



Legislation Details (With Text)

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Attachments: 1. Exhibit 1 Presentation, 2. Exhibit 2 Utility Credit and Collections Review, 3. Exhibit 3 P.L.U.S One Program Contract, 4. Exhibit 4 Ordinance 2010-292, 5. Exhibit 5 Ordinance 2016-276

Date	Ver.	Action By	Action	Result
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Agenda Information Sheet

DEPARTMENT: Finance

DCM: Bryan Langley

Date: October 9, 2017

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding the Credit and Collection Policy of the City Utility System.

BACKGROUND

On November 16, 2010, the City Council unanimously approved the implementation of Ordinance 2010-292, which details the credit and collection practices utilized by Denton Municipal Utilities. The changes undertaken were in response to recommendations made in a 2008 management review conducted by Navigant Consulting as well as evidence that the City's uncollectible debt was increasing in amount and in proportion to total accounts receivables. The purpose of the ordinance revision was to reduce the amount of uncollectible utility debts through credit screening, deposit assessment, and collection procedures that encourage on time payment. Additionally, the new processes were designed to ensure the fair collection treatment of the City's utility customers by basing decisions on credit history, payment behavior, and utility usage. The aforementioned processes were implemented on January 1, 2011. In addition, the City Council approved a new agreement between the City of Denton and Interfaith Ministries on March 1, 2011 to increase funding provided by the City to the Prevent Loss of Utility Service (P.L.U.S. One) program. On October 2, 2012, the City Council approved Ordinance 2012-258 to allow the imposition of liens on real property for non-residential utility debts exceeding \$1,000.

Staff has closely monitored the impact of each of these changes over the last several years, and the results indicate that the primary objectives of these initiatives are being met. The number of delinquent accounts

continues to decrease, credit screenings are ensuring that customers receive fair collection treatment, and uncollectible debts have been reduced. In addition, the P.L.U.S. One program is successfully providing assistance to area families that are struggling to pay their utility bill due to a financial hardship. The following report provides additional data regarding these results. In addition, a more in depth analysis has been attached for review.

Credit Screening and Risk Assessment:

In order to ensure deposits and collection actions were performed in a fair manner, staff implemented a credit screening process that determines the credit risk associated with potential and existing utility customers. For new customers entering the utility system for the first time, an external credit report is being utilized to determine the likelihood of default. 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. This is a 9% increase over the 61% from 2013. Of new utility customers, 30% were categorized as a possible credit risk. The majority of these customers received that classification due to a recent bankruptcy or other unpaid utility bills. Customers who pose a credit risk were asked to pay a deposit equal to two months of their average annual utility billing.

For existing customers, payment behavior recorded through August 2017 indicates that 86% of the City’s customer base consistently pays on time. Additionally, only 14% of the City’s existing customers would be classified as a credit risk due to multiple late payments and/or disconnected for non-payment. Customer accounts with this type of payment history are reviewed each month to determine if appropriate deposit coverage is in place. These results indicate that the majority of the City’s customers are entering the system with good credit history and are remitting their payments on time.

Fiscal Year	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
Count	7,953	7,357	7,333	6,460	5,378	5,166	5,301	5,015	5,124	4,789

Service Deposits:

When a deposit assessment is required, it is vital that the deposit amount be representative of the bills generated by the customer’s utility usage. Prior to implementation of ordinance 2010-292, all customers were assessed a deposit of either \$150 for residential customers or \$300 for commercial customers. Of the 1,350 residential deposits assessed over the past two years, only 10% of the affected customers actually paid less than the previous standard of \$150. Similarly, 40% of commercial accounts that received a deposit assessment paid less than the previous standard of \$300. The fact that 28% of the commercial deposit assessments required a payment in excess of \$900 illustrates the previous deposit standard was not adequately insulating the City from many unpaid commercial debts.

In the last two calendar years to date, 4,048 existing customer accounts have been assessed a utility deposit in the amount of \$1,186,825. (Please note that we did not assess any deposits during the hotter part of the summer where there are generally higher utility bills (June - August) in either year.)

