



Memorandum

TO: Mayor and City Council

FROM: Bill Greene, City Auditor

DATE: August 21, 2020

SUBJECT: SLIPP CONSULTING REVIEW – FINAL REPORT

Attached is our final report on the subject consulting engagement. Copies of this report will be posted to the Internal Audit Office website.

We appreciate the cooperation of Engineering and Transportation Department staff during this project. Please contact me if you have any questions about our results.



Memorandum

TO: Marilyn DeRosa, Engineering and Transportation Director

FROM: Bill Greene, City Auditor

CC: Steven Methvin, Deputy City Manager, Chief Operating Officer
Andrew Ching, City Manager

DATE: August 7, 2020

SUBJECT: Service Line Protection Program (SLiPP)

Purpose

At your request, the Internal Audit Office conducted a consulting review to:

- 1) Survey other cities to determine if they have a similar program to City of Tempe's SLiPP. If so, identify if the program is managed in-house or outsourced.
- 2) Estimate the annual program costs of managing SLiPP and compare to annual program revenue to calculate over/under recovery of total costs since inception of the program.
- 3) Inquire with City Attorney's Office to assess if they have any legal concerns regarding SLiPP.

Scope and Methods

The objective of this consulting engagement was to provide information as described in the purpose statement above. The work performed does not constitute an audit in accordance with *Government Auditing Standards*. We documented revenue and expense activity recorded in the SLiPP cost center from August 2011 through June 2020 and estimated direct labor and vehicle costs and an allocated portion of indirect costs of Engineering and Transportation (E&T) to SLiPP.

To achieve our stated objectives, we conducted the following review steps:

- Reviewed available SLiPP documentation including website, procedures, terms and conditions, pay plan, City of Tempe Annual Budget, by line item detail, People Soft financial system reports which identify revenue and expenditures recorded in the SLiPP cost center.
- Conducted phone interviews with cities inside and outside of Arizona to determine if they had a program like SLiPP and if so, whether their program is managed internally or by a third-party contractor.
- Interviewed Engineering Services Manager to gain an understanding of the program and identify all positions involved in administering SLiPP to calculate the estimated direct labor costs.

- Obtained staffs' time estimates and applied mid-range hourly rates as provided for in the pay plan. The labor rates include all costs associated with the position (e.g., FICA, ASRS, health care benefits) as identified by the Municipal Budget Director.
- Reviewed reports and data from the Accela system (Accela is the City's software platform used for all SLiPP inspections and issued permits) to corroborate reasonableness of time estimates, where appropriate and feasible.
- Allocated specific E&T indirect costs to SLiPP in proportion to its percentage of the E&T general fund budget for FY 19/20.
- Interviewed City Attorney's Office staff to identify any legal concerns with SLiPP.

Results

1. Survey

Of the 30 cities surveyed, 11 have a similar program to the City of Tempe Service Line Protection Program (SLiPP); however, they all completely outsource administration to a third-party contractor and receive a share of program revenues generated. None of the survey cities manage their program internally like the City of Tempe.

The Tempe City Council approved the Service Line Protection Program (SLiPP) on August 18, 2011 as a pilot program. This is a financial assistance program for the repair and/or replacement of the residential water and sewer service lines. For \$12 per month, the program will cover up to \$5,000 per service line during a twelve-month period for covered repairs.

The City issued a Request for Proposal (RFP) for third-party vendors (plumbers) to provide the plumbing assessment and repair work and a telemarketing firm to conduct the initial outreach to the approximately 23,000 eligible households. Although no other City we surveyed managed the program in-house like the City of Tempe, 11 of the 30 cities surveyed (37%) had a similar program which was outsourced to a third party. The surveyed cities reported that they received fees from the third-party contractor ranging from \$0 to \$381,000 based on a revenue sharing agreement. The monthly water line charge to program participants ranged from \$3.66 to \$6.33 while the monthly sewer line charge ranged from \$4.91 to \$9.19. (See Table No. 1 on the following page). Appendix A shows the cities surveyed which responded that they had no program.

Table No. 1 - Survey Cities with a Program

*** Survey Questions:**

1. What is the name of the 3rd party contractor?
2. Which City department is responsible for managing the program or contract used to administer the program?
3. How much program revenue is received annually?
4. What is the monthly charge for water lines?
5. What is the monthly charge for sewer lines?

