



**CITY AUDITOR**

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April 17, 2015

Members of the Bremerton City Council  
Mayor Patty Lent

The City Auditor has prepared the attached report *Utility Rate Review*. City staff was aware of an old water contract which sold wholesale bulk water on an interruptible basis to Port Orchard for \$0.55 per hundred cubic feet. City Council accelerated staff review which resulted in a new contract at over \$3.00 per HCF. This review was of other city contracts and agreements for the sale of water.

The report noted some minor observations regarding these contracts. The response to these observations from the Director of Public Works & Utilities is included.

The assistance of Public Works & Utilities staff members Ann Finnegan, Wayne Hamilton and Kathleen Cahall is greatly appreciated.

Sincerely,

Gary W. Nystul

cc: Director of Public Works  
City Attorney  
Director of Financial Services

# UTILITY RATE REVIEW

## PURPOSE

This review compares rates and charges used in the utility billing system to those rates and charges approved by the city council or established in other agreements.

## SCOPE

This review includes utility rates in effect for 2014.

## OBJECTIVE

Utility rates are established by an ordinance passed by the city council and must be converted to the rate tables in the utility billing software. This report tests the application of utility rates adopted by the city council to those currently used by the utility billing system. Rates and charges included in contracts and utility service agreements were also compared to the utility billing system.

## BACKGROUND

Utility customers are billed every other month for their consumption of water and related wastewater use. They are also billed for their share of the stormwater. The rates and charges for the use of these utilities are set by the city council.

There are almost 19,000 customer accounts. In general, each utility customer has a water meter that is read bi-monthly. The charges for services are based on the size of the water meter and differ for customers who are in the city limits from those outside the city limits. However, there are also additional factors that affect some sewer and stormwater rates.

The rate structure is fairly straight forward, but becomes more complex when applied to the variety of customers. The utility billing rate table uses 244 different rates for all the different groups of customers and various contracts. These customer accounts are managed through the Utility Billing Department of the Department of Public Works & Utilities.

In addition to the rates set by the council, there are several agreements relating to charges for providing utility services. These are discussed as follows:

- The city utility service area and that of North Perry Avenue Water District overlap. Through an agreement in January 1976 the entities agreed to

serve the customers by the most logical provider. As a result, Bremerton has sewer customers who get water from North Perry Water. Some are in the city and some are in the county and are therefore billed for their appropriate location.

- The city assumed the operations, assets and debt of the former Tracyton Water District in 2005. Included were a 20 year Public Works Trust Fund loan and a Drinking Water State Revolving Fund loan. These loans are fully paid by a surcharge to the water customers in the former district area. The final payment is in 2021. In addition, the city agreed to bill and collect for street lights within the former Tracyton Water District. Therefore, former water district customers are billed for both the loan payments and the street lights in addition to their water.
- The city has an agreement to provide water service to the Rocky Point Water District. They are billed at the “out of city” rate. In addition, the customers pay a surcharge to the District in an amount determined by the District.
- Rates for the U. S. Navy are established by contract. This ten year agreement applies to the Navy facilities in the city which includes the hospital. The contract started August 1, 2008 and applies to water and wastewater. It includes provisions for increasing the water and waste water rates whenever the city changes the rates to its other customers.

## **METHODOLOGY**

Each of the rate components for utility services of water, wastewater and storm water were compared to the rates used in the utility billing system. Fees in the rate schedules such as general facility charges, connection/inspection fees, and temporary meters were not included.

The terms and conditions of all utility rate agreements were reviewed and compared to the rate schedules. In addition, other terms and conditions of these agreements not relating to specific rates were also considered.

## **OBSERVATIONS**

### **1. RESIDENCES WITH FIRE SPRINKLERS**

Some new single family residences have installed fire sprinkler systems. A commercial building with a fire sprinkler would normally have a separate fire line. However, for these residences, the domestic water lines and meter sizes are increased to provide the fire flow. The water rate applied is for that of the larger meter. However, for a low income residential customer with one inch meter, the base rate includes 1,000 cu.ft. before applying the consumption rate to the additional water use. The adopted rate does not state the quantity of water included in the base rate. Other water rates do not include any consumption in the base charge.

**RECOMMENDATION:** The amount of water included in the base rate should be stated in the adopted rate.

### **2. PUBLIC SCHOOL STORMWATER CREDIT**

BMC Section 15.06.040(f) provides for a credit to public school districts for the value of their instructional activities which directly benefit the surface and stormwater management program. This credit is applied to the stormwater charges for parcels owned or leased by the public school district.

