

Discussion/Direction on utility customer cutoffs and
payments plans



Memo

Thru: Mark Gorman, Municipal Administrator; Robin Koutchak, Municipal Attorney

To: City and Borough of Sitka Assembly

From: Jay Sweeney, Chief Financial and Administrative Officer

Date: February 3, 2016

Re: Utility Past Due Payments, Payment Plans, Power Disconnection for Non-Payment, and Municipal Solutions Recommendations

Mayor McConnell and Assembly Members,

Issue: Staff seeks guidance from you in regards to enforcement of utility payment arrangements. We have not been operating in accordance with the provisions of the Sitka General Code in regards to utility payments, payment plans, and electricity disconnection for non-payment.

Background: The Sitka General Code, in SGC 15.01.303, essentially says that if a customer can't pay the bill in entirety, the customer can set up a payment plan. Such a plan, however, is a lifeline, not a method of reducing costs, as payment plans require the customer to pay more per month, not less. The reason that payment plans do not reduce utility costs is that the SGC requires payment plans to include (1) the payment of all ongoing charges PLUS (2) at least \$10 per month more than monthly finance charges on past due amounts.

In order to provide a safety net to our citizens, Sitka has developed a very costly and labor intensive set of procedures for power shut-offs for non-payment. First, once an account becomes delinquent by 15 days, a letter is sent to the customer via the mail, notifying the customer of impending utility shut-off and options for payment plans and assistance. Finance estimates that it sends 10,000 such letters a year, for a cost of \$7,500 (estimated \$0.75/letter) plus staff time.

If a letter has been sent and a customer still has not paid the required amount, then the Electric Department Metering Section employees, in coordination with the collection managers, place pink door hangers advising customers that utilities will be shut off the next day for non-payment. Finance estimates that 4,000 door hangers per year are placed at service locations. The cost of hanging a door hanger is estimated to be \$4.00 per hanger in employee labor, vehicle usage, fuel, and supplies. This amounts to approximately \$16,000 annually.

If electricity is disconnected for non-payment and the weather is above freezing, a customer must pay all

delinquent charges, plus accrued interest, plus a re-connect fee in order to have power restored. The re-connect fee is \$20.00 plus tax. Thus, if a customer can't raise the required amount, then there is the possibility that the customer may live for an extended period without electricity. Finance estimates that power is disconnected approximately 800 times per year. The cost of a disconnection and reconnection is estimated to be approximately \$60 per incident.

Financial Impact: Municipal Solutions reported that as much as \$300,000 in uncollected utility debt might be recovered (page 50 of 177, recommendation #2).

As of January 11, 2016, past due utility debt totals roughly \$429,000 of a total amount due of \$1,544,000 or approximately 28%. Of this amount, \$157,900, or 10%, is 120 or more days past due – seriously delinquent. Also, past due balances represent a de facto rate increase, as customers paying their bills, to some degree, subsidize those who can't.

Employee Perspectives:

Employees involved in the day-to-day administration of utility shut-offs feel that current procedures are inefficient and ineffective. Improving this process can be easily accomplished, but doing so will have an impact on weakening the safety net for citizens on the margin.

Strict enforcement of the Sitka General Code would be efficient, and fiscally prudent, but it will have the direct effect of having power shut off to many more Sitkans with resulting social welfare implications.

Other Actions Being Taken To Mitigate The Problem

The Municipality intends to take two actions to mitigate the problem, both of which have either already been developed, or, are in the process of being developed. They are:

- 1) Implement a voluntary donation program wherein Sitkans can add a small amount to their utility bills to be used to assist other Sitkans in need. Once agreed upon, the extra amount would appear on future utility bills for the donor; the extra donation could also be discontinued at any time. Funds collected would be donated to a local social service agency for administration and aid; the Municipality would not take any part in the distribution of the funds collected. The Municipality has approached the Salvation Army and asked if it would agree to administer the program, as the Salvation Army already provides utility assistance. The social service agency administering the program would have to distribute any donated funds in a non-discriminatory fashion; however, the Municipality would allow latitude to the social service agency to make judgement calls and set standards as to how often, and in what amounts, assistance may be provided. It is important to note that this latitude could result in some Sitkans being denied aid (because they have already been assisted or the amount requested is too high).
- 2) Engage in a public relations and citizen education campaign to educate the public as to the requirements for payment as set forth in the Sitka General Code; the ramifications of not adhering to the requirements of the Sitka general code;, and local social welfare options available for those in need of assistance.

Recommendations: If the Assembly directs that it is not the Municipality's responsibility to provide access to power regardless of the ability to pay, then staff offers the following recommendations:

- 1) Develop some disincentive for those citizens who do have the ability to pay to wait until a pink shut-off door hanger is placed on their door. An easy solution is to raise the charge for such shut-off notices from \$10 to perhaps \$50. It is important to remember that a letter goes out first; responding to the letter can often preclude a shut-off notice being hung.
- 2) Define some limited zone in which judgment calls can be made, but have a hard and fast ultimate credit limit beyond which power is disconnected, even if citizens can pay a little. An example would be setting a "not to exceed" limit of 2 times the average monthly bill, above which power is disconnected. The zone in which judgment calls could be made would be embodied in the Sitka General Code.
- 3) Consider changing the current policy in the SGC concerning how much must be paid to restore power once it has been shut off to residential customers. Currently, the SGC requires payment of all past due amounts plus penalties before power is reconnected after shut-off. This amount is often unobtainable for citizens on the margin who have power shut off.
- 4) Continue to work with social service agencies such as the Salvation Army to provide a safety network for the truly needy. This may include an annual grant from CBS to support this service.