and offices for use in the service of city buildings, parks, swimming pools, fountains, or other public properties shall be subject to all charges for water and water service.<sup>19</sup> Also, no language in the existing agreement exempts the Parks Department from paying a stormwater fee.

When reviewing customer accounts in the billing system, we identified stormwater accounts for Parks and Recreation with no evidence of payment in the new billing system. We found that Water Services adjusted these accounts to remove all past charges in 2006, however these accounts continue accumulating new stormwater charges. The directors of the Water Services and Parks and Recreation departments should work together to ensure that the interdepartmental agreement complies with current city code provisions and resolve how stormwater fees should be handled.

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## **Consolidation, Management Oversight and Controls Could Improve Billing**

It is unclear which division in Water Services is ultimately accountable for ensuring that stormwater billing is accurate and timely because two divisions are responsible for different elements of the process. We identified errors resulting from inadequate communication between the divisions. Water Services management can improve stormwater billing by consolidating billing responsibility; establishing formal policies and procedures, and goals and performance targets; and by requiring regular analysis and reporting of stormwater billing issues. Establishing such controls should help the department routinely identify and resolve billing and collection problems and improve customer service.

### **Consolidating Billing Operations Would Improve Accountability**

It is unclear which division is ultimately responsible for ensuring stormwater billing is accurate and timely. Two divisions within Water Services oversee billing for various accounts – the Stormwater Division which is in the Engineering Business Unit of Water Services, and the Consumer Services Division which is in the Financial/Business Support Unit. The Stormwater Division is responsible for creating and maintaining stormwater account information and handling customer questions. The Consumer Services Division is responsible for creating and maintaining water and sewer account information and for billing and collections for all water services, including stormwater. Staff can answer basic questions about stormwater billing, but refer customers with

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<sup>19</sup> Code of Ordinances, Kansas City, Missouri, Sec. 78-32.

questions about run-off surface and change of address to the Stormwater Division staff.

Staff from the Consumer Services and Stormwater divisions do not have an efficient way to communicate with each other about accounts. The existing billing process requires constant communication among the two divisions to ensure that billing is accurate and timely. Staff, however, do not meet on a regular basis to discuss issues, exchange information, or clarify responsibilities. We identified errors and inefficiencies resulting from inadequate communication between the divisions. The Consumer Services Division staff uses the electronic work queue tool in the Banner billing system to assign tasks and track the status of those assignments. Stormwater staff do not have access to this communication tool which could help them more easily track the status of adjustments they ask Consumer Services staff to make. Having a single division responsible for all elements of billing operations could address some communication problems.

The Stormwater Division's reliance on temporary employees has limited staff competence and accountability. Except for one permanent position to oversee stormwater billing activities, Water Services used temporary and contract employees since the inception of the stormwater fee in 1992 until recently. Some of the employees hired through temporary agencies were prohibited from working in the position for more than six months resulting in high turnover and constant training. Water Services told us they recently changed these positions to "limited-term merit" status, which allows 3-year contracts. Consolidating billing operations under the Consumer Services Division and having city staff oversee all customer accounts can improve billing accuracy and customer service.

The director of Water Services should include responsibility for stormwater billing under the Consumer Services Division since it oversees the billing system and is accountable for all other account types, and since most stormwater charges appear on the combined bill along with the other fees.

### **Stormwater Billing Needs Formal Policies and Procedures, Clear Program Goals, and Measurable Objectives**

Water Services needs comprehensive up-to-date policies and procedures and performance targets for stormwater billing. The set of procedures Stormwater staff gave us was incomplete and did not address important aspects of billing such as when a separate stormwater service should be created; when a customer can have two stormwater services; or how to verify that the correct customer is billed and the account is billed

regularly. Stormwater staff told us that they were working on updating the procedure manual. Stormwater Division management told us that staff relies on the city code to make operating decisions. Although the code outlines how the fee is determined, the amount of stormwater fee, and some billing procedures, it does not address all aspects of the billing process.

