



MEMORANDUM

DATE: November 13, 2017
TO: Public Utilities Board & City Council
FROM: Tiffany Thomson
SUBJECT: Credit & Collections Follow-Up Questions

During the October 9, 2017 Public Utilities Board meeting and October 17, 2017, City Council meeting Customer Service presented the Credit and Collections results and practices. The Board and Council asked staff for further information:

- 1. What percentage of smart meters have the remote connect and disconnect features?**
 - a. When did this feature get added, and how many of the newer meters have been installed since this time?**

Advanced Metering Infrastructure (AMI) Meters

Denton Municipal Electric has AMI meters which provides the ability to receive remote reads and have two-way communication with the meter. They also have AMI Disconnect meters that provide the ability to receive remote reads, have two-way communication with the meter and process remote disconnects/reconnects.

DME initially started their AMI project in 2009 with 500 Disconnect meters as a pilot project. After the pilot stage, phase one began with 95% Disconnect meters and 5% AMI meters. The following phases averaged approximately 50% Disconnect meters and 50% AMI meters being deployed. AMI meters were installed on single family residential and Disconnect meters on multi-family residential. The cost for the AMI meters were \$83.53 each and the Disconnect meters were \$183.53. In 2014, DME started only purchasing the disconnect electric meters because the cost differential gap decreased. Today, the disconnect electric meter is \$142 each. It is standard practice that meters are being replaced with the disconnect meters when DME is servicing an address. DME has completed 99.9% of the AMI implementation as planned. As of September 29, 2017, 53% of the AMI meters are Disconnect meters and offer the ability to disconnect/reconnect electric service remotely.

- 2. Process of transferring services within Denton Municipal service area.**

Connecting & Transferring Utility Service and Fees

The current fee to connect or transfer utility services from one address to another in the Denton Municipal Electric service area is \$23.00. Staff estimates that our cost for this service is \$35.00. In addition to this cost, there is also an administrative fee associated with processing a connection of utility service that is not included in the \$23.00 fee. This fee is allocated to Denton Municipal Electric by Utilities Customer Service to cover the time and effort required to review

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meter reads for accuracy, complete the work order that will close/activate an account in the Customer Information System, produce a final bill for mailing or activate a new account for billing.

3. What labor, cost, and process is involved in disconnecting services?

- a. How does this compare to the fee charged ?
- b. Are there any discounts offered for the accounts with “smart” meters?

Disconnecting Services for Non-payment and Fees

Currently, there is a \$46.00 Delinquent Service Fee charged on the following month's bill when an account is scheduled for disconnection for nonpayment. Staff estimates that our cost for this service is approximately \$70.00. The labor cost is approximately \$53.87 and equipment cost is \$16.00. A discounted rate is not currently in place for AMI meters. This may be something to look into for multi-family residential, but a fee would still need to be assessed on a single family residential since obtaining the water meter read is a manual process. Another cost to take into consideration is the cost associated to screen the account for disconnection of nonpayment, process the final billing, deactivate the account and cover mailing/postage of the final bill. In addition to this cost, it will take the customer and representative a longer turnaround time to connect new services due to new tenant validation.

Below is the process for the AMI Meters:

AMI Meter Disconnect Process:

- Log into AMI system
- Run a transaction on demand that opens the switch inside the meter
- Run a switch status check to confirm switch is open and run demand read
- Complete the work order
- In the event the disconnect process fails, staff will drive to the location and utilize laptops to communicate to the meter via probe wire in order to disconnect the meter.
- Gather meter read and complete the work order

Non-AMI Meter Disconnect Process:

- Drive to the location remove the meter
- Place boots on the back of the meter
- Replace and Reseal Meter
- Collect Read and Complete Work Order

In the event a customer is home during the disconnection of service and they approach the field technician, the employee will verify to see if a reconnect is entered on the account. If a reconnect has not been established, the field technician will contact Customer Service to verify any notes, or see if a payment has been made. The field technician will advise the customer to contact Customer Service to discuss the account if action still needs to take place on the customer's part. If the customer is working through extenuating circumstances, the technicians have worked with customers on timing of the disconnection while the customer researches the account.

