



## Legislation Text

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Recommendation to receive and file the Water and Sewer Rate Increase Audit Report, and request the Long Beach Water Department Management to review the recommendations, develop strategies for implementation, and update the City Auditor as to the status of the recommendations within nine months.

The Office of the City Auditor completed a review of the water and sewer rate increases initiated by the Long Beach Water Department (LBWD) during fiscal years (FY) 2009 through 2011.

During FYs 2009 through 2011, LBWD's policy was to maintain operating reserves at \$6 million for water operations. Our audit identified that since the double-digit rate increases occurred in FY 2009 and 2010, the department's water fund balance has consistently exceeded the \$6 million target. By FY 2011, fund balance had grown to \$43.3 million, a 566% increase since FY 2008. Although deficits were projected in each of the three years reviewed, actual expenses and revenues instead produced large surpluses. A large portion of the variances can be attributed to the Capital Improvement Plan (CIP). Project delays were not considered in the budgeting process, resulting in inflated budgets. For FY 2009 through 2011, water CIP projects spent only 57% of the amounts projected, and sewer CIP projects spent even less at 25% of estimated costs.

While we understand that the timing of the budget preparation can make accurate revenue and expense projections difficult, the current budgeting approach seems to include inflated contingencies which are resulting in increasing reserves.

Detailed information regarding the results discussed above is included in the attached report. We express our appreciation to LBWD staff for their cooperation during the audit.

City Council approval is requested on November 13, 2012.

The budgeting process and practices employed by the LBWD are contributing to an increase in fund balances that exceed current reserve policy. The evaluation of existing processes and policies will improve the effectiveness of LBWD's annual budget projections.

Approve recommendation.

LAURA L. DOUD  
CITY AUDITOR