



Utility Credit and Collections Review

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Credit Screening

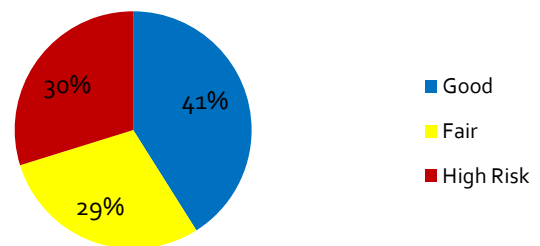
The revisions to policy made in Ordinance 2010-292 were designed to provide fair collection treatment to each customer in the City's utility system. In order to determine the appropriate deposit requirement and/or collection treatment for a particular account, Utilities Customer Service reviews credit scores for new customers, and for existing customers, the account's recent payment behavior is used to form an internal credit rating.

New Customers

70% of customers who have applied for service within the last year have had a "Fair" or "Good" credit score. 41% of new utility applicants have had their utility deposit requirement waived as a result of their credit history.

Customers with a "Fair" credit score are asked to pay a deposit equal to one month's average utility bill. Applicants deemed "High Risk" are assessed a deposit equal to two months of the address's average utility.

New Customer Credit Scores



Existing Customers

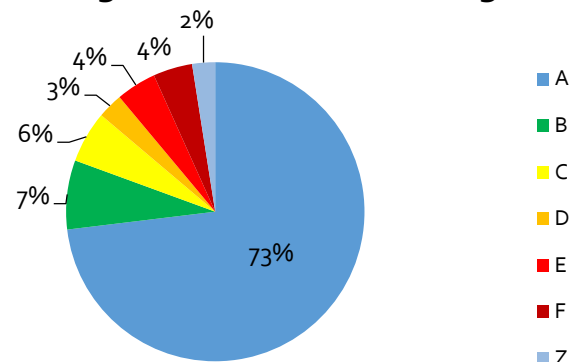
The payment behavior of existing customers is reviewed each month. If payment for a utility balance is past due, collection action may occur. Each collection action has a point value assigned, and as points accrue, a customer's credit rating with the City of Denton is affected.

Customers with an "A" rating have had one or fewer minor delinquencies over a twelve month period. 86% of the City's utility customers pay on time on a regular basis ("A" to "C" ratings).

Customers with a "D" rating or lower have been delinquent on multiple occasions or have been disconnected for non-payment. 11% of the City's utility customers currently fall into this category. If an adequate service deposit is not on hand for this type of account, one may be assessed.

Approximately 2% of the City's utility customers are classified as new customers ("Z" rating) each month.

Existing Customer Credit Ratings



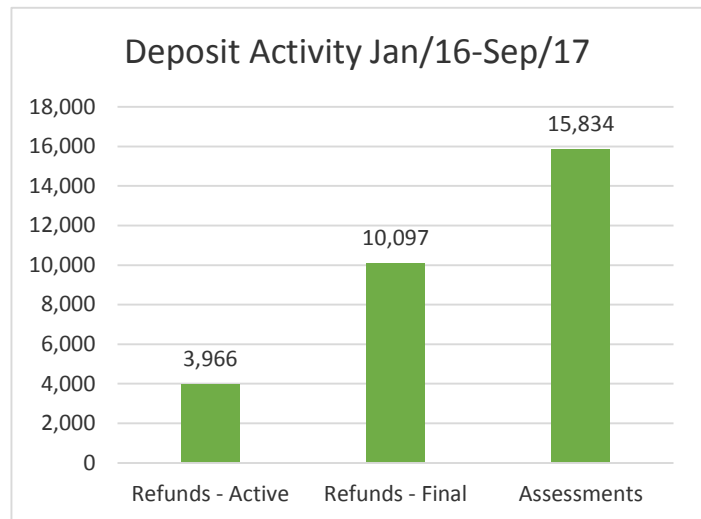
Deposit Assessments and Refunds

As mentioned previously, service deposits are assessed or refunded based on a new customer's credit score or an existing customer's recent payment behavior. Detailed below is a review of the customers who have either been assessed a deposit or received a deposit refund since the policy's implementation.

