



Utility Customer Debt

Council Committee on Austin Energy

June 23, 2014





Overview

- Key Understandings

[Standard Collections Process \(Active\)](#)

- How Did We Get Here?

- Extended Weather Moratoriums
- System Conversion
- Collection Activity Moratorium Associated With System Conversion

- Current Challenges

- What Are We Doing About It?

- Collections Efficiencies Gained
- Collections Forecasts
- Collections Expectations



Key Understandings

- **Bad Debt Expense**

An accounting estimation of uncollectible Accounts Receivable (unpaid utility bills) reflected in each department's fund summary as an operating requirement.

- **Budget Forecast Process:**

- Utility-related Bad Debt Expense is trued up on an annual basis
- Bad Debt Expense forecast through FY19 has been provided to City Departments
- Larger than normal adjustment because of increased A/R balances, change to allowance calculation methodology, and reporting issues
- Consultants are currently on board to improve aging reporting (mid-April through July)



Forecast – Bad Debt Expense

	FY2013 Adjusted	FY2014 CYE	FY2015 Forecast*	FY2016 Forecast*	FY2017 Forecast*	FY2018 Forecast*	FY2019 Forecast*
Electric	\$17,178,827	\$17,178,827	\$14,441,455	\$11,704,083	\$8,966,712	\$6,229,340	\$3,491,968
Water	\$1,655,064	\$1,655,064	\$1,555,049	\$1,455,034	\$1,355,020	\$1,255,005	\$1,154,990
Wastewater	\$1,336,139	\$1,336,139	\$1,295,644	\$1,255,148	\$1,214,653	\$1,174,157	\$1,133,662
ARR	\$1,829,871	\$1,829,871	\$1,631,301	\$1,432,731	\$1,234,160	\$1,035,590	\$837,020
Drainage	\$1,337,374	\$1,337,374	\$1,256,673	\$1,175,972	\$1,095,270	\$1,014,569	\$933,868
Transportation	\$915,292	\$915,292	\$915,292	\$915,292	\$915,292	\$915,292	\$915,292
Total	\$24,252,567	\$24,252,567	\$21,095,414	\$17,938,260	\$14,781,107	\$11,623,953	\$8,466,800

*Future year forecasts are not adjusted for potential rate increases or growth



How Did We Get Here?

Four drivers for current state of outstanding debt levels:

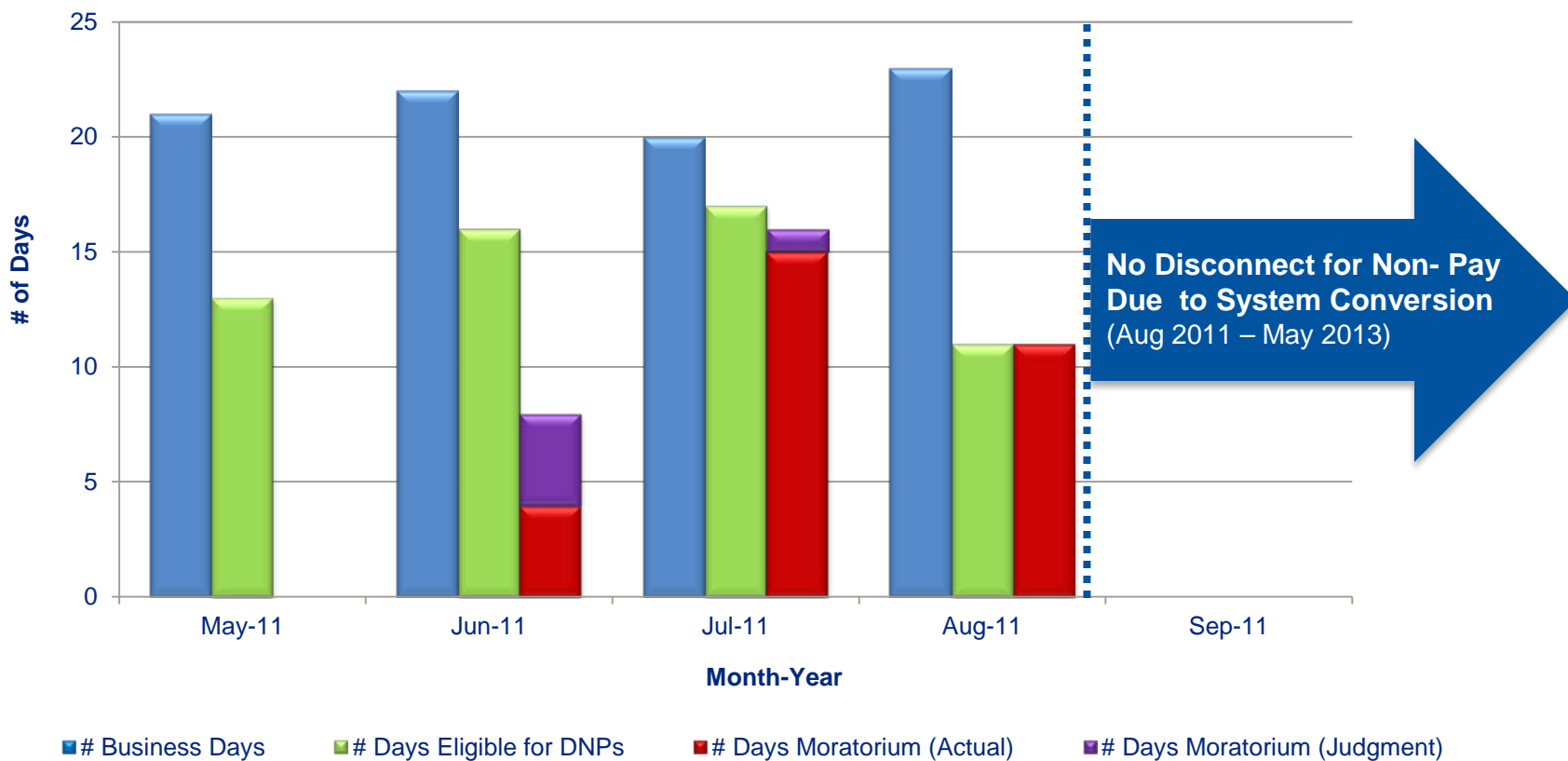
1. Summer Weather Disconnection Moratoriums (2011)
2. System conversion preparation, conversion, and stabilization (2011-2012)
3. Collections module implementation (2012-2013)
4. Summer + Winter Weather Disconnection Moratoriums (2013-2014)