City	Responses to Survey Questions*				
	1	2	3	4	5
Tempe, Az	N/A	Engineering and Transportation Department	Note 1	\$12.00 (water and sewer line)	
Avondale, AZ	SLWA	Marketing and Public Relations	\$13,174	\$3.66	\$4.91
Des Moines, IA	SLWA	WaterWorks/Dir. of CS/Marketing	\$119,128	\$5.49	N/A
Glendale, AZ	Water Resources of America	Utilities Division	Not Available	Not Available	Not Available
Independence, MO	SLWA	Mayor's Office	\$26,013	\$5.75	\$7.75
Las Vegas, NV	SLWA	Public Works Department	\$79,568	N/A	\$5.58
Mesa, AZ	SLWA	Officer of Public Information & Communications	\$103,005	\$5.58	\$6.58
Phoenix, AZ	SLWA	City Manager's Office	\$380,611	\$5.60	\$7.10
Salt Lake City, UT	SLWA	Public Utilities Department	None	\$4.59	\$9.19
San Diego, CA	SLWA	Public Utilities Department	\$134,602	\$6.33	\$8.58
Santa Fe, NM	SLWA	City Manager's Office	None	\$4.08	\$6.08
Tucson, AZ	SLWA	Public Information	\$127,698	\$4.33	\$6.33

Note 1: City of Tempe manages the program in-house and therefore collects fees from participating residents and incurs expenses to run the program. See Appendix B for revenue and cost trends since the inception of the program in August 2011. All other jurisdictions surveyed outsource the program, receive a percentage of the revenue and incur no (or minimal) costs.

2. *Under/Over Recovery of SLiPP Costs versus Revenue*

SLiPP contracted services expenses have fluctuated each year and represent the largest factor leading to over or under recovery of total program costs. Since inception of the City's SLiPP in 2011, total cumulative costs have exceeded program revenues by about \$1.1 million. SLiPP has over-recovered costs for the two most recent years. However, there is significant risk that insufficient revenues will be collected to cover costs in future years depending on the amount contracted services expenses

incurred. To offset any shortfall of SLiPP revenue, E&T would be required to reduce other expenses in the department’s general fund operating budget. Other jurisdictions that outsource the program do not have a risk of under-recovery since they receive a percentage revenue and do not incur costs.

We interviewed the Engineering Services Manager responsible for SLiPP to identify the positions involved with administering the program. We reviewed available SLiPP documentation to ensure all costs were considered.

Table No. 2 shows an under-recovery of SLiPP costs for 6 of the 9 years from fiscal years 2011/12 through 2019/20 and a cumulative under-recovery of about \$1.1 million. Appendix B includes a detailed breakdown of SLiPP revenues and costs. The largest program cost variable has been contracted services, which fluctuated significantly each year. E&T management stated that the contracted services expense fluctuates primarily due to the number and nature of service requests received and is difficult to predict with any accuracy. Appendix C shows our calculation of estimated direct labor and vehicle costs and the allocation of indirect program costs (Internal Service) such as technology, phone, support services and risk management

Description	Cumulative Total	FY 19/20	FY 18/19	FY 17/18	FY 16/17	FY 15/16	FY 14/15	FY 13/14	FY 12/13	FY 11/12
Total Revenues	\$5,036,477	\$704,835	680,301	648,946	622,877	604,452	580,195	546,399	456,652	191,820
Total Expenses	4,905,351	456,532	522,616	779,864	618,322	462,675	451,417	649,405	623,417	341,103
Revenues in Excess/(Deficit) of Expenses	131,126	248,303	157,685	(130,918)	4,555	141,777	128,778	(103,006)	(166,765)	(149,283)
Estimated Direct Labor and Vehicle Cost	(1,001,445)	(122,000)	(122,000)	(118,340)	(114,790)	(111,346)	(108,006)	(104,766)	(101,623)	(98,574)
Indirect Cost - Allocated	(213,417)	(26,000)	(26,000)	(25,220)	(24,463)	(23,729)	(23,017)	(22,326)	(21,656)	(21,006)
Revenue in Excess/(Deficit) of Total Estimated and Allocated Costs	(\$1,083,736)	\$100,303	\$9,685	(\$274,478)	(\$134,698)	\$6,702	(\$2,245)	(\$230,098)	(\$290,044)	(\$268,863)

We obtained annual SLiPP program revenue and expense data from PeopleSoft. We estimated direct labor and vehicle costs by applying the mid-range of the pay plan to the estimated number of hours spent by employees working on the SLiPP program in a week (annualized) and used a vehicle rental rate provided by Municipal Utilities, Fleet Services. As of April 2020, there were 4,970 SLiPP program enrollees and E&T staff approximates there are 23,000 eligible households. Currently, direct program costs are incurred in the following City departments at the following proportion. Most staff involved with program activities are assigned to the Municipal Utilities Department:

- E&T (Engineering Services Manager) 35%
- Municipal Utilities 44%
- Community Development 16%
- Internal Service 5%
- Total 100%

3. *City Attorney's Office*

City Attorney's Office staff was not aware of any current legal concerns regarding the SLiPP program but suggested a comprehensive review would be required to offer an overall assessment.

The City's SLiPP is a voluntary program that provides assistance to Tempe residents to keep those water and sewer lines that directly connect the City's water and sewer lines to the resident's home in good working order and to enable the City's residents to continue to receive the City's water and wastewater services. On November 21, 2011, the City Attorney's Office wrote a response to the Arizona Department of Insurance answering a complaint. According to the City Attorney's Office, they heard nothing back after their response to the complaint, so they consider it a "closed" issue. However, the City Attorney's Office has not conducted a detailed review of the program which would be necessary to provide reasonable assurance that there are no other legal concerns that may exist. If material changes to the program are contemplated, a comprehensive legal review should be considered prior to implementation.

