

#1 (Rev.1/93) SINGLE PAGE COMMUNICATION TO THE COMMON COUNCIL

TO: THE COMMON COUNCIL: DATE: April 6, 2004

FROM: DEPARTMENT: Audit and Control

DIVISION: Audit

SUBJECT: [: **Water Board Review**
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PRIOR COUNCIL REFERENCE: (IF ANY) [:
Ex. (Item No. xxx, C.C.P. xx/xx/xx)

TEXT: (TYPE SINGLE SPACE BELOW)

To summarize the questions, which we use as objectives for this review:

- Rate increase excessive
- Delinquency and collection efforts
- Operation of the system under privatization
- Impact on bonds
- Capital items and condition of system
- Excess capacity
- Component of Erie County Water at a fair price

FINDINGS

History of water rates

Impact on bonds

Bond Indentures: Comptroller warned of bond indenture risk and concluded in an audit released prior to May of 2001 that rates needed to be increased.

Delinquency record How did the Water Board get to this point?

The delinquency information is not readily available except at a macro level (either current or delinquent). The OASIS system is the property of the contractor (AWS) and the gross receivables and delinquencies are increasing, but without detail reports on number of days or even years delinquent it is difficult to know if the effort has results. In addition there is no listing by property or by owner to determine where the problems may be. This was pointed out during our 2002 audit report.

The information did exist prior to the conversion from the City's in-house system

It has been stated that there is excess capacity in the range of 50%.

Excess capacity

There is excess, and it needs to be billed to a user yet to be determined. It could be some adjacent community or directly to the County.

AUDIT RECOMMENDATIONS

Based on our audit findings, we recommend the following:

Hire a consultant to do an evaluation of the system as it stands today. The Buffalo Sewer Authority uses a consultant and Water should use some firm with experience in water systems certainly to value the system before any sale. The future capital outlays are a critical piece of the strategic planning for the City.

An evaluation of the worth of the stream of payments to the City needs to be done. It stands at \$4.2 million now and a pro-forma four to ten year plan needs to be developed. The present value of the stream (without any change) at the current bond rates over a ten-year period is in excess of \$50,000,000.

Delinquencies need to be controlled and reported. Every other taxpayer system can produce a delinquency report and changes in collection rates. The agreement to provide a delinquency collection fee after 90 days does not have a positive impact if we are unable to see the actual delinquent customers. The Comptroller's department has been reluctant to ask the Water Board to write-off uncorrectable receivables because there is no list and AWS has been unable to provide one. Receivables that require Council approval have a specific listing of delinquencies to be written off.

What is not evident from the financial data is what capital is required and one of the RFP respondents in a prior year suggested a \$60 million investment (they proposed to own it and lease to the City).

If we assume some efficiency of operation, and a loss of customer volume, we must raise rates, reduce the amount that accrues to the general fund or find some new customers.

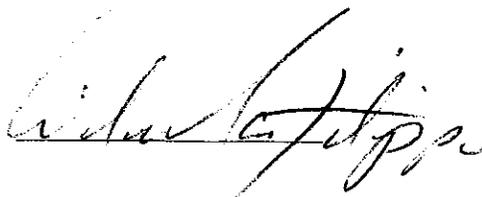
Strategic planning needs to be employed when reviewing the water system. The forecasts need to be done, not just on the next quarter or through the end of the year but for multiple years.

The sale of the system to Erie County Water Authority certainly needs to be looked at, but answers to the foregoing questions need to be analyzed now, so we have assurances that the interests of the City taxpayers are protected.

TYPE DEPARTMENT HEAD NAME: ANDREW SANFILIPPO

TYPE TITLE: COMPTROLLER

SIGNATURE OF DEPARTMENT HEAD

A handwritten signature in black ink, appearing to read "Andrew Sanfilippo", written over a horizontal line.