How Did We Get Here?

Because of extreme summer weather in 2011, AE experienced a shorter period of disconnection dates compared with previous years.

Summer 2011 (Pre Conversion) No Disconnect for Non-Pay Activity: Number of Days

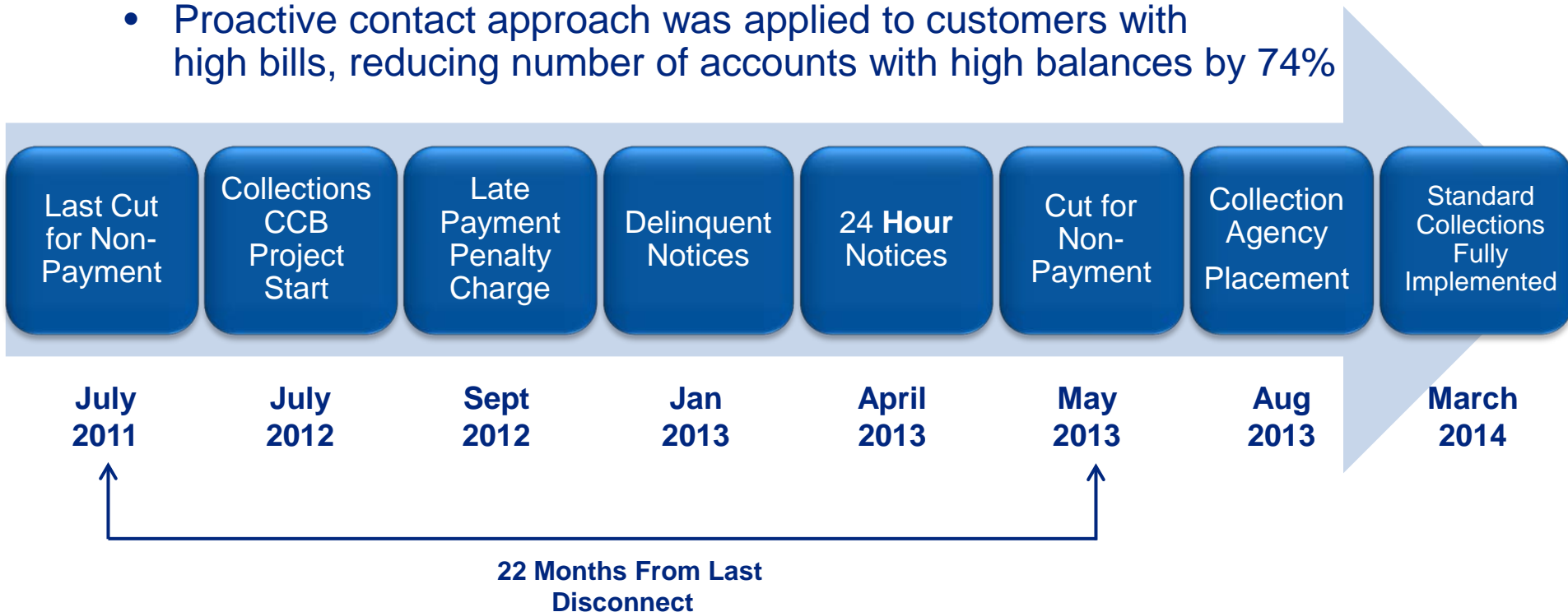




How Did We Get Here?

Standard collection practices were fully implemented over a 13 month period, using a **customer-centric phased approach**, during which:

- Delinquent balances were included on each customer's bills
- Collections efforts were communicated to customers through bill messages, letters and media
- Proactive contact approach was applied to customers with high bills, reducing number of accounts with high balances by 74%

