

**CITY MANAGER'S REPORT
AUGUST 12, 2019 CITY COUNCIL REGULAR MEETING**

**ITEM: UNCOLLECTIBLE UTILITY AND MISCELLANEOUS
CUSTOMER ACCOUNTS**

**RECOMMENDATION: Approve Write-Off of Uncollectible Utility and
Miscellaneous Accounts for Fiscal Year (FY) 2018/19**

SUMMARY:

Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) require municipalities to evaluate and write-off delinquent accounts that are deemed uncollectible. As part of the annual audit process and in compliance with both GAAP and GASB requirements, the Finance Department has reviewed unpaid delinquent accounts assigned to collections. After a thorough review, staff has determined \$42,595 to be uncollectible for FY 2018/19 as detailed in Table 1 below:

Table 1.

| Customer Account Type | FY 2017/18 Approved Write-Offs | FY 2018/19 Recommended Write-Offs | Increase/ (Decrease) % | No. of Accounts to be Written-Off |
|---|---|--|---------------------------------------|--|
| Utility Customers (Residential and Commercial) | \$35,172 | \$41,832 | 18.94% | 162 |
| Miscellaneous Customers | 8,939 | 763 | (90.67%) | 7 |
| Totals | \$44,111 | \$42,595 | | 169 |

The recommended utility write-offs represent 0.27% of the annual water and sewer charges billed to customers. Collecting a security deposit, requiring occupants to provide rental agreement or purchasing agreement before establishing service has proven to be effective means in maintaining low levels of uncollectible accounts. The increase of 18.94% is primarily due to increased water and sewer rates. Although, the utility write-off amount in FY 2018/19 has increased by almost \$7 thousand or 18.94%, it is significantly lower than prior year's change in write-offs of 66.89%.

The recommended miscellaneous customers' write-offs have significantly decreased by approximately \$8 thousand or 90.67% due to a change in the accounting methodology for miscellaneous charges.

Even though these accounts will reflect as "written off" in the City's financial system, there are further collection measures in place to seek repayment. For instance, the collection agency will continue to pursue repayment efforts on these accounts and forward any recovered payments to the City. Additionally, the Finance Department conducts a review of all new customers prior to establishing service to ensure there are no outstanding balances.

Tonight staff is requesting Council's approval to write-off \$42,595 of uncollectible charges.

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BACKGROUND:

On May 19, 1998, the City Council of the City of Lathrop adopted Resolution 98-664 regarding the approval and implementation of a revenue collection policy. On October 18, 2010, Council authorized the execution of an agreement with Golden State Collections, LLC.

The collection policy was put in place to help decrease the number of delinquent accounts (60-90 days). After unsuccessful collection attempts by City staff, the collection procedures allow City staff to refer customers' accounts that remain unpaid for 60-90 days to the collection agency for collection proceedings. The collection agency works on a commission-based structure. Their fee is 30% of the total amount collected.

Currently, there are two types of customer accounts referred to the collection agency. They are utility and miscellaneous customer accounts. The utility customer accounts include charges for water and wastewater. Miscellaneous customer accounts include charges rendered by: Finance, Animal Control, Community Development, Police, Parks & Recreation, and Public Works. Charges include animal impound, unpaid business license fees, court ordered restitution, materials/equipment, and checks returned for insufficient funds.

Utility Customer Accounts

In FY 2018/19, the City referred 172 delinquent utility customer accounts totaling \$44,557 to Golden State Collections, LLC for further collection processes. During the fiscal year, customers paid \$1,142 in outstanding charges directly to the City while Golden State Collections recovered \$1,583 from 15 accounts on current and prior year claims representing a 3.56% recovery rate (see Table 2). Also included in Table 2, are accounts with balances less than \$5, which are not sent to the collections agency. During FY 2018/19, there were no accounts with balances less than \$5.

Table 2.

| Utility Customer Accounts | FY 2016/17 | FY 2017/18 | FY 2018/19 |
|---------------------------------------|-------------------|-------------------|-------------------|
| Total Utility Customers | 6,229 | 6,532 | 6,973 |
| Accounts Sent to Collection Agency | 128 | 179 | 172 |
| Amount Assigned to Collection Agency | \$22,020 | \$35,172 | \$44,557 |
| Amount Recovered by Collection Agency | \$354 | \$286 | \$1,583 |
| Recovery Rate | 1.6% | 0.8% | 3.56% |
| Account < \$5.00 | 0 | 2 | 0 |
| Total Write-Offs | \$21,076 | \$35,172 | \$41,832 |

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Although, the utility write-off amount in FY 2018/19 has increased by \$6,660 or 18.94%, the number of accounts sent to collection has decreased by 10% from FY 17/18. The increase of 18.94% in uncollectable charges were primarily due to increased water and sewer rates. As development continues to advance, our utility customer base also increases producing a larger risk of accounts referred to the collections process. However, re-enforcing current programs that offers payment assistance, such as extending payment due date or granting payment arrangements, to utility customers carrying past due balances contributes to maintaining a low level of accounts referred to collections.

Miscellaneous Customer Accounts

Miscellaneous customers' accounts referred to collections for FY 2018/19 totaled \$763 from 7 accounts related to Animal Services billings, as summarize in Table 3. Animal Services billings included emergency call costs, veterinary costs, impoundment, and shelter fees.

Table 3.

| Miscellaneous Customer Accounts | Animal Services |
|--|------------------------|
| Accounts Sent to Collection Agency | 7 |
| Amount Assigned to Collection Agency | \$763 |
| Amount Recovered by Collection Agency | \$0 |
| Accounts < \$5.00 | 0 |
| Total Write-offs | \$763 |

REASON FOR RECOMMENDATION:

The Finance Department has conducted a thorough review of the utility and miscellaneous customer accounts and recommends \$42,595 to be considered uncollectible.

FISCAL IMPACT:

Decrease customers' outstanding balances due to uncollectible debt as follows:

| | |
|---|------------|
| Utility customer accounts: | \$41,832 |
| Miscellaneous customer accounts: | <u>763</u> |
| Total amount of uncollectible accounts: | \$42,595 |

ATTACHMENTS:

None.

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APPROVALS:



Chia Lor
Management Analyst

07/29/19

Date



Vanessa Portillo
Deputy Finance Director

07-29-19

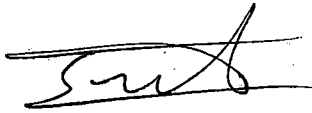
Date



Cari James
Finance & Administrative Services
Director

7/29/19

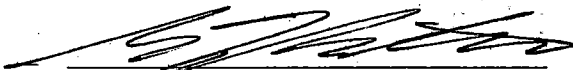
Date



Salvador Navarrete
City Attorney

7-31-19

Date



Stephen J. Salvatore
City Manager

8-2-19

Date