Volume of Assessments and Refunds

For January 2016 through September 2017, 14,063 customers have received a deposit refund. Of these refunds, 72% were issued because the utilities account was closed. In many cases, the deposit was applied to a final balance and prevented an unpaid debt.

Only 28% of refunds were issued to active accounts due to excellent payment history. This indicates that the risk assessments performed for new and existing customers are accurately predicting payment behavior and determining deposit requirements.



Deposits on File

The city currently has deposits on file for approximately 11,937 accounts totaling just over \$4.7 million. For these customers, the City pays interest equivalent to the rate earned on a Treasury Bill. As detailed above, Customers may receive a deposit refund after remitting their utility payments on time for twelve consecutive months or at the closure of their account, whichever comes first.

While the number of accounts maintaining a deposit on file may seem high, it is worth noting that this figure represents only 21% of the City's current customer base. The customers comprising the remaining 79% either had their deposit requirement waived or refunded to them according to the criteria outlined in Ordinance 2010-292.

The fact that 14,063 deposits have been refunded in the past two calendar years is evidence that deposits held by the city are being churned on a regular basis. The current collections policy was designed with the intent that deposits would only be assessed when necessary based on credit risk and if the customer's payment behavior improves or the account is closed, the deposit would be refunded promptly. To date, the policy is working as designed.

Deposit Reassessment Amounts

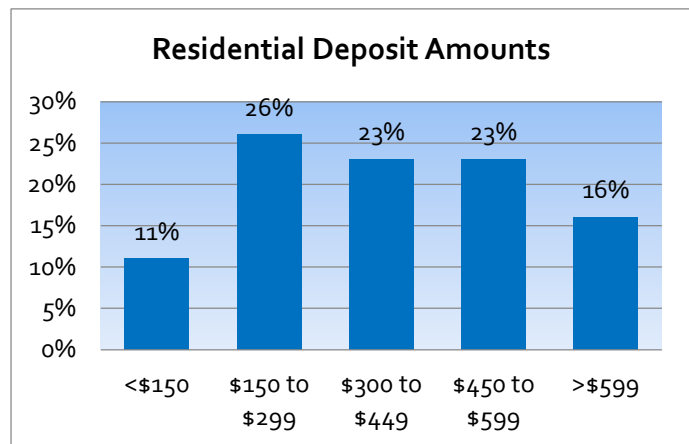
The collection policy outlined in ordinance 2010-292 was designed to provide a fair system for deposit assessments through credit risk assessments. While the previous policy utilized standard deposit amounts of \$150 (Residential) and \$300 (Commercial), the City now determines adequate deposit coverage based on the average billing amounts associated with the service location. Although residential and commercial customers may begin with good credit and may not have a deposit to start utility services, if they begin to incur credit events on their account, they will be reassessed for deposit.

Deposit amounts may be up to the equivalent of two months of the average billing amount depending on the customer's credit score/rating. Detailed below is a review of the deposit reassessment amounts over the past calendar year and January 2017 through June 2017.

Residential Deposit Reassessments

Of the 1,350 residential accounts reassessed deposits from January 2016 through June 2017, only 11% were less than the previous standard deposit amount of \$150.

Approximately 62% of the deposits reassessed to residential customers exceeded an amount of \$300. The average residential deposit reassessment was equal to \$396.