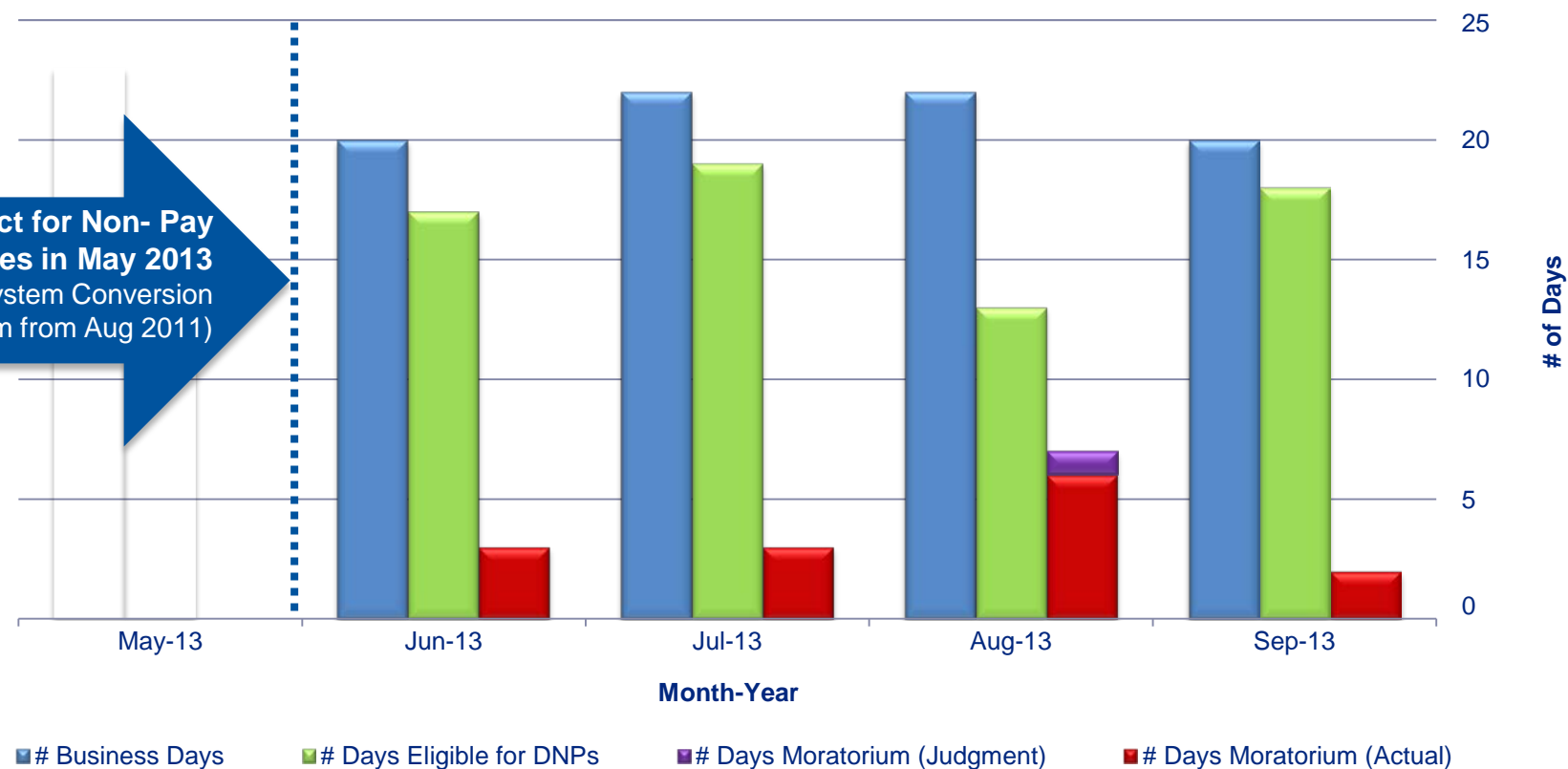




How Did We Get Here?

After Disconnect for Non-Pay activities resumed in May 2013, AE observed 15 days of moratorium for high temperatures.