Recommendations

1. Consider potential benefits versus risks of continuing to manage the SLiPP in-house versus outsourcing to a third-party contractor.
2. Evaluate whether administration of the SLiPP program is optimally assigned within the City organization and consider moving it if deemed beneficial.
3. Prior to any material changes to the SLiPP program, request the City Attorney's Office to conduct a full review of SLiPP and communicate any legal concerns identified.

Appendix A

The following question was asked to the cities listed:

Do you have a program that aids your residence to keep the water and sewer lines that directly connect to the City's water and sewer lines?

The following jurisdictions replied that they have no program

City, State Surveyed
Abilene, Texas
Ann Arbor, Michigan
Boulder, Colorado
Durham, North Carolina
Henderson, Nevada
High Point, North Carolina
Naperville, Illinois
Norman, Oklahoma
Olathe, Kansas
Plano, Texas
Pueblo, Colorado
Round Rock, Texas
Tyler, Texas
Vancouver, Washington
Chandler, Arizona
Flagstaff, Arizona
Gilbert, Arizona
Peoria, Arizona
Scottsdale, Arizona

Appendix B SLiPP Revenue and Expenses

GL#	Description	FY 19/20	FY 18/19	FY 17/18	FY 16/17	FY 15/16	FY 14/15	FY 13/14	FY 12/13	FY 11/12
4675	Service Line Subscription Fee	\$699,690	\$674,541	\$643,486	\$617,765	\$600,456	\$576,859	\$542,895	\$450,124	\$178,224
4676	Service Line Admin Fee	5,145	5,760	5,460	5,112	3,996	3,336	3,504	6,528	13,596
	Total Revenues	704,835	680,301	648,946	622,877	604,452	580,195	546,399	456,652	191,820
6120	FICA taxes (7.65%)									57
6121	Arizona State Retirement (12.22%)									77
	General Office Supplies						4,003		585	
6514	Awards + Recognition									102
6515	Image and Collateral				280	150	2,081	1,462	8,057	9,353
6628	Transit Store - Bus Ticket/Pass				3,562					
6638	Contracted Temporary Labor	255	26,612							
6672	Contracted Services	454,430	490,278	774,462	614,346	462,487	444,396	647,759	614,368	327,584
6704	Postage - The Market Builder Encore									2,355
6755	Duplicating - Ben Franklin printing	378	534	168	99		20	79	320	1,575
6756	Plumbing Services		163							
6992	Bad Debt Expense	29	33	19	35	38	917	105	51	
6999	Misc. Services	1,440	4,996	5,215						
8301	Technology Costs								36	
	Total Expenses	\$456,532	\$522,616	\$779,864	\$618,322	\$462,675	\$451,417	\$649,405	\$ 623,417	\$341,103
	Revenues in Excess/(Deficit) of Expenses	248,303	157,685	(130,918)	4,555	141,777	128,778	(103,006)	(166,765)	(149,283)
	Direct Labor and Vehicle Cost – estimated	(122,000)	(122,000)	(118,340)	(114,790)	(111,346)	(108,006)	(104,766)	(101,623)	(98,574)
	Indirect Cost – Allocated ¹	(26,000)	(26,000)	(25,220)	(24,463)	(23,729)	(23,017)	(22,326)	(21,656)	(21,006)
	Revenues in Excess of Total Estimated Costs	\$100,303	\$9,685	(274,478)	(134,698)	6,702	(2,245)	(230,098)	(290,044)	(268,863)

¹The Public Works Department split off between E&T Department and Municipal Utilities Department (Water, Wastewater, Solid Waste, and Fleet Services). The E&T Department was formed on or about 2018. Beginning for FY 17/18, a 3% inflationary adjustment was applied to the direct labor and vehicle costs estimates and indirect cost allocation.

Appendix C

SLiPP Estimated Direct Labor and Vehicle Costs Allocated Indirect Costs (Internal Service) FY 19/20 Budget		
Account Description	E&T – General Fund	Service Line Protection
E&T Costs:		
Salary & Wages	\$3,219,661	
Fringe Benefits	\$1,430,048	
Materials & Supplies	\$89,321	
Fees & Services	\$1,436,170	
Travel & Other Expenses	\$38,700	
Total E&T General Fund Costs	\$6,213,900	
SLiPP Costs:		
Materials & Supplies		\$11,000
Fees & Services		\$435,000
Total SLiPP Costs		\$446,000
E&T Internal Service/Indirect Costs:		
Technology Costs	\$344,817	
Telephone Costs	\$21,209	
Support Services Charges	\$4,603	
Risk Management Charges	\$4,430	
E&T Internal Service/Indirect Costs	\$375,059	
SLiPP Indirect Cost Allocation	\$446,000/\$6,213,900 = 7%	\$26,000
Allocated Direct Costs:		
SLiPP Direct Vehicle Costs (estimated)		\$2,000
SLiPP Direct Labor Cost		\$120,000
Total SLiPP Indirect & Direct Cost Allocation		\$148,000