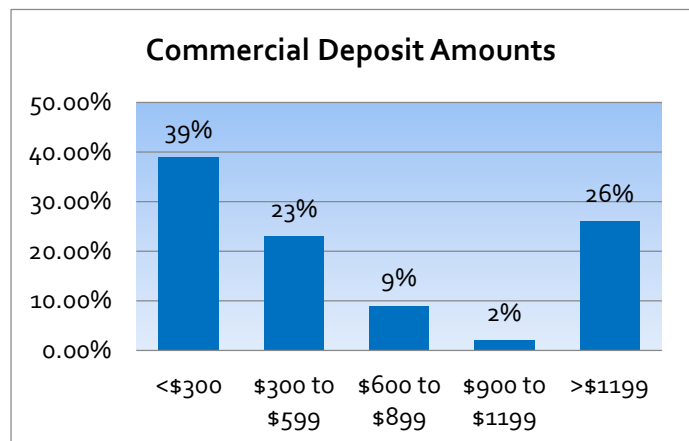


Commercial Deposit Reassessments

The previous policy's \$300 deposit standard for commercial accounts did not adequately protect the City from the sizable debts associated with some commercial customers. In addition, a number of smaller businesses were paying more than necessary.

Since January 2016, 163 commercial accounts have been reassessed a deposit. Much like the residential deposit requirements, 39% of the affected accounts paid less than the previous \$300 deposit requirement.

Deposit assessments greater than \$600 made up 37% of the total reassessments to commercial customers. The reassessment of these deposits is a critical element to preventing large uncollectible debts from occurring.



Uncollectible Debt

Unpaid debts are deemed uncollectible by Utilities Customer Service when the final bill remains unpaid for more than 180 days. Prior to classifying a debt as uncollectible, extensive collection efforts are made by Customer Service as well as the City's collection agency partner, Credit Systems International.

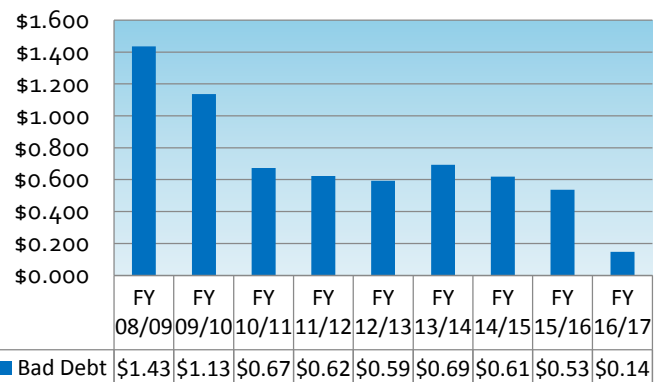
Uncollectible Debt Amount

Because debts are only deemed uncollectible after 180 days of collection activity, then uncollectible debts for the months of March through September 2017 are not yet known.

Utility Customer Services collection team takes proactive steps in collecting the debt prior to placement with a third party collection agency. Steps for in house collections include an automated call 17 days after the due date of final bill. A collection letter is sent 24 days after the final bill. If the customer has another account active then the debt is transferred to the active customer's account. For accounts over \$500, the customer is personally contacted for accounts 31 to 119 days after the final due date.

Collecting in house provides the City with the advantage of saving on all collected debt. Once placed with the collection agency, the City is charged 14.9% to 21.9% depending on the age of the debt.

Debt in Millions



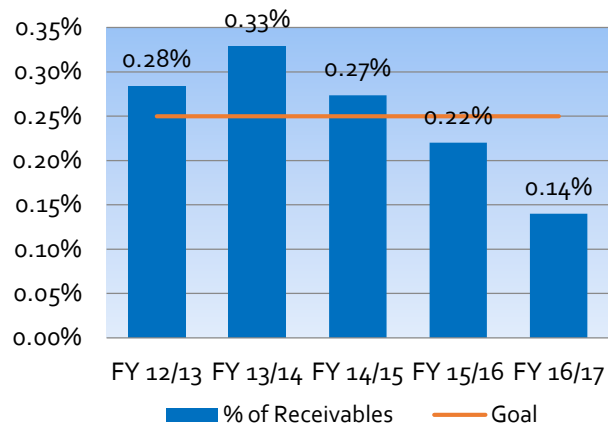
Uncollectible Debt to Receivables

Due to fluctuations in the amount of revenue, staff evaluates the level of uncollectible debt in proportion to a fiscal year's total accounts receivable.

