

Memo

To: Sitka Assembly
Via: Jim Dinley
From: Mike Middleton
CC: Theresa Hillhouse, Jay Sweeney, Michael Harmon, Gary Baugher
Date: 2/21/2013
Re: Internal Audit of commercial solid waste and unbilled revenue

Unbilled Revenue

Finance Department performed a focused internal audit of the billing process and has identified instances of noncompliance with Sitka General Code regarding solid waste service for portion of the commercial accounts. This has resulted in unbilled revenue.

The processes in the Finance Department are not in compliance with City and Borough of Sitka Code (SGC). SGC 9.08.025 "Garbage service" and SGC 15.06.025 "Solid waste treatment and refuse collection" requires all residences and businesses in the municipality to use solid waste service with the exception of vacant buildings. However, the process in the Finance Department is to allow a business to opt out of having and paying for solid waste service. Finance Department staff even ask at the time an account is established if the business would like to opt out of solid waste service. This has been going on for years and is the current accepted practice. Based on the SGC, however, only vacant buildings are exempt from requiring service. In March of 2012, this resulted in unbilled – and uncollected – revenue of \$7,486. This is 3.5% of the average monthly revenue for solid waste service.

Background

Based on a review on the commercial class accounts as of March 2012, CBS has 508 commercial accounts. Only 179 of these are a single meter with all services provided. Another 132 of the accounts are for multiple meters for single businesses at the same physical location. These accounts have the solid waste charge on at least one of the accounts for the business at the address. This is reasonable as it is the same business and location with using more than one meter due to various reasons (growth, structure, size, etc.)

The remaining 197 accounts represent the problem. These accounts consist of businesses opting out of solid waste service and business locations in substantially different locations (non-adjacent) to a location paying solid waste service. A few of the accounts (20) are rental properties but do not appear to have a landlord paying for the solid waste service. At the shared container rate (\$38 per month) this totals \$7,486 for the month of March in potential unbilled revenue for the solid waste fund. A portion of this problem overlaps with the owner status issue. Data compiled on accounts in January 2013 has similar quantities. This amount is 3.5% of the average monthly solid waste disposal revenue for fiscal year 2012.

Requested Action

Based on the advice of the Municipal Attorney, Finance Department proposes an amendment to SGC 9.08.025, changing "consumer" to "residential unit and business" to keep the terminology identical between similar SGC sections (SGC 9.08.025 and SGC 15.06.025) regarding the requirement for solid waste service and thus making it clear that businesses shall be subject to solid waste service charges and can no longer opt out of such service.

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2013-12

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA AMENDING SITKA GENERAL CODE 9.08.025 ENTITLED "GARBAGE SERVICE" TO USE TERMS CONSISTENT WITH SITKA GENERAL CODE SECTION 15.06.025 ENTITLED "SOLID WASTE TREATMENT AND REFUSE COLLECTION," AND MAKE IT CLEAR BUSINESSES CANNOT OPT OUT OF GARBAGE SERVICE

1. CLASSIFICATION. This ordinance is of a permanent nature and is intended to become a part of the Sitka General Code ("SGC").

2. SEVERABILITY. If any provision of this ordinance or any application to any person or circumstance is held invalid, the remainder of this ordinance and application to any person or circumstance shall not be affected.

3. PURPOSE. Both SGC Title 9 entitled "Health and Sanitation" and SGC Title 15 entitled "Public Utilities" identifies who must have garbage or solid waste service. The two sections use different terms to refer to the same groups, with SGC 9.08.025 referring to "consumer" while SGC 15.06.025 refers to "residential unit and business." Based on the clarification in this ordinance and consistency of terms, businesses will no longer be able to opt out of garbage services, which has been the current practice inspite of SGC provisions which appear to require use of garbage services by residential and business customers.

4. ENACTMENT. NOW, THEREFORE, BE IT ENACTED by the Assembly of the City and Borough of Sitka that SGC 09.08.025 is amended as follows (new language underlined; deleted language stricken):

9.08.025 Garbage service.

A. Every residential unit and business consumer served through an electrical meter, except vacant buildings, shall use and pay for the garbage service provided by the municipality.

* * *

5. EFFECTIVE DATE. This ordinance shall become effective 30 days after the date of its passage.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 26th day of March, 2013.

Mim McConnell, Mayor

ATTEST:

Colleen Ingman, MMC
Municipal Clerk

James Dinley

From: Mike Middleton
Sent: Thursday, July 05, 2012 3:07 PM
To: James Dinley; Michael Harmon; Mark Buggins; Jay Sweeney
Subject: Missed Revenue for Water, Wastewater & Solid Waste
Attachments: Memo - Commercial Solid Waste.doc; Memo - Owner accountsv2.doc

Attached are two memos created before the budget process was complete. During a review of the utility billing system and comparison to code, it appears code is not being followed and this results in significant missed revenue. It is based on – in my opinion – a faulty interpretation of an unrelated section of code and a rationalization in another. The processes predate everyone involved and are institutionalized for the City. Based off of the counts in February and March, this could be up to \$22,000 per month on the Owner Account issue and another \$7,000 on the commercial solid waste issue. There may be some overlap, the numbers could be seasonal (but a count in July turned up similar numbers), timing and other issues may be involved.