As mentioned in the previous section, deposits are assessed when an external credit score or a customer’s payment behavior with the City of Denton indicates a credit risk. When reviewing existing accounts we take the following into consideration before assessing a deposit:

- Has the customer been paying on time within the last two months?
- Is the customer on a payment deferment for the balance or the deposit?
- Was the customer disconnect for nonpayment within the last two months?
- Did the customer pay a deposit installment within the last two months?
- Will there be credit events “drop off” and create a “Fair” credit status for the customer?
- Any billing issues that have affected their average? (Water adjustments, adjusted billings, etc.)
- Is the customer receiving recent assistance from a help organization?

While the assessment of deposits is certainly a focus of the revised collection guidelines, it is equally important that deposits be refunded in a timely manner for existing customers who routinely pay on time. Customers with one or fewer minor delinquencies over a twelve month period qualify for a refund of any previously paid deposit amount. For 2016 calendar year and 2017 YTD, 1,259 residential customers have qualified for and received a deposit refund with interest due to their excellent payment history.

	CalYr2016	YTD2017*	Total
Residential Deposit Refunds	1,011	248	1,259
*Jan/2017- Aug2017			

Discontinuance of Service:

Discontinuance of service may occur when an account is not paid according to the due date as noted on the bill. A customer will be notified through communication on their bill and by phone prior to discontinuance of service. The notifications include two bill notices, a friendly reminder call on day 25 after the bill is issued and another courtesy call on day 34.

The average disconnects of service per month since FY 08/09 to present is 730. On average 98% of customers reconnect services after being disconnected for non-payment. When an account is disconnected, a \$46.00 delinquent service fee is charged on the next bill. In most cases the account is restored the same day. If the customer wants guaranteed same day service to reconnect the account, a guaranteed same day service fee of \$61.00 is billed on the next bill.

Service disconnects are not processed during times of extreme weather and during major holiday weeks (Thanksgiving, Christmas, and New Year's)

Payment arrangements are available to customers to aide in paying out balances and deposits while extending time to avoid discontinuance of service. One of the objectives of Ordinance 2010-292 was to establish trackable payment arrangements for customers to allow for more time and prevention of service interruption. 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.

Customer Service works to help customers avoid discountenance of service by providing proactive notifications of balances due and offering payment agreements to allow for more time to pay.

Uncollectible Debt:

The primary purpose of Ordinance 2010-292 was to reduce the amount of uncollectible debt associated with utility services. A debt is classified as uncollectible after a customer's final bill has remained unpaid for more than 180 days. Prior to implementation, uncollectible debts exceeded \$1.1 million for fiscal years 08/09 and 09/10. In both cases, these amounts represented more than 0.6% of the City's total utility receivables. Navigant Consulting recommends a target of 0.25% or less. The credit screening and deposit assessment processes were designed as measures to limit the amount of debt reaching this status.

For fiscal year 2015-2016, uncollectible utility debts equaled \$536,481. This was equal to 0.22% of the total receivables billed during that period and represented a 13% reduction over the preceding fiscal year. For fiscal year 2016-2017, uncollectible debts for the months of March through September are not yet known. Based on the data through February 2017, the uncollectible debt stands at \$148,480 or 0.14%. Staff will have definitive debt figures for the fiscal year 2017 by April 2018.

Fiscal Year	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17*
Bad Debt	\$ 1,434,547	\$ 1,135,928	\$ 672,107	\$ 622,792	\$ 582,068	\$ 694,137	\$ 619,296	\$ 536,482	\$ 148,480
*Bad Debt as of Feb/2017									

Utility Liens:

Staff would also like to point out that there are account types that are not being effectively addressed by Ordinance 2010-292. The accounts that can pose a challenge to collect payment on do not have a standard utility service tied to the property. Non-standard utility accounts can include services such as drainage, contracted utility work, or use of the City's landfill. Frequently, deposits and termination of service are not applicable for these types of services, and as a result, collection of these debts and enforcement of payment can prove extremely challenging.