Staff is projecting the debt to receivables ratio for fiscal year 16/17 to equal 0.14%. This is a huge improvement over the prior fiscal years. Final numbers will be available April 2018 due to the 180 day criteria for uncollectible debt.

The preferred level of uncollectible debt, as recommended by Navigant Consulting, is 0.25% or less. Staff continues to evaluate business processes in an effort to improve collection rates and maintain or exceed this target.

Debt to Receivables



Customer Payment Behavior

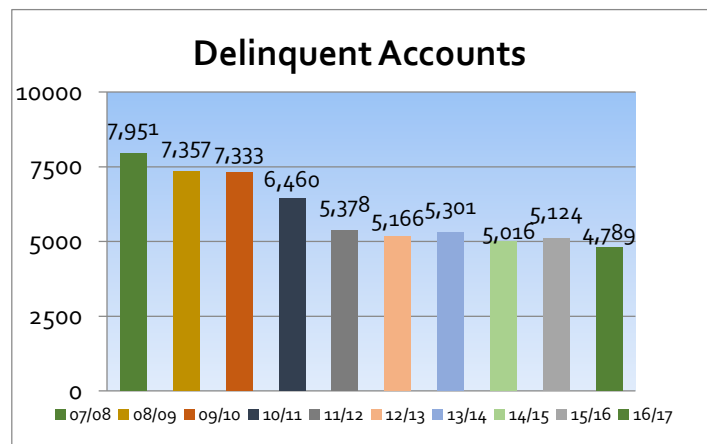
In order to encourage frequently delinquent customers to alter their payment behavior, the Late Fee penalty was increased from \$10 to \$20 effective February 1, 2011. An account is classified as delinquent when payment has not been remitted within 5 business days following a bill's due date.

Delinquent Accounts

In the three years leading up to the implementation of Ordinance 2010-292, staff assessed late fee penalties to an average of 7,547 accounts per month.

The monthly average of delinquent accounts has dropped to 5,124 for FY2015/2016 and 4,789 for FY2016/2017 YTD.

As the figures to the right demonstrate, customer payment behavior continues to improve well after the implementation of Ordinance 2010-292. From 2011 to 2017, the number of delinquent accounts dropped by 36% while the customer base has increased by 9%.



Influences on Payment Behavior

After the late fee penalty was increased from \$10 to \$20, staff noticed an immediate 29% month over month decrease in late paying accounts, and as stated above, the reduction has been maintained over a prolonged period of time. In addition to the late fee increase, staff believes that other operational changes have helped customer maintain a record of on time payment.

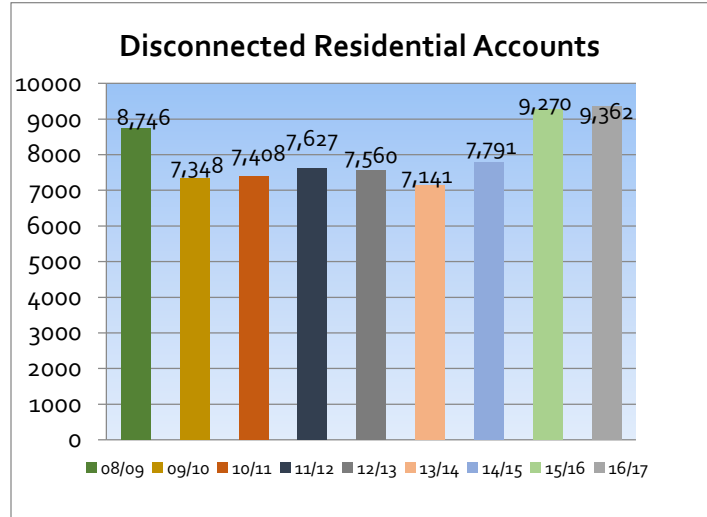
In April 2011, the City Council approved the allocation of \$85,000 in funding to the City's P.L.U.S. One program. The increased funding for the program has enabled a number of customers to receive the assistance they require to overcome a temporary financial hardship and return to paying their bills on time. More information regarding P.L.U.S One is detailed on page 10.