Staff in the stormwater billing section currently operates without clear program goals or performance targets. For example, staff has no goals on number of customer complaints addressed within a certain time frame, as well as no goals on limiting the number of accounts out of the billing cycle or how long accounts can remain unbilled.

The director of Water Services should improve controls by establishing formal billing policies and procedures as well as clear goals and measurable objectives for stormwater billing and collections.

#### **Billing Issues Should Be Analyzed and Reported Regularly**

Water Services does not consistently analyze and report on stormwater billing and collection issues. Water Services resolves stormwater billing issues on a case-by-case basis, rather than through consistent analysis of all stormwater billing accounts. The Stormwater Division has not routinely analyzed stormwater accounts that have not been recently billed, accounts that have been removed from the billing cycle for adjustments, or accounts with large balances.

The director of Water Services should require additional analysis and regular performance reporting to help identify and resolve stormwater billing and collection problems and improve customer service.

## **Recommendations**

1. The director of Water Services should seek voter approval to amend the ordinance to allow Water Services to estimate impervious surface for new commercial property so that stormwater billing could begin sooner.
2. The director of Water Services should direct staff to work with the City Planning and Development department to identify a consistent event, and use it to start stormwater billing for all new structures.
3. The director of Water Services should direct staff to take additional steps to collect outstanding balances on delinquent stormwater accounts, including delinquent bills for city-owned property.
4. The director of Water Services should take measures to educate consumers about possible credits; establish a consistent credit application process; and minimize the risk that unqualified customers receive a credit or credit amounts exceed allowable limits.
5. The director of Water Services should direct staff to review the process for changing ownership information in the billing system and introduce controls to ensure changes are more prompt and accurate.
6. The directors of Water Services and Information Technology should direct staff to work together to develop a systematic process for updating ownership data in the billing system.
7. The director of Water Services should direct staff to collect and record property ownership information in the Banner billing system and issue a separate stormwater bill to the owner of rental property, or seek voter approval to amend the ordinance to conform to the existing practice.
8. The director of Water Services should seek voter approval to amend the ordinance to clarify which, if any, properties with impervious surfaces are exempt from stormwater fees or direct staff to take necessary steps to identify and bill every property with an impervious area.
9. The director of Water Services should ensure that when staff learns a customer's water service is for domestic use, the sales tax is not charged on the account.
10. The directors of Water Services and Parks and Recreation should work together to ensure that their interdepartmental agreement

complies with current city code provisions and resolve how stormwater fees should be handled.

11. The director of Water Services should include responsibility for stormwater billing under the Consumer Services Division since it oversees the billing system and is accountable for all other account types.
12. The director of Water Services should improve controls by establishing formal billing policies and procedures as well as clear goals and measurable objectives for stormwater billing and collections.
13. The director of Water Services should require additional analysis and regular performance reporting to help identify and resolve stormwater billing and collection problems and improve customer service.

*Stormwater Fee Billing*

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## **Appendix A**

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### **Director of Water Services' Response**

*Stormwater Fee Billing*



## Inter-Departmental Communication

DATE: November 15, 2007

TO: Gary White, City Auditor

FROM: Frank Pogge, Director of Water Services

SUBJECT: Stormwater Billing

We appreciate the opportunity to respond to the City Auditor's Office audit of Stormwater Billing. Based on the work of the auditor's as well as our own staff, we understand considerable improvements to our stormwater billing are needed. We have implemented or are working on implementing some of the changes already and we will continue to make these improvements to this area. We would like to point out that although billing based on impervious surface is one of the most equitable methods for billing stormwater services, it is also one of the most difficult and complex to apply. One small example is condominiums. Condominium developments often include common areas that are charged to all owners within the development. Unfortunately the flyover normally used to identify impervious areas cannot indicate where private areas of the condominium development end and where common areas begin. This can only be determined by reviewing the covenants of the particular condominium association. The stormwater section addressed each of these complex issues and correctly billed these types of customers.