4. What percentage of staff time staff is related to delinquent accounts?

Staff Time on Delinquent Accounts:

Customer Service has a dedicated Credit and Collection Specialist that is responsible for initiating and maintaining Customer Service's credit and collection processes including activity related to active, inactive, and uncollectible debts. The Specialist is also the liaison for the multiple help agencies the City partners with to aide customers with documentation request, customers' needs and pledges of payments. The Customer Service Representatives fielding phone calls and in person requests, spend approximately 19% of their time on delinquent accounts. This represents approximately \$378,439 out of Customer Service \$5,426,341 total budget, or 6.9%

5. How are credit scores determined, and what are the components of this score?
a. How deposits are calculated based on this score?

Credit Screening and Risk Assessment Scores:

In order to ensure deposits and collection actions are performed in a fair manner, staff utilizes a credit screening process that determines the credit risk associated with potential and existing utility customers. The City has a contract with Online Utility Exchange to verify identity and perform a credit check when requesting service. The credit check is a "soft" inquiry on the customer's credit, and as such, will not negatively affect their credit rating. The customer credit score is based off the following factors:

- Considers anything on the consumers credit file
- The deposit decision is based on the Experian Risk model score
 - This is based on the VantageScore, if the customer has an unpaid utility or telecom debt, have they filed bankruptcy, etc.
- The score provided on the Adverse Letter is the Experian VantageScore. This is different from the customer's FICO score.
 - **VantageScore** – A consumer credit rating product developed by three credit rating agencies – Equifax, TransUnion and Experian. VantageScore uses a rating scale (501 to 990). The score is calculated through a weighted average of a consumer's available credit, recent credit, payment history, credit utilization, depth of credit and credit balances.

VantageScore calculation categories		
Category	Description	Weight ^[15]
Payment history	how timely and consistent your payments are	Extremely influential
Age and type of credit	length of credit history and types of credit previously received	Highly influential
Percent of credit limit used	debt-to-credit ratios and how much credit is available	Highly influential
Total Balances/Debt	what your total debt is, most likely, delinquent debt is counted more harshly than current debt	Moderately influential
Recent credit	how recent and many new hard inquiries and new accounts there are	Less influential
Available credit	how much credit can be accessed, for example, could you spend \$50,000 of credit tonight or within the next week	Least influential

- Staff researched if Online Utility Exchange can pull from other credit bureaus other than Experian, for example – Equifax or TransUnion. Staff confirmed the company only utilizes Experian, however the VantageScore that is being used does incorporate information from Equifax, TransUnion and Experian.
- Staff also researched what other companies can provide the service of verifying identity and credit assessment for utilities. Experian directly offers programs that perform identity fraud prevention and credit risk assessments for new applicants.
- Staff benchmarked with other utility providers and found that 64% of utility providers use credit screening practices similar to City of Denton to assess risk and charge security deposits accordingly.

Currently, 70% of new customers have received a credit score of “Fair” or better, and as a result, their deposit requirements have either been waived or reduced to an average of one month of their annual utility billing. Customers who have a lower credit rating are asked to pay a deposit equal to two months of their average annual utility billing. When a deposit is requested, the customer is provided an adverse letter that details additional information on the score and how they can obtain a free credit report. In order to assist the customers being charged a deposit, payment arrangements will be offered to pay out the deposit over several months.