Disconnected for Non-payment Accounts

The graph on the right displays the number of residential accounts disconnected for non-payment by Fiscal Year. The average per month since FY 08/09 is 730.

The drop in disconnected accounts for FY09/10 and FY10/11 is due to weather. We have specific guidelines for cold and heat that specifies whether we can disconnect accounts. In FY09/10 we had three months where we were only able to process one to six days of disconnections for non-payment. In FY10/11 we had two months where we only had four or five days for disconnections. Normally we would process disconnections for non-payment about twelve days a month.

We also do not process any disconnections for non-payment during the holiday weeks (Thanksgiving, Christmas, and New Years’).



On average for the past nine fiscal years, 98% of residential accounts reconnect their services after being disconnected for non-payment. Customers reconnect their services same day is on average 78%. Staff has noticed a reduction in the number of reconnections and same day reconnections the last two fiscal years. The average for the last two years is 91% reconnecting and 72% reconnecting same day. This may be attributed to more customers simply leaving and not reconnecting or finalizing their account. This trend solidifies the importance to have adequate deposit coverage for this scenario.

Payment Arrangements

Customers can request a payment arrangement for a balance and deposit in order to aide in paying a balance over time and avoid discontinuance of service. The City has two types of payment arrangements. One is for the Deposit and one is for the Balance on the account. The payments made when a customer has an active Deposit payment arrangement will go first to cover the deposit arrangement amount then the remaining will be put to the account balance. When a payment is made on an account with a Balance payment arrangement, the payment will go first to cover the payment arrangement and the remaining goes to the Balance of the account.

For the time period of January 2016 through YTD September 2017 a total of 3,091 Deposit payment arrangements were provided in the amount of \$630,913.47 and for this same time period for Balance payment arrangements a total of 4,851 were provided in the amount of \$1,747,929.44.

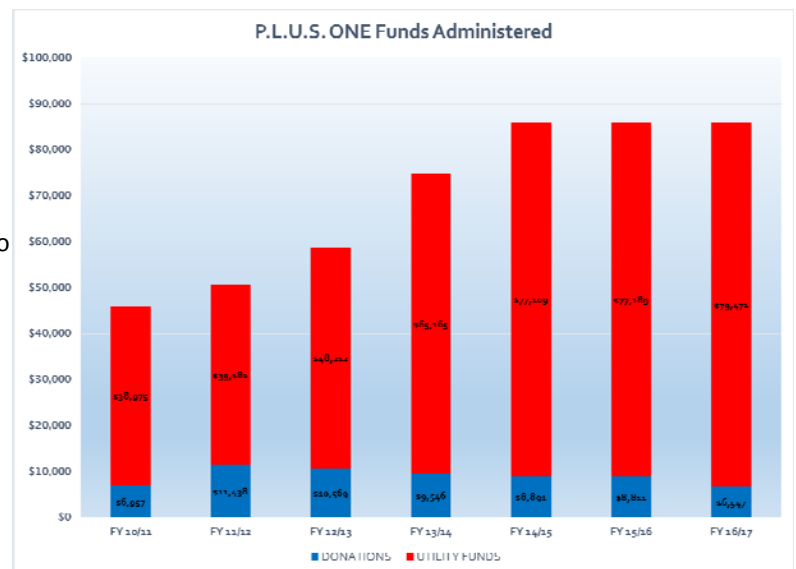
P.L.U.S. One

The Prevent Loss of Utility Service (P.L.U.S.) One Program is designed to assist in the payment of utility bills for customers who may be low income and/or experiencing a temporary financial crisis. Interfaith Ministries Inc., a local non-profit agency, administers the P.L.U.S. One Program. City Council approved the continuance of this administration agreement in Ordinance 2014-425 on December 16, 2014. Through Interfaith Ministries, Inc., customers can apply for assistance to pay utility bills.