The procedure requires an annual application by the school district and an annual evaluation by the Director of Public Works of the value of the school programs. The stormwater rate for the district in 2014 was \$9.83 per account. The rate was applied to 15 accounts for an annual cost to the school of \$1,769.40. Had the standard stormwater rate been applied to school district property, the cost would have been \$111,472.20.

The last application received from the school district was September 2010. This program was just recently assigned to the Water Resources division to manage. They are currently revising and streamlining the process.

**RECOMMENDATION:** The requirements of the BMC for the application and approval of the calculation of program benefit should be followed.

### **3. SERVICE EXCEPTION**

Several years ago, with city approval, water service was extended to five residents in the Gorst vicinity on Anderson Hill Road. In order to obtain adequate water pressure, a small pump was required. The pump was installed on a 1.5 inch line

and is maintained by one resident. However, that resident must obtain reimbursement from the other four users for the cost of the water paid to the city and for the maintenance of the pump.

RECOMMENDATION: This is not an appropriate method for operating a utility. Consideration should be given to establishing standard services to each of the customers.

#### 4. HOMEOWNERS ASSOCIATION WITH PRIVATE METERS

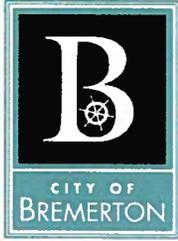
There is a residential area in the city that has 20 residences on 25 lots. The area is served through a common master water meter. The water lines and fire hydrants are privately owned and maintained by the homeowners association. The homeowners association pays the city for the water through the master meter which in turn then collects from their members for the cost of the water. Residences have privately owned water meters. Some of these meters use a measure of gallons rather than cubic feet which the city uses. These meters must be manually read for billing for city sewer service.

RECOMMENDATION: The sewer customers should be required to obtain a standard city meter with remote reading capabilities enabling the city to read the meters using the standard meter system.

#### 5. JOINT WATER DISTRIBUTION AREA

The City of Bremerton and the City of Port Orchard share a water distribution system on Old Clifton Road. (Also known as the west 580 pressure zone.) Bremerton pumps water up Anderson Hill Road to Old Clifton Road to serve three subdivisions that are in the Bremerton water service area. That main is connected to a Port Orchard main on Old Clifton Road which is also connected to a storage tank. The storage tank is necessary for adequate fire flow in the three Bremerton subdivisions. The result is that the water distribution system can contain water from either Bremerton or Port Orchard.

OBSERVATION: This is a temporary situation until Bremerton builds its own storage reservoir.



Public Works and Utilities Department

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# MEMORANDUM

**DATE:** March 26, 2015  
**TO:** Gary Nystul, Auditor  
**FROM:** Chal Martin, Public Works & Utilities Director  
**SUBJECT:** Utility Rate Review – Draft Audit Report Response

*Chal Martin 3/26*

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## Status of Audit Findings & Recommendations

### 1. RESIDENCES WITH FIRE SPRINKLERS

**Recommendation:** The Amount of water included in the base rate should be stated in the adopted rate.

**Response:** This will be updated with the GFC Rate. Need to add low-income rate flat fee for 1" to appendix A. Commodity is the same for both 5/8" and 1" (see example from Appendix A).

### 2. PUBLIC SCHOOL STORMWATER CREDIT

**Recommendation:** The requirement of the BMC for the application and approval of the calculation of program benefit should be followed.

**Response:** Our streamlining of this process is in progress. We are reviewing and meeting with Kitsap County to see what they did and will be connecting with the School district this spring.

### **3. SERVICE EXCEPTION**

Recommendation: This is not an appropriate method for operating a utility. Consideration should be given to establishing standard services to each of the customers.

Response: Service Exception – Staff is in agreement, however this was set in place 30 years ago - or likely longer, and the current BMC specifically states that:

(e) Connection to Unauthorized System. It shall be unlawful to connect the water system to any premises or use not authorized through a service application. This includes connecting an adjoining property or building with a garden hose or some other means to bypass the purchase of a meter or service for that property.

AND

(d) Every parcel under separate ownership connected to the water system shall be required to install a separate service connection to the water main, and the premises so supplied will not be allowed to supply water to any other premises or parcel. However, these restrictions shall not apply to existing services unless improvements are done to the parcel and the separate service and meter can be installed for twenty-five percent (25%) or less than the total improvement cost of the project or, in the judgment of the Director, such existing connection should be discontinued.

### **4. HOMEOWNERS ASSOCIATION WITH PRIVATE METERS**

Recommendation: The sewer customers should be required to obtain a standard city meter with remote reading capabilities enabling the City to read the meters using the standard meter system.

Response: Staff has been in discussion with the HOA and they do not want to pay the fees associated with the purchase of the equipment. Negotiations will continue, it is our recommendation to no longer read customer meters and set each account up as a sewer only accounts without meters or as a flat fee sewer account.

