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DEPARTMENT OF
FINANCE

REVENUE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

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March 29, 1988
UCIS44:MLM:KMF

916-449-5454

Budget and Finance Committee/
Transportation and Community Development Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: Utility Service Policy and Procedure Modifications

SUMMARY

This report requests that the Joint Committee of Budget and Finance and Transportation and Community Development recommend that the City Council adopt the attached resolution that approves certain utility service policy and procedure modifications in concept and directs staff to present a comprehensive revision of the City Code Chapters relating to utility services for the City Council's consideration.

BACKGROUND

The Utility Customer Information System (UCIS) project was approved by the City Council on September 23, 1987. The UCIS project is a complete modernization of the City's utility billing system which will result in the ability to better serve the utility customers. The \$991,100 UCIS project has an implementation date of November 1, 1988.

IMPLEMENTATION STATUS

The UCIS project is meeting the original work schedule. As of March 15, 1988, the following progress had been made:

1. The basic system provided by the marketing vendor, ACTRON was installed.
2. Initial training of City staff to operate the basic system was completed.
3. The functional match of the City's policies and procedures with the basic system was completed.
4. The detail design of the modifications of the basic system was initiated.

5. Initial preparation of the conversion of the City's utility master file data to UCIS was initiated.

City staff and ACTRON personnel review of the UCIS project budget indicates that the costs are being incurred generally as planned. Minor adjustments are expected in a project this complex. It does not appear that the net adjustments will result in a cost overrun.

POLICY ISSUES

The UCIS project has provided an opportunity for staff to examine and review City policies and procedures. Staff has determined that the modification of certain policies and procedures will improve customer service. These include:

1. Change from bi-monthly to monthly billing (Attachment 1).
2. Change from four billing cycles to the industry standard of twenty-one (Attachment 2).
3. Change the period of time allowed before delinquent penalties are added and liens are imposed (Attachment 3).
4. Require deposits from chronic delinquent customers (Attachment 4).
5. Offer a prompt/advance payment discount (Attachment 5).

DISCUSSION

The policy and procedure modifications will require revisions to the City Code Chapters relating to utility services provided by the City. Preparation of the specific revisions will require extensive staff time. Staff requests that the City Council approve the policy and procedure modifications in concept and direct staff to present a comprehensive revision of the City Code Chapters relating to utility services for the City Council's consideration.

FINANCIAL

The modifications will result in a nominal \$1.21 increase of the average utility customer's \$390 annual cost for service. The increase will be included in the utility service rates recommended in the FY 1988-89 Proposed Budget.

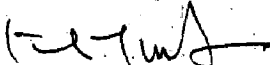
RECOMMENDATION


It is requested that the Joint Budget and Finance and Transportation and Community Development Committee recommends that the City Council adopt the

attached resolution that approves certain utility service policy and procedure modifications in concept and directs staff to present a comprehensive revision of the City Code Chapters relating to utility services for the City Council's consideration.

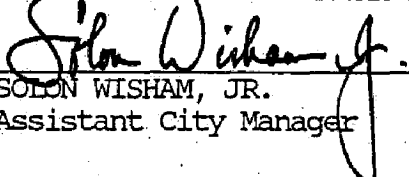
Respectfully submitted,

Attachments


MICHAEL L. MEDEMA
Revenue Manager


SUSAN DAVIDSON
Senior Administrative Services Officer

APPROVE COMMITTEE RECOMMENDATION:



SOLON WISHAM, JR.
Assistant City Manager

April 12, 1988
All Districts

**CITY OF SACRAMENTO
BI-MONTHLY TO MONTHLY BILLING
MARCH, 1988**

The average bi-monthly City utility service bill is approximately \$65.00. This represents a significant portion of the average monthly income of low income and fixed income citizens. These citizens often do not plan and set aside half the payment during each month. Therefore, the bi-monthly bill creates a cyclical financial hardship. This problem will continue to increase as the City raises the rates to cover the cost of providing service.

The cost of producing, collecting and processing a City utility service bill is approximately \$.48. The total annual cost increase of producing monthly bills is approximately \$316,800. This is partially offset by the interest income that results from the increased cash flow from the monthly billing. Staff estimates the additional revenue to be approximately \$184,000. The annual net cost increase per customer is approximately \$1.21. The additional cost will result in a nominal increase in charges to the customer.

CITY OF SACRAMENTO
FOUR TO TWENTY-ONE BILLING CYCLES
MARCH, 1988

The City's 110,000 utility service accounts are divided into four cycles for billing purposes. This creates a cycle of issuing 26,000 to 27,000 billings every two weeks. As a result, the customers' ability to contact the customer service representatives varies considerably depending upon the timing of the attempt. It is difficult to contact the customer service representatives for several days after each billing. However, the degree of difficulty significantly decreases daily until the next cycle is started. Most utility companies bill daily. This reduces the cyclical nature of customer inquiries which allows for a constant response level and a better utilization of staff. This change does not have a cost impact.

