

Surface Water Management Program

Report No. 97-08

Mac Fletcher, Paul Walker

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INTRODUCTION AND BACKGROUND

The special study of the Surface Water Management (SWM) Program was requested by the Metropolitan King County Council and was included as an amendment to the 1997 County Auditor's Office work program. The issues requested to be reviewed focused primarily on how the SWM Program is responding to the impacts of annexations and incorporations and the resulting reduction in SWM revenues in the years subsequent to the initiation of the SWM Strategic Plan in 1992.

The SWM Program's emphasis is on controlling and reducing surface water runoff, which creates urban drainage problems, and protecting water resources in the SWM Service Area in the western, urbanized one-third of unincorporated King County. Funding for the SWM Program is generated through an annual service charge, based on contribution to the water run-off problem and acreage per parcel, on all properties within the SWM Service Area.

OBJECTIVE

The objective of the special study focused on the review and analysis of three primary issues: 1) impacts of annexations and incorporations on the SWM Program financial plan, 2) planned versus completed "work products," primarily the basin plans and Capital Improvement Program (CIP) projects, and 3) the relationships between the SWM Program and other County agencies and jurisdictions within King County.

CONCLUSION

The general conclusion of the special study was that the SWM Program has adequately estimated the reduction in revenues resulting from annexations and incorporations and appears to have correspondingly reduced its program level, expenditures, and staffing. However, the study found that the SWM Program has consistently overestimated its expenditures which has resulted in a substantially higher fund balance in comparison to the target balance. Furthermore, it was found that

the SWM Program needs to improve the monitoring and tracking of service charge rates, major "work product" items, and sources of CIP funding to more fairly reflect program status and resulting costs.

MAJOR FINDINGS AND RECOMMENDATIONS

Finding 2-1. SWM'S estimate of its service charge revenues appears reasonable by adequately addressing the impacts of annexations and incorporations

The study found that the SWM Program has adequately estimated the reduced level of service charge revenues in the years subsequent to the SWM Strategic Plan. Based on the audit staff review, it appears that the estimate of revenue adequately considers the impacts of annexations and incorporations (A&I) and such forecast is appropriately factored into the SWM financial plan.

Finding 2.2. The SWM Service Charge Rate Established Under the "Strategic Plan" Assumptions May No Longer Fairly Reflect Current SWM Program Elements and Their Costs.

The study found that the current SWM service charge rate was established using program elements and expenditure assumptions in the Strategic Plan which have not been sustained due to A&I impacts. Annual expenditures have averaged nearly \$5 million less than Strategic Plan estimates. Furthermore, program elements, such as basin planning, have been eliminated and others, such as "Watershed Services," have been added.

The study recommended that the SWM Program re-examine its service charge rate to ensure that it fairly reflects approved program elements and appropriate expenditures levels and present the analysis to the Council for review and approval.

Finding 2.3. The SWM Program collects appropriate amounts of the debt service portion of SWM service charge revenues from areas which were annexed or incorporated subsequent to SWM bond issues.

The study found that the SWM Program has appropriately implemented the authority granted by the State to continue to collect the debt service portion of the SWM service charges in the areas that are subsequently annexed or incorporated. Based on audit staff review, the calculation of the debt service portion of the service charge rate and the amount collected from A&I areas appear reasonable.

Finding 2.4. Estimates of other revenues, given the underlying basis for their forecast, appear reasonable, except for estimates of investment interest.

The study found that estimates of other SWM Program revenues, such as grants and services to cities, were reasonably estimated. However, it was found that the procedure for the estimate of investment earnings has consistently resulted in an underestimate which has amounted to as much as a 1,086% underestimate in 1995.

The study recommended that the SWM Program use a more reasonable estimate of other revenue items, specifically investment interest, which has a solid basis for forecasting.

Finding 3.1. SWM has consistently overestimated its expenditures which has resulted in substantially higher than planned fund balances in its operating fund.

The study found that SWM has consistently overestimated its operating expenditures. For example, the estimate of 1995 expenditures included with the 1995 budget request was 27% higher than subsequent actual expenditures. Moreover, these overestimates of expenditures have resulted in a fund balance which is substantially higher than the target fund balance, defined as 7% of service charge revenues. For the years 1993 to 1996, the actual ending fund balances were 8.4 to 8.8 times greater than the "target" fund balance. It should be noted that some of the underestimate of expenditures resulted from factors outside of the agency's control, such as bond issue timing. However, it appears that agency actions, such as less than planned transfers of funds to its CIP Fund, may have contributed to the underestimate of expenditures and the resulting larger than the targeted fund balance.