Stormwater billing based on impervious surface started less than 8 years ago. Since then the Water Services Department has implemented a system to capture data, determine impervious area, create the fee and charge that fee for over 150,000 accounts. This has proven to be a considerable challenge. Many complex issues as indicated above and throughout the audit were not specifically identified or considered when the enabling ordinance was passed by the voters of Kansas City. Nevertheless, we agree that significant improvements can and will be made to the program. We will address each recommendation;

1. *The director of Water Services should seek voter approval to amend the ordinance to allow Water Services to estimate impervious surface for new commercial property so that stormwater billing could begin sooner.*

### **Agree**

The Water Services Department agrees to take the necessary steps to seek voter approval to amend the ordinance so that Water Services can bill new commercial property sooner. This could include reviewing ways to estimate impervious surface based on approved plans.

2. *The director of Water Services should direct staff to work with the City Planning and Development department to identify a consistent event, and use it to start stormwater billing for all new structures.*

### **Agree**

We believe that determining a consistent event that is fair and equitable to all parties involved is an appropriate course of action. Currently, we try to apply the fee in a fair and equitable manner using many different mechanisms including occupancy permits. Water Services will work with

the City Planning and Development to try and determine the most consistent and fair methodology to start stormwater billing for all new structures.

- 3. The director of Water Services should direct staff to take additional steps to collect outstanding balances on delinquent stormwater accounts, including delinquent bills for city-owned property.*

**Agree in progress**

The Water Services Department agrees that is necessary to take additional steps to collect all stormwater balances. Water Services has started sending out additional notification of stormwater delinquencies. We will consider filing lawsuits based on the outcomes of these other steps. To that end, the Law Department has been instrumental in helping us establish a process for filing lawsuits that we have implemented within the last year.

- 4. The director of Water Services should take measures to educate consumers about possible credits; establish a consistent credit application process; and minimize the risk that unqualified customers receive a credit or credit amounts exceed allowable limits.*

**Agree**

We will start including inserts in the water bill that include information regarding possible stormwater credits. We will also look at other ways to educate the public about the credits. We are also reviewing the application process to help ensure that only appropriate credits are granted.

- 5. The director of Water Services should direct staff to review the process for changing ownership information in the billing system and introduce controls to ensure changes are more prompt and accurate.*

**Agree in Progress**

We are currently working on updating all the ownership information in the system. Under the old legacy system, which was used to develop most of our current stormwater accounts, it was not possible to specifically track this information. However, in order to improve all of our data we have begun developing processes to capture this information and develop ways to reflect changes in ownership

- 6. The directors of Water Services and Information Technology should direct staff to work together to develop a systematic process for updating ownership data in the billing system.*

**Agree In Progress**

Similar to our response to recommendation 5, we are currently working on updating all the ownership information in the system. In order to accomplish this, we have begun collecting some ownership data along with account holder data. We have also been developing test uploads of property ownership data from KIVA and upon successful completion of these tests, we will update the data. In order to have the most up to date property ownership information, we will need to work out some processes/issues with the four counties in our service area. Based on our experience each county operates somewhat differently, so it is likely that we will end up with multiple processes.

7. *The director of Water Services should direct staff to collect and record property ownership information in the Banner billing system and issue a separate stormwater bill to the owner of rental property, or seek voter approval to amend the ordinance to conform to the existing practice.*

**Agree**

Based on the advice of the Law Department we will begin sending a separate stormwater bill to the owner of non-owner occupied properties. This will take some time to determine where non-owner occupied properties are located and is predicated upon completely updating all the property ownership information identified in Recommendations 5 and 6. The Water Services Department has been issuing stormwater bills to the resident, similar to other utilities, including water, sewer, electricity, gas, and telephone. The Water Services Department has operated under the understanding that the agreement between the owner and tenant (rental agreement or lease) of a property likely dictates who pays for utility services. Typically the agreements that are in place require the tenant to pay for the utilities provided to their residence. If this is not the case, the tenant will immediately bring it to the attention of the Water Services Department, and we will change the account to the owner.