During the initial conversion from four to twenty-one cycles, it is anticipated that many customers may become confused about their bills. Staff intends to mitigate the conversion confusion with an extensive information campaign beginning in September, 1988.

CITY OF SACRAMENTO
PERIOD OF TIME ALLOWED BEFORE PENALTIES AND LIENS
MARCH, 1988

Customers are subject to a 20 percent delinquent penalty and the imposition of a lien against the property that was provided service 30 days after presentation of the utility service bill. As a result penalties are added and liens are imposed without a specific warning notice or reminder by the City. Once a lien is imposed, the customer pays the bill in full and then records a lien release at a cost of \$9.00 to clear the title of their property.

The monthly billing cycle discussed in Attachment 1 provides an opportunity for a 30 day extension of the penalty and lien period to provide the customer with a specific warning notice or reminder. The customer's next billing would indicate that the previous bill was not paid and warn that a 20 percent delinquent penalty will be added and a lien may be imposed if the bill is not paid within 30 days. This permits the customer an opportunity to review payment records and contact the City if an error has occurred.

The cost of an additional 30 day extension is difficult to estimate. The City will have an increased exposure to loss due to the unsecured vs. secured debt prior to the imposition of the lien. Additionally, the dollar value of penalties imposed may decrease with the warning or reminder notice. However, staff believes that the increased customer goodwill is worth the unknown financial loss. In actual practice, due to the inefficiencies of the present utility billing system, penalties are not added until 45 days after the bill is presented and the lien is not imposed until after that date.

**CITY OF SACRAMENTO
DEPOSITS FROM CHRONIC DELINQUENT CUSTOMERS
MARCH, 1988**

The City does not currently require customer deposits nor is the present utility billing system capable of accounting for deposits. The new system has this capability included with the basic system.

Certain customers are chronically delinquent. In order to collect from these customers, a constant vigil must be maintained on the accounts. This attention is costly and detracts from the customer service representative's ability to service other customer accounts. The City suffers a reduced cash flow and resulting revenue loss while collecting the account.

The ability to impose a deposit requirement for chronic delinquent accounts would provide an incentive for the customer to pay in a timely manner and result in less interruption of the cash flow during the collection period.

The cost of the deposit requirement is nil. The City would be required to pay the customers the interest earned on their deposits and therefor would not receive additional revenue. The deposits would reduce the City's exposure to loss resulting from uncollectible accounts.

CITY OF SACRAMENTO
PROMPT/ADVANCE PAYMENT DISCOUNT
MARCH, 1988

The City does not offer a positive incentive for customers to make prompt or advance payments of their utility bills. Rather, the City encourages payment with the threat of a late payment penalty and a possible lien on the customer's property.

The City of Dallas, Texas offers its utility service customers a prompt/advance payment discount of 3 percent. Over 90 percent of the customers take advantage of this positive incentive.

Staff has reviewed the annual revenue impact of a prompt/advance payment discount. Staff assumed that 90 percent of the customers would take advantage of a 3 percent discount offer. The improved cash flow and the resulting interest revenue does not offset the revenue lost due to the discount. However, the interest revenue gain would offset a portion of the annual rate increase due to inflation.

The basic system provided by ACTRON does not include a prompt/advance payment discount. ACTRON has agreed to incorporate this feature in UCIS at a future date for \$28,257. Staff recommends that the City defer consideration of this customer service feature until after the basic UCIS system is installed and in operation in November, 1988.

RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

RESOLUTION APPROVING UTILITY SERVICE POLICY AND PROCEDURE
MODIFICATIONS IN CONCEPT AND DIRECTING STAFF TO
PRESENT A COMPREHENSIVE REVISION OF THE CITY CODE CHAPTERS
RELATING TO UTILITY SERVICES FOR THE CITY COUNCIL'S CONSIDERATION

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

That the City Council hereby approves, in concept, the following utility service policy and procedure modifications:

1. Change from bi-monthly to monthly billing.
2. Change from four to twenty-one billing cycles.
3. Change the period allowed for payment from 30 to 60 days prior to imposing a penalty and placing a lien on the property provided service.
4. Allow the collection of deposits from chronic delinquent customers.

That the City Council hereby directs staff to present to the City Council for consideration a comprehensive revision of the City Code Chapters relating to utility services incorporating these changes.

MAYOR

ATTEST:

City Clerk