Summer 2013 (Post Conversion) No Disconnect for Non-Pay Activity: Number of Days

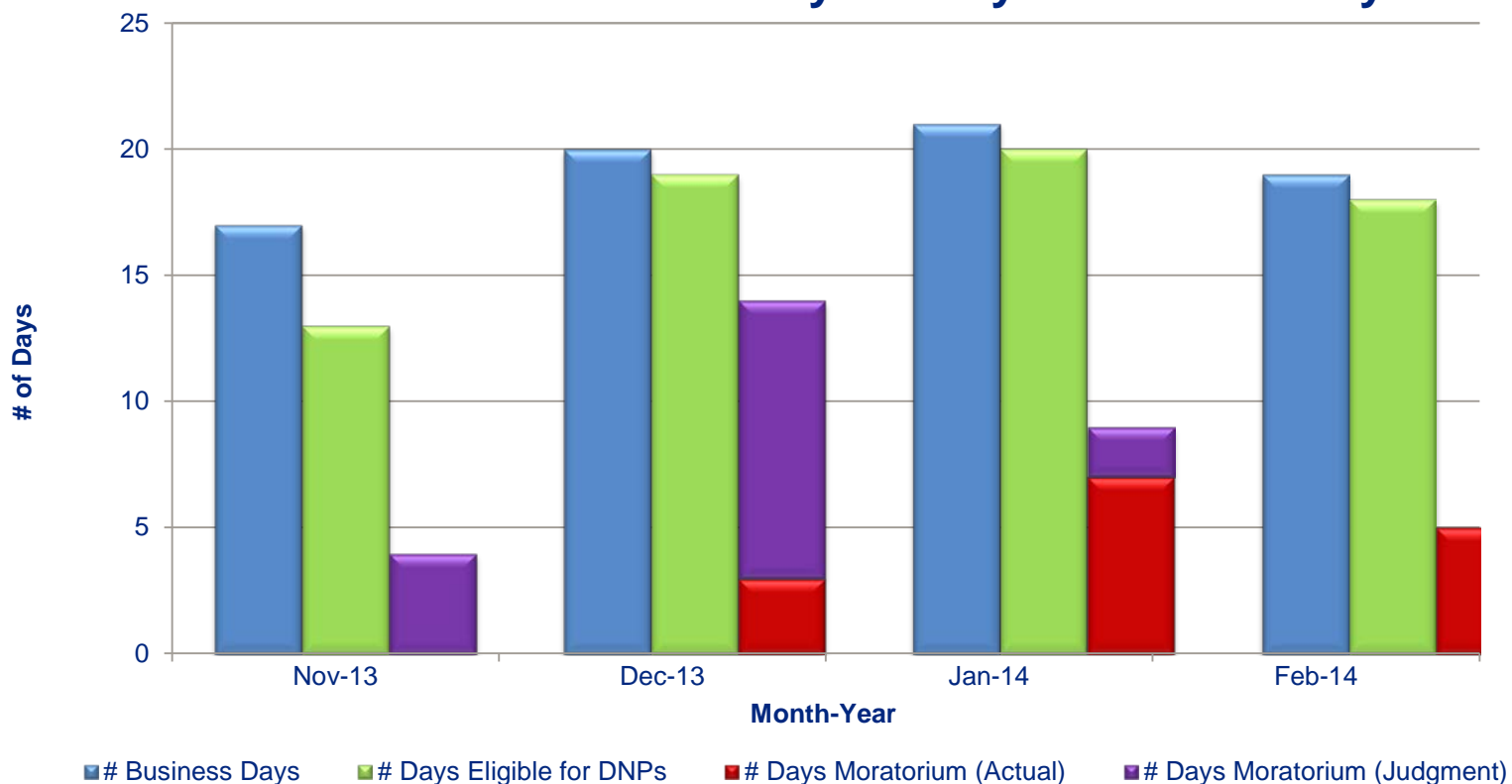




How Did We Get Here?