8. *The director of Water Services should seek voter approval to amend the ordinance to clarify which, if any, properties with impervious surfaces are exempt from stormwater fees or direct staff to take necessary steps to identify and bill every property with an impervious area.*

**Agree**

We will work with the City Manager's office to either amend the current ordinance and/or begin billing for all impervious surfaces including streets, parkways, and highways. When required voter approval will be sought before amending the ordinance.

9. *The director of Water Services should ensure that when staff learns a customer's water service is for domestic use, the sales tax is not charged on the account.*

**Agree**

This is current department practice. We will create additional procedures to ensure this takes place.

10. *The directors of Water Services and Parks and Recreation should work together to ensure that their interdepartmental agreement complies with current city code provisions and resolve how stormwater fees should be handled.*

**Agree**

We have been operating under the understanding that agreements that have been in place for the past 40 years with Parks and Recreation complied with the City Code. Water Services and Parks and Recreation will work with the Law Department to ensure that the agreements comply with the City Code and meet the approval of the City Manager and City Council. Water Services and Parks and Recreation have started discussions on these issues.

11. *The director of Water Services should include responsibility for stormwater billing under the Consumer Services Division since it oversees the billing system and is accountable for all other account types.*

**Agree**

We have been moving in this direction as the need for input from the GIS Section, engineering permitting and stormwater engineering diminishes. But as the Auditor points out in other recommendations, the need to work very closely with these groups to accurately identify, determine size, and create the fee continues. We are planning to move this responsibility to the Consumer Services Division by the end of next fiscal year.

12. *The director of Water Services should improve controls by establishing formal billing policies and procedures as well as clear goals and measurable objectives for stormwater billing and collections.*

**Agree in part**

The Water Services Department will work to develop improved goals and objectives. Water Services will adopt formal policies and procedures.

13. *The director of Water Services should require additional analysis and regular performance reporting to help identify and resolve stormwater billing and collection problems and improve customer service.*

**Agree**

Although the Director of Water Services receives monthly stormwater reports, additional reports focused on performance objectives will be implemented.



Franklyn W. Pogge

c: Wayne Cauthen, City Manager  
LaTrisha Underhill, Assistant City Manager  
Greg Baker, Assistant to the City Manager  
Jim Buckler, Deputy Director Water Services  
Cecilia Abbott, Assistant City Attorney  
Sean Hennessy, Compliance Manager

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## **Appendix B**

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### **Director of Parks and Recreation's Response**

*Stormwater Fee Billing*

CITY OF FOUNTAINS  
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KANSAS CITY  
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## Parks and Recreation Department

Kansas City  
Missouri



2006

**DATE:** November 6, 2007  
**TO:** Gary White, City Auditor  
**FROM:** Mark McHenry, Director  
**SUBJECT:** Stormwater Billing Audit

I understand that the City Auditor's office will soon release their audit regarding stormwater billing. The audit will determine whether Water Services is billing property owners the correct stormwater fee.

As you probably know, the Parks and Recreation Department has had a longstanding interdepartmental arrangement that exempted my department from water and sewer charges, and also exempted Water Services from paying Parks and Recreation permit fees. That past agreement did not specify stormwater fees, as that city code provision didn't exist at the time of the agreement. It seems that both departments believed that stormwater fees would fall under our original agreement.

It is my understanding that there will be a recommendation that the Directors of Parks and Recreation and Water Services work together to ensure that the past agreement complies with the current city code provisions and resolve how stormwater fees are handled in the future. I concur with that recommendation and will gladly work cooperatively with Water Services Director to find a mutual solution that addresses any issues in the audit, when requested to do so.