6. How/why are payments applied to deposits first?

Deposits Applied to Utility Accounts

Customer Service extended 3,091 payment arrangements last year in order to assist customers with paying out the deposit. Payments are allocated to the deposit first in order to secure the account. If deposits were not paid first, it would create an ongoing balance owing until satisfied. The Customer Information System (CIS), does offer the ability to change this process. However, this would require testing and a business review of the process. This option would allow a customer to maintain service without paying a deposit unless a manual process was put into place by Customer Service to monitor unpaid deposits. A customer would be able to negate the deposit due because funds will not suffice the deposit first and the customer may choose to pay the utility balance only. Currently, staff has measures in place to ensure a negative impact is not occurring on the customer’s account when the deposit is being sufficed first.

7. What is an original versus an amended deposit?

New Customer (Original Deposit)

Customers coming into the utility system will be asked to pay a deposit, or will have the deposit waived based off of their credit risk score.

- Credit Risk Score retrieved from Online Utility Exchange
 - Green= No deposit required
 - Yellow = 1 month average utility bill for the service address
 - Red = 2 month average utility bill for service address
 - If no usage average is available, such as new construction, Customer Service utilizes a deposit matrix by square footage.

Reasons for Additional Deposit (Amended Deposit)

Customer Service staff monitors customer payment behaviors to determine if adequate deposit coverage is secured.

- Deposits are reviewed in October, January, and April
 - Not performed in July due to higher bills influenced by weather and increased usage
- Accounts with at least 6 months of utility service on their account, are reviewed for adequate deposit coverage and payment behavior
- Only customers with a credit rating of D, E, or F, will be eligible for an additional deposit
 - The credit rating is determined by the number of late fees assessed, overdue interest, and events occurring on the account:

Credit Event	Points
Late Fee	50
Overdue Interest	100
Disconnect Notice	200
Disconnect Non-Pay	500
Returned Check	200
NSF Check	200
Collection Letter	1000
Collection Agency	1000
Write Off	2000
Bankruptcy	2000

Customer Ranking	Points Accrued
"A" Rating	<150 points
"B" Rating	150-300
"C" Rating	301-600
"D" Rating	601-900
"E" Rating	901-2,000
"F" Rating	>2,000

- Additional deposit amount is determined by:

No Deposit on File:

Customers total utility usage dollars billed/number of months at address x 2 = 2 average monthly billings

Deposit on File:

Customers total utility usage dollars billed/number of months at address x 2) – current deposit amount on file.

Customer Service also considers several factors prior to assessing any additional deposit amount:

- Determine if the increase is at least 53% greater than the deposit currently on file.
- Has the customer been paying on time within the last 2 months?
- Is customer on a payment deferment? Balance or Deposit
- Was customer disconnected for nonpayment within last 2 months?
- Was deposit assessed within the last 2 months?
- Did customer pay a deposit installment within the last 2 months?
- Will there be credit events “drop off” and create a C status for the customer?
- Is the customer a Victim of Family Violence?
- Any billing issues that have affected their average? (water adjustments, adjusted billings, etc.)
- Is customer receiving recent utility assistance from a help organization

8. Can we reduce the amount of deposits required?

Reducing Security Deposit Amounts:

Staff has vetted out multiple options on how the deposit can be reduced. Four options and details are as follows for new and existing customers:

Option 1: Charge deposit equaling one month average utility bill for service address at time of connection – Additional deposit assessed quarterly or at time of disconnection for non-payment

- Quarterly review of accounts that have 6 months services and have established poor payment history. Additional deposit assessed and total deposit amount to equal two months average utility billing.
- If customer is disconnected for nonpayment, additional deposit assessed and total deposit amount to equal two months average utility billing.

Option 2: Charge deposit equaling one month average utility bill for service address at time of connection - \$50 increment increases at quarterly review or time of disconnection for non-payment

- Quarterly review of accounts that have at least 6 months of services and established poor payment history. Additional deposit would be assessed in \$50 increments until total deposit is equal to two months average utility billing.
- If customer is disconnected for nonpayment, additional deposit is assessed in \$50 increments until total deposit is equal to two months average utility billing.

