

ITEM # 3
DATE: 05-16-23
DEPT: FINANCE

COUNCIL ACTION FORM

SUBJECT: BILLING ERROR RELATED TO MINIMUM CHARGES FOR 1½ INCH WATER METERS

BACKGROUND:

As part of the audit of the City's finances, in January, the City's auditors questioned a reduction in water revenue observed in the City's financial statements. At the time this issue was raised by the auditors, City staff believed the issue was explained by a change in the contract water rate with Iowa State University. It has since become apparent that part of the reason for this reduction in anticipated water revenue is due to a billing error for certain water customers.

On May 11, 2023, staff was reviewing the enacted water rates in the billing system in anticipation of implementing the proposed new water rates taking effect this summer. **During this review, staff identified an error in the current minimum charge for commercial water customers with a 1 ½ inch water meter. For commercial customers with a 1 ½ water meter, the winter minimum water rate and the summer minimum irrigation rate were entered as \$10.52 per month, instead of the correct, adopted amount of \$105.20 per month.**

For background, the City's water and irrigation rates are composed of two charges: the minimum charge and the usage fees. The minimum charge is based on the size of the meter and covers the costs associated with billing, meter reading, and meter replacement. The usage charge is the same for all users in the commercial rate class and based on the amount of water consumed. The usage charge varies based on the season, with a higher summer rate for bills mailed on or between July 1 and October 31, and a lower winter rate for bills mailed between November 1 and June 30.

Customers may also have an optional second meter for metering irrigation use, which allows water through that meter to be excluded from the calculation of sewer charges. For customers with 1-1/2 inch water meters, the following are the authorized rates based on the season:

WATER

Winter

Minimum Charge:
\$105.20

Usage Rate:
\$0.0257 per cubic foot

Summer

Minimum Charge:
\$105.20

Usage Rate:

Non-Residential (commercial)	\$0.0337 per cubic foot
Non-Peaking Industrial	\$0.0257 per cubic foot

IRRIGATION

Winter

Minimum Charge:
\$105.20

Usage Rate:

\$0.0257 per cubic foot

Summer

Minimum Charge:
\$105.20

Usage Rate:

\$0.0371 per cubic foot for the first 2,000 cubic feet of usage

\$0.0682 per cubic foot for the next 3,000 cubic feet of usage

\$0.1137 per cubic foot for all use over 5,000 cubic feet of usage

Water rates and charges were last entered into the City's billing system in June 2021. It has become apparent that the minimum charge for a 1 ½ inch water meter was entered incorrectly at that time, resulting in affected customers being underbilled by \$94.68 per month.

IMPACT TO 1-1/2 INCH WATER METER CUSTOMERS:

For customers with standard 1 ½ inch water meter accounts, this error affected bills between November 2021 and June 2022. For bills mailed between July and October 2022, when the summer rate was in effect, the minimum charges were correctly applied. However, the bills reverted to the winter rate again in November 2022, the incorrect minimum charge was again applied.

In total, if a customer was a commercial customer with a 1 ½ inch water meter for the entire duration of the error, then the customer was undercharged for a maximum of fifteen months. In this instance, each customer was underbilled by a total of \$1,420.20 per meter.

IMPACT TO 1 ½ INCH IRRIGATION METER CUSTOMERS:

For customers with 1 ½ inch irrigation meter accounts, this error affected bills between July and October 2021, and again between July and October 2022 (8 total

months). At the times when the winter rates were in effect for irrigation accounts, the irrigation accounts were correctly billed their minimum charges.

If the customer was a commercial customer with a 1 ½ inch irrigation meter for the entire duration of the error, the customer was undercharged for a maximum of eight months. **In this instance, each customer was underbilled by a total of \$757.44 per meter.**

TOTAL IMPACTS:

The result of these errors is approximately \$580,199.04 in lost revenue for the water utility. Based on staff's initial review, it is believed the error affected approximately 435 water meters and 15 irrigation meters. It should be noted that a handful of customers have multiple meters. **Therefore, the total number of individual affected customers is 278.**

The primary customers affected by the commercial water meter error operate apartment complexes, commercial enterprises, and fraternities/sororities. The primary customers affected by the commercial irrigation meter error are larger customers who operate big box retail stores or other large apartment complexes. The average monthly water bill for commercial water meter customers with meters of this size is \$191. The average monthly irrigation bill for commercial irrigation meters of this size is \$948.

Unfortunately, the timing of the error is compounded by the budgeted water rate increase of 8% for all customer classes for the fiscal year 2023/24. The City Council is in the process of implementing the budgeted water rate increase; the second reading of the ordinance occurred at the May 9 City Council meeting, and the final reading is expected to be considered at the May 23 City Council meeting.

The proposed 8% increase is expected to increase the monthly bill for commercial water customers utilizing a 1 ½ inch meter by an average amount of \$15.28. Additionally, the proposed increase is expected to increase the monthly bill for commercial irrigation customers utilizing a 1 ½ meter by an average amount of \$75.84.

POTENTIAL METHODS TO ADDRESS UNDERBILLED AMOUNTS:

Staff has corrected the minimum charge error for all future bills mailed to these customers. However, the Council's direction is needed regarding whether and how to collect the outstanding underbilled amounts from customers.

The City does not currently have any adopted policy related to over/underbilling water utility customers. Because the error occurred as part of the water utility, this matter is outside the jurisdiction of utility regulatory agencies. Staff believes the City has the authority to collect any or all underbilled charges.

Given the financial significance of the error, staff proposes allowing underbilled customers to pay the underbilled amount on an evenly divided payment schedule over several years or months. The following is the maximum per meter monthly financial impact on the bill of an affected non-irrigation account customer with a single water meter, who was a customer over the entire duration of the error:

Period of Repayment	Per Meter Monthly Bill Increase
1 Year	\$118.35
2 Years	\$ 59.18
3 Years	\$ 39.45
4 Years	\$ 29.59
5 Years	\$ 23.67

If directed, staff would distribute each customer's underbilled amount evenly over the determined period, which would be paid monthly as part of their regular monthly utility bill. Should a customer choose to terminate service, staff would work with the customer to arrange for payment of the balance owed. Staff is proposing that no interest be charged on the amounts to be collected.

Additionally, staff has identified that 16 of the underbilled customers have since terminated their service, and final bills have been sent. These customers represent \$22,249.80 in underbilled charges, for which staff recommends the City not seek repayment.

Staff understands the importance of accurate billing and strives to provide reliable service to the City's customers. Staff is currently implementing measures to prevent similar errors from occurring in the future. If the Council directs staff to collect repayment, staff will prepare mailed notifications to each affected customer explaining the error and the adopted plan to resolve it.

ALTERNATIVES:

1. Direct staff to collect the underbilled amounts over five years and waive any underbilled charges associated with former customers no longer being served by the utility.
2. Direct staff to collect the underbilled amounts over five years and pursue collecting any underbilled charges associated with former customers no longer being served by the utility.
3. Direct staff to collect underbilled amounts over some other period of time or some limited amount.
5. Do nothing, thereby waiving the collection of the underbilled amounts.

CITY MANAGER'S RECOMMENDED ACTION:

The error noted above resulted in a material impact on water utility revenue. Immediate collection of the underbilled amounts will likely present financial challenges to impacted customers. Collecting from former customers no longer served by the utility will likely be difficult. Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1 and thereby direct staff to collect the underbilled amounts over five years and waive any underbilled charges associated with former customers no longer being served by the utility.