Allocation of Funds and Assistance Provided

Interfaith Ministries, Inc. is allocated an annual amount not to exceed \$100,000. This amount is funded from utility customer donations and Denton Municipal Electric. \$86,000 of the funds are utilized to assist those in need. \$14,000 covers Interfaith Ministries, Inc.'s administrative costs.

The contract term for the P.L.U.S One Program is maturing December 2017. The timing of the contract will allow for staff to incorporate feedback and direction from the Public Utility Board and City Council in the Request for Proposal.

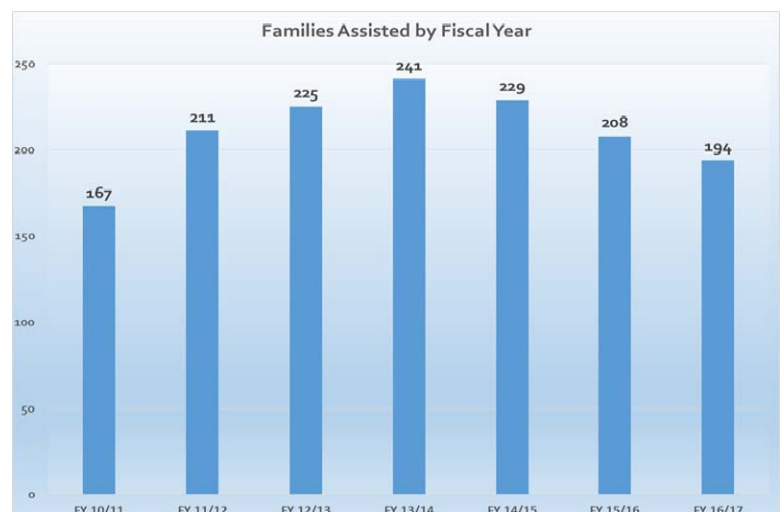


Families Assisted

The positive impact that the injection of additional funds has had on the P.L.U.S. One program is evident. Since FY 10/11 to current, 1,441 families have been assisted for a total of \$432,639.35.

Historically, August and September are the highest volume months for request in utility assistance.

Not only are more families receiving help, but the average amount of assistance provided to each family has increased from \$176 in FY 10/11 to \$332 in FY 16/17. In the past, the funds administered to a family in need may not have covered the total amount of their past due bill. This is less likely to happen thanks to the funding agreement between the City and Interfaith Ministries.



Assistance Requested by Interfaith Ministries, Inc.

An average of 97 families per month seek utility assistance [1,164/year]