Although 2013 was a milder summer, extreme winter weather caused the suspension of disconnects for more days in the winter of 2014 compared to previous years.

Fall & Winter 2013 - 2014 (Post Conversion) No Disconnect for Non-Pay Activity: Number of Days





Current Challenges

- Typical high temperatures are expected for Summer 2014, resulting in:
 - Higher usage; higher bills
 - Reduced eligible disconnection days due to weather related moratorium
- In addition, Payment Arrangement & Reconnection policies have changed, resulting in:
 - No down payment requirement
 - Longer terms/smaller installments
 - Multiple opportunities to enter into additional Payment Arrangements on the same debt
 - Ability to re-establish service without first paying old debt



What Are We Doing About It?

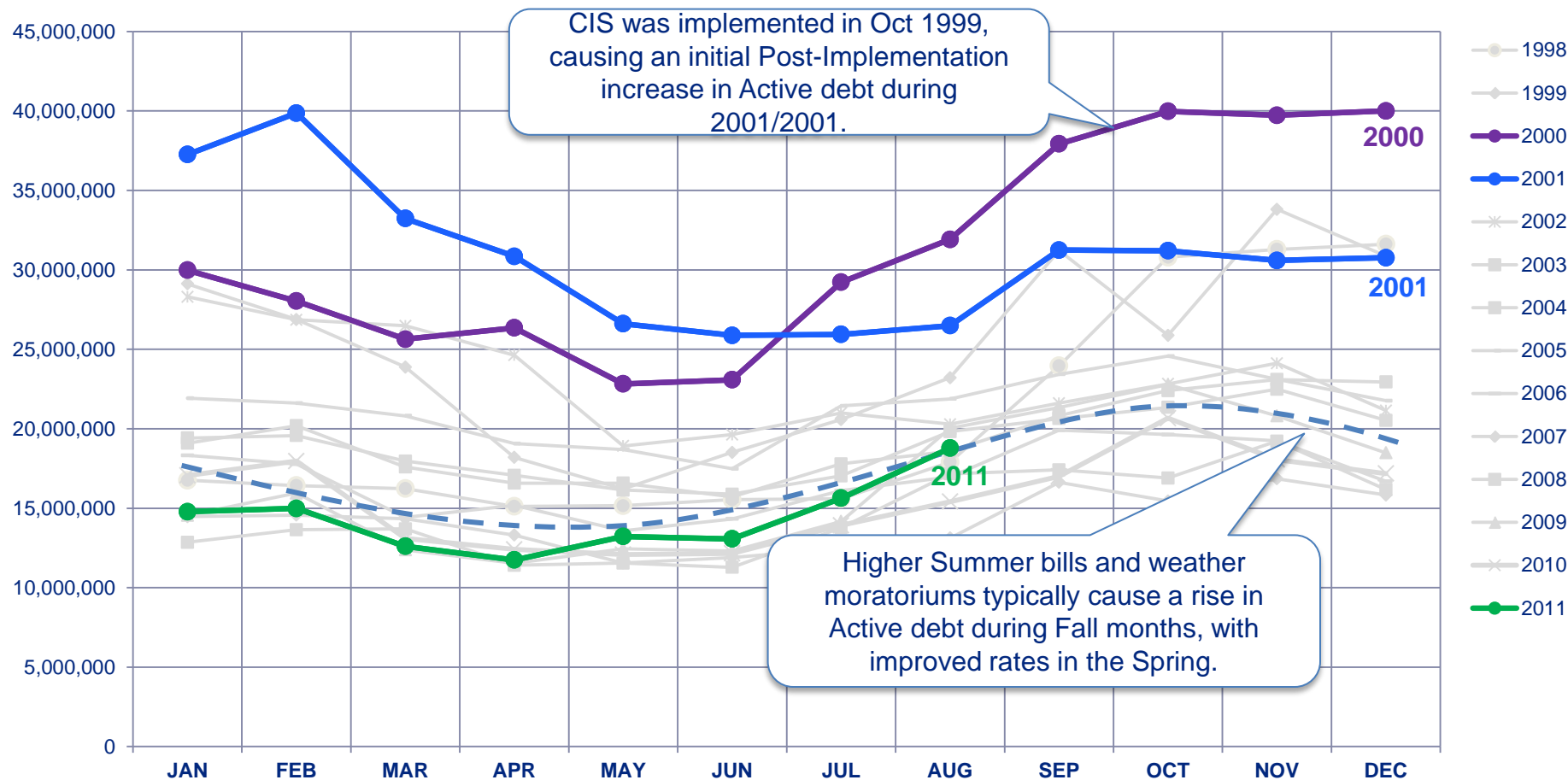
- Standard collections processes are fully implemented and highly automated
- Full collections implementation has resulted in increased payment response to collection activities
- System consultants on-site to improve aging reporting
 - Aged debt reporting segregated by type
 - Additional financial reports for collections forecasting
- Established 4 levels of outside collection efforts with 5 vendors for 'inactive' utility accounts
- Additional resources focusing on older debt collection processes
- On-site management review of collection agency vendors for quality assurance purposes