I am not aware of any issue I am missing here, if believe I have missed something, please let me know. It appears to me the practices above have year round residents subsidizing the infrastructure costs for part year residents.

I would like to be advised on how we should proceed from this point.

Mike Middleton
Deputy Finance Director
City and Borough of Sitka
100 Lincoln Street
Sitka, AK 99835
907-747-4050
mikem@cityofsitka.com

Memo

To: Jay Sweeney, Michael Harmon
From: Mike Middleton
Date: 7/5/2012
Re: Commercial accounts and Solid Waste charges

Issue

The processes in the Finance Department do not appear to be in compliance with City and Borough of Sitka Code. The Code (15.06.025 Solid waste treatment and refuse collection) requires all residences and businesses in the municipality to use the solid waste service:

“Except as to vacant buildings, every residential unit and business in the municipality shall use the solid waste service provided by the city and borough of Sitka.”

The process in the Finance Department is to allow a business to opt out of having solid waste service. Finance even asks at the time an account is established if the business would like to opt out of solid waste service. This has been going on for years and is normal accepted practice. Based on the code, only vacant buildings are exempt from requiring service.

Background

Based on a review on the commercial class accounts as of March 2012, the CBS has 508 commercial accounts. Only 179 of these are a single meter with all services provided. Another 132 of the accounts are for multiple meters for single businesses at the same physical location. These accounts have the solid waste charge on at least one of the accounts for the business at the address. This is reasonable as it is the same business and location with using more than one meter due to various reasons (growth, structure, size, etc.)

The remaining 197 accounts represent the problem. These accounts consist of businesses opting out of solid waste service and business locations in substantially different locations (non-adjacent) to a location paying solid waste service. A few of the accounts (20) are rental properties but do not appear to have a landlord paying for the solid waste service. At the shared container rate (\$38 per month) this totals \$7,486 for the month of March in potential unbilled revenue for the solid waste fund.

Vacant buildings are also not defined. A portion of the accounts are vacant building and this varies on the definition. The simplest definition is a building not in use. This could be interpreted to include empty rental units, seasonal businesses, buildings held for resale and buildings closed for construction/remodeling. Currently the CBS allows businesses to become “vacant” for the off season. This removes the solid waste charge and would seem to make sense. But the same is not offered to residential accounts; instead a vacation credit back can be issued for up between 30 days and 4 months. This credit requires a residence to meet the definition of vacancy used in this paragraph. A consistent definition of vacant building should be used to clarify a vacation does not qualify as a vacant property.

Recommendation

The Code is clear so it would seem the solution is to follow code. That is what I recommend, however due to the prevalence of the practice the perception is this is an increase. For this reason it should be brought to the Assembly’s attention with four specific points:

1. Code says all residences and businesses shall have use the solid waste service.
2. This has not been practice for years.
3. Do you want Finance to follow Code?
4. A definition of vacant property for this section of the code is needed.

Proposed vacant definition

A vacant property is a building or unit not being used as it is up for sale, rent or being remodeled. A property is not considered vacant if unoccupied due to vacation.

Memo

To: Jay Sweeney; Michael Harmon
From: Mike Middleton
Date: 7/5/12
Re: Owner Accounts and missed revenue

Background

The customer type OWN – Owners are referred to as Owner accounts. Owner accounts are for use in either commercial or residential property with the intent of being rented. This is to allow electrical power to be continued in the owners' name when a tenant has power service terminated due to vacating the property or nonpayment of services. There is a minimal charge (\$10 in and \$10 out) to utilize the service or change back to a tenant. Additionally, a small number of owners pay for all the services on a property as a part of the rent collected. The power is still paid for at the applicable rate.

In the review of the billing process, owner accounts were examined. An owner account is an option a landlord exercises when a tenant vacates a property. At this point, only electricity is charged and all billings for water, sewer and solid waste are suspended until CBS is notified a tenant occupies the property. The problem is owner accounts are only mentioned in the electrical code and not in the other sections. Code section 15.06.025 – Solid waste treatment and refuse collection – does refer to vacant buildings being exempt:

“Except as to vacant buildings, every residential unit and business in the municipality shall use the solid waste service provided by the city and borough of Sitka.”

The phrase “every residential unit and business” does not specify occupied or not. The catch would be in defining a “vacant building.” It could be reasonable to not charge solid waste fees for unoccupied property and allowed by Code based on the interpretation.

It is important to note, the water and sewer are not disconnected.

Missed Revenue

Based on a review of the accounts as of February 2012, there are 264 active owner accounts.

A portion (54 accounts) pays all services so no revenue is missed. These are accounts where the owner pays all the services for a property as a portion of the rent.

The remaining accounts (211) were not billed for a total of \$21,972.77 in February. The break down is:

Water	\$4,931.68	
Sewer	\$8,052.77	
Solid Waste	\$7,942.00	(based on an assumption of \$38 – shared container)
Sales tax	\$1,046.32	

Solution

The solution is to conform to code and start billing for these services. This will be a painful process as the perception is the rules allow for this process. The issue should be brought to the Assembly and presented with three points:

1. Code says all services should be charged.
2. Processes have not charged all services and this is the public's expectation.
3. Should management follow Code or will Code be changed?