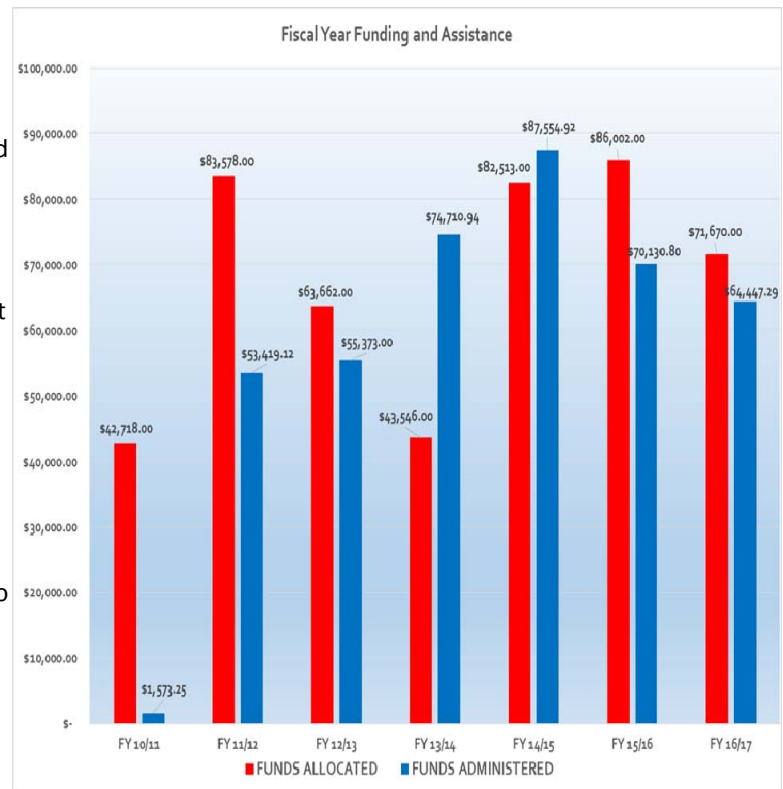
An average of 86 families per month (88%) are denied assistance [1,032/year]

- 50% are denied due to the 1 time assistance within 12 month guideline
- 50% are denied for a variety of other reasons
 - Applicant does not show up for appointment
 - Applicant no longer needs assistance
 - Applicant does not provide proper documentation

Discussions with Interfaith Ministries, Inc. reveal that demand in funding has decreased due to lower bills influenced by mild weather and clients that do not meet the program requirements. Two specific opportunities identified to provide more assistance to families are:

- Assisting families regardless of tenure at address
- Assist families more than once per 12 month period

Both of these opportunities can be accomplished without any agreement amendments.



Criteria Used By Interfaith Ministries, Inc.

Interfaith utilizes the contract as agreed with the City – Exhibit A Guidelines.

A. The following guidelines apply to the use of Program funds to provide assistance:

1. Denton Municipal Utility customers who qualify for the Program will be eligible for only one payment from the Program fund during a twelve-month period, unless otherwise qualified and designated as an extreme hardship by CONTRACTOR.
2. Persons receiving assistance must be a City of Denton residential service customer, and provide evidence of a financial hardship. In order to be eligible, customers must produce documentation verifying an unpaid utility account balance payable to the City of Denton, Texas, or demonstrate that utility service from the City of Denton, Texas is in jeopardy of delinquency and/or disconnection.
3. Assistance may be used for short-term crisis intervention to restore or maintain utility service. Additional assistance may be approved by CONTRACTOR if the financial circumstances of the person(s) receiving assistance is designated as an extreme hardship.
4. Apparent consistent excessive utility usage will be a negative factor in determining eligibility. These cases will be referred to the City of Denton Customer Service Department for review prior to considering and/or providing

Program assistance.

5. The overall financial resources available to the applicant will be considered in determining eligibility.
6. Program assistance will be solely in the form of payment made or obligated to the City of Denton for Denton Municipal Utility service only. There will no disbursements other than to the City of Denton, Texas by CONTRACTOR.
7. Priority will be given to residential households whose circumstances are as follows:
 - a. Gross family income is 65% or less of the Area Median Income ("AMI").
 - b. Electricity powered life-support systems are in use.
 - c. Serious illness exists with a member of the household.
 - d. Disabled or homebound or elderly residents age 65 years or above, existing on a fixed income reside there.
 - e. Small children of that household reside at the dwelling.
 - f. Recent emergencies such as a home fire, layoffs from work, excessive medical expenses, etc., have occurred and are beyond the applicant's control.
8. Preferences will be given to families that meet the income guidelines, who have also resided in Denton for at least six (6) months, and families who have not received utility assistance within twelve months of the current application.
9. Although income is not the only criteria for determining eligibility, it will serve as a strong indicator of need and ability to pay. All requests will be treated on a case-by-case basis.