On October 2, 2012, Council approved Ordinance 2012-258 to allow liens to be placed on real property owned by such debtors. The ordinance requires that \$1,000 in debt be accumulated following the implementation date of the ordinance in order for a lien to be filed. Since the passing of the ordinance, the City has filed liens on three separate properties totaling a debt of \$94,027.68. Though liens have been filed, payment for drainage services does not come in most cases until the property is in the selling process. Since January 2016, we have collected \$8,896 for property liens that would have not been collected without Ordinance 2012-258.

Staff does not anticipate utilizing utility liens for a large number of debts; however, the amount of debt associated with the accounts that qualify makes this a key initiative in reducing uncollectible debt.

Customer Payment Behavior:

In order to encourage customers to pay in accordance with their utility bill due date, the late fee was increased from \$10 to \$20 effective February 1, 2011. 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 4,789 for fiscal year 16/17 YTD.

The results since that time indicate that many customers have made the necessary adjustments to pay on time. From 2011 to 2017, the number of delinquent accounts dropped by 36% while the customer base has increased by 9%.

A portion of the revenue generated by the increased fee has been allocated for use in the City's P.L.U.S. One program.

P.L.U.S. One:

The P.L.U.S. One program was created in 1983 to assist in the payment of utility bills for families experiencing a financial hardship. From 1983-2010, the program has been funded strictly through donations from other utility customers. Because this amount was not adequately addressing the needs of families within the City, in 2011 the Council elected to supplement the program's donations by allocating an additional \$85,000 per year.

Allocations of the additional funding began in April 2011. Since that time 1,631 families have received an average of \$300 in assistance. While reviewing the same period in 2010, staff found that only 37 families received assistance averaging \$176. It is apparent that the additional funding has made a significant difference in not only the number of families being assisted, but also, in the amount of assistance provided to each family.

Opportunities Identified:

(88%) of people seeking assistance are denied

- 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
- Staff recommends to allow Interfaith Ministries, Inc. to look at more specific situations to help the customers as needed

Both of these opportunities can be accomplished without any agreement amendments. With the additional availability of assistance, additional funding may aide in helping more families.

Additional Help Agencies Assistance:

The City receives payments from other help agencies that are not funded by the P.L.U.S One program. Customer Service works with the help agencies by providing documentation and answering questions related to the customer's needs. For FY 15/16, 895 payments totaling \$134,263.27 and FY 16/17, 1,119 pledges totaling \$149,257.34 have come from the following help agencies:

- Texoma Council of Governments (TCOG)
- Community Services
- Health Service of North Texas
- Giving Hope

- Morse Street Baptist Church
- Cross Timbers Church
- First Baptist Denton
- Singing Oaks Church of Christ
- Other Various Churches

TAKEAWAYS AND RECOMMENDATIONS

The results through 2017 indicate that the primary goals of Ordinance 2010-292 are being met. Fewer customers are missing their due dates, credit screenings are helping to ensure fair collections treatment, and uncollectible debts are trending downward. As a result, staff recommends that Ordinance 2010-292 remain intact in its current form.

Staff continues to monitor debts that meet the conditions outlined in the Ordinance 2012-258 and file liens as necessary.

In regards to the P.L.U.S. One program, families experiencing a financial crisis are now more likely to receive the assistance they need. In efforts to increase assistance, staff has had conversations with Interfaith Ministries, Inc. Two opportunities specifically being addressed are to assist with families regardless of recent tenure at current address and to be able to assist more than once in a 12 month period depending on circumstances. Staff recommends to allow Interfaith Ministries, Inc. to look at more specific situations to help the customers as needed. Helping more families by addressing the opportunities may lead to a need for additional funding. Interfaith Ministries recommended seeing how the change in approach will impact funding.

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

Lastly, the Prepaid utilities program will provide another option for all residential customers. Prepaid utilities is a “pay as you go” model that will 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. The Prepaid utilities program is currently in an integration and testing phase. The anticipated soft go live date is May 2018.

Additional data and analysis used during the formation of this report is attached under separate cover.

STRATEGIC PLAN RELATIONSHIP

The City of Denton’s Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Organizational Excellence

Related Goal: 1.1 Manage financial resources in a responsible manner

EXHIBITS

1. Presentation
2. Utility Credit and Collections Review
3. P.L.U.S One Program Contract
4. Ordinance 2010-292
5. Ordinance 2016-276

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