Historical Trends

Total Active A/R Over 30 Days 1998 - 2011

AE predicts future improved annual collection recovery rates for Active debt based on previous Post - CIS implementation trend upturn.





What Are We Doing About It?

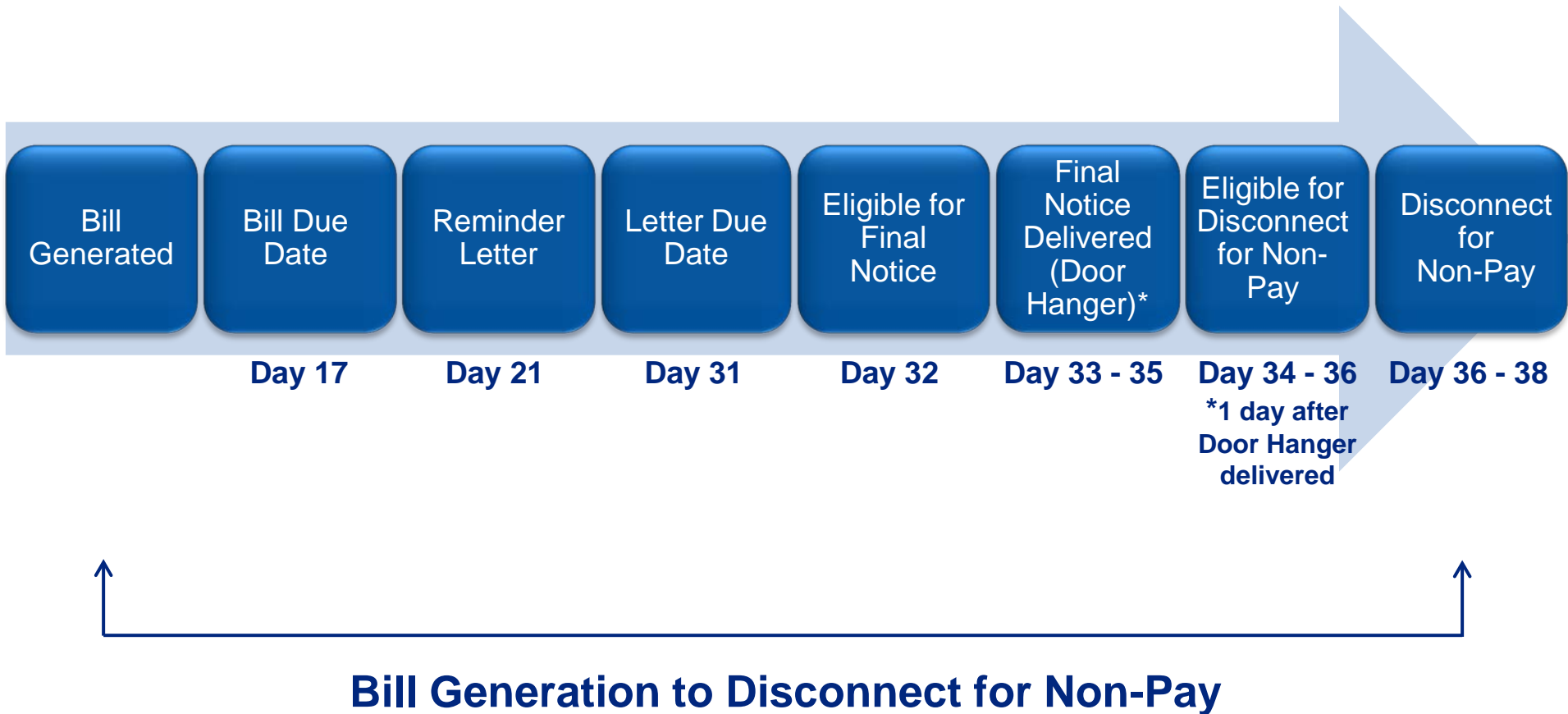
- Positive recovery is dependent on reducing restrictions to standard Collection Practices
 - Payment Arrangements
 - Disconnect / Reconnect policies
 - Aged Debt Collection
 - Deposit Assessment
- Programs are available to provide customer assistance and protection to low income and medically vulnerable customers
 - Customer Assistance Program (CAP)
 - Weatherization Program
- City must balance fiscally sound collection practices with reasonable customer protections