Area Median Income from Housing and Urban Development

FY 2017 Income Limits Summary									
FY 2017 Income Limit Area	Median Income <small>Explanation</small>	FY 2017 Income Limit Category	1	2	3	4	5	6	7 8
Denton County	\$73,400	Very Low (50%) Income Limits (\$) <small>Explanation</small>	25,700	29,400	33,050	36,700	39,650	42,600	45,550 48,450
		Extremely Low Income Limits (\$)* <small>Explanation</small>	15,400	17,600	20,420	24,600	28,780	32,960	37,140 41,320
		Low (80%) Income Limits (\$) <small>Explanation</small>	41,100	47,000	52,850	58,700	63,400	68,100	72,800 77,500

In addition to the guidelines, customers complete an application process with applicable documentation demonstrating a need.

Interfaith Ministries, Inc. Administrative Costs

Per the agreement, administrative expenses up to \$14,000 per year are allowed. Staff spends 20 minutes per screening and typically 45 minutes to an hour per assistance appointment. An average of approximately \$12.03 is invested per applicant seen. The fees are broken down as follows:

- a. **Personnel/Admin \$11,350** – A portion of the salary of the caseworker who assists Plus One clients and supervises the assistance volunteers. This assistance includes assessments, budget counseling, and referrals. A portion of salary for the Administrative Assistant who processes the payments from the City, writes checks, verifies accounts and submits reports to the City of Denton.
- b. **Phone/Technology, \$950** – reflects a portion of the costs of the client phone lines, internet service for the client database, and the client tracking software.
- c. **Occupancy, \$1500**– A portion of the annual building expenses including upkeep, maintenance, repairs, and Agency Utilities.
- d. **Office Supplies, \$200** – a portion of items needed to assist clients, general office supplies, paper, envelopes, postage to mail checks, etc.

Solutions to Help Customers

The mission of the Customer Service department is to Help, Serve and Educate all customers. Consistently seeking processes and programs that will enhance the customer experience is a continual focus. Offering methods to waive or pay out a deposit or balance, in addition to understanding specific needs in the community, while treating all customers with dignity and respect is critical. A new program that will soon be offered to enhance and assist residential customers is the Prepaid program.

What is Prepaid?

Put simply, the prepaid billing model means, “Pay as you go.” Rather than establishing utilities service, waiting for a bill, and attempting to make payment prior to a utility enforced due date, prepaid utility customers are afforded the opportunity of prepaying for the amount of utilities they feel will be used. Instead of receiving a bill, prepaid customers monitor their own utilities usage, and when they observe that their payment is almost exhausted, they remit another prepayment.

What are the benefits?

Utility providers are finding that advanced metering systems provide the ability to present near real-time usage data to their customers. It is this ability that enables the use of the prepaid billing model. Prepaid software utilizes data received from both Advanced Metering Infrastructure (AMI) and a customer information billing system to track and present this data in a method that is easily understood by the end user.

Presentment of usage trends, payments, and credit balances allows utilities customers to effectively manage their account. This information is readily available for customers to retrieve via the internet, mobile telephone, or by calling a toll free number. In addition, prepaid customers can elect to have customized notifications sent to them through text messaging, email, or automated telephone calls to alert them when their prepaid balance is low.

In addition to the benefits detailed above, utility systems that have adopted the prepaid model are reporting reduced electric consumption of 10-12% for participating customers. This is a cost savings for both the end user as well as the utility provider. Prepaid utilities also allow customers to avoid paying for service deposits, delinquent fees, and because all usage is purchased in advance, late fees and overdue interest are not assessed. There are no end-of-the-month bill surprises and it offers a flexible payment schedule. Customers have a greater awareness and control of their energy bills. The City’s

utilities benefit through improved cash flows, improved debt recovery, and reduced mailing and collection costs. Staff believes that such a system can have a positive effect on both the volume and dynamic of interactions between the City's employees and utilities customers.