Option 3: Charge deposit equaling one month average utility bill for service address at time of connection – No increases

- This deposit would cover only one month utility service
- At time customer disconnects services voluntarily, they could have one month to two and one half month services that would be billed for
- If customer is disconnected for nonpayment, customer has two utility bills on the account and one half month that is to be billed
- This option leaves the City at risk of higher uncollectable debt

Option 4: No changes to deposit process

9. Can we utilize a 1st and 15th payment arrangement for utilities?

Billing Due Dates & Payment Arrangement Timeline:

The City service area is divided into 21 different areas called cycles. This allows for each cycle to be read, billed and due on separate days. In addition to distributing the work load of the billing processes throughout the month, it also promotes cost effectiveness with the field technicians being able to remain in one area of town to perform the meter readings for the customers. This saves on the gas, keeps mileage down on vehicles, and increases staff productivity.

Reducing payment arrangements and due dates to be only the 1st and 15th of each month, could increase the number of days past due for most accounts. The increase would be from 37 days past due up to 79 days past due. The scenario would create up to three billed service periods due on some accounts depending on their needs.

Cycle	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Read	1	2	3	6	6	7	8	9	10	13	14	15	16	17	20	21	22	27	28	29
Bill	7	8	9	10	13	14	15	16	17	20	21	22	27	28	29	30	1	2	3	
Disconnect	14	15	16	16	20	21	22	23	24	27	28	29	4	5	6	7	8	9	10	
Current Due	23	24	25	26	26	29	30	31	1	2	6	7	8	13	14	15	16	17	18	19
Arrangement	19	20	20	21	21	25	26	27	28	29	2	3	4	9	10	11	12	13	14	15

Days past due if all arrangements set for 1st or 15th																				
	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Days past due	55	54	54	53	53	49	48	47	46	45	42	41	40	65	64	63	62	61	60	59
	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Days past due	38	37	37	36	36	32	31	30	60	59	56	55	54	79	78	77	76	75	74	73

With the release of the new Payment Portal, Paymentus, staff is able to have greater visibility to when our customers are scheduling payments.

- Based on data from our new payment portal, scheduled payments are at their highest around the 15th of the month. Of the 552 accounts that have chosen to set up their accounts on a scheduled specific date of the month, 147 have chosen for their payment to be processed on the 1st of each month and 51 have chosen the 15th. The customers on a scheduled payment would not have a past due balance putting them in danger of disconnection of services as the

total amount due on the 1st or the 15th would automatically be paid with this payment method each month. The City is able to be more flexible with the payment arrangements by:

- Budget Billing is an option that prevents any late fees and overdue interest
 - Exceptions can be made to accommodate a customer who may have a balance at the time of the request. The balance due could be incorporated into the budget period and a portion of the amount due could be added into their monthly budget billing amount.
- Scheduled payment for a later date – Not a Reoccurring payment
 - Customer can make an arrangement to pay on a later date and we can enter their payment information into the scheduled payments within Paymentus. This ensures payment to the City and meets the customers' desired payment date.

10. What is the impact of an additional \$100,000.00 funding for the P.L.U.S One Program?

Additional Funding Impact for P.L.U.S One Program:

Interfaith Ministries, Inc. is allocated an annual amount of \$100,000 to administer the P.L.U.S One Program. This amount is funded through utility customer donations and the City. \$86,000 of the funds are utilized to assist those in need. \$14,000 covers Interfaith Ministries, Inc's administrative costs. For fiscal year 2016/2017, 231 families were assisted for a total of \$80,502.93.

Staff is not certain what the additional funding impact will be. We recommend modifying the criteria in order to gain more data on need and assistance.

Staff had previously identified opportunities to help more families:

- Assisting families regardless of tenure at address
- Assist families more than once per 12 month period (Up to 3 times a year)

In addition, staff recognizes additional opportunities to aide more customers.