- Appendix A: Standard Collections Process (Active)
- Appendix B: Standard Collections Process (Inactive)
- Appendix C: Medically Vulnerable Registry (MVR)
Collections Process

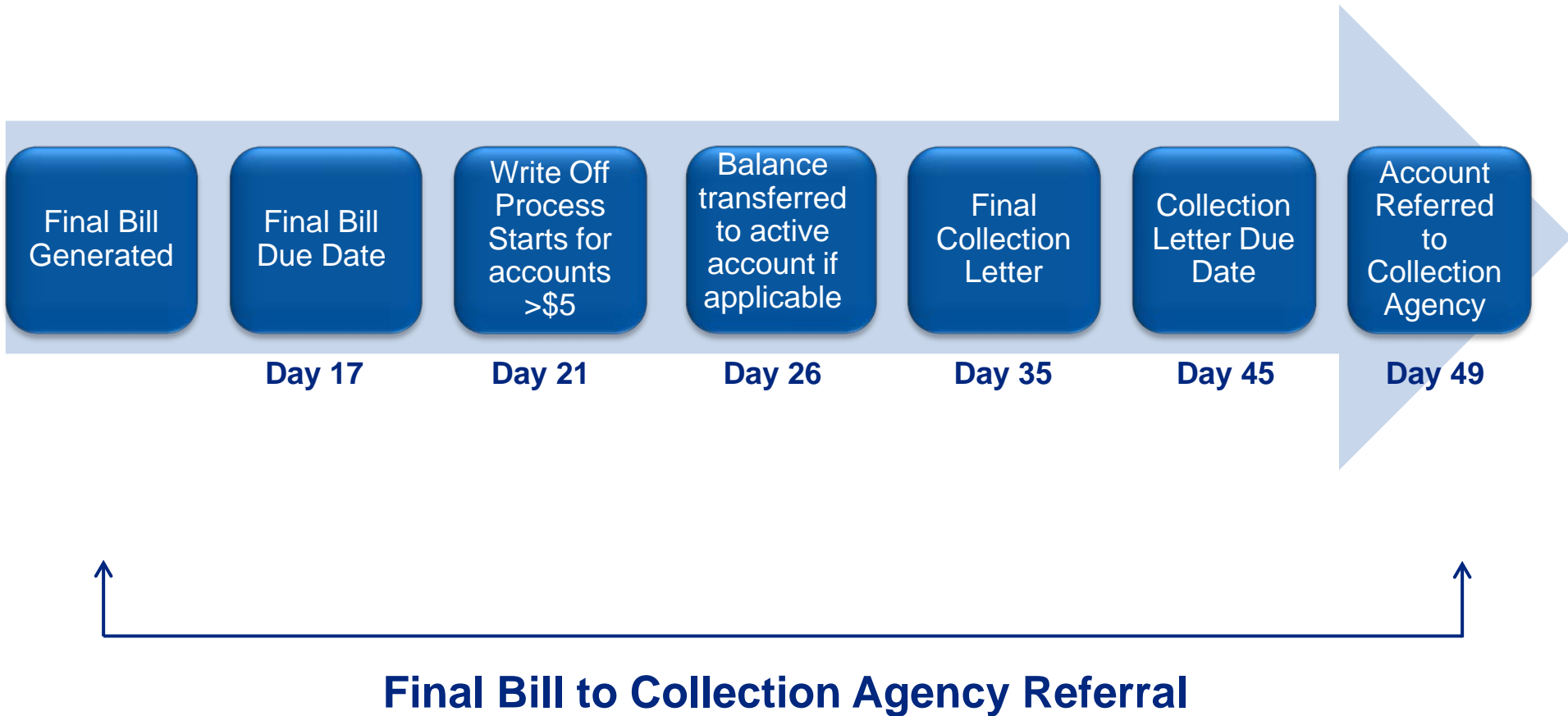


Appendix A: Standard Collections Process (Active)