**RETAIL WATER SERVICE RATES**

	Within City Limits		Outside City Limits	
<b>General Service - Monthly Service Charge</b>				
<b>Meter Size</b>				
5/8 x 3/4 inches	<del>\$ 11.16</del>	\$ 12.11	<del>\$ 16.74</del>	\$ 18.16
1 inch	<del>\$ 12.76</del>	\$ 13.84	<del>\$ 19.14</del>	\$ 20.77
1 1/2 inch	<del>\$ 18.14</del>	\$ 19.68	<del>\$ 27.21</del>	\$ 29.52
2 inch	<del>\$ 24.37</del>	\$ 26.44	<del>\$ 36.56</del>	\$ 39.66
3 inch	<del>\$ 46.23</del>	\$ 50.16	<del>\$ 69.35</del>	\$ 75.24
4 inch	<del>\$ 85.91</del>	\$ 93.21	<del>\$ 128.87</del>	\$ 139.82
6 inch	<del>\$ 305.47</del>	\$ 331.43	<del>\$ 458.21</del>	\$ 497.15
8 inch	<del>\$ 1,115.81</del>	\$ 1,210.65	<del>\$ 1,673.72</del>	\$ 1,815.98
10 inch	<del>\$ 3,979.59</del>	\$ 4,317.86	<del>\$ 5,969.39</del>	\$ 6,476.78
12 inch	<del>\$ 14,960.58</del>	\$ 16,232.23	<del>\$ 22,440.87</del>	\$ 24,348.34
<b>Residential Commodity Charge (per HCF)</b>				
Per HCF/Month	<del>\$ 1.93</del>	\$ 2.09	<del>\$ 2.90</del>	\$ 3.14
<b>Non - Residential Commodity Charge (per HCF)</b>				
	<del>\$ 1.74</del>	\$ 1.89	<del>\$ 2.61</del>	\$ 2.83
<b>Fire Protection - Monthly Service Charge</b>				
<b>Service Size</b>				
1 inch	<del>\$ 23.16</del>	\$ 25.13	<del>\$ 34.74</del>	\$ 37.69
1 1/2 inch	<del>\$ 34.86</del>	\$ 37.82	<del>\$ 52.29</del>	\$ 56.73
2 inch	<del>\$ 45.32</del>	\$ 49.17	<del>\$ 67.98</del>	\$ 73.76
3 inch	<del>\$ 49.94</del>	\$ 54.18	<del>\$ 74.91</del>	\$ 81.28
4 inch	<del>\$ 54.43</del>	\$ 59.06	<del>\$ 81.65</del>	\$ 88.58
6 inch	<del>\$ 67.94</del>	\$ 73.71	<del>\$ 101.91</del>	\$ 110.57
8 inch	<del>\$ 90.45</del>	\$ 98.14	<del>\$ 135.68</del>	\$ 147.21
10 inch	<del>\$ 126.58</del>	\$ 137.34	<del>\$ 189.87</del>	\$ 206.01
12 inch	<del>\$ 180.83</del>	\$ 196.20	<del>\$ 271.25</del>	\$ 294.30
<b>Commodity Charge (per HCF)</b>				
- For Usage Other Than Firefighting	<del>\$ 3.49</del>	\$ 3.79	<del>\$ 5.24</del>	\$ 5.68
<b>Low-Income Senior and Low-Income Disabled Citizen - Monthly Service Charge</b>				
Base Charge (per account)	<del>\$ 11.16</del>	\$ 12.11	<del>\$ 16.74</del>	\$ 18.16
<b>Commodity Charge</b>				
0 - 5 HCF/Month	No Charge		No Charge	
Over 5 HCF/Month	<del>\$ 1.93</del>	\$ 2.09	<del>\$ 2.90</del>	\$ 3.14
<b>Temporary/Construction Meter</b>				
<b>1" Meter</b>				
Deposit	\$ 300.00		\$ 300.00	
Base Fee (per month)	<del>\$ 12.76</del>	\$ 13.84	<del>\$ 19.14</del>	\$ 20.77
Set Up Fee	\$ 112.00		\$ 112.00	
<b>Hydrant meter (3" Meter)</b>				
Deposit	\$ 2,000.00		\$ 2,000.00	
Base Fee (per month)	<del>\$ 46.23</del>	\$ 50.16	<del>\$ 69.35</del>	\$ 75.24
Set Up Fee	\$ 112.00		\$ 112.00	
<b>Equipment Loss/Damage</b>				
	Actual Time & Materials		150% of Actual Time & Materials	
Commodity Charge (per HCF)	<del>\$ 1.74</del>	\$ 1.89	<del>\$ 2.61</del>	\$ 2.83