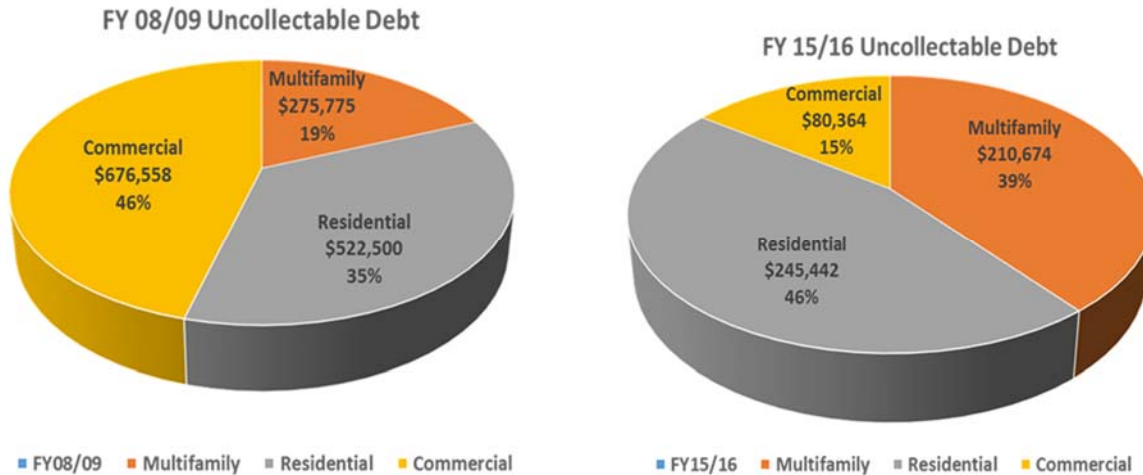
Updating and defining specific guidelines within the contract are additional ways to help more families and understand what barriers customers are facing.

Generally, we are recommending:

- Currently, the program does not assist with deposits. Allowing funds to be used for customers needing aide to pay a deposit, will address an immediate need.
- A requirement that the vendor establish written program guidelines that the City reviews and approves annually and that must be provided to clients.
- The monthly reporting should capture more data to help better understand the barriers to assistance.
- The addition of training on limitations of the funding that will help the agency better understand its authority in qualifying clients for assistance.

The contract with Interfaith Ministries, Inc., expires December 2017. A six month extension per the contract terms has been completed to allow for feedback from the Public Utilities Board and City Council to be incorporated into the specifications.

11. Breakdown of uncollectable debt from FY 08/09 and FY 15/16 by customer type:



12. Map reflecting accounts with security deposits, including any race/ethnicity data that may be available.

Staff was able to capture the deposit map (see Exhibit 4), however race/ethnicity information was not able to be captured.

Additional Need Identified:

Staff has also identified an additional opportunity to help address a specific community need. Through a deposit waiver process for any individual or family experiencing homelessness that is working with a help agencies.

Through the provision of deposit fee waivers, the City becomes a valuable partner with agencies, helps lower a barrier to housing, and provides immediate assistance to individuals or families experiencing homelessness. Customer Service has an established history of providing this option to a local non-profit, Denton County Friends of the Family.

In effort to maintain an efficient process, Community Development will screen each agency's eligibility for the waiver program through a brief form. The anticipated requirements will be that the agency must be a 501(c) (3) non-profit organization and have a program that is providing rental and housing assistance to persons who are experiencing homelessness. This process will be a fair and open process open to any qualified agency.

Customer Service will provide qualified agencies with a form letter for clients to present to Customer Service when they request new utility service. This form letter will state that they qualify for a deposit waiver and Customer Service will waive the deposit for the client per program guidelines.

While other agencies may apply, these agencies have currently been identified that provide housing assistance to individuals or families experiencing homelessness:

- Catholic Charities
- Denton County Friends of the Family
- Denton County MHMR Connection Program
- Giving Hope, Inc.
- The Salvation Army Denton