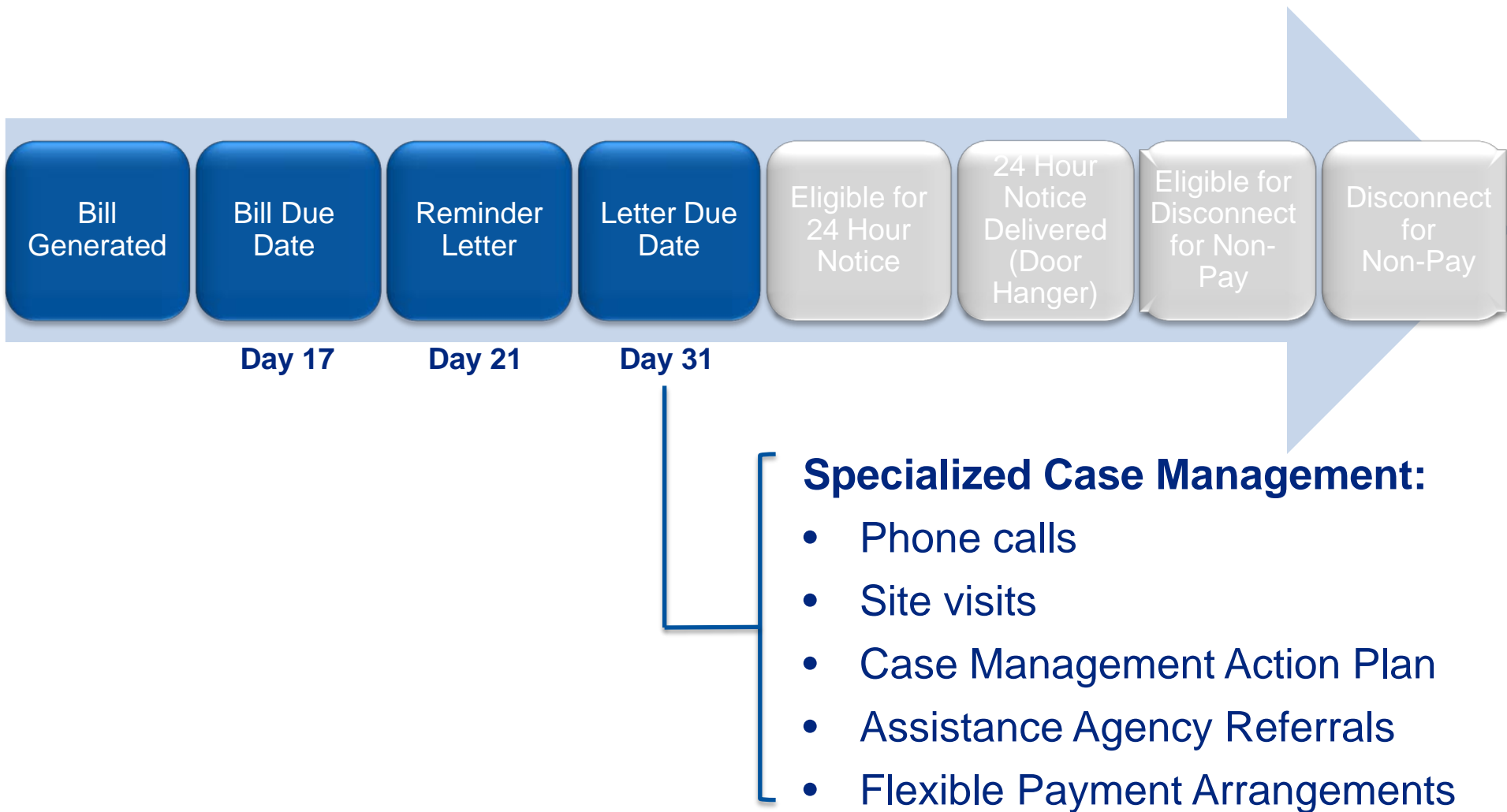


Appendix B: Standard Collections Process (Inactive)





Appendix C: Non-Standard Collections Process (MVR)





Questions?