The study recommended that the SWM Program improve its effort to forecast expenditures, so that forecasted fund levels are fairly stated for subsequent financial planning purposes. The study further recommended that the SWM Program allocate the capital transfer amounts as recommended in its own policy.

Finding 3.2. Expenditure levels of the SWM Capital Projects Fund are understated and may have contributed to the Fund's exposure to potential liability for arbitrage rebate.

The study found that expenditure levels were overstated and the resulting fund balances were understated in the budget estimating process for the SWM capital project fund, which consists primarily of bond proceeds. For example, an estimate of 1995 expenditures was portrayed as \$16.6 million in the 1995 budget submittal, but the actual result ended at an expenditure level of \$8.2 million. The result of this underestimate of expenditures may have contributed to the SWM Program incurring a potential arbitrage rebate liability of \$1.2 million, through 1997.

The study recommended that the SWM Program improve its estimates in the CIP fund financial plans to more accurately portray expenditure levels and fund balance. The study further recommended that, under Executive guidance and Council approval, SWM should accelerate the construction of CIP projects in order to minimize further arbitrage rebate liability.

Finding 3.3. SWM Program staffing levels and staffing mix appear to fairly reflect approved program elements.

The study found that SWM's staffing level appeared to fairly reflect the reduce scope of its operations, primarily in response to the reduction in expected revenues. Furthermore, it was found that the staffing mix appeared to be supported by approved program elements and the SWM Program's mandate.

Finding 4.1. Substantially all of the basin plans proposed in the strategic plan were not completed and the basin planning process has since been curtailed.

The study found that of the 27 basin plans proposed in the SWM Strategic Plan, three (3) plans encompassing seven (7) of the basins (or 26%) have been completed and presented to the Council. The Council has adopted two of the three plans. It appears that over half of the originally proposed basin plans were subsequently curtailed and/or canceled since the basin planning areas were within or later absorbed by the cities. The SWM Program has now abandoned its basin planning efforts and shifted to the "watershed management" approach.

Finding 4.2. The costs for individual basin plans were not isolated and summarized. Thus, costs incurred for specific plans were not readily determinable.

The study found that the SWM Program did not isolate and summarize the costs incurred to prepare individual basin plans. The basin plans were "work product" items which were estimated to cost from \$300,000 to \$700,000 or more. It should be noted, however, that the total costs of all basin planning efforts were tracked as an organizational unit.

The study recommended that the SWM Program track and compile costs incurred for specific, major "work product" items, such as basin plans, so that such data is available for evaluation of cost-effectiveness and, also, for cost control purposes.

Finding 4.3. The Capital Improvement Program has been reduced and a reasonable process to identify priority projects has been initiated.

The study found that that SWM Program initiated a prioritization process to construct the most needed CIP projects. Due to the decline in revenues, the Strategic Plan which proposed \$81.3 million in CIP expenditures had been scaled down to \$29.3 million. Audit staff reviewed the description of the projects canceled and the process to identify the critical projects. Based on our review, it appeared that the prioritization process appeared adequate to allocate reduced resources to more critical projects.

Finding 4.4. Changes to the bond proceed amounts allocated to specific CIP projects are not clearly tracked and may lack Council approval.

The study found that the SWM Program has not clearly tracked the "reprogramming" of bond funded CIP projects and presented them for Council approval. Based on audit staff review, if a bond funded project is subsequently canceled or bond proceeds become otherwise available for other projects, such "reprogramming" of bond proceeds requires Council approval by ordinance.

The study recommended that the SWM Program clearly track "reprogramming" of bond proceeds allocated to its CIP projects and such document(s) be presented to the County Council for approval by ordinance.

Finding 4.5. Maintenance standards for SWM facilities appear reasonable and appear to be being carried out as intended.

The study found that the maintenance standard for the SWM Program's 1,400 residential facilities and 125 regional facilities to be adequate. Furthermore, it appeared that inspection procedures and the actual maintenance work (the latter is conducted by the Roads Division personnel) were adequate and functioning as intended.

Finding 5.1. Coordination with other county agencies appears adequate and interfund payments appear to be properly stated.

The study found that the SWM Program adequately coordinates its activities with other County agencies. Audit staff reviewed the interfund revenues and Loan-In/Loan-Out activities representing interfund activities and, also, the basis for the interfund charges and found that they appear to properly represent the services rendered and received.

Finding 5.2. Coordination with other jurisdictions appears to be well conducted and properly outlined in interlocal agreements.

The study, based on the review of a sample of interlocal agreements, found that the SWM Program appeared to adequately coordinate its activities with other jurisdictions within King County. Audit staff found the procedures for preparation and implementation of interlocal agreements to be adequate, cost-sharing to be based on verifiable and equitable bases, and such agreements were well-monitored.



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